The CPD Fest 2020

Impact of Covid-19 on Financial Statements Part 2 – Impairment & Post Balance Sheet Events

Presenter:
Des O'Neill & Mike O'Halloran

OmniPro Education & Training
Main Street, Ferns, Enniscorthy, Co. Wexford
053 910 0000
www.omnipro.ie info@omnipro.ie

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Impact of COVID-19 on Financial Statements part 2

- Webevent Timing - 100 Minutes
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- Teaching Space – 80 Minutes
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Impact of COVID-19 on Financial Statements part 2

Covering in this session

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Section 32 Events after the End of the Reporting Period

- Section 32 of FRS 102.
- Adjusting event vs. non-adjusting event
- 31 December 2019 vs. March 2020 year ends.
- Interaction with Section 27 (Impairment) of FRS 102- "the receipt of information after the end of the reporting period indicating that an asset was impaired at the end of the reporting period." (FRS 102 32.5)
- Interaction with going concern- "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….."

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Post balance sheet events

Events after the end of the reporting period defined

32.2 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).

32.3 Events after the end of the reporting period include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of **profit or loss** or other selected financial information.

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When does it become an "adjusting event"?

- Some key dates
  - 7th December 2019- First confirmed case in Wuhan, China
  - 31st December 2019- Identified as new strain of Coronavirus & WHO notified
  - 24th January 2020- First European cases reported in France
  - Month of January 2020- Several new cases in China. 10,000 by end of month.
  - Month of February 2020- Several new cases in Europe during the month. 1,128 cases reported in Italy at the end of the month.
  - 29th February 2020- First reported case of COVID-19 in Ireland.
  - 12th March 2020- Irish schools, colleges & childcare facilities closed
  - 15th March 2020- Irish pubs & hotel bars asked to close
  - 27th March 2020- All non-essential staff to stay at home for 2 weeks

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Post balance sheet events- accounting treatment & disclosures

- Non-adjusting event
  - No adjustment required to reflect the events since the year end.
  - The nature of the event should be disclosed
  - An estimate of its financial effect or a statement that such an estimate cannot be made.
- Adjusting event
  - Adjustment is required for the amounts recognised in the financial statements, including related disclosures to reflect the adjustments.

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Potential post balance sheet event adjusting items

- Stock- Post year end NRV issues as a result of Covid-19
- Debtor gone out of business
- Property impairment
- Changes in accounting estimates
- Changes in fair value

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FRC Guidance

Events after the reporting date

IAS 10 distinguishes between those events occurring after the balance sheet date that provide more information about the conditions that existed on the balance sheet date ("adjusting events") and those that are indicative of conditions that arose after the balance sheet date ("non-adjusting events"). Amounts in the financial statements must be adjusted in response to adjusting events whilst only disclosures are required in response to material non-adjusting events.

There is a general consensus that the outbreak of COVID-19 in 2020 was a non-adjusting event for the vast majority of UK companies preparing financial statements for periods ended 31 December 2019. Companies will need to judge how much of the impact of COVID-19 should be considered to arise from non-adjusting events for subsequent reporting dates. This will be highly dependent on the reporting date, the specific circumstances of the company's operations and the particular events under consideration.

In reaching this judgement, companies will need to focus on the importance of the conditions at the balance sheet date – does the event shine a brighter light on those conditions or did conditions change after the reporting date? If the judgement had a significant effect on the amounts in the financial statements, then this judgement should be disclosed and explained.

If an event is considered to be non-adjusting, then the nature of the event should be disclosed. Where an estimate of the financial effect on the company can be made, then this should be disclosed. Otherwise the fact that the financial effect cannot be estimated should be disclosed. The estimate does not need to be exact – a range of estimated effects is better than no quantitative information at all. In the absence of any quantitative estimate, a qualitative description should be provided.

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Post balance sheet case study

- X Ltd prepares financial statements to 31 December 2019.
- X Ltd has customers in the hospitality sector, including customer A who owns a hotel.
- In March 2020, customer A permanently goes out of business as a result of the restrictions placed on it from COVID-19. The debt of €10,000 will not be recovered.
- Does an adjusting event occur in the financial statements of X Ltd for December 2019 year end?
- What if we apply the same circumstances to a January 2020, February 2020 and March 2020 year end?
- What if the customer went out of business in January 2020? December year end implications?

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Post balance sheet events

- Documentation of post balance sheet events to support disclosures is key.
- Given the changeable nature of the Pandemic, it is more important than ever to consider post balance sheet events right up to the date of sign off.
- 2019 year ends not likely to be an adjusting event as substantive information about the virus did not emerge until 2020.
- 2020 year ends require a higher degree of judgement regarding the date the events became adjusting.

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Section 27 Impairment

- Section 27 of FRS 102
- Carry out impairment review when impairment indicators exist.
  - See Section 27.9 of FRS 102 for Internal and External indicators
  - "Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated."
  - "Evidence is available of obsolescence or physical damage of an asset."

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Impairment indicators

- Decline in market value of asset;
- Significant adverse changes in technology, market, economic or legal environment;
- Market interest rates have increased during the period
- The carrying amount of the net assets is more than the estimated fair value of the entity as a whole;
- Evidence available of obsolescence and damage of an asset;
- Significant changes with adverse effect on the entity- plans to restructure, make idle or discontinue an operation;
- Reassessment of an asset from infinite to finite;

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Impairment

- Carrying amount Vs. Recoverable amount

- Carrying amount- balance in financial statements
- Recoverable amount- Higher of
  - Fair Value less costs to sell
  - Value in use

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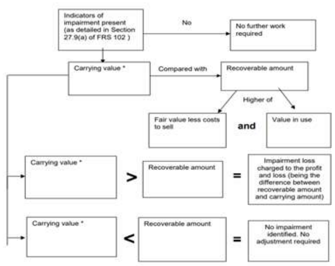
Impairment Assessment Flowchart



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Fair Value less costs to sell

- Sale at arms length less cost to sell.
- Knowledgeable willing parties
- In an active market

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Value in use

- "Value in use is the present value of the future cash flows expected to be derived from an asset. This present value calculation involves the following steps:
- (a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
- (b) applying the appropriate discount rate to those future cash flows."

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Cash Generating Unit

- A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.
- If not possible to estimate the cashflow from an asset then you look at the cashflow from the CGU.

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What should estimates of cashflow include?

- Projections of cash inflows from continuing to use the asset.
- Projections for cash outflows that are necessary to generate the cash inflows and can be attributed to the asset
- Net cashflows expected on disposal of the asset (Terminal value).
- May use recent budgets/projections
  - Extrapolate the budgets using a steady or declining growth rate for subsequent years. Unless an increasing rate can be justified.

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What should value in use calculations include?

- Estimating the future cashflows to be derived from the asset.
- Expectations about the possible variations in the amount or timing of those future cashflows.
- The time value of money
- The price for bearing the uncertainty inherent in the asset
- Other factors such as illiquidity that would affect the pricing of future cashflows.

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What should estimates of cashflows not include?

- Cash inflows from financing activities
- Income tax receipts or payments
- Cashflows arising from a future restructuring to which an entity is not yet committed.
- Cashflows arising from improving or enhancing an assets performance.

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Section 11 Basic Financial Instruments

- Impairment of financial instruments as a result of COVID-19?
- Sections 11.21 to 11.24
- Assess each year for objective evidence of impairment
- Impairment indicators
  - Financial difficulty of obligor or issuer
  - Breach of contract (default, late payment)
  - Economic difficulties causing better settlement terms offered to creditor
  - Debtor in liquidation
  - Other factors such as adverse economic effects

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Section 11 Basic Financial Instruments

- Derecognition of current liabilities
  - Criteria in section 11.36
  - Only when the obligation is discharged, cancelled or expires

Disclosure of impairment
FRS 102
Section 1A

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Section 13 Inventories

- Measure at lower of cost and selling price less costs to complete. Section 13.4 FRS 102
- Impairment procedure set out in Section 27.2 to 27.4
  - At each reporting date assess whether inventories are impaired
  - Compare carrying amount with selling price less costs to complete.
  - If evidence of impairment, reduce the carrying amount to sales price less costs to complete.
  - The reduction is an impairment loss recognised in P&L.

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Section 13 Inventories

- Sudden closure of business
- Stock obsolescence
- Consumer demand
- Consider post balance sheet events
  - Adjusting
  - Non-Adjusting

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Section 14 Investments in Associates

- Section 14 deals with the measurement and recognition of Investments in Associates.
- An associate is an entity over which the investor has significant influence and which is not a subsidiary or joint venture.
- 20% holding

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Section 14 Investments in Associates- Individual Company

- Cost Model
  - Cost less accumulated impairment losses
  - Consider carrying amount vs. recoverable amount.
  - Look at underlying asset values.
  - Look at value in use.
- Fair Value model

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Section 14 Investments in Associates- Consolidation

- Equity method of accounting for associates
  - Initially measures at transaction price. Adjusted for items, including
  - Distributions and other adjustments to carrying amount
  - Goodwill
  - Impairment
  - Investors transactions, incl unrealised profits
  - Losses in excess of investment.

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Section 15 Investments in Joint Ventures

- Jointly controlled entities
- Cost model vs. fair value model
- Cost model
  - Cost less impairment
- Consolidated financial statements
  - Equity method
  - Losses in excess of investment

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Section 16 Investment Property

- Defined
  - Property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

  (a) use in the production or supply of goods or services or for administrative purposes, or

  (b) sale in the ordinary course of business

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Section 16 Investment Property

- Measure initially at cost
  - Purchase price
  - Any directly attributable expenditure
- Subsequently measure at fair value
- Changes in fair value recognised in the P&L
- COVID-19 implications on property market?
- Deferred tax implications

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Investment Property disclosures

Disclosures

16.10 An entity shall disclose the following:

- (a) the methods and significant assumptions applied in determining the fair value of investment property;
- (b) the extent to which the fair value of investment property (as measured or disclosed in the **financial statements**) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;
- (c) the existence and amounts of restrictions on the realisability of investment property or the remittance of **income** and proceeds of disposal;
- (d) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements; and
- (e) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:
  - (i) additions, disclosing separately those additions resulting from acquisitions through **business combinations**;
  - (ii) net **gains** or losses from fair value adjustments;
  - (iii) transfers to and from property, plant and equipment (see paragraphs 16.9 to 16.9B);
  - (iv) transfers to and from inventories (see paragraphs 16.9, 16.9A and 16.9C); and
  - (v) other changes.

  This reconciliation need not be presented for prior periods.

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Section 17 Property, Plant and Equipment

- Tangible assets that:
- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- (b) are expected to be used during more than one period.

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Section 17 Property, Plant and Equipment

- Measurement
- Cost model
  - Cost less depreciation less impairment
- Revaluation model
  - Fair value at date of revaluation, less accumulated depreciation, less accumulated losses
  - Revaluations made with sufficient regularity to ensure that the carrying amount does not differ materially from the amount determined using fair value.
  - Increase through OCI (or through P&L if it reverses a previous impairment)
  - Decrease through P&L (or through OCI if it reverses a previous impairment)

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Section 17 Property, Plant and Equipment

- COVID-19 & impairment
- Cost model
  - Consider the recoverable amount (fair value less cost to sell vs. value in use).
  - Compare to carrying amount
- Revaluation model
  - Revaluation likely required
- Section 27- impairment indicator
  - Adverse economic event
  - Valuers & value estimations

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Section 18 Intangible Assets other than Goodwill

- An identifiable non-monetary asset without physical substance. Such an asset is identifiable when:

(a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or

(b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

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Section 18 Intangible Assets other than Goodwill

- Section 18.4 states that an intangible asset is only recognised if it is probable that its expected future economic benefits will flow to the owner, and if its cost or value can be measured reliably.

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Section 18 Intangible Assets other than Goodwill

- Cost model
  - Cost less amortisation less impairment losses
- Revaluation model
  - Fair value at date of revaluation, less accumulated amortisation, less accumulated impairment losses
  - Revaluations made with sufficient regularity to ensure that the carrying amount does not differ materially from the amount determined using fair value.

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Section 18 Intangible Assets other than Goodwill

- Amortisation
  - Estimate useful life
  - Max of 10 years if cannot be reliably measured
  - Residual value is €nil unless
    - Commitment to purchase by third party
    - Active market and residual value can be determined
- Impairment
  - Consider the recoverable amount (fair value less cost to sell vs. value in use).
  - Compare to carrying amount

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Section 18 Intangible Assets other than Goodwill

- Covid-19
  - Impairment as a result of COVID-19
  - Revision to residual values as a result of COVID-19

Example

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Section 19- Business Combinations and goodwill

- A business combination is the bringing together of separate entities or businesses into one reporting entity (Section 19.3). All business combinations (other than those that meet the definition of a group reconstruction, and public benefit entities) are accounted using the purchase method of accounting.
- Goodwill is the difference between the acquirer's interest in the net amount of identifiable assets acquired and the cost of the business combination. After initial recognition it is carried at cost less accumulated amortisation and impairments;

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Section 19- Business Combinations and goodwill

- Goodwill measured at cost less accumulated amortisation less accumulated impairment

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Section 19- Business Combinations and goodwill

- Impairment of business combinations and goodwill
- Additional requirements under Section 27 of FRS 102
  - Goodwill cannot be sold- therefore fair value cannot be measured directly.
  - Fair value derived from measurement of cash generating unit.
  - Goodwill should be allocated to each CGU on acquisition
  - Any assets where there is a non-controlling interest should be notionally adjusted when comparing to VIU.

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Section 19- Business Combinations and goodwill

- COVID-19 implications
  - Impairment
  - Reduction in expected useful life

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Regulator views on "COVID" accounts

- ACCA
  - Study carried out on 35 companies pre and post pandemic
  - Noted that they were surprised that 9 of the sample didn't have a material uncertainty nor was there a KAM on going concern.
  - Noted that of the 6 February year ends in the sample, 2 treated it as adjusting and 4 non-adjusting.
  - Called for more transparency on how COVID is reported.
- ICAEW
  - Noted that the use of COVID EOM's is not expected to be widespread.
  - Emphasised that the "fundamental to users understanding" bar is a high hurdle.
  - Overuse of EOMs may be challenged by regulators

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Regulator views on "COVID" accounts

- IAASA
  - Diversity in the quality of COVID disclosures
  - Higher quality disclosures were those that were explained clearly in terms of judgements, estimations and sensitivity to change
  - Lower quality disclosures were "boilerplate references"
  - Improvements required in disclosing
    - Critical judgements
    - Material uncertainties
    - Management's reaction to COVID & mitigating action

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Regulator views on "COVID" accounts

- FRC
  - Thematic Review July 2020

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Questions ?

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FRS 102

Covid 19 Guide

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Here to guide you and your clients through COVID-19

FRS102.com- Covid-19 update

Section 2- Concepts and Pervasive Principles

Summary of this section

Section 2 describes the objective of financial statements, which is to provide useful information about the entity's financial position, performance and cash flows, and establishes the concepts and underlying principles of preparation.

What are the key points of this section of FRS 102?

Section 2 sets out a list of qualitative characteristics which are used when assessing whether financial statements meet their objectives namely; understandability, relevance, materiality, reliability, substance over form, prudence, completeness, comparability, timeliness and balance between benefit and cost.

Financial statements are required to show a true and fair view and should be prepared on an accruals basis.

Section 2 defines an asset as a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

A liability is defined as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Assets, liabilities, income and expenses are recognised where it is probable that any associated future economic benefit will flow to or from the entity, and where the item has a cost or value that can be measured reliably.

In general, assets and liabilities are initially measured at historical cost unless there is a specific requirement elsewhere in the FRS to measure them at fair value. Subsequent measurement depends on the type of balance and will be based on one of the following:

- Amortised cost (for most basic financial assets and liabilities);
- Fair value (for other financial assets and liabilities, investments in associates and joint ventures (if chosen), investment properties, and some agricultural assets);
- The cost model or revaluation model (for property, plant and equipment and intangible assets);
- The lower of cost and selling price less costs to complete and sell (for inventory); and
- The best estimate of the amount that would be required to settle the obligation at the reporting date (for most non-financial liabilities)

How does COVID-19 impact on this section?

One of the key areas of section 2 in relation to COVID-19 is the methodology for calculating fair value set out in the Appendix to Section 2. In the early stages of COVID-19 it may prove difficult to establish what fair value is if it is deemed that there is no “active market” in place. This will also come to the fore as section 27- Impairment requires consideration of “fair value less costs to sell” in determining the “Recoverable Amount”.

Practical implications

If applying section 27 of FRS 102, one of the many challenges faced by accountants is the determination of “fair value”. When testing for impairment, an entity is required to compare an assets “carrying amount” with its “recoverable amount”.

The carrying amount is an easily understood value and represents the amount of which the asset is carried on the balance sheet.

Recoverable amount requires the assessment of the higher of;

1. Fair value less costs to sell, and
2. Value in Use

Value in use has a set series of rules and guidance as set out in Section 27 of FRS 102 and, although the area of cashflow projections might be difficult to estimate in the current climate, there is reasonably clear guidance on how to apply this to arrive at a value in use calculation.

At the time of writing this piece, the country is in lockdown, people in non-essential roles have been restricted to movement within a 2km radius and business has temporarily ceased in the majority of sectors.

The economic environment that was in situ on the 28th March 2020 was reasonably strong (despite a few weeks of decline) and the underlying values of assets did not show any tangible signs of impairment (to the extent that there is no market based evidence showing a significant decline) up to that date.

Whilst there may be property transactions occurring during the period of lockdown, there is little evidence of market based transactions to support underlying asset values. Further to this, people’s inability to travel, businesses lack of ability to open and a general air of apprehension has stalled some transactions.

While in the lockdown period from 28th March 2020 to whenever it is lifted (likely to be no earlier than mid-May at the time of writing this), there is a significant degree of uncertainty regarding asset prices in areas such as property, intangible assets etc. One would anticipate that there will be a decline in asset values during this period of time but the overall effect is unclear and there is potentially a large range of estimated values that entities could use to estimate the fair value of their property while in lockdown.

When considering “Fair Value”, entities will need to consider the guidance contained in the Appendix to Section 2 of FRS 102.

Does an "Active Market" exist?

An active market is defined in the glossary to FRS 102 as

A market in which all the following conditions exist:

(a) the items traded in the market are homogeneous;

(b) willing buyers and sellers can normally be found at any time; and

(c) prices are available to the public.

If dealing with an asset such as a property, (a) above will be met (unless the property is particularly unusual, complex or has an unusual purpose). During the period of lockdown, one would argue that willing buyers and sellers cannot be found. Also, one would argue that the prices are not available to the public (this is particularly pertinent here given the potential sharp fall in property prices from 28th March to whenever the lockdown is lifted).

The "Active Market" area requires some judgement, but on the basis of the above it would be argued that no active market exists for the period of time while the lockdown is in place.

Application of the fair value methodology in Appendix to Section 2 of FRS 102 to COVID-19

In order to consider the fair value of property, we should apply the rules set out in appendix A to section 2 of FRS 102

1. The best evidence of fair value is a quoted price for an identical asset (or similar asset) in an active market. This is usually the current bid price.

   As argued above, during the period of lockdown, an "active market" does not exist and so we must move on to the next step.

2. When quoted prices are unavailable, the price in a binding sale agreement or a recent transaction for an identical asset (or similar asset) in an arm's length transaction between knowledgeable, willing parties provides evidence of fair value. However, this price may not be a good estimate of fair value if there has been a significant change in economic circumstances or a significant period of time between the date of the binding sale agreement or the transaction, and the measurement date. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (eg because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

   Given the sudden shock to the economy, it is likely that this step will not produce a "fair value" unless there have been transactions since the lockdown that represent an arms length transaction between knowledgeable and willing parties. Assuming this does not produce a "fair value" we must move on to the next step.

3. If the market for the asset is not active and any binding sale agreements or recent transactions for an identical asset (or similar asset) on their own are not a good estimate of fair value, an entity estimates the fair value by using another valuation technique. The objective of using another valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

   Assuming steps 1 and 2 are not successful in achieving a fair value then a valuation technique must be used to determine fair value. This step may be appropriate when to establish a fair value during the lockdown period once the lockdown period ends (ie. if we have market data based on transactions after the lockdown period, this will give us a more accurate picture of the fair value of assets held during the lockdown period). Assuming we are still in the lockdown period, we must move on to the next step.

4. **Valuation Technique**

   Valuation techniques include using the price in a binding sale agreement and recent arm's length market transactions for an identical asset between knowledgeable, willing parties, reference to the current fair value of another asset that is substantially the same as the asset being measured, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the asset and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.
   The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-determined inputs.
   A valuation technique would be expected to arrive at a reliable estimate of the fair value if:
   (a) it reasonably reflects how the market could be expected to price the asset; and
   (b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset.

   Given the unusual and unprecedented nature of the COVID-19 pandemic, it is unlikely that a reliable valuation technique could be used to estimate values during the period of lockdown. Therefore we must move on to the next step.

5. If we have been unable to achieve a "fair value" then we must look to the guidance where there is "no active market", as follows;

   The fair value of an asset that does not have a quoted market price in an active market is reliably measurable if:

   (a) the variability in the range of reasonable fair value estimates is not significant for that asset; or

   (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

   This requires some judgement and the application of materiality but the uncertainty is likely to result in a range of estimated fair values that is significant. If the range of estimates is *significant, and is not deemed to be probable that it can be reasonably assessed then the entity is precluded from measuring the asset at fair value.*

If an entity is precluded from using fair value by following the above rules then under Section 2A.5, the carrying amount at the last date the asset was reliably measured becomes it's new cost and the asset is measured at cost less impairment until a new measure of fair value becomes available. In assessing cost less impairment, an entity is directed to section 27 where the assets carrying value should be compared to its recoverable amount.

If (following the steps above) the entity deems that it cannot use fair value, this leaves only Value in Use as the measurable when calculating recoverable cost.

Consequently, when assessing for impairment and fair value is precluded from being used, the carrying value should be compared to Value in Use. If value in use is lower than carrying value then an impairment of the deficit is required.

Section 27.22 makes reference to situations where the fair value cannot be determines and states that where this is the case the value in use is the figure to be written down to in an impairment situation.

"However, an entity shall not reduce the carrying amount of any asset in the cash-generating unit below the highest of:

(a) its fair value less costs to sell (if determinable);

(b) its value in use (if determinable); and

(c) zero."

How is the above scenario likely to impact financial statements?

It is likely that the inability to calculate "fair value" owing to no "active market" is likely to cover only a small window of time. Depending on the year end and also the date of signature, this may not have an impact on financial statements.

Year ends before March 2020

If we consider year ends of December 2019, January 2020 and February 2020, there was an active market in place and therefore "fair value" is reasonably established.

March 2020 year ends until lockdown ends and market data is available

If we assume that lockdown continues towards the end of May with some businesses reopening in June, one would assume that property transactions (and more importantly the market data behind the property transactions) become more visible towards mid-late June. In this scenario, companies with a year end of March 2020, April 2020 and May 2020 which are signed before accurate market data is available may be impacted by the inability to determine fair value.

If market data comes to light at some point (in June in the above scenario) then a clearer picture will be available at that point of the values in place at March 2020, April 2020 and May 2020 which will allow entities to consider the fair value at the year end.

