

Applying IFRS

Accounting considerations for the war in Ukraine

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What you need to know

- ▶ The war in Ukraine triggers a number of IFRS accounting considerations affecting both the annual and interim financial statements.
- ▶ A number of countries have imposed and continue to impose new sanctions on specified Russian entities and individuals. Sanctions have also been imposed on Belarus.
- ▶ The situation together with potential fluctuations in commodity prices, foreign exchange rates, restrictions to imports and exports, availability of local materials and services and access to local resources will directly impact entities that have significant operations or exposures in, or with Russia, Belarus or Ukraine.
- ▶ The situation is fluid and may also have significant consequences for other entities that could be exposed to fluctuations in commodity prices and foreign exchange rates, as well as the possibility of a protracted economic downturn.

Sanctions can directly impact those entities and individuals, and entities under their control. Business counterparties of such sanctioned entities and individuals may also be indirectly impacted, as well as certain industries in the Russian and Belarusian economies.

1. Overview

The war has significantly impacted the stability of the Ukrainian economy, exposing risks that are not typical and creating challenges for businesses located and operating there. In addition, a number of countries have and continue to impose sanctions on specific Russian entities and individuals linked to Russia anywhere in the world. Sanctions have also been imposed on Belarus. Such sanctions can directly impact those entities and individuals. Business counterparties of such sanctioned entities and individuals may also be indirectly impacted, as well as certain industries in the Russian and Belarusian economies.

The potential fluctuations in commodity prices, foreign exchange rates, restrictions to imports and exports, availability of local materials and services and access to local resources will impact entities that have significant operations or exposures in, or with Russia, Belarus or Ukraine, including:

- ▶ Significant subsidiaries, associates, joint arrangements, branches or other operations
- ▶ Significant supplier and/or customer relationships with other entities
- ▶ A direct or indirect parent
- ▶ Other significant relationships with other entities

There will also be impacts for many entities arising from fluctuations in commodity prices and foreign currency rates, supply chain disruptions and possible slowdowns in global economies.

This publication provides a reminder of some of the existing accounting requirements that should be considered. The topics addressed in this are:

- ▶ Going concern
- ▶ Impairment assessment of non-financial assets
- ▶ Fair value measurement
- ▶ Financial instruments (IFRS 9)
- ▶ Insurance recoveries
- ▶ Leases
- ▶ Onerous contracts
- ▶ Assets held for sale, discontinued operations and restructurings
- ▶ Inventories
- ▶ Revenue recognition
- ▶ Investments in subsidiaries, associates and joint ventures
- ▶ Government grants
- ▶ Events after the reporting period
- ▶ Other financial statement presentation and disclosure requirements

The going concern assessment needs to be performed up to the date on which the financial statements are issued.

2. Going concern

IAS 1 *Presentation of Financial Statements* requires management, when preparing financial statements, to make an assessment of an entity's ability to continue as a going concern, and whether the going concern assumption is appropriate. Furthermore, disclosures are required when the going concern basis is not used or when management is aware, in making their 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. Disclosure is also required when the judgement applied in determining the existence of a material uncertainty is significant.

In assessing whether the going concern assumption is appropriate, the standard requires that all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period, should be taken into account. This assessment needs to be performed up to the date on which the financial statements are issued.

2.1. Judgement

Management is required to assess the entity's ability to continue as a going concern. In making the assessment, management may need to consider factors that relate to the entity's current and expected profitability, the timing of repayment of existing financing facilities and the potential sources of replacement financing. There may be a wide range of factors that can affect an entity's going concern assessment. Examples of factors that may need to be considered include:

- ▶ Reliance on financing from Russian, Belarusian or Ukrainian financial institutions
- ▶ Loss of significant customer base/decrease in demand for products or services
- ▶ Loss of significant production sites/critical suppliers
- ▶ Inability to sell products through established channels
- ▶ Possible restrictions on activities (including financing activities) that might be impacted by sanctions
- ▶ The effects of longer-term structural changes in the market, including supply chain disruption
- ▶ Impact of rising commodity prices

Management takes into consideration the existing and anticipated effects of the current situation on the entity's activities in its assessment of the appropriateness of the use of the going concern basis. For example, when an entity has a history of profitable operations and relies on external financing resources, but its operations have been suspended before or after the reporting date, management would need to consider a wide range of factors including, expected impact on liquidity and profitability before it can satisfy itself that the going concern basis is appropriate. IAS 1 requires management to take into account all available information about the future.

