Ask ICAS Webinar Series

Coronavirus - Accounts, audit and keeping cash as king
Coronavirus Hub on icas.com

Members
Become a CA
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Employer
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Members
Latest updates

ICAS letter to Government
Post-CAP letter to the Government outlining concerns and queries from ICAS members about COVID-19 support

Members

CA Students – essential live updates

Practice

Important update about CPD courses

COVID-19 advice for agents

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COVID-19 advice for agents
Coronavirus
Information and resources
Your ICAS team for today

David Menzies CA
Director of Practice

James Barbour CA
Director, Policy
Leadership

Steven Wood
Practice Support
Specialist (Insolvency)
Covid-19

Accounting and Audit Considerations for Private Companies

James E Barbour BA(Hons) CA, ICAS Director, Policy Leadership
Companies House have introduced an automatic and immediate 3 month extension for the filing of company accounts. However, this needs to be applied for. [https://www.gov.uk/guidance/coronavirus-guidance-for-companies-house-customers-employees-and-suppliers](https://www.gov.uk/guidance/coronavirus-guidance-for-companies-house-customers-employees-and-suppliers)

The reason for the extension should be the impact of COVID-19 on the company’s activities. Company Number is also required.

Please note that this is only applicable where the filing deadline has not yet passed.

Companies that have already extended their filing deadline, or shortened their accounting reference period, may not be eligible for an extension.

Late filing penalties are still in operation.
2 Extension of Accounting Period

➢ Some companies may consider extending their accounting period. Obviously, need to consider full implications of doing so.

➢ Section 392 of the Companies Act 2006 allows this period to be extended to a maximum of 18 months, or longer if a company is in administration, provided this has not been done in the previous 5 years.

➢ A company’s financial year can only be lengthened more often than every 5 years if: the company is in administration; it relates to alignment of dates within a group; or with special permission from Companies House.

➢ A company's year-end cannot be changed when its accounts are overdue.

➢ A company’s year accounting reference period can be extended online at: https://www.gov.uk/change-your-companys-year-end
3 FRC Guidance – 26 March – companies and auditors


Key Messages on financial reporting

- Going concern and any associated material uncertainties, the basis of any significant judgements and the matters to consider when confirming the preparation of the financial statements on a going concern basis;
- The increased importance of providing information on significant judgements applied in the preparation of the financial statements, sources of estimation uncertainty and other assumptions made; and
- Judgement required in determining the appropriate reporting response to events after the reporting date and the extent to which qualitative or quantitative disclosures may be appropriate.
3.8 ............ An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 from the date when the financial statements are authorised for issue. (Paragraph 3.3 of FRS 105 is equivalent).

3.9 When management is aware.....of material uncertainties related to events or conditions that cast significant doubt upon the entity’s ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.
4 Going Concern – FRS 102 Section 1A

➢ 1AE.1 When relevant to its transactions, other events and conditions, a small entity in the UK is encouraged to disclose material uncertainties related to events or conditions that cast significant doubt upon the small entity’s ability to continue as a going concern as set out in paragraph 3.9 of FRS 102;

➢ If a small entity departs from the principle that it is presumed to be carrying on business as a going concern, it must provide the disclosure required by paragraph 1AC.10 of FRS 102. (Page 56 footnote 30)

True and fair override

1AC.10 If it appears to the small entity that there are special reasons for departing from any of the principles set out in company law in preparing the small entity’s financial statements in respect of any reporting period, it may do so, in which case particulars of the departure, the reasons for it, and its effects must be given in the notes to the financial statements. (Schedule 1, paragraph 10(2))

This is only expected to occur in special circumstances. Paragraphs 3.4 and 3.5 of FRS 102 address similar requirements.
5 Events after the End of the Reporting Period

Events after the end of 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.

There are two types of events:
(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the end of the reporting period); and
(b) those that are indicative of conditions that arose after the end of the reporting period (non-adjusting events after the end of the reporting period).
5 Events after the Reporting Period– FRS 102

Events after the End of the Reporting Period – Going Concern

32.7A An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so. (Para 26.8 of FRS 105 is the equivalent)

32.7B Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this section requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting and therefore the disclosure requirements of paragraph 3.9 apply. (Para 26.9 of FRS 105 is the equivalent)
5 Events after the End of the Reporting Period

Years ending 31 December 2019 (and before this date, not yet signed) non-adjusting (Unless going concern is not appropriate)

Year-end 31 March adjusting
6 FRS 105 – Micro-entities

- The financial statements of a micro-entity prepared in accordance with this FRS that include the micro-entity minimum accounting items are presumed in law to show a true and fair view of the micro-entity’s financial position and profit or loss in accordance with the micro-entities regime.

- FRS 105 permits, but does not require, a micro-entity to include information additional to the micro-entity minimum accounting items in its financial statements. If a micro-entity includes additional information it shall have regard to any requirement of Section 1A Small Entities of FRS 102 that relates to that information.
7  **Basis other than going concern**

➢ State accounts have been prepared on a basis other than that of a going concern.

