

COVID-19 Impact on Financial Reporting - Accounting Year Ending March 31, 2020

Background

ICAI is concerned about the impact of Coronavirus disease (known as COVID-2019 or COVID-19) on the health of people worldwide as well as on the state of economy and commerce of the world in general and on India specifically. ICAI is guided by the assessments given by the Government and public health authorities, domestic and international.

Latest media reports indicate the possible severe impact of this pandemic that the World Health Organisation (WHO), has been closely monitoring and considering its global impact. On March 11, 2020, WHO has assessed its risk and characterized it as global pandemic in view of the alarming levels of spread and severity, and of the alarming levels of infection.

The adverse impact of this global pandemic can vary from nation to nation, industry to industry and above all entity to entity. The effect depends upon the nature and extent of business connectivity of the individual entities with the nations more seriously affected by this pandemic. Apart from the health and safety of mankind, COVID-19 has unfavourably affected the economic environment which in turn has consequential impact on the results in the financial statements and reporting.



While we are empathetic to the global concerns of health and safety of people, there is also a need to advise the preparers of financial statements to ensure that the potential impact of COVID-19 is suitably considered in preparing and reporting their financial statements for the year ended March 31, 2020. Specific requirements of a few accounting standards that may need special attention are indicated in this Accounting Advisory. It may be noted that we are only drawing the attention of preparers to some of the important requirements of Indian Accounting Standards (Ind AS) and Accounting Standards (AS), and this is not meant to be exhaustive and may differ based on specific facts, circumstances and business of respective preparers.

Part I

Note: The advisory has been prepared for:

1. Entities to whom Ind AS is applicable and
2. Entities to whom AS is applicable, viz,
 - a. Companies to whom Companies, Accounting Standards Rules, 2006 is applicable and
 - b. Non-corporate entities to whom AS issued by ICAI is applicable.

1. Inventory Measurement (Ind AS 2 and AS 2)

(a) In accordance with Ind AS 2 Inventories, and AS 2 Valuation of Inventories, it might be necessary to write down inventories to net realisable value due to reduced movement

in inventory, decline in selling prices, or inventory obsolescence due to lower than expected sales.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. The management may consider written down of inventories to net realisable value item by item.

Ind AS 2 and AS 2 also provide that the allocation of fixed production overheads to the costs of conversion is based on the normal production capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred.

Entities should assess the significance of any write-downs and whether they require disclosure in accordance with Ind AS 2/AS 2 as well as paragraph 98 (a) of Ind AS 1, Presentation of Financial Statements, and paragraph 14(a) of AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies. It is unlikely that the normal production capacity is to be reviewed for allocating fixed production overheads for the year 2019-2020, because of adverse impact on the utilisation of the production capacity due

to the impact of coronavirus on the overall economy or the segment (s) in which the entity is operating.

2. Impairment of Non-Financial Assets (Ind AS 36 and AS 28)

Ind AS 36 relies on an 'economic' criterion for the recognition of an impairment loss. An 'economic' criterion is the best criterion to give information which is useful to users in assessing future cash flows to be generated as a whole. In estimating the time value of money and the risks specific to an asset in determining whether the asset is impaired, factors, such as the probability or permanence of the impairment loss, are subsumed in the measurement.

Due to COVID-19, there might be temporary ceasing of operations or an immediate decline in demand or prices resulting in lowering of revenues and profitability and reduced economic activity. These are the factors that the management may consider as the indicators that may require impairment testing for the purpose of Ind AS 36 and AS 28.

a. Ind AS 36 Impairment of Assets, and AS 28 Impairment of Assets, require an entity to assess, at the end of each reporting period, whether there is any indication that non-financial assets may be impaired. The impairment test only has to be carried out if there are such indications. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

- b. For indefinite useful life intangible asset or an intangible asset not yet available for use and goodwill, Ind AS 36 requires an annual impairment testing. There could be an indicator that impairment testing of goodwill and indefinite useful life intangible assets are tested as of reporting date even if the entity follows other annual testing cycle as per Ind AS 36.
- c. An entity needs to estimate the recoverable amount of the asset for impairment testing. Recoverable amount is the higher of the fair value less costs of disposal and the value in use. In cases where the recoverable amount is estimated based on value in use, the considerations on accounting estimates apply.

