



ANOTHER COVID-19 CHALLENGE FOR DIRECTORS

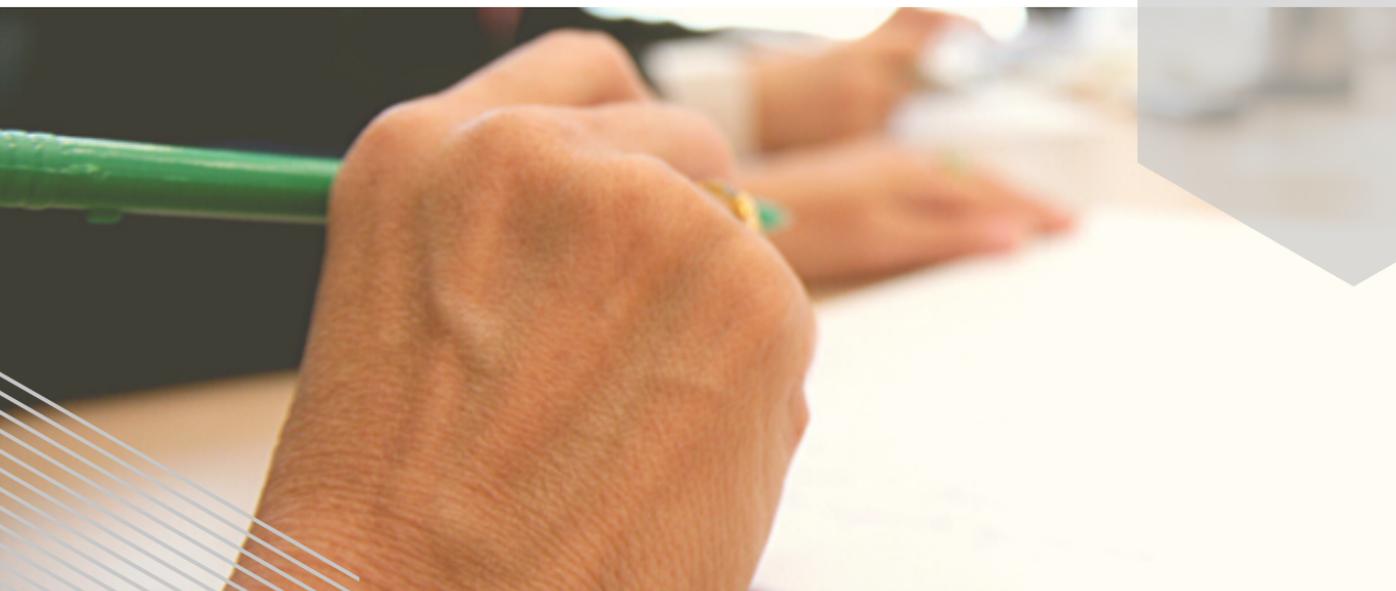
REPORTING ON THE FINANCIAL IMPACT

By MASB secretariat
24 December 2020

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In October 2020, the International Accounting Standards Board (IASB) issued an article entitled *“Applying IFRS Standards in 2020-impact of covid-19”*.

The article discussed the expectations of users of financial statements in making forecasts about future financial performance in periods of great uncertainty. It highlighted the need for estimates used in financial statements, for example in determining future cashflows when impairment testing, to be based on realistic and supportable assumptions.

Access the article here: <https://cdn.ifrs.org/-/media/feature/news/2020/inbrief-covid19-oct2020.pdf?la=en>

October 2020

In Brief

Applying IFRS Standards in 2020— impact of covid-19

Disclosure requirements under MFRS

For most listed entities in Malaysia, the impact of COVID-19 first became an issue for financial reporting in the June quarter with Malaysian Financial Reporting Standard (MFRS) 134 *Interim Financial Reporting* requiring disclosure of “the nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years”.

Malaysian experience to date

A review of the June quarter interim reports by the MASB Secretariat covering a sample of 16 companies in the financial services, consumer products, energy and property sectors indicated that most reported a decline in revenue and operating profit with the decline generally being attributed to the impact of the Movement Control Order (MCO) (mid-March through early May), the Conditional Movement Control Order (CMCO) (early May through June) and the Recovery Movement Control Order (RMCO) (early June through December).

In terms of the entity specific impact resulting in changes in estimates, a number of companies in the energy sector recorded impairment losses in the carrying value of non-current assets due in part, to changed expectations about demand on future oil prices, whilst some property sector companies reduced the carrying value of certain investment properties in anticipation of a weaker office rental market.

Only the banks in the sample disclosed the specific impact on operating results of Government support packages, with each separately disclosing the modification loss arising from the moratorium on loan repayments to certain customers less the benefit of related Government concessions.



Experience overseas

In July 2020, the UK Financial Reporting Council's Financial Reporting Lab published a report summarising key findings from a review of the financial reporting effects of COVID-19 for a sample of interim and annual report and accounts with a March period end.

The review found that whilst most of the companies “provided sufficient information to enable users to understand the impact that COVID-19 has had on the company’s performance, position and prospects’ there was room for improvement in certain areas including going concern disclosures.

December 31, 2020 financial reports

Unfortunately, at this time, the pandemic shows little sign of diminishing in the near future and although vaccines are now being released, these are unlikely to be available for most people before the middle of 2021. Consequently, the adverse economic consequences of COVID-19 are likely to remain for some time to come.

With most companies in Malaysia having an annual financial year ending of 31 December, their next financial report will incorporate some 9 months activity since the introduction of the MCO. Given this, it would appear reasonable to anticipate that users of the financial statements will expect comprehensive disclosure on the reassessment of assumptions and estimates used in prior years which have been undertaken in preparing the 2020 financial statements.

A particularly relevant example of this is in relation to MFRS 101 *Presentation of Financial Statements* and the going concern concept where a company “has a history of profitable operations and ready access to financial resources” and therefore, “may have reached a conclusion that the going concern basis of accounting is appropriate without detailed analysis”. However, with COVID-19 profoundly affecting some businesses in ways never previously contemplated, international and domestic travel operators for example, “management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate”.

Time to act now

Consequently, it is now timely for Directors to focus on applying MFRS and the additional disclosure required to document how consideration of the consequences of COVID-19 have been reflected in the financial statements.