FOO KON TAN

HLB

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FINANCIAL REPORTING UPDATES

1Q 2021

This is your quarterly update on all things relating to international financial reporting standards or Singapore Financial Reporting Standards. We will bring you up to speed on topical issues, provide our comments and view points on any significant developments.

JANUARY 2021

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ACRA has issued Financial Reporting Practice Guidance No. 2 of 2020

On 4 December 2020, ACRA has issued the following:

ACRA's Financial Reporting Practical Guidance No. 2 of 2020

To guide directors in the review and approval of their company's financial statements during the COVID-19 situation, ACRA is publishing the proposed areas of review focus for the financial statements that are affected by the COVID-19 pandemic. Against the backdrop of the COVID-19 pandemic, ACRA's review on FY2020 FS will focus on the following areas. Below are some questions as suggested by ACRA that can help directors identify accounting issues and deal with them:

1. Judgements or estimates made in the areas impacted by COVID-19 pandemic

   - Has any operating segment experienced a significant drop in revenue? Any major customer contract(s) cancelled or modified recently?
   - Has any revenue been earned through variable consideration?
   - Has any loan been re-financed this year?
   - Has any complex instrument been issued or entered into to raise funds, or hedge currency and other financial risks?
   - Has any invoice discounting, factoring or reverse factoring arrangements been obtained?
   - Are 'exceptional' or 'one-off' costs (e.g. restructuring costs, costs that must be recognised despite no associated sale made, incremental health and safety costs) presented on the face of income statement?
   - Are the credits from government reliefs and assistance separately presented as grant income or deducted against the related costs?

2. Assessment of the going concern assumption

   - Has the aging of receivables deteriorated? Any major customer(s) been paying past the credit terms? Any major customer(s) based in an industry and/or geographical area with challenging business environment?
   - Has any major supplier(s) been denying the usual trade or credit terms?
   - Has any bank withdrawn the current loan/credit facilities or rejected re-financing requests?
   - Has any loan covenant(s) been breached? If yes, did it trigger other borrowings to become immediately payable?
   - Has any other events or conditions cast significant doubt on the Group's ability to continue as a going concern?

3. Adequacy of impairment charge and assumptions made in the assessment

   - Which cash generating unit(s) (CGU) are performing poorly? Has there been any change(s) in the way CGUs are categorised?
   - How have cash flow forecasts in impairment assessment been adjusted to reflect the current environment?
   - Can certain assumptions used by management lead to significantly different cash flow forecasts?
   - Do all CGUs have the same risk profiles? If not, was the same discount rate used across all impairment tests? Was the discount rate used this year higher or lower than the discount rate used last year?

4. Valuation of investment properties and financial instruments

   - Has professional valuers' help been obtained to value significant assets (e.g. investment properties, financial instruments) or liabilities (e.g. derivative instruments) that are recorded at fair value?

- Has the valuation multiples approach been used to value certain assets? Does the market prices of those assets fluctuate significantly?
- Has any caveat or qualifying statement been included in the report issued by the professional valuer?
- Has any asset's value declined significantly between the year-end date and the date the financial statements are authorised for issue?

5. Other areas of focus

- Has any subsidiary been de-consolidated, despite no change in the proportion of shares held?
- Has any loans or financial instruments been pegged to Inter-Bank Offered Rates, such as LIBOR or SIBOR, that will be converted to an alternate benchmark? Any hedging done on the interest rate risks?

ISCA issues FRB 8 *COVID-19 Government Relief Measures: Accounting for Foreign Worker Levy Waiver & Rebate*

On 24 December 2020, ISCA published ISCA Financial Reporting Bulletin 8 ("FRB 8") *COVID-19 Government Relief Measures: Accounting for Foreign Worker Levy Waiver & Rebate*.

FRB 8 provides accounting guidance and key considerations on how to account for foreign worker levy (FWL) waivers and rebates granted by the Singapore Government to the business employers announced in the respective Budgets and Ministry of Manpower ("MOM") Press Releases.

