

Frequently Asked Questions – Accounting Impacts of COVID-19 and related matters

If my entity is required to undertake COVID-19 tasks in 2019-20, but will not receive the appropriation until 2020-21, can I accrue the appropriation in the operating statement in 2019-20?

Appropriations can be accrued under strict conditions:

- The requirement and delay of appropriation must be documented in writing;
- The requirement and delay of appropriation must be explicitly approved at the whole of government level, either by Cabinet or the Prime Minister (no exceptions); and
- The approvals must be given and documented on or before 30 June 2020.

Finance considers the best evidence supporting these requirements are direct sources of approval such as a Cabinet Minute or a letter from the Prime Minister. Other written evidence may provide additional support and may be considered, but are unlikely to be sufficient in their own right as they do not represent documented decisions of the government as a whole.

If the conditions are not met, appropriation cannot be accrued, and will be accounted for in the 2020-21 financial statements.

Finance can provide specimen words that can be used to approve and document such a situation.

Further reference is to the Financial Reporting Rule, Rule 40. A similar approach should be applied to the converse situation – where (departmental) funds have been appropriated in 2019-20 for services to be provided in 2020-21.

As part of the COVID-19 response, there have been many amendments and additions to special appropriations and special accounts during 2019-20. Are there any new requirements for reporting these in financial statements?

No, there are no new requirements for reporting amendments or additions to special appropriations and special accounts in 2019-20 financial statements. There are existing minimum requirements that apply, and these continue to apply without amendment in 2019-20. Entities may choose to disclose additional information at their discretion. Entities must continue to report on all appropriations under their control during the financial year in their appropriation notes, regardless of materiality.

Entities may need to consider if they need to keep records and report on special appropriation and special account expenditure for purposes other than financial statements, such as for tracking expenditure on specific COVID-19 response initiatives.

Further reference is to the Financial Reporting Rule, Rules 46 and 48.

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The financial reporting rule requires the directors of our entity, who are the accountable authority, to sign a certificate accompanying the financial statements. Our directors are unable to meet and sign this statement for 2019-20 due to COVID-19 travel and distancing restrictions. Our constitution does not allow us to hold virtual meetings or to use e-signatures. Can we dispense with signing the certificate this year?

In the absence of an exemption given by the Finance Minister, it is necessary that the accountable authority signs off on the entity's financial statements. The requirement is included in the Financial Reporting Rule, which has legal effect.

Finance can assist entities with requesting an exemption from the Finance Minister in the rare event that this could be a problem. We may ask you to put alternative procedures in place to provide assurance that the financial statements have been adopted by the directors, and that the matters dealt with in the certificate are met in other ways.

A request should be made as soon as the situation is foreseen, and not left until late in the financial statements process. Finance asked entity CFOs in April 2020 if they anticipate any such situation.

Entities are also encouraged to discuss the implications of this situation with their auditors, since auditors need to be satisfied that the accountable authority has approved the financial statements.

The certificate requirements are set out in Rule 10 of the Financial Reporting Rule.

Commonwealth-owned companies and subsidiaries of other entities do not apply the Financial Reporting Rule. They should seek their own advice about compliance with the Corporations Act, or other relevant legal requirements.

What impact do the recent events have on accounting for the guarantees and indemnities that we issue?

Most existing guarantees and indemnities are recorded as contingent liabilities because they don't yet represent a full liability under either AASB 9 (contractual financial guarantees) or AASB 137 (other guarantees). A full liability will be recorded to the extent that actual payments are committed to under a guarantee.

Accounting standards applicable to guarantees and indemnities have not changed for 2019-20. However, recent events may have increased the possibility that payments will be required under a guarantee or indemnity. For example, businesses for which a guarantee has been provided may be more likely to fail if they are unable to open or had their main trading asset destroyed by bushfire.

Entities should carefully review all existing guarantees and indemnities effective 30 June 2020 for possible changes, including changes to disclosures.

