The influence of covid-19 on provision measurement given international financial reporting standards

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Abstract:

This research deals presenting the procedures for accounting measurement of intangible assets in accordance with International Accounting Standard IAS 37 — Provisions, Contingent Liabilities and Contingent Assets. As this article aims to highlight key accounting and financial reporting impacts of COVID-19 to be considered by companies. In that, Provisions are selected as a sample for the study, in that this study relied on the descriptive analytical approach.

Key words: Accounting; Provisions; Obligation; Standards; covid-19

JEL Classification Codes: M41.

Introduction :

The COVID-19 pandemic has resulted (at the time of writing) in almost 464 million confirmed cases and about 6.1 million deaths globally. It has also produced concerns about future social-economic crises and recession. Considering the dates of the start of the pandemic, the World Health Organization made the first statement on COVID-19 on January 20, 2020, announcing that the Chinese government had informed them on December 31, 2019, of the existence of 44 infections.

The Covid-19 Coronavirus is generating an inevitable negative impact on the economy, the quantification of which is subject to a high level of uncertainty. This fact is forcing many governments to take exceptional restrictive measures and drastic reduction of economic activity to contain the spread. In that the coronavirus 2019 (COVID-19) pandemic is affecting economic and financial markets with entities experiencing conditions often associated with a general economic downturn. This includes, but is not limited to, financial market volatility and erosion, deteriorating credit, liquidity concerns, further increases in government intervention, increasing unemployment, broad declines in consumer discretionary spending, increasing inventory levels, reductions in production because of decreased demand, layoffs and furloughs, and other restructuring activities. The continuation of these circumstances could result in an even broader economic downturn which could have a prolonged negative impact on an entity's financial results. As changes in the economic activity caused by the pandemic will cause many entities to renegotiate the terms of existing contracts and arrangements. Examples include contracts with customers, compensation arrangements with employees, leases and the terms of many financial assets and liabilities. Entities will need to ensure that the relevant requirements in IFRS Standards are applied.

Consideration of risks and issues to identify the impacts that could affect the financial report, is the beginning of the journey. COVID-19 has created unique challenges in the operation and oversight of entities. These challenges are particularly acute when it comes to financial reporting and disclosure, especially with regards to provisions due to costs that are potential incurred by companies in future as a result of covid-19 impact on its financial and business operations and relationships with other parties.

From the above, it can ask the following question:

How are ias/ifrs requirements applied in order to faithfully reflect the provisions on financial statements under covid-19 crisis?

Research goals:

- the economic information, especially, financial information is considered of the most important resources for entities' growth and continuity;
- Accounting is contributing in decision making as it makes it easier through providing the appropriate information;
- Accounting has an effective contribution to decision making through providing the appropriate information to make it easier for decision makers;
- provisions accounting measurement contributes to improve the quality of financial statements;
- the implications of covid-19 can result in inappropriate accounting treatments if the accounting requirements of normal conditions are applied to abnormal circumstances such as the case of covid-19 that are Unparalleled and it does not expect its length and influences.

Importance of research:

- Showing measurement requirements per ias/iafs by looking at the nature of provisions and at the way in which they should be reported.
- Explaining the differences between provisions and other types of liabilities;
- Outlining the shortcomings limiting provisions measure under outstanding ias/ifrs;
- to highlight the critical requirements in relation of provisions measurement that can be considered by companies to determine effect of covid-19 on recognised amounts.

Research methodology

This topic was studied by following the descriptive approach to clarify the various concepts as well as the analytical approach in order to facilitate the full understanding of the topic by highlighting all its parts.

1- Overview of provision according to international financial reporting standards

The standard to be applied by all entities in accounting for provisions is IAS 37 provisions, contingent liabilities, and contingent assets, however the requirements of IAS 37 are applicable to recognition and measurement of all provisions except: (Koppeschaar, Rossouw, van Wyk, Papageorgiou, Smith, & Schmulian, 2019, p. 363)

- executory contracts, except where the contract is onerous; and
- items covered by other IFRSs.