There might be rapid changes in the circumstances affecting management's assessment of the entity's ability to continue as a going concern. For this reason, management should consider all available information about the future which was obtained after the reporting period up to the date that the financial statements are authorised for issue, including the status of the war in Ukraine and measures taken by governments and other entities relating to sanctions. That is, the financial statements must not be prepared on a going concern basis if, before they are authorised for issue, circumstances were to deteriorate such that management no longer has a realistic alternative to ceasing trading, even if the assessment at the end of the reporting period supported the application of the going concern basis.

2.2. Disclosure

There may be material uncertainties that cast significant doubt on the entity's ability to operate under the going-concern basis. When an entity prepares financial statements, it is required to disclose these material uncertainties in the financial statements in order to make clear to readers that the going-concern assumption used by management is subject to such material uncertainties.

In January 2021, the IFRS Foundation released an [educational document](#) highlighting some of the points mentioned above regarding the requirements in IFRS that are relevant to an entity's assessment of its ability to continue as a going concern and the respective disclosures. The educational document is a helpful reminder about challenging which assessments that management needs to make and key disclosures that may apply.

How we see it

The degree of consideration required, the conclusion reached, and the required level of disclosure in respect of the going concern assessment will depend on the facts and circumstances in each case, because not all entities will be affected in the same manner and to the same extent. Significant judgement may be required given the uncertainties referred to above. Continual updates to the assessments up to the date of issuance of the financial statements are required.

IAS 36 requires an entity to test all assets that are within its scope for potential impairment when indicators of impairment exist or, at least, annually for goodwill, intangible assets not yet available for use and intangible assets with indefinite useful lives.

3. Impairment assessment of non-financial assets

In the case of assets in Ukraine, there is a significant risk of physical damage or restricted access to assets, as well as the risk of impairment due to a decrease in recoverable amounts. The sanctions on Russia and Belarus may impact whether an entity is able to recover the carrying value of assets held in those countries. Entities in Russia that are owned and/or controlled outside Russia may also face retaliatory measures, including nationalisation of assets. In some cases, entities may consider exiting operations in Russia and Belarus. An asset is impaired when an entity is not able to recover its carrying value, either by using it or selling it.

IAS 36 *Impairment of Assets* requires an entity to test all assets that are within its scope for potential impairment when indicators of impairment exist or, at least, annually for goodwill, intangible assets not yet available for use and

intangible assets with indefinite useful lives. If there is an impairment indicator (regardless of where the asset is located), an impairment test must be performed.

3.1. Impairment indicators

Indicators of impairment may include both external and internal sources of information and could include:

- ▶ Significant changes in commodity prices or other market rates
- ▶ Significant changes with an adverse effect on the entity that have taken place during the period, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated. For example, the inability to operate in the market due to sanctions
- ▶ The carrying amount of the entity's net assets is more than its market capitalisation. For example, matters discussed above may lead to decreasing stock prices, which again may indicate that the carrying value of the entity's net assets is higher than its market capitalisation
- ▶ Evidence of obsolescence, theft, seizure or physical damage of an asset. For example, property, plant and equipment held in Ukraine may be subject to physical damage

If there is an indication of impairment, an impairment test must be performed in accordance with IAS 36. Further information is available in [Chapter 20](#) of the 2022 edition of International GAAP®.

The complete destruction of a non-current asset would result in the derecognition of that asset rather than an impairment. That is because the complete destruction of an asset means that no future economic benefits are expected either from its use or disposal (except for disposal benefits, e.g., from metal content in the scrap).

3.2. Measurement of impairment losses

When assessing impairment, entities are required to determine the recoverable amounts of the assets, being the higher of fair value less costs of disposal (FVLCD) and value in use (VIU). When measuring FVLCD, fair value is measured in accordance with IFRS 13 *Fair Value Measurement*, which is explained below. Costs of disposal are calculated in accordance with IAS 36. The estimation of the VIU involves estimating the future cash inflows and outflows that will be derived from the use of the asset and from its ultimate disposal and discounting the cash flows at an appropriate rate.

There has been a significant increase in interest rates in a number of countries. This may affect an entity's discount rate when using a discounted cash flow model, as it could impact current market assessments of the time value of money and the risks specific to the asset(s) or cash-generating unit(s) for which the future cash flow estimates have not been adjusted.

Significant uncertainty and judgement also arise when considering how different scenarios may materialise, for instance, when assessing the probability and the impact of future developments in the affected countries. When significant uncertainty and judgement exists, an expected cash flow approach, based on

probability-weighted scenarios, may be more appropriate than a single best estimate for estimating value in use. In practice, this could mean probability weighting scenarios (i.e., worst case, base case and best case), as well as factoring in different pricing curves. Even when a probability-weighted scenario approach is used, an entity would still need to consider adjusting the discount rate for the general uncertainties and risks not reflected in the cash flows.

