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FINANCIAL REPORTING UPDATES

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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.

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Accounting Implications arising from COVID-19

In December 2019, a pneumonia-like disease had been reported in China. This disease was later determined to be a new type of coronavirus which was named COVID-19 (Coronavirus Disease 2019).

Precautionary measures were implemented worldwide by the respective nations. In Singapore, precautionary measures (such as travel restrictions and the Circuit Breaker measures) were also put in place to curb the spread of COVID-19. The resultant business closures in affected locations around the world have led to disruptions of supply chains and some decline in demand on a global scale.

In view of the above, entities will need to consider/address the following accounting implications:

- Is the COVID-19 outbreak an adjusting or non-adjusting event?*
- Going concern assessment*
- Accounting for Singapore property tax rebate#
- Accounting for Jobs Support Scheme
- Application of IFRS 16/ SFRS (I) 16/ FRS 116 (accounting for COVID-19-related rent concessions)
- Application of IFRS 9/ SFRS (I) 9/ FRS 109 (accounting for expected credit losses)
- Impairment assessment of non-financial assets

* These issues are discussed in Financial Reporting Bulletin 2 ("FRB 2") *Accounting implications arising from COVID-19 for entities with 31 December 2019 financial reporting date* published by the Institute of Singapore Chartered Accountants (ISCA)

\# This issue is discussed in Financial Reporting Bulletin 5 ("FRB 5") *COVID-19 Government Relief Measures: Accounting for Singapore property tax rebate from the perspective of the landlord and the tenant* published by ISCA

Is the COVID-19 outbreak an adjusting or non-adjusting event?

IAS 10/ SFRS (I) 1-10/ FRS 10 *Events after the Reporting Period* provides definitions and requirements as follows:

(a) adjusting events after the reporting period are those that provide evidence of conditions that existed at the end of the reporting period. An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.

(b) non-adjusting events after the reporting period are those that are indicative of conditions that arose after the reporting period. An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period, but disclose the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

Entities with financial reporting date on 31 December 2019

Although the first cases of COVID-19 surfaced in December 2019, there was no evidence of an outbreak and no adverse changes to the economic and market conditions (as a result of COVID-19) as at 31 December 2019. The outbreak occurred after December 2019 and subsequently resulted in adverse changes to the economic and market conditions. Deterioration of economic and market conditions in 2020 was the consequence of regulatory actions, such as travel restrictions and quarantine measures, imposed by several countries in an attempt to combat with COVID-19. These subsequent events are not indicative of conditions that existed as at 31 December 2019. Therefore, the COVID-19 outbreak is a non-adjusting event for entities with a 31 December 2019 financial reporting date. However, disclosure is required of material non-adjusting events.

Entities with financial reporting dates after 31 December 2019

It is likely that the COVID-19 outbreak is not a post-balance sheet event for entities with financial reporting dates after 31 December 2019. This is because in Singapore, we consider the COVID-19 to be an outbreak in January 2020 as prior to this, it was considered to be isolated cases.

However, other COVID-19 related developments and measures that occurred / put in place subsequent to the entity's financial reporting date will be post-balance sheet events. Careful consideration and judgement is required to assess whether these post-balance sheet events are adjusting or non-adjusting. This assessment depends on factors such as the financial reporting date of the entity and the particular event under consideration – whether conditions existed at the financial reporting date.

ISCA has illustrated the above with some examples in the ISCA COVID-19 Technical FAQs recently published.

Going concern assessment

Financial statements are prepared on a going concern basis, unless management intends to either liquidate the entity or to cease trading, or when it has no realistic alternative but to do so. When there is a deterioration in operating results and financial position (due to COVID-19) after the reporting period, the entity should re-assess if the going concern assumption is still appropriate.

It should be noted that the assessment of the appropriateness of the going concern assumption is to be performed up to the date that the financial statements are authorised for issue.

As the COVID-19 outbreak is still rapidly evolving, entities are reminded to continually assess the impact of the outbreak on the going concern assumption up to the date that the financial statements are authorised for issue.

