Recommendations and observations relating to the recognition of the consequences of the Covid-19 event in the financial statements and statements prepared as of 1 January 2020

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Full document

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Introduction

General disclaimer: this document does not create any new rules or obligations, it is only intended to help companies make the most of their accounting practices to effectively manage the economic consequences of the Covid-19 event and communicate transparently with their stakeholders in these unusual circumstances.

On April 2, 2020, the Board of the French Accounting Standards Authority ("ANC") issued a statement on the consequences of the Covid-19 epidemic ("the Covid-19 event") on the financial statements for the year ended 31 December 2019 and undertook to communicate in a second phase on the impacts for the 2020 financial statements. This document is broadly intended to cover this second stage.

ANC's objectives

The health crisis has led to lockdown measures in France and abroad, which have had serious consequences for the economy. Very few companies are not experiencing very considerable changes to their businesses.

The ANC therefore believes that it is its role to support companies in taking into account the consequences of the serious health and economic crisis they are experiencing.

Accounting is both a management and a communication tool. It strives to promote the relevance of the methods used to account for transactions and, through summary statements (balance sheet, income statement, notes), it offers a shared language that provides both transparency and security. The ANC has therefore focused on two areas for analysis and discussion: firstly, the presentation of accounting information and secondly, the methods for recognising transactions.

Presentation of accounting information

The ANC believes that in view of the scale of the crisis, each company should be able to:

- ✓ properly assess the consequences of the Covid-19 event on its 2020 performance and its financial position, particularly with a view to making a distinction between the one-off effects of the crisis and the company's business fundamentals, and therefore provide an exacting basis for the measures to be taken to overcome the difficulties encountered (management objective);
- ✓ have a communication tool that allows for objective, realistic and relevant exchanges with all of its stakeholders (information objective), both for interim accounts and statements required by regulation and for interim statements prepared on a voluntary basis.

An appropriate and proportionate response to these two objectives – both management and information – can help set the stage for the fastest and most significant economic recovery possible.

Against this backdrop, the ANC has focused on:

- ✓ defining the presentation principles to meet these goals;
- ✓ offering simple tools based on the General Chart of Accounts nomenclature, in particular for small and medium-sized enterprises, and drawing on the most commonly used bookkeeping procedures and practices.

Methods for accounting for transactions

In light of the scale of the Covid-19 event, the ANC considered the methods of accounting for its consequences. This process does not involve challenging requirements that are well established and which have legal value for the most part: these retain their full validity and legal force. However, it seems vital to consider how these rules and requirements can be implemented in the current exceptional circumstances. With this in mind, the ANC has therefore endeavoured to examine the issues that arise both in the application of French standards and in the application of international standards (IFRS). The answers provided are different for the two sets of standards:

- ✓ For French standards, the ANC has endeavoured either to issue recommendations for application that aim to provide ways of interpreting existing standards or, when the standards do not sufficiently address a particular issue, put forward ways of taking them into account. These recommendations do not represent a new departure from existing standards and are not binding beyond the existing legal and regulatory texts: they provide supplementing application guidance. The ANC reserves the right to review any changes or additions to the regulations that may be necessary at a later date or at the same time. We note that these recommendations apply to companies' annual financial statements, interim financial statements and, where applicable, their consolidated financial statements prepared in accordance with French standards.

- ✓ For international standards, the ANC has endeavoured to provide simple observations on the application of the standards adopted by the European Union, indicating the issues it has identified and the practices envisaged. It is worth noting that these practices are in no way authoritative: in the event of important questions that go beyond the simple application of jurisdictional provisions, the final answer will depend either on the mechanisms for interpreting IFRS or on the IFRS standard itself. These comments apply to the consolidated financial statements of groups subject to IFRS, either on a mandatory or optional basis.

Recommendations and observations cover the annual, consolidated and interim financial statements that are mandatory according to regulation, as well as interim financial statements prepared on a voluntary basis. The specific provisions relating to mandatory interim financial statements continue to apply.

Conduct of the ANC's work

Against this backdrop, a working group comprising members of the Private Standards Commission and the International Accounting Standards Implementation Forum and led by Mr. Tondeur and Ms. Chorques was set up to provide answers to the questions raised by preparers and accounting professionals regarding accounting for transactions in 2020 and inventory operations (interim or annual closing).

For this project, the ANC departments conducted their work in five stages:

1. identify the issues raised;
2. outline the general background for each issue, in particular with regard to the measures taken by the government;
3. provide a reminder of French and international accounting standards applicable to the matter;
4. recommend implementing measures in accordance with French standards;
5. offer comments on the application of international standards.

This document covers general accounting topics. Specific sector aspects, particularly for credit institutions, insurance companies, asset managers or the non-profit sector may give rise to additional notes.

Structure of the document

This document has two chapters that enable users to read on two different levels:

- ✓ Chapter 1 (brief read) is a **summary** of the questions identified and the answers provided.

- ✓ Chapter 2 (in-depth reading) presents **the detailed analysis** that leads to the answers given, while also providing the legislation in force in an instructional way. This chapter consists of two parts:
    - the first addresses the presentation of information on the effects of the Covid-19 event in the interim, annual or consolidated financial statements closed after 1 January 2020;
    - the second discusses the consequences of the Covid-19 event on the recognition and measurement of assets, liabilities, expenses and income.

In light of the changing nature of the economic crisis, its consequences and the support measures provided to businesses, we view this document as an "evolving document", which may be enhanced in due course if necessary.

References to other papers

In addition, readers may also view other sources of information, which include the following,

At the international level, convergent communications on the application of IFRS 9 in the context of the Covid-19 event:

- from ESMA, March 24, 2020, https://www.esma.europa.eu/press-news/esma-news/esma-issues-guidance-accounting-implications-covid-19;
- from the IASB of March 27, 2020, https://www.ifrs.org/news-and-events/2020/03/application-of-ifrs-9-in-the-light-of-the-coronavirus-uncertainty/;
- ESMA's press release on the half-yearly financial statements [pending publication].

Nationally in France,

- The French financial markets authority AMF press release supported by the ANC on the accounting implications for the calculation of expected credit losses on 7 April 2020 https://www.amf-france.org/en/news-publications/news/covid-19-clarifications-accounting-implications-calculation-expected-credit-losses;
- The AMF press release on the half-yearly financial statements [pending publication];
- Professional accountants may also refer to the internal publications prepared by the *Compagnie des commissaires aux comptes* or French National Company of Auditors (CNCC), which are high-quality informational and educational tools that the ANC has had access to in order to carry out its own work.

Chapter 1 - Summary

		Recommendations for application according to French accounting standards[1]	Comments on the implementation of international accounting standards[2]
1.	**When and how to present relevant information on the consequences of the effects of the Covid-19 event in the accounts and financial statements established as of 1 January 2020?**		
1.1	**Timeliness of accounting information**		
A1	When should information be provided on the consequences of Covid-19?	⇨ Entities that are only required to prepare annual financial statements are recommended to voluntarily draft interim accounts and financial statements that enable them to reasonably measure the impacts of Covid-19, take into account the support measures they have received and present their performances and financial position, at a date they choose.	
1.2	**Information in the accounts and statements prepared as of 1 January 2020**		
	NB: The following recommendations or observations apply both to accounts prepared on a mandatory basis (annual accounts and consolidated accounts for all entities, as well as half-yearly accounts for some of them, consolidated where appropriate, see question A1) and to interim accounts and statements drafted on a voluntary basis. (*see question A1*).		
B1	Should the Covid-19 event be subject to specific information in the accounts and statements drawn up as of 1 January 2020?	⇨ The Covid-19 event and its consequences are a relevant fact that must be highlighted in the accounts and statements drawn up as of 1 January 2020.	
B2	In which document should this information be presented in the financial accounts and statements drawn up as of 1 January 2020, and which general principles should be followed?	⇨ Relevant information on the effects of the Covid-19 event should be included in the notes to the financial statements and interim financial statements. ⇨ The information provided must be complete and unbiased, faithfully represent the situation, allow a relevant analysis of the gross and net impacts and be presented in a transparent manner, particularly as regards breakdowns, estimates and possible uncertainties.	

1 ANC Regulation 2014-03 relating to the General Chart of Accounts and CRC Regulation 99-02 relating to the consolidated financial statements.

2 IFRS as adopted by the European Union.

<table>
<tr><th colspan="2"></th><th>Recommendations for application according to French accounting standards[1]</th><th>Comments on the implementation of international accounting standards[2]</th></tr>
<tr><td></td><td></td><td colspan="2"></td></tr>
<tr><td>B3</td><td>How should information be outlined in financial and accounting information as compared with the management report?</td><td colspan="2">⇨ The ANC emphasises the complementary nature of the management report (or other financial communications where appropriate) and the accounts and statements established. Relevant information on the financial and accounting consequences of the Covid-19 event is an integral part of the financial accounts and statements prepared and is generally a reference point for the often more extensive management comments that are presented elsewhere.</td></tr>
<tr><td>B4</td><td>What are the procedures for drafting information provided in the notes to the financial statements covering the Covid-19 event’s effects on the income statement?</td><td colspan="2">⇨ The ANC recommends two alternative approaches: the targeted approach or the comprehensive approach. The first presents the main impacts deemed relevant, while the second focuses on presenting all the impacts, their interactions and their impact on the usual aggregates.</td></tr>
<tr><td>B5</td><td>What are the methods for determining the effects of the Covid-19 event on the entity's balance sheet?</td><td colspan="2">⇨ The effects of the Covid-19 event on the entity's balance sheet are reflected in the notes to the financial statements using either a targeted approach or an overall approach, with detailed procedures referring to those presented in question B4 for the income statement.</td></tr>
<tr><td>B6.A</td><td>Can the income and expenses related to the Covid-19 event be recorded as extraordinary (or non-recurring) income or expenses?</td><td>⇨ Using the extraordinary income (annual accounts) or non-recurring income (consolidated accounts) sections to systematically reflect the consequences of the Covid-19 event is not recommended. Consequently, it is preferable to give preference to a presentation in the notes to the financial statements.
⇨ Entities continue their previous practice of only booking income and expense usually included in the extraordinary or non-recurring items to these sections.</td><td>⇨ The conditions for classification outside recurring operating income as part of the application of ANC Recommendation no. 2020-01[1] do not change. Entities continue their previous practice of using non-recurring items.</td></tr>
<tr><td>B6.B</td><td>Can information relating to the consequences of the Covid-19 event be provided</td><td colspan="2">⇨ Entities are not recommended to disclose, beyond the information given in the notes to the financial statements, the impacts of the Covid-19 event in their income statement and/or balance sheet.</td></tr>
</table>

[1] ANC Recommendation 2020-01 of 6 March 2020 on the format of the consolidated financial statements of companies prepared in accordance with international accounting standards (excluding banking and insurance institutions).

		Recommendations for application according to French accounting standards[1]	Comments on the implementation of international accounting standards[2]
	directly on the balance sheet and/or the income statement?		
B7	Are there standard formats that can be used to present the figures in the notes?	⇨ Standard formats based on the General Chart of Accounts nomenclature and standard formats are available for entities that wish to use them, particularly small and medium-sized enterprises. *See proposed standard formats in Appendices 1.A (income statement) and 1.B (balance sheet) of Part 1.*	⇨ The standard formats proposed for presenting quantified information in the notes to the financial statements and statements drawn up in accordance with French accounting standards may be adapted for financial statements and statements drawn up in accordance with international accounting standards.
B8	When an entity is no longer a going concern, what basis should it use to prepare its accounts?	⇨ When an entity's status as a going concern is irremediably compromised, all the consequences of a liquidation or cessation of trading are taken into account. The accounts are drawn up on the basis of net asset values. The valuation and presentation methods used by the entity are set out in the notes to the financial statements.	⇨ An entity that does not prepare financial statements on a going concern basis discloses the basis on which the financial statements were prepared and the reason why the entity is not regarded as a going concern (IAS 1.25).
B9	Under what circumstances should going concern information be disclosed in the notes to the financial statements?	⇨ If there is significant uncertainty over the entity's ability to continue as a going concern, disclosure is provided in the notes. In view of the overall prevailing uncertainty, information should be balanced by making assumptions that are neither solely pessimistic nor solely optimistic.	

<table>
<tr><th colspan="2"></th><th>Recommendations for application according to French accounting standards[1]</th><th>Comments on the implementation of international accounting standards[2]</th></tr>
<tr><td colspan="4">2. What are the consequences of the Covid-19 event on the recognition and measurement of assets, liabilities, income and expenses?</td></tr>
<tr><td colspan="4">2.1 Implications for the valuation of assets</td></tr>
<tr><td colspan="4">2.1.1 Impairment tests on intangible fixed assets and property, plant and equipment</td></tr>
<tr><td>C1</td><td>Is the Covid-19 event to be considered as an indication of impairment?</td><td colspan="2">⇨ The Covid-19 event alone is not an indication of impairment. The existence of an indication of impairment is confirmed only after a review of the entity's specific features.</td></tr>
<tr><td rowspan="2">C2</td><td rowspan="2">How can the recoverable amount of an asset or group of assets be determined in the current circumstances, which are characterised by a high degree of uncertainty?</td><td colspan="2">⇨ The scope of the impairment test should be consistent with the risk factors identified. Given the circumstances, the entity endeavours to base its decision on the reliable information available to it.
⇨ When there is a high degree of uncertainty on the prospects that may underlie the scenarios used for impairment testing, as may be the case in the context of the Covid-19 event, the entity will clearly indicate the elements it believes justify an informed decision to impair or not to impair and, where applicable, the amount of the impairment recognised. It will also indicate the remaining uncertainties and the results of any sensitivity analyses that may be available to it.</td></tr>
<tr><td>⇨ Impairment of assets recorded for the interim period, and in particular those recorded on goodwill and intangible goodwill, are not definitive and an analysis must be carried out at the end of the financial year.</td><td>⇨ Impairment losses on goodwill cannot be reversed.</td></tr>
<tr><td colspan="4">2.1.2 Depreciation of intangible fixed assets, property, plant and equipment</td></tr>
<tr><td>D1</td><td>In the event of a cessation of activity, can the depreciation of intangible fixed assets, property, plant and equipment be discontinued?</td><td colspan="2">⇨ In the event of a cessation of activity, unless depreciation is based on a number of units of production, the depreciation of intangible fixed assets, property, plant and equipment may not be discontinued during the non-use of the assets concerned or reduced in view of reduced use of the assets concerned.</td></tr>
<tr><td colspan="4">2.1.3 Financial assets</td></tr>
</table>

E1	How should the inventory value of financial assets be measured?	⇨ The methods of impairment of financial assets differ according to the accounting categories. Where applicable, the effects of the Covid-19 event are taken into account to determine the amount of any impairment. ⇨ When the inventory value of financial assets is assessed on the basis of cash flow projections, these cash flows are built on reasonable and consistent assumptions.	⇨ Except in exceptional situations involving a change in business model, the valuation method for financial instruments is not changed.
2.1.4 Inventories (valuation and write-downs)			
F1	What are the consequences of a drop in the level of production on the measurement of the production cost of inventories?	⇨ A decrease in the level of production (under-activity) is not taken into account in the measurement of the cost of production of inventories.	
F2	How can the net realisable value of inventories be assessed in the presence of uncertainties on prices and short-term sales prospects?	⇨ The extent of the work to analyse the value of inventories should be consistent with the risk factors identified. Given the circumstances, the entity endeavours to base its decision on the reliable information available to it. ⇨ The entity shall clearly state the elements that it uses to justify an informed decision to write down or not and, where applicable, the amount of the writedown recognised. The entity shall also disclose the remaining uncertainties and the results of any sensitivity analyses that may be available to it.	⇨ There is no provision for being unable to draft an estimate of the net realisable value of inventories.

1 ANC Regulation 2014-03 relating to the general chart of accounts and CRC Regulation 99-02 relating to the consolidated financial statements.

2 IFRS as adopted by the European Union.

2.1.5 Receivables			
G1	Which receivables should be considered doubtful?	⇨ A delay in payment related to the general circumstances surrounding the Covid-19 event is not in itself a criterion for a deterioration in credit risk, which is based on the specific features of the debtors concerned.	⇨ Credit risk deterioration based on late payments can be refuted on the basis of the specific features of the debtors concerned.
G2	How should impairment losses on trade receivables be measured at the end of the reporting period?	⇨ The Covid-19 event may lead to reconsideration of the list of all events – and in particular support measures and medium-term prospects – that trigger a deterioration in a client's solvency.	⇨ Given the existence of support measures, payment holidays or moratoria or the granting of additional loans are not in themselves an indicator of impairment of trade receivables.
G3	How should deferred tax receivables be measured?	⇨ Where the recovery of deferred tax receivables depends on future results, such receivables will only be booked as assets if the entity is likely to recover them as a result of an expected profit. As outlined in CRC Regulation 99-02, it is presumed that such a profit will not exist when the entity has incurred losses during the last two financial years.	⇨ For deferred tax assets not offset against taxable differences, the entity must ensure that they still meet the conditions set out in IAS 12.29.
2.2 Implications for the recognition and measurement of liabilities			
2.2.1 Impact on debts			
H1	In which accounting category should state-guaranteed loans be classified?	⇨ On subscription, the state-guaranteed loan is recorded as a loan from credit institutions (account 164). ⇨ It is mentioned in the notes as a debt due in more than one year unless the entity has decided not to request amortisation over an additional period.	⇨ On subscription, the state-guaranteed loan is classified as a non-current liability. ⇨ At the end of the reporting period, if the entity has decided not to seek amortisation over an additional period, the entity classifies the current portion of the loan as a current liability.
H2	What is the accounting policy for the cost of guaranteeing state-guaranteed loans?	⇨ Only the cost of the guarantee for a 12-month loan is initially expensed. The additional potential cost related to the cost of the guarantee will be expensed when the borrower exercises its option to repay the loan over an additional period. ⇨ These costs are expensed to each fiscal year.	⇨ Question being processed.
H3		⇨ Rescheduling or deferring the settlement of a tax or social security debt does not change the nature of this debt and therefore has no effect on its initial recognition or amount.	

	What is the accounting policy for rescheduling and deferring tax and social security debts?		⇨ Depending on the nature of the debt, its rescheduling or deferral could result in the discounting of the amount due, if the effect is significant.
H4	What is the accounting policy for trade debt rescheduling and deferrals?	⇨ Rescheduling or deferring the settlement of trade debt does not change the nature of this debt and therefore has no effect on its initial recognition or amount.	⇨ Rescheduling or deferring the settlement of trade debt could result in the discounting of the amount due, if the effect is significant.
H5	What is the accounting policy for debt write-offs?	⇨ A debt that has been written off is derecognised from the entity's balance sheet.	
		⇨ When a debt is cancelled but with a "better fortunes" clause, the entity recognises the return to better fortunes upon the occurrence of the triggering event provided for in the contractual clauses.	⇨ When a debt is cancelled but with a "better fortunes" clause, a new debt is recorded on the entity's balance sheet at its fair value, taking into account the uncertain nature of its repayment.
H6	What is the accounting policy for deferred repayment of financial debt?	⇨ Steps taken by banks to allow debt repayments to be deferred for up to six months have no effect on the presentation of the debts in question on the entity's balance sheet.	⇨ The simple deferral of debt repayments for up to six months will be considered as a change in debt that does not result in its derecognition in the majority of cases.
H7	What is the accounting policy for financial debts that have become payable as a result of the application of bank covenants?	⇨ In the event of a breach of covenant at the end of the reporting period, the debt is reclassified in its entirety as current in the statement of debt maturities. ⇨ In the event of a breach of covenant at the end of the reporting period making the debt payable at that date, but having been renegotiated prior to this closing date, there is no need to reclassify the debt. ⇨ In the event of a breach of covenant between the end of the reporting period and the date of preparation of the financial statements, this is a post-closing event that must be disclosed in the notes to the financial statements.	⇨ In the event of a breach of covenant at the end of the reporting period, the non-current liability is reclassified to current liabilities. ⇨ If the breach of the covenant occurs between the end of the reporting period and the date of preparation of the financial statements, it is a post-closing event that must be disclosed in the notes to the financial statements.
2.2.2 Impact on provisions			
I1	Can provisions be recognised for future operating losses?	⇨ Provisions cannot be recognised for future operating losses.	
I2	Under what circumstances is a provision for contract loss recognised?	⇨ A provision must be recognised for a loss on a contract when the conditions for recognising a liability are met.	⇨ The Covid-19 event does not change the conditions for recognising or the methods for measuring provisions for onerous contracts.