The standard uses the term executory contracts to mean ‘A contract under which neither party (to the contract) has performed its obligations or both the parties (to the contract) have performed their obligations partially to an equal extent’ (Mirza, Holt, &

Orrell, 2006, p. 277). For example, under an employment contract the entity may be required to pay an employee a salary for services which the employee will provide. No present obligation to pay the salary arises until the entity has received the employee's services. Until then, the entity has a combined right and obligation to exchange future salary for future employee services. (Johnstone, et al., 2020, p. 22)

1-1 Provision definitions:

a provision is a liability that is of uncertain timing or amount (Weetman, 2013, p. 296)—such as a possible obligation arising from a legal case against the company that has yet to be determined) (Harvey, Atrill, & E.J, 2018, p. 345). For example if a company is subject to a lawsuit, and it anticipates this loss in its financials, then this would be a provision. (Antill & Lee, 2008, p. 129)

Provision is a future liability or future expectation of expenditure of uncertain value or timing. (Wood & Horner, 2010, p. 130)

Provision under IFRS, a present obligation of uncertain timing or amount that is recorded as a liability because it is probable that economic resources will be required to settle it. (Harrison, Horngren, (bill) thomas, Tietz, berberich, & seguin, 2018, p. 413)

Provisions are defined as liabilities of uncertain timing or amount. (Jerry J. Weygandt; Paul D. Kimmel; Donald E. Kieso, 2018, pp. 11-41)

Provisions are defined as liabilities for which the amount of the outflows of economic benefits is uncertain. Liabilities are defined as outflows of economic benefits that the entity is presently obliged to make as a result of past events. (Carlon, McAlpine, Lee, Mitrione, Kirk, & Wong, 2019, p. 585)

Provisions are liabilities for which there is significant uncertainty about the amount of the future outflows of economic benefits but which are considered able to be measured reliably by estimation. (Carlon, McAlpine, Lee, Mitrione, Kirk, & Wong, 2019, p. 585)

A provision is a liability of uncertain timing or amount (sometimes referred to as an estimated liability) (KIESO, WEYGANDT, & WARFIELD, 2020, p. 1087). It considers to be just one form of liability which should be treated as a liability in the financial statements. (Barry Elliott, Jamie Elliott, 2019, p. 327)

Liabilities can either be certain (definitely determinable) or uncertain. Liabilities with a known payee, due date, and amount payable are certain liabilities. Examples of these include accounts payable, sales tax payable, property tax payable, salaries payable, notes payable. Other liabilities are considered uncertain liabilities when a company is not sure to whom an obligation is owed, when that obligation may have to be settled, and/or what amount is needed to settle it. Such uncertain liabilities are known as provisions. Provisions are liabilities of uncertain timing or amount; however,

there is no uncertainty about the fact that a liability should be recorded, only that its value and settlement date are uncertain. (Weygandt, Kieso, Trenholm, Irvine, & Burnley, 2017, p. 533)

A provision is simply a form of liability. To be more precise, it is a liability where the timing or amount involved is uncertain. Although other liabilities, such as accruals, may suffer from uncertainty, the degree of uncertainty is higher for a provision. (Atrill & McLaney, 2019, p. 239)

Liabilities are defined as future sacrifices of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events. Provisions are defined as liabilities for which the amount of the future sacrifice is uncertain. That is, whether a liability is a provision or some other type of liability (e.g. borrowings, trade creditors, accruals) depends upon the extent of uncertainty associated with the amount of the future sacrifice. For borrowings such as debentures, leases, unsecured notes and mortgages, the amount of the future sacrifice (i.e. the repayment) can be predicted with a high level of certainty. Similarly, the amount of the future sacrifice for trade creditors can be measured with a high level of certainty because it is quantified on the supplier's invoice. (Shirley CARLON, Rosina MCALPINE-ML ADENOVIC,Chrisann PALM, Lorena MITRIONE, Ngaire KIRK, Lily WONG, 2016, p. 555)

