



# Are you ready for 30 June 2020 reporting?

## Part 1: Potential COVID-19 impacts



# Your facilitators are...

**Kim Heng**



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**Hayley Pang**



**Carolyn Ralph**



**Glenn Austin**



# Why are we here today?

**Unemployment rises to 5.2 per cent in March but full impact of coronavirus yet to show**

## ***I.M.F. Predicts Worst Downturn Since the Great Depression***

**MPs and senators pass \$130bn jobkeeper wage subsidy as part of Australia's 'road out' of coronavirus crisis**

**Coronavirus crisis: Global cases pass 2 million**

**Report: Most Australian employees to work from home**

**Qantas cancels international flights, stands down staff amid coronavirus outbreak**



# Agenda

- Financial reporting impacts
- Audit implications
- Better business reporting
- Wrap up





# Financial reporting impacts



# Financial reporting areas are.....

**Impairment of assets**

**Government assistance**

**Financial instruments**

**Leases**

**Going concern**

**Restructuring provisions and employee benefits**

**Appendix**

# Impairment of assets

- COVID-19 has resulted in a significant deterioration in economic conditions for many entities.
- There is an increased risk of impairment indicators.
- Where an indication of impairment exists, an entity shall estimate recoverable amount.



# Impairment of assets

If conditions change, entities may have to re-perform impairment testing considering the new information



**Impairment timeline**

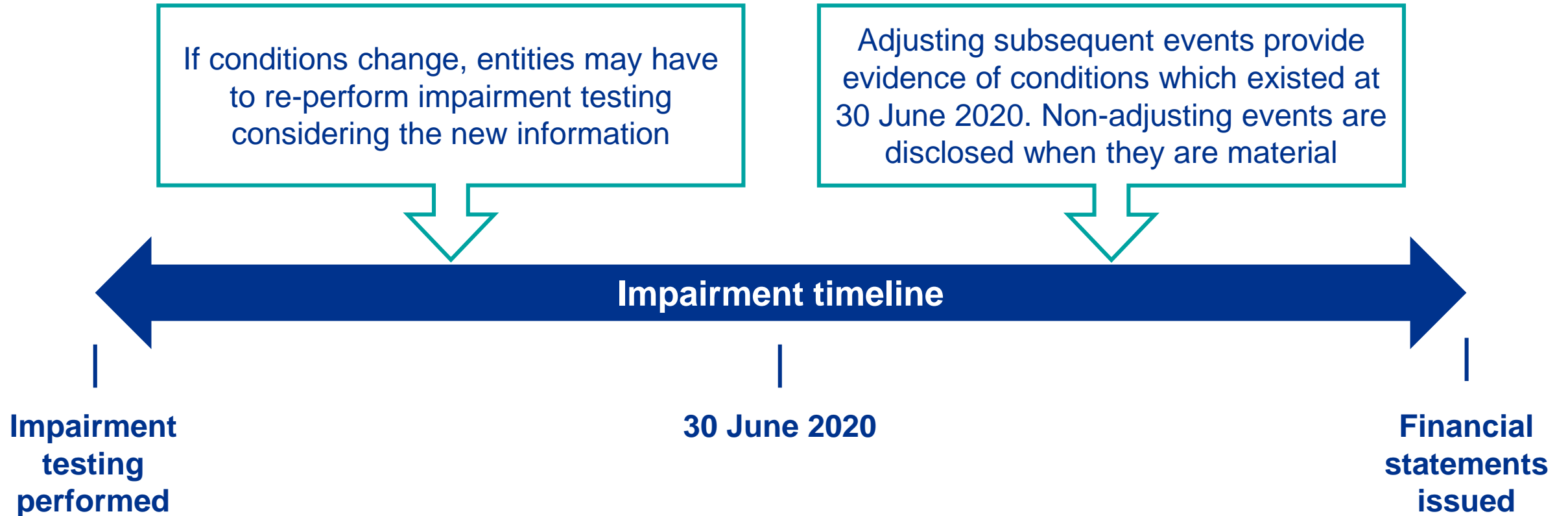
**Impairment testing performed**

**30 June 2020**

**Financial statements issued**



# Impairment of assets



# Impairment of assets

## Forecast cash flows



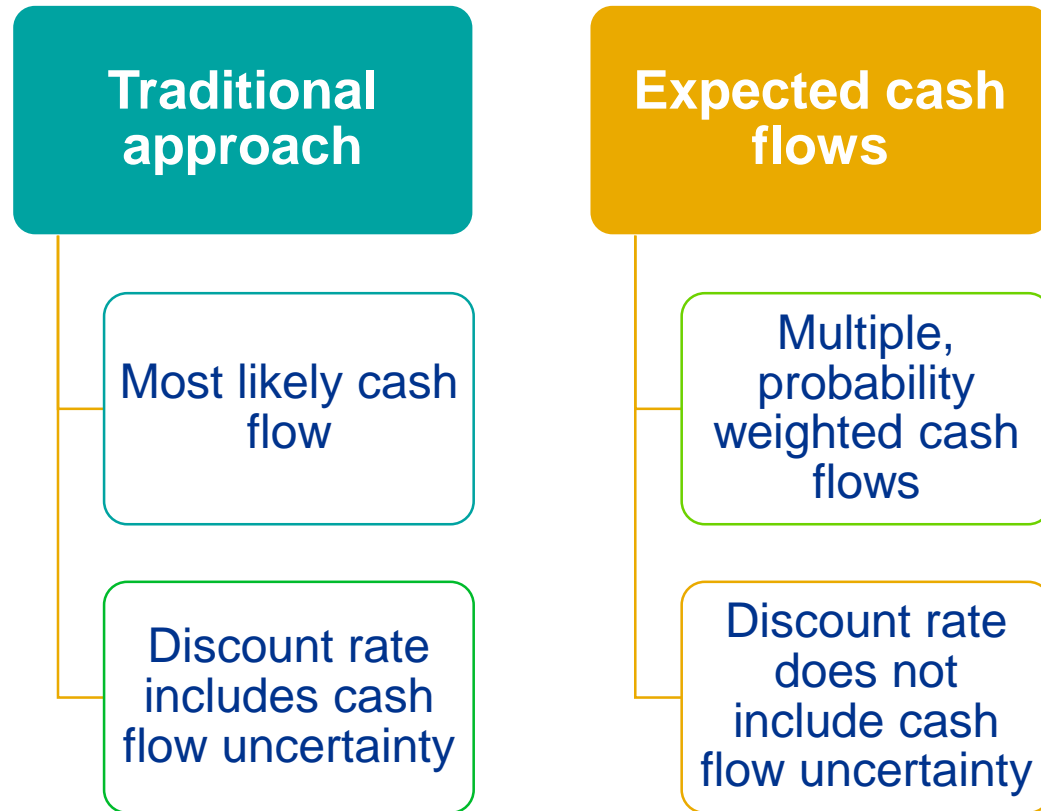
- Period of downturn
- Demand and government restrictions
- Supply chain disruption and production capacity

