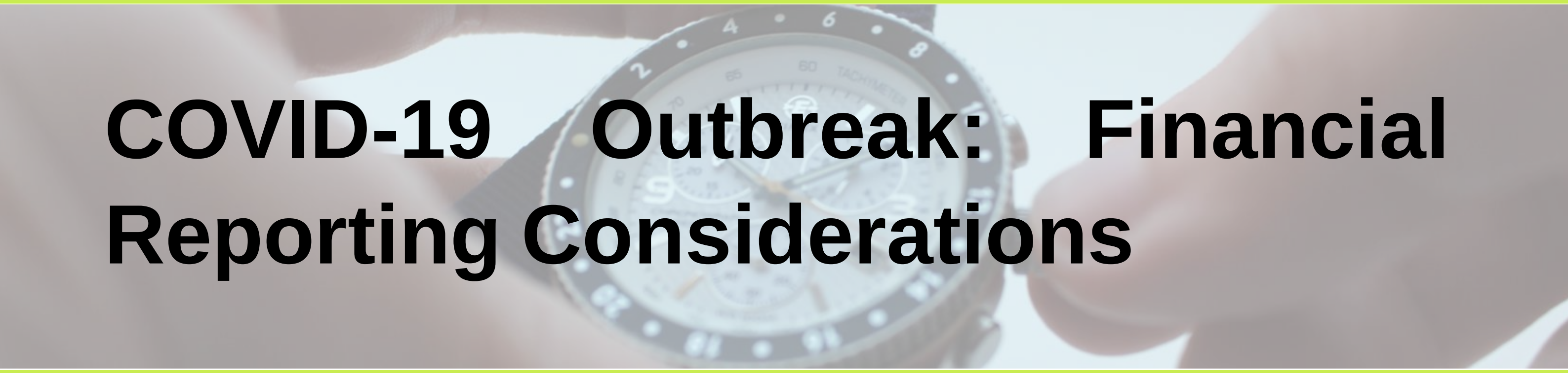

COVID-19 Outbreak: Financial Reporting Considerations

On 11 March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. Many governments have since taken precautionary measures such as restrictive travel and lockdowns to contain the spread of the virus. The unprecedented scale of this event has led to uncertainty and increased business risk. This article discusses the potential financial reporting implications for preparers of financial statements in light of current events.

How does the COVID-19 outbreak impacts businesses in Malaysia?

To curb the spread of COVID-19 cases in Malaysia, the Prime Minister, Tan Sri Muhyiddin Yassin had, on 16 March 2020, invoked a Movement Control Order (“MCO”) from 18 March 2020 to 31 March 2020. The MCO was subsequently extended to 14 April 2020.

During the MCO period, all government and private premises must be closed except for those involved in essential services.

What are essential services?				
Water	Electricity	Energy	Telecommunication	Postal
Transportation	Irrigation	Oil	Gas	Fuel
Lubricants	Broadcasting	Finance	Banking	Health
Pharmacy	Fire	Prison	Port	Airport
Safety	Defence	Cleaning	Food retail	Food supply

What are the potential material impacts of the COVID-19 outbreak on the financial statements?

The potential areas that are likely to have material financial impacts in the financial statements include, but are not limited to the following:

Potential Financial Impacts			
Going concern	**Contracts**	**Provisions**	**Impairment of assets**
Material uncertainties that may cast significant doubt on the ability to continue as going concern (*i.e. uncertainties arising from extent and duration of the impact*)	Reassessment of variable consideration, refund liabilities, enforceability of contracts and contract modifications	Potential provisions for: ▪ restructuring ▪ rehabilitation ▪ onerous contracts arising from increased costs and/or reduced demand	Indication of impairment of assets
			Changes in assumptions for impairment assessment
			Changes in net realisable value of inventories
Breach of loan covenants			Recoverability of deferred tax assets

Potential Financial Impacts			
Fair value of assets	**Credit losses**	**Foreign exchange transactions**	**Government support**
Changes in fair value of assets	Changes in expected credit losses for receivables and other financial assets	Changes in foreign exchange differences Changes in effectiveness for hedge accounting	Effect arising from government support (*e.g. Economic Stimulus Package*)

Is the COVID-19 outbreak an adjusting event in the financial statements?