In assessing whether the going concern assumption is appropriate, entities should consider the following information (which is not exhaustive):

- all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period
- whether the entity has ready access to financial resources or access to government assistance and other financial support programs to mitigate the liquidity shortfall
- indicators of possible financial difficulties (e.g. default on loans, denial of usual trade credit from suppliers)
- additional contingent liabilities (from legal proceedings)
- a wide range of factors relating to current and expected profitability (e.g. loss of principal customer), debt repayment schedules and potential sources of replacement financing
- updates to cash flow forecasts taking into consideration the uncertainties and reduced cashflows observed after the reporting period

If the going concern assumption is no longer appropriate, there should be a fundamental change in the basis of accounting (i.e. realisation basis) instead of an adjustment to the amounts recognised in the financial statements. This is required to be disclosed in the financial statements.

Accounting for Singapore property tax rebate

In response to the COVID-19 pandemic, the Singapore Government has given remission of property tax ("property tax rebates")1 under section 6(8) of the Property Tax Act (Cap. 254) to qualifying non-residential properties for the period from 1 January 2020 to 31 December 2020.

In April 2020, ISCA has published Financial Reporting Bulletin 5 ("FRB 5") *COVID-19 Government Relief Measures: Accounting for Singapore property tax rebate from the perspective of the landlord and the tenant* to provide guidance on the accounting treatment.
The salient points discussed in FRB 5 are summarised as follows:

- The property tax rebate and the related rental rebate meet the definition of government grant under SFRS(I) 1-20, and are not lease modifications under SFRS(I) 16
- Accounting treatment by landlord
  - recognise the amount of property tax rebate received from government as grant income in its income statement and recognise the amount of property tax rebate passed on to tenant(s) as grant expense in its income statement, over time on a systematic basis
- Accounting treatment by tenant
  - the related rental rebates received are recognised as grant income over the same periods as the related costs towards which they are intended to compensate

Accounting for Jobs Support Scheme

The Jobs Support Scheme (JSS) was announced at the Budget 2020, and further enhanced at the Resilience and Solidarity Budgets announced in March and April 2020 respectively.

The JSS is to provide wage support to employers to help them retain their local employees (Singapore Citizens and Permanent Residents) during this period of economic uncertainty. Employers who have made CPF contributions for their local employees will qualify for the pay-outs under the JSS. As the JSS is a cash grant from the government, it meets the definition of a government grant and should be accounted for under SFRS(I) 1-20/ FRS 20. According to paragraph 12 of SFRS(I) 1-20/ FRS 20, the grant is recognised in profit or loss on a systematic basis over the periods in which the entity will recognise as expenses the related costs for which the grant is intended to compensate.

The ISCA Financial Reporting Committee (FRC) has deliberated and raised the following questions:

i. What are the 'related costs' for which the JSS grant is intended to compensate?
ii. How should the JSS grant be recognised for entities with financial reporting periods ended 31 March 2020?

The FRC's view is that:

- The 'related costs' for which the JSS grant is intended to compensate relate to employee salary costs incurred by the entity for the months covered under the JSS;
- JSS grant for the months October 2019 to December 2019 and February 2020 to March 2020 should be recognised within the period ended 31 March 2020 (there is no grant for the month of January 2020); and
- JSS grant for the months April 2020 and May-July 2020 should be recognised in the period when the salary costs are recognised.

Tax treatment on the JSS payout

The Inland Revenue Authority of Singapore (IRAS) has clarified in their website under Question 10 in the FAQs (Frequently Asked Questions) section that the JSS payout will be exempt from income tax in the hands of the employers.

IRAS has also addressed other concerns, such as (i) Who qualifies for the JSS, (ii) When is the JSS payout, (iii) How is the JSS payout computed and many other FAQs in their website.

Entities (as employers) do not need to apply for the JSS. IRAS will notify eligible employers by post of the tier of support and the amount of JSS payout payable to them.