Critical Factors to Consider

The management needs to consider whether:

- contraction in economic activity due to the outbreak of COVID-19 is considered to be an impairment indicator at the reporting date, which results in an impairment assessment;
- assumptions used for impairment testing and to determine the recoverable amounts before the outbreak of COVID-19 requires any change;
- the assumptions used to determine discount rate to measure the recoverable amount require any adjustments;

- the forecasts or budgets for future cash flows prepared by management should be updated to reflect the impact of COVID-19;
- market assumptions used to determine fair value for recoverable amounts needs reconsideration;
- reasonable assumptions are taken in estimating the value-in-use and fair value less costs of disposal and ensure that the impairment loss, if any, is estimated reliably.

Goodwill impairment

The standard requires that goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Due to COVID-19, there might be significant changes with an adverse effect in operations of a cash generating unit to which goodwill is allocated and therefore requiring additional focus and attention while testing of impairment of goodwill as at March 31, 2020.

The disclosure requirements in Ind AS 36 and AS 28 are extensive. Depending on specific facts and circumstances, entities need to consider providing detailed disclosures on the assumptions and sensitivities considered for effects of the COVID-19.

3. Financial Instruments

Impairment Losses

Entities to whom Ind AS is applicable Ind AS 109 Financial Instruments

Financial Instruments within the scope of Ind AS 109 such as Loans, Trade Receivables, Other Receivables, Investment in Debt instruments, Financial Guarantees and Loan Commitments not measured at fair value through profit or loss, Contract Assets and Lease Receivables are subject to impairment loss recognition and measurement based on an approach called Expected Credit Loss (ECL). This approach was introduced in the aftermath of the global financial crisis of 2008 to strengthen the accounting recognition of loan-loss provisions by incorporating a broader range of credit information. ECL approach is expected to consider forward looking information and it is measured based on probability weighted amount that is determined by evaluating a range of possible outcomes.

The widespread contraction in economic activity across the globe due to the rapid spread of COVID-19 is likely to have an impact on the quantification of ECL and classification of financial assets into 3 buckets for recognition and measurement of impairment losses. In this context, following are important factors to be considered by the preparers.

Critical Factors to Consider

- Recognition of 12 months ECL versus Lifetime ECL is based on segregation of credit exposures into 3 buckets viz. Stage 1- those with no significant increase in credit risk, Stage -2 those with significant increase in credit risk and Stage 3-

Credit impaired. In case of certain financial assets such as Trade Receivables where the simplified approach is applicable, this segregation of credit exposures into 3 buckets is not required.

- Measurement of ECL- Adverse impact on the business of borrowers or debtors may impact the following credit risk parameters:
 - Risk of default (probability of default) i.e. the likelihood of default by the borrower may have increased significantly due to reduced economic activity;
 - Estimated amount of the loss itself in the event of default (loss given default). Contraction in economic activity and its impact on consumers may have affected value of collaterals and business cash flows adversely affecting the expected amount of loss;
 - In this period of substantial business dislocation, borrowers may tend to fully utilise undrawn limits and loan commitments, which in turn would impact another credit risk parameter i.e. exposure at default.
- ECL requirement of Ind AS 109, the measurement of ECL is expected to consider current as well as forecasted macro-economic conditions and more than one scenario. Entities may need to develop one or more scenarios considering the potential impact of COVID-19.

- Ind AS 109 – Appendix A states that a financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flow of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about various events, for example, the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider.
- Entities may also need to consider the impact of any Prudential Regulatory actions to sustain the economy such as loan repayment holidays, reduction in interest rates etc.
- In respect of Ind AS 107, Financial Instruments Disclosures, entities may need to disclose the impact of COVID-19 on various credit related aspects such as methods, assumptions and information used in estimating ECL, policies and procedures for valuing collaterals etc.
- If the entity is unable to assess the impact of COVID-19 in estimating the impairment loss due to the inadequacy of information, the same should be disclosed appropriately.
- Non-Banking Financial Companies (NBFCs) and Asset Reconstruction Companies (ARCs) should

also carefully consider the recent guidance provided by Reserve Bank of India (RBI) on implementation of Ind AS (RBI/2019-20/170 DOR (NBFC).CC.PD. No.109/22.10.106/2019-20 - Implementation of Indian Accounting Standards).

