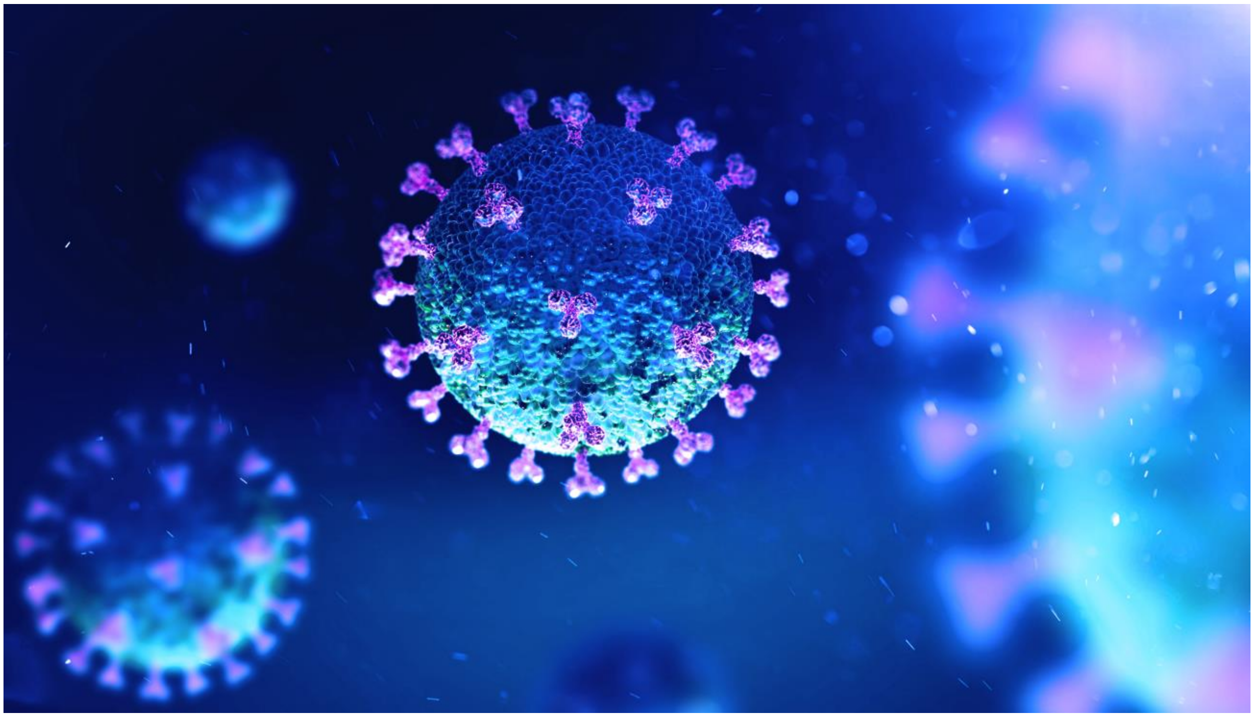

Client Checklist for COVID-19 Accounting Considerations

February 2021

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CLIENT CHECKLIST FOR COVID-19 ACCOUNTING CONSIDERATIONS

COVID-19 Overview

The COVID-19 pandemic continues to have a widespread impact on business through the restrictions put in place by government regarding travel, business operations and isolation orders as well as the uncertainty and volatility facing economic and financial markets. Furthermore, as a result thereof, entities are now facing conditions related to an economic downturn, including liquidity concerns, deteriorating credit, decreased revenue and production as a result of declines in consumer spending, layoffs as well as other restructuring activities. The Canadian government has attempted to intervene in order to lessen the economic impact, however the ongoing pandemic continues to have a significant negative impact on many entity's financial results. This document discusses accounting and disclosure requirements under the Canadian accounting standards that should be considered when assessing the impact of COVID-19 on the entity's operations and financial statements for year ends falling in the latter half of 2020 and early 2021.

Please note that this document does not contain an exhaustive list of accounting considerations, and their applicability will depend on the facts and circumstances for your business. Furthermore, this document does not contain the relevant accounting requirements for all financial reporting frameworks. It is the responsibility of management to review the relevant accounting requirements of their respective financial reporting framework, particularly the disclosure requirements. Where possible, the relevant standard within the financial framework has been noted for:

- International Financing Reporting Standards ("IFRS")
- Accounting Standards for Private Enterprises ("ASPE")
- Accounting Standards for Not-for-Profit Organizations ("NPO")
- Public Sector Accounting Standards ("PSAS")
- Public Sector Accounting Standard for Not-for-Profit Organizations ("PSAS NPO")

For additional guidance refer to the MNP Guide Accounting Considerations Related to the COVID-19 Outbreak.