- Period and rate of recovery

- Future demand
- Impact of business restructuring
- Working practices

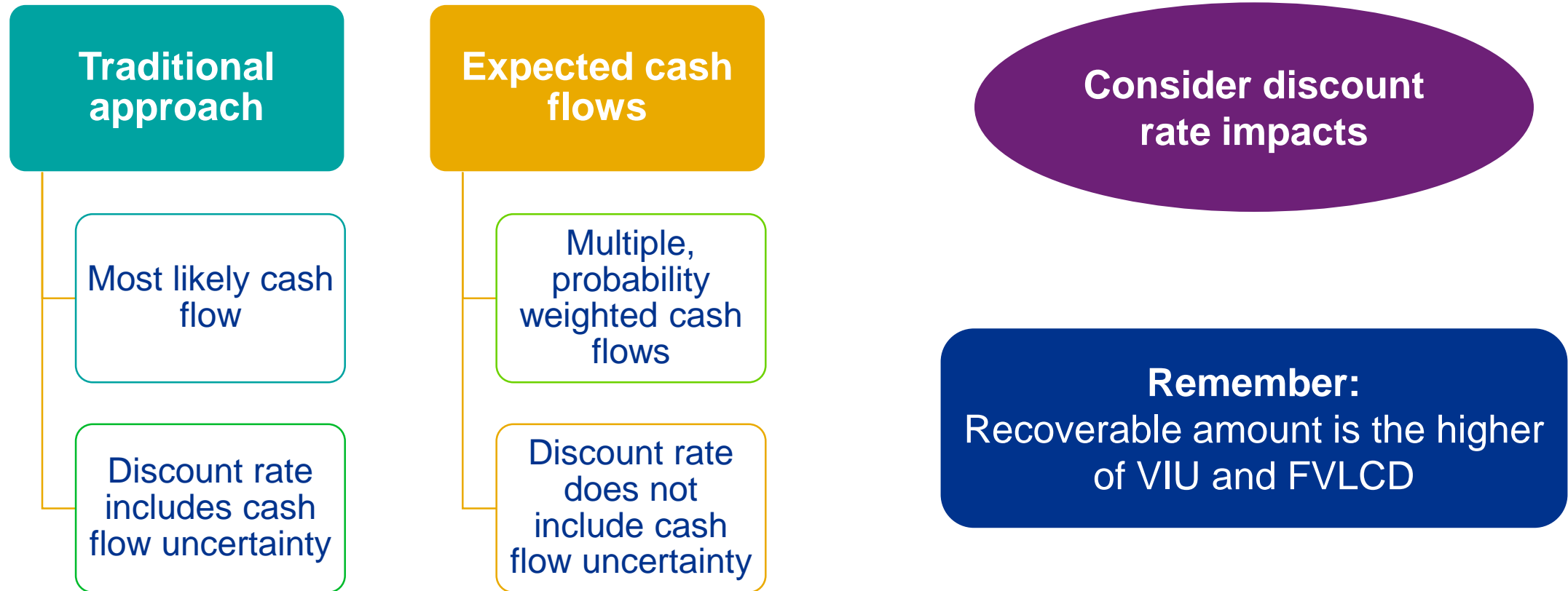
# Impairment of assets

## Methods of incorporating possible variations in the amount or timing of future cash flows:



# Impairment of assets

**Methods of incorporating possible variations in the amount or timing of future cash flows:**



# Impairment of assets

## Other areas to consider:

### Restructuring in cash flows:

- VIU: if committed
- FVLCD: if consistent with market participant perspective

Consider the impact of restructuring on the CGU assessment

What are the drivers of net assets exceeding market capitalisation

CGUs containing goodwill or indefinite lived intangible assets tested for impairment during the year are tested again at year end if there is an indicator of impairment

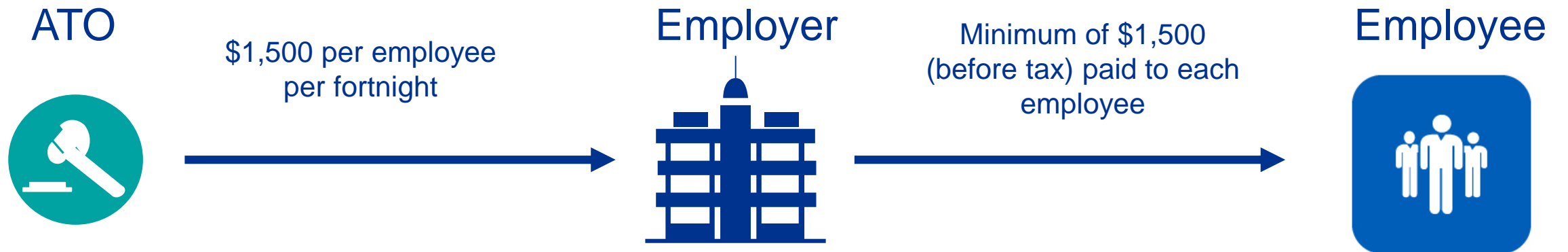
Independent valuations including caveats

Disclosures on judgement and estimation uncertainty

# Government assistance

## JobKeeper Payment

*Employers pay currently working and temporarily stood down employees a minimum of \$1,500 per fortnight to claim JobKeeper subsidy of \$1,500 per employee*

