In brief

A look at current financial reporting issues

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Accounting implications of coronavirus

At a glance

The emergence and spread of the coronavirus in early 2020 has affected business and economic activity in China and elsewhere. Entities should consider the accounting implications of these developments.

This In brief addresses the accounting implications of the coronavirus for December 2019 year ends in the context of IAS 10, ‘Events after the reporting period’. In our view, the development and spread of the virus subsequent to 31 December 2019 is a non-adjusting event.

What is the issue?

Should coronavirus be accounted for as an adjusting or non-adjusting event?

IAS 10 defines an adjusting event as an event that provides evidence of conditions that existed at the reporting date. A non-adjusting event indicates conditions that arose after the reporting date.

The situation at 31 December 2019 was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. There was no explicit evidence of human-to-human transmission at that date. These are the conditions that existed at 31 December. The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019, and it is therefore a non-adjusting event.

Management should ensure that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date. Subsequent developments should not be reflected in the measurement of, for example:

- expected credit losses under IFRS 9, ‘Financial instruments’;
- the impairment of tangible and intangible assets under IAS 36, ‘Impairment of non-financial assets’;
- the net realisable value of inventory under IAS 2, ‘Inventories’;
- deferred tax assets in accordance with IAS 12, ‘Income taxes’; or
- any asset or liability measured at fair value.

The spread of the coronavirus is a non-adjusting event. However, events after the reporting date sometimes provide additional information about the uncertainties that existed at the reporting date. Judgement might be required in some situations – for example, the bankruptcy of a customer subsequent to the reporting date might reflect existing issues beyond the spread of the coronavirus.

Going concern

IAS 10 states that the financial statements should not be prepared on a going concern basis where events after the reporting date indicate that the going concern assumption is no longer appropriate. This guidance applies even if those events would otherwise be non-adjusting. Entities should therefore consider whether developments subsequent to the reporting date have any implications for the going concern assumption.

Disclosure

Non-adjusting events do not result in adjustment to the financial statements, but they do require disclosure if material. This disclosure should be transparent and specific to the entity, and it should include the nature of the event and an estimate of its financial effect. Entities should consider disclosing the impact of developments after the reporting date on the carrying amount of assets and liabilities (for example, the need to impair assets or remeasure fair values), or the impact on revenue or on borrowing covenants.

What is the impact and for whom?

The most significantly impacted entities are those that have business in China or with Chinese-based entities.

Where do I get more details?

Contact us for more information:

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