Since the remaining useful life for many assets is long term, entities should consider not just the immediate effect, but also the subsequent effect of the events referred to above, which may continue for an unknown period. For example, if the entity expects to abandon an item of property, plant or equipment at a future date, it will need to adjust the depreciable period and write down the carrying amount of the asset to its residue value if any over the period up to that date.

3.3. Disclosure

The more uncertainty there is, the more important it is for entities to provide detailed disclosure of the assumptions taken, the (preferably external) evidence they are based on and the impact of a reasonably possible change in the key assumptions (sensitivity analysis).

How we see it

Management is required to exercise significant judgement to assert reasonable and supportable assumptions that reflect the conditions existing at the reporting date for impairment testing. We expect that many of these assumptions will be subject to significant uncertainties. As such, entities should consider providing detailed disclosures on the key assumptions and sensitivities.

4. Fair value measurement

When valuations are subject to significant measurement uncertainty and there is a wider range of possible estimates of FVM, the entity is required to apply judgement to determine the point within that range that is most representative of FVM in the circumstances. This requires, amongst others, considering the impact of the risk of default of the counterparty on FVM. An example is the credit valuation adjustment (CVA) applied to the valuation of derivative contracts, which can be impacted both when the counterparty is directly exposed to Russia, Belarus and Ukraine and also simply due to the rise in commodity prices, which may trigger severe increases in margin calls for counterparties with negative positions (and, therefore, increase their risk of default).

The definition of fair value contemplates an orderly transaction, which is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities and it is not a forced transaction (e.g., a forced liquidation or distress sale). While volatility in the financial markets may suggest that the prices are aberrations and do not reflect fair value, it would not be appropriate for an entity to disregard market prices at the measurement date, unless those prices are from transactions

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that are not orderly. Evidence of whether a transaction is orderly must be evaluated when deciding the weight that is placed on the transaction price when estimating FVM or market risk premiums. If the observed price is based on a transaction that is determined to be forced or disorderly, little, if any, weight should be placed on it compared with other indications of value.

The determination of whether a transaction is orderly is made at the individual transaction level and requires the use of judgement based on the available evidence from all relevant factors. While market factors such as an imbalance in supply and demand and liquidity constraints can affect the prices at which transactions occur in a given market, such an imbalance does not automatically indicate that the parties to a transaction were not knowledgeable and willing market participants or that a transaction was not orderly. IFRS 13 makes clear that fair value is a market-based measurement, not an entity-specific measurement, and notes that the reporting entity's intention to hold an asset or liability in a market downturn is not relevant.

A significant decrease in volume or activity in a market can influence which valuation technique(s) are used, how those techniques are applied and whether inputs are observable at the measurement date. In addition, a significant decrease in the volume of transactions does not automatically imply that a market is no longer active. Similarly, increased complexity and judgement in measuring fair value does not automatically imply that fair value can no longer be reliably measured.

IFRS 13's fair value hierarchy requires valuation techniques to maximise the use of observable inputs from orderly transactions and minimise the use of unobservable inputs. Consequently, even if the market for an asset has become less liquid, relevant prices or inputs observed from orderly transactions in these markets must still be considered. It would be inappropriate for an entity to default solely to a model's value based on unobservable inputs, such as income approach that uses only an entity's own inputs (a Level 3 measurement), when Level 2 (observable) information, for instance, recent transacted prices, is available. Judgement is required in assessing the relevance of observable market data and whether they reflect orderly transactions, particularly in situations when there has been a significant decrease in market activity for an asset or liability.

Further information on measuring fair value under IFRS 13 is available in [Chapter 14](#) of the 2022 edition of International GAAP®.

How we see it

IFRS 13 provides relevant guidance on FVM of assets and liabilities in markets that have experienced significant volatilities or reduction in volume or activity. The application of this guidance to arrive at a reasonable estimate of FVM requires significant management judgement and relies on the robustness of the entity's FVM determination and review processes.

In certain cases, the changes to the existing valuation techniques and valuation adjustments required in response to the current market conditions may warrant assistance from external valuation specialists with the necessary expertise, experience and market knowledge.

Providing transparency over the techniques, key assumptions and inputs used in determining fair value, including the sensitivities by providing disclosures required by IFRS 13, is an integral part of FVM and key to enhancing the usefulness of financial reporting in this unprecedented time.

5. Financial instruments (IFRS 9)

IFRS 9 *Financial Instruments* and IFRS 7 *Financial instruments: Disclosures* deal with the accounting for financial instruments and the related disclosures.

5.1. Impairment

Entities with lending activities will need to consider the requirements in IFRS 9 when measuring expected credit losses (ECLs) on loans and trade receivables made or committed to entities and individuals and financial guarantees granted involving such entities. They will also need to consider ECLs relating to bank deposits and debt securities issued by such entities (including governments).

The parties that are more directly affected include not only entities with operations or exposures (or collateral for their exposures) in Ukraine, but also in Russia and Belarus, where entities may be adversely affected by the sanctions imposed by other countries. Additionally, entities in Russia owned and/or controlled outside Russia may face retaliatory measures, including nationalisation of assets. In some cases, entities may consider exiting operations in Russia and Belarus. Loans to individuals subject to sanctions may be adversely affected if cash or assets that would have been used to repay the loan or provide security, have been seized or otherwise restricted.

Any restriction imposed by the Russian government on amounts owed by Russian entities to foreign creditors, as well as any exclusion of Russian entities from the SWIFT¹ payment system, will also need to be considered in the assessment of cash shortfalls for the purpose of measuring ECLs.

The analysis should also consider the recoverability of amounts owed by debtors who may have no operations in the affected areas, but have significant customers or suppliers in Russia, Belarus or Ukraine. Further, many entities outside Russia may be adversely affected by rising prices of commodities such as oil, gas and wheat, or by a potential slowdown in the global economy. The occurrence of large-scale business disruptions potentially gives rise to liquidity

¹ Society for Worldwide Interbank Financial Telecommunication.

issues for certain entities. There may also be consequential impacts on the credit quality of entities along the supply chain.

Some exposures are likely to have significantly increased in credit risk and would need to be measured based on lifetime expected credit losses.

Also, some guarantee contracts held, including those considered integral to the terms of a loan, may not cover some losses incurred due to restrictions on settlements in Ruble or exclusion of war events. Therefore, when calculating the ECL on guaranteed loans, the conditions of the guarantee should be carefully assessed.

Entities may need to model possible outcomes using multiple scenarios. Meanwhile, since ECL models were not designed or calibrated with these circumstances in mind, it may be necessary to make use of post-model adjustments or overlays.

These considerations are also directly relevant for the measurement of Credit Valuation Adjustments (CVAs) in relation to instruments measured at fair value (see above on fair value measurement).

For further information on impairment of financial assets see [Chapter 46](#) of the 2022 edition of International GAAP®.

5.2. Hedge accounting

Business transactions may be postponed or cancelled, or they may occur in significantly lower volumes than initially forecast. If an entity has designated a transaction such as the purchase or sale of goods or the expected issuance of debt, as a hedged forecast transaction in a cash flow hedge, it will need to consider whether the transaction is: (i) still a 'highly probable forecast transaction' in order to be able to continue to apply cash flow hedge accounting; or (ii) still 'expected to occur' in order not to recycle other comprehensive income relating to the hedge.

It is also possible that counterparties to hedging instruments, or hedged items, may have increased significantly in credit risk, such that credit risk may now dominate the hedge relationship so that hedge accounting is not permitted (please also refer to the CVA considerations in the fair value measurement section). Also, any hedging relationship involving Rubles will have to be considered carefully given the restrictions applicable to settlement in Rubles.

For further information on hedge accounting see [Chapter 48](#) of the 2022 edition of International GAAP®.

5.3. Other considerations

Entities may also need to consider other issues relating to financial instruments including:

- ▶ Consequences for debt arrangements, including covenants. Lower results and expected cash inflows may compromise an entity's ability to service its debt or meet its covenants and may require the entity to restructure its debt. These possible effects should be carefully assessed for the calculation of the amortised cost, the potential impact of any modification of the terms

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of the financial asset or liability, and, whether this results in derecognition, and the possible reclassification of financial liabilities to current liabilities, besides going concern considerations.

