Conceptual Framework of Accounting-
Considering Going Concern and the Impact of Covid-19

IFRS Week Webinar

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Session Outlook

- Overview of Conceptual Framework
- Going Concern
- Covid-19 Situation and Financial Reporting
- Conclusion

Conceptual Framework for Financial Report

- The Conceptual Framework for Financial Reporting is a **guideline** that sets out the objectives and concepts for **general purpose** financial reporting.

- Updated and issued in 2018.

- The 'framework' is ***NOT a Standard*** itself and does not override any specific IFRS

- Applicable when there are no specific rules for your transaction when developing accounting policies.

Conceptual Framework for Financial Report…

A. IAS 16 PPEs?
B. IAS 41 Agriculture?

Conceptual Framework for Financial Report…

Accounting for Sports Professionals

MV – 12 million Euros

A. *Inventory,*
B. *Intangible,*
C. *PPE,*
D. *Investment Property,*

Conceptual Framework for Financial Report…

Rent Concessions? Lease modifications?

Dominant issues during Covid-19…

Conceptual Framework for Financial Report...

Chapter 1 - The objective of general purpose financial reporting

The main objective of general purpose financial reports is to ***provide the financial information*** about the reporting entity that is useful to existing and potential **investors**, **lenders**, and other **creditors** to help them make various decisions

Puts an emphasis on ***accrual accounting*** to reflect the financial performance of an entity

Conceptual Framework for Financial Report…

Chapter 2 - Qualitative characteristics of useful financial information

The Framework describes 2 types of characteristics for financial information to be useful:

Fundamental,

and

Enhancing

Conceptual Framework for Financial Report…

Chapter 2 - Qualitative characteristics of useful financial information…

Fundamental Qualitative Characteristics

- ***Relevance***: capable of making a difference in the users' decisions. The financial information is relevant when it has predictive value, confirmatory value, or both.

- ***Faithful representation***: The information is faithfully represented when it is complete, neutral and free from error.

Conceptual Framework for Financial Report…

Chapter 2 - Qualitative characteristics of useful financial information…

Enhancing Qualitative Characteristics

- ***Comparability***: Information should be comparable between different entities or time periods;
- ***Verifiability***: Independent and knowledgeable observers are able to verify the information;
- ***Timeliness***: Information is available in time to influence the decisions of users;
- ***Understandability***: Information shall be classified, presented clearly and concisely.

Conceptual Framework for Financial Report...

Chapter 3 - Financial Statements and the Reporting Entity

The objective of **financial statements** is to provide information about an entity's

- Assets,
- Liabilities,
- Equity,
- Income And Expenses
- Notes and disclosures

Conceptual Framework for Financial Report…

Chapter 3 - Financial Statements and the Reporting Entity…

Reporting Entity

- ***Single entity***
- ***Portion*** of an entity
- ***More than one*** entities

As a result, we have a few types of **financial statements:**

- ***Consolidated***
- ***Unconsolidated***
- ***Combined***

Financial statements are prepared on the ***going concern*** assumption.

Conceptual Framework for Financial Report...

Chapter 4 - Elements of the financial statements

Elements of the financial statements

- **Financial Performance**
  - Income
  - Expenses
- **Financial Position**
  - Assets
  - Liabilities
  - Equity

Conceptual Framework for Financial Report…

Chapter 5 - Recognition and derecognition

Recognition

Recognition means ***including*** an element of financial statements in the financial statements.

Derecognition

Derecognition means ***removal*** of an asset or liability from the statement of financial position and normally it happens when the item no longer meets the definition of an asset or a liability.

Conceptual Framework for Financial Report…

Chapter 6 - Measurement

Measurement means ***in what amount*** to recognize asset, liability, piece of equity, income or expense in your financial statements.

The Framework discusses two basic measurement basis:

- ***Historical cost***
- ***Current value*** –(Fair value, Value in use, Current cost)

Conceptual Framework for Financial Report…

Chapter 7 - Presentation and disclosure

The main aim of presentation and disclosures is to provide an ***effective communication tool*** in the financial statements.

