# Frequently asked questions – Accounting for COVID-19 and the 2019-20 bushfires and floods

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# Frequently asked questions

## Accrual of appropriations

**Q1. We delivered COVID-19 tasks in 2019-20 with an appropriation to be received in 2020-21 – can I accrue the appropriation in the 2019-20 operating statement?**

Appropriations can be accrued under strict conditions. The requirement and the delay of the appropriation must be:

- documented in writing
- explicitly approved at the whole-of-government level, either by Cabinet or the Prime Minister (without exception)
- evidenced by way of an approval document that is dated on or before 30 June 2020.

If these conditions are not met, the appropriation cannot be accrued and must be accounted for in the 2020-21 financial statements (see Rule 40 of the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR)).

Specimen words for documentation and approval, may be requested by emailing accountingpolicy@finance.gov.au.

**Q2. Can I defer accruing departmental funds appropriated in 2019-20 for services to be provided in 2020-21?**

Yes. Where departmental funds were appropriated in 2019-20 for services to be provided in 2020-21, apply Rule 40 of the FRR and the conditions explained at Q1.

**Q3. How do I document the requirement and delay of the appropriation, and the approval?**

As noted at Q1, approval evidenced by a Cabinet Minute or a letter from the Prime Minister is required to accrue an appropriation – this is the best supporting evidence. While other written supporting evidence may be considered, is unlikely to be sufficiently, on its own, to represent a whole-of-government level decision.

## Special appropriations and special accounts

**Q4. Are there new reporting requirements for special appropriations and special accounts established as part of COVID-19 response in 2019-20 financial statements?**

No. There are no new reporting requirements for special appropriations and special accounts for the 2019-20 financial statements. The existing minimum requirements still apply (i.e. Rules 46 and 48 of the FRR). Entities:

- must continue to report on all appropriations under their control during the financial year in their appropriation notes, regardless of materiality

- may, at their discretion, disclose additional information.

### Q5. Should I keep additional records for special appropriations and special accounts?

Possibly. Some entities may need to keep records and report on expenditure against a special appropriation and special account for purposes other than the financial statements (e.g. for tracking expenditure on specific initiatives under the COVID-19 response).

## Financial statements certification and COVID-19

### Q6. As a corporate Commonwealth entity, if we have been affected by COVID-19 travel and distancing restrictions, can we dispense with the certification of our financial statements?

No. The requirements for the certificate have legal effect under Rule 10 of FRR. Therefore, in the absence of an exemption by the Minister for Finance, the accountable authority must sign the certification of the financial statements.

Commonwealth-owned companies and subsidiaries of other entities do not apply the FRR, but must comply with the *Corporations Act 2001* or other relevant legal requirements.

### Q7. What can I do if the accountable authority cannot meet to certify the financial statements and our company constitution does not allow e-signatures?

If the accountable authority cannot meet to certify the financial statements and the company constitution does not allow the use of technology to sign the certificate, the entity should:

- seek an exemption from the Minister for Finance as soon as possible – do not leave this until late in the financial statements process
- discuss the implications with auditors, as they are required to be satisfied that the accountable authority has approved the financial statements.

For assistance in seeking an exemption, email accountingpolicy@finance.gov.au.

If an exemption is approved, Finance may request alternative procedures for assuring the accountable authority has certified the financial statements and that matters in the certificate are met in other ways.

## Impacts to guarantees and indemnities

### Q8. Have accounting standards changed for guarantees and indemnities?

No. The accounting standards applicable to guarantees and indemnities have not changed for 2019-20. However, recent events may have increased the likelihood of an entity being required to make payments under an existing guarantee or indemnity.

### Q9. Do I need to review existing guarantees and indemnities for possible impacts?

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

For more information, see AASB 9, AASB 137 and relevant legislation or agreements containing guarantee or indemnity provisions.

### Q10. How do I account for guarantees and indemnities issued by an entity?

Because most existing guarantees and indemnities do not yet represent a full liability, they are recorded as contingent liabilities under either:

- *Financial Instruments (AASB 9)* – for contractual financial guarantees, or
- *Provisions, Contingent Liabilities and Contingent Assets (AASB 137)* – for other guarantees.