Further, the government has announced temporary new and changed guarantee arrangements as part of the COVID-19 response. These new and changed guarantees do not necessarily remain as only contingent liabilities – there may be requirements to record an amount for a full liability where future payouts are already expected.

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This is only a short summary of the requirements for guarantees and indemnities. Further reference should be made to either AASB 9 (contractual financial guarantees) or AASB 137 (other guarantees), and to relevant legislation or agreements containing the guarantee or indemnity provisions.

What impact do recent events have on impairment of loans and receivables?

In 2019-20, entities should continue to apply the same generic method to assessing impairment of loans and receivables as they did in 2018-19.

Impairment of contractual loans and receivables is governed by the expected credit loss model in AASB 9. While other receivables (commonly called statutory receivables) are initially accounted for under AASB 9 from this year, the method of subsequent accounting remains unchanged from previous years and impairment is assessed under AASB 136.

Impairment needs to be assessed every year, and 2019-20 is no exception. However, the recent events may mean that default is more likely to occur, and hence impairment charges could increase. For example, rural businesses may be affected by flood or bushfire that significantly affects their ability to make payments on loans; increases in statutory receivables may be caused by sections of the community subject to increased unemployment or business interruption.

Entities should apply their impairment models as usual, being aware of the potential for changes to parameters such as increased credit loss provisions. However, this should be done by taking into account all the facts and circumstances. For example, the IASB has issued guidance that the need to delay or reschedule payment of a loan or debt does not necessarily constitute an increase in credit risk. Examples considered by Finance to be in this category include where the delay is beyond the control of the debtor, but the overall financial position of the debtor remains strong and payment of the debt in full is ultimately expected. Finance hypothetical examples include where the accounting staff of the debtor are not at work following a government directive to temporarily close the business; or where the debtor is in a country where the operations of the banking system have been restricted temporarily. As in 2018-19, Finance cannot issue “standard factors” by which credit losses should increase, because each type of loan or receivable is different.

The IASB guidance is provided at <https://cdn.ifrs.org/-/media/feature/supporting-implementation/ifrs-9/ifrs-9-ecl-and-coronavirus.pdf?la=en> .

My entity receives most of its revenue from a non-appropriation source that has been severely affected by the recent events. Do I have to consider the “going concern” requirements?

Yes. The accounting standards assume that the entity is a going concern. Where it is not, different values may be ascribed to assets and liabilities (and potentially some revenues and expenses).

The going concern requirements are established by the accounting standards and reinforced by the auditing standards. So, while it is not expected that there will be significant issues with going concern amongst Commonwealth entities, possible situations where going concern is not obviously satisfied will need to be considered and, if necessary, documented.

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The certificate that the accountable authority signs includes a reference to the entity being able to pay its debts, which is part of the process of establishing a going concern. Going concern also requires assessment of whether the entity will be closed, although this should not be anticipated for Commonwealth entities unless there is a specific decision to close the entity.

It is important to note that assessment of going concern covers, as a minimum, the twelve months from the date the financial statements are signed, so will extend to a date later than 30 June 2021. Where the accountable authority is unable to sign the certificate, or there are other major uncertainties over funding sources, consideration should be given to going concern requirements.

This should be done as early as possible in the year-end cycle, in case arrangements need to be put in place to support a going concern assessment, such as a guarantee from a parent or arrangement of additional funding sources. Entities should contact their Finance AAU if they require additional funding directly by way of appropriation to sustain ongoing operations, particularly from a cash flow perspective.

The AASB and the AuASB have jointly issued a guide to going concern assessments. While it is focussed on the private sector, it is still relevant to the public sector -

https://www.ausb.gov.au/admin/file/content102/c3/AASB-AUASB_TheImpactOfCOVID19_05-19.pdf

Will the recent events require my entity to take different matters into account in property, plant and equipment valuations in 2019-20?

While the relevant accounting standards have not changed in 2019-20, the uncertainties and consequences of recent events need to be considered when undertaking 2019-20 asset valuations. The government adopts the revaluation model under AASB 116, and the requirements for measuring fair value are set out in AASB 13.