Entities to whom AS is applicable

- In case of financial assets such as Loans, Trade Receivables etc., entities shall be guided by the requirements of AS 4, Contingencies and Events Occurring After the Balance Sheet Date.
- In respect of financial assets within the scope of AS 13, Accounting for Investments, entities may have to carefully consider the requirements of making provisions for decline in the value of investments, which is other than temporary.
- In respect of Banks and Insurance Entities, preparers need to consider impact of COVID-19 on classification of Loans and Advances into Standard, Sub-standard, Doubtful and Loss categories in addition to the Prudential Regulatory requirements of RBI and The Insurance Regulatory and Development Authority of India (IRDAI).

Fair Value Measurement Entities to whom Ind AS is applicable Ind AS 113 Fair Value Measurement

- Individual Ind ASs such as Ind AS 109, Ind AS 16 etc. prescribe when to measure an asset or liability at fair

value and how to recognise the resultant fair value gains and losses i.e. in profit or loss section or other comprehensive income section of Statement of Profit and Loss. Equally, important is Ind AS 113 Fair Value Measurement, which lays down certain fundamental principles in respect of Fair value, its definition and how to determine it? In this context, the following are the critical factors to be considered in determining fair value both for measurement or disclosure requirements by the preparers.

Critical Factors to Consider

- Ind AS 113 recognises the fact that there are different ways in which fair value is determined i.e. it can be based on observable market price (quoted price in an active market – Level 1) or application of valuation techniques (Level 2 and Level 3) as of the reporting date.
- The current financial and capital market environment across the globe has got affected by the rapid spread of COVID-19 and may have developed the following features:
 - Significant volatility or indications of the significant decline in market prices of financial instruments like equity, bonds and derivatives.
 - Significant decrease in volume or level of activity.

- The above features may need adequate management consideration and professional judgment to determine whether the quoted prices are based on transactions in an orderly market.
- It may not be always appropriate to conclude that all transactions in such a market are not orderly. Preparers should be guided by the application guidance in Ind AS 113 that indicates circumstances in which the transaction is not considered an orderly transaction.
- Preparers using valuation techniques may have to consider the impact of COVID-19 on various assumptions including discount rates, credit-spread/counter-party credit risk etc.

Entities to whom AS is applicable AS 13 Accounting for Investments

- In respect of financial assets within the scope of AS 13, entities have to carefully consider the impact of COVID-19 on determination of fair value for valuation of investments classified as Current Investments.

Hedge Accounting

Entities to whom Ind AS is applicable Ind AS 109 Financial Instruments

Ind AS 109 has elaborate requirements on the application of hedge accounting, which is an accounting choice for the entities. The requirements, among others, include the

qualifying criteria for hedge accounting, how to assess hedge effectiveness and accounting for its impact in the financial statements.

Critical Factors to Consider

- The standard permits a highly probable forecast transaction to be a qualifying hedged item. If entities have adopted cash-flow hedge accounting for certain forecasted transactions, they should assess whether the transaction still qualifies as a highly probable forecast transaction considering their business environment.
- Entities will need to assess any hedge ineffectiveness and record the impact of that in profit and loss.
- Estimate the fair value of derivatives, including paying special attention to underlying assumptions of derivatives, e.g., forward curve of interest rate, foreign currency, commodity etc.

Entities to whom AS is applicable

ICAI Guidance Note on Accounting for Derivative Contracts (Issued 2015)

- In respect of recognition and measurement of derivatives within the scope ICAI Guidance Note on Derivatives, entities may need to consider the impact on key inputs/assumptions such as foreign currency rate, interest rate, etc. used in their valuation techniques, including the potential impact on hedge accounting.

4. Leases

Entities to whom Ind AS is applicable Ind AS 116 Leases

- Due to COVID-19, there may be changes in the terms of lease arrangements or lessor may give some concession to the lessee with respect to lease payments, rent free holidays etc. Such revised terms or concessions shall be considered while accounting for leases, which may lead to the application of accounting relating to the modification of leases. However, anticipated revisions should not be taken into account.
- Variable lease payments may be significantly impacted, especially those linked to revenues from the use of underlying assets due to contracted business activity.
- Discount rate used to determine the present value of new lease liabilities may need to incorporate any risk associated with COVID-19.
- If any compensation is given/declared by the Government to the lessor for providing concession to the lessee, it should be considered whether the same needs to be accounted for as lease modification as per Ind AS 116 or whether assistance received from Government is to be accounted as government grants under Ind AS 20.
- Entities will need to determine whether as a result of COVID-19, any lease arrangement has become onerous.