Entity Information

Entity Name:	
Checklist Completed By (Name, Title):	
Completion Date:	

Going Concern

IFRS: IAS 1 Presentation of Financial Statements
ASPE & NPO: Section 1400 General Standards of Financial Statement Presentation
PSAS: PS 1000 Financial Statement Concepts
Assurance Standards: Canadian Auditing Standard ("CAS") 570 Going Concern, Canadian Standard on Review Engagements ("CSRE") 2400 Engagements to Review Historical Financial Statements

1. Document the existing and anticipated effects on the entity's activities and the entity's ability to continue as a going concern for at least, but not limited to, 12 months after the reporting date.

   Consider factors such as:

   - Future expected profitability/cash flows
   - Ability to meet debt repayment and other obligations
   - Ability to obtain financing or other cash injections from shareholders or third parties, or financial support to be received from various levels of government (if needed)
   - Commodity and foreign exchange fluctuations
   - Customers' ability to pay amounts owing to the entity
   - Suppliers' ability to provide goods/services
   - Counterparties' ability to make loan/debt payments

   When preparing financial statements, management is required to assess the entity's ability to continue as a going concern. Financial statements are prepared on a going concern basis unless management either intends to liquidate the entity (i.e., entity ceases to operate, is wound up or dissolved and the net assets of the entity are redistributed) or to cease trading, or has no realistic alternative but to do so.

   Given the continually changing nature of the COVID-19 pandemic, management must continually obtain and assess new information as it arises in order to assess the impact to the entity. The going concern assessment shall be continually updated up until the date the financial statements are issued, and management is required to consider all information about the future, including new information obtained up until the date of issuance. This may prove to be very difficult given that considerable changes in the spread and impact of the virus are occurring over only a day or two.

2. If management has concluded that the use of the going concern basis of accounting is not appropriate, explain the basis of accounting the entity has used.

When management determines the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis).

Debt Modifications

IFRS: IFRS 9 *Financial Instruments*
ASPE & NPO: Section 3856 *Financial Instruments*
PSAS: PS 3450 *Financial Instruments*

3. Document any modifications made to the entity's debt instruments, including management's assessment of whether the modification should be accounted for as a modification or an extinguishment of the financial liability.

Entities are required to assess changes to their debt agreements in order to determine whether the changes are required to be accounted for as either a modification or extinguishment of the financial instrument. This determination depends on whether the modification is considered to be "substantial" or "non-substantial", which is made by applying the 10% test and considering qualitative factors (e.g., changes in collateral or covenants). Where the terms of the debt agreement have substantially changed, the borrower accounts for the modification applying extinguishment accounting, whereby the borrower derecognizes the financial liability and recognizes a new financial liability. Conversely, where terms have not substantially changed, the borrower will apply modification accounting, whereby the carrying amount of the financial liability is adjusted and amortized over the remaining term of the modified liability.

Breach of Covenants

IFRS: IFRS 9 *Financial Instruments*
ASPE & NPO: Section 3856 *Financial Instruments*
PSAS: PS 3450 *Financial Instruments*

4. Document whether the entity has any potential or actual breach of its lending covenants during the reporting period and the impact of such breach on the entity's lending arrangements as a result of the breach (e.g., termination of lending arrangement, increase in interest rate, debt becoming immediately repayable or becoming demandable by lender, increase in collateral, penalty or fee, etc.).

5. If an actual breach has occurred, document management's assessment of the impact on the financial statements.

   Consider factors such as:

   - How the breach impacts the classification (i.e., current vs. non-current) of the debt on the balance sheet
   - Whether management has negotiated a waiver with the lender to defer repayment or lender's right to demand repayment
   - The breaches impact on the entity's ability to continue as a going concern

   Where an entity has breached its covenants, the entity will need to assess the impact to its financial statements, including:

   - *How the breach impacts the classification (i.e., current vs. non-current) of the debt on its balance sheet. Where a breach occurs on or before the reporting date and gives the lender the right to demand repayment within 12 months of the reporting date, the borrower must classify the debt as current on the balance sheet. If the breach occurs after the reporting date, is it treated as a non-adjusting subsequent event that must be disclosed within the financial statements.*
   - *Whether the borrower has negotiated a waiver to defer repayment or defer lender's right to demand repayment with the lender. Under IFRS, if the borrow obtains a waiver on or before its reporting date that allows the borrower to defer payments beyond 12 months of the reporting date, the debt shall be classified as non-current. If the waiver is obtained after the reporting date, it is treated as a non-adjusting subsequent event that must be disclosed within the financial statements. Under ASPE if a waiver is obtained or debt is refinanced on a long-term basis prior to completion of the balance sheet, the debt is classified as non-current.*
   - *Whether the breach is so significant that it creates uncertainties about the entity's ability to continue as a going concern. Please refer to the Going Concern section above for additional information and considerations.*

Leases

IFRS: IFRS 16 *Leases*

ASPE & NPO: Section 3065 *Leases*

PSAS: PSG-2 *Leased Tangible Capital Assets*

6. For entities that apply IFRS or ASPE, document whether the entity has chosen to apply the optional practical expedient to lease concessions arising as a result of COVID-19.

