What’s the issue?

For calendar year end companies, the 2020 interim reporting period will be the first reporting period when the impacts of the COVID-19 coronavirus outbreak are reflected in the financial statements – i.e. it will affect the measurement and recognition of assets and liabilities, income and expenses.

IAS 34 *Interim Financial Reporting* generally requires that all events and transactions are recognised and measured as if the interim period were a discrete stand-alone period – i.e. there are generally no recognition or measurement exemptions for interim financial reporting. [Insights 5.9.80.10]

Condensed interim financial statements (hereafter referred to as ‘interim financial statements’) typically focus on changes since the last annual financial statements. Companies are required to provide an explanation of events and transactions that are significant to an understanding of the changes in their financial position and performance since the last annual reporting date. Information disclosed in relation to those events and transactions updates the relevant information presented in the most recent annual financial report. Given the rapidly changing economic outlook and trading conditions, information in 2020 interim financial statements may, for many companies, comprise *more than the usual update* since the last annual financial statements. [IAS 34.15]

If changes in circumstances have made significant disclosures in the last annual financial statements less relevant, then a company needs to consider providing additional supplementary disclosures in its interim financial statements. [Insights 5.9.30.10]

Although many disclosures required by other IFRS® Standards are not mandatory in interim financial statements, in the current circumstances companies may need to provide these disclosures to ensure that the interim financial statements provide relevant information to the users of those statements.

Getting into more detail

Our COVID-19 financial reporting resource centre provides guidance on a broad range of topics covering the financial reporting impacts of the COVID-19 outbreak and is relevant to both annual and interim financial statements.
Recognition, measurement and disclosure in interim financial statements

Generally, items are required to be recognised and measured as if the interim period were a discrete stand-alone period. However, there are specific requirements for income taxes. \[\text{Insights 5.9.80.10}\]

We address below some of the key areas that companies may need to consider when preparing their 2020 interim financial statements. Whether they are relevant depends on the company’s specific circumstances – i.e. the nature and extent of COVID-19 impacts on the financial position, performance and cash flows of the company.

**Going concern**

Management’s **going concern assessment** may be significantly affected by the current circumstances.

The considerations that apply for the going concern assessment when preparing annual financial statements also apply for interim financial statements. When assessing the uncertainties associated with a company’s going concern assumption, management takes into account all available information for a period of at least 12 months from the date of the interim financial statements. For example, when a company with a calendar year end prepares its quarterly interim financial statements at 31 March 2020, it considers information for the period until, but not limited to, 31 March 2021 when assessing whether the going concern assumption is appropriate. \[\text{Insights 5.9.10.30, 35}\]

If there is a material uncertainty about the company’s ability to continue as a going concern at the date on which the interim financial statements are authorised for issue, then that uncertainty is disclosed in those interim financial statements. This is the case irrespective of whether it was disclosed in the most recent annual financial statements. In addition, disclosure is required when management concludes that there are no material uncertainties but reaching that conclusion involved significant judgement (a ‘close call’). \[\text{Insights 1.2.80, 5.9.10.38}\]

**Impairment of non-financial assets**

Reviews for indicators of impairment and any resulting tests for impairment of non-financial assets are performed at the interim reporting date in the same manner as at the annual reporting date. \[\text{Insights 5.9.200.10}\]

Companies may have tested their goodwill and intangible assets\(^1\) for impairment under IAS 36 *Impairment of Assets* when preparing their latest annual financial statements. However, given the current economic circumstances, there may well be indicators of impairment at the interim reporting date that trigger testing of these assets again for impairment.

If a company recognises a material impairment loss on non-financial assets, then it provides in its interim financial statements an explanation of and an update to the relevant information included in the last annual financial statements. IAS 36 provides relevant disclosures to be considered in this regard. \[\text{IAS 34.15B(b), 15C}\]

**Property, plant and equipment (PPE) and intangible assets**

Companies are required to review the residual value and the useful life of an asset at least at each financial year end. \[\text{IAS 16.51}\]

Given the current economic conditions, companies need to reassess those estimates during the interim period if the usage or retention strategy for these assets has changed. \[\text{IAS 16.51, 38.104}\]

\[\text{1. Intangible assets with an indefinite useful life or intangible assets that are not yet available for use.}\]
**Impairment of financial assets**

Companies apply the same criteria when testing for impairment of financial assets as those at its annual reporting date.

If a company recognises a material impairment loss on financial assets, then it provides in its interim financial statements an explanation of and an update to the relevant information included in the last annual financial statements. IFRS 7 *Financial Instruments: Disclosures* provides relevant disclosures to be considered in this regard. [IAS 34.15B(b), 15C]

**Fair value measurement**

The carrying amount of assets that are measured at fair value – e.g. investment property – is determined at the interim reporting date.

Performing a valuation that uses significant unobservable inputs becomes more challenging in the current environment and, given the current market volatility, extrapolations based on the balance at the previous annual reporting date may not be appropriate.

Companies may need to consider using external valuers to determine the fair value of assets for which quoted prices are not available. This includes determining the fair value of non-financial assets – e.g. PPE and right-of-use assets that are valued using the revaluation model, and investment properties.

The specific disclosures required by IAS 34 for fair value measurement need to be provided.

**Impact on employee benefits and employer obligations**

*Remeasurement of net defined benefit obligations/assets:* Companies preparing interim financial statements should consider whether net defined benefit obligations/assets need to be remeasured. Under IAS 19 *Employee Benefits*, remeasurements are recognised in the period when they arise; therefore, if adjustments at the interim reporting date are considered to be material, then they need to be recorded at that date.