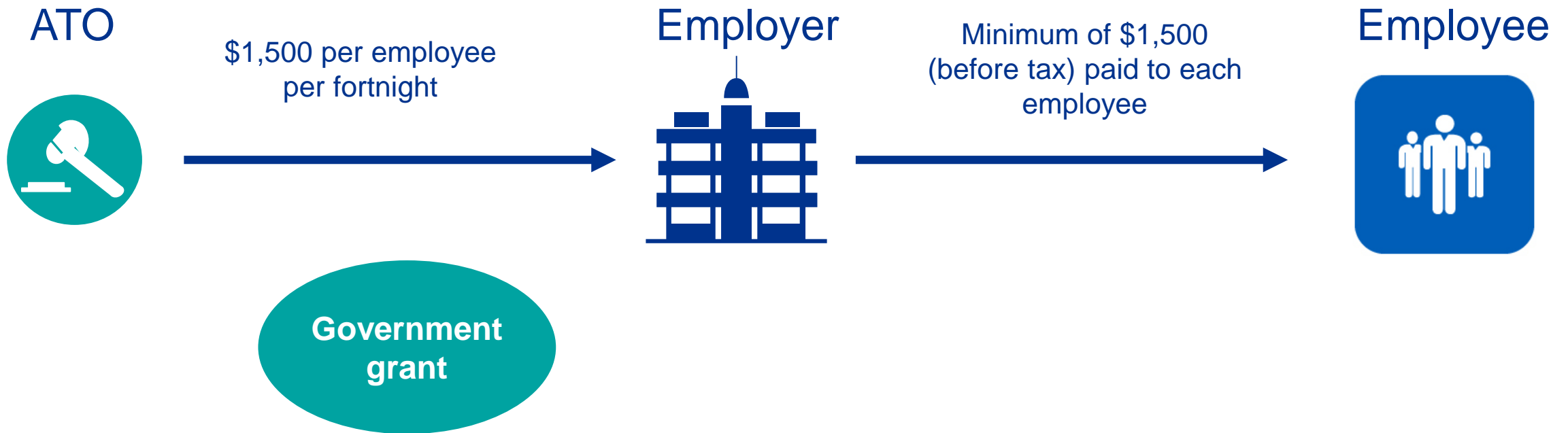


# Government assistance

## JobKeeper Payment

**How should JobKeeper Payments be accounted for?**

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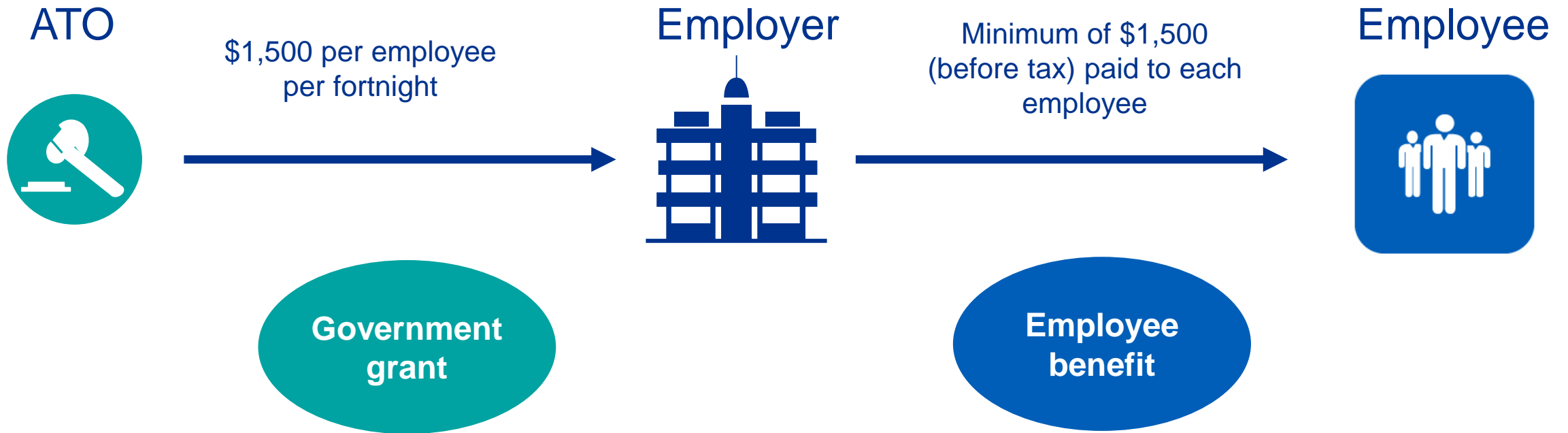


# Government assistance

## JobKeeper Payment

How should JobKeeper Payments be accounted for?

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# Government assistance

## JobKeeper Payment (cont.)

### Example



#### Company X payroll

- **Anne: \$3,000 per fortnight (b/t)**
- **Nick: \$1,000 per fortnight (b/t)**
- **Sam: \$2,500 per fortnight (b/t)**

# Government assistance

## JobKeeper Payment (cont.)

### Example



#### Company X payroll

- Anne: \$3,000 per fortnight (b/t)
- Nick: \$1,000 per fortnight (b/t)
- Sam: \$2,500 per fortnight (b/t)

### Monthly accounting

#### Company X month ending 30 April 2020

##### Profit/loss extract

JobKeeper Grant Income	\$9,000
Employee Expense	\$12,000
<b>OR</b>	
Employee Expense*	\$3,000

\*Government grant accounting permits an **accounting policy choice** to present grant income gross or net against the related expense incurred

