AASB Staff FAQs – Events after the reporting period during the COVID-19 pandemic

Introduction

As the COVID-19 pandemic continues to develop, entities will be required to consider how events after the reporting period affect financial statements not yet authorised for issue.

In March 2020, the AASB and the AUASB issued a joint FAQ *The Impact of Coronavirus on Financial Reporting and the Auditor's Considerations*. This FAQ provides guidance for stakeholders in assessing the broader financial reporting implications of COVID-19, including whether events after the reporting period require adjustment in the financial statements. This publication provides a more in-depth discussion of accounting for events after the reporting period in light of developments beyond 30 June 2020, such as reinstated lockdowns, government policy changes and the potential for further events prior to entities authorising their financial statements for issue.

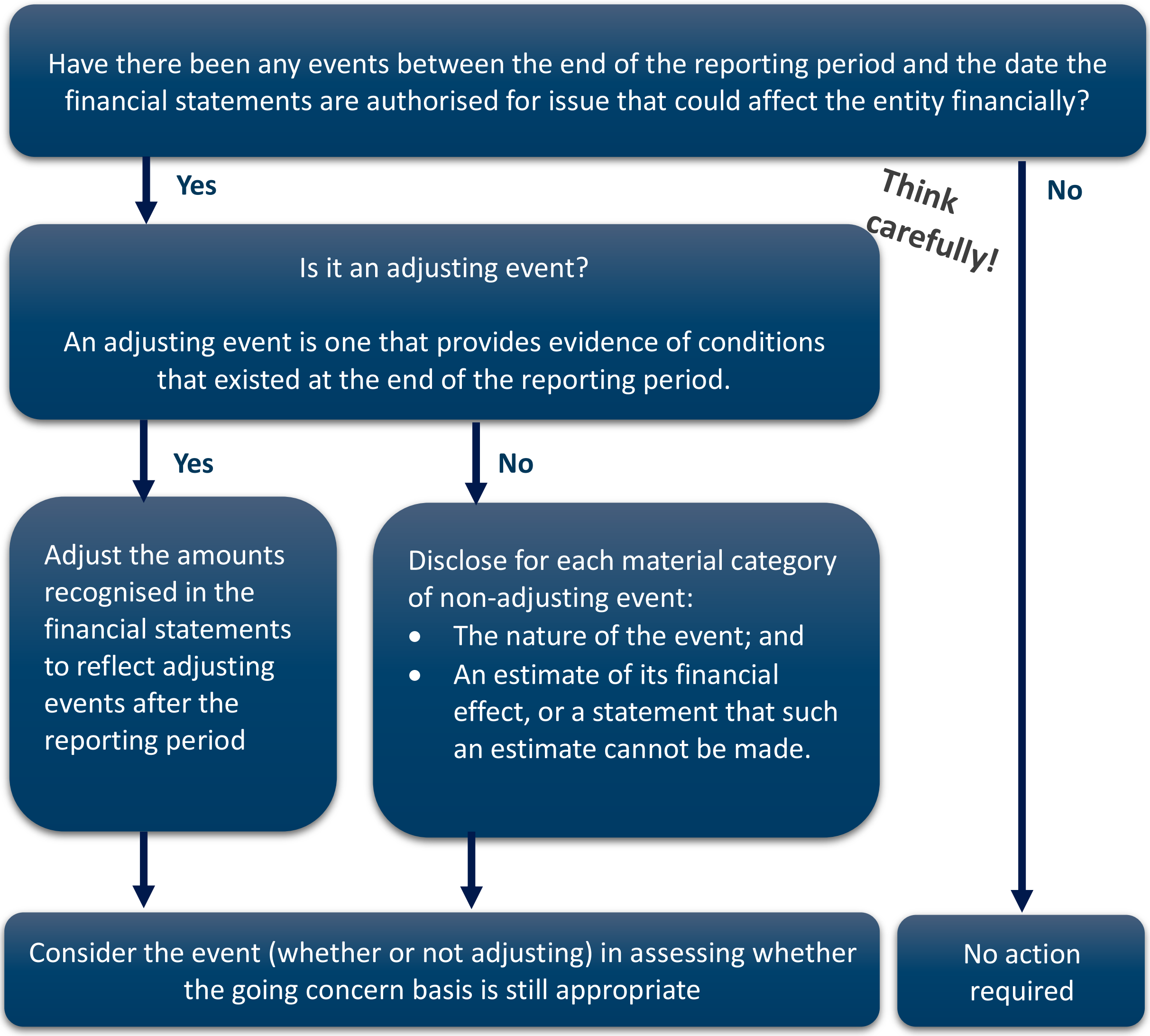
For entities required to lodge financial statements with the Australian Securities and Investments Commission (ASIC) under Chapter 2M of the *Corporations Act 2001*, ASIC has also issued FAQs that consider the impact of some events occurring after the 2019/20 reporting period. Those FAQs are available on ASIC's website.