Application of IFRS 16/ SFRS (I) 16/ FRS 116 (accounting for COVID-19-related rent concessions)

The International Accounting Standards Board (IASB) has proposed to amend IFRS 16 *Leases* to make it easier for lessees to account for COVID-19 related rent concessions such as rent holidays and temporary rent reductions. Exposure Draft *Covid-19-Related Rent Concessions*, which proposes an amendment to IFRS 16, is open for public comment until 8 May 2020. IASB plans to issue final amendment by end of May 2020.

In summary, the effects of the proposed amendment are to:

a) provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification;
b) require lessees that apply the exemption to account for COVID-19-related rent concessions as if such concessions were not lease modifications;
c) require lessees that apply the exemption to disclose that fact;
d) require lessees to apply the exemption retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the reporting period in which a lessee first applies the amendment (i.e. commonly termed “modified retrospective” approach); and
e) make the exemption immediately effective on issue of the final amendment.

Accordingly, COVID-19 related rent concessions such as rent holidays and temporary rent reductions would be accounted for as negative variable lease payments and recognised the effect in profit or loss as and when incurred.

Application of IFRS 9/ SFRS (I) 9/ FRS 109 (accounting for expected credit losses)

On 27 March 2020, IASB has published IFRS 9 and covid-19—accounting for expected credit losses, a document responding to questions regarding the application of IFRS 9 *Financial Instruments* during this period of enhanced economic uncertainty arising from the COVID-19 pandemic.

As mentioned in the earlier part of this publication, as the COVID-19 outbreak is a non-adjusting event for entities with a 31 December 2019 financial reporting date, such assessment for expected credit losses (ECL) will be more applicable for entities with financial reporting dates after 31 December 2019.

Entities are required to develop ECL estimates based on the best available information, without undue cost or effort, about past events, current conditions and forecasts of economic conditions. In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken.

Impairment assessment of non-financial assets

Similar to ECL assessment, impairment assessment of non-financial assets will be more applicable for entities with financial reporting dates after 31 December 2019.

However, more detailed subsequent events disclosure would be expected for entities with a 31 December 2019 financial reporting date in this regard. The level of details would be dependent on the date of authorisation of the FY2019 financial statements (FS) – the later the FS authorisation date, the more details are expected to be disclosed of subsequent events, as the entity would be in a more informed position to disclose the impact on its operations due to COVID-19 when it consolidates its financial performance overtime (up to FS sign-off date).

IAS 36/ SFRS(I) 1-36/ FRS 36 *Impairment of Assets* applies in determining whether non-financial assets, such as right-of-use assets (for lessees) and items of property, plant and equipment, are impaired. The circumstances that give rise to rent concessions as a result of the COVID-19 pandemic are likely to indicate that assets may be impaired. For example, loss of earnings during the period covered by a rent concession may be an indicator of impairment of the related right-of-use asset. Similarly, longer-term effects of the COVID-19 pandemic could affect the expected ongoing economic performance of right-of-use assets.

ISCA's FRB 3 *Classification of liabilities as Current or Non-current (Amendments to IAS 1)*

In April 2020, ISCA published ISCA Financial Reporting Bulletin 3 ("FRB 3") *Classification of liabilities as Current or Non-current (Amendments to IAS 1)*.

The amendments to IAS 1 may affect the classification of liabilities in situations such as where long-term loans are classified as current due to the lack of an unconditional right to defer settlement or where management's expectations or intentions regarding the settlement of liabilities are considered to determine the classification of the liability. Hence, all entities should reconsider the existing classification of their liabilities and determine if changes are required in light of the amendments.

FRB 3 helps to provide better understanding in applying the amendments to IAS 1 to the following commonly encountered scenarios in Singapore:

A. Long-term loans with callable clauses
B. Term loans with rollover facilities
C. Amounts due from related parties – classification and asymmetrical treatment by lender and borrower

Contact us

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

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