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

18 MAY 2020

Summary

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<tr><td colspan="4">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?</td></tr>
<tr><td colspan="4">1.1 Timeliness of accounting information</td></tr>
<tr><td>A1</td><td>When should information be provided on the consequences of Covid-19?</td><td colspan="2">⇨ 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.</td></tr>
<tr><td colspan="4">1.2 Information in the accounts and statements prepared as of 1 January 2020</td></tr>
<tr><td colspan="4"><u>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.</u> (see question A1).</td></tr>
<tr><td>B1</td><td>Should the Covid-19 event be subject to specific information in the accounts and statements drawn up as of 1 January 2020?</td><td colspan="2">⇨ 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.</td></tr>
<tr><td>B2</td><td>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?</td><td colspan="2">⇨ 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.</td></tr>
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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.

		Recommendations for application according to French accounting standards[1]	Comments on the implementation of international accounting standards[2]
B3	How should information be outlined in financial and accounting information as compared with the management report?	⇨ 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.	
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?	⇨ 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.	
B5	What are the methods for determining the effects of the Covid-19 event on the entity's balance sheet?	⇨ 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.	
B6.A	Can the income and expenses related to the Covid-19 event be recorded as extraordinary (or non-recurring) income or expenses?	⇨ 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.	⇨ 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.
B6.B	Can information relating to the consequences of the Covid-19 event be provided directly on the balance sheet and/or the income statement?	⇨ 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.	

[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).

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<tr><td>B7</td><td>Are there standard formats that can be used to present the figures in the notes?</td><td>⇨ 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.</td><td>⇨ 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.</td></tr>
<tr><td>B8</td><td>When an entity is no longer a going concern, what basis should it use to prepare its accounts?</td><td>⇨ 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.</td><td>⇨ 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).</td></tr>
<tr><td>B9</td><td>Under what circumstances should going concern information be disclosed in the notes to the financial statements?</td><td colspan="2">⇨ 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.</td></tr>
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<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>
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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	What is the accounting policy for rescheduling and deferring tax and social security debts?	⇨ 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.	

			⇨ 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	⇨ There are two main conditions required to recognise a restructuring provision: ✓ Existence of a formalised and detailed restructuring plan;

		concerned, and up to the amount of the costs for which the entity no longer expects consideration from the third parties.	✓ 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.	⇨ 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.

		⇨ 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.	
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 statements for fiscal years ending in the short term, particularly those ending on 30 June 2020.

[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).

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".