

Disclosing the ongoing impacts of COVID-19 in your entity's financial statements

August 2020

Since mid-March 2020, COVID-19 has impacted virtually all businesses in Canada. For example, as a result of the pandemic, your entity may have experienced a decrease in revenue, obtained new sources of income (such as government funding), or identified impairment indicators for certain assets. In some instances, the impacts of COVID-19 will have an effect on your entity's financial statements. However, the way each event is reflected in your entity's financial statements depends on the:

- nature and timing of the event;
- date of the entity's reporting period end;
- date of the auditor's opinion or review engagement report; and
- date on which the financial statements are completed or authorized for issue¹.

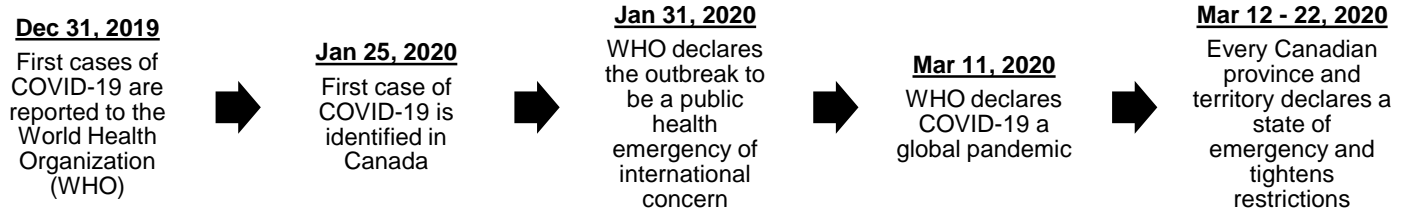
Identifying COVID-19 related events

Before assessing how your entity's financial statements will be impacted by COVID-19, it is important to recognize that the existence of the COVID-19 pandemic itself is not an accounting event. Rather, it is the impacts caused by COVID-19 that can result in financial reporting implications. For example, your entity might be eligible to receive COVID-19 related funding from the Canadian government under one of the programs introduced. The receipt of that funding is the accounting event and your entity would need to determine how to account for the government assistance. As another example, your entity might experience a significant decrease in sales and/or profits linked to forced closures due to quarantine efforts. In that case, the accounting event may be the need to record an impairment on one or more of your entity's assets. Although the COVID-19 pandemic is the driving factor behind the occurrence of these events, it is the distinct events themselves that will result in financial reporting implications for your entity. This distinction is important because the events resulting from COVID-19 may occur at different times.

¹ The terminology varies based on the relevant financial reporting framework. The term 'completed' is used in Accounting Standards for Private Enterprises (ASPE), Accounting Standards for Not-for-Profit Organizations (ASNPO) and Public Sector Accounting Standards (PSAS). Alternatively, the terminology 'authorized for issue' is used in International Financial Reporting Standards (IFRS).

Recognizing and measuring COVID-19 related events

In order to determine when and how to recognize and measure the financial reporting implications from COVID-19 related events, your entity must first assess each event individually to determine whether it occurred during the reporting period or in the subsequent events period. To help with this assessment, it is necessary to understand the following timeline of events pertaining to COVID-19 both worldwide and in Canada:



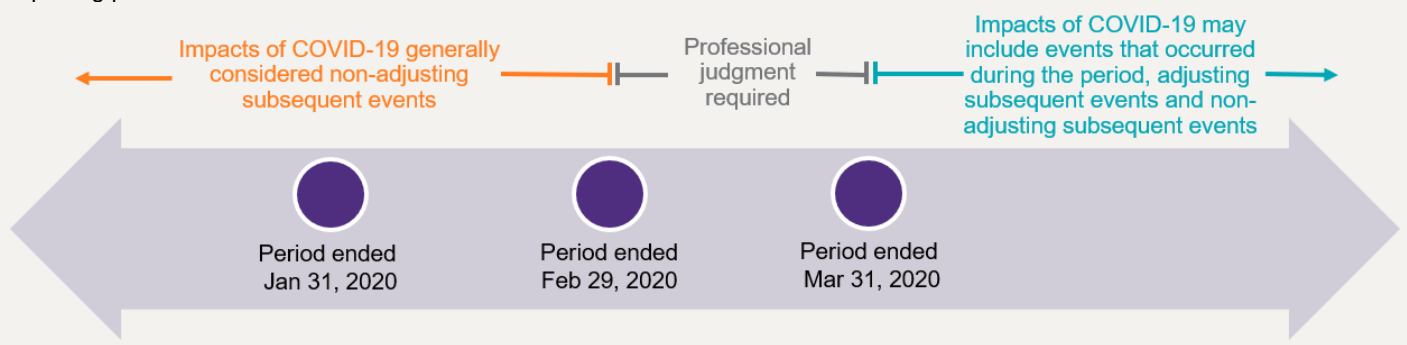
Our thoughts

Until March 2020, when the global pandemic was declared and the Canadian government took dramatic action to slow the spread of COVID-19, many Canadian entities were largely unimpacted by the virus (unless they had international operations). Therefore, in our opinion, entities operating in Canada with a reporting period ended:

- on or before February 29, 2020 are likely to conclude the impacts of COVID-19 are generally non-adjusting subsequent events (although there could be an exception if an entity has operations in China).
- on or after March 31, 2020 are likely to conclude that COVID-19 related events occurred both during the fiscal period and the subsequent events period (sometimes referred to as a “mixed model”).