The Framework discusses;

- Classification of assets, liabilities, equity, income and expenses
- Describes offsetting and aggregation
- Distinguishes profit or loss and other comprehensive income
- Other related areas.

Conceptual Framework for Financial Report...

Chapter 8 - Concepts of capital and capital maintenance

The Framework explains two concepts of capital:

- ***Financial capital*** – this is synonymous with the net assets or equity of the entity.

- ***Physical capital*** – this is the productive capacity of the entity based on, for example, units of output per day.

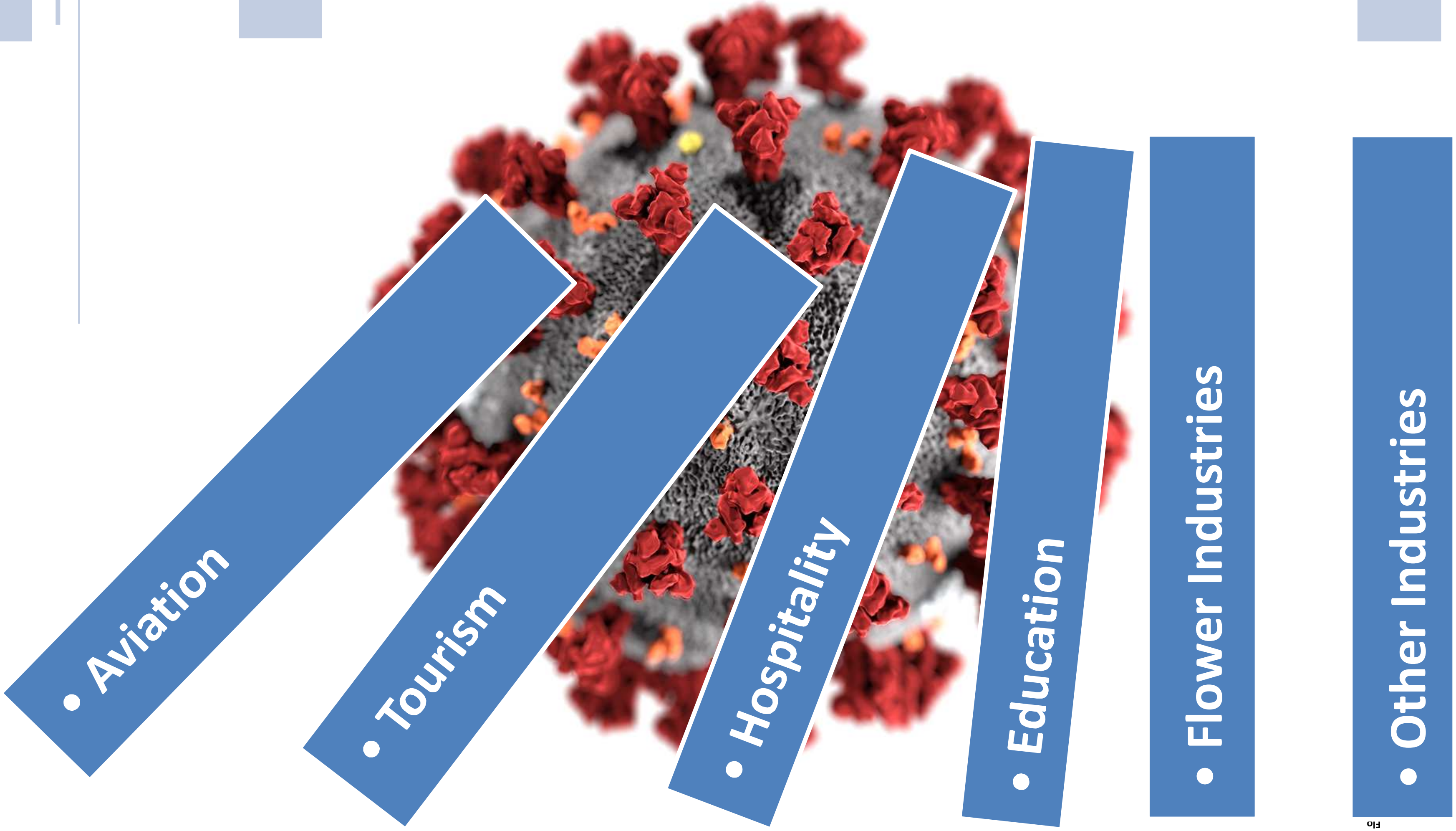
The main difference between these concepts is how the entity treats the effects of changes in prices in assets and liabilities.