Entities to whom AS is applicable Leases (AS 19, AS 29)

- Due to COVID-19 there can be changes in the terms of lease arrangements or lessor may give some concession to the lessee with regard to lease payments. Such revised terms or concessions shall be considered while accounting for leases. However, anticipated revision should not be taken into account.
- Discount rate used to determine present value of minimum lease payments of new leases may need to incorporate any risk associated with COVID-19.
- If any compensation is given/declared by the Government to the lessor for providing concession to the lessee, it should be considered whether the same needs to be accounted for appropriately as per AS 19. Whether any assistance received from government are government grants under AS 12.
- Entities will need to determine whether as a result of COVID -19, any lease arrangement has become onerous. The same should be accounted for as per AS 29.

5. Revenue

Due to COVID-19, there could be likely increase in sales returns, decrease in volume discounts, higher price discounts etc. Under Ind AS 115, these factors need to be considered in estimating

the amount of revenue to recognised, i.e., measurement of variable consideration.

Ind AS 115 also requires disclosure of information that allows users to understand the nature, amount, timing and uncertainty of cash flows arising from revenue. Therefore, entities may have to consider disclosure about the impact of COVID-19 on entities revenue.

Entities to whom AS is applicable, may have postponed recognition of revenue due to significant uncertainty of collection in view of the impact of COVID-19. AS 9, Revenue Recognition requires entities to disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

6. Provisions, Contingent Liabilities and Contingent Assets

Entities to whom Ind AS is applicable

Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets

- (i) Onerous contracts are those contracts for which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Unavoidable costs under a contract are the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. As a result of COVID -19, some contracts may

become onerous for reasons such as increase in cost of material/labour, etc. Management should consider whether any of its contracts have become onerous. The same should be accounted for as per Ind AS 37. Ind AS 37 also requires assets dedicated to a contract to be tested for impairment before a liability for an onerous contract is recognised.

Additionally, there could be losses from imposition of penalty due to delay in supply of goods, which may need to be considered under the guidance of Ind AS 115, Revenue from Contracts with Customers.

If the management is unable to assess whether some of the executory contracts are onerous due to inadequacy of information, the same should be disclosed. Management should disclose that it has assessed whether executory contracts are onerous due to the adverse impact of COVID -19. If, the management is unable to assess whether some of the executory contracts have become onerous due to inadequacy of information, the same should be disclosed.

- (ii) Restructuring costs - The Standard provides that a provision for restructuring costs is recognised only when the general recognition criteria for provisions are met and when there is a detailed formal plan for

the restructuring and there is evidence that the entity has started to implement a restructuring plan, for example, by dismantling plant or selling assets or by the public announcement of the main features of the plan.

- (iii) Insurance claims - Entities may have insurance policies that cover loss of profits due to business disruptions due to events like COVID-19. Entities claims on insurance companies can be recognised in accordance with Ind AS 37 only if the recovery is virtually certain i.e. the insurance entities have accepted the claims and the insurance entity will meet its obligations.
- (iv) Ind AS 37 requires a provision to be recognised only
- where an entity has a present obligation
 - it is probable that an outflow of resources is required to settle the obligation; and
 - a reliable estimate can be made.

Due to COVID-19, there is a need for exercising judgement in making provisions for losses and claims. A provision may be accounted for only to the extent that there is a present obligation for which the outflow of economic benefits is probable and can be reliably estimated.

Ind AS 37 does not permit provisions for future operating costs or future business recovery costs. However, Ind AS 37 requires that an entity should disclose the nature of

the obligation and the expected timing of the outflow of economic benefits.

Entities to whom AS is applicable

AS 29 Provisions, Contingent Liabilities and Contingent Assets

Onerous contracts are those contracts for which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Unavoidable costs under a contract are the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. As a result of COVID -19, some contracts may become onerous for reasons such as the imposition of penalty due to delay in supply of goods or increase in cost of material, labour, etc. Management should

consider whether any of its contracts have become onerous. The same should be accounted for as per AS 29. Management should disclose that it has assessed whether executory contracts are onerous due to adverse impact of COVID -19. If, the management is unable to assess whether some of the executory contracts have become onerous due to the

inadequacy of information, the same should be disclosed.