➢ This should include where appropriate, writing down the company’s assets to net realisable value and providing for contractual commitments that have become onerous at the balance sheet date.

➢ Provision should not be made for the future cost of terminating the business of the company except to the extent that such costs were committed at the balance sheet date.

➢ This is not the break-up basis.
FRC bulletin contains a non-exhaustive list of factors auditors should be considering when carrying out audit engagements in the current circumstances, along with guidance on how they might be addressed. Further guidance may be issued.

Risk Assessment and planning – For audits which are underway relating to periods that end after 31 December 2019, the impact of Covid-19 is likely to require the auditor to revisit their risk assessment and the proposed response to identified risks.

Professional judgement needs to exercised as to whether sufficient and appropriate audit evidence has been obtained.

ISA (570) Paragraph states:

If unable to obtain sufficient and appropriate evidence then there will be a limitation of scope and ISA 705 should be followed.
8 Auditors

➢ ICAS guidance “Implications for Attendance at Stocktakes for Financial Years ending on or after 31 March 2020”

➢ This provides examples of potential alternative audit procedures in relation to inventories.

➢ Potential for increased number of limitation of scope audit opinions as per ISA 705.
8 Auditors

➢ Going concern – FRC recognise that given the current uncertainty and volatility, that more companies and auditors may need to consider reporting on material uncertainties. Where they do so, this should draw on the available facts and circumstances. Auditors should not generically report on material uncertainties.

➢ Further guidance on this is likely.

➢ Major issue will be ensuring that entities have properly considered impact of potential impairment of their assets.
Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements

22. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor’s report shall include a separate section under the heading “Material Uncertainty Related to Going Concern” to:

(a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 19 of ISA 570; and

(b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity’s ability to continue as a going concern and that the auditor’s opinion is not modified in respect of the matter.
8 Auditors

➢ Where accounts are prepared on a basis other going concern.

➢ Audit report would not normally require to be modified provided that appropriate disclosure of the circumstances is included in the accounts.

➢ Audit report likely to require emphasis of matter paragraph

➢ Further guidance is likely.
Ask ICAS Webinar Series

Coronavirus - Accounts, audit and keeping cash as king
Director responsibilities

General duties:

• To act within the directors’ powers
• To promote the success of the company;
• To exercise independent judgment;
• To exercise reasonable care, skill and diligence;
• To avoid conflicts of interest;
• Not to accept benefits from third parties; and
• To declare an interest in proposed transactions or arrangements
Director responsibilities

• If a company is insolvent directors are under a duty to take every step a reasonably diligent person would take to minimise potential loss to the company's creditors.

• Failing that, they risked personal liability for any worsening of the company’s financial position - wrongful trading.

• Wrongful trading provisions temporarily from 1 March 2020 for three months.

• To enable otherwise viable businesses to weather the crisis.

• However “all of the other checks and balances that help to ensure directors fulfil their duties properly will remain in force”.
Directors must still ensure that they comply with their duties and act in the best interests of the company. Only the wrongful trading provisions are being relaxed so the law remains unchanged in relation to matters such as:

- Misfeasance (s212 Insolvency Act 1986)
- Fraudulent trading (ss213 and 246ZA Insolvency Act 1986)
- Gratuitous alienations (s242 Insolvency Act 1986)
- Unfair preferences (s243 Insolvency Act 1986)
Keeping cash as king

• ‘Cash is king’
• Vital to allow businesses to survive and allow those businesses forced into closure to get things up and running again.

• Government measures:
  • The Interruption Loan Scheme
  • Job retention scheme
  • Time to pay arrangements with HMRC
  • VAT deferrals
  • Statutory sick pay rebates
  • Income tax deferrals for the self-employed
  • Non-domestic rates relief
  • Grants
  • Sector specific support for example [https://findbusinesssupport.gov.scot/coronavirus-advice/sources-of-funding](https://findbusinesssupport.gov.scot/coronavirus-advice/sources-of-funding)
Keeping cash as king

• Considerations:
  • Can any assets be liquidated?
  • What payments can be deferred?
  • Debtor book
  • Payment terms and discounting
  • Turn orders into cash
  • Business relationships
  • Direct Debits
  • Alternative finance options
  • Stock
Expenditure

Consider:
- Fixed costs
- Staff training budget
- Marketing campaigns
- Stationery supplies
- Office provisions
- TV subscriptions
- Utilities
- Site security/health and safety arrangements
- Level of personal drawings
Further information and guidance

• Coronavirus Hub on icas.com/coronavirus
• CA Connect on icas.com/caconnect
• Technical Helpdesk (Contact us on icas.com)
• Follow on Twitter @ICASaccounting and LinkedIn - ICAS - The Professional Body of CAs
Ask ICAS Webinar Series – Further dates this month

• 16 April – Charities, Regulation requirements
• 23 April – Latest hot topics
Thank you for joining us
Ask ICAS Webinar Series
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