Going Concern

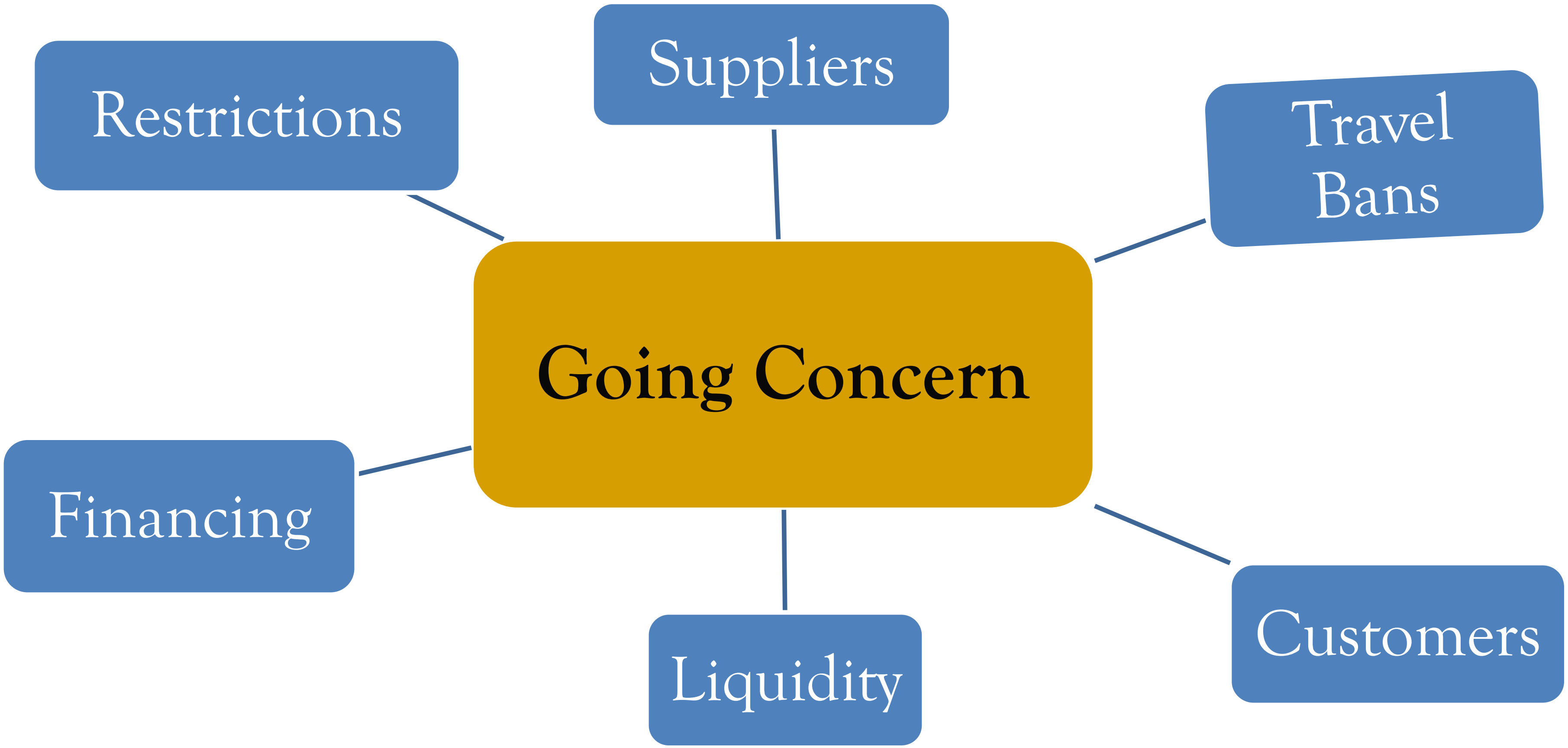
Going concern is one the **fundamental assumptions** in accounting on the basis of which financial statements are prepared.