FRS102.com- Covid-19 update

Section 3- Financial Statement preparation

Summary of this section

Section 3 explains that the financial statements of an entity shall give a true and fair view, what a complete set of financial statements is; and what compliance with FRS 102 requires.

What are the key points of this section of FRS 102?

The fundamental principles for the preparation of financial statements that result in the faithful representation of transactions, other events and conditions, are the going concern assumption, consistency of presentation, comparability and materiality. Where there are doubts about going concern this needs to be stated in the financial statements.

A complete set of financial statements includes each of the following for the current period and the previous comparable period:

- a statement of financial position (FRS 102 also allows the use of the word balance sheet);
- either a single statement of comprehensive income or a profit and loss account and a separate statement of comprehensive income where the entity has items posted to other comprehensive income;
- a statement of changes in equity;
- a statement of cash flows; and
- notes to the financial statements which includes an explicit statement that the financial statements have been prepared under FRS 102.

Where financial statements are prepared for periods longer or shorter than one year, the entity must disclose; that fact, the reason for using a longer or shorter period and the fact that comparable amounts presented in the financial statements are not entirely comparable.

Financial statements are required to make clear the name of the reporting entity, the presentational currency, date of the end of the reporting period, whether individual or group accounts are covered and the level of rounding, if any used.

How does COVID-19 impact on this section?

The going concern considerations as set out in sections 3.8 and 3.9 of FRS 102 will be a key area of focus when addressing the financial reporting implications of COVID-19.

Section 3.8 requires management to make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless management either intends to liquidate or cease trading or has no realistic alternative but to do so. This requires management to consider a period of at least 12 months from the date of authorisation.

Section 3.9 requires disclosure of any material uncertainties casting doubt on the entity's ability to continue as a going concern. Disclosure of the fact that the going concern basis has not been applied is required if applicable.

One of the significant considerations of COVID-19 is whether (and how significantly) COVID-19 has impacted the company from a going concern perspective. This section of FRS 102 also interacts with Section 32- Events After the End of the Reporting Period, as it requires that where an entity discovers after the year end that the going concern basis is not appropriate then the financial statements should not be prepared on a going concern basis.

Practical implications

Entities will need to consider the effect COVID-19 has had on their business, including the future prospects of the business. This should include consideration of budgets and cashflows for the 12 month period up to the date of signing off the financial statements. This will present many challenges for entities in the early stages of COVID-19 as the uncertainty caused by the virus and government reactions to it may mean that budgets and cashflows which are reliable may be difficult to produce.

Entities will need to consider how affected their business is by COVID-19 and then determine the appropriate treatment from a basis of preparation point of view.

For most entities, the emergence of COVID-19 will require the entity to reassess the going concern basis. For some entities, this will require additional disclosures in the directors report and in the notes to the financial statements. For entities where a material uncertainty is identified which casts significant doubt on the entity's ability to continue as a going concern there will be a significant level of additional disclosure required.

Where a company's only option is to liquidate or permanently cease trading, the financial statements should not be prepared on a going concern basis.

Disclosure issues arising from COVID-19

An example of illustrative disclosure notes addressing the going concern note disclosures are set out below.

Illustrative example 1- Company affected by Covid-19 but continues to trade. Trade has not been significantly affected and the directors conclude that no material uncertainty exists.

The company made a profit of €xxxxxxxx and has net current assets of €xxxxxx net assets of €xxxxx at the year end.

During the first quarter of 2020, The Covid-19 pandemic has spread initially from Asia to Europe and subsequently worldwide. The initial economic effect of this has been a worldwide slowdown in economic activity and the loss of jobs across many businesses. In Ireland there are restrictions placed on "non-essential" businesses which has resulted in many businesses temporarily closing in measures designed to restrict the movement of people and to slow down the spread of the virus.

Company Limited has continued to trade during this period and has not seen a significant effect on its trading activities as a result of the virus. The directors have prepared budgets for the upcoming 12 months which show that the company will continue as a going concern.

The financial statements have been prepared on a going concern basis.

Illustrative example 2- Company affected by Covid-19 but continues to trade. Trade is negatively affected by the virus and the directors have seen a significant reduction in trading activity. Staff costs have been reduced.

The company made a profit of €xxxxxxxx and has net current assets of €xxxxxx net assets of €xxxxx at the year end.

During the first quarter of 2020, The Covid-19 pandemic has spread initially from Asia to Europe and subsequently worldwide. The initial economic effect of this has been a worldwide slowdown in economic activity and the loss of jobs across many businesses. In Ireland there are restrictions placed on "non-essential" businesses which has resulted in many businesses temporarily closing in measures designed to restrict the movement of people and to slow down the spread of the virus.

Like many businesses, Company Limited is exposed to the effects of the Covid-19 pandemic. Whilst the company continues to trade during this period, there has been a notable reduction in trading activity and customer demand compared to the same period in the previous financial year. Staff costs have been reduced through the temporary reduction in staff/reduced hours and other costs have been reduced where possible (TAILOR/DELETE AS APPROPRIATE). The company will also use government supports provided to businesses during this time.

Based on the measures taken to reduce costs, the directors believe that the company is well positioned to return to full trading capacity once the period of uncertainty passes. However, the directors believe that the above circumstances represent a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on a going concern basis.

Illustrative example 3- Company affected by Covid-19 and has temporarily ceased trading as a result of Covid-19. There has been a significant reduction in trading activity and staff costs have been reduced.

The company made a profit of €xxxxxxxx and has net current assets of €xxxxxx net assets of €xxxxx at the year end.

During the first quarter of 2020, The Covid-19 pandemic has spread initially from Asia to Europe and subsequently worldwide. The initial economic effect of this has been a worldwide slowdown in economic activity and the loss of jobs across many businesses. In Ireland there are restrictions placed on "non-essential" businesses which has resulted in many businesses temporarily closing in measures designed to restrict the movement of people and to slow down the spread of the virus.

Like many businesses, Company Limited is exposed to the effects of the Covid-19 pandemic. In March 2020, as a result of the reduction in economic activity and the recommendations and restrictions placed on businesses the company has decided to temporarily cease trading. During this period, the company has laid off staff and reduced working hours for staff who have been retained. Other costs have also been reduced during the non-trading period where possible. The company will also use government supports provided to businesses during this time.

Based on the measures taken to reduce costs, the directors believe that the company is well positioned to return to full trading capacity once the period of uncertainty passes. However, the directors believe that the above circumstances represent a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on a going concern basis.

Illustrative example 4- There is no realistic alternative for the company but to permanently cease trading or liquidate. The financial statements have not been prepared on a going concern basis

The company made a loss of €xxxxxxxx, has net liabilities of €xxxxxx and net current liabilities of €xxxxx at the year end.

During the first quarter of 2020, The Covid-19 pandemic has spread from Asia to Europe and worldwide. The initial economic effect of this has been a worldwide slowdown in economic activity and the loss of jobs across many businesses. In Ireland there are restrictions placed on "non-essential" businesses which has resulted in many businesses temporarily closing in measures designed to restrict the movement of people and to slow down the spread of the virus.

The effects of the above have been so severe on the activities of the company that the directors believe that there is no realistic alternative but to cease trading or to liquidate the company.

Accordingly, the financial statements have not been prepared on a going concern basis.

Section 1A of FRS 102 disclosures

If applying section 1A of FRS 102, the disclosures relating to material uncertainties are encouraged.

In any event, where an entity has material uncertainties related to going concern, such disclosures are fundamental to users understanding of the financial statements and should be disclosed to ensure that the financial statements give a true and fair view.

If the financial statements are prepared on a basis other than the going concern basis then this should be disclosed.

FRS102.com- Covid-19 update

Section 4- Statement of Financial Position

Summary of this section

Section 4 deals with the presentation of the statement of financial position. The statement of financial position (also known as the balance sheet) presents an entity's assets, liabilities and equity at the end of the reporting period.

What are the key points of this section of FRS 102?

The statement of financial position which can also be called a balance sheet should be laid out in accordance with the formats as specified under the Companies Act. It is possible to use the IFRS formats as long as it provides the substance of the information required by Companies Act.

An entity is required to distinguish those items that are current and non-current. To comply an entity shall present current and non-current assets and current and non-current liabilities as separate classifications in its balance sheet.

An entity shall present additional line items, headings, and sub-totals in the balance sheet when such presentation is relevant to an understanding of the entity's financial position.

Disclosure is required in either the notes to the financial statements or on the face of the statement of financial position in relation to the following, a description for each reserve within equity and for each class of shares; the number and par value of shares issued, the rights, preferences and restrictions attached to those shares including restrictions on distribution of dividend, shares in the entity held by subsidiaries, joint ventures or associates and a reconciliation of the number of shares at the start and end of the year.

How does COVID-19 impact on this section?

The effects of COVID-19 may mean that some companies breach their banking covenants. Where loan covenants are breached, it will usually mean that liabilities will no longer meet the definition of non-current liabilities and should be restated to current liabilities.

Loan agreements will often include loan covenants such as maintaining a certain debt to equity ratio or cashflow level. The impact of factors such as impairment of assets and liquidity could put pressure on such covenants and may cause them to be breached.

Practical implications

Where covenants are breached, the lender will be entitled to demand repayment before the loan maturity date. In instances such as this, the debt which was originally classified as due greater than one year will need to be reclassified as due within 1 year.

If covenants are breached after the year end then this would be a non-adjusting event requiring disclosure in accordance with section 32 of FRS 102. However, consideration should be given as to whether covenants were breached during the financial year. Consideration should also be given to the wider issue of going concern implications arising from a covenant breach.

Disclosure issues arising from COVID-19

Where covenants are breached, the balance sheet classification will be changed (from due within 1 year to due after 1 year). The related note disclosures and maturity analysis will also change accordingly. Given the significance of a covenant breach, this may also impact on going concern disclosures.

Where covenants are breached, section 11.47 of FRS 102 will also need to be complied with. This requires that when there is a breach of the terms or default of principal, interest, sinking fund or redemption terms that has not been remedied by the reporting date the following should be disclosed;

- Details of the breach or default.
- The carrying amount of the loans at the reporting date, and
- Whether the breach was remedied or the terms renegotiated prior to the financial statements being authorised for issue.

If the covenant breach occurred after the year end, there will not be a reclassification in the financial statements as this will not be a post balance sheet event. However, consideration should be made as to whether the covenants were breached during the year

<u>Section 1A of FRS 102 disclosures</u>

If applying Section 1A of FRS 102 then there is still a requirement to present current liabilities and non-current liabilities separately. As a result, any liabilities arising from covenant breaches are required to be presented as current, similar to the requirements under full FRS 102.

The requirements of section 11.47 are not required under section 1A of FRS 102. However, disclosure of the breach may be required in order for the financial statements to give a true and fair view.

FRS102.com- Covid-19 update

Section 5- Statement of Comprehensive Income and Income Statement

Summary of this section

Section 5 deals with the presentation of total comprehensive income for the reporting period. It allows presentation in one or two statements and sets out the information to be presented in those statements.

What are the key points of this section of FRS 102?

This standard sets out the format, contents and requirements for presenting items in the Income Statement or the Statement of Comprehensive Income. It sets out the reduced requirements if a company is applying section 1A of FRS 102.

This section of FRS 102 also sets out the requirements on how to deal with exceptional items.

Where exceptional items are material they should be appropriately disclosed in the profit and loss. Materiality can be determined by an item's size and nature.

FRS 102 does not define exceptional items. Example of exceptional items include (as detailed in IAS 1 of IFRS):

- Cost or provision of a major restructuring of operations e.g. a large voluntary and forced redundancies based on the size of the entity
- Profit/loss on disposal of investments
- Impairment/write down of tangible fixed assets
- Impairment of investments
- Impairment of inventories
- Write down on inventories
- Provision for closure costs
- Reversal of prior year impairments or provisions in relation to the above.
- Litigation settlements
- Other reversals of provisions

Where an item is a reoccurring item (e.g. fair valuing investment properties year on year) then this is not an exceptional item as it is a transaction in the normal course of business. A consistent approach should be adopted in that an entity cannot only choose to show losses as exceptional items but they also must show gains as exceptional items if they are of a similar nature e.g. reversal of prior year impairments previously disclosed as exceptional.

Gains and losses should not be netted when disclosing the exceptional items, they should be shown separately.

How does COVID-19 impact on this section?

The financial effects of COVID-19 may result in some companies incurring exceptional expenses and costs as the write down and impairment of assets occurs. Where exceptional items occur, these should be treated in accordance with Section 5 of FRS 102.

An exceptional item should only be shown on the face of the profit and loss account where it is relevant to the user of financial statements in understanding the results. If it is not it should be disclosed in the notes. Therefore, if material, it should be disclosed on the face of the P&L.

Practical implications

Accountants will need to consider the financial implications of COVID-19 in other sections such as section 27- Impairment, section 32- post balance sheet events etc to determine if assets have been impaired and if the effect of COVID-19 is material on the financial statements.

Following consideration of the impact of COVID-19 on the financial statements, companies will need to consider if the items are required to be presented as exceptional items and if so whether they are required to be disclosed on the face of the profit and loss account.

Disclosure issues arising from COVID-19

If material, then exceptional items should be disclosed on the face of the profit and loss account as a separate line item.

As FRS 102 does not define exceptional items, entities will have to include in a note to the financial statements what they define as exceptional in the notes to the financial statements. See below an example of such a disclosure:

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Example : *Exceptional item disclosure note for an accounting policy*

Exceptional items
Exceptional items are those that the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Company's' financial performance. The Company believe that this presentation provides a more informative analysis as it highlights one off items. Such items may include restructuring, impairment of assets, profit or loss on disposal or termination of operations, litigation settlements, legislative changes and profit or loss on disposal of investments. The company has adopted an income statement format that seeks to highlight significant items within the company results for the year.

Whether an exceptional item is shown on the face of the profit and loss above the operating profit line or not will depend on the method adopted to analyse the costs (i.e. by function or by nature of expense) and the type of exceptional expense. Usually if the expenses are displayed by nature then it is usually unlikely it could be shown above the operating profit line as it would have to be included within the expense that it would fall into. Where there is no overlap it may be appropriate to include it separately above the line e.g. legal provisions etc. Therefore in this instance a boxed presentation approach should be adopted similar to the function of expense layout as discussed below.

When a function of expense layout is adopted the exceptional cost should be included within the function to which they relate in the profit and loss above the operating profit and then a boxed presentation can be included on the face of the profit and loss to show within the box, the operating profit before the exceptional item, then detail the exceptional item and then the operating profit after the exceptional item with a reference to a note where full details of the exceptional item is provided. See illustration of this below

A note should be included in the financial statements detailing the nature and reason for the exceptional item as well as the tax effect of this.

See below example of the way in which exceptional items should be displayed:

Profit and Loss Account
For the Year Ended 31 December 2019

	Notes	2020	2019
		CU	CU
Turnover	1	XXXXX	XXXXX
Cost of sales		(XXXX)	(XXXX)
Gross profit		XXXX	XXXX
Selling and distribution costs		(XXX)	(XXX)
Administrative expenses		(XXX)	(XXX)
Other operating income		XXX	XXX
Operating profit	3	900,000	XXX
Operating profit before exceptional item		1,200,000	XXX
Impairment of tangible fixed assets		150,000	XXX
Impairment of stock		150,000	XXX
Operating profit		**900,000**	**XXX**
Income from shares in group undertakings	4	XXX	XXX
Income from shares in other financial assets	4	XXX	XXX
Income from shares in participating interests	5	XXX	XXX
Profit on ordinary activities before interest and taxation		XXXX	XXXX
Interest receivable and similar income	6	XXX	XXX
Interest payable and similar income	7	(XXX)	(XXX)
Profit on ordinary activities before taxation		XXXX	XXXX
Tax on profit on ordinary activities	8	(XXX)	(XXX)
Profit for the financial year		1,000,000	500,000
Profit for the financial year attributable to:			
Owners of the parent company		1,000,000	500,000
		1,000,000	500,000

Extract from notes to the financial statements

Exceptional item - impairment charge

	2020	2019
	CU	CU
Impairment of tangible fixed assets	150,000	-
Impairment of stock	150,000	-
	300,000	-

(i) The directors have reviewed the carrying value of tangible fixed assets, net of associated deferred grants, at the year end in accordance with Section 27 "Impairment of Assets". As a result, a net impairment loss of CU150,000 (2019: CUNil) has been charged to the profit and loss account during the year. The impairment arose as a result of the material change in the market in which the company operates, caused by the economic impact of the COVID-19 pandemic.

(ii) The directors have reviewed the carrying amount of its stock at the year end in comparison to its sales price less costs to complete in accordance with section 13 and section 27 of FRS 102. As a result, an impairment loss of CU150,000 (2019: CUNil) has been charged to the profir and loss account during the year. The impairment arose as a result of a period of temporary closure shortly after the year end which caused some stock obsolescence. The period of temporary closure occurred in response to the government recommendations and restrictions to help contain the spread of the COVID-19 pandemic.

Note where exceptional item not shown on the face of the profit and loss

Exceptional item	2020	2019
	CU	CU
Administrative expenses in the profit and loss account includes the following exceptional charges:		
Provision against trade debtors	XX	XX
	XX	XX

Exceptional item

The exceptional item arose as a result of the liquidation of a trade debtor following the economic impact on its business of COVID-19.

Section 1A of FRS 102 disclosures

Section 1A requires the disclosure of exceptional items either on the income statement or in the notes to the financial statements. This should include information on the nature, amount and effect of individual items of income and expenditure that are exceptional by virtue of size or incidence

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Section 6- Statement of Changes in Equity and Statement of Income and Retained Earnings

Summary of this section

Section 6 deals with the requirements for the presentation of changes in an entity's equity for a period.

What are the key points of this section of FRS 102?

The SOCE presents all changes in equity, including:

- total comprehensive income for the period showing the split between owners of the parent and non-controlling interest;
- the effects of changes in accounting policies and correction of errors; and
- a reconciliation between the carrying amount at the beginning and end of the period of each component of equity for each period presented, separately disclosing changes resulting from:
    - profit or loss;
    - other comprehensive income; and
- transactions with owners in their capacity as owners, e.g. dividends, treasury shares, changes in ownership interest in subsidiaries that do not result in loss of control.

How does COVID-19 impact on this section?

Entities will need to consider if any transactions are required to be posted through the statement of changes in equity as a result of COVID-19. This may result following the reversal of a revaluation.

Practical implications

Entities will need to consider the provisions of section 27.6 of FRS 102 as set out below.

"An entity shall recognise an impairment loss immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another section of this FRS (for example, in accordance with the revaluation model in Section 17 Property, Plant and Equipment). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other section."

If an asset which is being impaired as a result of COVID-19 was previously revalued and the revaluation is reflected in a separate reserve on the balance sheet then the portion of the impairment that relates to the revaluation reserve should be reversed through the statement of changes in equity first. Any excess impairment above the amount previously revalued should be recognised in the profit and loss account as an impairment.

Disclosure issues arising from COVID-19

Below is an example disclosure of a statement of changes in equity recognising the effect of an impairment of a previously revalued asset. Assume a total impairment of €100,000. In this case the revaluation reserve of €25,000 is fully written off with the balance being recognised in the profit and loss account.

For the Year Ended 31 December 20xx

	Equity Share Capital	**Revaluation Reserve**	**Retained Earnings**	**Share premium Reserve**	**Total Equity**
	CU	**CU**	**CU**	**CU**	**CU**
Balance at 1 January 20xx	100,000	25,000	115,000	1,000	241,000
Profit for the year			8,000		- 8,000
Balance at 31 December 20xx	**100,000**	**25,000**	**123,000**	**1,000**	**249,000**
Balance at 1 January 20xx	**100,000**	**25,000**	**123,000**	**1,000**	**249,000**
Loss for the year			(93,000)		(93,000)
Impairment of revalued assets		(25,000)			(25,000)
Balance at 31 December 20xx	**100,000**	**0**	**30,000**	**1,000**	**131,000**

The below could be included in the notes to the financial statements

i) Revaluation reserve

The revaluation reserve arises as a result of the company's policy of revaluing property, plant and equipment on a regular basis. During the year an impairment was recognised on the asset of €100,000. In accordance with section 27.6 of FRS 102, the revalued portion of the asset impaired has been treated as a revaluation decrease.

Section 1A of FRS 102 disclosures

Section 1A of FRS 102 encourages statement of changes in equity or a statement of income and retained earnings where there are transactions with equity holders so as to meet the requirement to show the true and fair view. The above transaction does not represent a transaction with equity holder and therefore a statement of changes in equity is not necessarily encouraged unless there are other transactions requiring it. If the revaluation is recognised in Other Comprehensive Income then FRS 102 encourages the presentation of this in accordance with section 5 of FRS 102.

FRS102.com- Covid-19 update

Section 8- Notes to the financial statements

Summary of this section

Section 8 describes the principles underlying the information that is to be presented in the notes to the financial statements.

What are the key points of this section of FRS 102?

The section requires systematic presentation of information not presented elsewhere in the financial statements, as well as information on the:

- basis of preparation;
- specific accounting policies;
- changes in estimates or changes in accounting policies;
- explanatory notes for items presented in the financial statements;
- judgements made in applying the accounting policies; and
- key sources of estimation

The notes are required to include a specific statement that the financial statements have been prepared in compliance with FRS 102.

How does COVID-19 impact on this section?

The most significant area affected by COVID-19 is Section 8.6 & 8.7 which requires entities to disclose its judgements, assumptions and key sources of estimation uncertainty. COVID-19 will present entities with more sources of estimation uncertainty while judgement and assumptions will be necessary to address some areas affected.

Practical implications

The areas affected by COVID-19 which require some judgements to be made include;

- The factors on which the going concern basis is based on, including assumptions used in preparing budgets for the upcoming 12 months and applying the going concern basis.
- Judgement regarding going concern, how long restrictions will remain in place, the overall economic impact of the measures.
- The factors used in calculating impairment & factors used when deciding not to impair.
- Considerations used in determining if events occurring since the year end are adjusting or non-adjusting.
- Judgements relating to the recoverability of debtors.
- Judgement used in determining which items are exceptional items as a result of COVID-19.

Entities are required to disclose the judgements made in applying the significant accounting policies.

Key sources of estimation uncertainty arising from COVID-19 may include;

- Estimation uncertainty regarding inventory provisioning.
- Estimation uncertainty regarding the recoverability of debtors.
- Estimation uncertainty arising from impairments to assets arising from COVID-19.

Entities are required to disclose the nature of assets subject to estimation uncertainty, information about the key assumptions used and the carrying amount at the end of the reporting period.

Disclosure issues arising from COVID-19

See below example Judgements and estimates disclosure

"*CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES*

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

Judgements

Judgements and estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The judgements that have had the most significant effect on the amounts recognised in the financial statements are discussed below.

(a) Going concern

Going concern is discussed in detail in note 4. At the time of approving the financial statements, there were restrictions placed on businesses to curtail the movement of people in measures designed to reduce the spread of the COVID-19 virus. This has had an effect on the company's business and the economic environment as a whole. In assessing the reasonableness of the going concern basis, the directors have used judgement in preparing budgets and cashflows for the upcoming 12 months, whilst recognising that there is a degree of judgement and estimation arising from the uncertain nature of the planned response to the COVID-19 pandemic. The judgements used by management in preparing their budgets and cashflows are as follows;

TAILOR ACCORDING TO THE COMPANY

- *That the company will be temporarily closed for a period of x months.*
- *That on recommencement of trading, sales will be x% lower than previous year.*
- *That cost reductions entered into during the period of temporary closure will adequately safeguard the company's cash reserves for when they recommence trading.*
- *ENTER ANY ADDITIONAL POINTS OF RELEVANCE.*

(b) Exceptional items

Exceptional items are those that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Company's' financial performance. The Company believe that this presentation provides a more informative analysis as it highlights one off items. Such items may include significant restructuring costs (add as required).

