

EVALUATION

RESULT

FINANCE

QUALITY

PROCEDURE

OPERATIONS

# IMPACT OF CORONAVIRUS

## ICAI GUIDELINES FOR PREPARERS OF FINANCIAL STATEMENTS

## Background

In this difficult environment, each regulatory body are releasing relief measures and guidelines for easing out the impact of COVID 19. On the financial and compliance front, announcements have been flowing from the Government authorities in the form of deferment of statutory due dates or relaxation in payment terms to overcome the financial crisis being faced due to lock-down.

Institute of Chartered Accountant of India (ICAI) has come out with its guidelines for care to be taken by the PREPARER of the financial statements and the AUDITOR. This guidance from the ICAI addresses the common issues which would be encountered on account of COVID 19 while preparing the financial statements and its audits and how they should be addressed. For better understanding of the quarterly and year-to date financial results, separate disclosure may be presented in financial statement for aggregate loss incurred due to COVID 19 being irregular and not ordinary in nature. This document focus on guidance provided by ICAI in the areas relevant for the preparer of financial statement and separate document is released for guidance to auditors

## Impact of corona virus on financial reporting – Assets & Liabilities

- **Inventory**

Inventories would have piled up since due to lock-down, supply chain has come to halt. Also fresh production activity is also stopped. This will require entities to examine the need to write down the inventories where the net realisable value is lower than cost price. Also the overhead costs incurred during the lock-down period cannot be loaded to the cost of inventory and will have to be charged off as expense immediately.

- **Impairment test for assets**

Reassess the need for impairment of non-financial assets like property, plant & equipments, intangibles and goodwill, considering reduced economic activity, change in financial forecast and budgeted cash flows, etc. Management will have to append the explanatory note in financial statements in regard to impairment test carried out along with sensitivity analysis.

- **Change in useful life of fixed assets**

During lock-down the assets are not functional and kept idle. The management should reassess whether there is any change required in the useful life / residual life of such property, plant and equipment.

- **Fair value of financial assets / instruments**

Current market sentiments are not the correct representative for the market prices as at year-end. Accordingly, additional care to be taken in case of the financial assets and financial instruments which are mark-to-market price at the period end.

- **Trade receivables – Expected Credit Loss**

Year-end outstanding trade receivables would certainly rise due to liquidity constraint being faced by the customers in releasing the over-due payments. In such scenarios, management need to estimate and provide for bad debts and expected doubtful debts.

- **Leased assets**

In case of modification in lease arrangements like waiver or concession in rental payouts, financial effect need to be factored in financial statement. Further, in case of non-cancellable lease arrangement which are onerous in nature, provision for impairment of leased assets also to be considered.

- **Capitalization of borrowing cost**

During this lock-down period, the construction projects have come to halt. In such scenario, borrowing cost incurred during such period does not form part of the cost of qualifying asset and will be charged off as expense immediately.

- **Provision for onerous contract**

There is overall disruption in supply chain baring essential items & logistic services which resulted into hike in procurement prices. Provision should

be made of onerous contracts like expected loss which will be incurred to fulfill the commitment given to customer to supply the products at contract prices which are lower than the procurement prices.

- **Going concern assumption need to be reassessed by management**

The management will have to assess the impact of COVID 19 on the going concern assumption and accordingly measure its assets and liabilities. Management should include appropriate explanatory note for its impact on the financial statement as on balance sheet date and next 12 months.

- **Impact of COVID 19 on significant uncertainties**

Financial statement should include disclosure of significant recognition and measurement uncertainties that might have been emerged by the outbreak of the COVID -19 in measuring various assets and liabilities. Management should also disclose how they have dealt with the impact of COVID -19 on the financial position and financial performance of the entity.

### **Impact of corona virus on financial reporting – Revenue & Expenses**

- **Revenue recognition**

Measurement of revenue need to be reassessed considering the impact of COVID 19 on expected increase in sales return, primary and secondary discounts to liquidated the inventories, etc. Additionally, disclosure is required for revenue not recognized due to uncertainty of cash flows.

- **Recognition of insurance claims filed due to loss on account of COVID 19**

Business interruption insurance claim to be recognized as income in books only if the recovery is virtually certainty else it would be in nature of contingent nature. Disclosure of such contingent assets would be required in financial statement prepared under Indian Accounting Standard.

- **Re-measurement of deferred taxes**


Management should reassess the recognition of deferred taxes like deferred tax asset recognized on carry-forward business losses, impairment losses, deferred tax liability on distributable profits from subsidiaries, etc.

**Guideline for auditors**

Auditors approach will certainly be more skeptical to address the risk involved in closing the quarter and year ended 31<sup>st</sup> March 2020. Alternate audit procedures should be applied to satisfy the assertions as at balance sheet date. Additionally, auditors may draw attention in their report for relying on the key management estimates and assumptions.

**Conclusion**

The impact of COVID-19 on the economy, financial markets and entities in particular continues to evolve. In the current phase, risk committee of the enterprises are taking all precautionary steps for their 'business continuity' and closing their year-end accounts which would not be comparable with the comparative figures presented in last year / previous corresponding quarter. These guidelines from ICAI would certainly assist the CFO's and management of the respective entities to take adequate care in closing the year accounts and be prepared for the audit.

  
**N. A. SHAH ASSOCIATES LLP**  
Chartered Accountants

B 41-45 & B 21-25, Paragon Centre, Pandurang Budhkar Marg  
Worli, Mumbai - 400013

**+91-22-40733000**

| [info@nashah.com](mailto:info@nashah.com) |



**Sandeep Shah**

Managing Partner

[sandeep.shah@nashah.com](mailto:sandeep.shah@nashah.com)

**Milan Mody**

Partner - Audit

[milan.mody@nashah.com](mailto:milan.mody@nashah.com)

**Prashant Daftary**

Partner - Audit

[prashant.daftary@nashah.com](mailto:prashant.daftary@nashah.com)

**Mukul Patel**

Partner - Audit

[mukul.patel@nashah.com](mailto:mukul.patel@nashah.com)

**ASSURANCE | BUSINESS ADVISORY | DIRECT TAX | INDIRECT TAX**

Disclaimer:

This document has been prepared as a service to the clients. We recommend you to seek professional advice before taking any action on the specific issues.