I3	Under what circumstances is a provision for restructuring recognised?	⇨ A provision for restructuring should be recognised when the entity has an obligation to third parties arising from a decision taken by the competent body, evidenced before the end of the reporting period by the announcement of this decision to the third parties concerned, and up to the amount of the costs for which the entity no longer expects consideration from the third parties.	⇨ There are two main conditions required to recognise a restructuring provision: ✓ Existence of a formalised and detailed restructuring plan; ✓ And the entity has created a well-founded expectation that the restructuring will be implemented.
I4	What disclosures are required in the absence of a reliable measurement of a liability?	⇨ In the exceptional (according to French accounting standards) or extremely rare (according to international accounting standards) case where no reliable assessment of the amount of the obligation can be made, the liability is not recognised. ⇨ Information on this contingent liability is provided in the notes to the financial statements.	
2.3 Implications for income recognition and measurement			
J1	What is the accounting policy for grants for part-time working job retention schemes?	⇨ The ANC recommends that this grant be credited to a payroll expenses account.	⇨ The grant received for the part-time working job retention scheme is considered a grant as defined by IAS 20.
J2	What is the accounting policy for the solidarity fund for very small businesses, micro-enterprises and the self-employed?	⇨ The ANC recommends recording this assistance as an operating subsidy (account 74).	*In view of the scope of this aid, the entities concerned do not draw up consolidated accounts.*
J3	What is the accounting policy for tax credit and VAT prepayments?	⇨ In most cases, the early repayment of a tax and VAT credit has no impact on the income statement.	
J4	What is the accounting policy for addressing changes in contracts – total or partial cancellation, price reduction, discount – resulting from the effects of Covid-19 for the seller?	⇨ When the discount is shown on the invoice, the revenue is posted for the net amount, less the discount. ⇨ When the discount is not included in the invoice, said discount is debited to account 709. ⇨ These contract amendments are to be applied to the accounting period in which the discount was granted.	⇨ Depending on whether the changes in the components of the contract result from a contract amendment or from the resolution of uncertainty relating to variable consideration, the impact may have to be recognised either prospectively or immediately in profit or loss, with cumulative catch-up effects.

J5	What is the accounting policy for rent reductions by the lessor?	⇨ When the rent reduction relates to income already recorded, the reduction is recorded as a debit to account 709. ⇨ When the rent reduction is entered on the rent invoice, the net amount of income minus the reduction, is recorded. ⇨ These rent reductions are to be assigned to the appropriate accounting period.	⇨ The analysis should be conducted based on the classification of the contract and whether or not the adjustments result from an amendment to the contract.
J6	How should debt write-offs be presented on the income statement of the entity granting the waiver?	⇨ For the entity that grants the waiver, it is either a reduction in revenue or an expense. <u>Cancellation of an operating receivable</u> ⇨ When a credit memo has been issued, the offsetting entry for the cancellation of the receivable is debited to account 709. ⇨ When the write-off has been evidenced by agreement, the consideration for the write-off of the receivable is debited to account 658. <u>Cancellation of financial debt</u> ⇨ The write-off of receivables is debited to account 668 "Other financial expenses".	⇨ For entities preparing their consolidated financial statements in accordance with ANC Recommendation no. 2020-01, when the receivable relates to income included in recurring operating income, the expense should be recorded before this subtotal. When the receivable has been classified as a financial asset, the expense is recorded under "Other financial expenses".
2.4 Implications for expense recognition and measurement			
K1	What is the accounting policy for expense deferrals?	⇨ Deferring the payment of an accrued liability does not affect the recognition of expenses.	
K2	What is the accounting policy for discounts or rent concessions granted?	⇨ When the discount relates to an expense already recorded, it is credited to account 609 (or 619, 629 depending on its nature). ⇨ When the discount is applied to the invoice, the expense is recorded for the net amount, less the discount. ⇨ Given the nature of the benefits granted by the seller and the contractual terms, the entity assigns these benefits to the appropriate accounting period.	⇨ For entities preparing their consolidated financial statements in accordance with ANC Recommendation 2020-01[1], when the debt is related to an expense recorded in recurring operating result, the income should be recorded before this subtotal. ⇨ For leases, an amendment has been proposed by the IASB. The ANC would like it to be applicable to interim financial statements as well as financial

[1] ANC Recommendation 2020-01 of 6 March 2020 on the format of the consolidated financial statements of companies prepared in accordance with international accounting standards (excluding banking and insurance institutions).

			statements for fiscal years ending in the short term, particularly those ending on 30 June 2020.
K3	What is the accounting policy for write-offs of receivables at the beneficiary?	<u>Cancellation of an operating debt</u> ⇨ When a credit memo has been issued, an offsetting entry for the cancellation of the debt is recorded as appropriate in accounts 609, 619, or 629. ⇨ When the debt forgiveness has been evidenced by an agreement, an offsetting entry for the cancellation of the debt is credited to account 758. <u>Financial debt write-offs</u> ⇨ The ANC recommends crediting these write-offs to account 768.	⇨ For entities preparing their consolidated financial statements in accordance with ANC Recommendation no. 2020-01, when the debt is related to an expense recorded in recurring operating result, the income should be recorded before this subtotal. When the debt has been classified as “financial debt”, the income is recorded in the line item "Other financial income".

Chapter 2 - Detailed Analysis

1 When and how to present relevant information on the consequences of the effects of the Covid-19 event in the accounts and financial statements established as of 1 January 2020?

1.1 Timeliness of accounting information

Question A1: When should information be provided on the consequences of Covid-19?

General background

The Covid-19 event is likely to have a significant impact on an entity's assets and liabilities, financial position and results. The ANC believes that timeliness is a crucial quality of accounting information: if it is prepared in a timely manner and is likely to be shared within the same timeframe, relevant accounting information on the impacts of the crisis is a key aspect of both good management and proper information for the recipients of the financial statements. Relevant accounting information on these impacts provides a vital contribution to the general economic recovery pursued, and also plays a key role in promoting the best possible upturn for each individual company.

The ANC believes that three situations should be singled out:

- ✓ Annual and, where applicable, consolidated financial statements, which are mandatory (situation 1);
- ✓ Half-yearly and, where applicable, consolidated financial statements, which are also mandatory (situation 2);
- ✓ Interim accounts and statements, which are optional (situation 3).

Reminder of standards

The date when annual and, where applicable, consolidated financial statements are drawn up is generally dependent on the date of the shareholder meeting, which is set by the French Commercial Code no later than six months after the end of the financial year (Article L. 225-100 of the French Commercial Code). Companies listed on a regulated market must comply with a shorter deadline of no more than four months after the end of the financial year, as set out in the French Monetary and Financial Code (Article L. 451-1-2 I).

In addition, certain entities are required to publish a half-yearly financial report including full or condensed half-yearly financial statements (Article L. 451-1-2 III of the French Monetary and Financial Code) three months after the end of the half-year period.

French accounting standards	International Accounting Standards[1]
Without specifying its scope of application, CNC (French National Accounting Board before ANC, or *Conseil national de la comptabilité*) Recommendation No. 99.R.01 of 18 March 1999 on interim accounts deems that the publication of reliable interim accounts is an important aspect of proper financial information. They enable investors, creditors and other users of the information to better understand the company's ability to generate cash flow, and help these readers assess its financial position.	The IASB's conceptual framework, which is not one of the endorsed standards, cites timeliness as one of the qualities of accounting information: "Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. (..)" (QC 29). IAS 34, Interim Financial Reporting, is intended to prescribe the minimum content of an interim financial report and the recognition and measurement principles to be applied to the full or condensed financial statements for an interim period. **IAS 34.8** An interim financial report shall include, at a minimum, the following components: (a) a condensed statement of financial position; (b) a condensed statement or condensed statements of profit or loss and other comprehensive income; (c) condensed statement of changes in equity; (d) a condensed statement of cash flows; and (e) selected explanatory notes.

Recommendations for application according to French accounting standards

Currently applicable regulation requires mandatory accounting information each year as part of the provisions relating to the end of the financial year (situation 1). This yearly event is the opportune moment for relevant information to be provided, in accordance with the conditions outlined below. However, this timeframe does not fully address the need for timely accounting information, which is appropriate in the current crisis. The ANC has therefore considered the question of interim accounting information.

For entities subject to mandatory half-yearly financial statement requirements (situation 2), the timetable involves drafting and publishing relevant accounting information in an appropriate manner with regards to timing in light of the current circumstances, as:

- ✓ entities with a financial year that coincides with the calendar year shall publish their half-yearly accounts by 30 September at the latest;
- ✓ other entities will also publish their accounts for the financial year and/or the half-year by 30 September at the latest.

[1] IFRS standards as adopted by the European Union

Some entities also publish non-mandatory quarterly accounting information.

The ANC has therefore more particularly looked into the timetable for entities that are only subject to yearly reporting obligations (situation 3), and notes that:

- ✓ no mandatory accounting information will be available by 30 September 2020 – bar entities whose financial year ends during the first quarter of the calendar year – and further notes that this information will only take into account a limited portion of the Covid-19 effects;
- ✓ for other entities and as a general rule, no mandatory accounting information will be available within a timeframe that would address the aforementioned objectives. By way of illustration, entities whose financial year coincides with the calendar year will report mandatory accounting information in the second quarter of 2021.

Consequently and in light of the extensive consequences resulting from the Covid-19 event on companies' performances and financial positions, **the ANC recommends that entities concerned draw up interim accounts on a voluntary basis (situation 3):** these should draw on a shared accounting basis in order to support companies to recover as effectively as possible. This would also help companies' governing bodies and the recipients of their financial information assess the impact of this event on the financial position, assets and liabilities, and results of each entity.

Application of this recommendation as well as the choice of the reference date used are left to the judgement of bodies in charge of each entity's administration. For the purposes of relevance and usefulness, the ANC believes that the reference date may be based on a time when the entity has reasonable visibility on its future business conditions and when it believes that the most substantial effects of the crisis have passed. With this in mind, a reference date in the third quarter of 2020 could be used in several cases.

Comments on the implementation of international accounting standards

It is key to bear in mind the importance of the principle of timeliness, but this must be combined in a balanced way with the other quality principles, in particular the principles of relevance and reliability.

Answer A1: Entities that are only required to prepare annual financial statements are recommended to voluntarily draft interim accounts and financial statements that enable them to reasonably measure the impacts of Covid-19, take into account the support measures they have received and present their performances and financial position, at a date they choose.

1.2 Information in the accounts and statements prepared as of 1 January 2020

NB: The following recommendations or observations apply both to accounts prepared on a mandatory basis (annual accounts and consolidated accounts for all entities, as well as half-yearly accounts for some of them, consolidated where appropriate, see question A1) and to interim accounts and statements drafted on a voluntary basis. The ANC is aware that simplified account closing procedures can be used in practice for voluntary statements without distorting the quality of accounting information, particularly for small and medium-sized companies reporting on a voluntary basis.

Question B1: Should the Covid-19 event be subject to specific information in the accounts and statements drawn up as of 1 January 2020?

General background

Covid-19 is likely to have a significant impact on entities' assets and liabilities, financial position and results. Relevant accounting information on these impacts is a key element of the financial statements for the period in question.

Reminder of standards

French accounting standards	International Accounting Standards
Article 810-1 of the PCG (*Plan Comptable Général*) or French General Chart of Accounts[1] states that "the summary documents, which necessarily include the balance sheet, the income statement and notes, shall highlight any relevant facts, i.e. information likely to influence the judgement that their addressees may have on the assets and liabilities, financial situation and results of the entity and on the decisions that they may take".	IAS 1.9 states that Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statement disclosures, together with other note disclosures, users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

[1] ANC Regulation No. 2014-03 on the General Chart of Accounts

Recommendations for application according to French accounting standards

This is a significant event and its consequences on financial reporting are likely to influence the recipients' assessment of entities' assets and liabilities, financial position and results, as well as the decisions users of the information may take, so the accounts and statements drawn up as of 1 January 2020 are expected to provide specific information on this event, insofar as it has significant consequences for the entity in question.

The Covid-19 event is undeniably a "relevant fact" in principle, as defined in Article 810-1 of the French General Chart of Accounts, and its impact must be outlined. Given the widespread nature of the crisis, any entities that feel that the event has no significant impact on its accounts should mention and explain this.

Comments on the implementation of international accounting standards

There are no differences in application between French and international accounting standards.

Answer B1: The Covid-19 event and its consequences are a relevant fact that must be highlighted in the accounts and statements established as of 1 January 2020.

Question B2: In which document should this information be presented in the financial accounts and statements drawn up as of 1 January 2020, and which general principles should be followed?

General background

Information on the consequences of the Covid-19 outbreak on the financial position, assets and liabilities, and results must be provided in the annual accounts, the consolidated accounts and the voluntary or mandatory interim accounts and statements (see question B1).

Reminder of standards

French accounting standards	International Accounting Standards
According to European Directive 2013/34/EU, the notes to the financial statements have the role of providing additional information to the balance sheet and income statement. "The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements." (Article 4.3).	IAS 1.112 gives the notes three roles: (a) present information about the basis of preparation of the financial statements and the specific accounting policies ; (b) disclose the information required by IFRSs that is not presented elsewhere in the financial statements; and (c) provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.

It also requires all entities to disclose in the notes to the accounts the amount and nature of items of income or expenditure that are of extraordinary size or incidence (point f of Article 16(1)). According to the French Commercial Code, the role of the notes to the financial statements is to supplement and comment on the information provided in the balance sheet and income statement (Article L. 123-13). Article 112-4 of the General Chart of Accounts states that "the notes to the financial statements shall supplement and comment on the information given in the balance sheet and income statement. The notes to the financial statements include all material information intended to supplement and comment on the information given in the balance sheet and income statement. An entry in the notes to the accounts cannot replace an entry in the balance sheet and income statement." Section 420 of CRC Regulation 99-02 on consolidated financial statements states that "the notes to the consolidated financial statements must include all material information enabling users of the consolidated financial statements to assess the assets and liabilities, financial position and results of the consolidated group of companies". These provisions are included in ANC Regulation 2020-01, which is currently being approved.	

Recommendations for application according to French accounting standards

In application of French regulations, the ANC firstly reminds readers that the consequences of the Covid-19 event must be properly recorded in the summary statements. This information must be recorded in accordance with applicable regulation as informed by the recommendations and observations in this document (see part 2).

In addition to the appropriate entries on the balance sheet and income statement, the ANC believes that relevant information on the consequences of Covid-19 on entities' financial position, assets and liabilities, and results should be provided in the notes to the financial statements. It notes in this respect that the nature of this information – which is both quantitative and narrative – lends itself to discussion in this section of the summary documents, and that the impacts are likely to affect all balance sheet and income statement items: information methods should thus be adopted that help provide recipients with a clear understanding of the accounting information, which is exactly the role of notes to the financial statements.

The notes will therefore provide appropriate information on the impact of this event on both the income statement and the balance sheet.

The ANC particularly emphasises the following four general principles for drafting reporting information to ensure that the information provided is relevant:

- ✓ *Completeness.* All significant impacts must be identified and presented, regardless of whether they are negative or positive. The information provided should be unbiased.

- ✓ *Faithful representation.* The information must describe the effects in a regular and sincere manner. Judgement is required when drafting this information in a number of regards, although such discernment is not restricted to these circumstances, but in this case it may need to be applied in a particularly uncertain context. General recommendations on the exercise of judgement therefore apply.

- ✓ *Analytical relevance.* Entities are recommended to single out the gross impacts of the crisis from the impacts of support measures that the entity received, with the aim of providing a relevant analysis. An aggregated net impact alone does not appear sufficient to describe the situation to a satisfactory degree and in particular it does not afford the retrospective information outlined its generally recognised partly predictive role. It is particularly important for recipients of the information to be in a position to assess entities' profitability and financial position: this requires the various impacts of the crisis and their – likely partial – coverage by support measures to be singled out.

- ✓ *Methodological clarity.* The approach taken to drawing up this information involves identifying the effects of the Covid-19 event in the financial statements. In some cases, this process involves breaking down elements or providing estimates, and the details of this approach must be described in a transparent manner.

If this event does not have a material impact on an entity's financial position, assets and liabilities, and results, the entity should explicitly mention and explain this in the notes to the financial statements.

Comments on the implementation of international accounting standards

There are no differences in application between French and international accounting standards.

Answer B2: Relevant information on the effects of the Covid-19 event should be included in the notes to the financial accounts and statements. The information provided must be complete and unbiased, faithfully represent the situation, allow a relevant analysis of the gross and net impacts and be presented in a transparent manner, particularly as regards breakdowns, estimates and possible uncertainties.

Question B3: How should information be outlined in financial and accounting information as compared with the management report?

General background

The magnitude of the various types of consequences resulting from Covid-19 will probably mean that entities will provide information on their situation and any changes in their circumstances on various levels. Financial and accounting information is only one aspect of this communication, and companies' reporting will also cover many other aspects of their overall situation.

Recommendations for application according to French accounting standards

The ANC notes that the accounts and the management report are designed to address different but dovetailing information goals. Additionally, accounts and statements drawn up on a voluntary basis do not necessarily include a management report. It also notes that the two documents address different audit requirements.

Against this backdrop, the ANC stresses that there can be no substitution between accounts and statements on the one hand and the management report or, where appropriate, financial communications on the other. Relevant financial and accounting information on the consequences of Covid-19 is an integral part of the financial accounts and statements drafted, and it is the responsibility of managers at each entity to provide all necessary additional comments – strategy, risks and opportunities, forward-looking information, etc. – in the management report or in other financial communications where applicable. The overarching aim here is to provide complementary information while ensuring the overall consistency of these various documents. Accounting information provides a retrospective reference point, and acts as a basis for entities to develop their management communication in a consistent manner – management report and other financial communications – with the aim of offering other fundamental insights, particularly on strategy, action plans, outlook, etc.

Comments on the implementation of international accounting standards

The contents of the management report are governed by French corporate law. International accounting standards address this subject in a practice statement that is not approved under European law.

Answer B3: The ANC emphasises the complementary nature of the management report (or other financial communications where appropriate) and the accounts and statements established. Relevant information on the financial and accounting consequences of the Covid-19 event is an integral part of the financial accounts and statements prepared and is generally a reference point for the often more extensive management comments that are presented elsewhere.

Question B4: What are the procedures for drafting information provided in the notes to the financial statements covering the Covid-19 event's effects on the income statement?

General background

For a large number of entities, the Covid-19 outbreak has had a significant impact on performance. These effects are likely to make the financial statements difficult to interpret, and relevant information on the event should therefore be mentioned in the notes to the financial statements.

Reminder of standards

French accounting standards	International Accounting Standards
There are no provisions in French and international accounting standards.	

Recommendations for application according to French accounting standards

The ANC recommends two alternative approaches on establishing information to be included in the notes to the financial statements (see question B2) regarding the Covid-19 event's effects on the income statement: either a targeted approach or a comprehensive approach. Each entity shall clearly state which option it chooses in order to avoid any possibly ambiguous interpretation.

Regardless of the option selected, the following steps are recommended:

- ✓ Step 1: prepare the income statement in accordance with the rules applicable to the preparation of the financial accounts and statements concerned (annual and/or consolidated financial statements, half-yearly – consolidated if applicable – financial statements, and interim financial statements drawn up on a chosen reference date), with particular reference to the specific recommendations on the recognition date of each transaction, how it is measured and classified from an accounting perspective (see part 2);

- ✓ Step 2: identify the impact related to Covid-19 for each item of the income statement included and according to the option chosen, preferably providing a distinction between gross impacts, impacts resulting from support measures and net impacts;

- ✓ Step 3: draft the corresponding notes to present the information depending on the selected option.

Targeted approach

In this case, the entity in question endeavours to provide information on the main impacts of the event that are recorded in the accounts. This approach is particularly appropriate when:

- ✓ there is a great deal of uncertainty, in particular as the event is quite recent, thereby making a comprehensive approach difficult;
- ✓ it is difficult to measure the impact of the event in relation to an easily usable reference point for the various items of income and expense;
- ✓ there are complex interactions between impacts on income and effects on expense, in particular in terms of assumptions and judgements, and these are therefore difficult to reconcile;
- ✓ the entity also seeks to prioritise targeted communication.

Where the entity chooses a targeted approach, it is preferable that:

- ✓ the information provided in the notes be consistent with information provided in other media overall;
- ✓ it be clearly stated that the information relates to some of the Covid-19 event's effects on the income statement that are considered relevant, and not to all of them;
- ✓ no overall conclusion on the usual aggregates, and in particular the result, be expressed in the notes or in other documents or media, in order to avoid any ambiguity vis-à-vis the information recipients.

In step 2 mentioned above, the relevant impacts should be determined by considering their contribution to an understanding of the entity's performance during the period. This targeted approach should cover at least the following specific areas for focus:

- ✓ impacts of the event on sales of goods, products and services;
- ✓ impacts of the event on expenses and other income for items that are directly related to the event and that would not have been incurred or recognised had the event not occurred. These include, among others: costs to protect and secure the entity and its employees and partners, restructuring costs, impairment losses and provisions recognised on certain assets and/or liabilities (intangible assets, property, plant and equipment, inventories, trade receivables, litigation, etc.), support measures (compensation for short-time working job retention schemes, reduction in social security contributions, subsidies or other aid, debt write-offs, etc.).

For step 3, it is advisable to:

- ✓ briefly describe the particular conditions of the entity's business;
- ✓ clearly indicate that a targeted approach has been chosen and specify the methodology followed and any uncertainties affecting it;
- ✓ present figures on the specific points for focus selected.