# Government assistance

Government  
grant  
accounting

## Other government stimulus items that could impact your business.....

**Cash Injection to  
SME's**

Tax-free cash boosts to eligible SME

**Aviation Reduced  
Charges**

Waived fees / reduced charges for aviation sector

**Payroll Tax Waiver**

Various refunds and payroll tax holidays

# Government assistance

Income Tax  
accounting

## Other government stimulus items that could impact your business.....

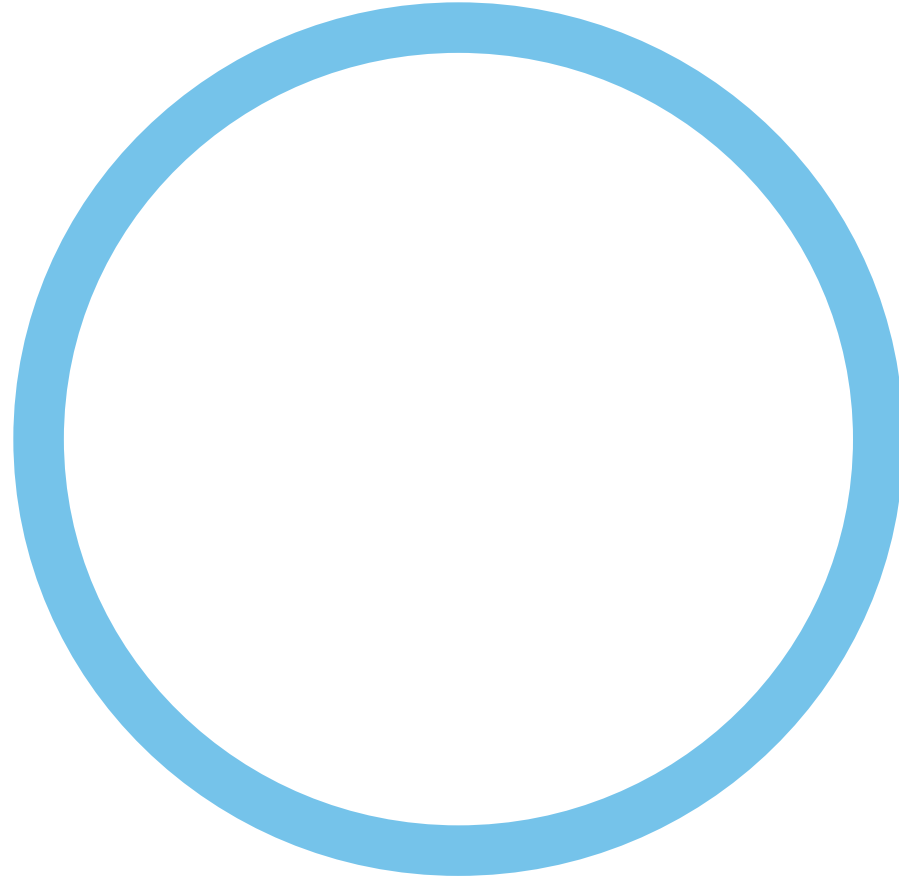
### Asset Write-Off

Immediate tax deduction for eligible asset purchases

### Asset Incentives

Accelerating depreciation deductions by deducting 50% of the cost of an eligible asset on installation

# Financial instruments considerations



# Financial instruments considerations



## Modifications

- Short term extension terms minimal impacts
- Significant modification complex to account for

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- Significant modification complex to account for



## Doubtful Debts

- Default debts considered separately
- Past will not be an appropriate indicator of future
- Segment population appropriately

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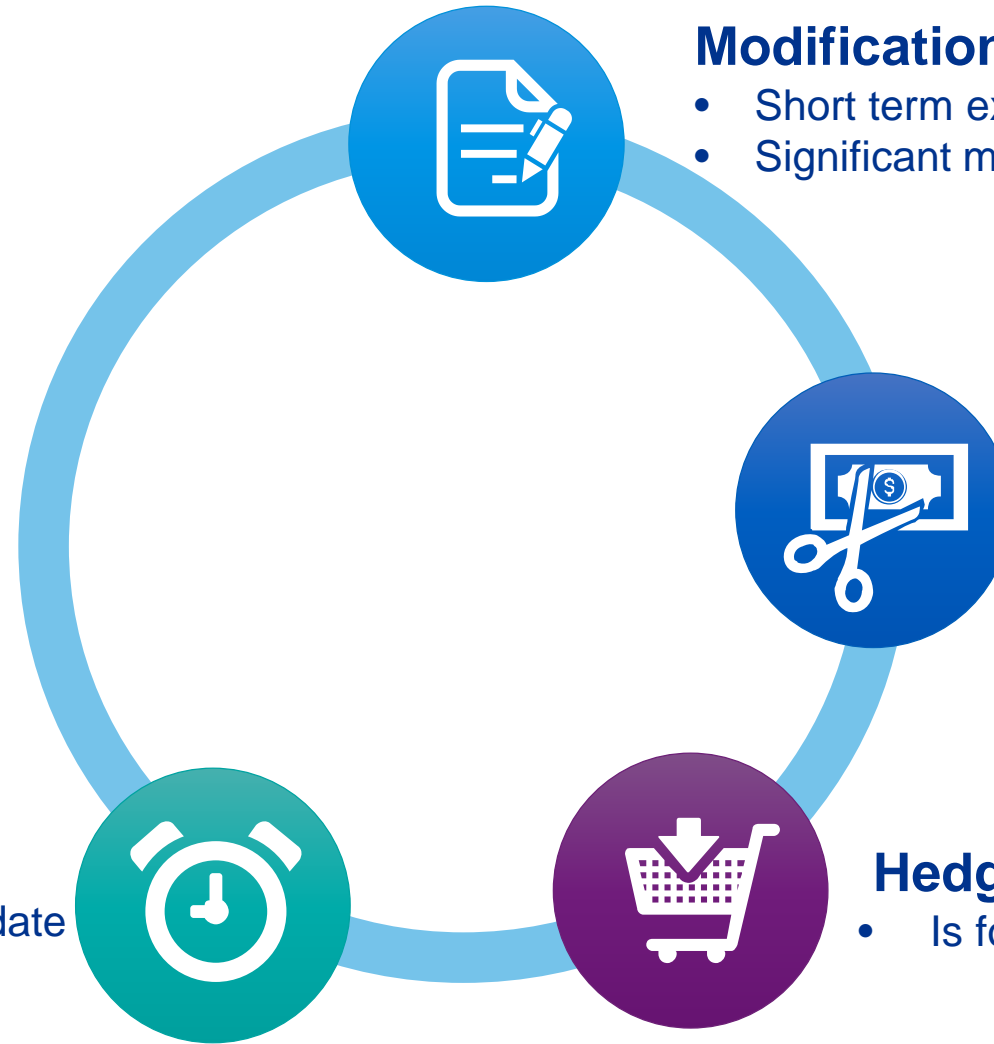


## Hedging

- Is forecast transaction still likely to occur?



# Financial instruments considerations



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## Debt covenant breaches

- Waivers required prior to balance date

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## Debt covenant breaches

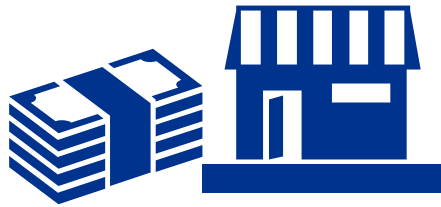
- Waivers required prior to balance date