Circumstances may differ from entity to entity, so it is not possible to propose a generic approach for all entities. It is strongly recommended that each entity develop their proposed approach to valuations in 2019-20, and obtain agreement from the auditors. The auditors will likely this year pay more attention to uncertainty in valuations.¹

1. Basic principles

As a reminder, the provisions applying to property, plant and equipment valuations are set out in AASB 116 paragraphs 31-42. The following extracts from AASB 116 are particularly relevant to the situation this year:

31.Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

34. The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are

¹ AASB-AuASB guidance.

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unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

36. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued.

38. The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

2. Practical considerations

Fair value is determined in accord with AASB 13. AASB 13 contains valuation requirements that are relevant to all situations, including the circumstances caused by COVID-19.

However AASB 13 does not mandate how the valuation information is sourced or applied, other than preference is given to observable information. Valuations may be independently sourced, or they may be undertaken internally. The latter may be done where the assets are specialised, management expertise is present within the entity, and there are good controls over the process of valuation. Further, the values may be derived through full application of valuation standards, or through use of alternative supportable techniques such as indexation or desk reviews. It may be difficult for valuers to complete a full program of valuations in 2019-20 if travel restrictions or distancing continue to apply, in which case alternative techniques may be required.

Further, it is potentially impractical – and costly - to consider a full valuation program in 2019-20 that seeks full independent valuations of all assets.

3. Do I need to use a different valuation technique this year?

AASB 13 allows for three generic valuation techniques – market, cost or income. The standard requires the most appropriate method to be selected based on a) what market participants would use and b) to maximise use of observable inputs.

Paragraph 65 of AASB 13 requires consistent application of valuation techniques, and the existing technique should be the starting position. However a change is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances, which includes for example changes to market conditions or where information previously used is no longer available.

Entities should keep in mind the requirements to use techniques that market participants would use and to maximise the use of observable inputs. However, if information is not available to apply the same technique as last year, a change in technique could be considered.

Valuation techniques should not be selected on a basis that is inconsistent with AASB 13. Selection on a subjective basis, or on the basis of achieving the most optimistic or most conservative value are not appropriate.

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4. If there continues to be significant uncertainty, does this mean that valuations cannot be done until after 30 June 2020?

The Finance view is that it is not necessary in all cases to delay valuations until after 30 June 2020, but it may be necessary to undertake valuations later than normal. Fair values must substantially reflect conditions existing at year-end, but we often undertake valuations before year-end with the expectation that there would be insignificant change in fair values between valuation date and year-end.

However, this year it may not be possible to assume that there will be insignificant movements between valuation date and year-end for all types of assets. Hypothetically, Finance would expect that where valuation is based on replacement construction costs, that movement may be limited. Valuations using the market technique however, may experience more significant changes.

Independent valuers are also concerned about uncertainty. The web site of the International Valuation Standards Council (IVSC) contains a variety of COVID-related resources for valuers, including a letter from the IVSC technical standards boards that identifies – for valuers – the relevant provisions of their standards and how these might be applied to current valuations. While Finance cannot provide advice on valuation standards, we think it is useful to read this letter to be aware of the factors that valuers will be considering in 2019-20 valuations, and we note that valuers are not considering a disclaimer in the event of high uncertainty.

<https://www.ivsc.org/news/article/statement-in-relation-to-the-covid-19-pandemic>

Finance also recommends that careful thought be given to the valuation timetable, in consultation with the auditors and valuers. For example, one practical option might be to complete the existing program of valuations as at 31 March, with an independent desk review to ensure no major movements between March and June, and no major departures from fair value in assets not valued this year.

5. Should the valuation be based on the long term or short term expectations of value?

Finance considers this to be of lesser concern when considering AASB 13 in 2019-20, despite the uncertainty.

Where a market technique is adopted, the market prices should be observable at 30 June for most assets. Information about how to approach thin or non-functioning markets is available from Finance if required.