A provision is a liability which can be measured only by using a substantial degree of estimation (Hanif & Mukherjee, 2017, p. 19.191) .however, provisions are estimated liabilities, for which there is rather less certainty regarding the amount or timing. Provision an estimated liability for which there is greater uncertainty regarding the amount or timing of the amount than for a normal liability. (Harvey, Atrill, & E.J, 2018, p. 49)

1-2 Provision recognition:

According to IAS 37, a provision should be recognised where all of the following criteria have been met: (Greuning, 2006, p. 193) (Aerts & Walton, 2013, p. 174)

- an entity has a present obligation (legal or constructive) as a result of a past event (obligating event);
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised. (Aerts & Walton, 2013, p. 174)

Note that in order to recognise a provision various criteria must be met: (Antill & Lee, 2008, p. 131)

- Present obligation i.e there must be an existing quasi legal liability;
- Obligating event i.e the event leading to the liability must already have occurred;
- It must be probable that the outflow will occur;
- Measurability – the liability must be capable of expression in monetary units.

Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast: (International Accounting Standards Board(IASB), 2008, p. 1833)

(a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and

(b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of trade and other payables, whereas provisions are reported separately. (International Public Sector Accounting Standards Board (IPSASB), 2021, p. 609)

For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Statement, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, i.e., the probability that the event will occur is greater than the probability that it will not. As such, the use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature involve a greater degree of estimation than most other items. (Hanif & Mukherjee, 2017, p. 19.191)

1-3 Common kinds of provisions under IASs

1-3-1 Warranty provision:

Estimated liabilities vary among companies. Warranty liabilities are quite common, so we will use them to illustrate the accounting for estimated liabilities. (Harrison, Horngren, (bill) thomas, Tietz, berberich, & seguin, 2018, p. 384)

An example of an estimated obligation of this nature is the guarantee that a dealer gives on a product he sells. He has an obligation for the duration of the guarantee. The amount of the guarantee is not known. It should be estimated on the basis of past experience. (F Doussy and D Scott, 2018, p. 306)

A warranty is an obligation of the supplier of goods or services to the purchaser that the product will be functional or that the work performed will remain satisfactory for a stated period after the sale of goods or the provision of services. That is, a warranty is a promise in a contract that the goods will function properly for a stated period of time. (Carlon, McAlpine, Lee, Mitrione, Kirk, & Wong, 2019, pp. 86,87)

Warranty liabilities are provisions because the amount of the future sacrifice is uncertain. It will vary with the amount of claims made and the cost of servicing warranty claims. (Carlon, McAlpine, Lee, Mitrione, Kirk, & Wong, 2019, p. 87)

The significant uncertainty in the measurement of the future outflows of economic benefits that will be needed to satisfy existing warranties. This is due to two reasons: (Carlon, McAlpine, Lee, Mitrione, Kirk, & Wong, 2019, p. 586)

- The future outflows of economic benefits is conditional upon the customer making a claim;
- The costs of satisfying claims vary with the nature of the fault. Some warranty claims may require the replacement of a small part, while other warranty claims may require replacement of the goods sold to the customer.

For example, many companies guarantee their products under warranty agreements that cover some period of time after their customers purchase them. Automobile companies accrue liabilities for vehicle warranties, which usually extend for several years. The sale of a product with a warranty attached is a past event that creates a present obligation, which will require company resources (repair or replacement) to settle at some future date. At the time of the sale, however, the company does not know which products will be defective or how much it will cost to fix or replace them. The exact amount of warranty expense cannot be known with certainty, so the business must estimate warranty expense and the related warranty liability. (Harrison, Horngren, (bill) thomas, Tietz, berberich, & seguin, 2018, p. 384)