## Disclosures

- Liquidity disclosures
- Covenant breaches
- Hedging

# Leases



## Rent concessions

- Rent waiver
- Rent reduction
- Rent deferral
- Extension of term



## Right-of-use asset

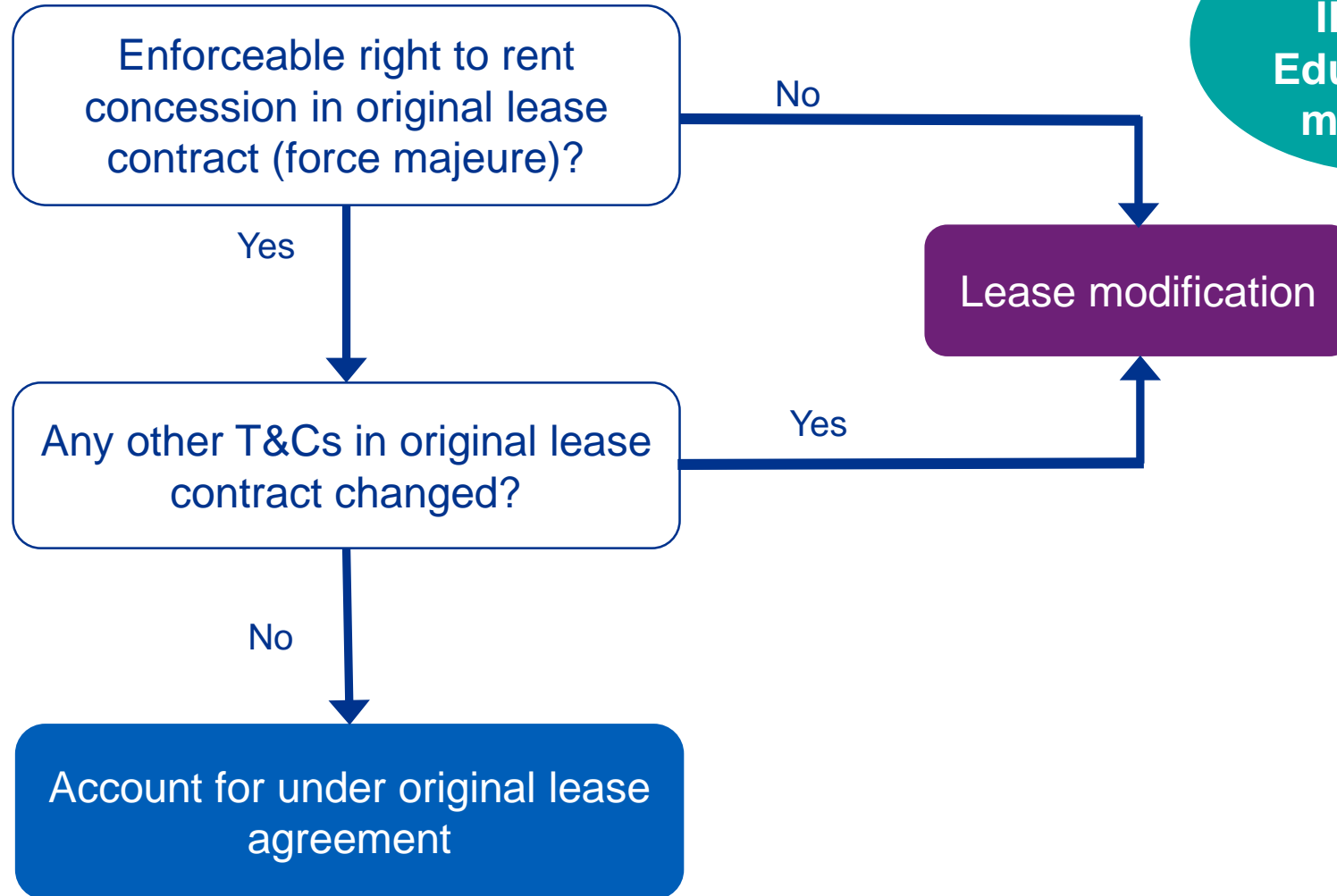
- Impairment



## Extension or termination options

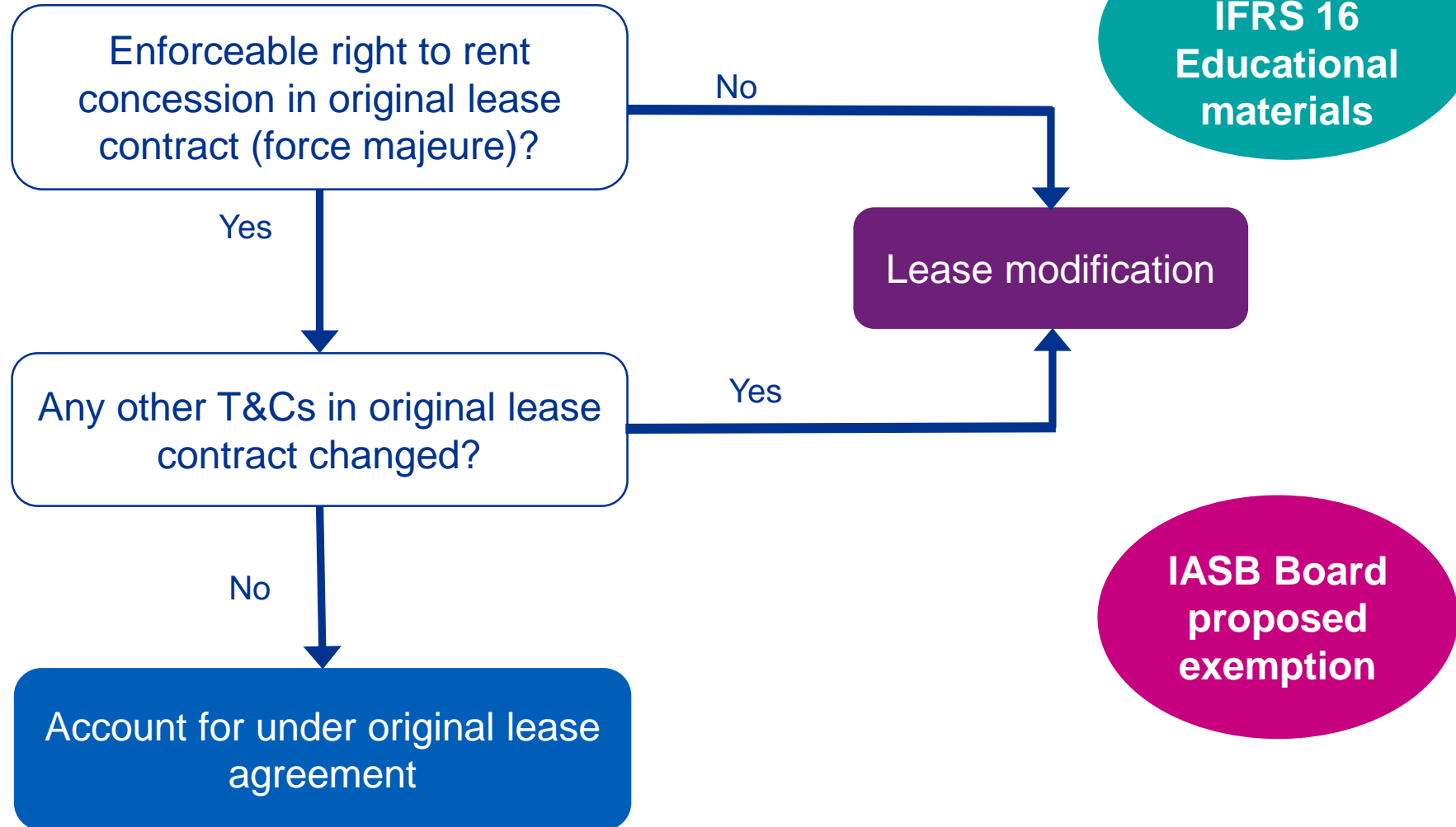
- Reasonably certain assessment  
reassessment only if significant event within lessee control

# Leases - rent concessions



**IASB® Board  
IFRS 16  
Educational  
materials**

# Leases - rent concessions



# Leases - rent concessions

IASB Board  
proposed  
exemption

## Lessees only

As a practical expedient, may elect not to assess whether a covid-19-related rent concession is a lease modification. Account for as if not a modification.

