



COVID-19: ACCOUNTING AND REPORTING IMPACT

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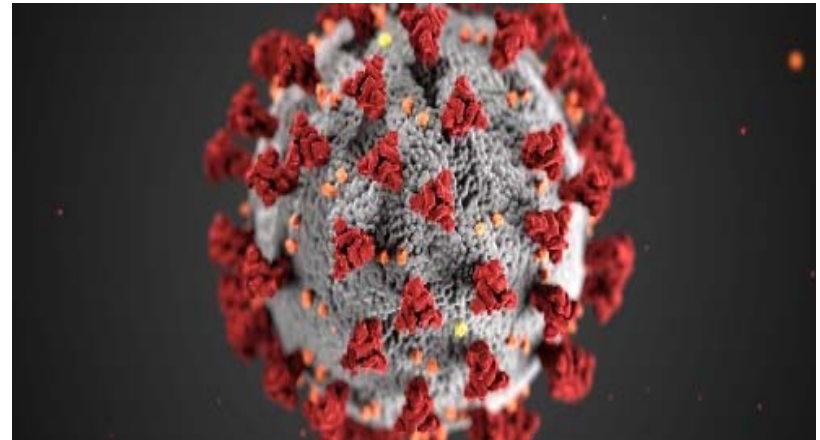
CPA,CA, CPA (WA)



- Carmen has been with Davidson and Company LLP since 2010.
- After completing an Economics Major at McGill University, followed by a Diploma in Accounting from the University of British Columbia, Carmen successfully obtained her C.A. and C.P.A (Washington) designations.
- She has extensive experience auditing and performing field work for various clients within the United States and South America.
- Carmen is an active member in the firm's IFRS and Marketing Committees.
- Carmen is a born and raised "Vancouverite" who enjoys the active lifestyle the West Coast has to offer and is an avid soccer, tennis and basketball player.

COVID-19

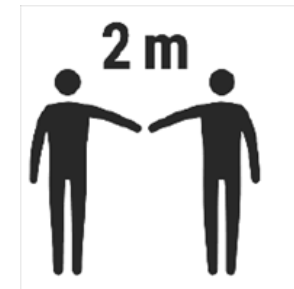
COVID-19 has significantly impacted the global financial markets and depending on the industry and primary operations of a company it may have pervasive financial reporting implications.



KEY AREAS (COVID-19)

Some of the key areas we are seeing this impact include, but are not limited to:

- Financial statement disclosure
- Going concern
- Impairment of non-financial assets*
- Significant estimates and judgements*
- Debt covenants
- Modifications of contracts
- Government grants



**TBD by valuation partner*

Financial Statement Disclosure (COVID-19)

Commencing for December 2019 year end and interim financial statements, generally speaking, in either note 1 or the subsequent event note, companies included generic disclosure regarding the uncertainty surrounding the potential impact of COVID-19.

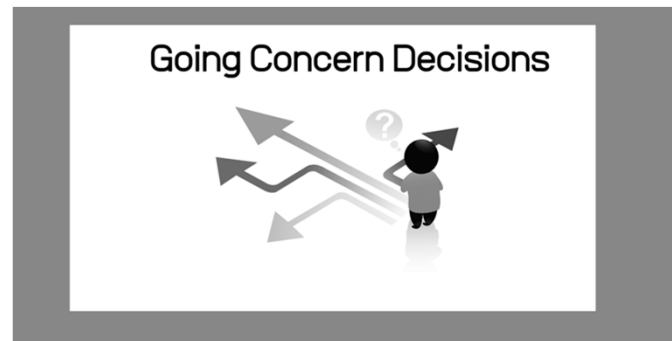
Financial Statement Disclosure (COVID-19)

For current 2020 filings, financial statement users and regulators, will be looking for a more robust discussion on if and how the company was impacted by COVID-19.