Where a cost technique such as replacement cost is adopted, replacement costs at 30 June should be observable or capable of calculation, and should not consider what changes might occur to replacement costs in future. Replacement cost value should not be reduced as a result of reduced usage or patronage of an asset, unless there is evidence of permanent obsolescence. Obsolescence consideration can only be based on what has happened and what is highly likely to happen – and not attempt to consider every possible scenario. Finance expects that obsolescence as a result of COVID-19 will be rare for Commonwealth assets.

Where an income technique is used by discounting present values, the expected future cash flows should be based on the best assessment at 30 June. Applying most accounting standards requires consideration of likely future outcomes and their probability, which can then be built into valuation

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calculations. This may be more difficult to do in 2019-20 because of the degree of uncertainty. Finance considers that the management responsible for the asset will be most likely to have the best information about possible future cash flows.

Subsequent events would need to be considered, but would only affect the amount recorded if they are adjusting events under AASB 110. Other non-adjusting events may require some additional disclosure.

6. Our entity does rolling 3-year valuations of our properties. This year we expect to have a few property assets that may be worth less than their book value. We need to write them down, but does that mean we have to revalue all property assets – the entire class? Does it mean that we have to apply the impairment provisions of AASB 136?

Unlikely, for both questions.

AASB 116 requires rolling or periodic valuations to reflect the fair value of the class of assets at the end of the financial year. If this approach is taken, it is unlikely that the whole class of asset needs to be revalued this year.

Further, if revaluations under AASB 116 are undertaken with sufficient regularity, amendments mean that the impairment standard AASB 136 does not apply.

If this represents an issue for an entity, Finance recommends reviewing the provisions of AASB 116 and paragraph 5 of AASB 136

7. What about values of right of use (ROU) assets under leases?

Commonwealth entities record ROU assets at cost, and consequently those ROU assets are subject to the impairment standard AASB 136. AASB 136 requires assessment at the end of each year whether there are objective indicators of impairment, in which case a write-down would be required if material.

In many cases impairment will be limited because the cost and the fair value are likely to be highly aligned. Refer to RMG 110 for further information.

What are the implications for lease accounting if we are a tenant and receive rent relief as part of a COVID-19 arrangement?

Finance does not expect widespread rent relief will be received by government entities as tenants. However, where it is received and is material (see below), it has implications for the accounting and recording of the leases. Some of these implications involve recent changes to accounting requirements.

The International Accounting Standards Board (IASB) issued an educational document that explains the accounting implications for lease accounting under the leasing standard as unamended - <https://cdn.ifrs.org/-/media/feature/supporting-implementation/ifrs-16/ifrs-16-rent-concession-educational-material.pdf?la=en>.

The IASB document says that entities must consider whether the rent relief provided is part of the original terms and conditions of the contract and if not, whether it needs to be treated as a “lease

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modification”, which in most cases requires recalculation of the lease accounting entries and classification as a new lease.

However, since that document was issued, the AASB has made an amendment to the lease accounting standard, which can be early-adopted to be available for entity use at 30 June 2020. https://www.aasb.gov.au/admin/file/content105/c9/AASB2020-4_06-20.pdf

Finance recommends that entities apply the following process to assess the consequences of rent relief received as tenants

1. If the rent relief is less than 10% of the total payments under an individual lease AND the total of the rent relief across all leases is less than 5% of total payments under all leases, treat the relief as immaterial. Do not make accounting adjustments but consider disclosures in the accounting policy notes;
2. If the amount is material, is the rent relief provided
 - a. within the original terms and conditions of the lease? (the IASB document provides some examples); or
 - b. in the circumstances covered by the amendment to the accounting standard

If so, treat the relief as a variable lease payment and consider the impact on lease assets and liabilities

3. Consider additional disclosures required under the standards, and other disclosures if the amounts are material.

What are the implications for lease accounting if we are a lessor and provided rent relief as part of a COVID-19 arrangement?