Judgement is required as to what management determine as exceptional items. In the opinion of the directors, the adverse effects caused by the outbreak of the COVID-19 pandemic meet the criteria for exceptional items.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and assumptions

(a) Establishing useful economic lives for depreciation purposes of tangible fixed assets
Long-lived assets, consisting primarily of Tangible fixed assets, comprise a significant portion of the total assets. The annual depreciation charge depends primarily on the estimated useful economic lives of each type of asset and estimates of residual values. The directors regularly review these asset useful economic lives and change them as necessary to reflect current thinking on remaining lives in light of prospective economic utilisation and physical condition of the assets concerned. Changes in asset useful lives can have a significant impact on depreciation and amortisation charges for the period. Detail of the useful economic lives is included in the accounting policies.

(b) Impairment review following COVID-19
The COVID-19 pandemic has caused an adverse effect on the economic environment in which the entity operates. In accordance with section 27.9 of FRS 102, this is an impairment indicator and the company has carried out an impairment review of its assets. The factors taken into consideration in performing an impairment review are based on estimates and are subject to uncertainty. Some of the key factors taken into consideration when considering impairment are set out below.

(c) Inventory provisioning
When calculating inventory provision, management considers the sales price less costs to complete in comparison to the net realisable value. The level of provision required is reviewed on an on-going basis and has been disclosed in note 16. The company has also taken into consideration the effects COVID-19 has had on its inventories, including the effect of periods of closure caused by the outbreak.

(d) Providing for doubtful debts
The company makes an estimate of the recoverable value of trade and other debtors. The company uses estimates based on historical experience in determining the level of debts, which the company believes, will not be collected. These estimates include such factors as the current credit rating of the debtor, the ageing profile of debtors and historical experience. Any significant reduction in the level of customers that default on payments or other significant improvements that resulted in a reduction in the level of bad debt provision would have a positive impact on the operating results. The company has also specifically considered the effect of COVID-19 on the recovery of its debtors. The level of provision required is reviewed on an on-going basis and has been disclosed in note 17

(NOTE- MAY NOT BE APPROPRIATE/SHOULD BE TAILORED IF COVID-19 IS NOT A POST BALANCE SHEET EVENT).

(e) Valuation of investment properties

The company revalue its investment property to fair value based on advice from independent expert valuers. See note 14 for details of this valuation. The directors note that there may be a degree of estimation uncertainty regarding the fair value at the year end as there is a limited amount of transactions happening in the property market following the emergence of COVID-19." (NOTE- MAY NOT BE APPROPRIATE/SHOULD BE TAILORED IF COVID-19 IS NOT A POST BALANCE SHEET EVENT).

<u>Disclosures if applying section 1A of FRS 102</u>

Judgements and key sources of estimation uncertainty disclosures are not specifically required under FRS 102 but an entity may wish to disclose these if it is useful in order to show a true and fair view.

FRS102.com- Covid-19 update

Section 11- Basic Financial Instruments

Summary of this section

Section 11 defines basic financial instruments for all companies with the exception of public benefit entities. Basic financial instruments coming within the scope of section 11 are:

- Cash;
- Demand and fixed term deposits;
- Commercial paper and bills;
- Notes, loans receivable and payable;
- Bonds and similar debt instruments
- Accounts payable, accounts receivable;
- Investments in non-convertible preference shares, non-puttable ordinary and preference shares; and
- Commitments to make or receive a loan to another entity that cannot be settled net in cash.
- Loans due to or from group companies, directors loan accounts. It goes on to provide characteristics and examples of financial instruments.

Section 11 applies to all financial instruments meeting the conditions of paragraph 11.8 except for the following:

1. Investments in subsidiaries, associates and joint ventures;
2. Financial instruments that meet the definition of an entity's own equity and the equity component of compound financial instruments issued by the reporting entity that contain both a liability and an equity component;
3. Leases, to which Section 20 Leases applies;
4. Employers' rights and obligations under employee benefit plans, to which Section 28 Employee Benefits applies;
5. Financial instruments, contracts and obligations to which Section 26 Share-based payment applies, and contracts within the scope of paragraph 12.5;
6. Insurance contracts (including reinsurance contracts) that the entity issues and reinsurance contracts that the entity holds (see FRS 103 Insurance Contracts).
7. Financial instruments issued by an entity with a discretionary participation feature (see FRS 103 Insurance Contracts).
8. Reimbursement assets accounted for in accordance with Section 21 Provisions and Contingencies; and
9. Financial guarantee contracts (see Section 21).

A financial instrument is defined in Section 11.3 as a contract that gives rise to a financial asset of one entity and a financial liability of another entity.

What are the key points of this section of FRS 102?

The definition of basic financial instruments as detailed above;

Two tiered approach model whereby financial assets and liabilities are measured at either amortised cost or FVTPL;

Non market rate/interest free intercompany/directors loans which are not repayable on demand will have to be recognised on an amortised cost basis (i.e. present value of future cash flows etc.). This will result in a transition adjustment which will also result in a charge to the profit and loss or equity for companies where it is a loan due and a credit where it is owed from the other parties depending on the circumstances;

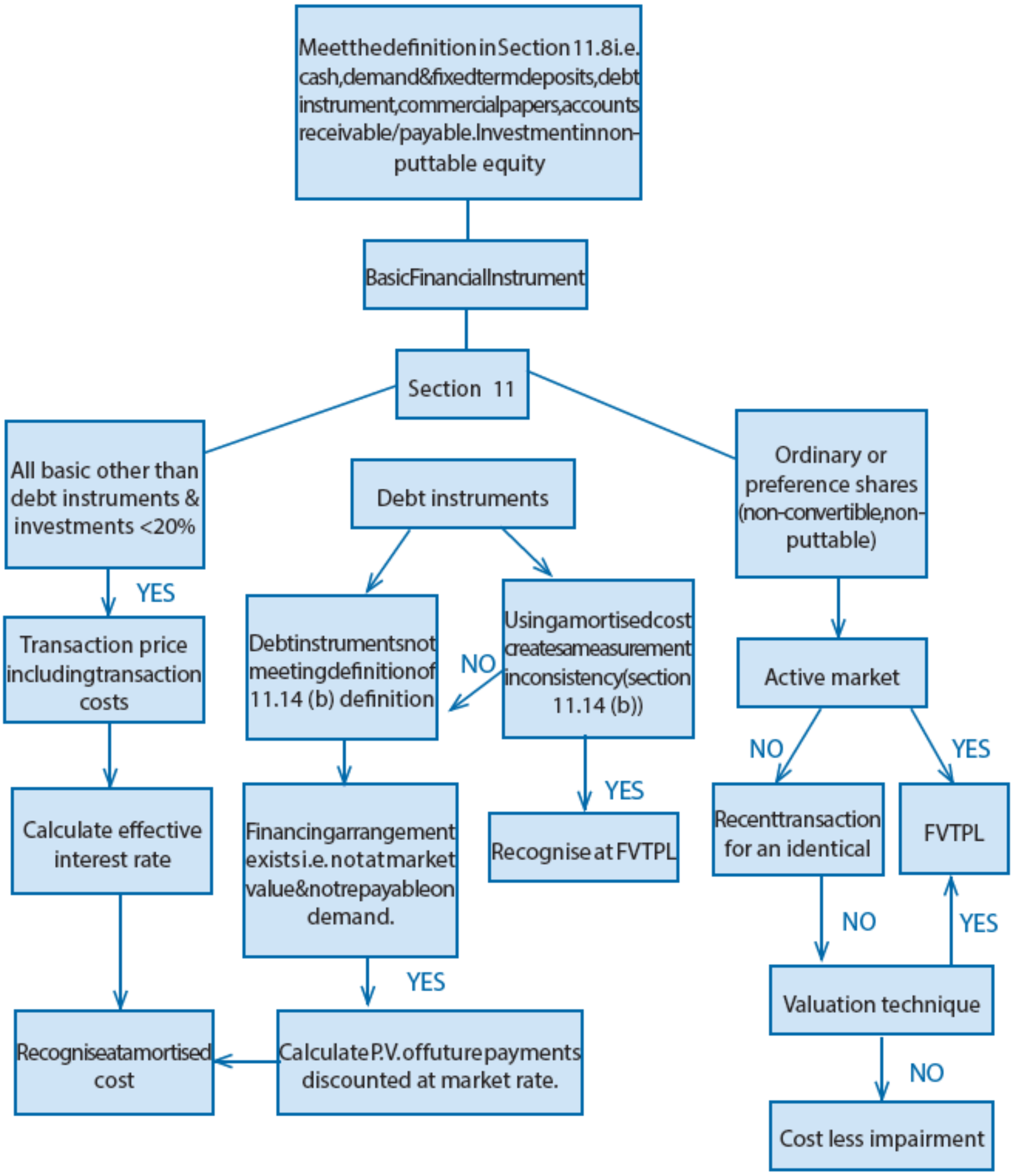
Need to fair value equity investments where they can be measured reliably based on the hierarchy detailed in Section 11.27 and Section 11.14 (d) (i) if not then they are carried at cost less impairment.

Premium or discounts on bonds released over the remaining life of the bond on an effective interest basis to the profit and loss account so as to bring it to par at the end of its life.

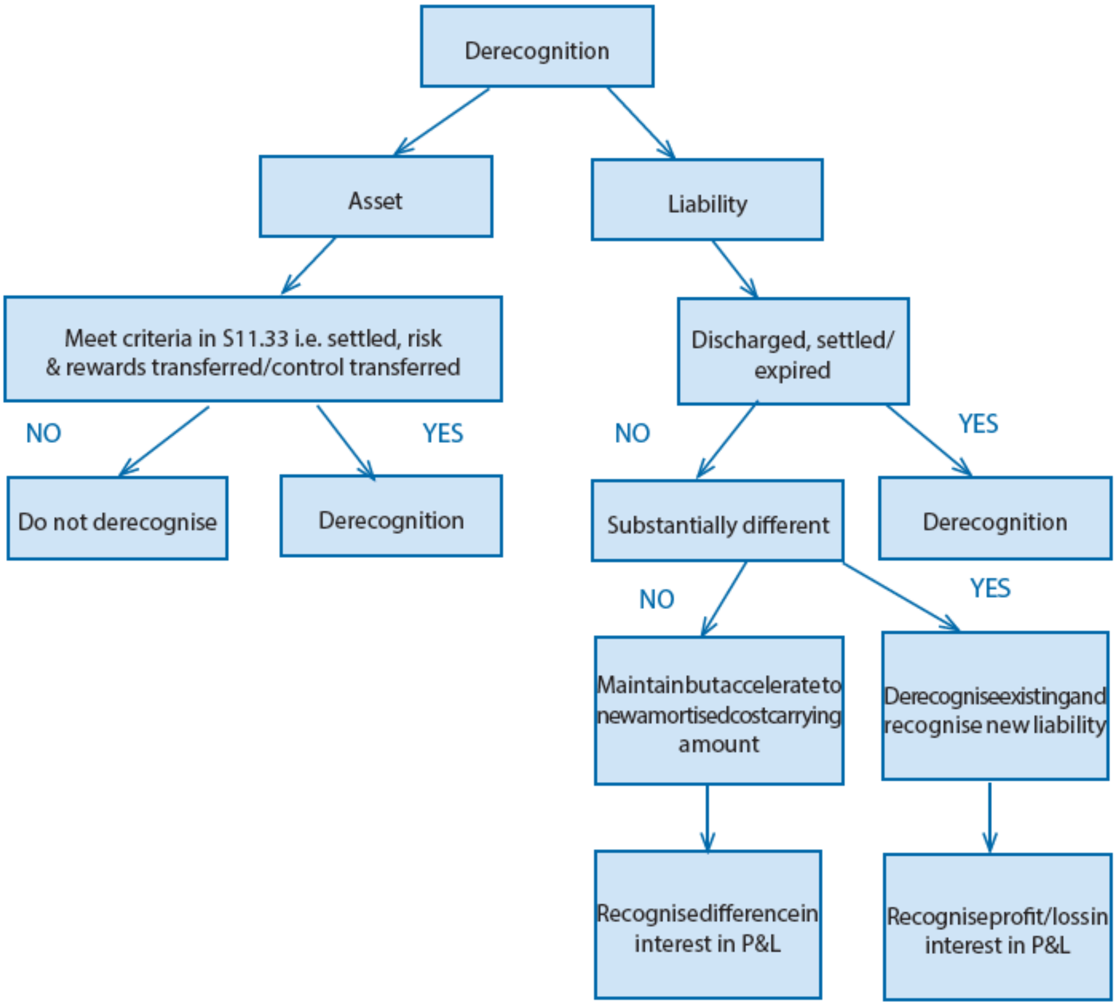
Rules in relation to substantial modifications of the terms of an existing financial liability where there is a substantial change then the existing liability is derecognised/ extinguished and a new financial liability is recognised. Where a modification occurs, the difference between the carrying amount and the new required carrying amount is accelerated; and

Financial assets are derecognised only when the rights to the cash flows from the asset have expired or are settled; or the entity has transferred all the risks and rewards of ownership, or where ownership is transferred but control is relinquished (Section 11.33).

See below choices and a summary of the standard.



Section 11 – Derecognition rules



How does COVID-19 impact on this section?

Entities will need to consider whether impairment of assets is required as a result of COVID-19. FRS 102 requires an entity to assess whether there is objective evidence of impairment of any assets held at cost or amortised cost. If there is an impairment then this is required to be recognised in the profit and loss account immediately.

COVID-19 will not impact on financial liabilities unless the derecognition criterial set out in Section 11.36 of FRS 102 are satisfied (ie. the liability is paid, expires or is discharged). The debtor must be released from the obligation by the creditor. The liquidation or personal insolvency of a creditor is not grounds for impairing a creditor as the legal requirement to pay will rest with the debtor until the balance is formally written off.

Practical implications

Section 11.22 & 11.23 identifies events that may give rise to the possibility of impairment of a financial instrument.

"11.22 Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the holder of the asset about the following loss events:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;

(d) it has become probable that the debtor will enter bankruptcy or other financial reorganisation; and

(e) observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

11.23 Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates."

The economic impact of COVID-19 may result in some of the above impairment indicators being present, including the following;

- Significant financial difficult of debtors which may impact on their recovery. This may be more acute depending on the particular industry that the debtor operates in and if this has been particularly badly affected by COVID-19.
- A breach of payment terms by a debtor which is now in default as a result of COVID-19.
- A write down of debtors balances as a results of the consequences of the debtor getting into financial difficulty as a result of COVID-19.
- A debtor who has gone into liquidation or examinership as a result of COVID-19

Example- Impairment of debt instruments

Company A issued a loan to a related company for CU200,000 and incurred costs of CU10,000 at the start of year 1 for 5 years. Interest at a fixed rate of 5% was charged (i.e. CU10,000 per annum) which was deemed to be the market rate of the loan at that date. At the end of year 3 the related company's financial performance deteriorated as a result of the economic impact of COVID-19 and shows signs that the full amount will not be recoverable. Company A estimates that it will only receive 75% of the interest (i.e. CU150,000*5%=CU7,500) and 75% of the capital (i.e. CU200,000*75%=CU150,000). Therefore, an impairment loss is required to be booked. The effective rate on taking out the loan was 3.88% which was calculated using a mathematical model in Excel.

Calculated EIR	3.880%				
Period Ending	Opening Balance	Interest for Period at 3.88%	Cashflow	Impairment loss *	Closing Balance
Year 1	210,000	8,148	(10,000)		208,148
Year 2	208,148	8,076	(10,000)		206,224
Year 3 pre impairment	206,224	8,001	(10,000)		204,226
Year 3 post impairment	204,226			(51,052)	153,174
Year 4	153,174	5,943	(7,500)		151,617
Year 5	151,617	5,883	(7,500)		150,000
Year 5	150,000		(150,000)	-	0

* 7,500 / (1.0388)^1 + 157,500^2 or 75% of the amortised cost at the end of year 3 pre impairment (204,226*75%)=€153,174

Period Ending	Cashflows	Discount rate at 1.0388%	Present value of cashflow
Year 3	-	1	-
Year 4	- 7,500	0.9626	- 7,220
Year 5	- 7,500	0.9267	- 6,950
Year 5	- 150,000	0.9267	- 139,004
			- 153,174

NOTE: if in the above example the entity determined there to be doubt about the recoverability of the full asset an impairment of CU204,226 would be booked.

Example- impairment review of a COVID-19 debtors listing

Company B operates an air conditioning business. At its year end of 31 March 2020, it had the following debtors on its year end debtors listing which it considered as part of its impairment review.

- CU50,000 due from a supermarket chain which is trading profitably during COVID-19- no indicators of impairment
- CU30,000 due from a local factory which closed down temporarily during COVID-19. From discussions with the debtor, only 50% of the balance will be recovered as a result of this.
- CU 25,000 due from a hotel which has significant financial difficulties arising from COVID-19. The hotel may not reopen following the lifting of restrictions and if it does, it will need to restructure/write off its debts.

Following on from the above impairment review, 2 adjustments are required as follows as the circumstances provide objective evidence of impairment;

Dr. P&L-	CU15,000	
Cr. Provision for bad debts		CU15,000

Being impairment of factory debtor to 50% of its original value

Dr. P&L-	CU25,000	
Cr. Provision for bad debt		CU25,000

Being impairment of hotel debtor to CU0

Section 1A of FRS 102 disclosures

The company is required to disclose details of impairments and reversal of impairments on financial assets is required to be disclosed in the notes to the financial statements (as required under full FRS 102).

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Section 13- Inventories

Summary of this section

Inventories are defined as assets:

- held for sale in the ordinary course of business
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or rendering of services.

Section 13 applies to all inventories with the exception of:

- work in progress arising under construction contracts including directly related service contracts (Section 23);
- financial instruments (dealt with under Section 11 and section 12); and
- biological assets related to agriculture and agricultural produce at the point of harvest (Section 34).

Section 13 deals with the recognition, measurement, costing, impairment of inventories and allocation of production overheads to inventory.

What are the key points of this section of FRS 102?

- Inventories are measured at the lower of cost and estimated selling price less cost to complete and sell and includes inventories held for distribution;
- The standard contains detailed guidance on the techniques for measuring cost;
- Cost of inventories include all cost of purchases, cost of conversion and other costs incurred in bringing it to its present condition;
- Non-exchange transactions to be valued at fair value;
- Fixed production overheads to be allocated to inventory based on normal capacity;
- Cost of conversion includes directly attributable variable and fixed production overheads;
- Selling costs, abnormal losses, storage costs and administration overheads not contributing to inventories are expensed as incurred;
- FIFO/weighted average costs can be used. Standard costs, retail method or latest purchase price can also be used; and
- Specific section to deal with impairments. Impairment losses recognised or reversed are required to be disclosed.

How does COVID-19 impact on this section?

The main area likely to be affected by COVID-19 is the area of inventory impairment, specifically section 13.19 which states;

"Paragraphs 27.2 to 27.4 require an entity to assess at the end of each reporting period whether any inventories are impaired, ie the carrying amount is not fully recoverable (eg because of damage, obsolescence or declining selling prices). If an item (or group of items) of inventory is impaired, those paragraphs require the entity to measure the inventory at its selling price less costs to complete and sell, and to recognise an impairment loss. Those paragraphs also require a reversal of a prior impairment in some circumstances."

For some companies, COVID-19 will present a greater likelihood that inventory will be impaired or obsolete at the year end as a result of the sudden closures of businesses and associated economic impact.

Practical implications

Entities will need to place greater focus on whether the post year end activity indicates that the selling price less costs to complete is lower than the carrying value. Such circumstances would indicate that an impairment is present.

Entities will also need to consider the timing of the year end and the events giving rise to the inventory impairment in accordance with section 32- Events after the End of the Reporting Period to determine if the impairment is an adjusting or non-adjusting post balance sheet event.

Disclosure issues arising from COVID-19

Extract from notes to the financial statements- assuming the impairment is an adjusting event

1. **Stocks**

	2020	**2019**
Raw material	33,724	42,108
Precast concrete products	71,769	84,968
Work in progress	674,216	345,090
	779,709	**472,166**

Stocks are stated after provisions for impairment of CU32,000 (2019: CU28,000).

Example

Company A has inventory of wine and chocolate of CU100,000 at the year-end of March 2020. Following the developments of COVID-19, the company's market had diminished significantly. The company has identified that it can sell the wine and chocolates as Easter hampers, to avoid them going out of date. The sales price of the hampers will be CU80,000 but there is an additional cost of CU20,000 associated with packaging them. The directors are satisfied that this is an adjusting event.

In this example, the carrying value is CU100,000. The sales price (CU80,000) less costs to complete (CU20,000) is CU60,000. A stock impairment should be recognised of CU40,000 and incurred in the year ended March 2020 accounts.

<u>**FRS 102 & Section 1A of FRS 102 disclosures**</u>

There are no specific requirements under section 1A of FRS 102 to disclose inventory impairment.

Under full FRS 102, impairment losses recognised or reversed in the P&L are required to be disclosed.

FRS102.com- Covid-19 update

Section 14- Investment in Associates

Summary of this section

Section 14 defines what an associate is, how it should be recognised, measured, derecognised and disclosed.

An associate is an entity over which the investor has significant influence and which is not a subsidiary or a joint venture (Section 14.2).

Significant influence is the power to participate in (but not to control or jointly control) the financial and operating policy decisions of the associate. A 20 per cent share (directly or indirectly) of the voting power is the presumed threshold for the existence of significant influence (Section 14.4).

What are the key points of this section of FRS 102?

- In the individual entity financial statements; associates are measured under either the cost model, fair value model through the OCI or at fair value through the profit and loss account (assuming fair value can be reliably measured);
- In the consolidated parent financial statements, the parent must use the equity accounting method (with the exception of investments in associates as part of an investment portfolio in which case they are measured at fair value through the profit and loss account). Goodwill is consumed within the initial investment and is not disclosed separately and amortised over its useful life;
- When profits or losses arise on transactions between an investor and its equity accounted associate, the investor eliminates unrealised profits and losses to the extent of its interest in the associate;
- Under the cost model the share of profits/losses of the associate is posted against the investment including any distributions received. Where losses occur the investment cannot be reduced below zero; and
- Share of associate (i.e. results after interest and tax) to be shown as one line item in the consolidated financial statements. Share of associates income/expenses recognised in OCI in the associates accounts should be shown in OCI in the consolidated financial statements.

How does COVID-19 impact on this section?

The main effect of COVID-19 on this section will be whether the investments in associates will be impaired.

Practical implications

The implications of entity financial statements will depend on whether the entity values its investments in associates at cost or fair value.

<u>Cost model</u>

If applying the cost model then investments are measured at cost less accumulated impairment losses. Investments held at low nominal amounts will likely not be affected due to immateriality.

In order to determine if the asset should be impaired, the underlying value of the net assets should be reviewed to see if they are lower than the carrying value. If they are not then the value in use model may be used to determine whether an impairment is required.

Any impairment cost should be recognised in the P&L.

Impairments in the period between the year end and sign off should be considered in the context of section 32- post balance sheet events to determine if the event is adjusting or non-adjusting.

<u>Fair Value model</u>

If applying the fair value model then entities will need to consider the fair value movement and if this has been affected by COVID-19. Where there are indications after the year end of a significant movement in fair value between the year end and date of approval then this should be considered in the context of section 32- post balance sheet events to determine if the event is adjusting or non-adjusting.

Example

Adoption of fair value through profit and loss

Company A in its individual financial statements has adopted a policy of fair valuing investments in associates through the profit and loss. The associate was acquired at the start of year 1 and original cost was CU100,000. The fair value of the investment at 31 March 2019 and 31 March 2020 was CU150,000 and CU125,000 respectively. Assume a deferred tax sales rate of 20%. Assume that the investment is held for future disposal as opposed to dividends – on this basis the sales tax rate should be used (if the investment was held for future dividends then the dividend tax rate should be used to measure deferred tax). Note if there was a tax exemption then no deferred tax would be required however we have assumed that there is not for the purposes of this calculation. The adjustments required to reflect the fair value policy and the related deferred tax are:

Journals required in the 31 March 2020 year

	CU	CU
Dr Fair Value on Movement in Associate in P&L	25,000	
Cr Investments in Associate		25,000

Being journal to reflect fall in value at 31 March 2020

	CU	CU
Dr Deferred Tax Liability	5,000	
Cr Deferred Tax in P&L		5,000
((CU25,000)*20%)		

Being journal to reflect deferred tax on the downward valuation.

Impairment if adopting the cost model

Company A holds a 40% investment in Company B (cost CU500,000). At the year end Company B's performance was far less than expected and a significant loss was incurred as a result of a period of closure arising from the outbreak of COVID-19. As a result Company B's net assets was CU800,000. The significant loss made by Company B is an impairment indicator. As it is likely that it would be difficult to determine the fair value less cost to sell in an active market, the value in use model should be utilised to determine whether an impairment is required. In this particular case, it may be appropriate to impair the investment down to the net asset amount of CU320,000 (CU800,000 *40%) assuming that the value in use calculations do not support the non-impairment. Given the loss making position of company B, it is likely that the cash generating unit will not generate a favourable value in use calculation and an impairment to CU320,000 will be required.

Section 1A of FRS 102 disclosures

Under Section 1A of FRS 102, the movement in fair value of investments in associates or impairment in associates to be disclosed in the notes to the financial statements.

FRS102.com- Covid-19 update

Section 15- Investments in Joint Ventures

Summary of this section

Section 15 deals with the recognition, measurement and disclosure for joint ventures.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures can take the form of jointly controlled operations, jointly controlled assets, or jointly controlled entities.

What are the key points of this section of FRS 102?

- A jointly controlled entity is initially recognised at the transaction price and subsequently adjusted for the investors share of the profit or loss;
- For a venturer who is not a parent or in the parents separate financial statements, the joint venture is measured under either; the cost model, fair value model through the OCI (where a decrease occurs below that which was recognised in OCI then the remainder is posted to the profit and loss) or at fair value through the profit and loss account. If the cost model is chosen, the dividends will be shown as income;
- In the consolidated financial statements under the equity model for jointly controlled entities the share of profits/losses of the joint venture is posted against the investment including any distributions received. Where losses occur the investment cannot be reduced below zero. Goodwill is consumed within the initial investment and is not disclosed separately and amortised over its useful life;
- Where consolidated financial statement are not prepared or the entity is not a parent then the equity method is not used, instead, disclosures are required to summarise the results about the investments along with the effect if they had of been accounted for under the equity method;
- A joint arrangement and jointly controlled operation accounts for its own share of the assets, liabilities and cash flows in the consolidated financial statements; and
- Where joint control is lost, the investment is then recognised as an associate in accordance with Section 14 – Investments in Associates or Section 11– Basic financial Instruments or Section 12 – Other Financial Instruments Issues depending on the percentage ownership held after disposal.

How does COVID-19 impact on this section?

COVID-19 may have an impact on how joint ventures applying the cost model are measured if they show indicators of impairment. Further, if joint ventures are measured using fair value then the fair value movement may have a negative effect on the asset held in a company's financial statements.

Practical implications

The implications of entity financial statements will depend on whether the entity values its joint ventures at cost or fair value.

<u>Cost model</u>

If applying the cost model then ventures are measured at cost less accumulated impairment losses.

In order to determine if the joint venture should be impaired, the underlying value of the net assets should be reviewed to see if they are lower than the carrying value. If they are not then the value in use model may be used to determine whether an impairment is required.

Any impairment cost should be recognised in the P&L.

Impairments in the period between the year end and sign off should be considered in the context of section 32- post balance sheet events to determine if the event is adjusting or non-adjusting.

<u>Fair Value model</u>

If applying the fair value model then entities will need to consider the fair value movement and if this has been affected by COVID-19. Where there are indications after the year end of a significant movement in fair value between the year end and date of approval then this is likely a non-adjusting event but should be considered in the context of section 32- post balance sheet events to determine the treatment.

<u>Equity method</u>

A venturer that is a parent is required, in its consolidated financial statements, account for all of its investments in jointly controlled entities using the equity method. Under this method, an equity investment is initially recognised at the transaction price (including transaction costs) and is subsequently adjusted to reflect the investor's share of the profit or loss, other comprehensive income and equity of the associate. Losses incurred as a result of COVID-19 may result in the value of the joint venture being written down to Nil (where the loss incurred exceeds the initial investment). An example of this is set out below.

Example- loss in excess of investment

Company A has a 35% joint venture. The cost was CU100,000. At the end of year 1 the joint venture made a loss of CU150,000. In this instance the CU100,000 would be credited against the investment but the CU50,000 would not be recognised as there is no obligation on Company A with regard to these losses.

If in year 2 a profit of CU40,000 was recognised by the joint venture, this CU40,000 would not be recognised as a loss of CU50,000 has went unrecognised previously. Only when another CU10,000 is profit are made can the entity recognise the profit in the parent company consolidated accounts.

If there was a loan which met the definition of a long term investment then CU50,000 of the loss above would be taken off that loan.

Disclosures

If an impairment is made against joint ventures in accordance with section 27 of FRS 102 then the entity is required to disclose

- the amount of impairment losses recognised in profit or loss during the period and the line item(s) in the statement of comprehensive income (or in the income statement, if presented) in which those impairment losses are included; and
- (b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) in the statement of comprehensive income (or in the income statement, if presented) in which those impairment losses are reversed

Section 1A of FRS 102 disclosures

Under Section 1A of FRS 102, the movement in fair value of investments in joint ventures or impairment of joint ventures is required to be disclosed in the notes to the financial statements.

FRS102.com- Covid-19 update

Section 16- Investment Property

Summary of this section

Section 16 deals with the accounting for investment property.

What are the key points of this section of FRS 102?

Investment property is defined in Section 16.2 as property (land or buildings, or part of a building or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:

1. Use in production or supply of goods or service or for administrative purposes; or
2. Sale in ordinary course of business

- Investment property is measured at fair value
- Movement in fair value to be recognised in the profit and loss account in the period that it occurred;
- Fair value not necessarily required to be performed by an external valuation specialist however they need to be suitably qualified and disclosure is required if not performed by a professional valuer;
- Deferred tax to be accounted for at the CGT rate;
- Reconciliation to be provided giving full details of transfers to and from investment property and any fair value adjustments;
- Contractual obligations and restrictions of disposal to be disclosed;

How does COVID-19 impact on this section?

The main effect of COVID-19 on this section will be the impact of fair value movements caused by the economic effects of the government recommendations and restrictions worldwide.

Practical implications

Investment properties are subsequently measured in accordance with section 16.7 of FRS 102

"An investment property shall be measured at fair value at each reporting date with changes in fair value recognised in profit or loss. If a property interest held under a lease is classified as an investment property, the item accounted for at fair value is that interest and not the underlying property. The Appendix to Section 2 provides guidance on determining fair value."

It is likely that COVID-19 will have a negative impact on the fair value of investment property which will need to be recognised through the profit and loss account. This may also have deferred tax implications and deferred tax liabilities will reduce as the fair value of investment properties reduce.

Examples

Example: Investment Property Fair value movements and deferred tax impact

Company A purchased a property on 31 March 2010 for CU120,000 which met the definition of investment property. At the 31 March 2019 the fair value was CU200,000 and as at 31 March 2020, the fair value was CU150,000. The sales deferred tax rate is 20% (Capital Gains tax rate). Assume indexation is not applicable.

Based on the above, the asset was held at fair value of CU200,000 on 31 March 2019 and a deferred tax liability of CU16,000 was recognised.

The journals required for year ended 31 March 2020 is:

	CU	CU
Cr Investment Property		50,000
Dr Fair Value Movement on Investment Property in P&L (other operating income)	50,000	

Being journal to reflect the movement in fair value during the year.

The journals required for deferred tax at 31 March 2020:

	CU	CU
Cr Deferred Tax in P&L ((CU200,000-150,000)*20%)		10,000
Dr Deferred Tax in Balance Sheet	10,000	

Being journal to reflect the movement in deferred tax during the year.

<u>Section 1A of FRS 102 disclosures</u>

Under Section 1A of FRS 102, disclosure is required of fair value movement in investment properties. Similarly there is a requirement to disclose details of investment property where included at fair value. Disclose fair value investment posted to the Profit & Loss including additions, disposals, transfers to and from PPE, transfers to and from inventories, valuation basis and assumptions applied.

FRS102.com- Covid-19 update

Section 17- Property, plant and equipment

Summary of this section

Section 17 deals with the initial recognition, subsequent measurement, depreciation and impairment for property, plant and equipment (PPE) held for use in the production, or supply of goods and services, for rental to others or administrative purposes. All items of PPE are expected to be used during more than one period.

What are the key points of this section of FRS 102?

- PPE are tangible assets that:
  - Are held for use in the production or supply of good or services, for rental to others or for administrative purposes; and
  - Are expected to be used during more than one
- Policy choice to recognise PPE at cost or revaluation (Section 2) using the fair value model;
- Where a policy of revaluation is taken, then a revaluation must be performed on regular intervals so that the carrying amount stated does not materially differ from the fair value at the reporting date;
- Movement as a result of a revaluation is posted to other comprehensive income and to the revaluation reserve together with the deferred tax movement. Where the revaluation decrease is in excess of previous revaluation gains posted, the excess is posted to the profit and loss account;
- A reversal of a prior period downward revaluation due to an uplift in subsequent years which was posted to the profit and loss cannot be reversed above what the depreciation would have been charged if no devaluation had occurred;
- Deferred tax to be recognised on the uplift where a revaluation policy is adopted;
- Depreciation method and residual value utilised to be reviewed only when there are indicators of change;
- Depreciation methods that can be used are; the straight line, the sum of the digits, the reducing balancing method or a method based on The one which reflects the usage of the economic benefits should be used;
- Spare parts which are used in more than one period or for PPE should be capitalised as fixed assets;
- Where a requirement to dismantle, remove and restore a site to its original condition the present value cost should be included in PPE and depreciated up to the date on which the liability crystallise;
- Qualifying borrowing costs can be capitalised within property, plant and equipment

How does COVID-19 impact on this section?

The main effect of COVID-19 on this section will be the potential impairment of assets. Impairments will need to be considered in the context of section 32 of FRS 102- Events after the end of the reporting period as some PPE impairments may be adjusting events depending on the timing of the year end.

Section 17.24 addresses PPE impairment and states;

"At each reporting date, an entity shall apply Section 27 Impairment of Assets to determine whether an item or group of items of property, plant and equipment is impaired and, if so, how to recognise and measure the impairment loss. That section explains when and how an entity reviews the carrying amount of its assets, how it determines the recoverable amount of an asset, and when it recognises or reverses an impairment loss."

Assets held under the revaluation model will be impacted by fair value movements caused by the economic effects of the government recommendations and restrictions worldwide

Practical implications

Cost model

As the emergence of COVID-19 will mean the presence of an impairment indicator, companies will need to calculate the "recoverable amount" of the assets. This is done in accordance with section 27 of FRS 102.

Recoverable amount is the higher of its fair value less costs to sell and its value in use. An entity must consider what the fair value is of the property. If this is lower than it may not be necessary to impair the asset provided the value in use exceeds the carrying value.

In the event that the carrying value exceeds the recoverable amount then an impairment charge is required to be recognised in the P&L (or through the SOCE to the extent that the impairment reverses a previous revaluation).

The impairment of PPE in the period after the year end but before approval should be reviewed to determine if there are indications of an adjusting post balance sheet event.

Revaluation model

Entities adopting the revaluation model are required to perform a valuation where the fair value of PPE at the balance sheet date differs materially from the carrying amount of the asset. Judgement will be required in this area, but whether a material change has occurred, would be deemed to be one which would influence the decisions of the users of the financial statements. In determining this, the company would generally consult their valuers and consider factors such as changes in the general market conditions, the condition of the asset, changes to the asset and its location. In order to provide sufficient detail to the entity's auditors and in order to ensure values have not moved sufficiently, it is likely that management would be in contact with valuers who would provide information on the general market on an annual basis.

It is probable that COVID-19 will have an impact on property valuations but the extent of this is unclear in the initial stages. The treatment of downward revaluations will depend on how valuations have historically been treated in the entity. See below extract from section 17.15F of FRS 102;

"The decrease of an asset's carrying amount as a result of a revaluation shall be recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. If a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss."

Any downward valuation is firstly recognised in OCI to the extent that it reverses a previously recognised upward revaluation. Any excess is expensed to the P&L.

Example: A decline in the asset's market value (Section 27.9 (a) of FRS 102)

Company A purchased a specialised piece of property, plant of equipment for CU300,000 during the year. At the end of year 1, the supplier dropped its price for that type of equipment to CU200,000. In this case, this would indicate a possible impairment. As a result an impairment may be required. This drop in price does not automatically mean an impairment loss as it is likely the value in use of the asset when taken together with a CGU for the Company will be higher so therefore no impairment may be required.

If we assume that the piece of property is now abandoned and no longer in use within the CGU, then the fair value of that asset itself would be used to determine the amount of the impairment loss. The value in use for the CGU cannot be used as the asset is no longer providing any economic benefit, therefore its recoverable amount is the fair value of assets in the balance sheet relating to the property less cost to sell.

Similarly assume Company A has an office block which it uses. Due to a significant reduction in property prices, there are indications that this asset is stated above its carrying amount. In this case, this would be an indicator of an impairment, however, this does not necessarily mean a write down is required as it is part of a CGU (that being the overall factory etc.).

Prior to COVID-19, the CGU was showing a positive value in use with significant headroom between the carrying value of the assets and the value in use. The company has been hit hard by COVID-19 and part of the company's business has been lost. When it performs its value in use calculations, the results show that the current carrying value exceeds the value in use. As a result, an impairment is required.

Example: Accounting for revaluations and subsequent movements – depreciable assets

Company A has adopted a policy of revaluation on its PPE. The company purchased an asset for CU500,000 at the start of year 1 and determined the useful life to be 20 years. By the end of year one, there were indications of a change in market conditions and a valuation exercise was performed which showed the market value at CU525,000. At the end of year 4, a further valuation was performed as the difference in fair value and the carrying value was material, at this time the value was reduced to CU300,000. In year 8, a further valuation was performed which indicated a fair value of CU600,000.

Assume the deferred tax rate is 10% (this is not the sales rate as the asset is depreciated) and the asset does not qualify for capital allowances. Assume the depreciation on the revalued amount is transferred from the revaluation reserve to profit and loss reserves on a year by year basis as the depreciation is charged.

Company A would account for the changes in value in the following way:

At end of year 1:

The carrying value of the asset is CU475,000 (i.e. CU500,000 less depreciation for one year of CU25,000 (CU500,000/20yrs))

	CU	CU
Dr Fixed Assets	50,000	
(CU525,000-CU475,000)		
Cr OCI/Revaluation Reserve		50,000

From then on the carrying amount of CU525,000 will be depreciated over the remaining life of 19 years (CU27,632 per annum).

Deferred tax

	CU	CU
Dr OCI/Revaluation Reserve	5,000	
Cr Deferred Tax in Balance Sheet		5,000
(CU50,000 *10%)		

Therefore, the net amount posted to the revaluation reserve is CU45,000 (CU50,000-CU5,000). For year 2 to year 4, the deferred tax will be reduced and posted to the profit and loss account in line with the additional depreciation charged on the uplift in value of CU2,632 (i.e. CU27,632 less depreciation under cost basis of CU25,000).

At end of year 4:

The carrying value of the asset is CU442,104 (i.e. CU525,000 less depreciation of CU27,632 for three years totalling CU82,896)

	CU	CU
Dr Profit and Loss	100,000	
Dr Revaluation Reserve	42,104	

(reversal of amount recognised in yr 1 of CU50,000 less depreciation reclassified from P&L of CU 2,632 for 3 years.)

Cr Fixed Assets		142,104

From then on the carrying amount of CU300,000 will be depreciated over the remaining life of 16 years (CU18,750 per annum).

Deferred tax

	CU	CU
Dr Deferred Tax in Balance Sheet	4,211	
(CU5,000 less (CU2,632 * 10%) * 3 years) = 789		
Cr OCI/Revaluation Reserve		4,211

Note deferred tax asset on the write down is not recognised on the basis that it is not reasonable that future economic benefits will be derived from the capital losses.

At end of year 8:

The carrying value of the asset is CU225,000 (i.e. CU300,000 less depreciation of CU18,750 for 4 years totalling CU75,000)

	CU	CU
Dr Fixed Assets	375,000	
(CU600,000 mkt value-CU225,000 NBV)		
Cr Profit and Loss		75,000
(CU100,000 previously posted-CU25,000 See Note 1 below)		
Cr Revaluation Reserve		300,000
(CU375,000-CU75,000)		

Deferred tax

	CU	CU
Dr OCI/Revaluation Reserve	10,000	
Cr Deferred Tax in Balance sheet		10,000
((CU600,000-CU500,000 original cost) * 10%)		

From then on the carrying amount of CU600,000 will be depreciated over the remaining life of 12 years.

Note 1: The amount that can be credited to the P&L is reduced by the additional depreciation that would have been charged had the asset not been revalued downward in the past i.e. original cost prior to downward revaluation of CU500,000 / useful life of 20 years= CU25,000 * 4 years = CU100,000. This compares to depreciation charged while the asset was being depreciated on the reduced amount of CU75,000 (year 5 to year 8 – CU300,000/UEL of 16 years* 4 years) = CU25,000

Section 1A of FRS 102 disclosures

Section 1A of FRS 102 requires disclosure of the following in relation to Property, Plant and Equipment- balances brought forward, additions, depreciation charge, impairments, revaluations, disposals, add back of depreciation and closing balances to be disclosed for each class of Fixed asset. No need for prior year comparative

FRS102.com- Covid-19 update

Section 18- Intangible Assets other than Goodwill

Summary of this section

Section 18 deals the recognition, measurement, amortisation and disclosure for intangible assets other than goodwill. Section 18.2 defines an intangible asset as an identifiable non- monetary asset without physical substance. To count as identifiable, it must be separable, and must arise from contractual or other legal rights.

What are the key points of this section of FRS 102?

An intangible asset is an identifiable non-monetary asset without physical substance. To count as identifiable, it must be separable, or must arise from contractual or other legal rights.

Section 18.4 states that an intangible asset is only recognised if it is probable that its expected future economic benefits will flow to the owner, and if its cost or value can be measured reliably.

For internally generated intangible, costs incurred in the research phase must be expensed.

For internally generated intangibles there is a choice with regard to the cost incurred in the development stage; either to expense or capitalise assuming the capitalisation criteria in Section 18.18H are satisfied.

An intangible should be measured initially at cost and subsequently at either cost less accumulated amortisation and impairment or at fair value at the date of revaluation less any subsequent accumulated amortisation or impairments provided the fair value can be determined by reference to an active market. With respect to acquisition of intangibles through a business combination they should initially be measured at fair value.

Where the revaluation model is taken, revaluations need to be carried out with sufficient regularity to ensure the carrying amount at each reporting period equates to the fair value and needs to be done for similar assets of the same class.

Movements as a result adopting the revaluation model should be posted to the OCI and any decrease in value below cost is posted to the profit and loss.

Internally generated brands, logos, customer lists cannot be capitalised (Section 18.8C). Impairment review only to be carried out if indicators of impairment exist as detailed in Section 27. More intangibles to be recognised on business combinations

Amortisation presumed to be a max of 10 years if an estimate cannot be reliably measured.

A need to review useful lives of intangibles and goodwill to ensure they are still appropriate and no indicators of change has occurred at the end of each reporting period.

An intangible cannot have an indefinite life.

Under Section 18, the residual value is assumed to be zero unless: there is a commitment by a third party to purchase the asset at the end of its useful life, or there is an active market for the asset and residual value can be determined by reference to that market and it is probable that such a market will exist at the end of asset's useful life**.**

How does COVID-19 impact on this section?

The main effect of COVID-19 on this section will be the potential impairment of intangible assets caused by the economic impact of COVID-19. Also, there is the potential for a revision to residual values where this has been used as part of the amortisation calculation.

Practical implications

After initial recognition, an entity is required to measure intangible assets using the cost model or the revaluation model. The revaluation model does not generally feature for intangible assets as it is often difficult to reliably measure an intangible asset. If using the cost model, the asset is carried at cost less amortisation less impairment losses. In assessing for impairment, section 18 refers to section 27- impairment of assets in order to determine if an asset is impaired.

This involves the entity assessing the recoverable amount of the of the intangible asset (higher of fair value less costs to sell and value in use) to determine if this is higher than the carrying value. Where the carrying value exceeds the recoverable amount then an impairment loss must be charged to the P&L.

Entities that have previously used value in use to determine the recoverable amount may need to recognise an impairment charge as COVID-19 is likely to impact negatively on cashflow projections.

Another potential area impacted by COVID-19 is the impact on residual values where this has been recognised in accordance with section 18.23. Residual values must be €nill unless

a. there is a commitment by a third party to purchase the asset at the end of its useful life or

b. there is an active market for the asset and the residual value can be determined by reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

Given the significant change in the economic environment following COVID-19, this may have a negative impact on residual values which may affect amortisation calculations.

Example- Revising residual value of an asset

In year 1 an asset was purchased for CU100,000. It had an estimated life of 6 years. It's estimated residual value was estimated to be CU10,000 and the residual value could be used as there was an active market. This residual value was assessed for indicators of change at each year end and there were no issues up to the end of year 4. At the start of year 5, following COVID-19, the market for this type of asset the residual value decreased to CU2,000 (being the present value of future residual amount). At the end of year 4, the asset had a carrying amount of as follows:

Cost	CU100,000
Residual Value	(CU10,000)
Depreciable Amount	CU90,000
Depreciation	
(CU90,000 / 6 yrs * 4 yrs)	(CU60,000)
Carrying Amount	CU30,000

At the start of year 5, the residual amount is CU2,000, therefore the depreciable amount is CU98,000. Deducting amortisation charged to date of CU60,000 leaves CU38,000 to be depreciated over the remaining useful life of 2 years. Therefore, amortisation of CU19,000 is charged in year 5 and year 6. Disclosure of the change in estimate would be required in the financial statements.