Financial statements are prepared assuming that a business entity will continue to operate in the **foreseeable future** without the need or intention on the part of management to liquidate the entity or to significantly curtail its operational activities.

Effect of Covid-19



Effect of Covid-19...



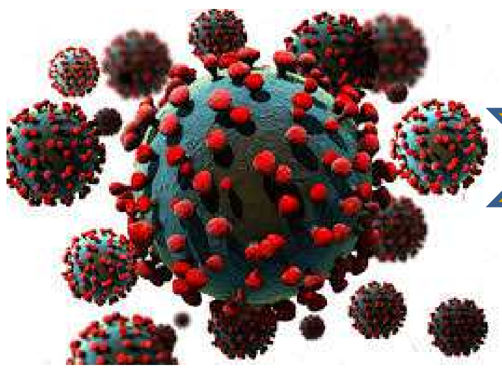
Covid-19 vs Going Concern

Normally, the financial statements are prepared on the ***going concern*** assumption i.e. the reporting entity would be able to survive for the foreseeable future (12 months).

Every stakeholder is interested in the going concern status of the reporting entity including current and potential shareholders, employees, creditors among others.

Going concern assessment and disclosure in the financial reports is therefore paramount for every reporting entity.

Covid-19 vs Going Concern...



Going Concern Assessment

Going Concern

Disclose in the notes about uncertainties and measures

Not Going Concern

Apply a different principle for your financial reports

Covid-19 vs Going Concern...

Reporting under basis other than going concern

IAS 1 *Presentation of financial statements* and IAS 10 *Events After The Reporting Period* suggest that a departure from the going concern basis is required when specified circumstances exist.

Neither Standard provides any details of an alternative basis of preparation and how it may differ from the going concern basis.

Entities will therefore need to develop an appropriate basis of preparation.

Covid-19 vs Going Concern...

Reporting under basis other than going concern...

Liquidation Basis

Sometimes referred to as **break-up basis** of accounting.

It is not defined in IFRS

Assessments;

- Whether the company has sufficient assets to cover its liabilities
- If after all liabilities are settled, there will be some surplus or something left to distribute to shareholders.

Covid-19 vs Going Concern…

Reporting under basis other than going concern…

Liquidation Basis…

- Statement of financial position and the statement of total comprehensive income – will still look almost the same way.
- It is more about the way of looking at individual assets and liabilities, about valuing them and presenting them.

Covid-19 vs Going Concern…

Reporting under basis other than going concern…
Liquidation Basis…

Considerations

- Comply with IFRS even if you are not a going concern
- Non-current assets may become current if they meet the criteria in IFRS 5 *Non-current assets held for sale and discontinued operations*.
- IAS 36 *Impairment of Asset* requires performing the impairment test on tangible assets when there's an indication of impairment. Liquidation may suggest so.

Covid-19 vs Going Concern…

Reporting under basis other than going concern…
Liquidation Basis…

Considerations

- IAS 2 *Inventories*, requires you to carry inventories at lower of cost and net realizable value. At liquidation, it is probable that the net realizable value of inventories might sharply go down.
- It may be need to make certain provisions in line with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as some contracts may become onerous.

Covid-19 vs Going Concern…

Reporting under basis other than going concern…
Liquidation Basis…

Considerations

- Government grants can become repayable if you are not going concern.
- Clearly disclose that the financial statements are not prepared under going concern assumption.

Conclusion

Covid-19 has significantly impacted reporting entities and financial reporting by posing unprecedented business risks and uncertainties. These conditions may cast significant doubt upon some entity's ability to continue as going concerns.

Management must therefore cautiously disclose the extend to which Covid-19 has impacted the reporting entities and the measures taken in a **sensible** and **practical** way.

Users are now **more keen than ever**.
Reporting standards should **be fully complied with.**

The End

Thank you !

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