As a part of the COVID-19 response, temporary guarantee arrangements have been established that do not necessarily remain as only contingent liabilities. For these, there may be requirements to record an amount for a full liability where future payouts are already expected – a full liability would be recorded to the extent that actual payments are committed to under a guarantee.

## Impairment of loans and receivables

### Q11. How do recent events affect the impairment of loans and receivables?

The events of 2019-20 may mean that default is now more likely and impairment charges could increase (e.g. if a business was affected by the bushfires, it may now be harder for it to make loan payments).

### Q12. Has the method for assessing the impairment of loans changed?

No. Impairment needs to be assessed every year and 2019-20 is no exception. Entities should apply the same generic method, as used in 2018-19, to assess the impairment of loans and receivables this year. For:

- the impairment of contractual loans and receivables, apply the general approach for recognition of expected credit losses – see section 5.5 of *Financial Instruments (AASB 9)*
- other receivables (commonly called statutory receivables), these should be:
  - initially accounted for under AASB 9 from this year
  - subsequently accounted for using the unchanged method of previous years with impairment assessed under *Impairment of Assets (AASB 136)*.

**Q13. Which impairment model should I apply?**

Entities should apply their impairment models as usual, being aware of the potential for changes to parameters such as increased credit loss provisions. This should be done by taking into account all facts and circumstances.

**Q14. Are there any standard factors for credit losses increases?**

No. As each type of loan or receivable is different, Finance cannot issue standard factors by which credit losses should increase.

**Q15. Do all delayed or rescheduled loan/debt payments increase the credit risk?**

As advised in *IFRS 9 and covid-19: Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the covid-19 pandemic*, a need to delay or reschedule a loan or debt payment does not necessarily constitute an increase in credit risk. A delay could occur that is beyond the control of the debtor, even though the financial position of the debtor remains strong and payment in full is ultimately expected.

**Example:** Even if a debtor has a strong financial position, loan payments may be delayed if the debtor:

- is required to temporarily close under COVID-19 restrictions
- operates in a country where the banking system is temporarily restricted.

## Going concern requirements

**Q16. My entity receives most of its revenue from a non-appropriation source that has been severely affected by the recent events. Must I consider going concern requirements?**

Yes. Accounting standards assume that an entity is a going concern – where it is not, different values may be ascribed to assets and liabilities, and potentially some revenues and expenses.

Going concern requirements should be appropriately considered and documented if:

- the accountable authority cannot certify the entity's ability to pay its debts, or
- there are other major uncertainties over funding sources.

A going concern assessment should be done as soon as possible in the year-end cycle (in case arrangements need to be made, such as a guarantee from a parent entity or an arrangement of additional funding sources). The assessment should consider:

- whether the entity will be closed – this should not be anticipated for entities unless there is a specific decision to close the entity

- at least, the twelve-month period from the date the financial statements are signed (i.e. the assessment will extend to a date later than 30 June 2021).

Satisfying the requirements for going concern is unlikely to be a significant issue for Commonwealth entities. However, in principle, recent events could create a situation where an entity is unable to clearly declare that the entity is a going concern (e.g. an accountable authority may be unable to certify, with the financial statements, that the entity is able to pay its debts).

For more information, see *The Impact of COVID-19 on Going Concern and Related Assessments* (an AASB and AuASB joint publication that focusses on the private sector but is relevant to entities).

**Q17. Who do I contact if my entity requires additional appropriation?**

If your entity requires additional funding directly by way of appropriation to sustain ongoing operations, particularly from a cash flow perspective, contact your Agency Advice Unit in Finance.

## Valuation of property, plant and equipment (PPE)

**Q18. Should I consider different matters for the 2019-20 PPE valuations?**

Yes. While the relevant accounting standards have not changed in 2019-20, the uncertainties and consequences of recent events need to be considered for 2019-20 asset valuations. The government adopts:

- the revaluation model under *Property, Plant and Equipment (AASB 116)*
- the requirements for measuring fair value under *Fair Value Measurement (AASB 13)*.

For AASB 116 paragraphs that are particularly relevant in 2019-20, see Q32.