There have been no amended arrangements put in place for lessors. Consequently, you should consider whether a material amount of rent relief constitutes a lease modification. See the IASB guidance document for lessees for consideration of what a lease modification might be, as this applies to lessors too. If it is a material lease modification, you should apply AASB 16 paragraphs 79-80 (finance leases) or 87 (operating leases) to the lease modification.

How should my entity account for waiver of fees and other charges?

This depends on what is being waived, which in turn depends on the legal conditions applying to the fee or charge. As background, accounting standards require accounting for material transactions separately, and in most instances does not allow offsetting of revenue and expenses, or assets and liabilities².

This implies the following accounting requirements:

1. Where there is an existing debt for a charge levied before the COVID-19 period, and the debt itself is waived, it should be recorded as a debt impairment (bad debt) using the provisions of AASB 9 (contractual debts) or AASB 136 (statutory debts);

² AASB 101

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2. Where the legal framework is such that the government cannot avoid levying a new charge and cannot legally stop or reverse the charging process, the same approach should be applied with revenue recorded and the debt impaired;
3. Where the legal framework is such that the government can avoid levying the charge, or can reverse the charging process, no revenue – and no impairment - should be recorded; and
4. Where money is collected and subsequently refunded, entities will need to consider the legal issues in 1-3 above to determine if the refund payment is netted off against revenue or treated as a separate expense.

Example 1 – Big Entity is party to an interstate agreement, and costs are recovered by charging fees to industry participants. As part of the COVID-19 response it is required to refund charges for fees received since 1 February 2020, and waive all further fees until 30 June 2020. However, its legislation requires cost recovery charging, and specifically prohibits waiving a charge once levied without the unanimous agreement of all States and the Commonwealth, and this legislative requirement will not be amended. In this case revenue must be recorded for the fees that have been and would be levied, with the refunds of collected fees and the waivers to 30 June recorded as an expense.

Example 2 – Small Entity Commission levies a statutory fee. As part of the COVID-19 response it is required to waive fees, backdated to 1 March 2020. The legislation allows the Commissioner at his/her absolute discretion to waive charges, forego charges, or levy additional charges. In this case the amounts waived would be treated as a reduction in revenue and no expense would be recorded.

How do I account for inter-departmental secondments as part of the COVID-19 response?

The accounting is the same as for other secondments noting that the accounting standards have changed for 2019-20 in respect of resources received free of charge (AASB 1058), including that resources received free of charge are now called “volunteer services” in accounting standards. The information below relates to all types of secondment, even though most secondments as part of the COVID-19 response will fall into category c) – where the losing entity continues to pay the employee.

- a) Where the gaining entity pays the employee

This should be treated by the gaining entity as a salary payment, and by the losing entity as a salary no longer required to be paid. This would normally be incorporated into normal payroll processes of both entities.

- b) Where the gaining entity reimburses the losing entity and the losing entity continues to pay the employee

The gaining entity should record this as either salary payments, or a service charge, depending on the employees’ employment status. The gaining entity should record this as miscellaneous revenue, subject to the provisions of Section 74 of the PGPA Act.

- c) Where the gaining entity makes no payments, and the losing entity continues to pay the employee

The losing entity continues to record a salary expense under normal payroll processes. The gaining entity should assess whether, if it had not received the services free of charge, it would have paid

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someone else (such as a temporary employee) to perform the services. If no, the gaining entity does nothing. If yes, the gaining entity should record a matching revenue and expense for “volunteer services”. The amount recorded would be the amount that the gaining entity would have paid to its own employees to undertake the services. Key Management Personnel (as defined in AASB 124) need to be considered separately.

(AASB 1058 requires volunteer services to be recorded at fair value. Finance considers the most appropriate measure of fair value is the amount the gaining entity would have paid to an equivalent employee. The engagement terms and conditions of consultants and contractors are different, and thus are less representative of the fair value).

d) Who accounts for the appropriation funding?