*Actuarial valuations:* An updated measurement of plan assets and obligations is required when a plan amendment, curtailment or settlement is recognised. In addition, significant market fluctuations may trigger the need for an updated actuarial valuation. [IAS 34.IE.B9, Insights 4.4.360, 5.9.150]

**Inventories**

*Net realisable value:* IAS 2 *Inventories* requires a company to measure its inventory at the lower of cost or net realisable value and update its estimate of the net realisable value at the interim reporting date. The COVID-19 outbreak may affect this estimate. [IAS 34.IE.B25]

*Write-down losses:* If a company writes inventory down to its net realisable value at the interim reporting date, then any resulting losses need to be recognised immediately – i.e. they cannot be deferred because they are expected to be restored or absorbed by the annual reporting date. [Insights 5.9.90]

Companies need to disclose the write-down of inventories to net realisable value and their reversal. [IAS 34.15B(a)]

**Income taxes**

*Effective tax rate:* Under IAS 34, the income tax expense recognised in each interim period is based on the best estimate of the weighted-average annual income tax rate expected for the full year applied to the pre-tax income for the interim period.

The unprecedented challenges caused by the COVID-19 outbreak may cause companies to conclude that they cannot estimate their annual effective tax rate reliably. In this case, the actual effective rate, based on a year-to-date actual tax calculation, may represent the best estimate of the annual effective tax rate. [IAS 34.30(c), Insights 5.9.160.80]
**Tax reliefs**: In response to the COVID-19 outbreak, governments may introduce tax reliefs for certain types of income, additional tax deductions, a reduced tax rate or an extended period to use tax losses carried forward. Companies recognise tax credits that relate to a one-off event in the interim period in which the event occurs, rather than reflect them in their estimate of the annual effective tax rate. Conversely, a change in the tax rate that is substantively enacted in an interim period may be recognised as a one-off event or spread over the remainder of the annual reporting period via an adjustment to the estimated annual effective tax rate. [IAS 34.IE.B19, Insights 5.9.160.30–35]

**Recoverability of deferred tax assets**: A deferred tax asset is recognised for deductible temporary differences and unused tax losses (tax credits) carried forward, to the extent that it is probable that future taxable profits will be available. The COVID-19 outbreak may affect a company’s projections of the probability of future taxable profits, which in turn could affect the recognition of deferred tax assets at the interim reporting date.

**Subsequent events**

**Date of authorisation**: In the current market conditions, companies should consider disclosing the date on which the interim financial statements are authorised for issue and who gave that authorisation. This is not specifically required by IAS 34 but it may help users’ understanding because any event that occurs after that date is not disclosed or adjusted for in those interim financial statements. [IAS 10.17–18]

**Adjusting vs non-adjusting**: A company discloses events that occurred after the interim reporting date but are not reflected in the interim financial statements. Determining those subsequent events that should be reflected (adjusting) vs those that are disclosed (non-adjusting) in the interim financial statements may require judgement. [IAS 34.16A(h)]

**Unusual items**

A company discloses the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence. [IAS 34.16A(c), Insights 4.1.100]

**Current/non-current classification**

Companies should consider the classification of assets and liabilities as current or non-current at the interim reporting date. For example, a loan for which provisions are breached at the interim reporting date, such that the liability becomes repayable on demand, would need to be classified as current, unless the company obtained a waiver before the interim reporting date.

Companies need to disclose any loan default or breach of a loan agreement that has not been remedied on or before the interim reporting date. [IAS 34.15B(i)]

**Additional line items**

Interim financial statements generally include the headings and subtotals that were included in the most recent annual financial statements. However, given the current circumstances, companies may consider presenting additional line items if they deem them to be useful for users – e.g. presentation of government grants. [IAS 34.10]

**Disclosures**

In the current market conditions, companies should ensure that the minimum disclosure requirements of IAS 34 are supplemented by additional disclosures, if they are relevant to an understanding of their interim results, position and cash flows, including:

- changes in significant judgements and assumptions made by management, as well as areas of estimation uncertainty as required by IAS 1; and
- overarching disclosures of the impact of the COVID-19 outbreak on the interim financial position, performance and cash flows. [IAS 34.15, 15B(d), 15C, IAS 1.17(b)–(c), 122, 125]
IAS 34 contains other specific disclosure requirements for financial assets and/or financial liabilities. [IAS 34.15B(h), (k), (l), 16A(j)]

Some regulators have emphasised that, given the magnitude of the latest economic changes, companies should provide in their interim financial statements sufficient disclosure for investors to understand the significant events and transactions that have occurred since the annual financial reporting date. [IAS 34.15B, 16A]

Companies need to consider whether their 2020 interim financial statements provide sufficient information because investors and other users may expect information above and beyond what is typically disclosed. Condensing or omitting disclosures on the assumption that users have access to the most recent annual financial statements may no longer be appropriate – i.e. information disclosed in the 2019 annual financial statements may be less relevant in the current circumstances.

**Actions for management to take now**

- Assess the company’s ability to continue as a going concern at the interim reporting date.
- Consider whether information disclosed in the last annual financial statements remains relevant. If not, then provide updated disclosures.
- Assess and reflect the impacts of the COVID-19 outbreak in the interim financial statements – in particular, whether uncertainties are factored into all the necessary estimates and judgements.
- Assess whether the disclosures and explanations provided in the interim financial statements are sufficient for users to understand the significant events and transactions that have occurred since the annual reporting date.
- Provide additional disclosures to enable users of interim financial statements to understand the overall impact of the COVID-19 outbreak on the financial position and performance of the company.

**References to ‘Insights’ mean our publication Insights into IFRS**

2. ESMA statement issued on 25 March, Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses.