

COVID-19 accounting considerations

A number of emergency measures have been made available to businesses during the current pandemic, but how should these be reflected in your financial statements?

For any emergency measures received as a response to the COVID-19 pandemic Directors will need to consider:

- What is the correct recognition and measurement?
- How should it be presented in the financial statements?
- What disclosure is required to ensure a true and fair view is presented?

Many of the initiatives announced constitute “government grants” – for which the accounting is set out in Section 24 of FRS 102.

Paragraph 24.3A requires that government grants 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.

Coronavirus Job Retention Scheme (CJRS) / Coronavirus Statutory Sick Pay (SSP) Rebate scheme

- These schemes meet the definition of a government grant.
- The CJRS grant can be applied for up to 14 days before a payroll run or at any time afterwards, so there may be a mismatch between the cashflows for paying staff that have been furloughed and the receipt of the grant income.
- Where grant claims are made late, a debtor and related accrued income can only be recognised when there is reasonable assurance that the entity will comply with the conditions attached to the grant and that the grant will be received.
- The amounts paid to staff should be recognised as wages as usual with CJRS and SSP grants presented as income, either separately or under a general heading such as ‘grant income’ or ‘other income’.

The income and expense are reported gross. Ensure the income is being recognised in the correct period.



Coronavirus Business Interruption Loan Scheme (CBILS) /Bounce Back Loan Scheme (BBLs)

While these loans themselves do not constitute a government grant, certain elements embedded within these schemes do.

Under both schemes the government will make a Business Interruption Payment to cover the first 12 months of interest payments and any lender-levied fees.

- Business Interruption Payments are government grants and the accounts treatment will be the same as for the CJRS i.e. the interest expense will be 'matched' by an equal amount of grant credit, shown separately in the Income Statement.
- For CBILS, the government will provide lenders with a guarantee of 80%, and BBLs 100%, of any outstanding loan that the organisation is unable to repay.
- It is possible that this government guarantee results in a lower rate of interest than would otherwise have been payable, which could represent a second government grant and would be recognised in a similar way to the Business Interruption Payments.
- However, determining the prevailing interest rate for an unsecured loan may be difficult to estimate and the accounting unnecessarily complex. An acceptable alternative may be to disclose in the accounts that the entity has benefitted from this form of government support, without quantifying what the interest saving may have been.

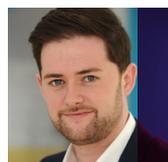
An equal amount of grant income will be recognised to match the interest expense.

Ensure adequate disclosure of the terms of the loan to enable a user of the financial statements to understand the facility.

If you would like to discuss any of the issues raised in this article. Please contact a member of our team:



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Grants – Small Business Grants Fund (SBGF) and Retail, Hospitality and Leisure Grant Fund (RHLGF)

The one-off cash grants from local councils to small businesses in England who pay little or no business rates, or those in the retail, hospitality and leisure sectors with business property below a rateable value, also meet the definition of government grants. Amounts receivable should be recognised when there is reasonable assurance that the grant will be received. Similar to the CJRS, the income and rates expense are "grossed up".

Other financial support

Deferral of VAT payments – This does not meet the definition of a government grant and the outstanding VAT should be presented as a current liability in the Balance Sheet.

Relaxation of rules on carrying over annual leave – This is neither government grant nor government assistance – but it will mean that more unused holidays are carried forward by employees in key industries, which will, in turn, increase the size of the holiday pay accrual to be carried forward in the Balance Sheet.

Business rates relief – This relief is not a government grant since the charge will not be levied accordingly there is no expense to recognise. However, depending on the quantum of the relief relative to the activities of the business it may require disclosure in the notes to the accounts to enable users of financial statements to understand its significance.

Government guidance and emergency measures are continuously being updated. Businesses should engage with their professional advisors if they have any queries on how to account for any of the measures available to them.

Please note that the information contained within this factsheet is not intended to give specific technical advice nor should it be construed as doing so. Professional advice should always be sought before action is either taken or refrained from as a result of information contained herein.



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