



# Technical Accounting Alert

## TA 2020-05

### Financial impact of coronavirus for upcoming financial statements

#### Introduction

During Q4 2019, an outbreak occurred of what is now known as COVID-19, a contagious and potentially deadly disease with a point of origin centred in Wuhan, China. In Q1 2020, the virus has spread globally and has caused significant disruption in multiple economies as central governments attempt to contain the threat.

Containment measures include:

- Quarantine of major population centres;
- Prevention of social gatherings; and
- Closure of means of production.

In Australia, we are taking additional precautions as mandated by the Australian Government and supported by State and Territory Health Departments. We have also put in place travel and transport restrictions for all people coming into Australia which is putting pressure both on the movement of people and upon the supply chain.

#### Consideration of subsequent event

The outbreak of COVID-19 is a subsequent event for reporting purposes.

While the outbreak had commenced at 31 December 2019, any financial impact occurred subsequent to that date as measures were taken to reduce the impact of the disease. The event therefore can only be one that arose subsequent to the reporting period and is thus a non-adjusting event – which does NOT result in an adjustment to the amounts recognised in its financial statements (AASB 110.10).

Each entity must consider the impact of the outbreak upon their financial statements and determine if the impact is material to the users of the financial statements (AASB 110.21). If material, the financial statements must include, for each material category, (a) the nature of the event, and (b) an estimate of its financial effect, or a statement that such an estimate cannot be made. The entity must also consider whether the subsequent event calls into question its ability to continue as a going concern (AASB 110.15).



## Impact on financial statements, especially impairment and going concern

Further, management teams should ensure that forecasts prepared for periods subsequent to the known outbreak (for example, for a 31 January 2020 year-end) appropriately include adjustments for the depressed economic conditions currently being experienced as a result of the global response to the outbreak.

Industries are impacted by:

- a lack of labour (such as outsourced programmers);
- reduced supply;
- delays in supply;
- reduced demand;
- fluctuations in currency value; and
- reductions in oil price.

Caution must be applied to ensure that the measurement of the entity's assets and liabilities at 31 December 2019 is not impacted by subsequent development of the virus. For example, measurement of expected credit losses and hedge effectiveness in accordance with AASB 9 *Financial Instruments*, the measurement of impairment of intangible assets such as goodwill under AASB 136 *Impairment* and assets and liabilities that are measured at fair value in accordance with AASB 13 *Fair Value Measurement*.

If the impact of the non-adjusting event is material to the financial statements, it should be disclosed. This disclosure should include the nature of the event and an estimate of the financial effect, or it is not possible to estimate this, a statement to that effect.

## Who is impacted?

While businesses trading directly with China are most impacted, a level of economic contagion is being experienced by all major economies. We note that the International Monetary Fund has downgraded global growth projects from 3.3% for 2020 and 3.4% for 2021 to 3.2% for both as of January 2020. Country-specific growth rates are more significantly impacted, with China unlikely to meet their forecast growth of 6.0% and 5.9%, respectively.

## Impact of economic contagion

Globally, share markets have been significantly impacted by the virus, with the Dow Jones and ASX All Ordinaries both losing approximately 32% from their respective peaks. The AUD is trading at USD0.59 – the lowest since 2009. We last saw comparable conditions during the Global Financial Crisis. These data points should be considered for their impact on the above items.

Please speak to your audit partner if you have any concerns or questions about reporting on the impact of COVID-19 on your business. For further information, we suggest [Accounting implications of the Coronavirus \(COVID-19\)](#) published by Grant Thornton International.

## Further information



If you wish to discuss any of the information included in this Technical Accounting Alert, please get in touch with your Grant Thornton Relationship Partner or a member of the National Assurance Quality Team at [national.assurance.quality@au.gt.com](mailto:national.assurance.quality@au.gt.com) or a member of Grant Thornton Financial Reporting Advisory at [FRA@au.gt.com](mailto:FRA@au.gt.com).