In ISCA's view, the FWL waiver can either be accounted for as government grant under SFRS(I) 1-20/ FRS 20 or as temporary reduction in levy rates under SFRS(I) INT 21/ INT FRS 121.

IASB issues amendments to IFRS Standards

On 12 February 2021, the International Accounting Standards Board (IASB) has issued amendments to the following standards:

- Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies*
- Amendments to IAS 8 *Definition of Accounting Estimates*

Both amendments are effective for annual periods beginning on or after 1 January 2023, are applied prospectively, and permit earlier application. Below is summary of the changes arising from the amendments.

IFRS financial statements dated after 12 February 2021 should consider for any relevant disclosures in relation to New and Revised IFRS in Issue but Not Yet Effective, such as any known or reasonably estimable information relevant to assessing the possible impact that the application of the new IFRS will have on the entity's financial statements in the period of initial application.

Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies*

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. Applying the amendments, an entity discloses its material accounting policies instead of its significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. However, accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. In addition, if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. In support of the amendments to IAS 1, amendments are also made to IFRS Practice Statement 2 to illustrate how an entity could judge whether information about an accounting policy is material to its financial statements.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023 and are applied prospectively. Earlier application is permitted. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8 *Definition of Accounting Estimates*

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Accordingly, an entity develops accounting estimates if the accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.

The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. Illustrative examples are also added to help entities understand and apply the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 and are applied prospectively to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

Financial Reporting Reminders for Preparation of Financial Statements for year ended 31 December 2020

We have covered our top five year – end reminders in our previous quarter's publication. In this current issue, we discuss below some of the financial reporting reminders to take note in the preparation of financial statements (FS) for the year ended 31 December 2020 and beyond.

Step-up FS disclosures in light of COVID-19

Areas involving significant judgement and estimates

Year 2020 was an extraordinary year because of COVID-19. The COVID-19 pandemic has impacted businesses adversely. From the accounting perspective, there will be heightened scrutiny on the following financial statement areas which involve significant judgement and accounting estimates (including but not limited to):

- Items measured at fair value (e.g. investment properties)
- Impairment of non-financial assets
- Provision for expected credit losses (ECL) on debt instruments
- Provision for stock obsolescence
- Provision for onerous contracts / contingent liabilities

Accordingly, an entity should ensure that appropriate disclosures of the judgements and assumptions are included in the financial statements. In particular, the assumptions disclosed should reflect / take into consideration the impact of COVID-19 pandemic. Therefore, the regulators expect that there should be deterioration in the underlying assumptions, as compared to those in the preceding year.

Entities are reminded to pay more attention to the following FS disclosures/notes:
- Fair value measurement
- Critical judgements & estimation uncertainty
- Financial risk management (especially credit risk, liquidity risk)
- Sensitivity analysis