**Q19. What basic principles apply to 2019-20 PPE valuations?**

The provisions applying to PPE valuations are set out in paragraphs 31-42 of AASB 116 (for AASB 116 paragraphs that are particularly relevant in 2019-20, see Q32)

**Q20. Is there a generic approach to 2019-20 PPE valuations that entities should apply?**

No. As entity circumstances differ, one generic approach is not possible. However, Finance strongly recommends that each entity develops their proposed approach for 2019-20 valuations, and then obtains agreement from the auditors.

For more information, see *The Impact of COVID-19 on Going Concern and Related Assessments.*

**Q21. Are there practical considerations for fair value and sourcing valuations?**

Fair value is to be determined in accordance with AASB 13 – for the general principles that apply to fair value measurement, see paragraph 34 of AASB 13.

For 2019-20, COVID-19 restrictions may mean it is potentially impractical (and costly) to consider a full valuation program that seeks full independent valuations of all assets.

### Q22. Does AASB 13 specify requirements for sourcing PPE valuations?

AASB 13 contains the valuation requirements for all situations, including the current circumstances caused by COVID-19, but does not mandate how valuation information is sourced or applied, other than the preference should be for observable information. Valuations may be:

- independently sourced
- undertaken internally, where:
  - the assets are specialised
  - management expertise is present within the entity
  - there are good controls over the process of valuation.

Values may be derived through either full application of valuation standards or use of alternative supportable techniques (e.g. indexation or desk reviews).

### Q23. Do I need to use a different valuation technique this year?

No. 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 where:

- it would result in a measurement that is equal to or more reflective of fair value in the current conditions
- information to apply the same technique as last year is not available.

### Q24. How do I select the most appropriate valuation technique?

AASB 13 allows for three generic valuation techniques – market, cost or income – with the selected technique to be based on:

- what market participants would use
- maximising the use of observable inputs.

It is not appropriate to select a valuation technique on a subjective basis, or to achieve the most optimistic or conservative value.

### Q25. What can I do if COVID-19 restrictions stop or prevent our program of valuations?

COVID-19 travel and distancing restrictions may prevent some valuers from completing a full program of valuations in 2019-20. If this occurs, an alternative valuation technique should be applied (see Q24).

### Q26. If significant uncertainty continues, should I delay valuations to after 30 June?

No. The view of Finance is that it is not necessary, in all cases, to delay valuations until after 30 June, but it may be necessary to undertake valuations later than normal.

Fair values must substantially reflect conditions at year-end. However, valuations are often undertaken before year-end, on the basis that changes in fair values between the valuation date and year-end are likely to be insignificant. For 2019-20, this assumption may not be a reasonable. Hypothetically, Finance expects that for valuations:

- based on replacement construction costs – the movement may be limited
- using the market techniques – more significant changes may be experienced.

**Example:** A practical option may 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
- no major departures from fair value in assets not valued this year.

### Q27. Should the valuations be based on long-term or short-term expectations?

This depends on a number of factors. Current uncertainties may make it more difficult to consider likely future outcomes and their probability.

Finance considers that:

- the entity with management responsibility for the asset is best placed to determine the most appropriate method for possible future cash flows, and
- despite current uncertainties, this is a lesser concern in 2019-20 when considering AASB 13 valuation techniques (i.e. defined in Appendix A of AASB 13 and explained in paras 61-66 and B5-B11).

Where the:

- **market approach** is used – the market prices should be observable at 30 June for most assets (information on how to approach thin or non-functioning markets is available from Finance)
- **cost approach** is used (such as replacement cost) – the replacement costs at 30 June:
    - should be observable or capable of calculation and should not consider what changes might occur to replacement costs in the future
    - should not be reduced because 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 or is highly likely to happen (i.e. do not try to consider every possible scenario). Obsolescence of Commonwealth assets, as a result of COVID-19, would be rare

- **income approach** is used by discounting present values – the expected future cash flows should be based on the best assessment at 30 June.

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

### Q28. My entity does rolling property valuations, should we revalue all property assets if some properties may be worth less than their book value?

Unlikely. 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.