The AcSB has issued an amendment to ASPE Section 3065 Leases to provide an optional practical relief to both lessees and lessors in accounting for rent concessions arising as a result of the COVID-19 pandemic. The practical expedient allows an entity that receives or grants rent concessions in the form of a deferral or waiver of lease payments to choose to not account for the rent concessions as a new lease, provided all of the following conditions are met:

- *The rent concessions occurred as a direct consequence of the COVID-19 pandemic;*
- *The total payments resulting from the rent concessions are the same or less than the total payments required by the original lease contract; and*
- *Any reduction in lease payments affects only payments originally due on or before December 31, 2021.*

Where the entity chooses to apply the practical expedient, the entity would account for the COVID-19 related rent concession as follows:

- *For a rent concession that results in a deferral of lease payments with no change to the total payments required by the original lease contract, the entity accounts for the rent concession as if no changes to the lease contract were made. To account for the rent concession during the deferral period, a lessee would recognize a lease payable and a lessor would recognize a lease receivable for the amounts of lease payments deferred.*
- *For a rent concession that results in the total payments required to be less than the total payments required by the original lease contract, the entity would continue to account for the lease consistent with the terms of the original contract and at the same time recognize the reduction in total payments in net income in the period to which the lease payments relate.*

The IASB has issued an amendment to IFRS 16 Leases to provide lessees with an optional exemption from assessing whether a COVID-19-related rent concession is a lease modification and instead allow lessees to account for those rent concessions as if they were not lease modifications. This amendment can be applied to COVID-19-related rent concessions provided all of the following conditions are met:

- *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;*
- *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*
- *There is no substantive change to other terms and conditions of the lease.*

Government Support

IFRS: IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
ASPE & NPO: Section 3800 *Government Assistance*
NPO: Section 4410 *Contributions – Revenue Recognition* and Section 4420 *Contributions Receivable*
PSAS: PS 3410 *Government Transfers*

7. Document whether the entity will receive, or has received, government assistance (e.g., Canada Emergency Wage Subsidy, Temporary 10% Wage Subsidy, Work-Sharing Program, Canada Emergency Rent Subsidy, forgivable loans, low/no interest loans), and if so, the type of assistance and the accounting treatment for that funding.

   The Government of Canada and the various Canadian provinces and territories have implemented various economic measures which commit to providing support to businesses through the current economic environment. For each support program document the eligibility requirements, stipulations on use of funds received, costs/expenditures which the support is intended to offset, and the entity's accounting policies chosen under the respective financial reporting framework. .

Subsequent Events

IFRS: IAS 10 *Events After the Reporting Period*
ASPE & NPO: Section 3820 *Subsequent Events*
PSAS: PS 2400 *Subsequent Events*

8. Document the COVID-19 related events that have occurred, and are impacting the entity, since the reporting date (i.e., subsequent events). Describe what adjustments to the financial statements, if any, are required.

   Consider:

   - The nature of the entity's operations and how they are impacted by the pandemic
   - The entity's geographic location in relation to the spread of the virus at that time

- The timing of policies put in place by local governments in locations where the entity operates

Generally, there are two types of subsequent events:

- *Those that provide evidence of conditions that existed at the end of the reporting period and, therefore, require the financial statements to be adjusted; and*
- *Those that are indicative of conditions that arose after the reporting period and, therefore, do not require the financial statements to be adjusted.*

Management will need to consider the facts and apply critical judgement in assessing what specific events, and more importantly the timing of those events, provide evidence of conditions that existed at the end of the reporting period in order to determine if an adjustment is required.

Fair Value Measurement

IFRS: IFRS 13 *Fair Value Measurement*

ASPE & NPO: Various standards – including, but not limited to, those related to financial instruments, investments, goodwill and intangible assets, property plant and equipment.

PSAS: Various standards – including, but not limited to, those related to related parties, portfolio investments, loans receivable, tangible assets.

9. For financial statement items measured at fair value, describe the facts and circumstances that existed at the measurement date and were known, or knowable, by management that have impacted the measurement of these items.