Other COVID-19-related resources, including other AASB Staff FAQs, are available on the AASB's COVID-19 resource page.

These FAQs have been developed by AASB staff, and therefore may express views of AASB staff that do not necessarily represent views of the AASB itself. Staff FAQs are intended to be helpful material to guide stakeholders in the application of AASB Standards, but do not change the requirements of AASB Standards and are not an interpretation of the Standards. Entities should always consider their own specific facts and circumstances when applying the requirements of AASB Standards.

Flowchart

The following flowchart summarises the requirements in AASB 110 *Events after the Reporting Period* to account for events after the reporting period.



Frequently asked questions

Q1: What are events after the reporting period?

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. AASB 110 *Events after the Reporting Period* specifies two types of events after the reporting period:

Adjusting events	Non-adjusting events
Those that provide evidence of conditions that existed at the end of the reporting period.	Those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

In all circumstances, and especially during the COVID-19 pandemic, entities must monitor events that occur prior to authorising the financial statements for issue and assess their impact on the financial statements.

Some examples of COVID-19-related events that might be considered by entities include, but are not limited to:

- Announcements of new, changed or revised lockdowns or other restrictions on movement;
- Discovery of a cluster of cases within an entity, causing shut-down or other impacts on productivity;
- Announcements of new or revised government support policies;
- Discontinuation of an operation or a significant change in strategy in response to the pandemic; and
- Significant changes in asset values, such as prices of financial instruments held.

Q2: How do I assess whether an event after the reporting period is an 'adjusting event' or a 'non-adjusting event'?

An event after the reporting period is analysed to identify whether it provides evidence of conditions that existed at the reporting date. This is to ensure that the amounts recognised in the financial statements reflect the conditions in existence as at the reporting date, and not conditions that arise subsequently.

Judgement will be required by each entity to determine whether an event provides evidence of conditions that existed at the reporting date that would affect the entity's financial performance and position for the period. Significant judgements in applying the entity's accounting policies are disclosed in the notes, as required by AASB 101 *Presentation of Financial Statements* paragraph 122.

Examples of events after the reporting period for many 30 June 2020 reporters include the announcement by the Victorian Government of the Metropolitan Melbourne and Mitchell Shire Stage 3 restrictions on 7 July 2020, the JobKeeper extension announced by the Federal

Government on 21 July 2020, and the Stage 4 restrictions announced for Melbourne on 2 August 2020. Entities across the country may be affected by these events in many different ways, based on the exposure of the business to the areas under reintroduced restrictions, and the extent to which the restrictions and government support have economic consequences for the entity. Entities affected by these and other events after the reporting period must apply judgement to assess whether each event provides evidence of conditions existing at the reporting date (e.g. 30 June 2020) that the entity had not already reflected in its accounting for the reporting period.

To assist entities in making that judgement, AASB 110 paragraph 9 provides some examples of adjusting events, including:

- New evidence confirming that an entity had a present obligation at the end of the reporting period, requiring recognition or adjustment of a provision;
- The receipt of information indicating that an asset was impaired at the end of the reporting period, or that the amount of previously recognised impairment losses needs to be adjusted; and
- The determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold.