If we take this example and assume the residual value increases to CU50,000, then the carrying amount in year 5 of CU30,000 is in excess of the residual amount. Therefore, no amortisation is required in year 5 and 6 and any over amortisation is not reversed. Disclosure of the change in estimate would be required in the financial statements detailing the effect on current and future periods.

Example- impairment to intangible assets following COVID-19

Company A owns a patent which is held at cost of CU100,000. In previous years impairment reviews, the carrying amount was below the recoverable amount (based on a value in use of CU150,000).

COVID-19 has had an impact on the future cashflow projections on this company and when these are taken into consideration then the value in use is CU75,000. A fair value cannot be determined due to the lack of an active market.

As the carrying value exceeds the recoverable amount an impairment loss must be charged to the P&L (being the difference between the recoverable amount and the carrying amount- CU25,000).

Section 1A of FRS 102 disclosures

If applying section 1A of FRS 102, the following disclosures are required- balances brought forward, additions, amortisation charge, disposals, impairments, revaluations and closing balances. No need for prior year comparatives showing the movement

There is also a requirement to show the impairment/reversal of impairment charge.

FRS102.com- Covid-19 update

Section 19- Business Combinations and goodwill

Summary of this section

Section 19 deals with business combinations.

A business combination is the bringing together of separate entities or businesses into one reporting entity (Section 19.3). All business combinations (other than those that meet the definition of a group reconstruction, and public benefit entities) are accounted using the purchase method of accounting.

What are the key points of this section of FRS 102?

Goodwill is the difference between the acquirer's interest in the net amount of identifiable assets acquired and the cost of the business combination. After initial recognition it is carried at cost less accumulated amortisation and impairments;

Acquired assets/liabilities etc. are initially measured at fair value except deferred tax and employee benefits;

The purchase method of accounting is to be used on all acquisitions with the exception of certain group reconstructions and public benefit entities;

Contingent consideration is recognised in the purchase cost if probable that it can be reliably measured with subsequent adjustments going to goodwill (Section 19.12). Contingent consideration may need to be present valued depending on the time period;

Adjustments to the estimates of fair values can be made within 12 months of the acquisition however if the adjustment straddles the following year they must be adjusted for retrospectively;

Measure non-controlling interest at share of net assets;

Cost of business combination is the total of fair value of assets given, liabilities assumed and equity instruments issued at each stage of the transaction plus directly attributable costs;

Test for impairment in line with Section 27 only if impairment indicators exist;

Negative goodwill is firstly allocated against the fair value of the non-monetary assets in period in which non-monetary assets recovered and the balance against the period in which the entity is likely to benefit;

Less onerous disclosures under Section 19 than was under FRS 7 (old GAAP);

Recognise deferred tax on difference between fair values on acquisition and tax base and set this against goodwill;

Likely to be more amortisation in the profit and loss account due to more intangibles recognised as criteria not as strict as well as a rebuttable assumption where a useful life cannot be reliably measured of 10 years;

Direct transaction costs capitalised; and

Merger accounting permitted for group reconstructions where the ultimate equity holders remain the same. Under this method fair valuing is not required.

How does COVID-19 impact on this section?

The main effect of COVID-19 on this section will be the potential impairment of goodwill arising from business combinations. Section 19 requires that once goodwill is initially recognised the acquirer shall measure goodwill acquired in a business combination at cost less accumulated amortisation losses and accumulated impairment.

The effects of COVID-19 could also have an impact on the expected useful life of an intangible asset.

Practical implications

After initial recognition, Section 19 requires that once goodwill is initially recognised the acquirer shall measure goodwill acquired in a business combination at cost less accumulated amortisation losses any accumulated impairment. An impairment is required to be considered in accordance with section 27- Impairment of Assets for recognising and measuring the impairment of goodwill. If there are indicators of impairment then an entity is required to carry out an impairment review.

Unless the acquired entity is not affected by COVID-19, it is likely that an impairment indicator will be present which will require an impairment review to be carried out.

This will involve, comparing the carrying amount of the goodwill to its recoverable amount (higher of fair value less costs to sell and value in use). If this identifies an impairment then this should be recognised in the profit and loss account.

When considering the impairment of goodwill, we must remain aware of the specific requirements in sections 27.21 and 27.24 to 27.28 of FRS 102 relating to goodwill. This provides for the following additional requirements that apply when impairing goodwill;

- Impairment losses should first be recognised against goodwill and then against other assets of the CGU on a pro-rata basis if measuring value in use.
- On acquisition, the goodwill arising from an acquisition shall be allocated to each of the acquired cash generating units.
- Where assets are partially held by a non-controlling interest then the carrying amount of that asset should be notionally adjusted before being compared to its recoverable amount.
- If goodwill cannot be allocated to an individual CGU then goodwill shall be tested by determining the recoverable amount of either;
    - The acquired entity in its entirety if goodwill relates to an entity that has not been integrated.
    - The entire group of entities, excluding any entities that have not been integrated if the goodwill relates to an entity that has been integrated.
    - (Integrated means the acquired business has been restructured or dissolved into the reporting entity or other subsidiaries).

COVID-19 may also cause an entity to revise it’s useful life estimate of goodwill. This may arise due to a number of factors such as economic uncertainty, changes in consumer behaviours, changes in intended asset use following COVID-19 etc.

Section 19.23 of FRS 102 makes it clear that goodwill is considered to have a finite life and specifies that where a useful life cannot be determined then a useful life should not exceed 10 years. This cannot be chosen as a default, instead a good effort has to be made to determine a useful life.

Where a change in useful life of goodwill is determined due to a change in estimate this should be adjusted for prospectively. See example below.

Example: Revising the useful life of goodwill

In year 1, goodwill was recognised on acquisition CU100,000. It had an estimated life of 10 years. Its estimated residual value was estimated to be nil. This useful life was assessed for indicators of change at each year end and there were no issues up to the end of year 4. At the start of year 5, due to a detailed assessment of the remaining life's of goodwill, the useful life was reassessed at 4 years instead of 6 years at that time, the asset had a carrying amount as follows:

Cost	CU100,000
Residual Value	(-)
Depreciable Amount	CU100,000
Depreciation (100,000 / 10 yrs * 4 yrs)	(CU40,000)
Carrying Amount	CU60,000

In year 5, the useful life was assessed as 4 years instead of 6 years (there were no issues with regard to impairment). Deducting amortisation charged to date of CU40,000 leaves CU60,000 to be amortised over the updated remaining useful life of 4 years. Therefore, amortisation of CU15,000 (CU60,000/4yrs) for the remaining four years. Disclosure of the change in estimate would be required in the financial statements detailing the effect on current and future years i.e. that the amortisation charge increased from CU10,000 to CU15,000 for the remaining years and the assets will be written down to nil in 4 years time as opposed to the original 6 years.

Example: Impairment loss for a CGU with goodwill

In year 1 Parent A acquired company X for CU100,000. On acquisition 3 CGU's were identified called CGU 1, CGU 2 and CGU 3. The fair value of the assets acquired was CU60,000 and goodwill of CU40,000 was recognised on acquisition and set against each CGU. The goodwill was allocated to each CGU based on the synergies expected to be achieved which ultimately was allocated 1/3rd to each CGU.

In year 2, due to a change in the market trends the demand for the product produced by CGU 1 reduced significantly. The value in use calculations indicate a recoverable amount of CU9,000. At that date the carrying amount of the goodwill and identifiable assets were CU10,000 and CU20,000 (split between asset A&B of CU12,000 and CU8,000) respectively. Therefore, the total impairment to be booked is CU21,000 (CU10,000+CU20,000-CU9,000 recoverable amount).

The calculation of the allocation of the impairment loss of CGU 1 is carried out as follows:

	Carrying value	Impairment	Carrying amount after impairment
Goodwill	CU10,000	(CU10,000)*	CUnil
Asset A	CU12,000	(CU6,600)**	CU5,400
Asset B	CU8,000	(CU4,400)***	CU3,600

*impairment set against goodwill first and remaining amount set against all other assets on a pro-rata basis.

**impairment allocated pro-rata to identifiable assets e.g. asset A= (CU21,000-CU10,000 allocated to goodwill) * (CU12,000/(CU12,000+CU8,000)) = CU6,600.

***impairment allocated pro-rata to identifiable assets e.g. asset A= (CU21,000-CU10,000 allocated to goodwill) * (CU8,000/(CU12,000+CU8,000)) = CU4,400.

<u>Section 1A of FRS 102 disclosures</u>

If applying section 1A of FRS 102, the following disclosures are required in the notes to the accounts relating to business combinations and goodwill- balances brought forward, additions, amortisation charge, disposals, impairments, revaluations and closing balances. No need for prior year comparatives showing the movement

There is also a requirement to show the impairment/reversal of impairment charge.

FRS102.com- Covid-19 update

Section 21- Provisions and contingencies

Summary of this section

Section 21 applies to all provisions, contingent liabilities and contingent assets, except those covered by other sections of FRS 102. For example, leases, construction contracts, employee benefits and income tax. It does not apply to executory contracts unless they are onerous contracts.

What are the key points of this section of FRS 102?

A provision should be recognised where there is a present obligation (either legal or constructive) as a result of a past event and where a transfer of economic benefits is probable to settle the obligation and the obligation can be reliably measured. A tree showing the decision making process is set out below.

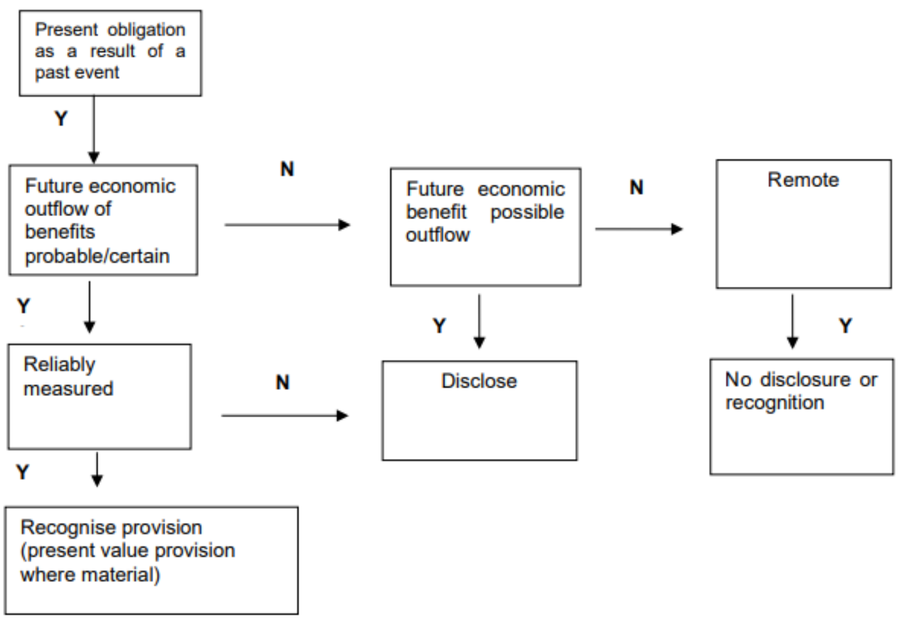
Provisions are measured at the best estimate of the amount required to settle the obligation at the reporting date and should take into account the time value of money where material. The provision is then adjusted at each reporting date. The unwinding of any discount is included within finance costs.

Contingent assets are not recognised and instead disclosed if their likelihood is probable.

Contingent liabilities are disclosed unless the possibility of an outflow of resources is considered remote in which case no disclosure is required. A contingent liability arises where the outflow of economic benefits cannot be measured reliably or it is not probable that an outflow of economic benefits will be required.

Section 21.17 allows companies not to disclose certain details in relation to provisions, contingent liabilities and assets on the basis it would be prejudicial to a dispute. However, disclosure is required detailing why the entity feels the disclosures cannot be detailed.

The standard provides examples of circumstances in which a provision is required to be made.



How does COVID-19 impact on this section?

This section of FRS 102 may impact on entities as it may give rise to an increased possibility of provisions in the area of onerous contracts;

Onerous contracts- Appendix 1 to FRS 102 defines an onerous contract as one in which the unavoidable costs of meeting the obligation 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. This is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. It is irrelevant as to whether an entity intends to make the cheapest choice or not, the least net cost is the only amount that should be provided for. The economic benefits to be considered are both the direct and indirect benefits. Where such a contract exists the future operating losses on these contracts should be provided for as stated in Section 21.11A of FRS 102.

The potential effects of COVID-19 on onerous contracts are set out below.

Practical implications

Onerous leases

The effect of COVID-19 may result in some entities recognising onerous leases arising from the closure of factories or operations. Where an entity has committed to a lease agreement for a period of time and subsequently decides not to use the property then the company must recognise a provision for the lower of the cost to terminate the lease or the future lease amounts payable.

Example of onerous lease

Company A entered into a lease on a factory in year 1 for a 10 year period for CU100,000 per annum which it used to manufacture parts for heavy construction machinery. At the end of year 4, following the development of COVID-19, the company decided to cease manufacturing the product and focus on servicing the machinery instead. At the end of year 4, the entity no longer has any use for the property and cannot sublease it but are contractually tied in for a further 6 years from that date. The company has discussed with the landlord as to the cost of terminating the lease early which they stated would be CU500,000.

As the entity is contractually committed to pay the lease, there is a present obligation as a result of a past event i.e. the signing of the contract to take on the lease for 10 years for which no further benefits will be obtained and a reliable estimate can be determined, a provision should be recognised for the lower of the cost to terminate of CU500,000 or the future lease amounts payable for 6 years of CU600,000. Therefore a provision should be recognised for CU500,000 and should be present valued where it is considered material.

<u>Future operating losses</u>

If future operating losses are expected as a result of COVID-19 then these should not be provided for. The reasoning for not allowing operating losses to be provided for is due to the fact that the entity has the choice to cease trading immediately/earlier and therefore it would not have to incur these losses. Hence there is no present obligation. This contrasts with provision for onerous leases where the entity has a contractual obligation to hold on to the lease for its life.

Liabilities arising from an inability to fulfil an order

If circumstances arise during COVID-19 whereby an entity is unable to fulfil an order as a result of COVID-19 and there is a contractual liability arising from this then there is likely to be a provision (as there is a present obligation as a result of a past event and where a transfer of economic benefits is probable to settle the obligation and the obligation can be reliably measured).

Example- compensation due to customer

Company A entered into an agreement to supply Company B with 300,000 concrete blocks per month. In the contract there is a condition that if Company A is unable to fulfil the order then they are required to pay compensation to Company B of 25 cents per block that falls short of the agreed limit. Company A closed temporarily during COVID-19 and was unable to fulfil the order. Company B remained open as it was deemed an essential service. Company A was only able to fulfil 50,000 of the concrete block order for the month of April.

Company A fell short of the order by 250,000 units and as a result, compensation of CU62,500 is payable (250,000 * 25 cents). The journals to recognise this in the records of Company A are;

Dr. P&L	62,500	
Cr. Provisions on balance sheet		62,500

<u>Section 1A of FRS 102 disclosures</u>

If applying Section 1A of FRS 102, the provision for liabilities as shown in Sch 3A Formats for the balance sheet should show the split between; taxation (including deferred tax); retirement benefit obligations and other provision for liabilities. Note if there is deferred tax included within taxation here then there is no need to disclose deferred tax separately.

The detailed reconciliation note required under FRS 102 is not required under section 1A.

FRS102.com- Covid-19 update

Section 27- Impairment of assets

Summary of this section

Section 27 deals with the measuring, recognising and disclosing impairments for all assets with the exception of:

- assets arising from construction contracts covered by Section 23;
- deferred tax assets covered by section 29;
- Asset arising from employee benefits covered by Section 28;
- Financial assets within the scope of Section 11 and Section 12 dealing with financial
- instruments;
- Investment property measured at fair value under Section 16;
- Biological assets relating to agricultural activity dealth with in Section 34; and
- Impairment of deferred acquisition costs and intangible assets arising from insurance contracts which are dealt with in FRS 103.

What are the key points of this section of FRS 102?

Impairment review only required to be performed if indicators of an impairment exists.

Indicators of impairment as defined in Section 27.9 are:

- An asset's market value has declined significantly more than would be expected as a result of the passage of time;
- Significant changes occurred/are due to occur in technology, market, economic or legal environment;
- Market interest rates have increased during the period which are likely to affect
- materially the discount rate and value in use;
- The carrying amount of the net assets is more than the estimated fair value of the entity as a whole;
- Evidence available of obsolescence and damage of an asset;
- Significant changes with adverse effect on the entity have or is due to take place which, in the extent to which an asset is used/expected to be used e.g. plans to restructure, make idle or discontinue an operation;
- Reassessment of an asset from infinite to finite; and
- Evidence showing the economic environment of an asset is worse than expected.

A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

An impairment exists if the recoverable amount is less than the carrying amount.

The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use.

Fair value less costs to sell is based on the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Value in use is the present value of the future cash flows expected to be derived from the asset.

If an impairment loss arises on a cash generating unit, it is allocated first against goodwill and then against other assets of the unit, pro rata based on their carrying values.

For individual assets, reversals are recognised in profit or loss (or in other comprehensive income, for previously revalued assets in accordance with the requirements of the relevant section). The asset carrying value is never restored to more than what it would have been had the impairment never occurred.

For cash generating units, the reversal is allocated pro-rata to the assets in the unit, excluding goodwill.

Future of cash flows included in the value in use calculation cannot include future cash flows from future restructuring or improvements to the asset's performance. The pre-tax discount rate should be used.

How does COVID-19 impact on this section?

The area of impairment is likely to be one of the key sections of FRS 102 impacted by COVID-19.

One of the external indicators of impairment as set out in section 27.9 of FRS 102 is;

"Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated."

COVID-19 is likely to meet this definition of an external indicator of impairment and as a result, an impairment review of entities assets will be required.

This may result in a decline in asset values.

If the impairment has happened after the financial year but before sign off, entities will need to consider the impairment in the context of section 32- Events after then end of the reporting period to determine if the impairment meets the criteria for an adjusting event.

Practical implications

In considering if an asset is impaired, the recoverable amount should be compared to the carrying amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. The carrying amount is the amount that the balance is held at in the balance sheet.

In determining the recoverable amount, the entity takes the higher of "fair value less costs to sell" and "value in use". In doing this, the entity should first consider what the "fair value less costs to sell" of an asset is.

Fair Value less Costs to sell

Detailed in section 27.14 of FRS 102

"Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The best evidence of the fair value less costs to sell of an asset is a price in a binding sale agreement in an arm's length transaction or a market price in an active market. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry."

If Fair Value less Costs to sell is less than the carrying value then the entity should consider what the value in use of the asset is.

Note- if establishing fair value is difficult during the lockdown period- refer to the Section 2 Quick Guide.

Value in Use

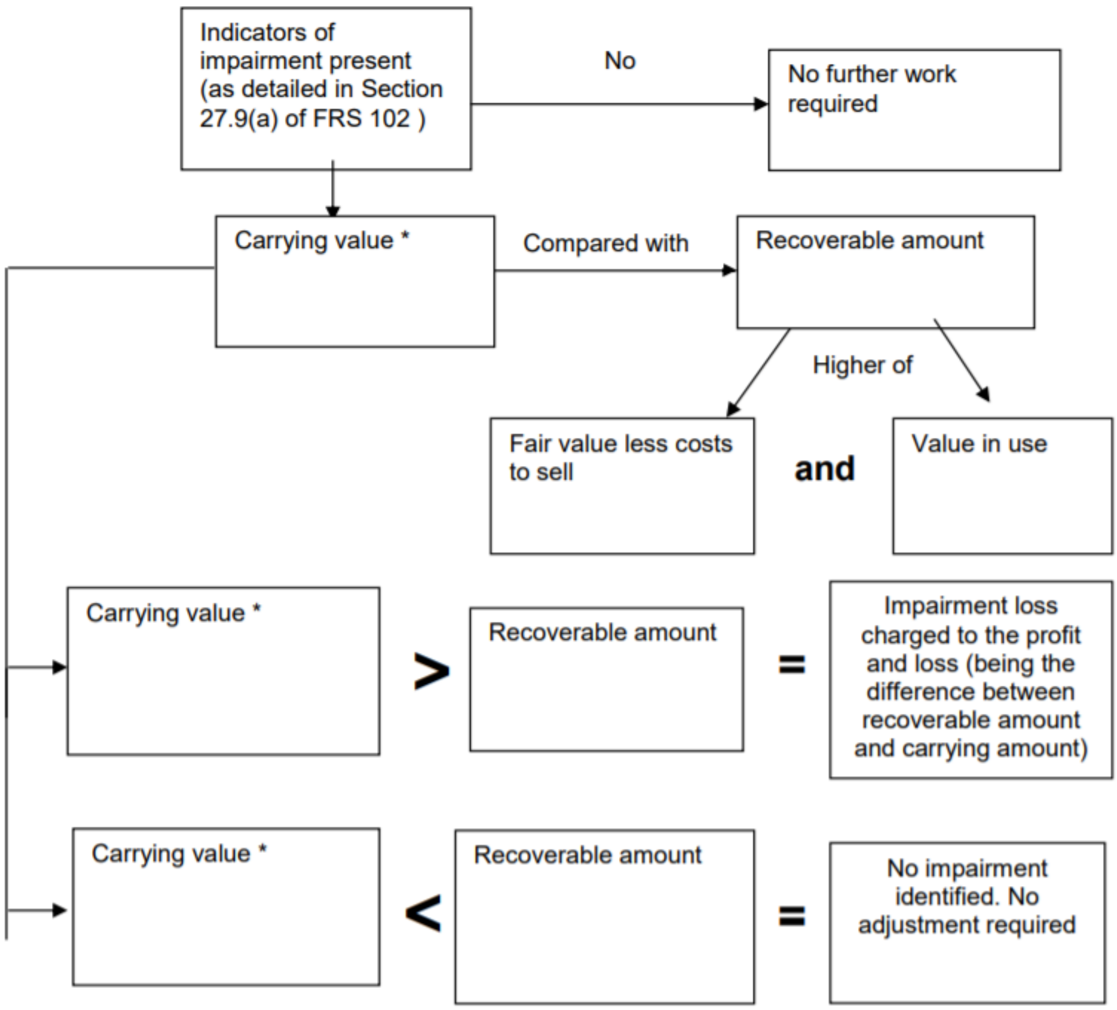
Detailed in section 27.15 of FRS 102

"Value in use is the present value of the future cash flows expected to be derived from an asset. This present value calculation involves the following steps: (a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and (b) applying the appropriate discount rate to those future cash flows."

If the recoverable amount is less than the carrying value then an impairment is required to be recognised through the profit and loss account. If the impairment relates to an asset that has previously been revalued then the revaluation portion shall reversed through the statement of changes in equity with the balance recognized as an impairment through the profit and loss account.

If the carrying value exceeds the recoverable amount then no impairment is required.

It is likely that any assets with a recoverable amount based on value in use will be impaired following COVID-19 as VIU is based on cashflows which are likely to be negatively affected as a result.