Consider the impact on fair value measurements related to items such as:

- Share-based payments
- Financial instruments
- Revenue contracts
- Leases
- Non-monetary transactions
- Government grants & assistance
- Investments
- Impairment
- Provisions & contingencies
- Intangible assets
- Goodwill

Management will need to evaluate the information that is available at the applicable measurement date, and/or the entity's reporting date, with respect to COVID-19 in order to assess whether that information would have impacted the price either party would have been willing to accept for that transaction.

10. Document the impact on discount rates used in discounted cash flow projections.

Although the risk-free rate may have decreased in response to the COVID-19 pandemic, there may need to be a higher risk premium added to the entity's discount rates related to the uncertainty in the market. Management should assess whether advice from external valuation experts is required to establish an appropriate fair value measurement and the discount rates to be used in these estimates.

Impairment

IFRS: IAS 36 *Impairment*

ASPE & NPO: Section 3063 *Impairment of Long-lived Assets* & Section 3064 *Goodwill and Intangible Assets*

PSAS: PS 3150 *Tangible Capital Assets*

11. Document the assessment of whether there are any indicators of impairment at the reporting date.

Consider impairment indicators related to:

- Goodwill and other intangible assets
- Tangible assets
- Inventories
- Investments
- Receivables
- Contract assets

In performing this assessment, management shall consider events that occurred after the reporting period if they provide evidence of conditions that existed at the end of the reporting period. COVID-19 has impacted many markets, the economic environment and may also impact the extent or manner in which a particular asset is used. All of these factors, along with other information, should be considered when assessing the indicators of impairment.

12. Where an asset is impaired, document the impact on the recoverable amount of that asset, including the impact on the discount rate used in any cash flow calculations.

The determination of the recoverable amount should consider information obtained before and after year-end, providing such conditions existed at the reporting period. Where future cash flows are used to determine the recoverable amount of an asset, management will need to estimate those cash flows based on the expected economic conditions over the remaining life of the asset. Therefore, entities impacted by COVID-19 need to estimate the impact of this pandemic on their future cash flows.

Furthermore, the virus may impact discount rates used in discounted cash flow projections. Careful consideration is needed in determining the appropriate discount rate.

Estimates

13. Document the impact on the entity's estimates including, but not limited to, the estimates noted below:

The uncertainty arising from the COVID-19 outbreak has created significant estimation uncertainty for entities directly and indirectly impacted by the outbreak.

- Inventory valuation and obsolescence

The net realizable value of inventory may decrease and obsolescence may increase as a result of the entity having ceased or limited operations because of COVID-19. Management will need to assess whether a write-down of inventory is required.

IFRS: IAS 2 *Inventories*
ASPE & NPO: Section 3031 *Inventories*
NPO only: Section 3032 *Inventories Held by Not-for-profit Organizations*

- Allowance for doubtful accounts and bad debts/expected credit losses

These amounts may increase for some entities as a result of COVID-19. Reductions in forecasts in economic growth increases the probability of default across many borrowers. Factors management shall consider in estimating these amounts include, but are not limited to, the customer's ability to make payments on time (or at all) and customer insolvency, as well as individual and/or corporate borrowers' particular exposure to the economic impacts in their geographic location and industry. Further, the value of collateral may fall as a result of a fall in prices of assets.

IFRS: IFRS 9 *Financial Instruments*
ASPE & NPO: Section 3856 *Financial Instruments*
NPO only: Section 4420 *Contributions Receivable*
PSAS: PS 3450 *Financial Instruments*
PSAS NPO: PS 4220 *Contributions Receivable*

- Revenue including variable consideration arising from revenue contracts, volume discounts, returns, rebates, and refunds

Many entities may experience decreased sales as a result of COVID-19. Where an entity earns variable consideration on its revenue contracts, management will need to reassess the amount of consideration it expects to be entitled to given the impact of COVID-19 on its customers' operations.

IFRS: IFRS 15 *Revenue from Contracts with Customers*
ASPE & NPO: Section 3400 *Revenue*
NPO only: Section 4410 *Contributions – Revenue Recognition*
PSAS: PS 3400 *Revenue*
PSAS NPO: PS 4210 *Contributions – Revenue Recognition*

- The remaining useful lives of assets and depreciation rates

The use of certain assets may increase or decrease depending on the impact COVID-19 has on the entity. Management will need to review the useful life of its assets and its depreciation rates to determine if adjustments are needed.