As well, Manufacturers of certain types of goods provide a warranty with their sale to a consumer. For example, buying a new television, it will probably come with a one-year or two-year warranty from the manufacturer. Warranties may also be offered for the provision of services. For example, it is not uncommon for a tradesperson to provide a 3-month warranty for work performed. From the manufacturer’s point of view, providing a warranty creates an obligation to repair or replace the goods (free of charge) if certain faults arise within the warranty period. Unexpired warranties at the end of the reporting period are a liability from the manufacturer’s point of view because they are a present obligation to make a future sacrifice (the repair or replacement of faulty goods) resulting from a past transaction (the sale of goods). Similarly, a service provider, such as a mechanic, may have a liability for unexpired warranty contracts

because there is an obligation for future sacrifice (to repair work found to be faulty) resulting from a past transaction (the original provision of services). Reporting entities that provide warranties estimate the cost of servicing unexpired warranty contracts at the end of the reporting period and record the amount in the warranty provisions account. (Carlon, McAlpine, Lee, Mitrione, Kirk, & Wong, 2019, p. 87)

1-3-2 Environmental (Contamination) provision:

The standard illustrates its recognition requirements in two examples relating to environmental provisions. The first deals with the situation where it is virtually certain that legislation will be enacted which will require the clean-up of land already contaminated. In these circumstances, the virtual certainty of new legislation being enacted means that the entity has a present legal obligation as a result of the past event (contamination of the land), requiring a provision to be recognised. However, in its discussion about what constitutes an obligating event, the standard notes that 'differences in circumstances surrounding enactment make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases, it will be impossible to be virtually certain of the enactment of a law until it is enacted.' The second example deals with a similar situation, except that the entity is not expected to be legally required to clean it up. Nevertheless, the entity has a widely publicised environmental policy undertaking to clean up all contamination that it causes, and has a record of honouring this policy. In these circumstances a provision is still required because the entity has created a valid expectation that it will clean up the land, meaning that the entity has a present constructive obligation as a result of past contamination. It is therefore clear that where an entity causes environmental damage and has a present legal or constructive obligation to make it good; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount, a provision will be required. (Ernst & Young, 2019, p. 1893)

For example, a mining business, when carrying out its operations over a number of years, has caused contamination to some land. New environmental legislation is about to be enacted that will create an obligation for businesses to clean up the contaminated land. (Atrill & McLaney, 2019, p. 240)

A provision should be recognised because: (Atrill & McLaney, 2019, p. 240)

- the contamination of the land will produce an obligation because of impending legislation; and
- an outflow of resources will probably be needed to decontaminate the land.

Where a provision is recognised, it has been assumed that a reliable estimate of the outflow of resources can be made

1-3-3 Lawsuit (case) provision:

Lawsuits are another area for which provisions can be significant. However, it may not always be clear that a present obligation exists in a lawsuit. Generally one does not wait for the final court decision to recognise a liability, but ponders all available evidence (including the opinion of legal experts) in deciding whether a present obligation exists. If available evidence brings the legal experts to the opinion that it is likely that the company will be found liable, a provision will be recognised for the best estimate of the amount needed to settle the present obligation. (Aerts & Walton, 2013, p. 175)

For example, after a wedding in 2020, ten people died, possibly as a result of food poisoning from products sold by the entity. Legal proceedings are started seeking damages from the entity. The entity disputes any liability and, up to the date on which its financial statements for the year ended 31 December 2020 are authorised for issue, its lawyers have advised that is probable that the entity will not be found liable. However, when the entity prepares its financial statements for the year ended 31 December 2021, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable. At 31 December 2020, no provision is recognised and the matter is disclosed. On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of a past event. At 31 December 2021, however a provision is recognised for the best estimate of the amount required to settle the obligation. The fact that an outflow of economic benefits is now believed to be probable means that there is a present obligation. (Ernst & Young, 2019, p. 1906)

2- Provision measurement according to international financial reporting standards:

2-1 Measurement:

The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount of a provision should not be discounted to its present value. The provision is measured before tax. (Hanif & Mukherjee, 2017, p. 19.196)

The estimates are determined by the judgment of the management of the enterprise, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the balance sheet date. (Hanif & Mukherjee, 2017, p. 19.196)

If there are a number of possible outcomes of a provision, then estimate the obligation by weighting all possible outcomes by their associated probabilities to derive an expected value. If there is an equal probability of multiple outcomes occurring, then use the mid-point of the range. (Bragg, 2010, p. 161)Where the provision being measured involves a large population of items, the obligation is estimated by weighting

all possible outcomes by their associated probabilities. Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. (IASC Foundation staff, 2008, p. 2)