Examples

Value in Use- Determining cash flow to include

Company A is a manufacturing company providing special plywood to the construction industry. During the year there was a large slump in the construction market which was an indicator of impairment. The company has prepared the estimated cash flow and has included the below in the cash flow. Determine which ones will be allowed to be included as part of the value in use calculation.

- The company intends to restructure the company and lay 20 employees off which will result in cost savings of CU200,000 per annum.

  Solution: Neither the costs of the reconstruction or the cost savings can be incorporated into estimated future cash flows as the entity was not demonstratively committed to it i.e. it was not provided for in the year end financial statements .See Section 27.19 of FRS 102

- Next year the company has planned to purchase and install a whole new production line which will allow the company to diversify the type of products it produces such that it can supply material to a separate industry. (Section 27.9 (b) of FRS 102)

  Solution: Section 27.19 does not allow planned future capital expenditure which enhances the cash flow potential to be incorporated into the cash flow. Neither does it allow the future additional cash inflows from the proposed expenditure.

- The cost of replacing a component of the main production line which is depreciated at a different rate to the main line has been included in the cash flows.

  Solution: Given that this is a component that is separately depreciated from the main production line and it does not enhance the performance of the line above the performance at the date of the value in use calculation, this should be included in the estimated cash outflows. Note the cash flows should incorporate these based on the life of that component so if these parts had to be changed every five years, it would have to be included in the cash flow every five year. See Section 27.17 of FRS 102

- Assumed a growth rate of 10% per annum for 10 years. The terminal value amount is increased by a further 10%

  Solution: When determining whether this cash flow is appropriate, one would have to look at the industry in which the company operates. Given that the market has slumped it would be very unusual for a 10% growth rate to be assumed. On this basis it is likely that these growth rates would need to actually show a reduction for at least the first few years as opposed to an increase. The 10% growth rate for 10 years also seems to be for too long a period. IAS 36 would state that a growth rate should not be incorporated for more than 5 years and as stated in Section 27 from then on a steady rate or declining growth rate should be used. Therefore these growth rates would have to be reduced and usually after 5 years decreasing or no further growth should be assumed. However each circumstance would need to be assessed individually based on the industry in which the entity operates. (Section 27.17 (b) of FRS 102)

- The repairs and maintenance costs is very large when compared to the depreciation charged on the assets during the prior year.

  Solution: Although this is an allowable cash flow usually the repairs and maintenance cost included in the cash flow should some way equate to the yearly depreciation charge.

- In calculating the cash flows, the company incorporated the working capital requirements/movements but they compared the present value of the cash flows to the carrying amount they have not included the debtors/creditors/inventory and other working capital items within the carrying amount.

  Solution: This is incorrect as the company should compare like with like. In this instance the company should take the net assets relating to the CGU so that they are comparing like with like.

- The company has used a post-tax discount rate

  Solution: This is incorrect as a pre-tax discount rate should be used. (see Section 27.20 of FRS 102)

- The company has not incorporated any inflation into its workings

  Solution: The entity must incorporate the effects of inflation into its cash flows under the see Section 27.20 of FRS 102). Therefore, the expected future inflation needs to be incorporated.

- The company has included tax payments into the cash flow

  Solution: The inclusion of tax cash flows is not allowed under Section 27.18 of FRS 102.

- The company has included exceptional income with regard to a return on investment within the terminal value amount as this was included in the last forecasted period.

Solution: The terminal value amount must exclude all abnormal or exceptional items included in the last forecasted periods cash flows as this incorrectly inflates the terminal value amount. (See Section 27.8.2.6)

- The company in its cash flow used the profit before tax, amortisation and depreciation.

  Solution: This is incorrect as the cash flows should incorporate the earnings before interest, tax, amortisation and depreciation as financing activities should be excluded together with any non-cash costs, as stated in Section 27.18 of FRS 102.

  The interest income and expense should therefore have also been excluded in the above example.

Impairment loss for a CGU with goodwill

In year 1 Parent A acquired company X for CU100,000. On acquisition 3 CGU's were identified called CGU 1, CGU 2 and CGU 3. The fair value of the assets acquired was CU60,000 and goodwill of CU40,000 was recognised on acquisition and set against each CGU. The goodwill was allocated to each CGU based on the synergies expected to be achieved which ultimately was allocated 1/3rd to each CGU.

In year 2, due to a change in the market trends the demand for the product produced by CGU 1 reduced significantly. The value in use calculations indicate a recoverable amount of CU9,000. At that date the carrying amount of the goodwill and identifiable assets were CU10,000 and CU20,000 (split between asset A&B of CU12,000 and CU8,000) respectively. Therefore, the total impairment to be booked is CU21,000 (CU10,000+CU20,000-CU9,000 recoverable amount).

The calculation of the allocation of the impairment loss of CGU 1 is carried out as follows:

	Carrying value	Impairment	Carrying amount after impairment
Goodwill	CU10,000	(CU10,000)*	CUnil
Asset A	CU12,000	(CU6,600)**	CU5,400
Asset B	CU8,000	(CU4,400)***	CU3,600
Total			

*impairment set against goodwill first and remaining amount set against all other assets on a pro-rata basis.

**impairment allocated pro-rata to identifiable assets e.g. asset A= (CU21,000-CU10,000 allocated to goodwill) * (CU12,000/(CU12,000+CU8,000)) = CU6,600.

***impairment allocated pro-rata to identifiable assets e.g. asset A= (CU21,000-CU10,000 allocated to goodwill) * (CU8,000/(CU12,000+CU8,000)) = CU4,400.

Example- stock impairment

Company A has inventory of wine and chocolate of CU100,000 at the year-end of March 2020. Following the developments of COVID-19, the company's market had diminished significantly. The company has identified that it can sell the wine and chocolates as Easter hampers, to avoid them going out of date. The sales price of the hampers will be CU80,000 but there is an additional cost of CU20,000 associated with packaging them. The directors are satisfied that this is an adjusting event.

In this example, the carrying value is CU100,000. The sales price (CU80,000) less costs to complete (CU20,000) is CU60,000. A stock impairment should be recognised of CU40,000 and incurred in the year ended March 2020 accounts.

Example- Associate Impairment if adopting the cost model

Company A holds a 40% investment in Company B (cost CU500,000). At the year end Company B's performance was far less than expected and a significant loss was incurred as a result of a period of closure arising from the outbreak of COVID-19. As a result Company B's net assets was CU800,000. The significant loss made by Company B is an impairment indicator. As it is likely that it would be difficult to determine the fair value less cost to sell in an active market, the value in use model should be utilised to determine whether an impairment is required. In this particular case, it may be appropriate to impair the investment down to the net asset amount of CU320,000 (CU800,000 *40%) assuming that the value in use calculations do not support the non-impairment. Given the loss making position of company B, it is likely that the cash generating unit will not generate a favourable value in use calculation and an impairment to CU320,000 will be required.

Example: A decline in the asset's market value (Section 27.9 (a) of FRS 102)

Company A purchased a specialised piece of property, plant of equipment for CU300,000 during the year. At the end of year 1, the supplier dropped its price for that type of equipment to CU200,000. In this case, this would indicate a possible impairment. As a result an impairment may be required. This drop in price does not automatically mean an impairment loss as it is likely the value in use of the asset when taken together with a CGU for the Company will be higher so therefore no impairment may be required.

If we assume that the piece of property is now abandoned and no longer in use within the CGU, then the fair value of that asset itself would be used to determine the amount of the impairment loss. The value in use for the CGU cannot be used as the asset is no longer providing any economic benefit, therefore its recoverable amount is the fair value of assets in the balance sheet relating to the property less cost to sell.

Similarly assume Company A has an office block which it uses. Due to a significant reduction in property prices, there are indications that this asset is stated above its carrying amount. In this case, this would be an indicator of an impairment, however, this does not necessarily mean a write down is required as it is part of a CGU (that being the overall factory etc.).

Prior to COVID-19, the CGU was showing a positive value in use with significant headroom between the carrying value of the assets and the value in use. The company has been hit hard by COVID-19 and part of the company's business has been lost. When it performs its value in use calculations, the results show that the current carrying value exceeds the value in use. As a result, an impairment is required.

Section 1A of FRS 102 disclosures

The impairment disclosure requirements under Section 1A of FRS 102 are similar to full FRS 102. Details of impairment of all types of all fixed assets held as well as the impairment charges during the year are required to be disclosed.

FRS102.com- Covid-19 update

Section 28- Employee benefits

Summary of this section

Section 28 deals with the recognition, measurement and disclosure of employees benefits to include the recognition and measurement of defined benefit and contribution pension schemes, short term employee benefits and termination benefits.

What are the key points of this section of FRS 102?

Short term employee benefits must be recognised together with the deferred tax impact. This will require a transition adjustment where carryover of annual leave occurs.

In relation to defined contribution schemes contributions payable for each period are generally recognised as an expense and a liability. Where they are not likely to be paid for a further 12 months they should be discounted.

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Generally, in a defined benefit plan, the employer has an obligation to provide an agreed level of benefits to employees. This means the employer bears actuarial risk and investment risk, and may be required to increase contributions if the plan assets are too low to fulfil promises to employees.

For an employer with a defined benefit scheme, the cost to recognise each period is the change in the value of the liability.

The liability on the defined benefit scheme is measured at the present value of the plan obligations less the fair value at the reporting date of the plan assets (there is detailed guidance in the section on measurement of these assets and liabilities).

The cost relating to movements in the net liability on the defined benefit scheme is recognised in profit or loss, except for the effects of re-measurement, which are recognised in other comprehensive income. Re-measurement comprises actuarial gains and losses and the return on plan assets, excluding amounts included in net interest on the net liability (calculated as a single item by multiplying the net defined benefit liability by the discount rate used to determine the present value of the scheme liabilities).

Group pensions schemes which are defined benefit in nature need to be accounted for in at least one of the group companies.

For multi-employer schemes where sufficient information is not available to use defined benefit accounting, then it can be treated as a defined contribution scheme unless there is an agreement in place stating that it will fund the deficit, if so, then this amount needs to be provided for.

Deferred tax on the pension scheme is shown as deferred tax on the balance sheet and not netted against the pension scheme carrying amount.

Curtailments and settlement should be accounted for in the period where the adjustment is certain and posted to the profit and loss with disclosure of the amount charged/credited in the notes.

An independent actuary is not required to perform the calculation and it does not dictate how often the comprehensive valuation must be performed.

How does COVID-19 impact on this section?

COVID-19 may impact on a few areas of this section. In particular, there should be consideration of the effect of redundancies, payment of bonuses and the accounting treatment of the government wage subsidy.

Depending on the nature of the above items, the accounting treatment may be impacted.

Practical implications

Treatment of redundancies

For the avoidance of doubt, references to being made redundant below refer to staff made permanently redundant (and not to be confused with staff temporarily laid off who availed of the government subsidy scheme).

If staff are made redundant as a result of COVID-19 then this should be recognised as a liability and an expense when the entity can demonstrate either of the following conditions;

That they have committed to either

(a) terminate the employment of an employee or group of employees before the normal retirement date; or

(b) to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

To meet either of the above conditions, there must be a formal plan in place and it is not realistic that the firm can withdraw from this. This will usually occur after the staff have been notified in writing.

Payment of bonuses (timing)

Bonuses are usually treated as short term employment benefits as they are usually expected to be settled within 12 months after the end of the financial reporting period in which the services are rendered.

As a result of the economic impact of COVID-19, this may mean that some bonus schemes are re-negotiated or deferred to be paid at a later date. Where the bonus is not expected to be settled until after 12 months then this will need to be accounted for in line with section 28.29 of FRS 102 (Other long-term employee benefits).

For all employee benefits payable in periods greater than 12 months, these need to be present valued at a discount rate which reflects the time value of money.

Examples

Treatment of redundancies

Company A has a year end of 31 March 2020. On 6th April 2020, they wrote to some employees informing them that they would be terminating their employment on 20th April 2020. The cost of the redundancies is CU20,000.

As the entity demonstrated its commitment to terminate employment on 6th April 2020, the conditions of section 28.34 of FRS 102 were met on this date and on this date the liability and cost are recognised in the financial statements.

Journal entry required on 6th April 2020 (Next financial year);

Dr. Termination costs (P&L)- CU 20,000

Cr. Liability (Balance Sheet)- CU 20,000

Bonus payment

Company B normally pay a bonus of CU 50,000 to key staff on completion of each financial year. Following the development of COVID-19, the company decided to preserve cashflow and not pay this bonus. Instead, they decided to reward staff with a bonus of CU50,000 which will be payable in 3 years.

As this bonus is not payable within 12 months of the year end, it should be classified in accordance with section 28.29 and 28.30 of FRS 102. A liability should be recognised on the balance sheet representing the present value of the obligation. Assume a year end of 31 March 2020, a present value rate of 5% and a bonus payment date of 31 March 2023.

Applying a 5% present value rate arrives at a present value of CU43,192 (CU50,000/1.05 ^3). The journals to recognise this are;

Year ended 31 March 2020

Dr. Wages and salaries (P&L)- CU 43,192

Cr. Long term liabilities- CU 43,192

Year ended 31 March 2021

Dr. P&L - 2,160

Cr. Long term liabilities- 2,160

Year ended 31 March 2022

Dr. P&L - 2,268

Cr. Long term liabilities- 2,268

Year ended 31 March 2023

Dr. P&L -	2,380
Cr. Long term liabilities-	2,380

<u>Section 1A of FRS 102 disclosures</u>

If applying Section 1A of FRS 102, the provision for liabilities as shown in Sch 3A Formats for the balance sheet should show the split between; taxation (including deferred tax); retirement benefit obligations and other provision for liabilities.

The detailed reconciliation note required under FRS 102 is not required under section 1A.

Registered number: 418681

Doyle Hotels (Holdings) Limited

Directors' report and financial statements
For the Year Ended 31 December 2019

Doyle Hotels (Holdings) Limited

Consolidated profit and loss account
For the Year Ended 31 December 2019

	Note	2019 €'000	2018 €'000
Turnover	3	**148,334**	146,529
Cost of sales - recurring		**(120,729)**	(115,236)
- non recurring	12	**-**	1,126
Gross profit		**27,605**	32,419
Administrative expenses		**(6,506)**	(6,734)
Net reversal of impairment of hotel properties	4	**8,920**	4,842
Revaluation of investment properties	13	**(168)**	1,017
Depreciation	13	**(12,903)**	(11,648)
Operating profit – continuing operations		**16,948**	19,896
Interest receivable and similar income	9	**572**	602
Interest payable and expenses	10	**(9,080)**	(8,881)
Profit on ordinary activities before tax		**8,440**	11,617
Tax charge on profit on ordinary activities	11	**(1,290)**	(1,312)
Profit for the financial year attributable to owners of the Company		**7,150**	10,305

The notes on pages 15 to 42 form part of these financial statements

Doyle Hotels (Holdings) Limited

Consolidated balance sheet
As at 31 December 2019

	Note	€'000	2019 €'000	€'000	2018 €'000
Fixed assets					
Tangible fixed assets	13		671,483		622,782
			671,483		622,782
Current assets					
Stocks		2,143		2,223	
Debtors: amounts falling due within one year	15	8,668		7,781	
Cash at bank and in hand		35,019		38,443	
		45,830		48,447	
Creditors: amounts falling due within one year	16	(39,119)		(37,699)	
Net current assets			6,711		10,748
Total assets less current liabilities			678,194		633,530
Creditors: amounts falling due after more than one year	17		(236,102)		(225,477)
Provisions for liabilities					
Deferred tax	21		(77,120)		(72,001)
Retirement benefit obligations	23		(3,048)		(1,620)
Net assets			361,924		334,432
Capital and reserves					
Called up share capital presented as equity	22		2		2
Revaluation reserve			134,904		116,387
Convertible securities	22		383,335		383,335
Foreign exchange reserve			(28,358)		(31,757)
Cash flow hedge reserve	20		(120)		85
Profit and loss account			(127,839)		(133,620)
Shareholders' funds			361,924		334,432

The financial statements were approved and authorised for issue by the Board on 29 May 2020.

Signed on behalf of the Board:

B. Evans

Date: 29 May 2020

P. King

Date: 29 May 2020

The notes on pages 15 to 42 form part of these financial statements.

1. Accounting policies

Doyle Hotels (Holdings) Limited is a company limited by shares and incorporated, domiciled and registered in Ireland. The address of its registered office is 156 Pembroke Road, Ballsbridge, Dublin 4 and the registered number of the company is 418681.

These Group and holding undertaking ("Company") financial statements were prepared in accordance with Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is Euro. All amounts in the financial statements have been rounded to the nearest €1,000.

Judgments made by the directors, in the application of these accounting policies, that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

The holding undertaking is included in the consolidated financial statements and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the holding undertaking financial statements have been applied:

- No separate holding undertaking Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included a second time.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, investment properties, and freehold and long leasehold hotel property assets.

1.2 Going concern

The Group and Company's business activities, together with the factors likely to affect their future development, performance and market position are set out in the Business Review in the Directors Report on page 1. The financial position of both the Group and Company, including cash flows, liquidity position, borrowing and details of financial instruments, are included in the financial statements.

Since the year end, the COVID-19 pandemic has become a worldwide crisis and at the date of this report the impact on the global economy is still evolving. The Directors have considered the appropriateness of the going concern basis of accounting in preparing these financial statements in the context of the resultant impact on the Group and Company's businesses in the short to medium term, including the temporary closure of all hotels. In recent weeks, Governments in the countries in which the Group operates have announced plans for the easing of restrictions for businesses in those countries, which may enable the Group to re-open its hotels, restaurants and bars on a phased basis over the coming months, although the timing and extent of reopening remains uncertain.

In assessing going concern, the Directors noted that, as at 31 December 2019, the Group had considerable financial resources as a result of having €35m of cash on hand as well as having completed a refinancing of its debt in December 2019. In addition, in response to the uncertainties created by the pandemic, the Group obtained further financial support from its bank, subject to documentation, in order to create further financial headroom available to the Group and Company in the event of a prolongation of the global crisis.

Based on their assessment of the Group's and Company's business plans together with the financial resources and headroom available to the Group, the Directors have a reasonable expectation that the Group and Company have sufficient resources to continue in operational existence for at a period not less than 12 months from the date of approval of these financial statements, and therefore concluded it is appropriate to adopt the going concern basis in preparing the financial statements.

Notes to the financial statements
For the Year Ended 31 December 2019

1. Accounting policies (continued)

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2019. A subsidiary is an entity that is controlled by the holding undertaking. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Under Section 304 of the Companies Act 2014 the Company is exempt from the requirement to present its own profit and loss account.

In the holding undertaking financial statements, investments in subsidiaries are carried at cost less impairment through profit or loss.

1.4 Foreign currency

Transactions in foreign currencies are translated to the Group's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of qualifying cash flow hedges and items which are fair valued which are recognised in Other Comprehensive Income.

The assets and liabilities of foreign operations, including fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Euro, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised in other comprehensive income.

1.5 Classification of financial instruments issued by the Group

In accordance with FRS 102.22, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

A) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

B) where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Doyle Hotels (Holdings) Limited

Notes to the financial statements
For the Year Ended 31 December 2019

1. Accounting policies (continued)

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.6 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in preference and ordinary shares

Investments in preference and ordinary shares are measured initially at transaction price less attributable transaction costs. Subsequent to initial recognition, investments that can be measured reliably are measured at fair value with changes recognised in profit or loss. Other investments are measured at cost less impairment in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Doyle Hotels (Holdings) Limited

Notes to the financial statements
For the Year Ended 31 December 2019

1. Accounting policies (continued)

1.7 Other financial instruments

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition, other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and

- hedging instruments in a designated hedging relationship shall be recognised as set out below.

Derivative financial instruments and hedging

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on re-measurement are recognised immediately in profit or loss (even if those gains would normally be recognised directly in reserves).

If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in profit or loss.

For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in other comprehensive income is included in the initial cost or other carrying amount of the asset or liability. Alternatively, when the hedged item is recognised in profit or loss the hedging gain or loss is reclassified to profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the profit and loss account immediately.

1. Accounting policies (continued)

1.8 Tangible fixed assets

Fixtures and Fittings included in tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.16 below.

The entity assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

• Land	Nil
• Buildings core	50 - 125 years
• Buildings non-core	30 years
• Plant and equipment	20 years
• Fixtures and fittings	5 - 10 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

Revaluation

Land and buildings are stated at fair value less any subsequent accumulated depreciation and impairment losses. Full valuations of all hotel properties are conducted by independent valuers every 5 years with desktop valuations conducted in intervening years. The directors regularly review the portfolio to ensure that the carrying value does not differ materially from fair value at the end of the reporting period. The last full independent valuation was carried out 31 December 2019.

The fair value was measured using market-based evidence by appraisal undertaken by professionally qualified valuers. Key assumptions used in these appraisals are set out in Note 13.

Gains on revaluations are recognised in other comprehensive income and accumulated in equity/revaluation reserve. However, the increase is recognised in the profit or loss to the extent that it reverses a revaluation decrease previously recognised in profit or loss.

Losses arising on revaluation are recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. Any excess is recognised in profit or loss.

Notes to the financial statements
For the Year Ended 31 December 2019

1. Accounting policies (continued)

1.9 Intangible assets

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the profit and loss account as an expense as incurred.

1.10 Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost.

Subsequent to initial recognition:

i. investment properties whose fair value can be measured reliably without undue cost or effort are held at fair value. Any gains or losses arising from changes in the fair value are recognised in the profit and loss account in the period that they arise; and

ii. no depreciation is provided in respect of investment properties applying the fair value model

The total investment property fair value is based on valuations by an external independent valuer, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued.

The valuations, which are supported by market evidence, are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied to the net annual rentals to arrive at the property valuation. Significant assumptions used are set out in note 13.

1.11 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks and other costs in bringing them to their existing location and condition.

1. Accounting policies (continued)

1.12 Impairment excluding stocks, investment properties and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the entity would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the entity's non-financial assets, other than investment properties, stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset exceeds it expected recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1. Accounting policies (continued)

1.17 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2. Key sources of estimation uncertainty

The preparation of consolidated financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period.

Estimates and judgements are based on historical experience and on other factors that are reasonable under current circumstances. Actual results may differ from these estimates if these assumptions prove to be incorrect or if conditions develop other than as assumed for the purposes of such estimates. The following are the critical areas requiring estimates and judgements by management.

Pension assumptions
The valuation of the defined benefit pension schemes is a significant estimate in the financial statements, particularly in the current uncertain market. Further details are given in note 23. The directors have reviewed and assessed as reasonable the assumptions made by independent professional actuaries in assessing the fair value of the defined benefit pension schemes.

Carrying amount of property plant and equipment
The valuation of the property plant and equipment is a significant estimate in the financial statements. A full valuation was performed at 31 December 2019. The valuations as performed by professional independent valuers have been recognised in these financial statements. Further details are given in note 13. The directors have reviewed and assessed as reasonable the assumptions made by independent professional valuers in assessing the fair value of property plant and equipment.

Carrying amount of investment property
The valuation of the investment properties is a significant estimate in the financial statements. Valuations were performed as at 31 December 2019. The valuations as performed by professional independent valuers have been recognised in these financial statements. Further details are given in note 13. The directors have reviewed and assessed as reasonable the assumptions made by independent professional valuers in assessing the fair value of investment properties.