Comprehensive approach

In this case, the entity in question strives to provide an overall view of its performance by identifying and measuring all impacts on income and expenses, and taking into consideration the interactions between these aspects with the aim of providing consistency overall. This approach is particularly suitable when:

- ✓ the entity believes that the degree of visibility on its business conditions and/or the amount of distance it has following the event mean that it can reasonably estimate the impacts of the event using a comprehensive approach;
- ✓ there is a sufficiently objective and justifiable available reference point, and it can be specified;
- ✓ the entity can consistently set out the various effects observed, taking into account the ways in which they interact;
- ✓ the entity wishes to focus its communications on the impact of the event's effects on its usual performance aggregates, particularly figures relating to profit or loss.

The ANC realises that the comprehensive approach can potentially be complex, but believes that it can also be relevant in terms of both management and information. In this context, it is preferable that:

- ✓ the information provided in the notes to the financial statements be consistent with the information provided in other media broadly speaking, since the information in the notes to the financial statements provides a "retrospective accounting base" that is a starting point for other related developments;
- ✓ the assumptions used be presented clearly and completely given the importance of exercising judgement when conducting this process.

For step 2 mentioned above, the entity should endeavour to identify and measure all impacts on all income and expense items and take into account the interactions between them by adopting a consistent approach. Entities can take on board the procedures outlined for the purposes of guidance, in addition to the standard formats in Appendix 1-A of this document. More broadly speaking, entities can also draw on standard practices relating to analytical accounting, management accounting systems, preparation of sector information or preparation of pro forma accounts or information.

For Step 3, the notes to the financial statements should be organised on the basis of the following indicative plan:

- ✓ Brief description of the operating conditions during the period and the effects of the event:
  The sole purpose of these narrative developments is to provide some insight into the figures presented, and the description should be restricted to the essential information required for properly understanding the figures. This information does not replace any potential comments provided in the management report or other financial communications.

- ✓ Description of the methodology adopted:
  Reference may be made to the ANC's recommendations. It is also useful to outline the way in which judgement was exercised on the most sensitive issues i.e. bases and assumptions used, possible uncertainties, etc.

- ✓ Presentation of figures:
  Information can presented in a 4-column format, comparing the income statement as established at the end of step 1 with the total gross impacts of the event (column 2), the impacts of the support measures (column 3) and the net effects (column 4). An additional column may be added to reflect performances stripping out the effects of Covid-19 (Result Step 1 - Net Impacts).

Comments on the implementation of international accounting standards

There is nothing to prevent a targeted approach or a comprehensive approach in international standards.

Answer B4: The ANC recommends two alternative approaches: the targeted approach or the comprehensive approach. The first presents the main impacts deemed relevant, while the second focuses on presenting all the impacts, their interactions and their impact on the usual aggregates.

Question B5: What are the methods for determining the effects of the Covid-19 event on the entity's balance sheet?

A targeted or comprehensive approach can be used to reflect the impact of the Covid-19 event on the balance sheet, in the same way as for information relating to the income statement.

The details outlined in question B4 can also be applied to balance sheet approaches.

The targeted simplified approach will cover at least the following points for focus:

- Changes in customer and supplier credit as a result of this event;
- Payment moratoria;
- Loans contracted under support and relief policies (such as state-guaranteed loans) or other frameworks.

The following steps are recommended and are specific to the balance sheet in a comprehensive approach:

- ✓ Step 1: prepare the balance sheet in accordance with the rules applicable to the preparation of the financial accounts and statements concerned (annual and/or consolidated financial statements, half-yearly – consolidated if applicable – financial statements, interim financial statements drawn up on a chosen reference date), with particular reference to the specific recommendations relating to the recognition date of each transaction, how it is measured and classified from an accounting perspective (see part 2).
- ✓ Step 2: pay particular attention to the following elements to be considered:
  - changes in customer and supplier credit as a result of the event;
  - changes in other receivables or liabilities resulting from the event (loans granted, loans received, deferred payment of social security contributions, rents, etc., partners' or intergroup current accounts, deferred payment of dividends, compensation, grants and subsidies receivable, etc.);
  - event-related inventory additions and rundowns;
  - investments made specifically and planned investments being deferred;
  - loans contracted under support policies (in particular state-guaranteed loans) or other frameworks;
  - effects of all balance sheet items on the entity's cash and cash equivalents.
- ✓ Step 3: a column format presentation in the notes outlined the effects of Covid-19 is recommended.

Comments on the implementation of international accounting standards

There is nothing to prevent these approaches in international standards.

Answer B5: The effects of the Covid-19 event on the entity's balance sheet are reflected in the notes to the financial statements using either a targeted approach or a comprehensive approach, with detailed procedures referring to those presented in question B4 for the income statement.

Question B6: Can the income and expenses related to the Covid-19 event be recorded as extraordinary (or non-recurring) income or expenses (B6A)? Can information relating to the consequences of the Covid-19 event be provided directly on the balance sheet and/or income statement (B6B)?

Generally speaking, the methods referred to in Question B6 must be treated with great caution in practice. The magnitude of the accounting consequences of the Covid-19 event makes analysis very complex and this calls for disclosure of relevant information in the notes to the financial statements. The information shown in a column in the income statement would run the risk of being overly summary or incomplete, thereby adversely affecting the quality of the information in the income statement when read directly.

Question B6A: Can the income and expenses related to the Covid-19 event be recorded as extraordinary (or non-current) income or expenses?

General background

Covid-19 is an event of unprecedented magnitude, both in terms of its direct consequences and the support and relief measures that are implemented. Given this scale, certain entities may wish to present the income and expenses related to this event as extraordinary income or expense.

Reminder of standards

French accounting standards	International Accounting Standards
Article R. 123-192 of the French Commercial Code stipulates that income and expenses for the year are classified in the income statement in such a way as to make a distinction between the items of recurring income and extraordinary income, which is generated in a way unrelated to the company's ordinary operations. The current version of the French General Chart of Accounts does not provide any details on the notion of extraordinary income or recurring income, neither does CRC Regulation 99-02 on consolidated financial statements.	The concept of "non-recurring" is not defined by IFRS. However, in order to take into account the desire of companies and analysts to define a level of operating performance that can be used for a forward-looking approach to recurring performance, Recommendation ANC 2020-01[1] provides for the separate presentation of non-recurring operating income and expenses in the income statement. Companies thus have the option of presenting a recurring operating result. Consequently, "Other non-recurring operating income" and "Other non-recurring

[1] ANC Recommendation 2020-01 of 6 March 2020 on the format of the consolidated financial statements of companies prepared in accordance with international accounting standards (excluding banking and insurance institutions).

The classification of extraordinary income and expenses currently depends on their nature, according to the chart of accounts. By interpreting the aforementioned Article R. 123-192, it is possible to include income and expenses that are by nature classified as operating in extraordinary income and expenses.	operating expenses" correspond to a very limited number of unusual, abnormal and infrequent events - of particularly significant amount".

Recommendations for application according to French accounting standards

The ANC notes that the scope of income and expenses affected by this event is very broad for the majority of entities. Only rarely can the effects of this event be limited to a few easily separable accounts, and in most cases, several different types of income and expense are affected.

The ANC also notes that the general structure used in French regulation involves an analysis of income and expenses by type in the income statement in annual accounts. Experience has shown that this method of presentation is successfully understood and useful for the recipients of the information as they seek to understand how an entity's results are formed and how its income and expenses are organised. In particular, it offers a system for managing and providing information on costs incurred on the basis of a simple management approach – purchases, payroll expenses, etc. – and serves as a medium for relatively traditional and well-known aggregates.

Even if an entity uses a function-based format for its consolidated financial statements, the comments in this paragraph still apply to that format.

In addition, this event may be characterised by a decline in an entity’s usual revenues due to a total or partial closure of the business, rather than implying additional expenses: this in turn reduces supply directly or cuts back activity indirectly as a result of a decline in demand or logistical difficulties. Companies cannot book unearned income. Likewise, any potential income that was not received as a result of this event – particularly related to measures to compensate for the absence of activity, such as support from the solidarity fund or compensation for partial activity – is not classified as extraordinary result as it offsets expenses recorded mainly in operating income.

Finally, the ANC notes that the concept of extraordinary items is generally considered to be of little relevance and therefore tends to be used increasingly restrictively over time as French standards have been modernised, as there is now a preference for a more detailed and relevant presentation in the notes to the accounts rather than a direct presentation often considered incomplete or conventional.

For this reason, the ANC does not recommend the systematic recognition of expenses and income related to this event as extraordinary or non-recurring income.

However, income and expenses that are normally recorded as extraordinary income or loss in the annual accounts or as non-recurring income or loss in the consolidated accounts may continue to be recorded as such. Entities should therefore continue their previous practices in this area, and where applicable this may include booking some of the effects of the Covid-19 event (exceptional impairment for example).

Answer B6A - French accounting standards: Using the extraordinary income (annual accounts) or non-recurring income (consolidated accounts) sections to systematically reflect the consequences of the Covid-19 event is not recommended. Consequently, it is preferable to give preference to a presentation in the notes to the financial statements. Entities continue their previous practice of only booking income and expense usually included in the extraordinary or non-recurring items to these sections.

Comments on the implementation of international accounting standards

As regulations stand, we do not believe that there is any major difference in application between French and international accounting standards, although we would specify that ANC Recommendation no. 2020-01 of 6 March 2020 relating to the format of the consolidated financial statements of companies drafted in accordance with international accounting standards provides for sections including items of non-recurring operating income and expenses.

Answer B6A - International accounting standards: Using non-recurring income sections to systematically reflect the consequences of the Covid-19 event is not recommended. It is preferable to give preference to the presentation in the notes to the financial statements. Entities continue their previous practice of booking in the non-recurring items of income only the income and expenses that are usually included in the income statement.

Question B6B: Can information relating to the consequences of the Covid-19 event be provided directly on the balance sheet and/or income statement?

General background

If information in the notes to the financial statements is required, some entities may also wish to provide information directly in the income statement and/or the balance sheet, outlining the impact of the Covid-19 event in these two documents and not only in the notes to the financial statements.

Reminder of standards

French accounting standards	International Accounting Standards
The General Chart of Accounts provides templates for presenting the minimum items and headings required in the income statement (Article 810-3). However, an entity may provide more detailed information on certain items. CRC Regulation 99-02 on consolidated financial statements provides for indicative templates of consolidated summary documents; however, the information to be included in the various summary documents is mandatory minimum information, provided it is material. Groups may use aggregates other than those presented in the templates, provided that a precise definition is given in the notes (§ 41 and § 42).	International standards do not provide for a statement of profit or loss model. IAS 1.85 states that “an entity shall present additional line items (including by disaggregating the line items listed in paragraph 82), headings and subtotals in the statement(s) presenting profit or loss and other comprehensive income, when such presentation is relevant to an understanding of the entity's financial performance.” Recommendation ANC 2020-01 indicates one income statement model by nature and one model by function.

Recommendations for application according to French accounting standards

According to French accounting rules, information on the consequences of the effects of the Covid-19 event presented directly on the income statement and/or balance sheet in the form of a line or column such as "including the Covid-19 event" is not required.

This income statement presentation is not formally prohibited, but this option is not recommended. We recommend that information on the consequences of the Covid-19 event be provided in the notes to the financial statements (see question B3).

A direct presentation in the income statement would require aggregating the gross impacts of the effects of the event and any support measures that the entity may have received: these rows and columns would include diverse items income and expenses, and so this aggregated presentation would not provide enhanced information for the recipients of the financial statements.

Comments on the implementation of international accounting standards

As regulations stand, we do not believe that there is any divergence in application between French and international accounting standards.

Answer B6B: Entities are not recommended to disclose, beyond the information given in the notes to the financial statements, the impacts of the Covid-19 event in their income statement and/or balance sheet.

Question B7: Are there standard formats that can be used to present the figures in the notes?

The ANC wished to provide practical tools for the preparation and presentation of the quantitative information to be provided in the notes as part of the comprehensive approach for all entities that require them, particularly small and medium-sized enterprises. Standard formats for income statement and balance sheet information have therefore been drafted:

- ✓ For the income statement, this draws on the formats and aggregates usually used for drafting intermediate management balances on the one hand and the General Chart of Accounts nomenclature on the other hand;
- ✓ For the balance sheet, this process is based on a summary presentation of the main aggregates on the one hand, and on the General Chart of Accounts nomenclature on the other hand.

The ANC believes that these tools reflect the practices generally followed by small and medium-sized enterprises.

The proposed standard formats are presented in Appendices 1.A (income statement) and 1.B (balance sheet) of this first part.

Answer B7: Standard formats based on the General Chart of Accounts nomenclature and standard formats are available for entities that wish to use them, particularly small and medium-sized enterprises. These formats can be adapted for accounts and statements prepared in accordance with international accounting standards.

Question B8: When an entity is no longer a going concern, what basis should it use to prepare its accounts?

General background

Despite the support measures available to them, some entities may no longer be in a position to continue their activity as a result of the effects of the Covid-19 event. As a result, such entities may plan to liquidate their business or cease trading.

Reminder of standards

French accounting standards	International Accounting Standards
The Commercial Code provides that for the preparation of the annual accounts, traders, whether a natural person or a legal entity, shall be presumed to be continuing their activities (French Commercial Code Article L. 123-20). The General Chart of Accounts (Article 121-2) sets out this principle from a comparability perspective, as a prerequisite to the principle of consistency of methods: "*Accounting enables periodic comparisons to be made and the entity's development to be assessed from a going concern perspective*". The French Commercial Code provides that when the application of an accounting requirement is not sufficient to ensure the fair representation of the assets and liabilities, financial situation and results of the undertaking, additional information must be provided in the notes to the accounts (French Commercial Code Article L. 123-14).	**IAS 1.25** When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern. **IAS 1.26** In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, 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.

Recommendations for application according to French accounting standards

An entity that is no longer a going concern must realise its assets and meet its existing and future obligations related to its liquidation or cessation of trading. Giving up the going concern principle also means relinquishing or only partially applying other accounting policies: while the principle of prudence is maintained, the consistency of methods is no longer applicable as relinquishing the going concern principle challenges the valuation of assets and liabilities. The accounts must be drawn up on the basis of net asset values: various valuation methods, such as market value and recoverable amount, may be appropriate. The notes to the financial statements must give the reasons for abandoning the going concern principle and certain general accounting principles, and also specify the valuation and presentation methods used.

In practice, when there is uncertainty about a going concern – even if this uncertainty is high – the entity often prepares its accounts without taking into account all the consequences that may arise from liquidation or cessation of trading. At the very least, this type of situation must be disclosed very clearly in the notes i.e. situation of uncertainty and risks on the going concern, consequences taken into account and potential consequences not taken into account at the end of the period, etc. See question B9.

Answer B8 - French accounting standards: When an entity's status as a going concern is irremediably compromised, all the consequences of a liquidation or cessation of trading are taken into account. The accounts are drawn up on the basis of net asset values. The valuation and presentation methods used by the entity are set out in the notes to the financial statements.

Comments on the implementation of international accounting standards

IAS 1 requires an entity that does not prepare financial statements on a going concern basis to disclose the basis on which the financial statements have been prepared and the reason why the entity is not regarded as a going concern.

Answer B8 - International Accounting Standards: An entity that does not prepare financial statements on a going concern basis discloses the basis on which the financial statements were prepared and the reason why the entity is not regarded as a going concern (IAS 1.25).

Question B9: Under what circumstances should going concern information be disclosed in the notes to the financial statements?

General background

Entities may operate in an uncertain environment with more hazy visibility on their business prospects, yet without having identified any uncertainty as regards the going concern principle. Other companies may contemplate events or circumstances that could lead to significant doubt on their ability to continue as a going concern, but without concluding that their status as a going concern is irreversibly impaired.

Reminder of standards

French accounting standards	International Accounting Standards
The Commercial Code provides that for the preparation of the annual accounts, traders, whether a natural person or a legal entity, shall be presumed to be continuing their activities (French Commercial Code Article L. 123-20). The General Chart of Accounts (Article 121-2) sets out this principle from a comparability perspective, as a prerequisite to the principle of consistency of methods: "*Accounting enables periodic comparisons to be made and the entity's development to be assessed from a going concern perspective*". The General Chart of Accounts (Article 810-1) states that "*the summary documents, which necessarily include the balance sheet, the income statement and the notes highlight any relevant facts, i.e. those likely to have an influence on the judgement that their addressees may have on the assets and liabilities, the financial position and the results of the entity as well as on the decisions that they may take*".	Financial statements should be prepared on a going concern basis unless management intends or has no realistic alternative but to liquidate the entity or cease trading (IAS 1.25). Management should assess the enterprise's ability to continue as a going concern and disclose in the notes significant uncertainties related to events or conditions that may cast significant doubt about the enterprise's ability to continue as a going concern (IAS 1.25 and .26). An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. (IAS 1.122).

Recommendations for application according to French accounting standards

In view of the lack of visibility on the development of the Covid-19 event as well as its consequences, the ANC recommends outlining in the notes to the financial statements the main reasons behind the entity's judgement that the going concern policy remains applicable, with the aim of providing recipients with relevant information on the entity's ability to continue in business for the foreseeable future.

Uncertainties related to events or circumstances that may cast significant doubt upon the entity's ability to continue as a going concern, while not concluding that the going concern is irremediably impaired, do not warrant abandoning the going concern assumption in the preparation of the financial statements. In the notes to the financial statements, the entity should describe all the available information that it considers to be material in light of its environment and the circumstances in which it has operated and based its judgement to maintain the going concern assumption, despite the existence of uncertainties. In view of the overall prevailing uncertainty, information should be balanced by making assumptions that are neither solely pessimistic nor solely optimistic.

Comments on the implementation of international accounting standards

There are no differences in application between French and international accounting standards.

Answer B9: If there is significant uncertainty over the entity's ability to continue as a going concern, disclosure is provided in the notes. In view of the overall prevailing uncertainty, information should be balanced by making assumptions that are neither solely pessimistic nor solely optimistic.

Appendix 1A - Results Approach (Intermediate Management Balances)

No. of accounts			Fiscal Year 2020 - Actual	Impact Covid-19 event			Fiscal year 2020 restated for Covid-19 impact
				Gross impact	**Impact from support measures**	**Net impact**	
707 - 7097		**Sales of goods, products and services**		Change in turnover			
607+6087+/-6037-6097		Direct cost of purchase		Change in purchases consumed			
Balance	**1**	***Trade margin***					
701 to 703		**Product sales**		Change in product sales			
704 + 705 + 706 + 708 - 709		**Production sold**		Change in production sold			
+/-713		Inventories		Change in inventories			
72		Capitalised production					
Balance	**2**	***Production for the year***					
Balance	**1**	**Trade margin**					
Balance	**2**	**Production for the year**					
601 to 609		Procurement of supplies		Change in supplies			
61/62 net 619 and 629		Other external expenses		Changes in external expenses	Discounts/rebates/cancellations		
Balance	**3**	***Added value***					
Balance	**3**	**Added value**					
74		Operating subsidy			Solidarity Fund		
63		Taxes and similar payments		Change in taxes based on turnover			
64		Payroll expenses			Grant for short-term working job retention scheme		
Balance	**4**	***Gross operating income***					

Appendix 1A - Results Approach (Intermediate Management Balances) - Continued -

No. of accounts			Fiscal Year 2020 - Actual	Impact Covid-19 event Gross impact	 Impact from support measures	 Net impact	Fiscal year 2020 restated for Covid-19 impact
Balance	**4**	**Gross operating income**					
781		Reversals of depreciation, amortisation and provisions					
681		Depreciation, amortisation and provisions					
75		Other recurring management income		Changes in other recurring management income and expenses	Discounts/rebates/cancellations		
65		Other recurring management expenses			Discounts/rebates/cancellations		
791		Expense deferrals					
Balance	**5**	***Operating income***					
Balance	**5**	**Operating income**					
755/655		+/- share of joint operations					
76/786/796		Financial income					
66/686		Financial expenses					
Balance	**6**	***Profit from ordinary activities before tax***					
77/787/797		Extraordinary income					
67/687		Extraordinary expenses					
Balance	**7**	***Extraordinary result***					
Balance	**6**	**Profit from ordinary activities before tax**					
Balance	**7**	**Extraordinary result**					
		Employee profit-sharing					

		Income taxes			
Balance	**8**	***Accounting net income***			

In step 2 of question B4 in the comprehensive approach, the following procedures are recommended for consideration, among others. However, it should be noted that these aspects are provided by way of illustration and indication. The entity's competent bodies, as well as the external auditors where appropriate – each party in charge of their respective responsibilities – are responsible first and foremost for ensuring compliance with the principles and rules applicable in this area and for determining or checking that the procedures adopted are such that they accurately describe the effects on the entity concerned.

NB: the following indications are based on a nature-based approach and refer to the accounting items generally used for the presentation of intermediate management balances. These indications can also be transposed to a function-based approach and sector presentations.