AASB 110 paragraphs 11 and 22 also provide some examples of non-adjusting events after the reporting period, including:

- The decline in the fair value of an investment after the reporting period that does not relate to the condition of the investment at the end of the reporting period, but reflects circumstances that have arisen subsequently;
- Announcing a plan to discontinue an operation, undertake a major business combination or dispose of a major subsidiary;
- Announcing, or commencing the implementation of, a major restructuring;
- Changes after the reporting period in asset prices or foreign exchange rates; and
- Changes in tax rates or tax laws enacted or announced after the reporting period.

Whilst not always directly translatable to the COVID-19 environment, the examples in AASB 110 may assist management of an entity in assessing whether events provide evidence of the conditions that existed at the reporting date.

Q3: How should the financial statements reflect an adjusting event?

If an adjusting event is identified, the entity adjusts the amounts recognised in its financial statements to reflect the effects of the event (AASB 110 paragraph 8).

In doing so, the requirements of other relevant Accounting Standards should also be considered. An adjusting event will also necessitate updating related disclosures (see the disclosure table in Question 7 for further information).

This FAQ does not draw any conclusions as to whether the particular events noted in Question 2 would or would not be considered adjusting events and should not be read to imply any particular outcome. An entity must make that assessment based on its own facts and circumstances.

For educational purposes, the following table outlines some of the possible adjustments that may be necessary if an entity were to identify an adjusting event after the reporting period.

Area of accounting	Explanation
Impairment of non-financial assets	Future cash flow projections, probability weightings and discount rates in value in use calculations should reflect the conditions existing at the reporting date. As required by AASB 136 paragraph 30, value in use calculations should reflect the entity's estimate of future cash flows, but also factors that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset. For entities estimating value in use using an expected cash flow approach (consisting of possible scenarios weighted by their probability), the scenarios and assigned weighting should reflect conditions existing at the reporting date, including the effect of additional information about those conditions at the reporting date that becomes available after the reporting date, but before the financial statements are authorised for issue. If the value in use estimation model does not reflect the conditions at the reporting date, the entity should update the model. The same applies for entities estimating value in use using a single set of best estimate cash flows. The conditions existing at the reporting date should be reflected, as appropriate, in the single set of cash flows and the discount rate. Fair value (in a fair value less costs of disposal calculation) may be affected as described in the separate section on fair value below, and entities should also consider whether an adjusting event affects the estimated costs of disposal. An adjusting event may also provide new information that an impairment indicator existed at the reporting date, requiring an impairment test to be performed. AASB Staff FAQs *Impairment of non-financial assets* provides further guidance on undertaking impairment tests that incorporate COVID-19 factors, including how to deal with estimation uncertainties.
Impairment of financial assets	AASB 9 *Financial Instruments* paragraph 5.5.17 requires entities to measure expected credit losses of financial instruments in a way that reflects, among other things, a probability-weighted amount that is determined by evaluating a range of possible outcomes. Paragraph 5.5.17 also requires

Area of accounting	Explanation
	the expected credit losses to be measured in a way that reflects reasonable and supportable information available without undue cost or effort at the reporting date. Entities should reflect adjusting events in probability-weighted expected credit loss assessments to the extent that those events provide evidence of conditions at the reporting date. For example, as noted in AASB 110 paragraph 9(b), the bankruptcy of a customer that occurs after the reporting period usually confirms that the customer was credit-impaired at the end of the reporting period, unless the impairment conditions arose after the end of the reporting period, such as a significant event after the reporting period affecting the customer.
Fair value measurement	AASB 13 *Fair Value Measurement* paragraph 22 requires entities to measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability. Fair value measurements using level 1 or level 2 inputs use observable inputs, such as quoted prices. Because those inputs are observable at the measurement date, it is less likely that they would be adjusted in the case of an adjusting event (see AASB 13 paragraphs 76-80). Level 3 inputs are unobservable and may require careful consideration for adjusting events. AASB 13 paragraph 89 clarifies that an entity develops unobservable inputs using the best information available in the circumstances. That information might include the entity's own data, adjusted for reasonably available information about market participants' assumptions. An entity need not undertake an exhaustive search for such information. For a subsequent event, an entity should consider whether the event provides evidence of conditions at the measurement date, and that market participants would have been considering in their assumptions.
Revenue recognition	An adjusting event might require reassessment of variable consideration and constraining estimates of variable consideration in estimating transaction prices under contracts with customers (see AASB 15 *Revenue from Contracts with Customers* paragraphs 50-59). For example, additional information may become available confirming that conditions