7. Modifications or Termination of Contracts or Arrangements

It may also be noted that the entities may modify or terminate certain contracts which may be within the scope of other Ind ASs or ASs or Guidance notes highlighted below. Entities are advised to consider the specific requirements of these standards and guidance note to account for these modifications or terminations.

Entities to Whom Ind AS is applicable	Entities to Whom AS is applicable
Ind AS 19, Employee Benefits	AS 15 Employee Benefits (revised 2005)
Ind AS 102, Share-based Payments	Guidance Note on Accounting for Employee Share Based Payments
Ind AS 109, Financial Instruments and Ind AS 32, Financial Instruments - Presentation	Guidance Note on Accounting for Derivative Contracts (Issued 2015)
Ind AS 104, Insurance Contracts For insurance companies this is routine; events like earthquake, huge floods, war situations, etc.	
Ind AS 115, Revenue from Contracts with Customers	AS 7 Construction Contracts (revised 2002), AS 9 (Revenue Recognition) and Guidance Note on Accounting for Real Estate Transactions (revised 2012)

8. Going Concern Assessment

Entities to whom Ind AS is applicable

Ind AS 1 Presentation of Financial Statements Ind AS 10 Events after the Reporting Period

The Financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. In assessing whether the going concern assumption is appropriate, management considers all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

Management of the entity should assess the impact of COVID-19 and the measures taken on its ability to continue as a going concern. The impact of COVID-19 after the reporting date should also be considered and if, management after the reporting date either intends to liquidate the entity or to cease trading, or has No realistic alternative but to do so, the financial statements should not be prepared on going concern basis. Necessary disclosures as per Ind AS 1 shall also be made, such as material uncertainties that might cast significant doubt upon an entity's ability to continue as a going concern.

Entities to whom AS is applicable

AS 1 Disclosure of Accounting Policies

The Financial statements are normally prepared on the assumption that an entity is a

going concern and will continue in operation for the foreseeable future. Management of the entity should assess the impact of COVID-19 and the measures taken on its ability to continue as a going concern. The impact of COVID-19 after the balance sheet date should also be considered in assessing whether going concern assumption is appropriate or not. Events occurring after the balance sheet date may indicate that the enterprise ceases to be a going concern. It may be necessary for the management to evaluate whether it is proper to use the fundamental accounting assumption of going concern in the preparation of the financial statements.

9. Income Taxes

Entities to whom Ind AS is applicable Ind AS 12 Income Taxes

COVID-19 could affect future profits and/or may also reduce the amount of deferred tax liabilities and/or create additional deductible temporary differences due to various factors (e.g., asset impairment). Entities with deferred tax assets should reassess forecasted profits and the recoverability of deferred tax assets in accordance with Ind AS 12, Income Taxes, considering the additional uncertainty arising from the COVID-19 and the steps being taken by the management to control it.

Management might also consider whether the impact of the COVID-19 affects its plans to distribute profits

from subsidiaries and whether it needs to reconsider the recognition of any deferred tax liability in connection with undistributed profits.

Management should disclose any significant judgements and estimates made in assessing the recoverability of deferred tax assets, in accordance with Ind AS 1.

Entities to whom AS is applicable

AS 22 Accounting for Taxes on Income

COVID-19 could affect future profits and/or may also reduce the amount of deferred tax liabilities and/or create additional timing differences due to various factors. Entities with deferred tax assets should reassess forecast profits and the recoverability of deferred tax assets in accordance with AS 22, Accounting for Taxes on Income, considering the additional uncertainty arising from the COVID-19 and the steps being taken by the management to control it.

10. Consolidated Financial Statements

Entities to whom Ind AS is applicable

Ind AS 110 Consolidated Financial Statements

Ind AS 110 prescribes that the financial statements of parent and subsidiaries used in the preparation of the consolidated financial statements are usually drawn upto the same date. It may be noted that in any case,

the difference between the reporting dates should not be more than three months.

Entities to whom AS is applicable

AS 21 Consolidated Financial Statements (revised 2016)

AS 21 prescribes that the financial statements of parent and subsidiaries used in preparation of the consolidated financial statements are usually drawn upto the same date. It may be noted that in any case, difference between the reporting dates should not be more than six months.