- ✓ *General framework*: reference should be made to the general principles for establishing accounts and statements mentioned in Question B2. The exercise of judgement is required in some cases, so users should refer to these general principles in order to correctly identify impacts;

- ✓ *Reporting period*: the impacts of the event are identified over the entire period covered by the income statement. An approach based on a time period with beginning and end dates is not recommended, as:
  - The effects of the event may be gradual and initially diffuse e.g. exports and imports.
  - The rebound will often be gradual and characterised by successive phases.
  - There may be differences over time and catch-up effects, whether total or partial.

- ✓ *Sales of goods, products and services / "turnover"*:
  - The impact of the Covid-19 event on sales can be estimated by comparing the amounts actually booked with the figures that the entity's management was reasonably entitled to expect. These expected figures can be estimated by comparing with amounts booked in prior periods or by referring to projected amounts or by combining these two comparative sets of data. Necessary common sense adjustments (changes in ranges, observable trends, percentage of projected figures achieved prior to the event, etc.) are made if necessary, in order to provide the most accurate picture of business possible.
  - The impact of the event can be negative or positive or a combination of both. All bias should be avoided when drafting these estimates.

- ✓ *Trade margin and production for the period:*
  - The impact on the trade margin (sales of goods – cost of goods sold) can be estimated from actual margins if existing systems easily permit it, but a simplified approach can be taken by referring to average margins usually observed. However, this event may have had specific effects on

the cost of purchasing goods resulting from differences between supply and demand caused by this episode, so these should be estimated and taken into account.
  - The impact on production for the year (product sales + inventories + capitalised production) involves an estimate of the change in product inventories over the period related to the event (inventory additions and rundowns: a decrease in product sales can be partly offset by a voluntary increase or replenishment of inventories for future sales, for example) based on the inventories at the end of the period and an estimate of the inventories based on the same principles (for example, making use of the partial decline in activity to conduct investment projects, for example). Inventory tracking and cost accounting data are a valuable source of information in this regard.

- ✓ *Procurement of supplies*:
  - Similar to the estimate of the impact on trade margin or production, entities can estimate the impact on the cost of purchases on the basis of actual margins on purchases or average margins observed.
  - The event may have an impact on the cost of supplies, either pushing this figure up (and potentially decreasing margins) or down (potentially increasing margins), and these effects should be estimated and taken into account.

- ✓ *Other income and expenses*: external expenses, operating subsidies, taxes and similar payments, miscellaneous management costs, financial income and expenses:
  - A detailed analysis of these items is recommended in view of the variety of expenditures they cover and the possible effects on them. These items should also be assessed stripping out the consequences of the Covid-19 event, by comparing with previous periods and projected figures.
  - The items most likely to be affected are rent, temporary staff, fees, advertising, travel and reception expenses, turnover taxes, subsidies, financial expenses.
  - These items may be affected by savings, as well as by costs or revenues directly related to the event. Unrealised sales of goods, products and services are taken into account, so it is vital to ensure that these items record all costs relating to this unrealised activity on the one hand, and costs or revenues directly related to the event on the other hand.

- ✓ *Payroll expenses*:
  - Payroll expenses are potentially severely affected by the Covid-19 event, particularly in terms of additional costs and support measures.
  - Particular attention should be paid to the following: paid time off work, compensation for part-time working job retention scheme and other compensation, paid leave and extra days off, reduction of social security contributions, personnel costs arising from restructuring as a result of the event.
  - Generally speaking, it is also important to ensure that the impacts relating to payroll expenses are consistent with unrealised business.

- ✓ *Depreciation, amortisation and provisions*:
  - The impact of depreciation and amortisation recorded for periods of cessation or reduction in activity must be identified and measured.
  - Provisions for impairment arising from the event are also effects that need to be identified and measured, in particular those relating to fixed assets (intangible fixed assets, and property, plant and equipment), inventories, trade and other receivables.
  - The same applies to other provisions, particularly those relating to litigation and restructuring.

- ✓ *Extraordinary items*:
  - Depending on the items recorded under these headings, the entity identifies those that are directly related to the event i.e. losses or provisions, income, etc.

Appendix 1B - Balance Sheet Approach

Assets						
No. of accounts	**Items**	**Fiscal Year 2020 - Actual**	**Of which impact Covid-19 event**			
			Gross impact	Support Measures	Net impact
206-207	Intangible fixed assets				
21-23	Property, plant and equipment				
27	Financial fixed assets				
31-32-33-34-35	Inventories				
410	Trade receivables				
	Social receivables				
	Tax receivables				
50	Marketable securities				
51 - 53	Cash and cash equivalents				
	Total Assets				

Appendix 1B - Balance Sheet Approach - continued -						
Liabilities						
No. of accounts	**Items**	**Fiscal Year 2020 - Actual**	**Of which impact Covid-19 event**			
			Gross impact	Support Measures	Net impact
101/108	Capital				
105/106	Reserves				
110/119	Retained earnings				
120/129	Result				
15	Provisions				
16	Financial debt				
400	Trade debt				
42	Social debt				
43	Tax liabilities				
519	Cash liabilities				
	Total Liabilities				

2 What are the consequences of the Covid-19 event on the recognition and measurement of assets, liabilities, income and expenses?

The ANC has identified a certain number of issues relating to the consequences of the Covid-19 event on the recognition and measurement of assets, liabilities, expenses and income in the financial statements for fiscal years ending after 1 January 2020.

2.1 Implications for the valuation of assets

2.1.1 Impairment tests on intangible fixed assets and property, plant and equipment

Question C1: Is the Covid-19 event to be considered as an indication of impairment?

General background

The Covid-19 event is a major episode with implications for companies' economic environment and the expected use of assets. However, can it be considered as an indication of impairment of an asset alone?

Reminder of standards

French accounting standards	International Accounting Standards
Article 214-15, General Chart of Accounts The entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. When there is an indication of impairment, an impairment test is performed: the net carrying amount of the asset is compared with its recoverable amount.	**IAS 36.9** An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. **IAS 36.12** In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications: External sources of information (a) there are an observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use. (b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or

	legal environment in which the entity operates or in the market to which an asset is dedicated. (c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially. (d) the carrying amount of the net assets of the entity is more than its market capitalisation. Internal sources of information (e) evidence is available of obsolescence or physical damage of an asset. (f) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite (1) . (g) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. Dividend from a subsidiary, joint venture or associate Dividend from a subsidiary, jointly controlled entity or associate (h) for an investment in a subsidiary, jointly controlled entity or associate, the investor recognises a dividend from the investment and evidence is available that: (i) the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or (ii) the dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period the dividend is declared.
Specific features related to intangible goodwill and goodwill	
French accounting standards	International Accounting Standards
Intangible goodwill is presumed to have an unlimited period of use (Article 214-3, General Chart of Accounts). For intangible goodwill with an unlimited useful life, an impairment test is carried out at least once a year, whether or not there is an indication of loss of value (Article 214-15, General Chart of Accounts).	It is mandatory to test goodwill for impairment annually; however, this test may need to be performed more frequently if there are indications of impairment between annual tests (IAS 36.10b).

§ 21130 of CRC Regulation 99-02 relating to consolidated financial statements Positive goodwill is recorded under fixed assets. The entity determines the useful life, limited or unlimited, of goodwill based on the documented analysis of the relevant characteristics of the acquisition transaction concerned, including technical, economic and legal aspects. Where there is no foreseeable limit to the period over which goodwill will provide economic benefits to the Group, goodwill is not amortised. When there is a foreseeable limit to the useful life of goodwill at the time of acquisition, it is amortised on a straight-line basis over this period or, if it cannot be reliably determined, over 10 years. Any significant change in the useful life of goodwill is treated prospectively. At the end of each reporting period, the entity must assess whether there is any indication that goodwill may have lost value. When there is an indication of impairment, an impairment test is performed: the net book value of goodwill is compared with its recoverable amount. If its recoverable amount falls lower than its net book value, then the net book value is written down to equate to recoverable amount by means of an impairment loss. When the useful life of goodwill is unlimited, the impairment test is performed at least once a year, whether or not there is an indication of impairment. Impairment losses recorded are never reversed. When the useful life of goodwill, originally estimated as unlimited, becomes limited with respect to one of the criteria mentioned in the second paragraph of this article, an impairment test is performed; goodwill, if any, is written down and amortised over its remaining useful life.	

Recommendations for application according to French accounting standards

Covid-19 may have significantly negative consequences for the business and performance prospects of many entities. In many cases, these consequences should therefore be considered as an indication of impairment if they involve significant changes that have a negative impact on the use of the asset in the environment in which the entity operates or for which the asset is used.

Therefore the Covid-19 event alone is not an indication of impairment, but rather only the consequences of this episode that are specific to an individual entity can provide an actual indication of impairment. It should be noted that the entity must consider whether there is an indication of impairment at the end of the financial year. For intangible goodwill and goodwill with an unlimited useful life, an impairment test is performed at least once a year, regardless of whether there is any indication of impairment or not.

Comments on the implementation of international accounting standards

Similar to French accounting standards, the Covid-19 event alone is not an indication of impairment and the existence of an indication of impairment is only confirmed after a review of the entity's specific features.

Answer C1: The Covid-19 event alone is not an indication of impairment. The existence of an indication of impairment is confirmed only after a review of the entity's specific features.

Question C2: How can the recoverable amount of an asset or group of assets be determined in the current circumstances, which are characterised by a high degree of uncertainty?

General background

When an intangible asset, property, plant and equipment or a group of assets show an indication of impairment, and in the specific case of intangible goodwill or goodwill with an unlimited useful life, an impairment test must be carried out at least each year. This consists of comparing the net book value of the asset or group of assets with the recoverable amount, which is defined as the higher of the value in use and market value. In the context characterised by the Covid-19 event, and in the absence of an active market or available information, the market value may be difficult to obtain, while the value in use may also be particularly difficult to determine due to difficulties in developing forecasts.

Reminder of standards

French accounting standards	International Accounting Standards
Article 214-17, General Chart of Accounts If the present value of a fixed asset falls below its net book value, the net book value is written down to the present value by means of an impairment loss. If the asset in question is depreciable, the recognition of an impairment loss prospectively changes the depreciable base. **Article 214-6, General Chart of Accounts** (...) The recoverable amount is the higher of the market value or the value in use, subject to the provisions of Article 221-3 relating to equity securities and those of Article 221-4 relating to securities valued by the equity method.	**IAS 36.15** As indicated in paragraph 10, this Standard requires an intangible asset with an indefinite useful life or not yet available for use and goodwill to be tested for impairment, at least annually. Apart from when the requirements in paragraph 10 apply, the concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated. For example, if previous calculations show that an asset's recoverable amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable amount is not sensitive to one (or more) of the indications listed in paragraph 12 **IAS 36.18**

Market value is the amount that could be obtained, at the end of the reporting period, from the sale of an asset in an arm's length transaction, net of disposal costs. Disposal costs are costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense. The value in use of an asset is the value of the future economic benefits expected from its use and disposal. These correspond to the estimated discounted net cash flows expected to arise from the asset or group of assets in accordance with Article 214-15. For operations where the expected cash flows alone do not reflect the expected future economic benefits, the relevant additional factors are taken into account. **Article 214-15, General Chart of Accounts** (...) If it is not possible to determine the recoverable amount of the asset taken in isolation, the recoverable amount of the group of assets to which it belongs should be determined. **Article 214-19, PCG** Impairment losses are recognised in the income statement when the reasons for which they were incurred cease to exist.	This Standard defines recoverable amount as the higher of an asset's or cash-generating unit's fait value less costs of disposal and its value in use. Paragraphs 19-57 set out the requirements for measuring recoverable amount. These requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. **IAS 36.20** It may be possible to measure fair value less costs of disposal, even if there is not a quoted price in an active market for an identical asset. However, sometimes it will not be possible to measure fair value less costs of disposal because there is no basis for making a reliable estimate of the price at which an orderly transaction to sell the asset would take place between market participant at the measurement date under current market conditions. In this case, the entity may use the asset's value in use as its recoverable amount.
Specific features related to intangible asset and goodwill	
French accounting standards	International Accounting Standards
Intangible goodwill is presumed to have an unlimited period of use (Article 214-3, General Chart of Accounts). For intangible goodwill with an unlimited useful life, an impairment test is carried out at least once a year whether or not there is an indication of impairment (Article 214-15, General Chart of Accounts). Impairment losses recorded on intangible goodwill are never reversed (Article 214-19, General Chart of Accounts). § 21130 of CRC Regulation 99-02 relating to consolidated financial statements […] At the end of each reporting period, the entity must assess whether there is any indication that goodwill may have lost value. When there is an indication of impairment, an impairment test is performed: the net book value of goodwill is compared with its recoverable amount. If its recoverable amount falls lower than its net book value, then the net book value latter is written down to equate to the recoverable amount by means of an impairment loss.	It is mandatory to perform an impairment test every year for each goodwill, for intangible asset with indefinite useful life or for intangible assets not yet ready for use. However, this test may need to be performed more frequently if indications of impairment arise between annual tests (IAS 36.10b and .90). The net carrying amount of the CGU (or group of CGUs) to which goodwill is allocated is compared with the recoverable amount of that CGU or group of CGUs (IAS 36.6, .74, .90, .104 and .C3). The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use (IAS 36.6). Thus, when there is an indication of impairment, these two values should be calculated and the higher of the two should be used (IAS 36.18 et seq.). An impairment loss recognised for goodwill shall not be reversed in a subsequent period. (IAS 36.124).

Recommendations for application according to French accounting standards

When there is an indication of impairment, an impairment test is carried out: the net book value is compared to the recoverable amount (Article 214-15). The recoverable amount is the higher of either the market value or the value in use. The value in use of an asset equates to the discounted net cash flows expected from the asset or group of assets.

Generally speaking, the existence of a high degree of uncertainty such as that resulting from the Covid-19 event – particularly in the early stages of its occurrence – makes it difficult to conduct an impairment test. This situation requires a proportionate response that takes into account both the effort required to calculate the impairment to be recognised and the need for detailed information in an uncertain environment. Faced with this type of situation, the entity endeavours both to implement a reasonable approach and provide appropriate information on the methods used and in particular the remaining uncertainties.

The methodology used for the impairment test must be consistent with the level of risk identified. New cash flow projections are not always required to conduct a test.

Certain elements are actually likely to reduce the likelihood of having to apply impairment for an asset or group of assets. Firstly, entities should compare the book value and the last calculated recoverable amount of an asset or group of assets in order to assess the extent to which the recoverable amount is significantly higher than the book value and analyse whether this margin is maintained on the basis of sensitivity tests already available. Similarly, an initial test may consist of analysing the sensitivity of the last calculated terminal value when it represents a very significant portion of the value in use.

Where these initial analyses indicate that a new recoverable amount needs to be calculated, the following shall be taken into account:

- ✓ When determining the value in use of an asset or group of assets, cash flow projections will be based on reasonable and mutually consistent assumptions and will be management's best estimate of the overall conditions of use of the asset or group of assets, particularly in light of the Covid-19 event. Alternatively, the entity may take into account the risks specific to the asset or group of assets by using the discounted cash flow rate. Risks not already included in cash flows could thus be reflected in an increase in the risk premium used to determine the discount rate. When there is a high degree of uncertainty on the prospects that may underlie the scenarios used for impairment testing – this may be the case in light of the Covid-19 event – the entity will clearly indicate the elements it believes justify an informed decision to impair or not to impair and, where applicable, the amount of the impairment recognised. It will also indicate the remaining uncertainties and the results of any sensitivity analyses that may be available to it. Such information is particularly crucial when there a strong degree of uncertainty, particularly for financial statements with a reference date close to the occurrence of the event.

- ✓ In the event that one of the two values (either the value in use or the market value) cannot be determined with sufficient reliability at the date when financial statements are drafted, the recoverable amount of an asset or group of assets is determined solely on the basis of the two available values. In the notes to the financial statements, this specific method of measuring recoverable amount is outlined by describing why it is impossible to determine the value in use or market value.

In the rare case that value in use cannot be determined with sufficient reliability, even by re-estimating the discount rate, and where market value cannot be determined either by referring to an active market or other information, then a description is provided in the notes to the financial statements of the reasons why the determination of value in use and fair value is unreliable, along with the factors the entity uses to support its impairment decision (principle and, where applicable, amount), as well as the level of uncertainty that remains. It should be noted that interim financial statements are drafted in accordance with the same accounting methods as those used to prepare the financial statements for the year. However, these periods are separate and the accounts for the financial year must not be affected by the existence of interim accounts. Additionally, asset impairment recorded during an interim period, particularly relating to intangible goodwill and goodwill, is not definitive, and an analysis must be carried out at the end of the financial year, taking into account the events that affected the entire financial year.

Comments on the implementation of international accounting standards

When there is an indication of impairment, an impairment test is performed.

Generally speaking, the existence of a high degree of uncertainty such as that resulting from the Covid-19 event – particularly in the early stages of its occurrence – makes it difficult to conduct an impairment test. This situation requires a proportionate response that takes into account both the effort required to calculate the impairment to be recognised and the need for detailed information in an uncertain environment. Faced with this type of situation, the entity endeavours both to implement a reasonable approach and to provide appropriate information on the methods used and in particular the remaining uncertainties.

The methodology used for the impairment test must be consistent with the level of risk identified. New cash flow projections are not always required to conduct a test.

Certain elements are actually likely to reduce the likelihood of having to apply impairment for an asset or group of assets. Firstly, entities should compare the book value and the last calculated recoverable amount of an asset or group of assets in order to assess the extent to which the recoverable amount is significantly higher than the book value and analyse whether this margin is maintained on the basis of sensitivity tests already available. Similarly, an initial test may consist of analysing the sensitivity of the last calculated terminal value when it represents a very significant portion of the value in use.

Where these initial analyses indicate that a new recoverable amount needs to be calculated, the following shall be taken into account:

- ✓ When determining the value in use of an asset or group of assets, cash flow projections will be based on reasonable and mutually consistent assumptions and will be management's best estimate of the overall conditions of use of the asset or group of assets, particularly in light of the Covid-19 event. Alternatively, the entity may take into account the risks specific to the asset or group of assets by using the discounted cash flow rate. Risks not already included in the cash flows could be reflected in an increase in the risk premium used to determine the discount rate. When there is a high degree of uncertainty on the prospects that may underlie the scenarios used for impairment testing – this may be the case in light of the Covid-19 event – the entity will clearly indicate the elements it believes justify an informed decision to impair or not to impair and, where applicable, the amount of the impairment recognised. It will also indicate the remaining uncertainties and the results of any sensitivity analyses that may be available to it. Such information is particularly crucial when there is a strong degree of uncertainty, particularly for financial statements with a reference date close to the occurrence of the event.
- ✓ In the event that one of the two values (either the value in use or the market value) cannot be determined with sufficient reliability at the date when financial statements are drafted, the recoverable amount of an asset or group of assets is determined solely on the basis of the two available values. In the notes to the financial statements, this specific method of measuring recoverable amount should be outlined by describing why it is impossible to determine the value in use or market value.

IAS 36 also allows for the uncertainties related to this event to be taken into account by using several scenarios with varying degrees of probability.

Answer C2: The scope of the impairment test should be consistent with the risk factors identified. Given the circumstances, the entity endeavours to base its decision on the reliable information available to it. When there is a high degree of uncertainty on the prospects that may underlie the scenarios used for impairment testing, as may be the case in the context of the Covid-19 event, the entity will clearly indicate the elements it believes justify an informed decision to impair or not to impair and, where applicable, the amount of the impairment recognised. It will also indicate the remaining uncertainties and the results of any sensitivity analyses that may be available to it.

2.1.2 Amortisation of intangible fixed assets and depreciation of property, plant and equipment

Question D1: In the event of a cessation of activity, can the depreciation of intangible fixed assets and the amortisation of property, plant and equipment be discontinued?

General background

The Covid-19 event may have caused some entities to cease their activity. During this period, the question arises as to whether the depreciation or amortisation plan for their fixed assets should be continued.