Doyle Hotels (Holdings) Limited

Notes to the financial statements
For the Year Ended 31 December 2019

13. Tangible fixed assets

	Freehold and leasehold land and buildings €'000	Fixtures and fittings €'000	Investment properties €'000	Total €'000
Cost or valuation				
At 1 January 2019	569,834	73,913	15,588	659,335
Additions	6,932	10,347	-	**17,279**
Revaluations	23,411	-	(168)	**23,243**
Translation adjustment	19,016	2,466	220	**21,702**
Elimination of depreciation on revaluation	(3,764)	(19,466)	-	**(23,230)**
At 31 December 2019	**615,429**	**67,260**	**15,640**	**698,329**
Depreciation				
At 1 January 2019	-	36,553	-	36,553
Charge for the year	3,699	9,204	-	**12,903**
Translation adjustment	65	555	-	**620**
Elimination of depreciation on revaluation	(3,764)	(19,466)	-	**(23,230)**
At 31 December 2019	**-**	**26,846**	**-**	**26,846**
At 31 December 2019	**615,429**	**40,414**	**15,640**	**671,483**
At 31 December 2018	*569,834*	*37,360*	*15,588*	*622,782*

In accordance with the Group's accounting policies, a full valuation was performed on all freehold and long leasehold hotel property assets at 31 December 2019. The valuations were performed by CBRE Hotels Limited. Calculations were carried out in accordance with the latest edition of the Royal Institution of Chartered Surveyors' ("RICS") appraisal and valuation standards and valuations were prepared on the basis of Market Value as defined in the standards. Significant assumptions used in the preparation of the valuations include stabilised RevPAR (Revenue Per Available Room); hotel EBITDA; growth rates; discount rates and exit yields. The valuations use growth rates of between 2% and 3%, discount rates of between 6.5% and 8.75% and exit yields of between 4.5% and 6.75%, based on comparable yields on transactions of similar property types in similar locations.

The resulting valuations were incorporated in the financial statements at 31 December 2019. Net revaluation gains of €14.491 million were recognised in other comprehensive income and net reversal of prior impairments of €8.920 million were recognised in the profit and loss account.

In accordance with its accounting policies, the Group undertakes a valuation of investment properties on an annual basis. The valuations were performed by CBRE Hotels Limited and were carried out in accordance with the latest edition of the Royal Institution of Chartered Surveyors' ("RICS") appraisal and valuation standards and were prepared on the basis of Market Value as defined in the standards. Significant assumptions used in the preparation of the valuations include Estimated Rental Value ("ERV's"), discount rates and exit yields. The valuations use discount rates of between 8.2% and 9.7% and exit yields of between 6.2% and 8.2%, based on comparable yields on transactions of similar property types in similar locations.

The valuation of investment properties on an open market value basis at 31 December 2019 resulted in a net deficit on revaluation of €0.168 million (2018: surplus of €1.017 million).

Included in land and buildings is land with a book value of €333.8 million (2018: €293.6 million).

27. Capital commitments

At 31 December 2019, the Group had authorised capital commitments of €14.8 million (2018: €9.2 million) of which €3.4 million (2018: €4.7 million) was contracted for.

28. Post balance sheet events

On 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. There is a significant increase in economic uncertainty coupled with more volatile asset prices and currency exchange rates. The duration and severity of the outbreak is unknown and, as a result the full impact on the Group's trade and on the carrying value of its property assets is uncertain.

The impact of Covid-19 is deemed a non-adjusting event and there was no evidence of the event impacting on the Group balance sheet as at 31 December 2019.

In March 2020, the Group temporarily closed all hotels in response to government restrictions due to the Covid-19 pandemic. The directors have considered the impact of this temporary closure on the applicability of the going concern basis of accounting in preparing the financial statements and concluded that this continues to be appropriate (See Note 1.1).

Further details are contained in the Business Review section of the Directors Report and in section 1.1 of Note 1: Accounting Policies dealing with Going Concern.

There have been no other significant events affecting the Group since the year end.

29. Controlling parties

The Company is a wholly-owned subsidiary of Pembase Holdings Limited.

30. Approval of financial statements

The Board of directors approved these financial statements for issue on 29 May 2020.

MUSGRAVE GROUP PLC

Annual Report
Financial Year Ended 28 December 2019

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Musgrave Group is a leading partner to entrepreneurial retailers in the Republic of Ireland, Northern Ireland and Spain. It operates a network of retail brands and cash and carry outlets.

The holding Company is a public limited company and is incorporated in Ireland. The address of its registered office is Ballycurreen, Airport Road, Cork and its registered number is 105820. The principal subsidiaries are listed in note 35.

2 Statement of compliance

The financial statements have been prepared on a going concern basis and in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ('FRS 102') and Irish Law. For 2018 year-end, the entity chose to early adopt the provisions of *"Amendments to FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' – Triennial Review 2017 – Incremental Improvements and Clarifications"* (December 2017).

These financial statements are presented in euro (€).

3 Critical accounting judgements and estimation uncertainty

Estimates and judgements are required when applying accounting policies. These are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future, in the process of preparing the Group financial statements, which can involve a high degree of judgement or complexity. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Recoverability of debtors

Estimates are made in respect of the recoverable value of trade and other debtors. When assessing the level of provisions required, factors including current trading experience, historical experience and the ageing profile of debtors are considered. See notes 15 and 16 for the net carrying amount of debtors.

b) Supplier income accrued

Accounting for the amount and timing of recognition of supplier income (as defined in the accounting policies) requires the exercise of judgement. Where volume-related allowances span different accounting periods, the amount of income recognised is estimated based on historical and forecast performance. Where supplier income is conditional on performance, it is recognised over time as the obligations are met or when all obligations are met, depending on the contractual requirements.

Supplier income accrued is included in accrued income in note 15.

c) Impairment of intangible and tangible assets

The carrying value of intangible and tangible assets, are assessed for impairment based on the presence of impairment indicators – where events or changes in circumstances indicate that the carrying amount may not be recoverable. Where impairment indicators are present, impairment tests are conducted. This is done by comparing the asset's carrying value to the higher of its value in use and net realisable value (fair value less costs to sell). Any shortfall is recorded as an impairment charge. The asset's value-in-use is assessed based on estimates of future cash flows discounted appropriately. Net realisable value is estimated using a valuation process. Intangible assets are included in note 11 and tangible assets are included in note 12.

NOTES TO THE FINANCIAL STATEMENTS - continued

3 Critical accounting judgements and estimation uncertainty - continued

d) Provisions for liabilities

Provisions by their nature are liabilities with an uncertain timing or amount. Estimates are made in relation to the future cash outflows likely to arise in connection with obligations existing at the reporting date including those relating to onerous leases and other business and property exposures, restructuring, self-insurance and guarantees. See note 21 for provisions for liabilities.

e) Defined benefit pension scheme obligations

Pension scheme obligations are an estimate of the amount required to pay the benefits that employees have earned in exchange for past service, assessed and discounted to present value using the assumptions shown in note 30. The Group seeks advice from independent actuaries to assist in determining the assumptions used which reflect historical experience and current trends.

4 Turnover	2019 €m	2018 €m
By class of business:		
Wholesale and retail distribution of food and general merchandise	3,947.6	3,850.4
By geographical market:		
Republic of Ireland	3,314.6	3,245.8
Northern Ireland	434.6	414.5
Spain and other	198.4	190.1
	3,947.6	3,850.4

5 Operating profit	2019 €m	2018 €m
Operating profit has been arrived at after charging/(crediting):		
Amortisation of intangible assets (note 11)	14.5	12.3
Provision for impairment of intangible assets (note 11)	10.1	-
Depreciation of tangible assets (note 12)	44.6	40.6
Provision for impairment of tangible assets (note 12)	0.1	3.9
(Profit)/loss on disposal of tangible assets (note 12)	(0.4)	0.1
Impairment of financial assets that are debt instruments measured at amortised cost	2.4	8.5
Non-recurring income from certain suppliers on legacy matters	11.5	-
Operating lease expense for land and buildings	21.1	19.6
Operating lease expense for plant and equipment and other assets	16.6	10.9
Operating lease income for land and buildings	(9.2)	(7.9)
Self insurance charge (note 21)	5.6	5.4
Restructuring charge	-	0.4
Onerous contacts and other obligations charge/(credit) (note 21)	2.0	(1.8)
Defined benefit pension schemes settlement gain – net of costs (note 30)	(4.2)	(8.9)
Currency (gain)/loss	(0.2)	0.2

	2019 €m	2018 €m
Other operating income has been arrived at after charging/(crediting):		
Deficit/(surplus) on revaluation of investment properties (note 12)	0.5	(1.0)
Other income from retailers	(1.0)	(2.1)

37 Events after the balance sheet date (Covid-19 impact)

The Covid-19 pandemic has impacted the Group since mid-March 2020 and will continue to impact trading for the next twelve months from the date the directors approved the annual report. While it is extremely difficult to predict the specific impact of Covid-19, based on the stress testing performed under the scenarios as outlined below, the directors are of the view that the business has sufficient resources to cope with the crisis.

There are three key uncertainties relating to the pandemic: the duration of the lock-down period; the duration and nature of the transition to a normal operating environment; and the depth and duration of the economic recession that will follow. Stress tests have been prepared under three scenarios: "base case", "pessimistic" and "extreme", which are outlined as follows:

- "Base case" - virus is contained within a few months and the economy begins to recover.
- "Pessimistic" - there is long-term impact to certain areas of the business and lower long-term economic growth.
- "Extreme" – the transition to a normal operating environment is prolonged with a sharp recession, widespread external business failures and credit defaults.

The evidence from the Group's trading year-to-date is that: the impact of the lock-down is greatest in the Group's foodservice business with most customers not able to trade; there is also a significant impact on retail stores based in locations that relied on trade from customers who are now restricted to their homes; and this has been offset by increased sales in other retail stores with customers purchasing food and groceries to consume at home.

Technology has been used to facilitate home working and all vital operations and projects are continuing. The Group is engaging with suppliers to help ensure that product availability can be maintained through a prolonged pandemic. The Group is also working with customers to support them through the challenges they face as a result of Covid-19.

The Group is managing its cash position carefully and has stress-tested the effects of differing levels of sales declines along with appropriate measures to control costs and conserve cash.

The method used to stress test the business was to consider three sets of assumptions over the next twelve months. In each case a continuation of current trends for the first half of the year has been assumed. In the second half of the year in the "base-case" model we assumed retail volumes unchanged on last year with foodservice sales below last year; in the "pessimistic" model retail sales were assumed to decline versus last year with foodservice significantly below last year and in the "extreme" scenario retail is further below last year with foodservice sales less than half of last year's levels.

The conclusion of our stress test is that even in the extreme scenario there is adequate headroom on the Group's existing borrowing facilities.

38 Approval of financial statements

The financial statements were approved and authorised for issue by the board of directors on 22 April 2020 and were signed on its behalf on that date.

Grant Thornton

Abridged Financial Statements
National Food Imports Limited

For the financial year ended 29 February 2020

Notes to the financial statements

For the financial year ended 29 February 2020

19. Forward currency contract commitments

At the balance sheet date the company had entered into forward contracts. The year on year impact of reflecting the fair value of these contracts is not material to the company results and accordingly the directors have not reflected these contracts on the balance sheet in accordance with FRS102.

20. Events since the end of the year

The directors are closely monitoring developments during the Covid-19 crisis and assessing the potential impact it may have on the Company's people, activities, operations and financial position. The directors note that this is a dynamic situation and at present there is a high degree of uncertainty in relation to the wider economic short-to-medium term impact; however they are satisfied that the Company is in a strong financial positon.

Apart from the above there have been no other significant events affecting the company since the financial year end.

21. Controlling party

The company was under the control of Mr J.C. Scott throughout the current and previous year.

22. Approval of financial statements

The board of directors approved these financial statements for issue on 24 July 2020

Company Registration No. 347364

Za Clothing Ireland Limited

Annual Report and Financial Statements for the financial year ended 31 January 2020

Za Clothing Ireland Limited

Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditor's report, for the financial year ended 31 January 2020.

Principal activity and business review

The principal activity of the company continues to be retail fashion trading. No stores were opened during the financial year (2019:nil), the company undertook a refit of its store in Dundrum during the financial year to keep the store's layout and atmosphere in line with the Zara brand image. Barring any unforeseen circumstances, the directors plan to open further stores as soon as suitable opportunities arise and for the company to increase profitability as a result of the continuing increase in sales.

The directors consider any events, which could lead to a disruption in the supply of retail goods to the Irish market or to a significant decrease in the demand for retail goods in the Irish market as the principal risks and uncertainties faced by the company. Such events would include but not be limited to natural disasters, global unrest, economic downturns and disruption in oil production.

The Coronavirus COVID-19 outbreak in January 2020 and its recent global spread among different countries has led the World Health Organization (WHO) to declare the rapidly spreading coronavirus a pandemic on Wednesday, March 11th. Taking into account the potential impact of the above described situation on the financial information of the Company as of 31 January 2020, Directors and Management have assessed the situation as a post balance sheet event and based upon the best information available to date do not consider it necessary to book any adjustments to the Financial Statements.

Results and dividends

Details of the results are set out in the statement of comprehensive income on page 8. The Company operates its own directly operated stores in the Republic of Ireland. At 31 January 2020, Za Clothing Ireland Limited consisted of 9 stores (2019: 9). The Company also sells online to Irish customers.

Total sales for the Company were €108.1m (2019: €102.3m), an increase of 6%. The company's merchandise is exclusively purchased from Group undertakings in Spain. Selling and distribution costs increased by 2% compared to the prior financial year. The profit after taxation for the financial year ended 31 January 2020, which has been transferred to reserves, was €4,507k (2019: profit €4,053k).

During the financial year the directors did approve an interim dividend payment of €8,000k (2019: €11,200k). The directors do not recommend the payment of a final dividend (2019: €nil).

Directors and secretary and their interests

The directors and secretary who held office at any time during the financial year had no interest in shares, debentures or loan stock of the company. The directors and secretary who hold shares, debentures or loan stock of the smallest group of undertakings for which group financial statements are prepared, being Inditex S.A., are disclosed below:

Name of Director	Description of instrument	2020 Number	2019 Number
Jose Manuel Romay de la Colina	Beneficial shares	35,916	43,251
Ramon Reñon Tuñez	Beneficial shares	84,151	103,534
Alvaro Cañete Diaz	Beneficial shares	43,412	35,000

The company operates a directors' share options scheme, under which the directors can be granted options to acquire shares in Inditex S.A. None of the directors who held office had share options in Inditex S.A. at 31 January 2020 (2019: none).

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Amortisation of intangible fixed assets

Intangible fixed assets are amortised on a straight-line basis over their estimated useful lives. Management estimates the useful lives of the Software to be 5 years. The carrying amounts of the intangible fixed assets are set out in Note 9. Changes in the expected level of usage could impact the economic useful lives and the residual values of these assets, therefore future amortisation charges could be revised.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.
An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The company periodically assesses the possible existence of indications that its non-current assets might have become impaired in order to determine whether their recoverable amount is lower than their carrying amount (impairment loss). The recoverable amount has been determined based upon a value in use calculation. Cash flow projections, discounted at 4.9%, were used in this calculation. Based on the historical performance of the brand in the UK and in other European markets, management have assessed cash flows until expiry of the lease. The estimated cash flows are extrapolated to the period not covered by the business plan using a growth rate and expense structure that are similar to those of the last year of the business plan in the remaining term of the leases. Further information on the general, systematic procedure for carrying out these impairment tests INDITEX, S.A. has developed can be found in the consolidated financial statements of the group (see note 17).

Reversals of impairment losses on non-current assets are recognized with a credit to depreciation, up to the limit of the carrying amount that the asset would have had, net of depreciation had the impairment loss never been recognized, solely in cases in which, once the internal and external factors have been assessed, it can be concluded that the indications of impairment that led to the recognition of the impairment losses have ceased to exist or have been partially reduced.

Notes to the financial statements for the financial year ended 31 January 2020 (continued)

20. Subsequent Events

The appearance of the Coronavirus (COVID-19) in January 2020 and its recent global expansion to a large number of countries caused the viral outbreak to be classified as a pandemic by the World Health Organization on 11 March 2020.

Since then, the measures that are being adopted to combat the virus are having a significant effect, not only on people but also on economic activity in general. In view of the course that events have taken, at the date of the preparation of these financial statements it was still premature to make a detailed evaluation or quantification of the possible impacts that COVID-19 may have on the Company, due to the uncertainty of its consequences in the short and medium term.

The directors of the Company have conducted a preliminary assessment of the current situation based on the best available information at the date of preparation of the financial statements. In this regard, although the Company closed its stores following the restrictions imposed by the authorities, these restrictions will foreseeably be lifted in the short term, and, therefore, the Company would be able to continue its operations normally.

Additionally, the Company is analysing several measures to minimise its impacts through cost management initiatives and the Company has sufficient liquidity, as well as the ability, if it were to become necessary, to obtain funding through the mechanisms established by the Group to which it belongs.

Although there is significant uncertainty surrounding future events, the Company's directors are constantly monitoring the evolution of the situation in order to successfully address any possible impacts, both financial and non-financial, that may arise.

Carton Bros Unlimited Company

Directors' Report and Financial Statements

Financial Year Ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS – continued

23 Ultimate parent undertaking

The company is a wholly owned subsidiary of Scandi Standard AB, a company registered and operating in Sweden.

The results of the company are consolidated into the financial statements of Scandi Standard AB. The financial statements of Scandi Standard AB are available to the public at www.scandistandard.com.

24 Post balance sheet event

Coronavirus disease 2019 (COVID-19) is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The disease was first identified in 2019 in Wuhan, the capital of China's Hubei province, and has since spread globally, resulting in the ongoing 2019–20 coronavirus pandemic. The earliest known infection occurred on 17 November 2019 in Wuhan, China. The World Health Organization (WHO) declared the 2019–20 coronavirus outbreak a Public Health Emergency of International Concern (PHEIC) on 30 January 2020 and a pandemic on 11 March 2020.

We have considered the risks that coronavirus poses to the company and the actions we are taking to mitigate the impact. Although all non - essential services are temporarily closed in Ireland at this time, the services provided by Carton Bros are considered to be essential, and we are continuing to operate, albeit that we have had to introduce various social distancing and other health and safety protocols while continuing operations. At this time, it is unclear how long the government mandated closures and social distancing measures will be in place for, however it is likely that they will continue to impact on how our operations are performed for some time.

To date, although we have had a number of suspected cases of COVID 19 in our workforce and have had to introduce a number of changes to our work practices, we are continuing to operate with new protocols in place. We have a COVID 19 task force in place, which meets virtually every day. Overall demand continues to be broadly in line with 2019 with decreases in food service being offset by an increase in retail.

We have no experience of a similar crisis so there is no way of predicting the extent that the full effect coronavirus will have on the company in general, our customers and the resulting demand for our products. It is not yet clear how widespread the virus will be at any one time, how long the pandemic will last and what the medium to long term effect of this pandemic will be on availability of staff.

Our priority is to do all we can to keep our workplace as safe as possible for staff. We are likely to remain at risk to the possibility that members of our teams could go out sick, resulting in the need for other members of the team to self-isolate, and thereby require additional staff to fill vacancies. So far, we have been able to fill any such vacancies from within our own staff complement.

We have modelled the likely effects of COVID 19 on our cash forecast for the next 12 months, and we are comfortable that there is unlikely to be any significant impact on our revenues, and that any incremental COVID related costs will be manageable.

We have also considered various measures we could take to control costs and conserve cash within the company, if certain activities were to be temporarily suspended, which we do not see as likely.

Management are comfortable that the forecasts they have prepared have considered a number of sensitivities, including a range of outcomes, and that in all cases there remains sufficient mitigation measures available to management to ensure that cash-flows are managed and that the company can continue to meet its obligations as they fall due for the period of at least 12 months from signing the financial statements.

There will be many challenges to our working practices as the pandemic develops and we are continuing to put plans in place to protect our employees and to comply with differing levels of Government restrictions and cope with illness throughout the company. Amongst other initiatives we are adapting our procedures

Hostelworld.com Limited

Reports and Financial Statements for the financial year ended 31 December 2019

REGISTERED NUMBER 337103

HOSTELWORLD.COM LIMITED

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Notes	**2019 €**	2018 €
Fixed assets			
Intangible assets	*10*	**165,400,026**	23,586,315
Property, plant and equipment	*11*	**4,480,993**	2,356,781
Investments in subsidiaries	*12*	**550**	499
Investment in associates	*13*	**2,838,834**	-
Deferred tax assets	*14*	**268,374**	98,575
		172,988,777	26,042,170
Current assets			
Debtors	*15*	**3,573,498**	37,894,365
Cash and cash equivalents		**18,627,219**	18,892,095
		22,200,717	56,786,460
Creditors: Amounts falling due within one year	*16*	**(12,725,329)**	(31,060,093)
Net current assets		**9,475,388**	25,726,367
Total assets less current liabilities		**182,464,165**	51,768,537
Creditors: Amounts falling due after more than one year	*17*	**(125,033,865)**	-
Net assets		**57,430,300**	51,768,537
Capital and Reserves			
Called up share capital presented as equity	*18*	**196**	196
Share premium		**33,503,904**	33,503,904
Capital contribution		**5,301,125**	-
Retained earnings		**18,625,075**	18,264,437
Shareholders' funds		**57,430,300**	51,768,537

The financial statements were approved and authorised for issue by the Board of Directors on 17-Sep-20 | 2:32 PM BST .... and signed on its behalf by:

DocuSigned by:
TJ Kelly
0CC9B9D163214D8...
TJ Kelly
Director

DocuSigned by:
GM Morrison
0566426DED40418...
Gary Morrison
Director

HOSTELWORLD.COM LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019**

1. ACCOUNTING POLICIES

The significant accounting policies adopted by the Company are as follows:

BASIS OF PREPARATION

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, fair value measurements, share based payments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, financial risk management, impairment of assets, related party transactions, leases and key management remuneration.

Hostelworld.com Limited is a private company limited by shares incorporated in Ireland under the Companies Act 2014. The address of the registered office is given on page 2. The nature of the company's operations and its principal activities are set out in the Directors' Report on pages 3-8. These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements by virtue of Section 299 of the Companies Act 2014, because it is included in the group accounts of Hostelworld Group plc ("the Group").

Where relevant, equivalent disclosures have been given in the group accounts of Hostelworld Group plc. The group accounts of Hostelworld Group plc are available to the public and can be obtained as set out in note 22.

The financial statements are prepared on the historical cost basis.

GOING CONCERN

Subsequent to the financial year end, the outbreak of COVID-19 became a global pandemic, which resulted in the company incurring both operational and cashflow losses due to significant reductions in bookings and revenues. Immediate action was taken by the Directors in response to the breakout of COVID-19 to preserve the Company's cash position. Actions taken include a redundancy program, reduced hours and deferred pay for our employees and directors, the renegotiation of credit terms with key vendors, availing of debt warehousing of Irish employer taxes, the elimination of all non-essential operating costs including marketing, recruitment, travel and other variable overheads, and availing of Government COVID-19 supports.

The Company operates as the main revenue generating component within the Group. Since mid-March 2020 when the full force of the COVID-19 outbreak was felt on trading, the Group has been reforecasting on a bi-weekly basis its cash position for 2020 and 2021. The directors have reviewed a number of stress case cash flow scenarios which have evolved over time. These scenarios reflect changes in key assumptions in areas such as timing of recovery, cost conservation and availability of alternate sources of capital.