### Q29. All property assets are revalued – must I apply AASB 136 impairment standard?

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

See the provisions of AASB 116 and paragraph 5 of AASB 136.

### Q30. How do I account for the value of right of use (ROU) assets under leases?

Entities record ROU assets at cost, and consequently those ROU assets are subject to 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.

For more information, see *Guide to implementing AASB 16 Leases (RMG 110)*.

### Q31. What position are independent valuers taking to COVID-19?

Independent valuers are also concerned about the current uncertainties. The International Valuation Standards Council (IVSC) website provides valuers with a variety of COVID-related resources, including *Covid-19 and the Valuation Profession*.

While Finance cannot provide advice on valuation standards, we suggest:

- reading *Dealing with valuation uncertainty at times of market unrest* (a letter on applying relevant provisions of valuation standards) to be aware of factors that valuers will consider in 2019-20 valuations (NB valuers are not considering a disclaimer in the event of high uncertainty)

- giving careful thought to the valuation timetable, in consultation with the auditors and valuers.

### Q32. What does AASB 116 say about PPE valuations?

The following extract of AASB 116 provides paragraphs that are particularly relevant for the 2019-20 financial statements:

**Extract: AASB 116**

**Paragraphs:**

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 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.

## Lease accounting for COVID-19 rent relief

### Q33. How do I account for rent relief we provided, as a lessor, under COVID-19?

There are no amended arrangements for lessors. Consequently, you should consider whether a material amount of rent relief constitutes a lease modification. If so, for:

- finance leases – apply paragraphs 79-80 of *Leases (AASB 16)*
- operating leases – apply paragraph 87 of AASB 16.

For more information, see *IFRS 16 and covid-19: Accounting for covid-19-related rent concessions applying IFRS 16 Leases.*

### Q34. How do I account for rent relief we received, as a tenant, under COVID-19?

If rent relief is received by your entity as a tenant and it is material (for guidance on determining materiality, see the diagram at Q35), this has implications for the accounting and recording of the leases, which may involve recent changes to accounting requirements.

IFRS 16 and covid-19 advises that entities must consider whether the rent relief provided is part of the original terms and conditions of the contract. Where it is not, consider whether it needs to be treated as a lease modification, which in most cases requires recalculation of the lease accounting entries and classification as a new lease.

In June 2020, AASB issued *Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions (AASB 2020-4)*, which can be early adopted for use by entities at 30 June 2020.

**Q35. How do I assess the consequences of rent relief received as a tenant?**

Finance recommends that entities apply the following approach.

**If the rent relief is less than 10% of total payments under an individual lease AND the total 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.
- Consider disclosures in the accounting policy notes.

**If the amount is material (i.e. 10% or more of total payments under an individual lease AND the total rent relief across all leases is 5% or more of total payments under all leases)**

- Consider if the rent relief provided is within the:
  - original lease terms and conditions (see examples in *IFRS 16 and covid-19*), or
  - circumstances covered by AASB 2020-4.
- If so, treat the rent relief as a variable lease payment and consider the impact on lease assets and liabilities.
- Consider additional disclosures required under the standards and other disclosures for material amounts.

## Fees and charges waived for the COVID-19 response

**Q36. How do I account for a waiver of fees and charges for COVID-19?**

This depends on the fee or charge being waived and the legal conditions that apply.

AASB 101 requires accounting for material transactions separately, and in most instances does not allow the offsetting of revenue and expenses, or assets and liabilities. This implies that 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 (for contractual debts) or AASB 136 (for statutory debts)
- 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 is applied for revenue recorded and debt impaired
    - can avoid levying the charge or can reverse the charging process – no revenue and no impairment should be recorded
- money is collected and subsequently refunded, entities need to consider the above legal issues to determine if the refund payment is netted off against revenue or treated as a separate expense.

**Scenario 1:** Big Entity (BE) is party to an interstate agreement where costs are recovered by charging fees to industry participants. Legislation requires cost recovery charging and specifically prohibits waiving a charge once levied, without agreement by all states and the Commonwealth.