Reminder of standards

French accounting standards	International Accounting Standards
Article 121-5, General Chart of Accounts The consistency and comparability of accounting information over successive periods are based on the consistency of accounting policies and the structure of the balance sheet and income statement. **Article 214-1, General Chart of Accounts** A fixed asset with a limited useful life is depreciated. Where applicable, it is also subject to impairment in accordance with the methods described in Article 214-15 if the conditions set out in Article 214-17 are met. The useful life of an asset is determined, either at inception or in the course of its use, by reference to the criteria, generally physical, technical, legal or economic, inherent in the entity's use of the asset in question. **Article 214-4, General Chart of Accounts** The depreciable amount of an asset is its gross value less its residual value.	As the economic benefits of an asset are consumed by the entity, that consumption is accounted for through depreciation and amortisation. The depreciation end date is the date on which the asset is classified as non-current assets and groups of assets held for sale, according to the criteria of IFRS 5, the date on which the asset is derecognised on disposal (IAS 16.55) or the date on which the asset ceases to be used at the end of its useful life. The depreciable base of an asset is equal to the carrying amount of the tangible fixed asset less its residual value. Depreciation is therefore recognised to the extent that the asset's residual value does not exceed its carrying amount (IAS 16.52). The residual value of an asset is the estimated amount that an entity would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life (IAS 16.6). These depreciation methods are

Residual value is the amount, net of expected disposal costs, that an entity would obtain from the disposal of the asset on the market at the end of its useful life. The residual value of an asset is taken into account in determining the depreciable amount only when it is both significant and measurable. **Article 214-7, General Chart of Accounts** Even if there is no or insufficient profit, the necessary depreciation and impairments are made. **Article 214-12, General Chart of Accounts** Depreciation of an asset begins on the date the economic benefits associated with it begin to be consumed. This date is generally when the asset is put into service. **Article 214-13, General Chart of Accounts** Depreciation of an asset is the systematic allocation of its depreciable amount according to its use. Depreciation is determined by the depreciation plan based on the useful life and depreciation method for each depreciable asset as determined by the entity. Assets of the same nature with identical conditions of use should be depreciated in the same way. The depreciation method should best reflect the pattern of consumption of the economic benefits expected to flow to the entity from the asset. It is defined either in terms of units of time or units of production. The straight-line method is applied unless a more appropriate method can be used. Small companies as defined in Article L 123-16 of the French Commercial Code may, in their individual accounts, use the useful life defined in 2° of 1 of Article 39 of the French General Tax Code to determine the depreciation schedule for fixed assets.	- the straight-line method - the diminishing balance method - the unit-of-production method: this method of depreciation gives rise to an expense based on the expected use or production of the asset. IAS 16.61 specifies that the depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IAS 8.

Recommendations for application according to French accounting standards

Only entities that have chosen the unit-of-production method of depreciation do not recognise depreciation while the asset in question is not in use, or lower depreciation while it is in reduced use. When an asset is depreciated on a unit-of-time basis, there is no need to discontinue depreciation.

The change from unit-of-time depreciation to unit-of-production depreciation, and vice versa, results either from a change in the circumstances on which the estimate was based or from new information or better experience and, as such, is treated as a change in accounting estimate with an effect on the current and future periods. It is not an error correction as defined by Article 122-5 of the General Chart of Accounts. Furthermore, in application of the principle of consistency of methods, a change in depreciation method is permanent. The unit-of-production method of depreciation is appropriate only when the consumption of economic benefits is closely linked to the level of use of the asset.

In addition, current circumstances may result in a significant change in the expected useful life of the asset and therefore in a prospective change in the depreciation plan.

Comments on the implementation of international accounting standards

Similar to French accounting standards, only entities that have chosen the unit-of-production method of depreciation do not recognise depreciation during non-use of the asset in question or lower depreciation during its reduced use.

A change from unit-of-time depreciation to unit-of-production depreciation, and vice versa, is only possible if there has been a significant change in the expected pattern of consumption of the asset's future economic benefits.

Current circumstances may also lead to a revision in the expected useful life of the asset and therefore, on a prospective basis, its depreciation plan.

Answer D1: In the event of a cessation of activity, unless depreciation is based on a number of units of production, the depreciation of intangible fixed assets, property, plant and equipment may not be discontinued during the non-use of the assets concerned or reduced in view of reduced use of the assets concerned.

2.1.3 Financial Assets

Question E1: How should the inventory value of financial assets be measured?

General background

In some cases, the Covid-19 event complicates the valuation of the inventory values of financial assets. This is particularly the case for unlisted securities or securities that must be valued at a value different from the stock market price. The case of trade receivables is addressed in question G2.

Reminder of standards

French accounting standards differ depending on the accounting categories used for the impairment of financial assets:

- Industrial and commercial enterprises - General Chart of Accounts

Categories	**Equity securities**	**Investment securities**	**Other fixed securities**	**Marketable securities**
Typical examples of securities	Shares and shares in companies	Shares/ Units/	Capital shares/bonds	Securities acquired for the purpose of realising a gain in the near term
Valuation at end of the reporting period	Value in use representing what the entity would be willing to pay to obtain the interest. Items that may be taken into account (except in the case of accidental changes): profitability and profitability prospects, shareholders' equity, prospects for completion, economic conditions, average stock market prices over the last month, basis used to assess the original transaction. (General Chart of Accounts Article 221-3)	Valuation on a security-by-security basis that takes into account the general development prospects of the entity whose securities are held and is based on market value in particular. (General Chart of Accounts Article 221-5)	For listed securities, valuation at the average price over the last month (except for securities held explicitly to reduce capital, maintained at their purchase value until their cancellation). For unlisted securities, valuation at their probable trading value. (General Chart of Accounts Article 221-6)	
Impairment criterion	Existence of an unrealised capital loss calculated by comparing the cost of acquisition with the inventory value.			
Calculation of impairment	Amount of unrealised capital loss. No offsetting of unrealised capital gains or losses is possible.	Amount of unrealised capital loss. No offsetting of unrealised capital gains or losses is possible.	Amount of unrealised capital loss. Unrealised capital gains or losses cannot be offset except in the event of an abnormal and temporary decline (see General Chart of Accounts Article 221-7 and Notice CU 2002-C of 3 April 2002 on the notion of abnormal and temporary decline in prices for the valuation of listed securities).	
Reversal of impairment	Possible			

- IFRS 9

Categories	Amortised cost	Fair value through equity	Fair value through profit or loss
Eligible instruments	Simple debt instruments held for the sole purpose of receiving contractual cash flows.	Simple debt instruments held with a view to receiving contractual cash flows and disposing of them. Equity instruments for which the final choice of this classification has been made.	All other instruments
Valuation at end of the reporting period	Effective interest rate applied to the initial outstanding amount adjusted for accumulated impairment, except in the event of the occurrence of a credit event (see below).	Recognition in income statement of interest income calculated at the effective interest rate applied to the initial amount outstanding adjusted for accumulated impairment, except in the event of a credit event (see below) for debt instruments. Changes in fair value are recorded in shareholders' equity.	Changes in fair value are recorded in the income statement
Impairment criteria	Expected credit losses for all instruments in this category.	Expected credit losses for debt instruments alone. No impairment of equity instruments.	No impairment
Calculation of impairment	The expected credit loss is calculated for the next 12 months if credit risk has not increased significantly. The expected credit loss is calculated over the life if credit risk has increased significantly. In the event of default only (occurrence of a credit event), actuarial interest is calculated on the amortised cost (net of impairment).	The expected credit loss is calculated for the next 12 months if credit risk has not increased significantly. The expected credit loss is calculated over the life if credit risk has increased significantly. In case of default only, the actuarial interest is calculated on the net value of the impairment loss.	
Reversal of impairment	Returning to the calculation of a 12-month expected loss if credit risk no longer shows a significant increase.	Returning to the calculation of a 12-month expected loss if credit risk no longer shows a significant increase.	

Recommendations for application according to French accounting standards

The methods and criteria for assessing inventory values must comply with the general principle of consistency of methods (Article L. 123-17 of the French Commercial Code).

Equity securities, whether listed or not, are valued at their value in use, representing what the company would agree to pay to obtain this interest if it had to acquire it (General Chart of Accounts Article 221-3).

The following aspects in particular may be taken into account for this estimate, provided that any development in them does not stem from accidental circumstances:

- ✓ objective criteria (average stock market price over the last month, shareholders' equity, profitability, basis used to assess the original transaction);

- ✓ forward-looking factors (outlook for profitability, realisation, economic conditions);
- ✓ or even subjective elements (usefulness for the entity holding the interest, etc.).

Other fixed securities and marketable securities whose inventory value is determined on the basis of their stock market price must continue to be valued in this way. The offsetting of unrealised gains against unrealised losses provided for in Article 221-7 of the French General Chart of Accounts for other listed fixed securities (other than equity securities and investment securities) and marketable securities may only be implemented under the strict conditions of abnormal and momentary price declines specified in Notice CU No. 2002-C (included as a supplementing guidance under Article 221-7 of the General Chart of Accounts), depending on the state of the financial markets at the end of the reporting period.

When the inventory value of financial assets is assessed on the basis of cash flow projections, these cash flows will be built on reasonable and consistent assumptions. Alternatively, the entity may take into account the specific risks of these cash flows through the discount rate. In this way, risks not already included in the cash flows could be reflected in an increase in the risk premium used in determining the discount rate.

Answer E1 - French accounting standards: The methods of impairment of financial assets differ according to the accounting categories. Where applicable, the effects of the Covid-19 event are taken into account to determine the amount of any impairment. When the inventory value of financial assets is assessed on the basis of cash flow projections, these cash flows are built on reasonable and consistent assumptions.

Comments on the implementation of international accounting standards

IFRS does not allow for reclassifying financial assets, except in the exceptional case of a change in the business model only for debt instruments that meet the SPPI criteria (IFRS 9.4.4.1). Consequently, unless the consequences of the Covid-19 event prompt the entity to change its business model, the valuation method for financial instruments should not change.

The determination of fair value for instruments measured using this approach singles out three levels, i.e. the observability of the price (level 1), the existence of observable inputs to determine fair value (level 2) and the use of unobservable inputs (level 3). The information to be disclosed in the notes to the financial statements depends on the fair value levels in which the instruments are classified. For interim financial statements, these disclosures are only provided if they are material and relevant.

Answer E1 - International accounting standards: Except in exceptional situations involving a change in business model, the valuation of financial instruments is not changed.

2.1.4 Inventories (valuation and write-downs)

Question F1: What are the consequences of a drop in the level of production on the measurement of the production cost of inventories?

General background

The Covid-19 event frequently led to a slowdown in production levels at industrial facilities that may have resulted in production falling below normal capacity.

Reminder of standards

French accounting standards	International Accounting Standards
Article 213-32, General Chart of Accounts The production cost of inventories includes costs directly related to the units produced, such as direct labour. It also includes the systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as: - depreciation and maintenance of factory buildings and equipment, plus, where appropriate, depreciation of the costs of dismantling, removal and site restoration; - the share of amortisation of intangible assets such as development costs and software. Variable production costs are the indirect costs of production that vary directly, or almost directly, with the volume of production, such as indirect materials and indirect labour. The allocation of fixed production overheads to processing costs is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of years or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production can be used if it approximates normal production capacity. The amount of fixed overheads, allocated to each unit produced, is not increased as a result of a decrease in production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. Variable production overheads are allocated to each unit produced on the basis of the actual use of the production facilities.	**IAS 2. 12** The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings, equipment and right-of-use assets used in the production process, and equipment, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour. **IAS 2.13** The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

Recommendations for application according to French accounting standards

If, during the Covid-19 event, a facility is running below its normal production capacity, the production cost of the inventory produced during this period cannot be increased as a result of this under-activity.

Comments on the implementation of international accounting standards

Similar to French accounting standards, the allocation of fixed production overheads to processing costs is based on production facilities' normal capacity. Thus, the production cost of inventories should not be increased as a result of under-activity.

Answer F1: A decrease in the level of production (under-activity) is not taken into account in the measurement of the cost of production of inventories.

Question F2: How can the net realisable value of inventories be assessed in the presence of uncertainties on prices and short-term sales prospects?

General background

On the inventory, the net book value of inventories is compared with their net realisable value to determine whether a write-down is necessary. In this event, in the absence of a sufficiently active market and available information, and in light of uncertainties on prices and short-term sales prospects, the market value of inventories may not be obtained. Additionally the value in use of inventories may also be difficult to determine given the difficulty of making forecasts.

Reminder of standards

French accounting standards	International Accounting Standards
Article 213-33, General Chart of Accounts The cost of inventories of items that are not ordinarily fungible and of goods or services produced and allocated to specific projects should be determined by specifically identifying their individual costs. **Article 213-34, General Chart of Accounts** For interchangeable items which, within each category, cannot be individually identified after entry into the store, the entry cost is considered to be equal to the total of the following:	The cost of inventories is determined differently depending on whether the goods are fungible or not (i.e. interchangeable or not): 1. for non-fungible goods: a specific identification of individual costs is necessary. Thus, each product is measured at its actual cost (IAS 2.23 and .24) 2. for fungible (interchangeable) goods: two inventory valuation methods are allowed (IAS 2.25): - the First-In/First-Out - the weighted average unit cost formula

• the cost of inventories at the close of the previous financial year, considered as an input cost in the accounts for the financial year; • the input cost of purchases and production for the year. This total is allocated between items consumed during the year and existing inventory items by applying a calculation method based on the weighted average cost calculated at each entry or over a period not exceeding the average storage life or according to the first-in-first-out (FIFO) method. **Art. 214-22, General Chart of Accounts** At the end of the reporting period, inventories and ongoing production are valued in accordance with the general valuation rules set out in Articles 214-1 to 214-6 and 214-16 to 214-19, subject to the provisions of Articles 214-23 and 214-24. On the inventory, inventories and ongoing production are valued unit by unit or category by category. The physical inventory unit is the smallest part that can be counted under each item. Price and sales prospects are to be taken into consideration when assessing possible inventory write-downs. (…) The net realisable value is the higher of either value in use or market value.	Inventories should be valued at the lower of cost on entry and net realisable value (IAS 2.9). The net realisable value corresponds (IAS 2.6): - at the estimated selling price in the normal course of business; - less estimated costs to complete and estimated costs necessary to make the sale.

Recommendations for application according to French accounting standards

Generally speaking, the existence of a high degree of uncertainty such as that resulting from the Covid-19 event – particularly in the early stages of its occurrence – can make it difficult to determine the present value of inventories.

When the present value of these inventories is based on their market value, i.e. the selling price less the estimated costs of making these inventories ready for sale, uncertainties on selling prices or sales prospects require a proportionate response that takes into account both the efforts made to calculate write-downs to be recognised and the need for detailed information in light of this event. The extent of this process should be consistent with the extent of risk factors identified: some aspects are indeed likely to reduce the likelihood of writing down the value of an inventory. For example, this is the case when:

- ✓ the last net realisable value of inventories is significantly higher than its book value;
- ✓ there is a reasonable prospect that the company will again return to previous sales circumstances.

When determining the value in use of inventories, cash flow projections will be based on reasonable and mutually consistent assumptions and will represent management's best estimate of the overall conditions of use of the inventory, particularly in the Covid-19 context.

In the rare case that value in use cannot be determined with sufficient reliability and where, in addition, market value cannot be determined either by referring to an active market or other information, then a description is provided in the notes to the financial statements of the reasons why the determination of value in use and fair value are unreliable, along with the factors the entity uses to support its impairment decision (principle and, where applicable, amount), as well as the level of uncertainty that remains.

Answer F2 - French accounting standards: The extent of the work to analyse the value of inventories should be consistent with the risk factors identified. Given the circumstances, the entity endeavours to base its decision on the reliable information available to it. The entity shall clearly state the elements that it uses to justify an informed decision to write down or not and, where applicable, the amount of the writedown recognised. The entity shall also disclose the remaining uncertainties and the results of any sensitivity analyses that may be available to it.

Comments on the implementation of international accounting standards

There is no provision for being unable to draft an estimate of the net realisable value of inventories. The data and assumptions used to determine net realisable value are set out in the notes to the financial statements.

Answer F2 - International Accounting Standards: There is no provision for being unable to draft an estimate of the net realisable value of inventories.

2.1.5 Receivables

Question G1: Which receivables should be considered doubtful?

General background

During the crisis period, and particularly in view of the measures taken to provide for payment moratoria, as well as clients' cash flow difficulties, some receivables may be subject to payment delays.

Reminder of standards

French accounting standards	International Accounting Standards
Art. 944-41	**IFRS 7.35M** To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to

Account 416 "Doubtful or disputed trade receivables" is debited by crediting account 411 for the total amount of receivables that the entity has against clients whose solvency appears doubtful or with whom the entity is in dispute.	credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments : (a) for which the loss allowance is measured at an amount equal to 12-month expected credit losses ; (b) for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are : (i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets ; (ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) ; and (iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of IFRS 9. (c) that are purchased or originated credit-impaired financial assets.

Recommendations for application according to French accounting standards

The General Chart of Accounts recommends separate accounting treatment for doubtful trade receivables, but does not specify the criteria for classification, as the tax authorities have clarified this. The Covid-19 event does not change the assessment criteria commonly used by the entity.

Nevertheless, it should be noted that a delay in payment related to the particular circumstances surrounding the Covid-19 event is not in itself a criterion for credit risk deterioration. The results derived via this deterioration system based on late payment should therefore be considered carefully and, where appropriate, adjusted to take on board the specific features of the debtors concerned and the sectors they operate in: this will avoid the detrimental effects of automatism.

Answer G1 - French accounting standards: A delay in payment related to the general circumstances surrounding the Covid-19 event is not in itself a criterion for a deterioration in credit risk, which is based on the specific features of the debtors concerned.

Comments on the implementation of international accounting standards

Even if the concept of doubtful receivables is absent from IFRS, information on the entity's exposure to credit risk must be disclosed in the notes to the financial statements. For interim financial statements, this information is provided only if it is material and relevant. The deterioration in credit risk based on late payments can be refuted on the basis of the specific features of the debtors concerned.

Answer G1 - International Accounting Standards: Credit risk deterioration based on late payments can be refuted on the basis of the specific features of the debtors concerned.

Question G2: How should impairment losses on trade receivables be measured at the end of the reporting period?

General background

In light of the Covid-19 event, the increase in late payments and business bankruptcies raises the question of the method for impairment calculations.

Reminder of standards

French accounting standards	International Accounting Standards
The model is based on proven risk but there is no specification in the General Chart of Accounts or in the supplementing guidelines on the calculation of the inventory value of a receivable or the impairment indicators to be taken into account. **Art. 214-25 General Chart of Accounts** At the end of the reporting period date, the net book value of assets, other than property, plant and equipment, intangible assets and inventories, is compared to the recoverable amount at the same date. (…) A decline in the value of an asset, other than property, plant and equipment, intangible assets and inventories, resulting from causes that are not considered to be irreversible, is recognised as an impairment loss (...)	IFRS 9, Financial Instruments, defines the provisioning principles for financial assets measured at amortised cost or fair value through equity (recyclable), including trade receivables, contract assets, lease receivables, loan commitments and financial guarantees. The standard requires the identification and provisioning of expected credit risk losses. It provides for two models: a so-called "simplified" model for trade receivables without a significant financing component, which requires provisions to be determined on the basis of expected losses at maturity, and a so-called "general" model, which requires the classification of outstandings in different credit risk strata according to the credit quality of the counterparty or debtor (sound outstandings, outstandings with a significant increase in credit risk, doubtful outstandings). In addition, the standard is forward-looking in nature and is intended to take into account economic downturns that were already visible at the balance sheet date. In practice, industrial and commercial companies overwhelmingly use the simplified approach for trade receivables and contract assets. This approach is mandatory for receivables due in less than one year.

Recommendations for application according to French accounting standards

The methodology for determining the carrying amount of a receivable at the end of the reporting period is not specified, as the recognition of an impairment loss on these receivables also implies the occurrence of an event that would indicate the debtor's default.

In principle, the occurrence of an unfavourable event on a client – e.g. late payment, non-payment, initiation of insolvency proceedings – is the triggering event after which a client's solvency can no longer be deemed to be certain: this is therefore the starting point for a detailed analysis of receivables with a view to possible impairment. Against this backdrop, the Covid-19 event may alter the methods for this analysis and the entity may reconsider the list of unfavourable events that trigger a deterioration in a client’s solvency. For example, a mere delay in payment is different when it results from the debtor’s administrative difficulties than when it is related to cash flow difficulties that are addressed by support measures currently being implemented.

The assessment of client default should be carried out on a receivable-by-receivable basis, but it is accepted practice when there is a high number of receivables to take a view across one or more portfolios of consistent receivables using experience-based statistical methods to assess impairments.

Answer G2 - French accounting standards: The Covid-19 event may lead to reconsideration of the list of all events – and in particular support measures and medium-term prospects – that trigger a deterioration in a client’s solvency.

Comments on the implementation of international accounting standards

The French financial markets authority AMF's communication, developed in consultation with the ANC, states that payment holidays or moratoria or the granting of additional loans do not automatically constitute an indicator of a significant increase in the credit risk of the financial assets concerned as such, as outlined in IFRS 9, given the existence of support measures. This approach may be used for trade receivables.

In the current context and when taking the simplified approach, a distinction should be made between late payments that simply reflect pressure on clients’ liquidity and late payments that are a sign of non-payment.

Answer G2 - International accounting standards: Given the existence of support measures, payment holidays or moratoria or the granting of additional loans are not in themselves an indicator of impairment of trade receivables.

Question G3: How should deferred tax receivables be measured?

General background

The consequences of the Covid-19 event may jeopardise an entity's ability to generate sufficient taxable profit to offset deductible temporary differences and thus reduce the likelihood of recovering certain deferred tax receivables previously recognised.