If the effect of the time value of money is material, discounting of the expected expenditure is necessary. The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability (Obert, 2003, p. 350). The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted. Further, Future events that may affect the amount required to settle an obligation have to be reflected in the amount of the provision where there is sufficient objective evidence that they will occur. For example, it is appropriate to take expected cost reductions associated with increased experience in applying existing technology into account. (Christian & Ludenbach, 2013, p. 328) Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed (Hanif & Mukherjee, 2017, p. 19.197). As time passes, increase the amount of any provisions for which discounting has been used, in order to reflect the passage of time. This incremental increase is a borrowing cost. (Bragg, 2010, p. 164)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset (Greuning, 2006, p. 194).The amount recognised for the reimbursement should not exceed the amount of the provision. (Hanif & Mukherjee, 2017, p. 19.197)

2-2 Onerous contracts measurement:

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract. (Harrison, Horngren, (bill) thomas, Tietz, berberich, & seguin, 2018, p. 639). The unavoidable costs reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it. (Christian & Ludenbach, 2013, p. 329)

The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both: (International Accounting Standards Board (IASB), 2020, p. 4)

(a) the incremental costs of fulfilling that contract—for example, direct labour and materials; and

(b) an allocation of other costs that relate directly to fulfilling contracts— for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.

Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract. (International Accounting Standards Board (IASB), 2020, p. 4)

3- Measurement of provision under covid-19 crisis

The investors are expecting to hear bad news. So companies want to ensure they have captured all of the costs now. But you need to get the balance right – between under- and over-providing. The key point is that under IFRS Standards it cannot provide for future operating losses. (Ian Greenwood, 2020, p. 1)

IAS 37 "Provisions, Contingent liabilities and Contingent Assets", requires a provision to be recognised only where an entity has a present obligation (Accountants, A. F. Ferguson & Co. Chartered, 2020, p. 10) as a result of a past event (The Australian Institute of Company Directors (AICD), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia., 2020, p. 48), it is probable that an outflow of resources is required to settle the obligation (Accountants, A. F. Ferguson & Co. Chartered, 2020, p. 10) and a reliable estimate can be made of the amount. (The Australian Institute of Company Directors (AICD), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia., 2020, p. 48)

Cannot provide for future operating losses but should provide for a loss-making contrac- a case study. There's three key areas: (Ian Greenwood, 2020, p. 2)

- The first of which is extra costs – so there's a lot of costs associated with COVID-19 – and should all of these be recognised now?
- The second area is committed costs – so what if I no longer expect to recover these costs fully?
- And third, restructuring provisions – it's a tricky area, and when is the right time to recognise a restructuring provision?

On the extra costs point. One of investor is in the construction sector. They've got long-term construction contracts that they account for on a percentage of completion basis, and they're having lots of challenges around the impacts of COVID-19 on these contracts. So they're really keen to recognise the impact of COVID-19 in the P&L now, as opposed to having an impact on their longer-term margins. And in particular management don't want to be referring to COVID-19 when explaining their results for

years to come. So, at the beginning of lockdown, this client closed down construction sites and they incurred a lot of cost. It was decided that these costs weren't contributing to the progress on the contract, so were taken to P&L immediately .Now they're going to incur a lot of cost in the future, too – so they've got to re-open the sites, and particularly because they've got to operate under social distancing. So they might be working a lot less efficiently going forward. And they want to provide for these costs so that the impact of coronavirus is recognised now when their investors are expecting it. This is a challenging area that requires a lot of consideration – and that some of the related costs may need to be recognised in the future. (Ian Greenwood, 2020, p. 2)