As part of the COVID-19 response, BE will refund charges for fees received since 1 February 2020 and waive all further fees until 30 June 2020 – the legislation will not be amended.

**Accounting solution:** Revenue is recorded for the fees that have been and would be levied. Refunds of collected fees and the waivers, to 30 June 2020, are recorded as an expense.

**Scenario 2:** Small Entity Commission (SEC) levies a statutory fee. Legislation allows the commissioner at his/her absolute discretion to waive charges, forego charges or levy additional charges.

As part of the COVID-19 response, SEC is required to waive fees, backdated to 1 March 2020.

**Accounting solution**: The waived amounts are treated as a reduction in revenue. No expense is recorded.

## Staff secondments for the COVID-19 response

### Q37. Have accounting methods changed for secondments for the COVID-19 response?

No. The accounting method for COVID-19 response secondments is the same as for other secondments – noting that *Income of Not-for-Profit Entities (AASB 1058)* has changed the accounting standards in respect of resources received free of charge, which are now called ‘volunteer services’.

### Q38. How do I account for secondments where the losing entity still pays the employee and the gaining entity makes no payments?

Most secondments for the COVID-19 response will be based on the:

- losing entity continuing to record a salary expense under normal payroll processes
- gaining entity assessing whether it received the services free of charge (i.e. if it would have paid someone else, such as a temporary employee, to perform the services). If the answer is:
  - no – the gaining entity does nothing
  - yes – the gaining entity records a matching revenue and expense for volunteer services (i.e. the amount it would have paid to its own employees to undertake the services).

Under AASB 1058 where the gaining entity makes no payments, the volunteer services are to be recorded at fair value.

Key management personnel are considered separately, under *Related Party Disclosures (AASB 124)*. For more information, see:

- *Commonwealth entities Executive Remuneration Reporting Guide for Annual Reports (RMG 138)*
- *Commonwealth companies Executive Remuneration Reporting Guide for Annual Reports (RMG 139).*

### Q39. How do I measure the fair value of volunteer services?

Finance considers the most appropriate measure of fair value is the amount the gaining entity would have paid an equivalent employee (the terms and conditions of engagement of consultants and contractors are different and less representative of the fair value).

### Q40. How do I account for secondments where the gaining entity pays the employee?

This would normally be incorporated into the normal payroll processes of both the gaining and losing entities and treated by:

- the gaining entity as a salary payment
- the losing entity as a salary that is no longer required to be paid.

### Q41. How do I account for secondments where the losing entity still pays the employee but the gaining entity reimburses the losing entity?

The gaining entity should record this as:

- either salary payments or a service charge (according to the employees' employment status)
- miscellaneous revenue, subject to the provisions of section 74 of the PGPA Act.

### Q42. Which entity accounts for the appropriation funding for secondments?

In accordance with the FRR, the entity that receives the appropriation accounts for the funding even if that entity does not make the payments.

### Q43. How do I account for entitlements (e.g. leave) for seconded employees?

Normally when employees transfer between Australian Public Service entities, the losing entity reimburses the gaining entity for annual and long service leave entitlements accrued, based on a simplified formula.

For a short-term secondment where the employee transfers between entities under the *Public Service Act 1999* or equivalent, this could lead to two payments within a short time period, for no great benefit. Finance suggests that where employees are actually transferred under short-term secondments (e.g. for 6 months or less), the entities consider agreeing to make no payments for accrued leave entitlements.

Where the secondee will undertake higher duties at the gaining entity, considerations may be required on the likelihood of the employee taking leave during the transfer period.

### Q44. Have the rules changed for reporting in the key management personnel note?

No. The existing rules still apply for reporting of secondees that are key management personnel of either the gaining or losing entity. For more information, see:

- the FRR
- *Commonwealth entities financial statements guide — 2019-20* (RMG 125)
- RMG 138
- RMG 139.

### Q45. What record keeping requirements apply to staff secondments?

Both the 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.

## Costs associated with website changes

### Q46. Can I treat the cost of website changes for COVID-19 as intangible assets rather than expenses?

Potentially yes, for the development costs. To determine how this applies to your entity's expenditure:

- see the requirements in *Intangible Assets – Web Site Costs (Interpretation 132)*
- 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.