11. Property Plant and Equipment (PPE)

Ind AS 16 and AS 10 require that useful life and residual life of PPE needs revision in annual basis. Due to COVID-19, PPE can remain under-utilised or not utilised for a period of time. It may be noted that the standards require depreciation charge even if the PPE remains idle. Further, COVID-19 impact may have affected the expected useful life and residual life of PPE.

The management may review the residual value and the useful life of an asset due to COVID-19 and, if expectations differ from previous estimates, it is appropriate to account for the change(s) as an accounting estimate in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors and AS 5, Net Profit or Loss for the

Period, Prior Period Items and Changes in Accounting Policies.

12. Presentation of Financial Statements

Ind AS 1 Presentation of Financial Statements

- (i) Breach of loan covenants (including classification of liabilities into current and non-current)

Due to COVID-19 there may be instances of breach of loan covenants which may trigger the liability becoming due for payment and liability becoming current. However, as per paragraph 74 of Ind AS 1, such a liability shall not be classified as current, if the lender agreed, after the reporting period and before the approval of the financial statements for issue, not to demand payment as a consequence of the breach.

- (ii) Sources of estimation uncertainty under Ind AS 1 Paragraph 125 of Ind AS 1, Presentation of Financial Statements, requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation of uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. COVID-19 may have

created many uncertainties about the likely future scenarios which may affect the estimations of amounts recognised in the balance sheet as of reporting date. Entities shall be guided by the prescriptions in paragraphs 125 to 133 of Ind AS 1.

- (iii) Comparative information

Ind AS 1 requires presentation of minimum comparative information. Framework for the preparation and presentation of financial statements under Ind AS considers comparability as an important qualitative characteristic of financial statements. The Framework requires that users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance and also compare it with financial statements of other entities. COVID-19 may have affected the financial performance and financial position of entities. Therefore, preparers may consider making adequate disclosures and explanatory notes regarding the impact of COVID-19 on its financial position, performance and cash flows.

13. Borrowing Costs

Ind AS 23 Borrowing Costs and AS 16 Borrowing Costs

Above standards require that the capitalisation of interest is

suspended when development of an asset is suspended. The management may consider this aspect while evaluating the impact of COVID-19.

Part II

14. Post Balance Events (Ind AS 10 and AS 4)

COVID-19 outbreak incidence surfaced in December 2019 and the condition has continued to evolve throughout aGer 31 December 2019. According to Ind AS 10, events occurring after the reporting period are categorised into two viz. (i) Adjusting events i.e. those require adjustments to the amounts recognised in its financial statements for the reporting period and (ii) Non-adjusting events i.e. those do not require adjustments to the amounts recognised in its financial statements for the reporting period. In certain cases, Management judgement may be required to categorise the events into one of the above categories.

Similarly, in accordance with AS 4, Contingencies and Events Occurring after Balance Sheet Date, adjustments to assets and liabilities are required to be made for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date.

However, adjustments to assets and liabilities are

not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. Disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.

Entities must disclose significant recognition and measurement uncertainties that might have been created by the outbreak of the COVID-19 in measuring various assets and liabilities. They should also disclose how they have dealt with the impact of COVID-19 on the financial position and financial performance of the entity.

15. Interim Financial Reporting (Ind AS 34 and AS 25)

(Currently, this section may be applicable to a limited set of entities)

The recognition and measurement guidance applicable to annual financial statements equally applies to interim financial statements. There are typically no recognition or measurement exceptions for interim reporting, although management might have to consider whether the impact of the COVID-19 is a discrete event for the purposes of

calculating the expected effective tax rate.

Ind AS 34, Interim Financial Reporting, states that there might be greater use of estimates in interim financial statements, but it requires that the information is reliable and that all relevant information is disclosed. Ind AS 34/AS 25 Interim financial information usually updates the information in the annual financial statements. However, Ind AS 34/AS 25 requires that an entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. This implies that additional disclosure should be given to reflect the financial impact of the COVID-19 and the measures taken to contain it. This disclosure should be entity specific and should reflect each entity's circumstances. Where significant, the disclosures required by paragraph 15B in Ind AS 34 should be included. Further, the preparers may consider making suitable disclosures in the Management Discussion and Analysis section of the Annual Report about the effect of Coronavirus (COVID-19) on the overall risks to the businesses in which the entity is engaged. ■