Rent concessions direct consequence of covid-19

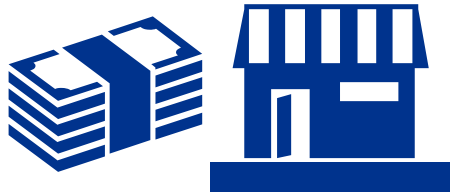
Lease payments substantially the same or less

Applies to lease term extension – if extending term for equivalent period of lease payment “holiday”

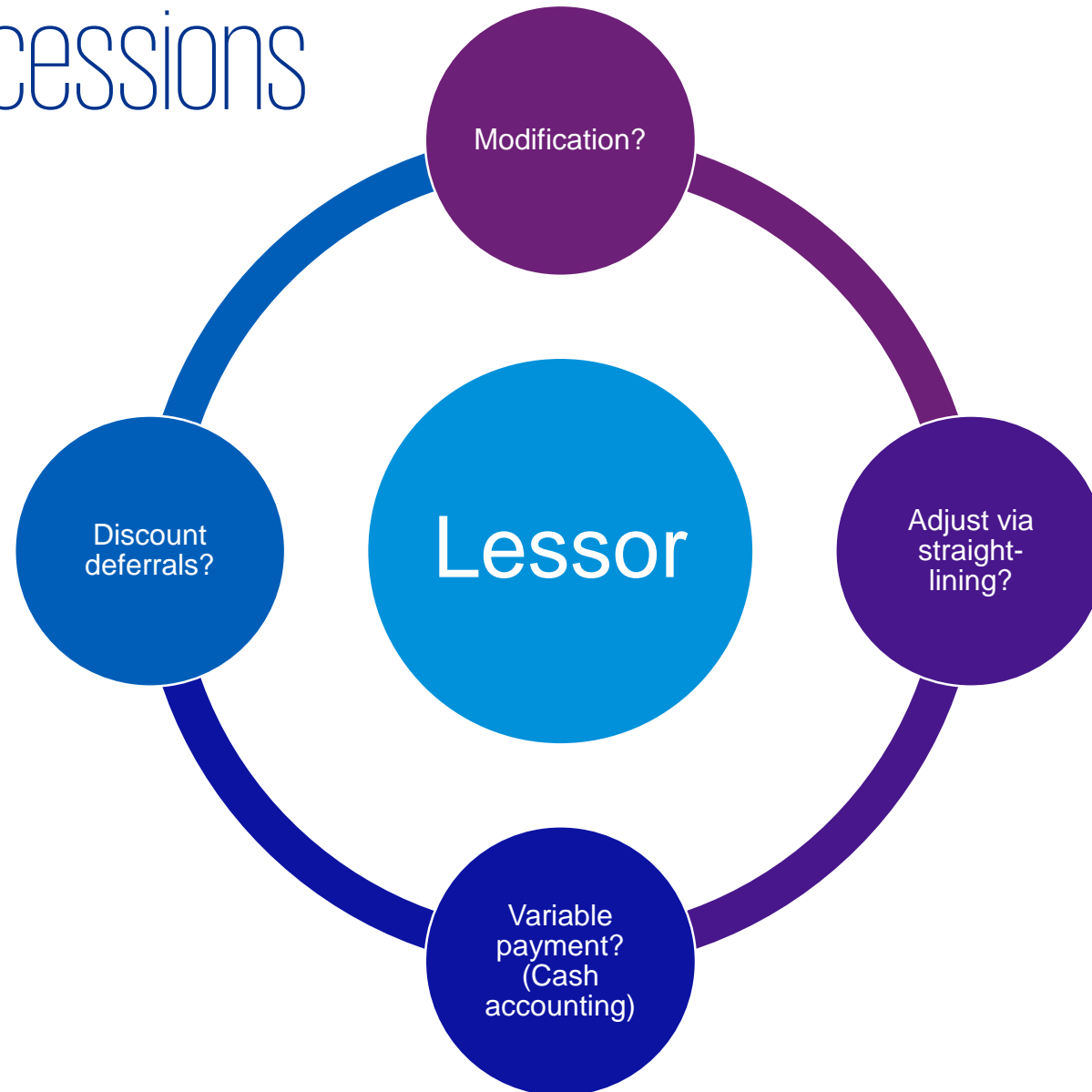
Payments originally due in 2020

No substantive change to other terms and conditions

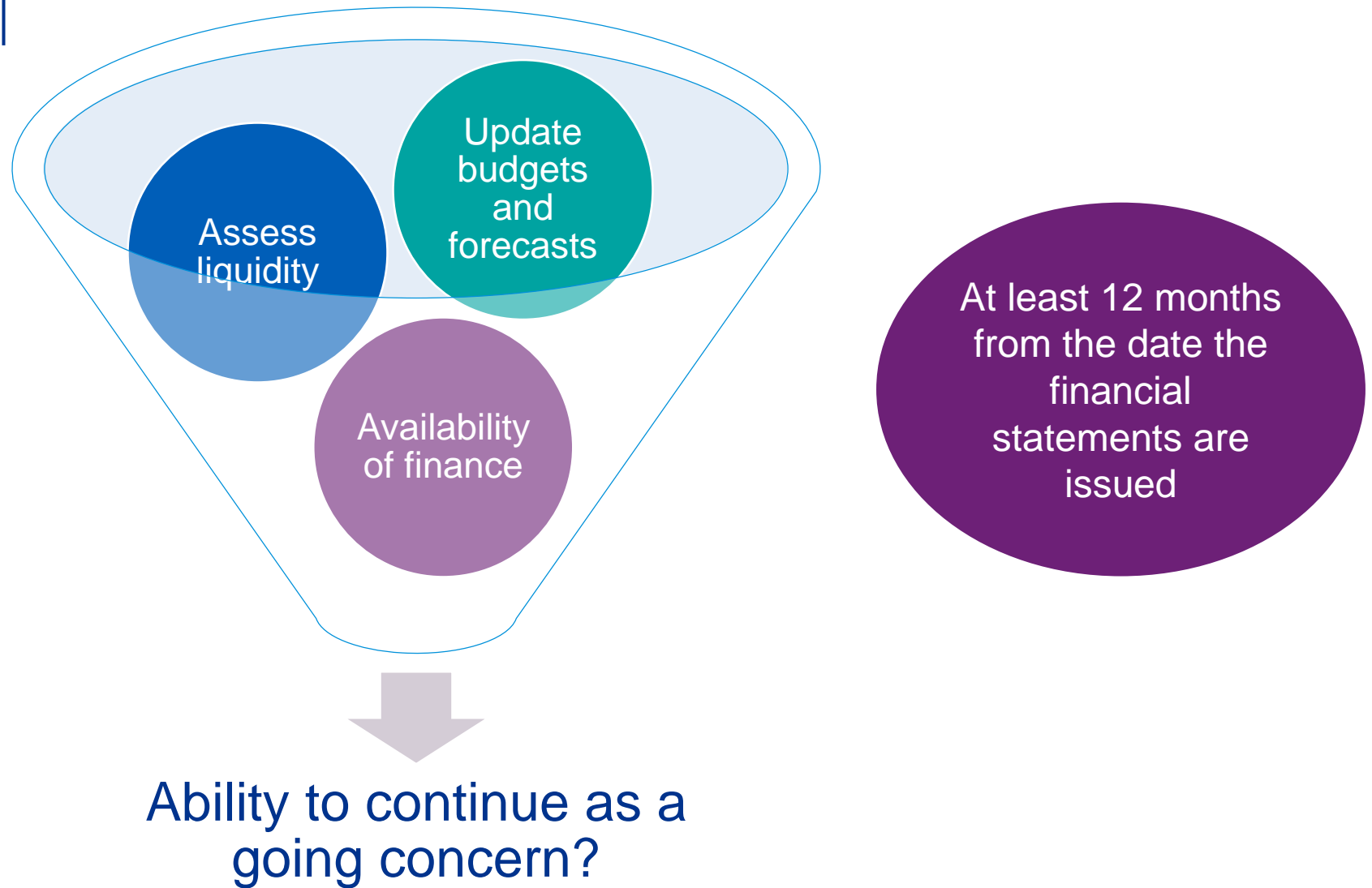
# Leases - rent concessions



- Rent waiver
- Rent reduction
- Rent deferral
- Extension of term



# Going concern



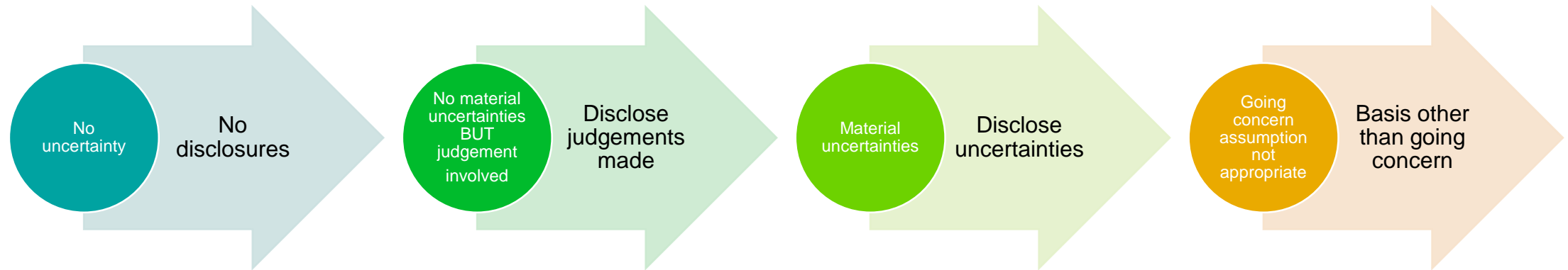


# Going concern

Key indicators to consider

EBITDA insufficient to meet financial commitments	Operations ceased due to government actions	Covenants likely breached
Asset disposals required	Unsuccessful refinancing	Highly exposed sector with significant decrease in revenue
Significant supply chain disruptions	Major suppliers exerting pressure for payment	Negative profit warnings
Net liability or current liability position	Relying on insurance or government assistance to continue trading	Strategic focus shifted to cashflow management not growth