## Impacts to premises or assets

### Q47. How do I account for insured assets that were destroyed, or partly destroyed, in the 2019-20 bushfires and floods?

For destroyed or partially destroyed assets that were insured (e.g. with Comcover), where:

- the expected insurance proceeds can be reliably determined:
  - obtain confirmation from the insurer that the claim will be accepted (if possible)
  - record the proceeds as miscellaneous revenue – even if it is not yet paid
- the assets are administered assets, the entity may not be able to keep the insurance proceeds. For more information, see section 74 of the PGPA Act.

### Q48. Do I remove destroyed or partly destroyed assets from accounting records?

Yes. The assets need to be removed from the accounting records and the financial statements.

Accounting for this is usually straightforward – except for the asset revaluation reserve, where:

- there is no mandated policy or accounting standard on accounting for any previous revaluations that might be in the asset revaluation reserve
- it may not be possible to determine the amounts in the reserve that relate to the destroyed assets (as valuations are done in groups)
- if you can identify the amount in the reserve, the 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.

### Q49. How do I account for a partly destroyed asset, to be disposed of in its current condition or that forms part of a facility that is to be abandoned?

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 *Non-current Assets Held for Sale and Discontinued Operations (AASB 5)* will apply
- 'make good' obligations in respect of the asset may need to be re-assessed.

For more information, see *Changes in Existing Decommissioning, Restoration and Similar Liabilities (Interpretation 1)*.

**Q50. We had planned to sell an asset and accounted for this under AASB 5 but, due to market uncertainty, that sale is abandoned. What do should I do?**

For the requirements that apply where plans to sell an asset, or distribute it to owners, have changed, see paragraphs 26-29 and 42 of AASB 5.

## Onerous contract expenses

**Q51. How do I account for a previously recorded onerous contract expense for unoccupied leased premises with a rental obligation that we now occupy?**

In this situation, the entity should 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 was previously unoccupied, or may be unoccupied in the future.

Any reversal of the expense should occur in the 2019-20 financial statements as miscellaneous revenue.

## Investments and investee financial statements

**Q52. What should I do if I cannot obtain the financial statements of an investee?**

Unfortunately, there is limited guidance on what to do if financial statements of investees are not available – accounting standards assume that the required information will be available.

Where the financial statements of investees are delayed due to COVID-19, and the effect is material, entities should:

- consider information that is currently available, or may be obtained, on the investee's financial position at 30 June 2020
- discuss the matter with the audit executive to establish an agreed approach.

**Q53. What should I do if delayed financial statements of subsidiaries, an associate or joint venture are needed for consolidation purposes?**

Financial statements of investees that are up to three-months old may be used for consolidation purposes, after adjusting for subsequent changes, where the investee is:

- a subsidiary – paragraphs B92-93 of *Consolidated Financial Statements (AASB 10)*
- an associates or joint venture – paragraphs 33-34 of *Investments in Associates and Joint Ventures (AASB 128)*.

Other relevant standards do not include such provisions – such as *Separate Financial Statements (AASB 127)* and AASB 9.

## Administered investments

**Q54. We calculate the value of administered investments using estimated future cash flows discounted to the present value – can I still use this method and what issues do we need to consider?**

This is still unclear in the context of COVID-19. Financial statement preparers and auditors everywhere are current working on this issue.

In theory, if a valuation is exceptionally unreliable the underlying asset may no longer qualify for recognition – it is unlikely that this would be seen as appropriate. In view of this, an attempt should be made to ascribe a current value to the investment and Finance suggests you calculate the value as at 30 June, based on information that supports a value at that time (see AASB 13 requirements), without estimating the future value, by:

- applying the methodology used in previous years (it is still likely to be applicable) but:
    - taking account of the requirements of AASB 13 – particularly paragraph 65
    - using the best available information, as at 30 June, on cash flows (e.g. from the management of the administered investment) and other parameters, giving preference to observable or independently derived numbers
    - testing the information
- calculating the value of administered investments – if you don't have sufficiently reliable and observable information to calculate the value, consider whether another valuation method (such as net assets) should be applied for 2019-20
- documenting your calculations fully, with sufficient supporting information for audit evidence
- reviewing the calculations after 30 June, for any information that might suggest a different value as at 30 June (i.e. an adjusting event under AASB 110).