Companies are finding it really challenging to draw the line between costs directly relating to a specific project compared to those costs of running the business. Let's take an example. If the construction company estimates that the purchase price of materials will go up and it would take (let's say) up to six months longer to complete the project, then these are likely to be the costs directly related to the specific construction contract.. It needs to consider these costs when determining if a contract has become loss-making. If it has, then the company would create a provision – so ultimately recognising the COVID-19 costs now. On the other hand, if to comply with the regulations your client needs to fit new plastic screens in the office in the future, then these are likely to be future operating costs. These future operating costs will be recognised only when they are incurred – they cannot be provided for now. So what should be doing is carefully reviewing all the COVID-related costs now and determining whether they are future operating costs or something that needs to be provided for. (Ian Greenwood, 2020, p. 3)

The other extra COVID cost is penalties. For example, a late delivery penalty (Ian Greenwood, 2020, p. 3). Changed business conditions under COVID-19 may also impact an entity's supply contracts, other contracts and leases. These should be examined to determine whether there is a 'force majeure' clause that could relieve the entity of any onerous obligations. If such relief is not available an assessment will need to be made as to whether the expected economic benefits could be less than the unavoidable costs of the contract, triggering an onerous contact obligation. (The Australian Institute of Company Directors (AICD), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia., 2020, p. 48)

It's advised to consider if the contract contains a force majeure clause and if COVID-19 is regarded as the force majeure in the jurisdiction. But if a penalty is imposed, then it afraid that cannot provide for an anticipated future breach. And to recognise a provision, there needs to be what's called an 'obligating event' and a 'present obligation' – this is unlikely to happen before you breach the contract. If so, it may not be needed to pay any penalties. It's better check to with lawyers!. And this is

also the case if they decide to terminate the contract. They need to consider if there is a present obligation that can't be avoided. (Ian Greenwood, 2020, p. 3)

If a contract is determined to be lossmaking, then the costs to terminate it may be recognised earlier. One difference though: costs of terminating a contract are part of the test if the contract is loss-making. So if a contract is determined to be lossmaking, then the costs to terminate it may be recognised earlier. There a need to determine the nature of these costs and do not provide for future operating losses, and make sure to identify the right obligating event. If I move from these extra costs and on to our committed costs, for example: there is a product factory and they're committed to buying hops; however they've had to stop production. So some might argue that they need to provide for this contract as they're not going to be able to use the hops that they're committed to buying. But. They need to decide if they're going to make a loss on the related sales contracts or if it's just a case of a reduced margin. (Ian Greenwood, 2020, p. 4)

The companies should review the contracts signed with customers and suppliers, taking special care in situations of breach of contractual clauses, which may involve the inventory of contingent liabilities or provisions that should be recognised in the financial statements because it is considered probable that economic resources will be used (Rödl & Partner, 2020, p. 4)

They could also think about whether they can terminate or renegotiate the existing supply contract. In the current circumstances, this may be feasible even if the contract was originally non-cancellable. If they can't avoid buying the hops, they'll need to consider if there is anything else they can do with them, like sell them, or if they are going to actually make a loss on these. (Ian Greenwood, 2020, p. 4)

Likewise, the possibility of making provisions for personnel restructuring processes as a result of the negative evolution of the business should be considered. (Rödl & Partner, 2020, p. 4)

There is no provide for staff costs in advance just because is furloughed them and government assistance to be received. Yes – they can recognise a provision only if there is a loss-making contract. They will need to compare the expected benefits under the contract with the unavoidable costs of meeting the obligation. And the unavoidable cost of meeting the obligation is the lower of costs to fulfil the contract and the cost to terminate it. Another example of committed costs, which is different to hops. Many companies across the world have committed to furlough staff and are receiving government assistance. All know that staff are going to be off for the next three months, and not working. But this is different to the hops. Don't provide for staff costs in advance just because is furloughed them and received government assistance. The

committed staff costs would be accounted for as usual – so an expense would be recognise in the period in which the staff were supposed to provide their service. And if a government grant is received, then the related income will be recognised in the same period as the expense that the grant is compensating for. (Ian Greenwood, 2020, p. 5)

