

Accounting implications of COVID-19: Talkbook

Since March 2020 our lives have been significantly impacted by COVID-19. Despite our gradual return to some kind of normality, the effects of COVID-19 and state and private countermeasures are not over yet. In order to find out how your company is affected you may find it useful to think about the following questions:

Going concern

- Does the going concern assessment cover a period of at least twelve months from the reporting date?
- Do events or conditions cast significant doubt on the company's ability to continue as a going concern? For example, will there be insufficient liquidity and/or a breach of covenants?

Intangible assets (including goodwill)

- Are all recognition criteria for internally generated intangible assets still met? For example, are adequate funds available to complete the development?
- Are there "inefficiencies" in developing internally generated intangible assets?
- Is there any indication that an intangible asset (including goodwill) could be impaired?
- Is there any indication that an impairment loss recognized previously may have decreased or no longer exists for an intangible asset?

Property, plant & equipment (PPE)

- Are there "inefficiencies" in constructing PPE?
- Is there any indication that PPE could be impaired?
- Is there any indication that an impairment loss recognized previously may have decreased or no longer exists for an item of PPE?

Associates & joint ventures

- Is there any indication that the carrying amount could be impaired or that an impairment loss recognized previously may have decreased or no longer exists?

Leasing (lessee)

- Are there any rent concessions and/or changes to existing lease agreements?
- Have expectations around lease renewal, termination or purchase options changed?
- Is there any indication that right-of-use assets could be impaired?
- Is there any indication that an impairment loss recognized previously may have decreased or no longer exists for a right-of-use asset?

Investment properties / lessors

- Is the cost model applied? If so, is there any indication that a leased out asset could be impaired or that an impairment loss recognized previously may have decreased or no longer exists?
- Are there any rent concessions granted to the lessee?

Financial assets & hedging

- Are expected credit loss assumptions (e.g. provision matrices) reflecting past events and current conditions as well as expected future economic conditions?
- Are fair values¹ determined based on the information as at the (interim) reporting date?
- Is cash flow hedging applied? If so, are there any forecast transactions (e.g. sales or purchases) that are no longer highly probable?

¹ In order to increase consistency and understandability we use the term 'fair value' when referring to 'fair value' (IFRS), 'actual value' (Swiss GAAP FER) and 'quoted price' / 'market price' (Swiss CO).

Inventories

- Is production at below normal capacity?
- Has demand for goods and products declined?
- Have costs increased?
- Have estimated selling prices decreased?

Tax assets & liabilities

- Are there any incurred tax losses?
- Are there any changes to budgets and/or tax planning opportunities which might lead to a reassessment of existing deferred tax assets?
- Are there changes to tax laws?
- Are additional dividends from subsidiaries planned?
- Are there any uncertainties over income tax?

Provisions

- Could penalties be incurred (e.g. due to delayed delivery or non-performance under delivery contracts)?
- Are there any onerous contracts?
- Are there any planned restructurings? If so, does a detailed formal restructuring plan exist and were valid expectations raised that the plan will be carried out?

Financial liabilities

- Are there any covenant breaches?
- Have lenders waived the application of covenants?
- Are there any adjustments to existing loan agreements?
- Are there any (new) loans that could include a government grant?

Pension obligations

- Is the company financing employee pension plan contributions via the employer contribution reserve?

Employee stock options and bonus agreements

- Is it necessary to adjust expectations regarding satisfaction of service and non-market performance conditions?

Revenue

- Are there any contracts that may no longer be enforceable (e.g. due to force majeure clauses)?
- Are there any contracts where it is no longer probable that consideration will be collected?
- Are there any changes in the scope and/or price of contracts?
- Are existing estimates of variable consideration (e.g. rebates, refunds, price concessions, performance bonuses, penalties) still appropriate?
- Are there any changes to stand-alone selling prices?
- Is revenue recognized over time and based on input measures?² If so, are they still appropriate and have expectations been updated if necessary?

Other income

- Is there any insurance against losses triggered by the COVID-19 outbreak?
- Have non-refundable contributions been granted?

Personnel expenses

- Was short-time work compensation received?

Profit & loss items related to COVID-19

- Is it allowed to separately present the impact of COVID-19 on profit or loss (e.g. as an 'extraordinary' item)?

If you would like to discuss any of these questions, please get in touch with your regular contact at KPMG Switzerland or one of the contacts below.

² Under Swiss GAAP FER this applies in particular to long-term contracts.

Contacts

KPMG AG

Badenerstrasse 172
PO Box
8036 Zurich

kpmg.ch

Daniel Haas

Partner, Head of Accounting
Advisory Services Corporates
+41 58 249 33 82
dhaas@kpmg.com

Silvan Loser

Partner, Head of DPP
Swiss Accounting
+41 58 249 25 51
silvanloser@kpmg.com

Frank Richter

Director, Head of
DPP IFRS
+41 58 249 30 73
frankrichter1@kpmg.com

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