Reminder of standards

French accounting standards	International Accounting Standards
The provisions relating to deferred taxes are set out in CRC Regulation 99-02 relating to the consolidated financial statements. Deferred taxes must be recorded in the consolidated financial statements (§ 32 of the aforementioned regulation). An entity	**IAS 12.24**

may choose to present its deferred tax assets and liabilities in the balance sheet of its parent company financial statements. In this case, it refers to the provisions contained in CRC Regulation 99-02. **§ 312 of CRC Regulation 99-02 on consolidated financial statements** Deferred tax assets are only taken into account: - if their recovery does not depend on future results; in this case, they are deducted up to the amount of the deferred tax liabilities already recognised, expiring in the period during which these assets become or remain recoverable; in this case, companies can take into account tax options designed to extend the period between the date on which a tax asset becomes recoverable and the date on which it becomes statute-barred; - or if it is probable that the company will be able to recover them as a result of the existence of a taxable profit expected during that period; it is presumed that such a profit will not exist where the company has incurred recent losses during the last two financial years unless convincing evidence to the contrary is provided, e.g. if these losses result from exceptional circumstances that are not expected to recur in the foreseeable future or if extraordinary profits are expected.	A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, [...]. **IAS 12.27** The reversal of deductible temporary differences results in deductions in determining taxable profits of future periods. However, economic benefits in the form of reductions in tax payments will flow to the entity only if it earns sufficient taxable profits against which the deductions can be offset. Therefore, an entity recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. **IAS 12.28** It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse: (a) in the same period as the expected reversal of the deductible temporary difference; or (b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise. **IAS 12.29** When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that: (a) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). In evaluating whether it will have sufficient taxable profit in future periods, an entity (i) compares the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

	(ii) ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from these deductible temporary differences will itself require future taxable profit in order to be utilised (b) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods. **IAS 12.35** The criteria for recognising deferred tax assets arising from the carry forward of unused tax losses and tax credits are the same as the criteria for recognising deferred tax assets arising from deductible temporary differences. However, the existence of unused tax losses is strong evidence that future taxable profit may not be available. Therefore, when an entity has a history of recent losses, the entity recognises a deferred tax asset arising from unused tax losses or tax credits only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the entity. In such circumstances, paragraph 82 requires disclosure of the amount of the deferred tax asset and the nature of the evidence supporting its recognition. **IAS 12.36** An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised: (a) whether the entity has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire; (b) whether it is probable that the entity will have taxable profits before the unused tax losses or unused tax credits expire; (c) whether the unused tax losses result from identifiable causes which are unlikely to recur; and (d) whether tax planning opportunities (see paragraph 30) are available to the entity that will create taxable profit in the period in which the unused tax losses or unused tax credits can be utilised.

	To the extent that it is not probable that taxable profit will be available against which the unused tax losses or unused tax credits can be utilised, the deferred tax asset is not recognised.

Recommendations for application according to French accounting standards

There is no question over deferred tax receivables whose recovery does not depend on future results. These amounts are deducted up to the amount of deferred tax liabilities already recognised that fall due in the period during which these receivables become or remain recoverable.

Where the recovery of deferred tax receivables depends on future results, these will only be booked as assets if the company is likely to recover them as a result of an expected profit. It is presumed that such a profit will not exist when the entity has incurred losses during the last two financial years. For entities incurring losses following the Covid-19 event but that have made profits in previous years, these losses alone do not jeopardise the likelihood of deferred tax receivables being offset. If these losses were to recur over two financial years, these deferred tax assets would no longer be taken into account, unless convincing evidence of the probability of their recovery from future profits was provided.

Answer G3 - French accounting standards: Where the recovery of deferred tax receivables depends on future results, such receivables will only be booked as assets if the entity is likely to recover them as a result of an expected profit. As outlined in CRC Regulation 99-02, it is presumed that such a profit will not exist when the entity has incurred losses during the last two financial years.

Comments on the implementation of international accounting standards

There is no question over the existence of taxable temporary differences as a result of Covid-19. Consequently, an entity with taxable temporary differences to which it is likely to allocate deferred tax assets should not be required to derecognise them.

For deferred tax assets that are not offset against taxable differences, the entity shall ensure that the asset still meets the conditions set out in paragraphs 29 et seq. of IAS 12 following the changes induced by the event, on the basis of revised tax planning documents.

Answer G3 - International accounting standards: For deferred tax assets not offset against taxable differences, the entity must ensure that they still meet the conditions set out in IAS 12.29.

2.2 Implications for the recognition and measurement of liabilities

2.2.1 Impact on debt

Question H1: In which accounting category should state-guaranteed loans be classified?

General background

Until 31 December 2020, certain companies defined by ministerial order (including companies, traders, craftsmen, farmers, self-employed, micro-enterprises, real estate non-trading companies, associations and foundations with an economic activity), with the exception of credit institutions and finance companies, will be able to apply to their usual bank for a state-guaranteed loan to support their cash flow.

This loan may equate to up to three months of turnover for the year 2019, or two years of payroll for innovative companies or companies created since 1 January 2019.

No repayments will be required in the first year. After one year, the company may choose to amortise the loan over a maximum of five years.

Reminder of standards

French accounting standards	International Accounting Standards
Article 833-13, General Chart of Accounts Information to be provided in the notes to the financial statements: 1- Maturity of debts at the end of the financial year: Debts are classified on the basis of the time remaining to maturity, distinguishing between debts due within one year, between one year and five years, and more than five years. (…) **Article 941-16, General Chart of Accounts** Account 16 "Borrowings and similar liabilities" records borrowings and financial liabilities similar to borrowings, with the exception of those recorded in account 17 "Debts related to participating interests". The accounts 161 "Convertible bonds", 163 "Other bonds", 164 "Borrowings from credit institutions", 165 "Deposits and guarantees received", 166 "Employee profit-sharing", 167 "Loans and debts with special conditions" and 168 "Other loans and similar debts" can be subdivided to identify:	**IAS 1.69** An entity shall classify a liability as current when: (a) it expects to settle the liability in its normal operating cycle; (b) it holds the liability primarily for the purpose of trading; (c) the liability is due to be settled within twelve months after the reporting period; or (d) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. An entity shall classify all other liabilities as non-current. **IAS 1.73** If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity

- borrowings and similar debts contracted in France and abroad, in national or foreign currencies; - the portion of borrowings and similar debts with long-term, medium-term or short-term maturities. (…) Bank overdrafts are not recorded in account 164 "Borrowings from credit institutions". They are recorded in a specific account: 519 "Bank overdrafts".	does not consider the potential to refinance the obligation and classifies the obligation as current.

Recommendations for application according to French accounting standards

In view of the financial nature of this debt and the fact that the entity has the scope to request repayment beyond the initial 12-month period, this debt is considered as a loan from credit institutions (account 164).

In view of the nature of the scheme, the ANC recommends classifying this debt in the notes to the financial statements and at the bottom of the balance sheet with a maturity of more than 12 months unless at the date the accounts are drawn up, the entity has decided to pay back the state-guaranteed loan within 12 months of the end of the financial year.

Answer H1 - French accounting standards: On subscription, the state-guaranteed loan is recorded as a loan from credit institutions (account 164). It is mentioned in the notes as a debt due in more than one year unless the entity has decided not to request amortisation over an additional period.

Comments on the implementation of international accounting standards

On subscription, the state-guaranteed loan is classified as a non-current liability. At the end of the reporting period, if the entity has decided not to request amortisation over an additional period, the current portion of the loan is classified as a current liability.

Answer H1 - International Accounting Standards: On subscription, the state-guaranteed loan is classified as a non-current liability. At the end of the reporting period, if the entity has decided not to seek amortisation over an additional period, the entity classifies the current portion of the loan as a current liability.

Question H2: What is the accounting policy for the cost of guaranteeing state-guaranteed loans?

General background

Under the French state-guaranteed loan scheme (*prêt garanti de l'état* or PGE), the guarantee fees, borne by the borrower, are collected from the lending institution for the portion guaranteed by BPI Financement SA ("BPI") in the name, on behalf and under the control of the State, on the first occasion when the guarantee is granted: they are also collected on a second occasion if necessary when the borrower exercises the clause allowing it to amortise the loan over an additional period calculated in number of years.

However, in accordance with the State's request that the borrower should not have to disburse anything in the first year, the professional or company will not be asked to pay for the first 12 months after signature: the bank will therefore carry the cost of the guarantee for the first 12 months.

The premium applies to the outstanding capital. A distinction must be made with regard to its payment i.e. between payment from the debtor to the lender and payment from the lender to BPI, on behalf of the State:

- ✓ For the premium due for the first year, the lender pays BPI the premium due to the State when the loan is notified, but the debtor only pays the premium to the lender after 12 months.
- ✓ For premiums due in respect of other years, the lender pays BPI the premium due to the State in one instalment, as soon as the new schedule is notified at the end of the first year, by applying the annual scale of premiums fixed by decree to the capital still due at the beginning of each year. However, it spreads the collection of the premium from the debtor over the period of amortisation of the state-guaranteed loan.

For large firms for which the guarantee is granted by individual decree, the premium accruing to the State is paid to BPI as soon as the loan is disbursed.

Looking to the interest rate of the state-guaranteed loan, banks as represented by the President of the French Banking Federation undertook to grant the state-guaranteed loans at 'cost price'. In practical terms, this means that the rate for the borrower is the so-called resource rate of the lending bank, currently close to 0% for the first year, plus the guarantee premium, applied to the loan principal: the scale for this is public and depends on the size of the firm and the maturity of the guaranteed loan (Source FAQ, State-guaranteed loan, 23 April 2020, Ministry for the Economy, page in French only).

Reminder of standards

French accounting standards	International Accounting Standards
Article 941-16, General Chart of Accounts Account 16 "Borrowings and similar debts" records borrowings and financial debts similar to borrowings, except for those recorded in account 17 "Debts related to participating interests". Accrued interest on loans and debts is grouped in a subdivision of account 168.	

The cost of the guarantee is recorded in account 627 "Banking and similar services" (see Article 932-1°).	

Recommendations for application according to French accounting standards

The cost of the State guarantee is to be expensed when the loan is granted, even if it is not disbursed by the entity when the funds are made available. At the end of the financial year, an adjustment is made through the accruals and deferrals accounts to take account of the fact that the expenses are linked to the financial year: the same applies to interest, but in practice this is close to zero.

Regardless of the entity's intentions, only the cost of the guarantee for a 12-month loan is expensed when the loan is granted. The additional cost related to the guarantee will be expensed when the borrower exercises its option to repay the loan over an additional period. This cost will be allocated to each fiscal year in accordance with the usual methods for allocating expenses.

Answer H2 - French accounting standards: Only the cost of the guarantee for a 12-month loan is expensed. The additional cost related to the cost of the guarantee will be expensed when the borrower exercises its option to repay the loan over an additional period. These costs are expensed to each fiscal year.

Comments on the implementation of international accounting standards

Question being processed

Question H3: What is the accounting policy for rescheduling and deferring tax and social security debts?

General background

Among the government measures, some provide for the deferral or rescheduling of certain tax and social security debt (see Question K1).

Reminder of standards

French accounting standards	International Accounting Standards
Article 321-4, General Chart of Accounts A debt is a definite liability with a fixed maturity and amount. **Article 322-1, General Chart of Accounts** Except as provided in sections 322-4 and 322-13, a liability is recognised when the entity has an obligation to a third party and it is probable or certain that the obligation	<u>Concerning tax liabilities</u> Tax liabilities (IAS 32.AG12) are not financial liabilities as they are not contractual. The entity recognises (IAS 12.12):

will result in an outflow of resources to the third party without at least equivalent consideration expected from the third party.	- a liability in the balance sheet for current and prior periods' income tax expense not yet paid; - an asset if the amount of current tax paid exceeds the amount due. <u>Concerning social debts</u> **IAS 19.11** When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service: (a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund. (b) as an expense, unless another IFRS requires or permits the inclusion of the benefits in the cost of an asset

Recommendations for application according to French accounting standards

Rescheduling or deferring the repayment of social security and tax debt does not change its nature and therefore has no effect on its initial recognition or amount.

The debt in question was recorded in the financial year in which the obligation to the creditor arose (in accordance with Article 322-1 of the General Chart of Accounts). It was contracted in accordance with the rules for recognising liabilities and it remains due, regardless of its terms of settlement.

Information on these transactions is provided in the notes to the financial statements regarding this operation (see question B2).

Comments on the implementation of international accounting standards

The rescheduling or deferral of a debt does not change the nature of this debt. These debts remain part of the entity’s normal operating cycle.

Answer H3: Rescheduling or deferring the settlement of tax or social security debt does not change the nature of this debt and therefore has no effect on its initial recognition or amount. Depending on the nature of the debt, its rescheduling or deferral could result in the discounting of the amount due, if the effect is significant.

Question H4: What is the accounting policy for trade debt rescheduling and deferrals?

General background

Some government measures provide for the option of deferring or rescheduling certain trade debt, such as rents and energy-related expenses (see question K1). Some entities may also have negotiated debt rescheduling or deferrals of their trade payables on an arm's length basis.

Reminder of standards

French accounting standards	International Accounting Standards
Article 321-4, General Chart of Accounts A debt is a definite liability with a fixed maturity and amount. **Article 322-1, General Chart of Accounts** Except as provided in sections 322-4 and 322-13, a liability is recognised when the entity has an obligation to a third party and it is probable or certain that the obligation will result in an outflow of resources to the third party without at least equivalent consideration expected from the third party.	**Case of financial liabilities (trade payables)** An entity shall recognise a financial liability in its statement of financial position when, and only when, it becomes a party to the contractual provisions of the instrument (IFRS 9.3.1.1). The standard provides examples of the application of this principle (IFRS 9.B3.1.2), in particular: - Unconditional receivables and payables are recognised as assets or liabilities when the entity becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash. (IFRS 9.B3.1.2a). **IFRS 9.5.1.1.** Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. **IFRS 9.3.3.1** An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished-ie when the obligation specified in the contract is discharged or cancelled or expires. **Rental contracts** Pending new provisions proposed by the IASB in an amendment to IFRS 16 (See Question K2).

Recommendations for application according to French accounting standards

Rescheduling or deferring the settlement of a debt does not change the nature of this debt and therefore has no effect on its initial recognition.

The debt in question was recorded in the financial year in which the obligation to the creditor arose (in accordance with Article 322-1 of the General Chart of Accounts). It was contracted in accordance with the rules for recognising liabilities, and remains due, regardless of its terms of settlement.

Information on these transactions is provided in the notes to the financial statements regarding this operation (see question B2).

Answer H4 - French accounting standards: Rescheduling or deferring the settlement of trade debt does not change the nature of this debt and therefore has no effect on its initial recognition or amount.

Comments on the implementation of international accounting standards

A trade debt is another financial liability. As such, it could be discounted if the rescheduling or deferral of settlement of these debts were to have a significant effect.

Answer H4 - International accounting standards: Rescheduling or deferring the settlement of trade debt could result in the discounting of the amount due, if the effect is significant.

Question H5: What is the accounting policy for debt write-offs?

General background

In light of the Covid-19 event, certain entities could benefit from debt write-offs by their suppliers, partners or other third parties, in some cases with a "better fortunes" clause.

Reminder of standards

French accounting standards	International Accounting Standards
Article 321-4, General Chart of Accounts A debt is a definite liability with a fixed maturity and amount. **Article 321-5, General Chart of Accounts** A provision is a liability for which the timing or amount is not precisely fixed. **Article 321-6, General Chart of Accounts** A contingent liability is:	**IAS 32.25** A financial instrument may require the entity to deliver cash or another financial asset, or otherwise to settle it in such a way that it would be a financial liability, in the event of the occurrence or non-occurrence of uncertain future events (or on the outcome of uncertain circumstances) that are beyond the control of both the issuer and the holder of the instrument, such as a change in a stock market index, consumer price index, interest rate or taxation requirements, or the issuer's future revenues, net income or debt-to-equity ratio. The issuer of such an instrument does not have the unconditional

- a potential obligation for the entity to a third party arising from events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; - an obligation for the entity to a third party that is not probable or certain to result in an outflow of resources without at least equivalent consideration expected from the third party. **Article 322-1, General Chart of Accounts** Except as provided in sections 322-4 and 322-13, a liability is recognised when the entity has an obligation to a third party and it is probable or certain that the obligation will result in an outflow of resources to the third party without at least equivalent consideration expected from the third party.	right to avoid delivering cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability). Therefore, it is a financial liability of the issuer unless: (a) the part of the contingent settlement provision that could require settlement in cash or another financial asset (or otherwise in such a way that it would be a financial liability) is not genuine; (b) the issuer can be required to settle the obligation in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) only in the event of liquidation of the issuer; or (c) the instrument has all features and meets the conditions in paragraphs 16A and 16B. **IFRS 9.3.3.1** An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished-ie when the obligation specified in the contract is discharged or cancelled or expires. **IFRS 9.B3.3.1** A financial liability (or part of it) is extinguished when the debtor either: (a) discharges the liability (or part of it) by paying the creditor, normally with cash, other financial assets, goods or services ; or (b) is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor. (If the debtor has given a guarantee this condition may still be met.) **IFRS 9.3.3.2** An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. **IFRS 9.3.3.3** The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss. **IFRS 9.5.1.1.**

	Except for trade receivables that are within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. **IFRS 9.5.1.1A** However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, the entity shall apply paragraph B5.1.2A.

Recommendations for application according to French accounting standards

When a debt is written off and there is no longer an obligation towards a third party, this debt is derecognised from the entity's balance sheet with an offsetting entry on a management account (see question K3).

When a debt is written off but with a so-called "better fortunes" clause, the debt no longer features on the balance sheet. The entity will have to analyse the financial recovery clauses with regard to the provisions relating to debts and liabilities. In the event of a return to better fortunes, the amounts due once more to the creditor that agreed to waive the debt are recognised as a liability upon the occurrence of the triggering event provided for in the clause .

Information on these transactions is provided in the notes to the financial statements (see question B2).

Answer H5 - French accounting standards: A debt that has been written off is derecognised from the entity's balance sheet. When a debt is cancelled but with a "better fortunes" clause, the entity recognises the return to better fortunes upon the occurrence of the triggering event provided for in the contractual clauses. Information relating to these clauses is provided in the notes to the financial statements.

Comments on the implementation of international accounting standards

When a debt is written off and there is no longer an obligation to a third party, said debt shall be derecognised from the entity's balance sheet.

When debt is written off but with a "better fortunes" clause, the entity does not have an unconditional right to avoid paying out the amounts. Generally, the debt forgiveness with a "better fortunes" clause will be analysed as resulting in a substantial modification of the terms and conditions of the original debt. In accordance with paragraph 3.3.2 of IFRS 9, the debt is derecognised from the balance sheet and a new debt is recorded in the entity's balance sheet at fair value, taking into account the uncertain nature of its repayment.

Answer H5 - International accounting standards: A debt that has been written off is derecognised from the entity's balance sheet. When a debt is cancelled but with a "better fortunes" clause, a new debt is recorded on the entity's balance sheet at its fair value, taking into account the uncertain nature of its repayment.

Question H6: What is the accounting policy for deferred repayment of financial debt?

General background

Several measures have been decided by banking institutions, including the deferral of debt repayments for companies for up to six months (French Banking Federation press release of 15 March 2020).

Reminder of standards

French accounting standards	International Accounting Standards
French accounting standards do not address cases of debt rescheduling and renegotiation.	**IFRS 9.3.3.1** An entity shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished-ie when the obligation specified in the contract is discharged or cancelled or expires. **IFRS 9.3.3.2** An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. **IFRS 9.B.3.3.6** For the purpose of paragraph 3.3.2, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Recommendations for application according to French accounting standards

Steps taken by banks to allow the deferral of debt (capital) repayments for up to six months have no effect on the presentation of this debt on the entity's balance sheet.

Information on these operations is provided in the notes to the financial statements (see question B2).

Answer H6 - French accounting standards: Steps taken by banks to allow debt repayments to be deferred for up to six months have no effect on the presentation of the debts in question on the entity's balance sheet.

Comments on the implementation of international accounting standards

In light of the deferral of debt repayments for businesses for up to six months and without further modification, the debt will probably not be derecognised and changes in cash flows will be treated as a change in debt. As a result, the carrying amount of the debt will have to be adjusted to reflect the changes i.e. discounting the new flows at the original effective interest rate.

Information must be provided in the notes to the financial statements on the impact of these changes. This information is provided for interim financial statements if it is material and relevant.

Answer H6 - International accounting standards: The simple deferral of debt repayments for up to six months will be considered as a change in debt that does not result in its derecognition in the majority of cases.

Question H7: What is the accounting policy for financial debts that have become payable as a result of the application of bank covenants?

General background

As a result of the Covid-19 event, some companies may no longer be able to comply with the financial ratios provided for in the covenants of their bank loan agreements. When companies fail to comply with covenants, the loan may become immediately due and payable, where applicable after notification by the lender if the contractual provisions so provide.

This situation could also lead some entities to renegotiate the terms of their borrowings in order to avoid the application of the covenant clause.