Whichever entity receives the appropriation, even if that entity does not make the payments. Appropriations are accounted for in accordance with the Financial Reporting Rule.

e) What about the entitlements such as leave for the seconded employees?

Normally when employees transfer between APS entities, the losing entity reimburses the gaining entity for annual and long service leave entitlements accrued, based on a simplified formula. Where there is a short term secondment where the employee transfers between entities under the *Public Service Act* or equivalent, this could lead to two payments within a short period of time, for no great benefit. Finance suggests that where employees are actually transferred and the secondments are short term – say 6 months or less – that entities agree between themselves not to make payments for accrued leave entitlements.

Consideration may need to be given to whether the employee will undertake higher duties at the gaining entity and whether the employee is likely to take leave during the transfer period.

f) Reporting in the key management personnel note

Existing rules applying to secondees continue to apply in 2019-20 where the staff involved are key management personnel of either the gaining or losing entity. Refer to the Financial Reporting Rule and RMG 125.

g) Record keeping

Both gaining and losing entities should keep good records of the time periods of secondments. Not only would this be expected for employment purposes, but may also be needed to support calculations of accounting entries for volunteer services.

Our entity has had to spend a significant amount of money on changes to its web site, to provide information to the public and/or to receive applications for benefits as a result of COVID-19. Can I treat these as intangible assets rather than as expenses?

Potentially yes, for the development costs. Review accounting Interpretation 132 on the AASB website, to see if your expenditure qualifies. Also consider the period over which you may have to amortise the resulting asset – if it is very short the cost of assembling the information and undertaking the calculations may outweigh the benefits of capitalising the costs.

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Our entity previously recorded an onerous contract expense for premises that it leased and had a rental obligation, but it did not occupy. With our additional responsibilities under the COVID-19 response, we now occupy this space. How do we account for this?

You reverse the onerous contract expense to the extent that the premises will be occupied. You should not reverse the expense for the period the premises were previously unoccupied, or may be unoccupied in future. Any reversal of the expense should take place in the 2019-20 financial statements as miscellaneous revenue.

Our entity had some assets destroyed and others partially destroyed in the bushfires or the floods. What are the accounting implications of this?

If the assets are insured (e.g. with Comcover), the expected insurance proceeds can be recorded as miscellaneous revenue as long as they can be reliably determined – even if they haven't been paid. Nevertheless it is best, if possible, to have confirmation from the insurer that they will accept the claim.

If an administered asset is destroyed, the entity may not be able to keep the insurance proceeds – entities should refer to section 74 of the PGPA Act.

The assets will need to be removed from the accounting records and financial statements. The accounting for this is usually straight-forward except for the asset revaluation reserve. There is no mandated policy or accounting standard about the accounting for any previous revaluations that might be in the asset revaluation reserve. Because valuations are done in groups, it may not even be possible to determine the amounts in the reserve that relate to the destroyed assets. However, if you can identify the amount, acceptable treatments include do nothing (leave in the asset revaluation reserve), create or add to a separate asset realisation reserve, or transfer to retained surpluses/deficits. If the amounts are material, the selected treatment should be disclosed as an accounting policy.

If an asset is partly destroyed and is to be disposed of in its current condition, or forms part of a facility that is to be abandoned, it is likely that the provisions of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* will apply. That standard should be consulted for further information.

Finally, if you have “make-good” obligations in respect of the asset, these may need to be re-assessed. Refer Accounting Interpretation 1.

Our entity holds a number of investments, where it is important to the year-end net asset valuation to obtain the 30 June 2020 financial statements from those investees. Several of these investments are subsidiaries, where we need their financial statements for consolidation. For various reasons, we may not be able to obtain the financial statements like we normally do. What do we do?

Unfortunately there is limited guidance about what to do if financial statements of investees are not available. Accounting standards are written with the implication that the necessary information will be available.