- ▶ Consequences for contracts to buy or sell that can be settled net in cash. Entities that have revised their expectations on purchases or sales of non-financial items should consider how these changes may affect the classification and measurement of such contracts and whether they continue to meet the so called 'normal purchase or sale exception' criteria. If a contract which was originally entered into as a normal purchase or sale ceases to be held for that purpose at a later date, it should subsequently be accounted for as a financial instrument under IFRS 9.
- ▶ Any need for reclassification of financial assets as a result of a change in business model. Such changes are expected to be very infrequent and must be determined by the entity's senior management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties. This may occur when an entity ceases to perform an activity that is significant to its operations. A change in intent for a particular financial asset does not lead to a change in business model, even if there has been a significant change in market conditions.
- ▶ Required disclosures about risk exposures, including credit risk, market risk and concentration risk, which may require specific disclosure of exposures to counterparties that are incorporated in Russia, Belarus or Ukraine, and those incorporated elsewhere.
- ▶ Bank deposits may no longer satisfy the requirement to be classified as cash or cash equivalents if they are now exposed to a significant risk of change in value. Further, the effect of sanctions and other legal measures on restrictions of cash balances and deposits may make them unavailable for use by the entity. The amount of significant cash and cash equivalent balances that is not available for use by an entity should be disclosed together with a commentary by management to explain the circumstances of the restriction. The nature of the restriction must also be assessed to determine whether the balance is ineligible for inclusion in cash and cash equivalents because of the restriction.

6. Insurance recoveries

Entities often enter into insurance policies to reduce or mitigate the risk of loss arising from damage to, or loss of, assets or other events. However, careful consideration of those policies will be required to determine whether losses directly or indirectly attributable to the war in Ukraine are covered by insurance.

6.1. Recognition

The accounting for insurance claims will differ based on a variety of factors, including the nature of the claim, the amount of proceeds (or anticipated proceeds) and the timing of the loss and corresponding insurance recovery. In addition, any accounting for insurance proceeds will be affected by the evaluation of coverage for that specific type of loss in a given situation, as well as an analysis of the ability of an insurer to satisfy a claim.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* prohibits the recognition of contingent assets. In such a situation, the recognition of the insurance recovery will only be appropriate when its realisation is virtually

IAS 37 prohibits the recognition of contingent assets. In such a situation, the recognition of the insurance recovery will only be appropriate when its realisation is virtually certain, in which case, the insurance recovery is no longer a contingent asset.

certain, in which case, the insurance recovery is no longer a contingent asset. In the context of a potential insurance recovery, determining that there is a valid insurance policy for the incident and a claim will be settled by the insurer, may require evidence confirming that the insurer will be covering the claim.

6.2. Measurement

Once it is established that it is virtually certain that the entity will be compensated under a valid insurance policy, any uncertainty as to the amount receivable should be reflected in the measurement of the claim. The amount of the provision is not reduced by any expected reimbursement. Instead, the reimbursement is treated as a separate asset and the amount recognised for the reimbursement asset is not permitted to exceed the amount of the provision.

6.3. Presentation

'Netting off' is not allowed in the statement of financial position, with any insurance reimbursement asset classified separately from any provision. However, the expense relating to a provision can be shown in the income statement net of any corresponding reimbursement, to the extent that they occur in the same reporting period.

In accordance with IAS 7 *Statement of Cash Flows*, cash flows from operating activities are described as cash flows from the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. If the insurance proceeds are related to business interruption, the corresponding cash flows are classified as operating cash flows.

How we see it

The terms and conditions of an insurance policy are often complex. In the context of a potential insurance recovery, determining that there is a valid insurance policy for the incident and a claim will be settled by the insurer, may require evidence confirming that the insurer will be covering the claim.

7. Leases

There may be indications that a lease has been terminated (for example, due to sanctions) or modified, or the lease related assets (e.g., the underlying asset for lessors of operating leases, or the right of use asset for lessees) may be impaired.

Entities account for lease contracts in accordance with IFRS 16 *Leases*. Leased assets, such as aircraft, real estate, shipping vessels, telecommunications equipment may be impacted. There may be indications that a lease has been terminated (for example, due to sanctions) or modified, or the lease related assets (e.g., the underlying asset for lessors of operating leases, or the right-of-use asset for lessees) may be impaired. Lessees should also consider whether there have been events within their control that would result in a reassessment of an existing lease contract. For example, a lessee may decide to exit certain properties and change its conclusion on whether it will exercise future lease renewal options. Further information on accounting for changes to lease contracts is available in [Chapter 23](#) of the 2022 edition of International GAAP®.

Further, entities should monitor any laws or regulations governing their contracts to determine whether there are any changes to their rights and obligations arising from any new government sanctions prohibiting or curtailing

certain lease transactions which may result in changes to the accounting for lease contracts.

8. Onerous contracts

A contract is considered onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract 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 fulfil it. If an entity has a contract that is onerous, IAS 37 requires the entity to recognise and measure the present obligation under the contract as a provision. In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendment is effective for annual periods beginning on or after 1 January 2022.

