

# PAC ANNUAL CONFERENCE

## PROFESSIONAL ACCOUNTING FUTURES

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*Impact of Macro-economic Developments on the Accounting Profession – Accounting Standards, Estimates, Auditing and the Profession in General*

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# Impact of Macroeconomic Developments on the Accounting Profession

## Financial reporting – audit considerations

### Highlights

#### Some key considerations



#### Recoverability and impairment of non-financial assets

As a result of the changes in the current economic environment (including impacts of the COVID-19 pandemic), entities should consider whether they are experiencing any conditions (e.g., decreased revenues, order cancellations, supply chain disruptions, store closures, or declines in share price) that indicate that their assets should be tested for impairment.



#### Accounting for financial instruments

As a result of the current macro-economic environment (including additional volatility in the global markets), entities may need to assess their investments and loans for impairment. Investments that may be affected include equity securities and private debt and, in certain instances, investments in sovereign debt. This also includes investments in equity method investments and joint ventures.



#### Revenue from contracts with customers

Changes in economic activity caused by the pandemic will cause many entities to renegotiate the terms of existing contracts and arrangements which have accounting implications. Further, previously acceptable business practices regarding revenue recognition criteria such as collectability, and experienced right of return levels may be revisited resulting in revenue recognition accounting considerations.



#### Going concern

As a result of current macroeconomic developments, some businesses may need to consider whether such impacts and/or disruption will be prolonged and result in diminished demand for products or services or significant liquidity shortfalls (or both) that, among other things, raise substantial doubt about whether the entity may be able to continue as a going concern.



#### Inventories

Some entities with inventories that are seasonal or are subject to expiration may have to assess whether a larger reserve for obsolescence or slow-moving stock (e.g., markdowns) may be necessary at an interim or annual period as a result of a slower sales pace.

The degree of judgment and financial statement impacts will be specific to each Company's facts and risk assessment. The degree of judgment and material potential impact will drive management's effort regarding reporting and disclosure; and according auditor response.

For global organizations, the impact of these matters may vary by geographical regions disproportionately, depending on their nature. This poses not only new audit risks to the financial statements but potential engagement of component auditors or increased oversight on existing components for group audits.

# Impact of Macroeconomic Developments on the Accounting Profession

## Financial reporting – audit considerations (continued)

Historically, declines in the stock market can trigger testing of intangible assets, goodwill and other long-lived intangible assets for impairment. However, other factors (triggers) that may accompany stock price declines are typically examined as well.

Below are some key triggering events which might cause companies to evaluate as impairment indicators (also depends on the applicable accounting framework):

### Types of Triggering Events:



### Key Testing Questions:

- How does a company define an asset group or CGU?
- What are the core assets and useful lives?
- How does a company model alternative scenarios in a time of unprecedented uncertainty?

### Key Valuation Considerations:

- Is intrinsic value as measured by the DCF weighted more than the market approach in current conditions?
- With depressed current multiples, should forward multiples be used to reflect updated market earnings measures?
- Are the inputs in the estimate of the discount rate aligned with current market volatility?
- Should average historical prices be used to smooth the impact of market volatility?

# Questions?



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