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Where the investee is a subsidiary, AASB 10 (paragraphs B92-3) allows the use of financial statements that are up to three months old for consolidation purposes, after review for subsequent changes. AASB 128, applying to associates and joint ventures, contains similar paragraphs (paragraphs 33-34). Other relevant standards, such as AASB 127 and AASB 9, do not include similar comments.

Where an entity is in this position and the effect is material, you should determine what information you already hold or might be able to obtain about the investee's financial position at 30 June 2020, and discuss an approach with your audit executive.

The value of our administered investments is calculated using estimated future cash flows, discounted to the present value. This year the businesses of our investments have been significantly impacted by bushfire/flood/COVID-19, and it is even more uncertain than usual what those future cash flows might be. How do we prepare a valuation under these circumstances?

This is very difficult, and something that financial statement preparers and auditors everywhere are working on in the COVID-19 context.

In theory, if a valuation is exceptionally unreliable, the underlying asset may no longer qualify for recognition. However, this is unlikely to be the appropriate response, and an attempt should be made to ascribe a current value to the investment. Finance suggests the following approach:

1. The value is required to be calculated as at 30 June, and can only include information that supports a value as at that time (AASB 13 requirements). It is not appropriate to try and work out what the value will be in future;
2. The methodology applied in previous years is likely to still be applicable this year, however the requirements of AASB 13, especially paragraph 65, should be reviewed;
3. Use the best available information about cash flows and other parameters as at 30 June. Give preference to observable or independently derived numbers.
 - a. The management of the administered investment are likely to have the best available information about the prospects for future cash flows. However, test the information;
4. Compute the value based on the best available information. Fully document your calculations, including supporting information that will be useful as audit evidence;
5. Where it does prove impossible to compute a value using discounted cash flows because there is not sufficient reliable and observable information, consider whether another valuation method (such as net assets) should be used for 2019-20;
6. Review the calculation after 30 June, for information that might suggest a different value as at 30 June. (i.e. an adjusting event under AASB 110); and
7. Provide appropriate disclosure in the notes about the assumptions used and conclusions reached, including subsequent events. This does not mean that every assumption needs to be quantified or disclosed. Some details may also need to be included in the section of the notes dealing with significant judgements. See also the questions about estimation uncertainty.

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I am uncertain of which line item I should include the expenses for new COVID-19 initiatives? Some of them appear to be subsidies, some appear to be grants, some of them appear to be personal benefits in kind and some appear to have some elements of all of these?

You should contact the Estimates and Reporting Team in Finance. These expense classifications are governed by the Government Finance Statistics system, and Finance is working with the Australian Bureau of Statistics to determine the most appropriate line items for the major initiatives. Finance will advise your CFO area once they and ABS have come to a view about the correct line item, and this would normally be definitive.

In particular, you should note that changes to an existing program resulting from a COVID-19 response may result in a change to the appropriate line item.

Our entity was going to sell an asset and had accounted for the planned sale using AASB 5. We have now abandoned the plan to sell the asset because of market uncertainty. What do we do?

AASB 5 paragraphs 26-29 and 42 contain requirements where plans to sell an asset – or distribute it to owners – has changed.

How do we account for obligations that we have to make future stimulus payments?

Where an obligation is already committed to on or before 30 June, and both the timing and amount are known, the obligation is either a creditor/payable or an accrual, and should be accounted for as a liability.

Where the timing or amount is unknown, AASB 137 must be applied to determine whether a liability should be recorded, whether a commitment should be disclosed, or no specific accounting action taken. AASB 137 contains as an attachment a useful flowchart to assist with this decision process.

No blanket guidance can be given, as each case must be considered on its merits by considering the terms and conditions attaching to the obligation. However, AASB 137 has a series of principles that should be applied to the assessment

- a) There must be a present obligation to make the payment, not a future obligation.

AASB 137 does not allow provisions for future obligations. It only requires a provision where there is a present obligation. The entity must have no realistic alternative but to settle the obligation, but this could be either a legal obligation or a “constructive obligation”.