# Going concern

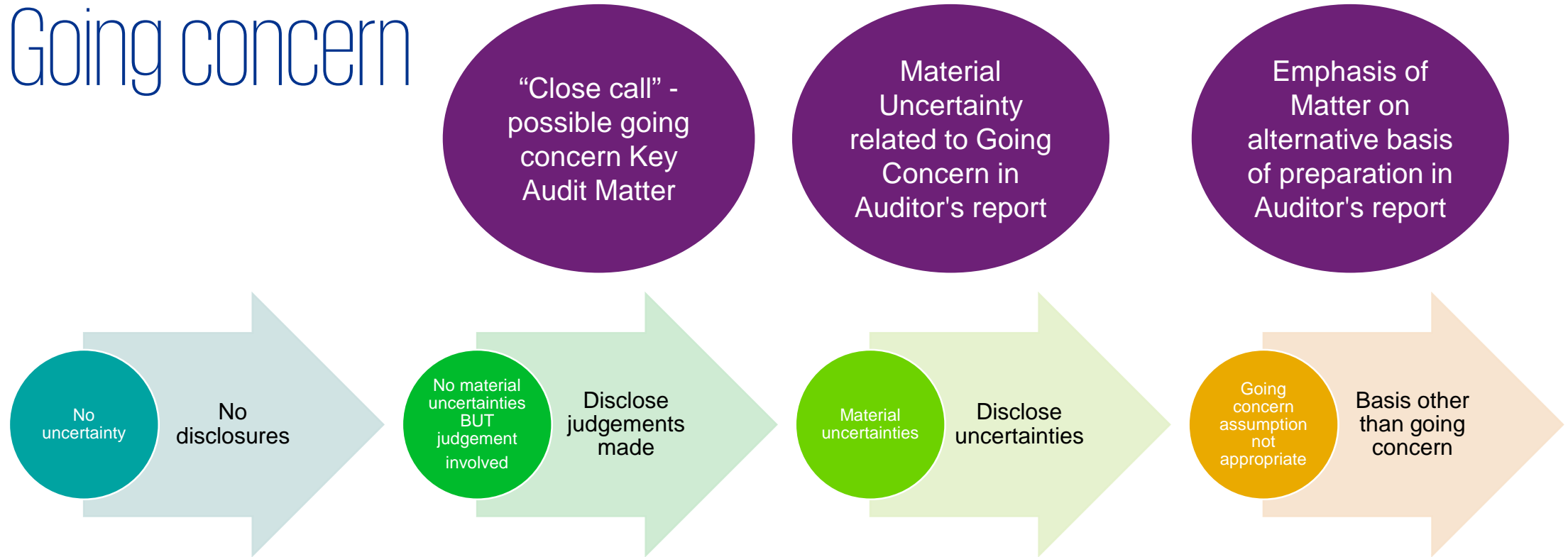


- Disruptions faced
- Changes in demand
- Liquidity management
- Judgements

- Cash flow forecasts
- Liquidity management
- Additional financing

- Selection of accounting policies consistent with Australian Accounting Standards

# Going concern



- Disruptions faced
- Changes in demand
- Liquidity management
- Judgements

- Cash flow forecasts
- Liquidity management
- Additional financing

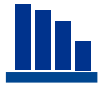
- Selection of accounting policies consistent with Australian Accounting Standards



# Audit implications



# Your preparedness for audit



## Results

- Volatility?
- Shareholder change of focus
- Business components change proportion



## Processes

- Social distancing restrictions impacting processes and controls:
- Entity-level controls and books & records look different to pre-COVID-19;
  - Work-arounds adopted by your teams working from home;
  - Conduct and timing of inventory counts.