Entities will have to consider loss-making customer contracts that become onerous and other contracts, such as for the supply of materials for which the costs have increased as a result of the war and the imposition of sanctions. Supply chains especially for commodities, may be disrupted in many countries. For example, when a manufacturing entity has contracts to sell goods at a fixed price and it cannot deliver the goods itself without procuring them from a third party at a significantly higher cost, the provision for the onerous contract will reflect the lower of the penalty for terminating the contract or the present value of the net cost of fulfilling the contract (i.e., the excess of the cost to procure the goods over the consideration to be received). Contracts should be reviewed to determine if there are any special terms that may relieve an entity of its obligations (e.g., *force majeure*). Contracts that can be cancelled without paying compensation to the other party do not become onerous unless there is a constructive obligation.

9. Assets held for sale, discontinued operations and restructurings

Entities may decide to sell or abandon certain assets or execute a restructuring plan.

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* addresses the presentation and measurement of non-current assets and disposal groups that are expected to be recovered by disposal rather than through use. Such assets and disposal groups are classified as held for sale and written down to the lower of carrying amount and fair value less costs to sell. Depreciation and amortisation cease and the assets are presented separately in the statement of financial position. Assets or disposal groups that are to be abandoned must not be classified as held for sale, but results and cash flows from a disposal group that is to be abandoned may be presented as discontinued operations if certain criteria are met. The standard also deals with the presentation and disclosure of discontinued operations. Further information on IFRS 5 is available in [Chapter 4](#) of the 2022 edition of International GAAP®.

Restructuring costs are recognised only when the general recognition criteria in IAS 37 are met, i.e., there is a present obligation (legal or constructive) as a result of a past event, in respect of which a reliable estimate of the probable cost can be made.

A restructuring is planned and controlled by management, and materially changes either the scope of a business undertaken by an entity or the manner in which business is conducted. The following are examples that may fall within the definition of a restructuring:

- ▶ Sale or termination of a line of business
- ▶ Closure of a business location in a country or region or relocation of business activities from one country or region to another
- ▶ Changes in management structure, for example, eliminating a layer of management
- ▶ Fundamental reorganisations that have a material effect on the nature and focus of an entity's operations

Restructuring costs are recognised only when the general recognition criteria in IAS 37 are met, i.e., there is a present obligation (legal or constructive) as a result of a past event, in respect of which a reliable estimate of the probable cost can be made. For constructive obligations to restructure, IAS 37 also requires that the entity has both a detailed formal plan and has raised a valid expectation in the parties affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. In order for an announced plan to give rise to a constructive obligation, its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. Further information on IAS 37 is available in [Chapter 26](#) of the 2022 edition of International GAAP®.

10. Inventories

IAS 2 *Inventories* generally requires entities to account for inventories at the lower of cost and net realisable value (NRV). Estimates of NRV may be subject to more estimation uncertainty than in the past, and determining the appropriate assumptions may require significant judgement. In some cases, entities may need to write off their inventories. Entities for example, may have had to dispose of goods they were unable to store or could not sell. Other entities may have to determine whether to write down their inventories to NRV if they become wholly or partially obsolete, or if their selling prices have declined.

Some entities in the affected areas, may have lower levels of production or an idle plant, for example, due to lower demand or forced closures. If production volumes are lower than the average, entities must not increase the amount of fixed overhead costs allocated to each unit of production. Rather, any unallocated overheads are recognised as an expense in the period in which they are incurred.

Disclosures about inventories, including the measurement bases used, assist users in understanding how transactions, events and conditions are reflected in the financial statements and the sensitivity to change. At a minimum, entities will need to disclose the amount of any write-down of inventories recognised in profit or loss in annual financial statements and, if significant, in interim

financial statements. Further information on inventories is available in [Chapter 22](#) of the 2022 edition of International GAAP®.

11. Revenue recognition

Entities account for revenue under IFRS 15 *Revenue from Contracts with Customers*. Further information on revenue is available in [Chapter 27](#) of the 2022 edition of International GAAP®.

Estimates of variable consideration in new and ongoing customer contracts will need to be evaluated including reassessment of the constraint. Examples of variable consideration estimates that may have changed include expectations about returns of goods, contract volumes and whether an entity will meet contractual conditions for performance bonuses or penalties. Estimates made at contract inception are required to be updated throughout the term of the contract to depict conditions that exist at each reporting date, including any amounts that are constrained, to reflect revised expectations about the amount of consideration to which it expects to be entitled.

Changes to the transaction price that relate to a change in estimates of variable consideration (and are not a result of contract modifications, which are discussed below) are generally allocated to the performance obligations in the contract on the same basis as their initial allocation. This could result in either an increase or decrease in revenue in relation to a satisfied performance obligation or in cumulative revenue recognised for a partially satisfied over-time performance obligation. Entities using the variable consideration allocation exception should also consider whether they can continue to apply this exception.