Area of accounting	Explanation
	affecting either probability-weighted expected value scenarios or the most likely amount of variable consideration (whichever approach the entity has adopted, in accordance with AASB 15 paragraph 53) existed at the reporting date, but had not been considered previously by the entity.
Onerous contracts and other provisions	Entities should consider whether an adjusting event might require recognition of an onerous contract in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* paragraph 66. For example, an event may confirm conditions at the reporting date that create unavoidable costs to fulfil a contract, such as incremental employee costs to undertake additional safety procedures, which lead to the total unavoidable costs to fulfil the contract exceeding the economic benefits expected to be received under it.
Inventory valuation	Inventories are measured at the lower of cost and net realisable value in accordance with AASB 102 *Inventories* paragraph 9.[1] AASB 102 paragraph 30 clarifies that estimates of net realisable value are based on best estimates, and take into consideration events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. For example, an adjusting event may provide evidence of conditions at the reporting date that result in an oversupply of inventory due to reduced foot traffic past a storefront, leading to a decrease in the selling price. In that case, inventory would be written down to its lower net realisable value, if that has decreased below cost.

As noted in the introduction to the table, the above list is not exhaustive. Other areas to consider if an adjusting event is identified would include:

- Leases, including the lease term;
- Hedge effectiveness assessments;
- Contingent consideration; and
- Recoverability of deferred tax assets.

1 Except for inventories held for distribution by not-for-profit entities. See AASB 102 paragraph Aus9.1.

Q4: Is any action needed if the event is a non-adjusting event?

Yes. Adjustments should not be made to the amounts recognised in the financial statements in the case of a non-adjusting event. However, AASB 110 paragraph 21 requires an entity to disclose the events where material, as non-disclosure could influence economic decisions made by users on the basis of the financial statements (see the disclosure table in Question 7 further).

Q5: How do I assess whether an event after the reporting period is material?

As noted in Question 4, a non-adjusting event requires disclosure only where the event is material. In addition, adjusting events would need to be reflected in the financial statements only to the extent that the adjustment provides material information.

As defined in AASB 101 *Presentation of Financial Statements* and explained further in AASB Practice Statement 2 *Making Materiality Judgements* (APS 2), information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. The AASB 101 materiality definition also highlights that an assessment is made on the basis of size (quantitative) and nature (qualitative) factors, as well as their combination. APS 2 further emphasises that an item of information could influence primary users' decisions regardless of its size, and a quantitative threshold could even reduce to zero, such as when information about a transaction, other event or condition is expected to be highly scrutinised by the primary users of the financial statements.

Q6: Do events after the reporting period affect the going concern assessment?

Yes. If an event after the reporting period means that the going concern basis of accounting is no longer appropriate, AASB 110 paragraph 14 requires the entity to adjust the basis of preparation of its financial statements. This is regardless of whether the event is considered to be an adjusting or non-adjusting event.

An entity may also need to update its going concern disclosures (see the disclosure table in Question 7 further).

See the AASB−AUASB Joint Publication *The Impact of COVID-19 on Going Concern and Related Assessments* (May 2020) for further guidance on going concern assessments.

Q7: What disclosures are required for events after the reporting period?

AASB 110	
Adjusting events	**Paragraphs 19-20** • Update disclosures that relate to the adjusting events and conditions at the end of the reporting period. • In some cases, update disclosures for adjusting events even if no recognised amounts are adjusted (for example, contingent liabilities).
Non-adjusting events	**Paragraphs 21-22** For each material category of non-adjusting event, disclose: • The nature of the event; and • An estimate of its financial effect, or a statement that such an estimate cannot be made.
Material uncertainties relating to going concern	**Paragraph 16** AASB 101 (paragraph 25) specifies disclosures if: • The financial statements are not prepared on a going concern basis; or • Management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period. See the AASB–AUASB Joint Publication on going concern and related assessments for further guidance.
AASB 101	
Significant judgements	**Paragraphs 122-124** • Disclose the judgements made in applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.
Significant estimates	**Paragraphs 125-133** • Disclose the major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.