Where the valuation is exceptionally unreliable:

- ensure that a disclosure is included 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 or estimation uncertainty.

## Expenses

**Q55. Some expenses for COVID-19 initiatives seem to be subsidies, grants or personal benefits in kind (or all of these). In which line should I include these expenses?**

This is being determined. The classification of expenses is governed by the Australian Bureau of Statistics Government Finance Statistics system. Finance will advise entities when a view is established on the correct line item (this would normally be definitive).

For the COVID-19 response, some changes to an existing program may result in a change to the appropriate line item.

For more information, email CFSTeam@finance.gov.au.

## Obligations

### Q56. How do I account for an obligation to make future stimulus payments?

Where an obligation is committed on or before 30 June; and where:

- 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
- either the timing or amount is unknown – apply AASB 137 to determine if:
    - a liability should be recorded
    - a commitment should be disclosed, or
    - no specific accounting action should be taken.

AASB 137 contains (as an attachment) a useful flowchart to assist with this decision process.

### Q57. Is there simple guidance on accounting for obligations for future stimulus payments, such as a checklist?

No. Blanket guidance cannot be given because each case must be considered on its merits with regard to the terms and conditions attaching to the obligation. However, under the principle in AASB 137, there must be:

- a present obligation to make the payment – not a future obligation
- a probable outflow of resources and the amount must be capable of reliable estimation.

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

### Q58. How do I determine a present obligation?

Under AASB 137, a present obligation does not normally exist until the recipient has satisfied all substantive conditions attached to the payment and the entity has no realistic alternative but to settle the obligation – this could be either a legal obligation or a constructive obligation. For:

- social benefits – this is usually immediately before the payment is made
- other cases – it may be further in advance of when the payment is made.

## Additional disclosures

**Q59. Do I need to make additional disclosures in the 2019-20 financial statements for COVID-19?**

Yes, if the impacts are material. Entities will need to make more disclosures than usual. As the impacts of COVID-19 on entities will vary, the disclosures required will vary too.

Entities are encouraged to plan for expected disclosures and to discuss these with both the audit committee and the auditors – including disclosures for:

- going concern – see chapters 4 and 5 of *The Impact of COVID-19 on Going Concern and Related Assessments*
- subsequent events – for the relevant disclosure principles for the nature of the event and the estimated financial impact, see *Events after the Reporting Period (AASB 110)*
- general uncertainties about accounting estimates – see the FAQs for disclosures of estimation uncertainty
- judgements about the application of accounting standards – see paragraph 122 of *Presentation of Financial Statements (AASB 101)*, which applies as it did in prior years
- accounting standards that require disclosures about calculation assumptions (e.g. *Financial Instruments: Disclosures AASB 7*) – most are covered in the Primary Reporting Information and Management Information Aid (PRIMA).

**Q60. Do all entities need to make additional disclosures?**

Yes. All entities are to include disclosures (where they are material) for:

- going concern
- subsequent events
- disclosures of estimation uncertainty
- judgements about the application of accounting standards.

No reduced disclosures are allowed for Tier 2 entities.

**Q61. What are disclosures of estimation uncertainty?**

Many accounting balances are calculated using estimates of key assumptions and if 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. Therefore, transparent disclosure on estimates is important where there is potential for considerable change.

For the disclosures required for estimation uncertainty, see paragraphs 125-133 of AASB 101.

### Q62. Is any guidance available on disclosures for estimation uncertainty?

No. Finance is working with the Australian National Audit Office on the implications of disclosures of estimation uncertainty and expects to issue additional guidance in respect of this. In the meantime, email questions to accountingpolicy@finance.gov.au.

### Q63. In which note should I make the additional disclosures?

The location of additional disclosures (as listed at Q59 and Q60) is not mandated. While some presentations may be more logical, the disclosures can be:

- all in Note 1
- all together in a new note, or
- spread across the existing notes depending on where the uncertainties occur.