Going concern

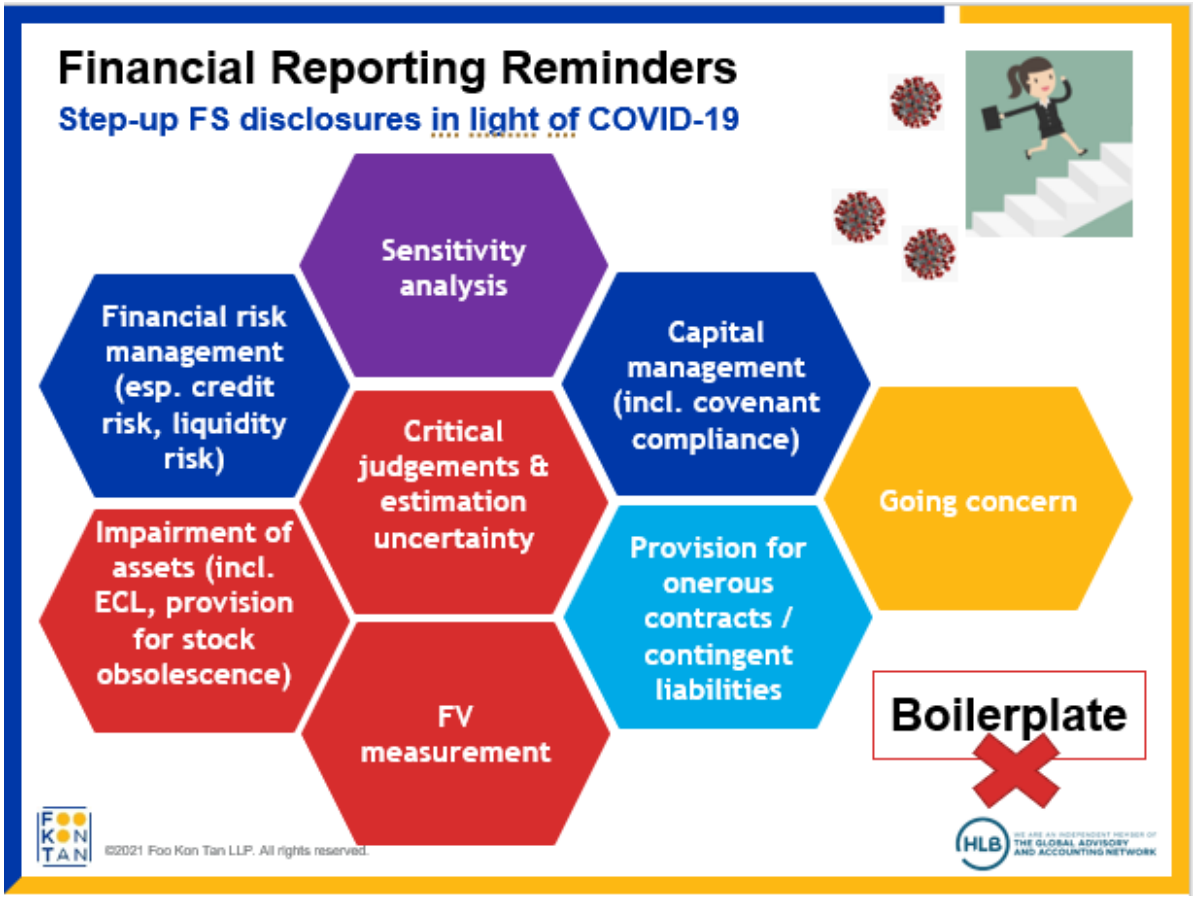
With business closures taking place and the possibility of an economic downturn, management will need to critically assess/evaluate the entity's ability to continue as a going concern, and in severe cases, if the use of going concern basis of accounting remains appropriate.

Based on the going concern assessment performed, if material uncertainty exists, the following disclosures in the financial statements should be made/updated:
- Events or conditions that led to the material uncertainty
- Explain how the material uncertainty arose as a consequence of the events or conditions identified
- Management's plans to resolve the going concern issue
- Capital management (including compliance with loan covenants, if any)

Consistency and avoid boilerplate disclosures

It is well-known that the regulators review beyond disclosure deficiencies – from the ACRA's Financial Reporting Surveillance Programme (FRSP), it is noted that ACRA discovered wrong accounting treatments. Inconsistencies in the FS disclosures tend to create loopholes which can be cracked eventually. Therefore, consistency across the whole set of FS and information provided elsewhere (in the other sections of the annual report, SGX announcement, etc.) is key.

In addition, entities should refrain from using boilerplate disclosures. The COVID-19 pandemic has different impact on different entities – entities should customise their FS disclosures according to entity-specific facts and circumstances.


Financial Reporting Reminders
Step-up FS disclosures in light of COVID-19
Sensitivity analysis
Financial risk management (esp. credit risk, liquidity risk)
Capital management (incl. covenant compliance)
Critical judgements & estimation uncertainty
Going concern
Impairment of assets (incl. ECL, provision for stock obsolescence)
Provision for onerous contracts / contingent liabilities
FV measurement
Boilerplate
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Contact us

If you need assistance or advice on the above, we are here to assist you.

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