Going Concern (COVID-19)

New factors to consider:

- Temporary ceasing of operations
- Decline in reoccurring revenue
- Decline in the value of assets
- Expected noncompliance with debt or other contractual obligations
- Lack of access to necessary capital or financing
- Inability to access key resources, inputs or products



Asset Impairment & Accounting

Estimates (COVID-19)

- Consider if there is an indication of impairment or a triggering event?
 - Changes to the economic environment (new uncertainties and changing risk factors)
 - Market capitalization versus net assets
- Revisit cash flow forecasts
 - Update key assumptions and ensure data being used is still relevant and reliable
- Revisit discount rates being used
- Enhance disclosures (assumptions and sensitivity information)

Breaching Debt Covenants (COVID-19)

If breach occurs on or before the report date:

- provides the lender the right to demand repayment
→ liability classified as current unless agreement is made prior to reporting date



If the breach occurs after the reporting date:

- the breach is a non-adjusting event
- disclosure required on the current status with the lenders to rectify the breach

In both instances, disclose the amount exposed and how the company is in breach.

Modification of Contracts (COVID-19)

Leases

- Recognized as a contract modification or a separate contract depending on the type of change (IFRS 16.44/45).
- IASB issued new optional practical expedient to lessees to treat rent concessions due to COVID-19 as if it is not a lease modification. Certain conditions must be met.

Modification of Contracts (COVID-19)

Revenue contracts

- Re-assess the contract enforceability and timing of revenue recognition.
- Update estimated transaction price for variable considerations.
- Re-assess collectability and allowance for doubtful accounts.

Government Grants (COVID-19)

- Assess the economic substance of any government assistance and determine the appropriate accounting treatment.
- Does it meet the definition of IAS 20.3?
 - Canada Emergency Wage Subsidy (CEWS) - MET
 - Canada Emergency Business Account (CEBA) - MET
 - Paycheck Protection Program (PPP) [United States] - MET
 - Tax moratoriums and refunds or income tax regulation changes on stimulus measures – LIKELY NOT MET



Government Grants (COVID-19): Recognition and Measurement

Generally speaking a government grant is recognized at the date at which it is reasonably assured that the entity will comply with the conditions attached and the grant will be received (IAS 20.7).

Therefore, a company may not need to wait for a formal confirmation before recognising.

Government Grants (COVID-19): Recognition and Measurement

Accounting for government grants:

- Based on the substance of the grant rather than its legal form – ie. should be consistent with how the expense or costs for which the grants are intended to compensate are recognized.
- Recognized in the statement of income or loss over the period in which the company recognises the expense the grant is compensating.

Government Grants (COVID-19): Disclosure

- Accounting policy – grant received and how recognized
- Significant judgements and estimates (if necessary)
- Note disclosure – nature and extent of grants recognized and unfulfilled conditions and other contingencies attached that have been recognized (IAS 20.39).



Final Comments (COVID-19)

We have mainly discussed accounting issues around COVID-19 but it is important to also recognize how your audit may change this year.

Auditors will still be needing to complete:

- Inventory counts
- Walkthroughs (including gaining an understanding of internal controls) etc.

Key for companies will be to appropriately adapt

- Are all the necessary controls still in place and is the company maintaining the appropriate documentation to provide evidence of these controls?



Resources (COVID-19)

International Auditing and Assurance Standards Board (IAASB)

- <https://www.iaasb.org/focus-areas/guidance-auditors-during-coronavirus-pandemic>

Auditing and Assurance Standards Board (AASB)

- <https://www.frascanada.ca/en/aasb/news-listings/covid-19-resources>

CPA Canada

- <https://www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/mdanda-and-other-financial-reporting/publications/covid-19-external-auditing-reporting-resources>

Canadian Public Accountability Board (CPAB)

- <https://cpab-ccrc.ca/insights/covid-19>

Public Company Accounting Oversight Board (PCAOB)

- <https://pcaobus.org/Documents/COVID-19-Spotlight.pdf>