MFRS 110 *Events After the Reporting Period* defines two types of events that can be identified as:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and

(b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Reporting Period	Adjusting events or Non-adjusting events?
Financial period ended 31 December 2019	**Non-adjusting events** ▪ Substantive information in relation to COVID-19 only came to light in early 2020 and hence, indicates that condition arose after the reporting period. ▪ The measurement of assets and liabilities in the financial statements should not be adjusted for the potential impacts. However, if a reporting entity is severely affected by the COVID-19 and the management has concluded that the use of going concern assumption in the preparation of the financial statements is no longer appropriate, the management should consider preparing the financial statements on another basis (e.g. liquidation basis).
Financial period ended *after* 31 December 2019	**Judgement required** ▪ The conditions may evolve rapidly, and hence, there may be a greater degree of judgement required to determine whether COVID-19 and the precautionary measures imposed are adjusting events. ▪ Reporting entity needs to consider all available information up to the date of financial statements and to carefully assess whether the events after reporting period are adjusting or non-adjusting events. Where COVID-19 and the precautionary measures are determined as adjusting events, the reporting entity is required to review the recognition and measurement of assets and liabilities in the financial statements.

What are the other implications a reporting entity should consider?

Below are the other potential areas that a reporting entity should consider when assessing the implications of the COVID-19 outbreak:

Areas	Examples of potential implication
Disclosure	**Disclosure requirements in the financial statements include, but not limited to:** ▪ Events subsequent to the end of the reporting period ▪ Significant accounting judgments, estimates and assumptions that could result material adjustments to the carrying amount of assets and liabilities, including sensitivity analysis ▪ Policies and processes for managing credit and liquidity risks exposures ▪ Contingent liabilities ▪ Default in payment and breach of loan covenant **Disclosure requirements outside the financial statements** ▪ Directors' report [*Companies Act 2016 Fifth Schedule 1(n) & 1(o)*] ▪ Management Discussion and Analysis [*Bursa Main Market Listing Requirement Appendix9C(7) & Bursa ACE Market Listing Requirement Appendix 9C(8)*]
Operational challenges	**Internal control over financial reporting** ▪ Evaluate the effect on new/enhanced/modified internal control over financial reporting (*i.e. enhanced/modified IT access to enable remote workforces*) **Other potential operational challenges** ▪ Ability to obtain information from subsidiaries, associates and joint ventures for purpose of consolidation or equity accounting ▪ Rearrangement of year-end stock count

What to do now?

Assess whether COVID-19 events have a potential material impact on the entity

Assess whether COVID-19 events are adjusting or non-adjusting events

Consider disclosure requirements in the financial statements

Consider whether going concern assumption is still appropriate

Consider disclosure requirements outside the financial statements

Consider other potential operational challenges

Disclaimer

The information in this document is for general information purposes only and should not be used as a substitute for consultation with professional advisors. This document is in itself not an opinion document.

This article was contributed by the Quality Assurance and Technical team of Baker Tilly Malaysia. The views expressed represent our perspectives as of 31 March 2020. This article is not comprehensive and was prepared based on information available generally and is not intended to be relied upon as professional advice. We may identify additional issues as we analyse the standard and the entities, and our views may evolve during that process.

When applying the individual accounting frameworks, entities should refer to all accounting standards in its entirety. We will not accept liability for any loss or damage suffered by any person directly or indirectly through reliance upon the information contained in this article.

For further information about how Baker Tilly Malaysia can assist you and your organisation, please contact us via below:

Contact us

Baker Tilly Malaysia
Baker Tilly Tower
Level 10 Tower 1 Avenue 5
Bangsar South City
59200 Kuala Lumpur
T: +6 (0)3 2297 1000
F: +6 (0)3 2282 9980
E: info@bakertilly.my