The last one to mention on the committed costs is the rent. These days, many ask if they should consider providing for an onerous lease. Under the new lease requirements in IFRS 16 [Leases] entities can no longer have an onerous lease provision. Instead the right-of-use asset needs to review for impairment. (Ian Greenwood, 2020, p. 5). So the IASB has issued an amendment to IFRS 16 to make it easier for lessees to account for Covid-19 related rent concessions (International Federation of Accountants(IFAC), 2020). The changes:

As a practical expedient, a lessee may elect not to assess whether a covid-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the covid-19- related rent concession the same way it would account for the change applying this Standard if the change were not a lease modification. (International Accounting Standards Board(IASB), 2020, p. 26)

The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met: (International Accounting Standards Board(IASB), 2020, p. 4)

(a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

(c) there is no substantive change to other terms and conditions of the lease.

And a provision cannot be created for any lease-related costs that were excluded from measurement of the lease liability (and the right-of-use asset) under IFRS 16. (Ian Greenwood, 2020, p. 5)

Other thing to cover was restructuring provisions. As a result of covid-19. A retail client is looking at restructuring the business. So they're considering not re-opening some of their stores, and at the same time making some of their staff redundant. So just like the construction company, they're also really keen to book all of the COVID-related impacts in this half year, and present all of the bad-news now so that they don't have

longer-term impacts. But, restructuring is a challenging matter. a provision is recognised only when specific conditions are met. And first, a detailed formal plan needs to have for the restructuring, and then second, valid expectations that going to implement that plan are needed to raise. And normally is expected the company to say which stores will be closed, and maybe the approximate number of employees they plan to make redundant. And if at this stage the plan was just approved by the company's board but they hadn't taken any further steps, then that wouldn't be sufficient to recognise a restructuring provision. (Ian Greenwood, 2020, p. 6)

Provisions need to be reviewed annually and adjusted to reflect the current best estimate of the obligation. (The Australian Institute of Company Directors (AICD), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia., 2020, p. 48)

The Company will include in the "Provisions and Contingencies" section that it has taken into account all possible contingencies that could arise from the crisis caused by the coronavirus. Likewise, for each type of contingency it will be indicated: (Rödl & Partner, 2020, p. 2)

a) A brief description of its nature, the foreseeable development and the factors on which it depends.

b) A quantified estimate of the possible effects on the financial statements and in case it cannot be done, information regarding the uncertainties causing it and stating the maximum and minimum limits

c) The existence of any right of reimbursement.

d) In the exceptional case where a provision could not be recorded in the balance sheet because it could not be reliably valued, the reasons why such a valuation could not be made shall also be explained.

Conclusion:

A business may know that it has a present obligation and that it is probable it will have to settle this obligation in the future, but it may be uncertain of the timing or amount of the liability. Despite this uncertainty, IFRS require the business to estimate and record a provision for this obligation in its financial statements. A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present

obligation at the end of the reporting period, taking into account risks and uncertainty of cash flows.

As a result of the unprecedented Covid-19 crisis, we tried in this study to deal the impact of Covid-19 on one of the important items in the financial statements in the entity, which is the provisions, by presenting the requirements for measuring provisions in accordance with International Accounting Standard No. (37), we concluded then by bringing down preceding requirements on measuring events resulting from COVID-19, which represent provisions in accordance with the requirements of international accounting standards. Let's boil this down to several key takeaways:

- Provisions are liabilities for which the amount of the future sacrifice is uncertain;
- Provision is a liability for which the amount is uncertain but able to be measured reliably by estimation;
- Provision represents a liability established to recognise a probable outflow of resources, whose timing or value is uncertain, where the reporting entity has a present obligation arising out of a past event;
- Provisions are obligations of which the precise amount will only be known at a later date. The immediate accounting problem is to estimate the amount of the obligation;
- Under IFRS, the measurement of a provision related to an uncertain obligation is based on the best estimate of the expenditure required to settle the obligation;
- future operating losses cannot be provided for. So all COVID-19 costs now can't be reflected. And a hit to margins is just something can't be provided for;
- the onerous contract assessment may be challenging in some cases because it may be difficult to determine which costs relate directly to the contract;
- It cannot recognise a restructuring provision unless specific criteria are met.

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