Uncertainties may prompt entities to modify contracts with customers. Customers and entities may be more likely to terminate contracts, which is also a form of contract modification under IFRS 15 or *force majeure* clauses may be triggered. Identifying whether a modification has occurred (whether explicit or implied by customary business practice) and determining how to account for them may require significant judgement. When an IFRS 15 contract is modified, an entity may also need to reassess the contract criteria in paragraph 9 of IFRS 15 for the modified contract, as well as the contract's duration (i.e., the period in which parties to the contract have present enforceable rights and obligations).

There may be an impact on customers' ability and intent to pay, and/or entities may be more willing to accept partial payment or extend payment terms. Entities will need to determine how to account for these circumstances. Specifically, entities will need to consider the effects on their IFRS 15 collectability assessments, estimates of variable consideration made at contract inception, the subsequent impairment measurement of any contract assets or trade receivables under the expected credit loss model in IFRS 9, as well as impairment of related contract cost assets and identification of significant financing components. In addition, entities entering into new contracts with customers will need to carefully consider their customers' ability and intent to pay.

Entities with subsidiaries that are significantly affected will need to consider whether the facts and circumstances indicate that control should be reassessed.

Entities should consider whether uncertainties or changes in business practices require their revenue disclosures to be enhanced. For example, if an entity estimates variable consideration (including application of the constraint), it is required to disclose information about the methods, inputs and assumptions used. Entities must also disclose certain information about their performance obligations, including when performance obligations are satisfied in a bill-and-hold arrangement and significant payment terms. Entities should also consider the requirements to disclose the judgements and changes in judgements that significantly affect the determination of the amount and timing of revenue.

12. Investments in subsidiaries, associates and joint ventures

Entities may have investments in subsidiaries, associates or joint ventures that operate in Russia, Belarus or Ukraine.

The investor in an associate or joint venture considers whether the net investment in an associate or joint venture is impaired if there is objective evidence of impairment as a result of events that occurred after the initial recognition of the net investment that have an impact on the estimated future cash flows that can be reliably estimated. Losses expected because of future events are not recognised. Objective evidence that the net investment is impaired includes observable data about loss events including: significant financial difficulty of the associate or joint venture; a breach of contract, such as a default or delinquency in payments by the associate or joint venture; the entity grants the associate or joint venture a concession that it would not otherwise consider; it becomes probable that the associate or joint venture will enter bankruptcy or another financial reorganisation.

Entities with associates and joint arrangements (including both joint operations and joint ventures) that are significantly affected, may also need to consider whether the assessments of significant influence and joint control are still appropriate. Further information is available in [Chapter 11](#) of the 2022 edition of International GAAP®.

Investments in subsidiaries are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*. IFRS 10 clarifies that an investor is required to reassess whether it controls an investee if the facts and circumstances indicate that there are changes to one of the three elements of control, being power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns. Entities with subsidiaries that are significantly affected will need to consider whether the facts and circumstances indicate that control should be reassessed. For example, a subsidiary may be subject to nationalisation or the parent entity may lose its ability to have Board representation, or control of the Board. Further information is available in [Chapter 6](#) of the 2022 edition of International GAAP®.

13. Government grants

IAS 20 *Accounting for Government Grants and Government Assistance* applies to the accounting for, and the disclosure of, government grants and to the disclosure of other forms of government assistance. The distinction between government grants and other forms of government assistance is important because the standard's accounting requirements only apply to the former. Government grants are a specific form of government assistance and relate to the transfers of resources to an entity in return for past or future compliance with certain conditions relating to the entity's operating activities. Entities may need to consider whether there have been changes to government grants or other forms of government assistance that may impact the financial statements or require further disclosures.

14. Events after the reporting period

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. IAS 10 *Events after the Reporting Period* makes a distinction between adjusting and non-adjusting events after the reporting period. The principal issues are how to determine which events after the reporting period are to be reflected in the financial statements as adjusting events and, for non-adjusting events, what additional disclosures need to be provided.

For reporting periods ending on or before 31 December 2021, the war is considered to be a non-adjusting event. For reporting periods ending after 31 December 2021 the evaluation of adjusting or non-adjusting events will be based on the facts and circumstances up to the date of issuance of the financial statements.

Generally, sanctions being imposed after the end of the reporting period, but before the date the financial statements are authorised for issue, are non-adjusting events. However, in some cases, judgement may be required to determine when sanctions were effectively imposed, thus, determining the accounting impact of such sanctions may be challenging. Regardless of the outcome of the judgement in such cases, explanatory disclosures should be made to ensure transparency.