## Estimates

- Sources for your estimates and judgements:
- Look for credible and authoritative;
  - Set your appetite for handling wider estimation uncertainty;
  - Beware of caveats from management experts, limiting your reliance, necessitating your further work.

Transparent disclosures are critical



## Materiality

Selection of in-scope components and at-risk financial accounts

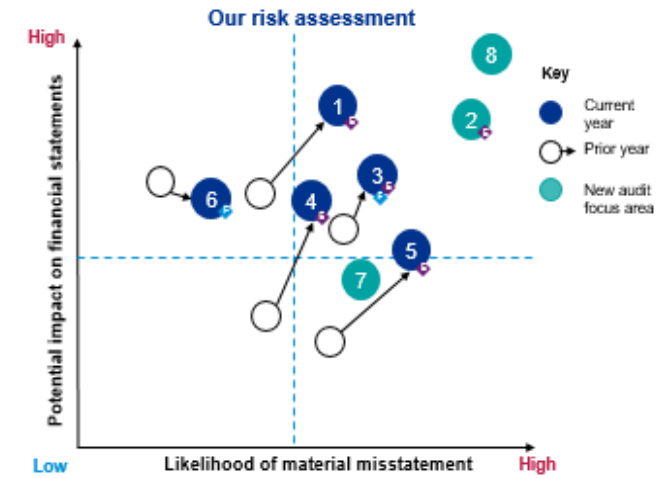


Ability to gather sufficient appropriate audit evidence faces unprecedented challenge, including:

- Ability to rely if they are compromised;
- Split testing into pre and post-COVID;
- Our access to inventory counts;
- Access to credible and authoritative sources of evidence;
- Scepticism for biased or overly optimistic judgements;
- Access to alternative management analysis where experts include caveats;



Expected impacts to the auditor's report: modifications, material uncertainty regarding going concern, emphasis of a critical matter such as significant uncertainties.



# Your preparedness for audit



## Sign offs

- Prepare for executive sign offs:
- s295A CEO and CFO declarations
  - Audit representation letters
  - Directors Declaration financial reporting and solvency



Impact on availability of sufficient appropriate audit evidence



## Deadlines

- Consider timing, timelines and deadlines:
- Within: rescheduled inventory counts, overseas business reporting, and
  - Others: service organisations, management experts, financiers and other external parties.



Our innovative access solutions may take longer:

- Virtual secure access to your records
- Video access to test controls
- Video access to inventory counts and inspect assets;
- Remote access to Audit Committee meetings.



## Communications

- Regular
- Extended
- Transparent
- Secure



# Better business reporting



# COVID-19 – Reporting impact & consequences at June 2020

*‘A presumed long term mega-trend that has become a current reality testing business model resilience and challenging business survival in some instances’*

## Financial performance – three periods

- Comparability may be challenging
- Performance up to disruption
- Rate of decline “in”
- Speed of growth “out”

*Stratify the year to provide a sense of performance during different phases*

## Crisis response

- Leadership actions including board activities
- Effectiveness of crisis management plans
- Agility and innovation through disruption
- Active governance
- Resilience

*Explain key actions taken, timing, impact & evidence of outcomes achieved*

## Future prospects

- Convey Learnings and (future) business changes
- Availability of resources incl. employee engagement
- Expectation of demand levels
- Risks to achievement of goals

*Provide evidence of business strength to allow all stakeholders to make decisions about an organisation’s ability to deliver outputs and outcomes*

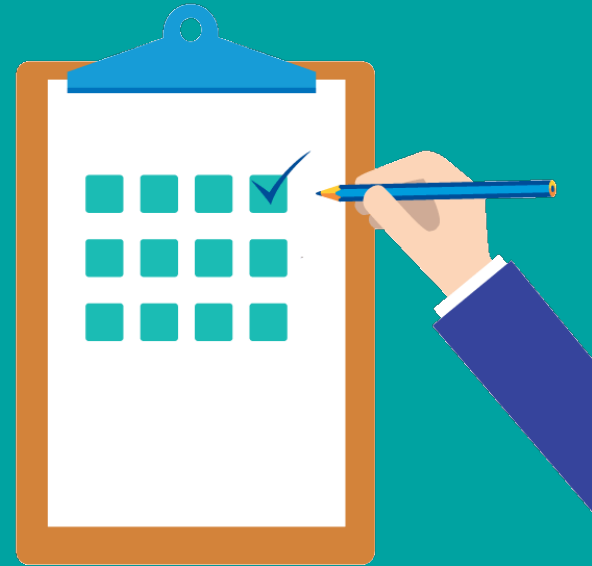
## Other matters

- Forward-looking statements ASIC update (RG247.78)





# Wrap up



# Take-aways

- 1 Consider how COVID-19 impacts your impairment assessments at 30 June 2020.**
- 2 Stakeholders will be interested in how COVID-19 has impacted your ability to continue as a going concern.**
- 3 Assess other financial reporting areas including financial instruments, restructuring provisions and accounting for government stimulus packages.**
- 4 The audit process will be impacted, preparation is key.**
- 5 Telling your story in the Operating & Financial Review is expected.**



# Questions





Thank you



# Appendix

# Restructuring and employee benefits

A 'restructuring' is a programme that materially changes the scope of the business or the manner in which it is conducted

## Restructuring provision recognition criteria:

### A formal plan specifying...

Location, function and # of redundancies

Parts of the business impacted

Locations affected

Timing

Costs



### A valid expectation in those affected...

Commencement of the plan

Announcing its main features to those affected

# Restructuring and employee benefits

## Typical costs considered:

- Directly related termination benefits
- Contract termination costs
- Onerous contract provisions
- Directly related consulting fees
- Costs from ceasing operations until final disposal

## Termination benefits are recognised at the earlier of:

When restructuring provisions are recognised

and

When the entity can no longer withdraw the offer



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