Reminder of standards

French accounting standards	International Accounting Standards

In accordance with Article R 123-196 of the French Commercial Code (7°), the General Chart of Accounts requires the classification of debts according to their remaining term to maturity to be provided in the notes to the financial statements, where the information is material, distinguishing between: - debts due within one year (current); - those of more than one year and five years at the most; - and those more than five years. • Cf. articles 831-2, 832-13 (to 1), 833-13 (to 1) and 834-10 (to 1) of the General Chart of Accounts.	Under IAS 1, when an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date. (IAS 1.74). However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment. (IAS 1.75). In respect of loans classified as current liabilities, if the following events occur between the end of the reporting period and the date the financial statements are authorised for issue, those events are disclosed as non-adjusting events in accordance with IAS 10 Events after the Reporting Period: (a) refinancing on a long-term basis; (b) rectification of a breach of a long-term loan arrangement; and (c) the granting by the lender of a period of grace to rectify a breach of a long-term loan arrangement ending at least twelve months after the reporting period. (IAS 1.76)

Recommendations for application according to French accounting standards

Breaching the covenant at the end of the reporting period has an impact on the way the debt is presented in the notes to the financial statements.

In the event that the loan becomes immediately due and payable, it must therefore be reclassified in full as current in the statement of receivables and payables in the notes to the financial statements and in the footnote at the bottom of the balance sheet.

If the amount of the loan is significant, information must be provided in the notes to the financial statements, specifying the terms of the covenant (ratio in question, notification by the bank), its breach and the resulting consequences on the presentation in the statement of receivables and payables referred to above.

The impact of these renegotiations must be taken into account to ensure the going concern principle.

This restatement will only be valid if the covenant breach is effective at the end of the financial year. If the borrowing entity has renegotiated with its lender to render the covenant ineffective before that date, there is no need to reclassify the loan. Information will be given in the notes on this renegotiation if the debt in question is material. Conversely, if this renegotiation is concluded between the end of the reporting period and the date of preparation of the financial statements, it is a post-closing event that does not lead to a change in the statement of receivables and payables. Information will be given in the notes to the financial statements if the loan is significant.

In the event of a breach of the covenant between the end of the reporting period and the date of preparation of the financial statements, this will also be an event subsequent to the closing that will not lead to a change in the classification of the debt in the statement of receivables and payables for the financial year. However, information will be provided in the notes to the financial statements on this breach if the debt is material.

Answer H7 - French accounting standards: In the event of a breach of covenant at the end of the reporting period, the debt is reclassified in its entirety as current in the statement of debt maturities. In the event of a breach of covenant at the end of the reporting period making the debt payable on that date, but having been renegotiated prior to this closing date, there is no need to reclassify the debt. In the event of a breach of covenant between the end of the reporting period and the date of preparation of the financial statements, this is a post-closing event that must be disclosed in the notes to the financial statements.

Comments on the implementation of international accounting standards

In the event of a breach of covenant at the end of the reporting period, IAS 1 requires the non-current liability debt to be reclassified in the balance sheet as a current liability, even if renegotiations of the terms of the loan contract have been concluded between the end of the reporting period and the date of preparation of the financial statements allowing the immediate repayment of the debt to be deferred (IAS 1.74). Where the contract provides for notification by the lender, the same will apply if the lender has not done so before the balance sheet date.

Similarly, this reclassification should be conducted if the debtor has renegotiated the loan at the end of the reporting period but obtained a period of less than 12 months from the balance sheet date to comply with the covenants again (IAS 1.74 and 75).

If the breach of the covenant occurs between the end of the reporting period and the date of preparation of the financial statements, it is not necessary to take this into account in the balance sheet, as it is an event subsequent to the closing, but information in the notes to the financial statements is required.

Answer H7 - International accounting standards: In the event of a covenant breach at the end of the reporting period, the non-current liability is reclassified to current liabilities. If the covenant breach occurs between the end of the reporting period and the date of preparation of the financial statements, it is a post-closing event that must be disclosed in the notes to the financial statements.

2.2.2 Impact on provisions

Question I1: Can provisions be recognised for future operating losses?

General background

As a result of the Covid-19 event, some entities are expecting future operating losses and are reconsidering their provisions.

Reminder of standards

French accounting standards	International Accounting Standards
Article 322-12, General Chart of Accounts Provisions are not recognised for future operating losses, which do not meet the definition of a liability under Article 321-1.	Paragraph 63 of IAS 37 (Liabilities, Contingent Liabilities and Contingent Assets) prohibits the recognition of provisions for future operating losses. Within the meaning of paragraph 64 of the standard, this principle is justified to the extent that future operating losses do not meet either the definition of a liability or the general recognition criteria set out for provisions.

Recommendations for application according to French accounting standards

According to French accounting standards, provisions cannot be recognised for future operating losses as they do not meet the definition of a liability (in particular because they do not result from an obligation to a third party).

However, operating losses on a business may be considered as an indication of impairment of the assets or group of assets related to that activity and therefore lead to the performance of an impairment test (see question C1).

Comments on the implementation of international accounting standards

Similar to French accounting standards, provisions cannot be recognised for future operating losses.

Answer I1: Provisions cannot be recognised for future operating losses.

Question I2: Under what circumstances is a provision for contract loss recognised?

General background

As a result of the Covid-19 event, certain contracts that were previously profitable may now prove to be loss-making.

Reminder of standards

French accounting standards	International Accounting Standards
Article 322-9, General Chart of Accounts A loss on a contract shall be recognised as a provision as soon as it becomes probable. **Article 622-6, General Chart of Accounts** Whether the entity applies the completed contract or percentage-of-completion method, the probable total loss is recognised as a provision, less any losses already recognised. In the presence of several calculation assumptions, the loss provisioned is the most probable of them or, failing that, the lowest. In this case, Article 833-20/4 provides for an appropriate description in the notes to the financial statements of the additional risk measured in relation to the lowest loss assumption. Losses that cannot be reasonably estimated do not give rise to a provision but to information in the notes to the financial statements as provided for in the aforementioned article.	An onerous contract is one in which the unavoidable costs of meeting the contractual obligations exceed the economic benefits to be received under it (IAS 37.10 and .68). If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. (IAS 37.67)

Recommendations for application according to French accounting standards

In accordance with the general rules for recognising a liability, a provision must be recognised for a probable loss on a contract when the following conditions are met: existence of an obligation at the end of the reporting period due to a contract signed before the end of the reporting period and a probable outflow of resources at the date the financial statements are prepared.

The General Chart of Accounts does not provide guidance on the measurement of the provision. However, the amount of the provision will not include losses already recognised.

In the case of multi-year contracts, the use of discounting can have a significant influence: it can be used, but there is no obligation.

In the unusual event that no reliable measurement of the loss can be made, the provision will not be recognised. However, a disclosure will have to be made in the notes to the financial statements.

<u>Scenario of a loss on completion under a long-term contract</u>

When the most probable outcome of a long-term contract is a loss, the recognition of a provision depends on whether or not the provision can be reasonably estimated, generally based on assumptions:

- ✓ if so and in the presence of several calculation assumptions, a provision should be recognised for the loss corresponding to the most probable of them. If it is not possible to determine the most likely hypothesis, the loss corresponding to the lowest scenario should be recognised as a provision (Article 622-6, General Chart of Accounts) and the possible additional risk should be mentioned in the notes (General Chart of Accounts Article 833-20/4);
- ✓ if not, the loss does not give rise to a provision, but the existence and nature of the uncertainty are disclosed in the notes (Article 622-6, General Chart of Accounts).

Answer I2 - French accounting standards: A provision must be recognised for a loss on a contract when the conditions for recognising a liability are met.

Comments on the implementation of international accounting standards

The Covid-19 event does not change the conditions for recognising or measuring provisions for onerous contracts.

Answer I2 - International accounting standards: The Covid-19 event does not change the conditions for recognising or the methods for measuring provisions for onerous contracts.

Question I3: Under what circumstances is a provision for restructuring recognised?

General background

In light of the Covid-19 event, a reminder is provided on the circumstances for recognising a provision for restructuring.

Reminder of standards

French accounting standards	International Accounting Standards
Article 322-10, General Chart of Accounts Restructuring costs are a liability if they result from an obligation of the entity towards third parties, originating from the decision taken by the competent body, and evidenced before the end of the reporting period by the announcement of this decision to the third parties concerned, and provided that the entity no longer expects any consideration from them. **Article 322-11, General Chart of Accounts**	A provision for restructuring costs should be recognised if the three general conditions for recognising provisions are met by the end of the reporting period (IAS 37.18, .72 and .75). These conditions are as follows (IAS 37.14): (a) an entity has a present obligation (legal or constructive) as a result of a past event; (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation.

The costs of restructuring that is conditional on a financial transaction such as a disposal of a business cannot be recognised as a provision until the entity is committed to an irrevocable agreement. **Article 323-5, General Chart of Accounts** A provision for restructuring should only include those expenses necessarily incurred as a result of the restructuring that are not related to future operations. Restructuring - CNC Notice No. 00-01 of April 20, 2000 relating to liabilities […] Formalisation of the restructuring plan The existence of the obligation requires the decision to be reflected in a formalised and detailed restructuring plan specifying at least: - the activity or part of the activity concerned; - the main sites affected; - the location, function and approximate number of staff members who will be compensated for the termination of their employment contracts; - the expenses that will be incurred; and - the date on which the plan will be implemented. An obligation to dispose of a business is not established until the entity is irrevocably committed to a sale by a sale agreement. The decision to sell an operation and its public announcement are not sufficient to constitute an obligation by the entity. Formalisation of the obligation The obligation arises if the third parties concerned are entitled to expect the entity's implementation of the restructuring plan, either because the plan has already begun to be implemented or following a public announcement of its main features. The dismantling of a plant, the sale of assets or the public announcement of the main features of the plan show that an entity has started to implement a restructuring plan. The public announcement of a detailed restructuring plan is an obligation only if: - it contains sufficient detail on the main features of the plan; - it is communicated to all persons concerned; and - its implementation is scheduled to be completed within a period of time that makes it unlikely to be changed.	If these conditions are not met, no provision shall be recognised. IAS 37.72 specifies the conditions for the existence of a constructive obligation to restructure: (a) has a detailed formal plan for the restructuring identifying at least: (i) the business or part of a business concerned; (ii) the principal locations affected; (iii) the location, function, and approximate number of employees who will be compensated for terminating their services; (iv) the expenditures that will be undertaken; and (v) when the plan will be implemented; and (b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. Valuation of the provision IAS 37.80 specifies that a restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both: (a) necessarily entailed by the restructuring; and (b) not associated with the ongoing activities of the entity. The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. (IAS 37.36 and .37). This estimate takes into account: - the risks and uncertainties existing at the end of the reporting period (IAS 37.42); and - changes to reflect adjusting events after the reporting period. (IAS 10.3 and .8). In addition, uncertainties about the amount and timing of the costs provided for should be disclosed in the notes (IAS 37.44 and .85b).

If a significant period of time is expected to elapse before the start of the restructuring or until its implementation, the plan does not create a valid expectation on the part of third parties because the entity can then change its plans. The announcement to the third parties concerned is not necessarily made individually. A public announcement or, in the case of employees, an announcement to staff representatives is sufficient. Contract termination compensation for staff members The obligation is defined by the law, regulation or the contract governing collective dismissals or other forms of termination of employment contracts. The obligation is evidenced by: - a decision being made before the end of the reporting period by the competent body where that body includes staff representatives; or in other cases, - the announcement before the end of the reporting period to those concerned or their representatives of the decision taken by the competent body. - Compensation is payable to employees for whom the entity does not expect to receive further consideration in the future. This compensation is a liability, and its timing and amount are generally uncertain; a provision for contingencies and losses must therefore be recognised. Other restructuring costs Other costs resulting from a restructuring decision only constitute a liability to the extent that the entity does not expect any consideration from the third parties concerned in the future. For example, this is the case of compensation for the termination of a contract with a supplier. Conversely, expenditure on training or relocating retained staff, expenditure on harmonising information systems and distribution networks and marketing expenditure are not liabilities. Similarly, provisions cannot be recognised for identifiable future operating losses up to the date of a restructuring.	

Recommendation for application according to French accounting standards

The Covid-19 event does not change the conditions for recognising or the methods for measuring restructuring provisions. A provision for restructuring is recognised only when the entity has an obligation to third parties arising from a decision taken by the competent body, as evidenced before the end of the reporting period by the announcement of this decision to the third parties concerned, and up to the amount of the costs for which the entity no longer expects any consideration from the third parties.

Comments on the implementation of international accounting standards

The Covid-19 event does not change the conditions for recognising (see IAS 37.72) or the methods for measuring (see IAS 37.36 and .37) restructuring provisions.

Answer I3 - The Covid-19 event does not change the conditions for recognising or the methods for measuring restructuring provisions.

Question I4: What disclosures are required in the absence of a reliable measurement of a liability?

General background

Given the uncertain nature of the impacts of the Covid-19 event (duration and resurgence of the epidemic and lockdown measures, etc.), it may be difficult for entities to measure certain liabilities.

Reminder of standards

French accounting standards	International Accounting Standards
Article 322-4, General Chart of Accounts A liability is not recognised in exceptional cases where the amount of the obligation cannot be measured with sufficient reliability. **Article 321-6, General Chart of Accounts** A contingent liability is: - a potential obligation of the entity to a third party arising from events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; - or an obligation of the entity to a third party that is not probable or certain to result in an outflow of resources without at least equivalent consideration expected from the third party. **Article 833-12 (paragraph 3), General Chart of Accounts** In the exceptional case that no reliable measurement can be made of the amount of a liability obligation, the following information is provided: - description of the nature of this liability; - indication of uncertainties on the amount or timing of any outflow of resources.	**IAS 37.13** This standard distinguishes between: (b) contingent liabilities, which are not recognised as liabilities because they are:present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made). **IAS 37.26IAS 37.26** In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability. **IAS 37.27IAS 37.27** An entity shall not recognise a contingent liability. **IAS 37.28** A contingent liability is disclosed in the notes, as required by paragraph 86, unless the likelihood of unless the possibility of an outflow of resources embodying economic benefits is remote.

Recommendations for application according to French accounting standards

The General Chart of Accounts expressly provides for circumstances where a liability cannot be measured with sufficient reliability by excluding recognition but requiring disclosure in the notes: this situation must remain exceptional.

Comments on the implementation of international accounting standards

According to IAS 37, a liability for which the amount of the obligation cannot be estimated with sufficient reliability is a contingent liability that should not be recognised but for which information is given in the notes.

Answer I4: In the exceptional (according to French accounting standards) or extremely rare (according to international accounting standards) case where no reliable measurement of the amount of the obligation can be made, the liability is not recognised. Information on this contingent liability is provided in the notes to the financial statements.

2.3 Implications for income recognition and measurement

Question J1: What is the accounting policy for grants for part-time working job retention schemes?

General background

Appropriate compensation measures for part-time working job retention schemes have been set up in France to address the exceptional situation related to this event.

The principle of this grant remains the same. The employer pays the employee an allowance equivalent to 70% of his/her gross hourly pay, which may not be less than €8.03, except for employees on an apprenticeship or traineeship contract. This equates to approximately 84% of the employee's net salary on average, up to a maximum of 4.5 the minimum wage, with a minimum of €8.03 per hour. The employer receives a grant covering this compensation.

Payment of this grant is made by the Service and Payment Agency (SPA), which acts on behalf of the French State.

Reminder of standards

French accounting standards	International Accounting Standards
Article 512-4, General Chart of Accounts For the purpose of calculating profit or loss by the difference between income and expenses for the year, income earned in that year, to which may be added income	**IAS 20.3** (…) Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to

earned in previous years but which, by error or omission, was not then recorded in the accounts, is included in the financial year. **Article 947-79, General Chart of Accounts** Account 79 "Transfers of expenses" records operating, financial and extraordinary expenses to be transferred either to a balance sheet account other than fixed asset accounts, or to another expense account.	the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity. (…) **IAS 20.7** Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that: (a) the entity will comply with the conditions attaching to them; and (b) the grants will be received. **IAS 20.8** A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled. **IAS 20.29** Grants related to income are presented as part of profit or loss, either separately or under a general heading such as « Other income »; alternatively, they are deducted in reporting the related expense. **IAS 20.30** Supporters of the first method claim that it is inappropriate to net income and expense items and that separation of the grant from the expense facilitates comparison with other expenses not affected by a grant. For the second method it is argued that the expenses might well not have been incurred by the entity if the grant had not been available and presentation of the expense without offsetting the grant may therefore be misleading. **IAS 20.31** Both methods are regarded as acceptable for the presentation of grants related to income. Disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

Recommendations for application according to French accounting standards

The grant is recorded in the accounts as soon as the entity complies with the substantive and formal conditions giving entitlement to this grant.

The ANC recommends crediting this grant to the payroll expenses account and does not recommend that this grant be recorded as extraordinary income (see question B6.A).

Where an entity has received compensation of this nature in the past, it may either continue to use the same accounting policy or follow the ANC's recommendation, which subsequently becomes the new accounting policy subject to the application of consistent accounting policies.

Answer J1 - French accounting standards: The ANC recommends that this grant be credited to the payroll expenses account.

Comments on the implementation of international accounting standards

This grant is paid by the Service and Payment Agency (SPA) acting on behalf of the French State, and is to be recorded as a government grant as defined by IAS 20.3. IAS 20.29 states that the grant may be deducted in reporting the related expense. It may also be recorded as 'other income'. In this case, in the absence of the standardised subtotals in the income statement provided for in IAS 1, the level of profit or loss affected by the grants is not specified.

Additionally, for entities drawing up their consolidated accounts in accordance with recommendation ANC 2020-01 on the format of consolidated accounts of companies drawn up in accordance with international accounting standards, since payroll costs are one of the components of current operating result, the grant proceeds should be entered before this subtotal.

Answer J1 - International Accounting Standards: The grant received for the part-time working job retention scheme is considered a grant as defined by IAS 20.

Question J2: What is the accounting policy for the solidarity fund for very small businesses, micro-enterprises and the self-employed?

General background

Support of up to €3,500 (Decree 2020-371 of 30 March 2020) is available to very small businesses, the self-employed, and micro-enterprises with turnover of less than €1 million and annual taxable profit of less than €60,000 and which have:

- ✓ undergone closure due to government measures;
- ✓ or suffered a drop in turnover of more than 50% in March 2020 compared to March 2019.

From 1 April, all companies concerned are able to make a simple online declaration on the website impots.gouv.fr to receive support of up to €1,500.

From 15 April onwards, the companies that are experiencing the greatest difficulties are eligible for additional support from the regional authorities on a case-by-case basis.

These support measures take the shape of a grant.

Reminder of standards

French accounting standards	International Accounting Standards
Article 512-4, General Chart of Accounts For the purpose of calculating profit or loss by the difference between income and expenses for the year, income earned in that year, to which may be added income earned in previous years but which, by error or omission, was not then recorded in the accounts, is included in the financial year. **Article 947-74, General Chart of Accounts** 74: Operating subsidies Account 74 "Operating subsidies" is credited with the amount of operating subsidies received by the entity by debiting the relevant third party or cash account.	In view of the scope of this aid, the entities concerned do not draw up consolidated accounts. Among the conditions for receiving this aid, the entities must not be owned by a commercial company as defined by Article L. 233-3 of the French Commercial Code.

Recommendations for application according to French accounting standards

Aid from the Solidarity Fund is entered as an operating subsidy (account 74) once the entity has applied for it and believes that it meets the conditions for receiving it.

Answer J2 - French accounting standards: The ANC recommends recording this aid as an operating subsidy (account 74).

Comments on the implementation of international accounting standards

In view of the scope of this aid, the entities concerned do not draw up consolidated accounts.

Question J3: What is the accounting policy for tax credit and VAT prepayments?

General background

Companies benefiting from one or more tax credits that can be refunded in 2020 can now request the refund of the balance of the available claim, after deduction, if applicable, from their corporate income tax due for the 2019 financial year, without waiting for the filing of the corporate income tax return ("*liasse fiscale*").

Similarly, VAT credit refunds will be accelerated.

Reminder of standards

French accounting standards	International Accounting Standards
Article 512-4, General Chart of Accounts For the purpose of calculating profit or loss by the difference between income and expenses for the year, income earned in that year, to which may be added income earned in previous years but which, by error or omission, was not then recorded in the accounts, is included in the financial year.	**IAS 1.27** An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

Recommendations for application according to French accounting standards

This is a change in the administrative procedure: the early repayment of a tax credit has no impact on the recognition of income and expenses.

Comments on the implementation of international accounting standards

Similar to French accounting standards, a transaction of this nature has no impact on net income, subject to possible discounting effects or the re-assessment of any related provisions.

Answer J3: In most cases, the early repayment of a tax and VAT credit has no impact on the income statement.

Question J4: What is the accounting policy for addressing changes in contracts – total or partial cancellation, price reduction, discount – resulting from the effects of Covid-19 for the seller?

General background

In view of the financial and organisational difficulties encountered by certain entities, an entity's clients may:

- ✓ have difficulty paying the amount owing for the goods sold or services rendered,
- ✓ make greater use of their right to return.

The entity may grant its customers additional payment terms, price reductions, discounts and rebates in order to support its customers and its business opportunities.