Determining whether events are adjusting or non-adjusting depends on the nature of the subsequent event and the accounting topic. This assessment will in, many cases, be highly judgemental, and entities should, therefore, consider whether disclosures about this judgement are required.

For reporting periods ending after 31 December 2021, given that the situation is continuing to evolve, entities will need to evaluate whether the impacts of the war in Ukraine and the consequential government response and economic sanctions are adjusting or non-adjusting events based on the facts and circumstances.

If management concludes an event is a non-adjusting event, but the impact of it is material, the entity is required to disclose the nature of the event and an estimate of its financial effect. If an estimate cannot be made, then the entity is required to disclose that fact.

15. Other financial statement presentation and disclosure requirements

An entity's ability to meet the covenant requirements included in long-term loan arrangements may be affected. IAS 1 requires that, when an entity breaches a covenant on or before the period end, with the effect that the liability becomes payable on demand, it is classified as a current liability. Some long-term arrangements include covenants that the lender requires the entity to monitor and ensure that they are met more frequently than annually. In such cases, entities must carefully consider if a waiver obtained before period end is, in effect, rectifying the breach permanently, or if it only provides a period of grace until the next scheduled covenant testing date. In the former case, the liability would be considered non-current, while in the latter case, the liability would have to be reclassified to current.

IAS 1 also requires disclosure of information about the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities, such as non-current assets subject to impairment, within the next financial year. The nature and extent of the information provided will vary according to the nature of the assumption and other circumstances, but may include:

- ▶ The nature of the assumption or other estimation uncertainty
- ▶ The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity
- ▶ The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected
- ▶ An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved

An entity is also required to disclose the judgements, apart from those involving estimations, that management has made in the process of applying its accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Further information about the requirements of IAS 1 is available in [Chapter 3](#) of the 2022 edition of International GAAP®.

15.1. Disclosure

The financial statement disclosure requirements will vary depending on the magnitude of the financial impact and the availability of information.

Because there may be obligations or uncertainties that an entity may not have previously recognised or disclosed, an entity needs to consider whether to

disclose additional information in the financial statements to explain the impact on areas that might include provisions and contingent assets/liabilities, in addition to asset impairments after the reporting period as discussed above.

In relation to the assumptions and estimation uncertainty associated with the measurement of various assets and liabilities in the financial statements, there may be additional risks that the carrying amounts of assets and liabilities may require material adjustments within the next financial year. Therefore, entities should carefully consider whether additional disclosures are necessary in order to help users of financial statements understand the judgement applied in the financial statements. Such disclosure may include, for a financial statement item with a carrying amount that is more volatile currently, sensitivity analyses indicating how carrying amounts are impacted by the methods, assumptions and estimates underlying their calculation.

How we see it

Entities need to consider the magnitude of the impact caused to their businesses and adequately disclose the information about those assets and liabilities that are subject to significant estimation uncertainty, in order to provide users with a better understanding of the financial impact.

16. Interim reporting considerations

In accordance with IAS 34, an entity is required to include in its interim financial report, an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

In accordance with IAS 34 *Interim Financial Statements*, an entity is required to include in its interim financial report, an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Also, an entity is required to include explanations regarding the nature and amount of items affecting assets, liabilities, equity, net income and cash flows that are unusual because of their nature, size or incidence. Information disclosed in relation to those events and transactions should also update the relevant information presented in the most recent annual financial report. IAS 34 sets out a number of required disclosures as well as a non-exhaustive list of events and transactions for which disclosures would be required if they are significant. For example, when significant, an entity needs to disclose changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost. In addition, an entity is also required to disclose any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period and transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments when significant.

Furthermore, although IAS 34 does not contain a detailed requirement to include sensitivity disclosures, as discussed above, if the range of reasonably possible changes in key assumptions has significantly changed since the end of the last annual reporting period, an update of relevant sensitivity disclosures may be required.

The standard presumes a user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it

is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report. However, as the current situation continues to evolve, the information included in the last annual financial reports may no longer be relevant. Therefore, entities may have to provide updated disclosures or to add information on topics discussed in this publication for interim financial reporting purposes.

While other standards specify disclosures required in a complete set of financial statements, if an entity's interim financial report includes only condensed financial statements, as described in IAS 34, then the disclosures required by those other standards are not mandatory. However, if disclosure is considered to be necessary in the context of an interim report, those other standards provide guidance on the appropriate disclosures for many of these items. In light of these requirements and depending on the entity-specific facts and circumstances, higher-level disclosures may be sufficient in condensed interim financial statements.

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