A present obligation does not normally exist until the recipient has satisfied all substantive conditions attached to the payment, because then the government does not have an alternative but to settle the obligation. In the case of social benefits, this is usually immediately before the payment is made. In other cases, it may be further in advance of when the payment is made.

- b) There must be a probable outflow of resources, and the amount must be capable of reliable estimation.

Both of these requirements should be capable of being met in most instances.

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Do I have to make additional disclosures in my entity's 2019-20 financial statements about the impacts of COVID-19?

Yes, if the impacts are material.

The impact that COVID-19 has on entities will vary, and consequently disclosures will vary. Finance expects that entities will have to make more disclosures than they otherwise would have, and so you should pay early attention to them. Finance suggests that you map out the types of disclosures expected for your entity, and discuss them with both the audit committee and the auditors.

1. Going concern – see the AASB/AuASB guidance document referred to above, available on the AASB Web Site – see Chapters 4 and 5 for financial statement disclosure principles.
2. Subsequent events – there will likely be more disclosure of subsequent events this year. The relevant disclosure principles are set out in AASB 110, which require disclosure of the nature of the event and the estimated financial impact.
3. General uncertainties about accounting estimates – see further below
4. Judgements about the application of accounting standards – AASB 101 paragraph 122 applies in the same way it has in prior years.
5. Some other individual accounting standards require disclosures about assumptions etc behind the calculations. e.g. AASB 7 for financial instruments. Most of these are covered in PRIMA.

Do all entities have to make these additional disclosures?

Disclosures 1-4 will apply to all entities if they are material – i.e. there is no reduced disclosures allowed for Tier 2 entities except for one paragraph in AASB 101.

What are disclosures of estimation uncertainty?

Many accounting balances are calculated using estimates of key assumptions. If these key assumptions change, there could be a material impact on the amounts recorded for these balances, which in turn could change the message that the financial statements present. So transparent disclosure about estimates is important if there is a prospect that there could be considerable change. There is likely to be an increased level of uncertainty about assumptions made about the future.

Accounting standard AASB 101 paragraphs 125-133 applies to disclosures of estimation uncertainty. These paragraphs, except 132, are reproduced below in their entirety to describe the applicable disclosure principles.

“Sources of estimation uncertainty

125 An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect

Frequently Asked Questions – Accounting Impacts of COVID-19 and related matters

of those assets and liabilities, the notes shall include details of: (a) their nature, and (b) their carrying amount as at the end of the reporting period.

126 Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. For example, in the absence of recently observed market prices, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates, future changes in salaries and future changes in prices affecting other costs.

127 The assumptions and other sources of estimation uncertainty disclosed in accordance with paragraph 125 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.

128 The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting period.

129 An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are: (a) the nature of the assumption or other estimation uncertainty; (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

130 This Standard does not require an entity to disclose budget information or forecasts in making the disclosures in paragraph 125.

131 Sometimes it is impracticable to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption. (this paragraph is not mandatory for Tier 2 entities)

133 Other Australian Accounting Standards require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 125. For example, AASB 137 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. AASB 13 Fair Value Measurement requires disclosure of significant assumptions (including the valuation technique(s) and inputs) the entity uses when measuring the fair values of assets and liabilities that are carried at fair value."

Frequently Asked Questions – Accounting Impacts of COVID-19 and related matters

Finance continues to work with the ANAO over the disclosure implications of estimation uncertainty. Finance expects to issue additional guidance in respect of this. In the meantime questions should be addressed to Accounting Policy at Finance accountingpolicy@finance.gov.au

In which note do we have to make these additional disclosures?

Consistent with the PRIMA principle of flexibility, Finance is not mandating a location for the additional disclosures. The disclosures could all be in Note 1, all together in a new note, or spread across the existing notes depending on where the uncertainties occur. Some presentations may, however, be more logical than others.

The information in this document is provided for the general guidance of Commonwealth entities. It is not an accounting standard or an amendment/addition to RMG 125. Entities should consider how the information in this document applies to their own circumstances.