If an entity has a reporting period end between March 1, 2020 and March 31, 2020, professional judgment will be required when determining whether a COVID-19 related event occurred during the fiscal period or in the subsequent events period.

The diagram below depicts how your entity may reflect the impacts of COVID-19 in its financial statements, depending on its reporting period end date:



Under all Canadian accounting frameworks, entities are required to distinguish between subsequent events that are adjusting (i.e., those that provide further evidence of conditions that existed at the balance sheet date) and non-adjusting (i.e., those that are indicative of conditions that arose after the balance sheet date). For more information on determining whether a subsequent event is adjusting or non-adjusting, refer to Grant Thornton’s publications on financial reporting implications resulting from COVID-19 (which are available for entities [applying IFRS](#) and those that are [applying ASPE, ASNPO, PSAS or Accounting Standards for Pension Plans](#)).

This chart outlines when and how your entity’s financial statements will be impacted by each type of event (assuming the impact of each of these events is material):

<i>Type of event</i>	<i>Example</i>	<i>Recognition & Measurement</i>	<i>Disclosure</i>
Non-adjusting subsequent event	Qualifying for government funding under programs announced by the Canadian Government after the entity’s reporting period end	No	Yes
Adjusting subsequent event	Recording impairment on a trade accounts receivable from a customer experiencing financial hardship before the entity’s reporting period end which then enters bankruptcy protection subsequent to the entity’s reporting period end	Yes	Yes
Event occurring during the reporting period	Employees are laid-off due to forced closures and are owed termination pay	Yes	Yes

If your entity determines that a COVID-19 related event is an adjusting subsequent event or an event that occurred during the reporting period, it would recognize and measure the transaction by applying the relevant guidance in the applicable financial reporting framework. For example, if your entity determines that, during the reporting period, a trade receivable asset is impaired, it would apply the relevant accounting guidance to recognize, measure and disclose the impairment.

Disclosing COVID-19 related events

Under all Canadian accounting frameworks, entities are required to disclose information about significant transactions or events that occur either during the reporting period or in the subsequent events period.



Our thoughts

Entities with fiscal periods ending on or before February 29, 2020 may include disclosure in their financial statements about the economic impacts of COVID-19 being non-adjusting subsequent events. The extent of the disclosure may be impacted by the timing of when the financial statements are completed/authorized for issue.

Alternatively, entities with fiscal periods ending on or after March 31, 2020 will likely discuss COVID-19 related events in more than one place in their financial statements. For example, the financial statements may include:

- information about COVID-19 related events that are determined to be adjusting subsequent events or events that occurred during the reporting period in the general notes to their financial statements based on the requirements of the specific standard(s) that they applied to account for the event (e.g., employee termination benefits would be disclosed in the employee benefits note, impairment of equipment would be disclosed in the property, plant and equipment note); and
- a subsequent event note which discloses information about COVID-19 related events that are determined to be non-adjusting subsequent events.

If your entity is significantly impacted by COVID-19, either during its reporting period and/or in the subsequent events period, it may also include a general COVID-19 note to outline the overall impact that the pandemic had on the business to date, management's outlook regarding the potential impact in the future and management's plans to recover.

Eventually there will come a time where your entity will no longer require subsequent events disclosure in its financial statements (i.e., when there are no significant non-adjusting subsequent events that occur). However, even in this circumstance, your entity's financial statements may still contain disclosures regarding the impact of COVID-19 related events that occurred during your entity reporting period and/or those which are considered adjusting subsequent events. For example, if your entity's next reporting period ends on December 31, 2020, its financial statements may include disclosure related to employee termination costs incurred during the year or impairment of equipment that was recorded during the period. Those disclosures may mention that the events were the result of COVID-19 and would be included in the relevant financial statement notes (e.g., employee benefits and property, plant and equipment, respectively). **All things considered, it is highly likely that most Canadian entities will have some COVID-19 related note disclosure (in the general notes in their financial statements and/or the subsequent event note) in their financial statements for fiscal 2020 reporting period(s) and possibly beyond.**

We are here to help

We understand that you want to be agile and responsive as the situation unfolds. Having access to experts, insights and accurate information as quickly as possible is critical—but your resources may be stretched at this time.

[We're here to support you](#) as you navigate through the impacts of COVID-19 on your business and financial statements.