In addition, suppliers may have to:

- ✓ ask for a deposit,
- ✓ ask for the delivery of orders to be staggered.

They may also encounter difficulties in delivering the goods or providing the services in accordance with the contract. Delays in delivery or the inability to deliver or provide the service may result in the entity owing a penalty.

Reminder of standards

French accounting standards	International Accounting Standards
Article L 123-21 of the French Commercial Code Only the profits made by the end date of a financial year may be entered in the annual accounts. The profit made on a partially executed transaction, accepted by the other contracting party, may be entered, after the stocktake, when its completion is certain and when it is possible, using the projected accounting documents, to value the overall profit of the transaction with sufficient safety. **Article 512-3, General Chart of Accounts** Only profits realised at the closing date of a financial year may be included in the profit or loss for that financial year. **Article 512-4, General Chart of Accounts** For the purpose of calculating profit or loss by the difference between income and expenses for the year, income earned in that year, to which may be added income earned in previous years but which, by error or omission, was not then recorded in the accounts, is included in the financial year.	<u>Taking into account variable price elements (penalties, discounts, returns, performance bonuses) (IFRS 15, § 50 to 59)</u> If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. (IFRS 15.50). The entity includes the estimated amount of variable consideration only to the extent that it is highly probable that the subsequent removal of the uncertainty about variable consideration will not result in a material downward adjustment to the cumulative amount of revenue recognised. The amount of consideration may vary due to rebates, discounts, refunds, credit notes, price concessions, incentives, performance bonuses, penalties or other similar items. The consideration promised may also vary if the entity's right to the consideration depends on the occurrence or non-occurrence of a future event. For example, the amount of consideration is variable if a product is sold with a right of return or if a specified amount (performance bonus) is linked to the achievement of a specified milestone. These variable counterparties must be systematically estimated at each closing. <u>Recognition of a financing component (IFRS 15, § 60 to 65)</u> When one of the parties to the contract benefits from a significant financing advantage, the amount to be recognised in revenue must be adjusted so that this price reflects the price that the customer would have paid for a cash transaction. The entity shall recognise the effect of the financing separately as finance expense or finance income depending on whether it is financing provided to the customer or financing obtained from the customer.

Recommendations for application according to French accounting standards

Revenue is recognised in profit or loss for the period if it is realised (i.e. if it is certain both in principle and amount) and if it is earned during the period i.e. when the good sold is delivered or the service sold is performed. The Covid-19 event does not change the rules for recognising income.
The amount recognised as revenue equates to the sale price provided for in the contract and is not affected by the risks associated with the contract i.e. risk of non-recovery, return of goods, late payment penalties, etc.

In the event that the entity grants a price reduction, revenue is presented in the income statement net of the price reduction as follows:

- ✓ if this reduction is mentioned on the sales invoice, the net amount earned will be directly accounted for in account 70 "Sales of manufactured goods, services, goods";
- ✓ if the reduction is not mentioned on the invoice, the amount shown on the invoice will be recorded in account 70 "Sales of manufactured goods, services, goods" and the reduction will be debited from account 709 "Discounts, rebates and refunds granted by the company", this account being transferred to the sales account corresponding to the end of the reporting period date.

Once the income is recognised, its amount is not altered by the uncertainties and risks associated with the sale or the provision of services i.e. returns, penalties, etc. These sales-related risks are taken into account at the end of the reporting period by the recognition of a liability if the rules for recognising a liability are met i.e. existence of an obligation at the end of the reporting period; probable outflow of resources without consideration; reliable measurement: Article 322-1, General Chart of Accounts.

In the event of a risk of non-recovery of the amount due by the client, the corresponding customer receivable will be impaired, in accordance with the methods outlined in question G2 if an event has occurred that can establish the client’s default.

In the event of a return of goods, a provision shall be recorded where appropriate.

Answer J4 - French accounting standards: When the discount is shown on the invoice, the revenue is recorded for the net amount, less the discount. When the discount is not included in the invoice, said discount is debited to account 709. These contract amendments are to be applied to the accounting period in which the discount was granted.

Comments on the implementation of international accounting standards

According to IFRS 15, the amount of revenue recognised in respect of the sale of goods or the provision of services takes into account the effect of variable price components (which include items such as price reductions but also penalties, rights of return, etc.) and significant financing components (resulting from advance payments or deferred payments). This is taken into account at the end of each reporting period on the basis of estimates and by exercising judgement. In light of the Covid-19 event, particular attention must be paid to variable price items whose "highly probable" nature could be jeopardised due to the consequences of the Covid-19 event.

If the changes in these components result from a change in the contract in response to the Covid-19 event, the impact may have to be recognised (a) either prospectively, (b) or immediately in profit or loss, with cumulative catch-up effects (IFRS 15, § 18-21).

Additionally, if a client faces liquidity problems or a downgrade to its credit rating as a result of the Covid-19 event, and if these difficulties are likely to have a lasting impact on its ability to pay for future services or goods, an entity may be required to discontinue revenue recognition with this customer as of the date of these changes. However, revenue previously recognised is not affected.

Answer J4 - International accounting standards: Depending on whether the changes in the components of the contract result from a contract amendment or the resolution of uncertainty relating to variable consideration, the impact may have to be recognised either prospectively or immediately in profit or loss, with cumulative catch-up effects.

Question J5: What is the accounting policy for rent reductions by the lessor?

General background

In response to the Covid-19 event, certain lessors grant rent reductions or cancel rents.

Reminder of standards

French accounting standards	International Accounting Standards
Article 944-41, General Chart of Accounts (…) Account 411 is credited by the debit of: - a cash account when payments are received from customers; - one of the subdivisions of Account 70 for the amount of credit memos issued by the entity upon return of goods by customers; - account 413 "Accounts Receivable- Notes Receivable" upon acceptance by customers of a bill of exchange or receipt of a promissory note; - account 709 "Discounts, rebates and reductions granted by the company" for the amount of sales discounts granted to customers excluding invoices; - account 4191 "Accounts Receivable - Advances and deposits received on orders" for the balance of the latter. (…) **Article 947-70, General Chart of Accounts**	**IFRS 16.79** A lessor shall account for a modification to a finance lease as a separate lease if both : (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets ; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract. **IFRS 16.80** For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows : (a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall : (i) account for the lease modification as a new lease from the effective date of the modification ; and

(…) Discounts, rebates and reductions granted off-bill or that are not related to a specific sale are debited to Account 709, "Discounts, Rebates and Reductions granted by the company".	(ii) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification. (b) otherwise, the lessor shall apply the requirements of IFRS 9. **IFRS 16.87** A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Recommendations for application according to French accounting standards

When the rent reduction relates to income already recorded, the discount or cancellation is recorded as a debit to account 709 "Discounts, rebates and reductions granted by the company".

When the rent reduction is entered in the original invoice, the invoice is recorded for its net amount.

If the rent has not been invoiced, it is not recorded from an accounting standpoint.

Conversely, where the lessor does not waive the rent but agrees to defer payment, the rent remains recorded as income.

Given the nature of the benefits granted by the lessor and the contractual characteristics, the entity assigns these benefits to the appropriate accounting period.

Where an entity has granted a rent reduction in the past, it may either continue to use the same accounting policy or follow the ANC’s recommendation, which subsequently becomes the new accounting policy subject to the application of consistent accounting policies.

Answer J5 - French accounting standards: When the rent reduction relates to income already recorded, the reduction is recorded as a debit to account 709. When the rent reduction is entered on the rent invoice, the net amount of income minus the reduction is recorded. These rent reductions are to be assigned to the appropriate accounting period.

Comments on the implementation of international accounting standards

When the adjustment is not the result of a contract amendment,

- ✓ if the lease is an operating lease, the effects of the adjustments made are recognised as negative variable rent, generally immediately in the income statement;
- ✓ if the lease is a finance lease, this situation leads to the recognition of an immediate expense corresponding to the adjustments made.

Where the adjustment is the result of a contract amendment,

- ✓ if the contract is an operating lease, the lessor recognises the effects of the contractual modification as giving rise to a new lease in accordance with IFRS 16.87.
  If it is concluded that this contract remains an operating lease, the expense corresponding to the adjustments made is spread over the remaining term of the amended lease by reducing the total rental income recognised on a straight-line basis.
- ✓ if the contract is a finance lease and the classification as a finance lease is not changed by the contractual amendment, the principles of IFRS 9 apply and should generally lead to the recognition of an immediate charge equating to any payments made by the lessor or to the difference between the amount of the lease receivable previously recognised and its revalued amount at the date of the arrangement agreement i.e. discounting of the revised flows at the original effective interest rate.

Answer J5 - International Accounting Standards: The analysis should be conducted based on the classification of the contract and whether or not the adjustment results from an amendment to the contract.

Question J6: How should debt write-offs be presented on the income statement of the entity granting the waiver?

General background

As a result of the Covid-19 event, certain creditors may grant debt waivers to their debtors. These may be financial claims (e.g., equity claims) or operating claims.

Reminder of standards

French accounting standards	International Accounting Standards
Article 511-2, General Chart of Accounts Expenses include: - the sums or values paid or to be paid: - in return for goods, supplies, work and services consumed by the entity and benefits granted to it, - in fulfilment of a legal obligation, - exceptionally, without consideration, (...)	

Recommendations for application according to French accounting standards

When a receivable is cancelled, it no longer features on the balance sheet. A revenue and expense account is debited as an offsetting entry to the cancellation of the receivable. The result of this cancellation is to be recorded either to operating, financial, or extraordinary items. The ANC recommends classifying this expense according to the nature of the debt written off. In this respect, two main scenarios may arise.

<u>Scenario 1: Cancellation of an operating claim</u>

In this situation, the receivable relates to income that has been recorded to operating result. Therefore, in order to symmetrically address the income related to the receivable and the expense related to the write-off of the receivable, the ANC recommends classifying the result of the write-off as operating income.

When a credit memo has been issued, the offsetting entry for the cancellation of the receivable is debited to account 709 "Discounts, rebates and reductions granted by the company".

When the debt write-off has been evidenced by an agreement and not by a credit memo, the offsetting entry for the debt write-off is debited to account 658 "Miscellaneous current management expenses".

Whichever solution is adopted, the VAT accounts are settled.

<u>Scenario 2: Cancellation of financial debt</u>

The ANC recommends that these write-offs be debited to account 668 "Other financial expenses".

Whatever the situation, where an entity has previously granted a similar waiver in the past, it can either continue to use the same accounting policy or follow the ANC’s recommendation, which becomes the new accounting policy and is subject to the application of consistent accounting policies.

Answer J6 - French accounting standards: For the entity that grants the waiver, it is either a reduction in revenue or an expense:

<u>Cancellation of an operating receivable</u>

When a credit memo has been issued, the offsetting entry for the cancellation of the receivable is debited to account 709.

When the write-off has been evidenced by agreement, the consideration for the write-off of the receivable is debited to account 658.

<u>Cancellation of financial debt</u>

The write-off of receivables is debited to account 668 "Other financial expenses".

Comments on the implementation of international accounting standards

In the absence of the standardised subtotals in the income statement provided for in IAS 1, the level of income affected by this debt write-off is not specified. Therefore, for entities preparing their consolidated financial statements in accordance with Recommendation ANC 2020-01 on the format of consolidated financial statements prepared in accordance with international accounting standards, when the receivable relates to income included in current operating income, the expense should be recorded before this subtotal.

When the receivable has been classified as a financial asset, the expense is recorded under "Other financial expenses".

The consideration for the recognition of a debt write-off depends on the analysis of the transaction i.e. discount granted to a customer; write-off granted to an equity accounted investment.

Answer J6 - International accounting standards: For entities preparing their consolidated financial statements in accordance with ANC Recommendation 2020-01, when the receivable relates to income recorded in current operating income, the expense should be recorded before this subtotal. When the receivable has been classified as a financial asset, the expense is recorded under "Other financial expenses".

2.4 Implications for expense recognition and measurement

Question K1: What is the accounting policy for expense deferrals?

General background

URSSAF	Extension of the March 15 and April 5 deadlines for payment of employer and employee contributions. Deferral of payment for up to three months at most, or staggering payment for smaller companies.
Direct taxes (advance corporate income tax and payroll tax)	Entities can request extension of deadlines from their corporate tax office.
CFE business premises contribution, and property taxes	CFE business premises contribution, and property tax. Option to suspend monthly payments, the full amount of the tax will then be levied when the final amount is due, without incurring any penalties.
Direct tax remittance	Request to be addressed to the public accountant if the company is in financial difficulties, ex gratia procedure.

Deferral of rents	Rents and related charges will be called monthly instead of quarterly; The collection of rents and charges is suspended as from 1 April 2020, and for subsequent periods of cessation of activity imposed by decree. When business resumes, these rents and charges will be deferred or staggered without penalty or interest on arrears, with adaptations made to the situation of the companies in question. This applies to companies eligible for the State-Regions Solidarity Fund (small enterprises) as well as to VSEs and SMEs belonging to one of the sectors where activity was halted.
Deferral of gas and electricity bills	This applies to companies eligible for the State-Regions Solidarity Fund (small enterprises). Request for amicable deferral to their supplier.

Reminder of standards

French accounting standards	International Accounting Standards
Article 511-3, General Chart of Accounts In order to calculate the result by the difference between the income and expenses for the year, the expenses incurred for the year, to which may be added expenses relating to previous years but which, by error or omission, have not been recorded in the accounts at that time, are included in the year.	**IAS 1.27** An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

Recommendations for application according to French accounting standards

This is a deferral of payment of a recorded debt. This change has no impact on the recognition of income and expenses.

Comments on the implementation of international accounting standards

Similar to French accounting standards, these deferrals – apart from those relating to rents – have no impact on the recognition of income and expenses insofar as the financing component should prove in most cases to be insignificant, since the deferrals are for relatively short periods and given low interest rates.

Answer K1: Deferring the payment of an accrued liability does not affect the recognition of expenses.

Question K2: What is the accounting policy for discounts granted (including rent concessions)?

General background

In light of the Covid-19 event, certain entities may benefit from discounts from their suppliers.

Reminder of standards

French accounting standards	International Accounting Standards
Article 944-40, General Chart of Accounts (…) Account 401 is debited by crediting: - a cash account for payments made by the entity to its suppliers; - a class 6 account for the amount of credit memos received when goods are returned to the supplier; - account 403 "Accounts Payable - Notes Payable" when accepting a bill of exchange or surrendering a promissory note; - account 609 "Discounts, rebates and reductions obtained on purchases" for the amount of discounts, rebates and reductions obtained excluding invoices; - account 409 "Accounts receivable" for the amount of advances and deposits paid on operating orders, for the balance of the latter. (…) **Article 946-60, General Chart of Accounts** (…) Account 609 "Discounts, rebates and reductions on purchases" records to its credit the discounts, rebates and reductions on purchases obtained from suppliers, the amount of which, not deducted from the purchase invoices, is not known until after these invoices have been recorded. **Article 946-61/62, General Chart of Accounts** (…) Accounts 619 "Discounts, rebates and reductions obtained on outside services" and 629 "Discounts, rebates and reductions obtained on other external services" record discounts, rebates and reductions on external services under the conditions already defined for account 609 "Discounts, rebates and reductions obtained on purchases".	**IFRS 9.3.3** The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss. <u>Special case of leases</u> The IASB is in the process of finalising an amendment to IFRS 16 on leases, which will allow it to consider that concessions granted by lessors in the context of the covid-19 epidemic do not result in changes to these leases within the meaning of IFRS 16.46, provided that certain conditions are met. Accordingly, the income statement impacts of these concessions would be recognised over the period to which they relate. The finalisation of this amendment and its approval in European Union should be monitored with a view to its application to the half-yearly accounts.

Recommendations for application according to French accounting standards

When the discount is for a charge that has already been registered, the discount or cancellation is registered:

- ✓ to the credit of account 609 "Discounts, rebates and reductions obtained on purchases" for purchases,
- ✓ to the credit of account 619 "Discounts, rebates and reductions obtained on outside services" for outside services (including rentals),
- ✓ to the credit of account 629 "Discounts, rebates and reductions obtained on other external services" for other external services.

When the discount is applied to the original invoice, the invoice is recorded for its net amount.

If the reversed expense has not been invoiced, it is not recorded in the accounts.

Given the nature of the benefits granted by the seller and the contractual characteristics, the entity assigns these benefits to the appropriate accounting period.

Answer K2 - French accounting standards: When the discount relates to an expense already recorded, it is credited to account 609 (or 619, 629 depending on its nature). When the discount is applied to the invoice, the expense is recorded for the net amount, less the discount. Given the nature of the benefits granted by the seller and the contractual terms, the entity assigns these benefits to the appropriate accounting period.

Comments on the implementation of international accounting standards

Regarding discounts, IFRS indicate that the offsetting entry for the reduction or cancellation of a debt is recorded in net income. In the absence of the standardised subtotals in the income statement provided for in IAS 1, the level of income affected by this debt write-off is not specified.

Additionally, for entities preparing their consolidated financial statements in accordance with Recommendation ANC 2020-01 on the format of consolidated financial statements of companies prepared in accordance with international accounting standards, when the debt is related to an expense recorded in current operating result, the income should be recorded before this subtotal.

In addition, regarding lease concessions, the ANC would like the amendment proposed by the IASB to be applicable to the interim financial statements as well as to the financial statements for fiscal years ending in the short term, particularly those ending on 30 June 2020.

Answer K2 - International accounting standards: For entities preparing their consolidated financial statements in accordance with ANC Recommendation no. 2020-01, when the debt is related to an expense recorded in current operating result, the income should be recorded before this subtotal.

Question K3: What is the accounting policy for write-offs of receivables or credit memos at the beneficiary?

General background

As a result of the Covid-19 event, certain creditors may grant waivers to their debtors. These may be financial debts (for example, certain partners' current accounts), commercial debt or tax and social security debt.

Reminder of standards

French accounting standards	International Accounting Standards
Article 512-1, General Chart of Accounts Income includes: - sums or values received or receivable: - in consideration for the supply by the entity of goods, work, services and benefits; - by virtue of an existing legal obligation on the part of a third party; - exceptionally, without consideration;(...)	**IFRS 9.3.3** The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

Recommendations for application according to French accounting standards

When a debt is cancelled, it no longer features on the balance sheet (see question H5). An offsetting entry for the cancellation of the debt is credited to a management account. The result of this cancellation is recorded either to operating, financial or extraordinary items. The ANC recommends classifying this income according to the nature of the debt cancelled. In this respect, two main scenarios may arise.

Scenario 1: Cancellation of an operating debt

In this situation, the debt relates to a charge that has been recorded as operating result. Therefore, in order to symmetrically address the expense related to the debt and the income related to the debt write-off, the ANC recommends classifying the income from the debt write-off as operating income.

When a credit memo has been issued, the offsetting entry for the cancellation of the receivable is credited to:

- ✓ account 609 "Discounts, rebates and reductions obtained on purchases" for purchases,
- ✓ account 619 "Discounts, rebates and reductions obtained on outside services" for outside services (including rentals),
- ✓ account 629 "Discounts, rebates and reductions obtained on other external services" for other external services.

When the debt write-off has been evidenced by an agreement (and not by a credit memo), an offsetting entry for the debt write-off is credited to account 758 "Miscellaneous income from current management".

Whichever option is chosen, the VAT accounts are settled.

Scenario 2: Cancellation of a financial debt

The ANC recommends that these write-offs be credited to account 768 "Other financial income".

Whatever the situation

Where an entity has already benefited from a similar waiver in the past, it may either continue to use the same accounting policy or follow the ANC’s recommendation, which becomes the new accounting policy subject to the application of consistent accounting policies.

Answer K3 - French accounting standards

<u>Cancellation of an operating debt:</u> When a credit memo has been issued, an offsetting entry for the cancellation of the debt is recorded as appropriate in accounts 609, 619, or 629.

When the debt forgiveness has been evidenced by an agreement, on offsetting entry for the cancellation of the debt is credited to account 758.

<u>Financial debt write-offs</u>: The ANC recommends crediting these debt write-offs to account 768.

Comments on the implementation of international accounting standards

According to IFRS, an offsetting entry for the cancellation of the debt is recorded in net income. In the absence of the standardised subtotals in the income statement provided for in IAS 1, the level of income affected by this debt waiver is not specified.

Also, for entities preparing their consolidated financial statements in accordance with recommendation ANC 2020-01 on the format of consolidated financial statements of companies prepared in accordance with international accounting standards, when the debt is related to an expense recorded in current operating result, the income should be recorded before this subtotal. When the debt has been classified as "financial debt", the income is recorded in the line item "Other financial income".

The offsetting entry for the recognition of a write-off depends on the analysis of the transaction (discount granted by a supplier or write-off granted by a shareholder).

Answer K3 - International accounting standards: For entities preparing their consolidated financial statements in accordance with ANC Recommendation no. 2020-01, when the debt is related to an expense recorded in current operating result, the income should be recorded before this subtotal. When the debt has been classified as "financial debt", the income is recorded in the line item "Other financial income".