IFRS: IAS 16 *Property, Plant & Equipment, IAS 38 Intangible Assets*
ASPE & NPO: Section 3061 *Property, Plant & Equipment*, Section 3064 *Goodwill & Intangible Assets*
NPO only: Section 4433 *Tangible Capital Assets Held by Not-for-profit Organizations*, Section 4434 *Intangible Assets Held by Not-for-profit Organizations*
PSAS: PS 3150 *Tangible Capital Assets*
PSAS NPO: PS 4230 *Capital Assets Held by Not-for-profit Organizations*

- Deferred/future income tax assets

Deferred/future income tax assets may only be recognized if it is probable that taxable income will be available against which the deductible temporary differences can be realized. Given the impact COVID-19 has had on the entity's operations, it may be more difficult to support the probability of realization, including the estimate of the amount to be realized. This is especially true if there are material uncertainties as to the entity's ability to continue as a going concern.

IFRS: IAS 12 *Income Taxes*
ASPE & NPO: Section 3465 *Income Taxes*

- Provisions and contingencies

New provisions or contingencies may need to be recognized and existing ones may need to be adjusted, depending on the nature of the entity.

IFRS: IAS 37 *Provisions, Contingent Liabilities & Contingent Assets*
ASPE & NPO: Section 3290 *Contingencies*
PSAS: PS 3300 *Contingent Liabilities*, PS 3320 *Contingent Assets*

- Asset retirement obligations

The expected timing of an asset retirement obligation and/or the costs associated with such an obligation may change, depending on the entity's operations.

IFRS: IAS 37 *Provisions, Contingent Liabilities & Contingent Assets*
ASPE & NPO: Section 3110 *Asset Retirement Obligations*
PSAS: PS 3260 *Liability for Contaminated Sites*

- Employee termination costs

Accruals for employee termination costs may need to be recognized as a result of the increase in layoffs and contract terminations because of COVID-19.

	The date upon which a liability for the termination cost is recognized depends on whether the employee's termination was voluntary or involuntary. Costs associated with a voluntary termination are generally recognized as a liability on the date the employee accepts the termination offer. Costs associated with an involuntary termination are only recognized once certain criteria, in accordance with the relevant accounting framework, have been met. IFRS: IAS 19 *Employee Benefits* ASPE & NPO: Section 3462 *Employee Future Benefits*
	• Stock compensation arrangements *Where stock compensation arrangements are based on performance conditions, management will need to assess the probability of these performance conditions being met. The estimate for the vesting period and/or the amount recognized for goods or services received by the entity's employees may need to be adjusted if new information indicates that the number of equity instruments expected to vest differs from previous estimates due to failure to satisfy a performance condition.* IFRS: IFRS 2 *Share-based Payment* ASPE & NPO: Section 3870 *Stock-Based Compensation and Other Stock-Based Payments*

Other Considerations

14.	Document any impact on the entity's agreements/contracts with third parties. *Entities impacted by COVID-19 may be at increased risk of violating bank and lending covenants, an inability to make loan repayments, insolvency, or potential default triggers in financing arrangements or other contracts as a result of their financial results. Where the entity has or will be financially impacted by COVID-19, management should reach out to their lenders and relevant counterparties now to discuss these potential risks as well as discuss whether alternative arrangements can be made in consideration of the current environment.* *It is important that management review and have a thorough understanding of all its contracts/agreements, lending or otherwise, in order to assess the impact COVID-19 may have on the entity. For example, there may be clauses within an entity's contracts (e.g., force majeure) that may limit the liability of either party to the contract for defaults arising from the pandemic.*

15. Document the impact on the entity's ability to meet filing requirements or reporting deadlines.

With the closure of many businesses and the staggered reopening plans, including the requirement to comply with operating restrictions (e.g. social distancing measures), management may struggle to meet filing or other deadlines set by regulators or lenders. We recommend that where management anticipates they may struggle to meet these deadlines, they reach out to these parties to discuss this fact and whether alternative arrangements can be made. Furthermore, we encourage entities that have deadlines that are still a few months out to begin communicating with their regulators, lenders, etc. now, in order to evaluate what options are available and ensure lines of communication are open.

Presentation & Disclosure

16. Review the relevant presentation & disclosure checklist to ensure all required disclosures have been made.

Presentation and disclosure checklists for ASPE, NPO and PSAS are available through the MNP Financial Reporting Library (https://www.mnp.ca/en/assurance-accounting/financial-reporting-library).

When determining whether a disclosure should be added, the entity should consider whether the information is material and would reasonably be expected to have a significant effect on a financial statement user's decision, the entity's market price or value of the entity, etc. Furthermore, publicly listed entities shall monitor for additional disclosure requirements pertaining to the COVID-19 outbreak, which may be dictated by their relevant exchange/regulator.

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