- Our base-case cashflow scenario assumes a moderate uptick in net bookings from H2 2020, with a steady yet modest recovery through 2021.
- Our 2nd wave case assumes a more conservative performance in 2020, with signs of progressive recovery from Q2 2021 onwards.

These scenarios include various mitigation measures including the deferral of certain cashflows supported by creditors and additional cost cutting measures. In both scenarios, there are sufficient cash reserves available to continue in operation for 12 months from the signing of the financial statements.

1. ACCOUNTING POLICIES (CONTINUED)

GOING CONCERN (CONTINUED)

The Company has received a letter of support from the Group confirming that it will continue to support the Company's financial position for a period of 1 year from the date of signing of the financial statements.

The directors have taken steps to ensure adequate liquidity is available to the Company for the likely duration of the crisis and the recovery period. The Company has a cash balance of €23.3 million as at 31 August 2020 and has committed undrawn funds available of €7 million relating to a revolving credit facility. This funding was secured in June 2020. The Company availed of a short-term liquidity loan amounting to €3.5m in June 2020. The Company received a Capital Contribution of €14.6 million from Hostelworld Group in July 2020.

The Directors recognise that, there remains uncertainty around how the COVID-19 pandemic will evolve in the future and, thus, uncertainty around when the travel industry will return to substantial activity levels. This has been determined to represent a material uncertainty that may cast significant doubt as to the Company's ability to continue as a going concern. The Directors have a reasonable expectation that the Company will be able to successfully navigate the present uncertainties and are satisfied to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would be required if the Company were unable to continue as a going concern.

Having considered the cash flow forecasts, current and anticipated trading volumes, together with company current and anticipated levels of cash, debt and the availability of committed borrowing facilities, the directors are satisfied that the Company has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report, and accordingly, they continue to adopt the going concern basis in preparing the financial statements.

CHANGES IN ACCOUNTING POLICIES – IFRS 16

In the current year, the Company has applied IFRS 16 Leases which replaced IAS 17 Leases and related interpretations. IFRS 16 provides guidance on the classification, recognition and measurement of leases. The standard has primarily affected the accounting for the Company's operating leases relating to office premises. The Company has applied IFRS 16 from its effective date, 1 January 2019.

Under the new standard, the distinction between operating and finance leases is removed for lessees and almost all leases are reflected in the statement of financial position. As a result, an asset (the right of use of the leased item) and a financial liability to pay rental expenses are recognised. Fixed rental expenses are removed from the income statement and are replaced with finance costs on the lease liability and depreciation on the right of use asset. The only exemptions are short-term and low-value leases. The standard introduces new estimates and judgemental thresholds that affect the identification, classification and measurement of lease transactions. More extensive disclosures, both qualitative and quantitative, are also required.

The Company adopted the new standard by applying the modified retrospective approach and availed of the recognition exemption for short-term leases. Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. The Company has not restated the prior period on adoption, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On transition, the lease liability was based on the present value of remaining lease payments and the right of use asset was an amount equal to the lease liability adjusted for prepaid/accrued payments.

1. ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The additional depreciation in the current year due to the change in estimated useful life amount to €135,286. In future periods the depreciation charge will also be higher reflecting the change in useful life.

Leasehold improvements are improvements made to buildings leased by the Group when it has the right to use these leasehold improvements over the term of the lease. The improvements will revert to the lessor at the expiration of the lease.

The cost of a leasehold improvement is depreciated over the shorter of:
1. the remaining lease term, or
2. the estimated useful life of the improvement.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the directors review the carrying amounts of the Company's tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the directors estimate the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash generating unit) is increased to the revised estimate of its recoverable amount. The increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

FINANCIAL ASSETS

(a) Investments in subsidiaries

Investments in subsidiary undertakings are stated at cost less provision for any permanent diminution in value. The directors assess at each reporting date whether there is any objective evidence that a financial asset is impaired. If objective evidence of impairment is identified, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the asset's effective interest rate. Impairment of financial assets is reported in the income statement.

20. PENSION COMMITMENTS

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund.

The pension charge represents contributions payable by the Company to the fund and amounted to €270,051 (2018: €212,097). There was an outstanding contribution at 31 December 2019 of €39,705 (2018: €Nil).

21. CONTINGENCIES

In the normal course of business, the Company may be subject to indirect taxes on its services in certain foreign jurisdictions. The Company performs on-going reviews of potential indirect taxes in these jurisdictions. Although the outcome of these reviews and any potential liability is uncertain, no provision has been made in relation to these taxes as the directors believe that it is not probable that a material liability will arise.

22. PARENT UNDERTAKING

The Company's immediate parent undertaking is Hostelworld Group plc, a company incorporated in the United Kingdom. The smallest group in which the results of the Company are consolidated is that controlled by Hostelworld Group plc. Copies of the consolidated financial statements of Hostelworld Group plc are available from their registered office at Floor 2, 52 Bedford Row, London, WC1R 4LR, United Kingdom.

23. SUBSEQUENT EVENTS

As disclosed within the Directors report and our accounting policy for going concern the COVID-19 pandemic has had a significant impact on the business. Given the constantly evolving situation the Directors are not in a position to quantify the financial impact of COVID-19 on the Company at this time.

On 22 June 2020, the Company drew down on a 'Prompt Pay' (AIB Product Name) short term invoice financing facility with Allied Irish Banks PLC repayable in full by 23 April 2021. Total amount drawn down amounted to €3,454k. Hostelworld.com Limited must ensure it maintains a certain cash balance for the periods ending 30th September 2020, 31 December 2020 and 31 March 2021. We are not in breach of any covenants.

In June 2020 the Company also entered a three-year revolving credit facility for €7m with the Governor and Company of the Bank of Ireland to assist with the investing and development needs of the business. The facility is guaranteed by fixed and floating debenture over the assets of Hostelworld.com Limited to include proprietary interest in any Hostelworld booking platform, technology and intellectual property, group guarantees for the full amount of borrowings and a subordination deed between Hostelworld.com Limited, Hostelworld Group Plc and the Bank subordinating the repayment of all monies due by Hostelworld.com Limited to Hostelworld Group Plc in accordance with the provisions contained therein. There are some covenants attached to this facility being minimum cash balances and minimum tangible net worth. The availability of the facility can be drawn down in three tranches and are stepped in tranches based on incremental growth quarter on quarter for bookings numbers and revenue.

On 6th July 2020 a capital contribution of €14,564,296 was made from Hostelworld Group PLC to Hostelworld.com Limited.

The Directors deem the above subsequent events to be non-adjusting events.

c&c group plc

Annual Report 2020

Directors Compliance Statement (Made In Accordance With Section 225 of the Companies Act, 2014)

The Directors acknowledge that they are responsible for securing compliance by the Company with its relevant obligations as are defined in the Companies Act, 2014 (the 'Relevant Obligations').

The Directors confirm that they have drawn up and adopted a compliance policy statement setting out the Company's policies that, in the Directors' opinion, are appropriate to the Company with respect to compliance by the Company with its relevant obligations.

The Directors further confirm the Company has put in place appropriate arrangements or structures that are, in the Directors' opinion, designed to secure material compliance with its relevant obligations including reliance on the advice of persons employed by the Company and external legal and tax advisers as considered appropriate from time to time and that they have reviewed the effectiveness of these arrangements or structures during the financial year to which this report relates.

Financial Instruments

In the normal course of business, the Group has exposure to a variety of financial risks, including foreign currency risk, interest rate risk, liquidity risk, and credit risk. The Company's financial risk objectives and policies are set out in Note 23 of the financial statements.

Post Balance Sheet Events

As outlined in the Group's viability statement on pages 20 to 21, COVID-19 is having a material impact on the Group's business post year end. In response to this, the Group has implemented a series of measures to reduce operating costs, maximise available cash flow, and maintain and strengthen the Group's liquidity position.

In March 2020, the Group completed the successful issue of approximately €140 million of new US Private Placement ('USPP') notes.

The Group has also received confirmation from the Bank of England that it is eligible to issue commercial paper under the COVID-19 Corporate Financing Facility scheme. The Group had not drawn down on this facility as at 3 June 2020.

Due to the emergence of COVID-19 and the impact this has on global economies and on business generally, the Board concluded, post year-end, that it was not appropriate to pay a final dividend for FY2020.

See note 29 (Post Balance Sheet Events) to the financial statements for further information.

Annual General Meeting

Your attention is drawn to the letter to shareholders and the notice of meeting accompanying this report which set out details of the matters which will be considered at the Annual General Meeting. In particular, please ensure to read additional disclosures relating to restrictions at the Annual General Meeting due to government and health authority guidance on COVID-19 social distancing.

Other Information

Other information relevant to the Director's Report may be found in the following sections of the Annual Report:

Information	Location in the Annual Report
Results	Financial Statements – pages 104 to 110.
Principal risks & uncertainties including risks associated with recent emergence of COVID-19	Principal Risks & Uncertainties – pages 13 to 21.
Directors' remuneration, including the interests of the directors and secretary in the share capital of the Company	Directors' Remuneration Report – pages 77 to 92.
Long-Term Incentive Plan, share options and equity settled incentive schemes	Directors' Remuneration Report – pages 77 to 92.
Significant subsidiary undertakings	Financial Statements – Note 28.

The Directors' Report for the year ended 29 February 2020 comprises these pages and the sections of the Annual Report referred to under 'Other information' above, which are incorporated into the Directors' Report by reference.

Signed
On behalf of the Board

Stewart Gilliland
Interim Executive Chairman

Jonathan Solesbury
Group Chief Financial Officer

3 June 2020

Consolidated Income Statement
For the financial year ended 29 February 2020

		Year ended 29 February 2020			Year ended 28 February 2019		
	Notes	Before exceptional items €m	Exceptional items (note 5) €m	Total €m	Before exceptional items €m	Exceptional items (note 5) €m	Total €m
Revenue	1	**2,145.5**	**-**	**2,145.5**	1,997.3	-	1,997.3
Excise duties		**(426.2)**	**-**	**(426.2)**	(422.4)	-	(422.4)
Net revenue	1	**1,719.3**	**-**	**1,719.3**	1,574.9	-	1,574.9
Operating costs	2	**(1,598.5)**	**(91.0)**	**(1,689.5)**	(1,470.4)	(7.8)	(1,478.2)
Group operating profit/(loss)	1	**120.8**	**(91.0)**	**29.8**	104.5	(7.8)	96.7
Profit on disposal	5	**-**	**0.9**	**0.9**	-	-	-
Finance income	6	**0.5**	**-**	**0.5**	0.1	-	0.1
Finance expense	6	**(20.3)**	**-**	**(20.3)**	(15.7)	-	(15.7)
Share of equity accounted investments' profit/(loss) after tax	13	**3.1**	**(2.4)**	**0.7**	4.0	(3.3)	0.7
Profit/(loss) before tax		**104.1**	**(92.5)**	**11.6**	92.9	(11.1)	81.8
Income tax (expense)/credit	7	**(12.3)**	**9.8**	**(2.5)**	(10.8)	1.1	(9.7)
Group profit/(loss) for the financial year		**91.8**	**(82.7)**	**9.1**	82.1	(10.0)	72.1
Attributable to:							
Equity holders of the parent		**91.8**	**(82.7)**	**9.1**	82.3	(10.0)	72.3
Non-controlling interests		**-**	**-**	**-**	(0.2)	-	(0.2)
Group profit/(loss) for the financial year		**91.8**	**(82.7)**	**9.1**	82.1	(10.0)	72.1
Basic earnings per share (cent)	9			**2.9**			23.4
Diluted earnings per share (cent)	9			**2.9**			23.4

All of the results are related to continuing operations.

Consolidated Balance Sheet
As at 29 February 2020

	Notes	2020 €m	2019 €m
ASSETS			
Non-current assets			
Property, plant & equipment*	11	**223.4**	144.5
Goodwill & intangible assets	12	**652.9**	683.7
Equity accounted investments	13	**83.9**	71.4
Retirement benefits	22	**8.8**	9.0
Deferred tax assets	21	**11.9**	4.0
Trade & other receivables	15	**25.8**	25.7
		1,006.7	938.3
Current assets			
Inventories	14	**145.8**	184.1
Trade & other receivables	15	**166.0**	162.6
Cash		**123.4**	144.4
		435.2	491.1
TOTAL ASSETS		**1,441.9**	1,429.4
EQUITY			
Capital and reserves			
Equity share capital	24	**3.2**	3.2
Share premium	24	**171.0**	152.6
Treasury shares	24	**(36.6)**	(37.1)
Other reserves	24	**102.4**	96.4
Retained income		**315.4**	383.7
Equity attributable to equity holders of the parent		**555.4**	598.8
Non-controlling interests		**-**	(0.8)
Total Equity		**555.4**	598.0
LIABILITIES			
Non-current liabilities			
Lease liabilities	18	**74.4**	-
Interest bearing loans & borrowings	19	**323.8**	390.8
Retirement benefits	22	**16.7**	12.2
Provisions	17	**5.1**	11.1
Deferred tax liabilities	21	**16.5**	16.9
		436.5	431.0
Current liabilities			
Lease liabilities	18	**18.9**	-
Derivative financial liabilities	23	**0.3**	2.0
Trade & other payables	16	**390.7**	336.3
Interest bearing loans & borrowings	19	**33.2**	55.2
Provisions	17	**4.1**	4.6
Current income tax liabilities		**2.8**	2.3
		450.0	400.4
Total liabilities		**886.5**	831.4
TOTAL EQUITY & LIABILITIES		**1,441.9**	1,429.4

* Includes leased right-of-use assets with net carrying amount of €76.7m (see note 18).

On behalf of the Board

S Gilliland
Interim Executive Chairman

J Solesbury
Chief Financial Officer

3 June 2020

Statement of Accounting Policies
For the year ended 29 February 2020 (continued)

reflected in the Group's consolidated tax charge and provision and any such differences could have a material impact on the Group's income tax charge and consequently financial performance. The determination of the provision for income tax is based on management's understanding of the relevant tax law and judgement as to the appropriate tax charge, and management believe that all assumptions and estimates used are reasonable and reflective of the tax legislation in jurisdictions in which the Group operates. Where the final tax charge is different from the amounts that were initially recorded, such differences are recognised in the income tax provision in the period in which such determination is made.

Deferred tax assets in respect of deductible temporary differences are recognised only to the extent that it is probable that taxable profits or taxable temporary differences will be available against which to offset these items. The recognition or non-recognition of deferred tax assets as appropriate also requires judgement as it involves an assessment of the future recoverability of those assets. The recognition of deferred tax assets is based on management's judgement and estimate of the most probable amount of future taxable profits and taking into consideration applicable tax legislation in the relevant jurisdiction.

Impact of COVID-19

There is a significant judgement in whether the impact of COVID-19 should be considered in the measurement of assets and liabilities at year end. This judgement is based on whether COVID-19 is considered an adjusting or non-adjusting event, which is based on the facts and circumstances at the balance sheet date. The global spread of COVID-19 began before the balance sheet date and the Group concluded that the impact of COVID-19 should be reflected in the measurement of assets and liabilities in the Consolidated Balance Sheet.

Sources of estimation uncertainty

Business combinations

Upon acquisition, the Group makes estimates to determine the purchase price of businesses acquired, taking into account contingent consideration, as well as its allocation to acquired assets and liabilities. The Group is required to determine the acquisition date and fair value of the identifiable assets acquired, including intangible assets such as brands, customer relationships and liabilities assumed. The estimated useful lives of the acquired amortisable assets, the identification of intangible assets and the determination of the indefinite or finite useful lives of intangible assets acquired will have an impact on the Group's future profit or loss.

The Group did not make any acquisitions in the current year. In the prior year the Group acquired the entire share capital of Matthew Clark (Holdings) Limited and Bibendum PLB (Topco) Limited. Significant estimates were made in the prior year as to the fair value of acquired assets and liabilities on acquisition as discussed in the Group's Annual Report for the financial year ended 28 February 2019.

Recoverable amount of goodwill

The impairment testing process requires management to make significant estimates regarding the future cash flows expected to be generated by cash-generating units to which goodwill has been allocated. Future cash flows relating to the eventual disposal of these cash-generating units and other factors may also be relevant to determine the fair value of goodwill. Management periodically evaluates and updates the estimates based on the conditions which influence these variables. The assumptions and conditions for determining impairments of goodwill reflect management's best assumptions and estimates (discount rates, terminal growth rates, forecasted volume, net revenue, operating profit) but these items involve inherent uncertainties described above, many of which are not under management's control. As a result, the accounting for such items could result in different estimates or amounts if management used different assumptions or if different conditions occur in future accounting periods.

The inputs to the value-in-use calculations are disclosed in note 12.

Incremental borrowing rates on leases

Management use estimation in determining the incremental borrowing rates for leases which has a significant impact on the lease liabilities and right-of-use assets recognised. The incremental borrowing rates are calculated using a portfolio approach, based on the risk profile of the entity holding the lease and the term and currency of the lease. The weighted average incremental borrowing rate applied to lease liabilities on the Consolidated Balance Sheet on transition was 4.07% at 1 March 2019.

Pension valuation

Significant estimates are used in the determination of the pension obligation, the amounts recognised in the Income Statement and Statement of Other Comprehensive Income and the valuation of the defined benefit pension net surplus or deficit are sensitive to the assumptions used. The assumptions underlying the actuarial valuations (including discount rates, rates of increase in future compensation levels, mortality rates, salary and pension increases, future inflation rates and healthcare cost trends), from which the amounts recognised in the Consolidated Financial Statements are determined, are updated annually based on current economic conditions and for any relevant changes to the terms and conditions of the pension and post-retirement plans. These assumptions can be affected by (i) for the discount rate, changes in the rates of return on high-quality corporate bonds; (ii) for future compensation levels, future labour market conditions and (iii) for healthcare cost trend rates, the rate of medical cost inflation in the relevant regions. The weighted average actuarial assumptions used and sensitivity analysis in relation to the significant assumptions employed in the determination of pension and other post-retirement liabilities are contained in note 22 to the Consolidated Financial Statements.

Whilst management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect the obligations and expenses recognised in future accounting periods. The assets and liabilities of defined benefit pension schemes may exhibit significant period-on-period volatility attributable primarily to changes in bond yields and longevity. In addition to future service contributions, cash contributions may be required to remediate past service deficits. A sensitivity analysis of the change in these assumptions is provided in note 22.

Expected credit losses

Further to the impact of COVID-19 on the Group, estimates have been made around the credit losses expected to be incurred on the Group's financial assets – principally being trade receivables and trade loans. In determining the expected credit losses, the Group has considered different sources of financial information, including comparisons to the financial crash and current market data, and concluded a suitable benchmark as being credit default swaps on industry-appropriate companies. Market data for credit default swaps on listed entities in the on-trade has been adjusted for yield-curves and Group customer risk weightings in determining an appropriate proxy for expected credit losses.

For international, listed customers, without evidence to the contrary, (known as "low risk") the expected credit loss is considered to be similar to the credit risk implied from credit default swaps of similar entities. However, for smaller, regional customers with less access to finance, the expected credit loss applied is leveraged by reference to historical Group losses for these customers as a ratio to Group losses for "low risk" customers.

Provision for obsolete stock

As a result of COVID-19, the Group has been required to consider its provision for obsolete inventory. For inventory which has no alternate use or right of return to the supplier, and is not expected to be sold during lockdown, the provision for obsolescence has been calculated by reference to the shelf life of products compared with the expected period of lockdown. The Group has made an estimate of the period of lockdown based on the Geography of its operations on a case-by-case basis. The period of lockdown estimated for any region is not in excess of six months from year end.

Notes forming part of the financial statements
(continued)

4. SHARE-BASED PAYMENTS (continued)

A summary of activity under the Group's equity settled share option schemes with the weighted average exercise price of the share options is as follows:-

	2020 Number of options/ equity Interests	2020 Weighted average exercise price €	2019 Number of options/ equity Interests	2019 Weighted average exercise price €
Outstanding at beginning of year	**5,491,198**	**1.33**	3,250,587	1.39
Granted/correction to opening balance	**1,415,187**	**-**	2,708,599	1.04
Exercised	**(259,166)**	**1.40**	(64,445)	-
Forfeited/lapsed	**(1,859,083)**	**1.16**	(403,543)	-
Outstanding at end of year	**4,788,136**	**1.00**	5,491,198	1.33

The aggregate number of share options/equity Interests exercisable at 29 February 2020 was 345,015 (2019: 113,045).

The unvested share options/equity Interests outstanding at 29 February 2020 have a weighted average vesting period outstanding of 1.3 years (2019: 1.8 years). The weighted average contractual life outstanding of vested and unvested share options/equity Interests is 7.1 years (2019: 7.5 years).

The weighted average market share price at date of exercise of all share options/equity Interests exercised during the year was €4.39 (2019: €3.11); the average share price for the year was €4.03 (2019: €3.17); and the market share price as at 29 February 2020 was £3.28 or €3.84 euro equivalent (28 February 2019: €3.06 or £2.63 sterling equivalent).

5. EXCEPTIONAL ITEMS

	2020 €m	2019 €m
Operating costs		
COVID-19 (a)	**(47.6)**	-
Impairment of intangible assets (b)	**(34.2)**	-
Contract termination (c)	**(4.4)**	-
Restructuring costs (d)	**(3.0)**	(5.3)
Impairment of property, plant & equipment (e)	**(1.0)**	(0.4)
Acquisition related expenditure (f)	**(0.2)**	(2.1)
Other (g)	**(0.6)**	-
Operating profit exceptional items	**(91.0)**	(7.8)
Profit on disposal (h)	**0.9**	-
Share of equity accounted investments' exceptional items (i)	**(2.4)**	(3.3)
Total loss before tax	**(92.5)**	(11.1)
Income tax credit (j)	**9.8**	1.1
Total loss after tax	**(82.7)**	(10.0)

(a) COVID-19

The Group has accounted for the COVID-19 pandemic as an adjusting event in the current financial year and has incurred an exceptional charge of €47.6m at 29 February 2020 in this regard. In light of the closure of on-trade premises in both Ireland and the UK, the Group reviewed the recoverability of its debtor book and advances to customers and booked an expected credit loss provision directly associated with COVID-19 of €19.4m and €5.8m respectively. The Group also reviewed the stock balances and in particular stock that was due to expire in the short to medium term and booked a provision of €10.6m. The balance of €11.8m relates to trade and marketing contracts now deemed to be onerous of €9.4m and the write off of an IT intangible asset where the project will now not be completed, as a direct consequence of COVID-19, of €2.4m.

5. EXCEPTIONAL ITEMS (continued)

(b) Impairment of intangible assets

To ensure that goodwill and brands considered to have an indefinite useful economic life are not carried at above their recoverable amount, impairment reviews are performed annually or more frequently if there is an indication that their carrying amount(s) may not be recoverable, comparing the carrying value of the assets with their recoverable amount using value-in-use computations.

With regard to the Group's North America segment and in particular the Woodchuck suite of brands, the projected cash flows no longer supported the carrying value of the brand and an impairment of €34.1m was taken at 29 February 2020. Despite some signs of volume growth last summer on the back of innovation launches, the Woodchuck brands continue to struggle in an ever more crowded market place. The overall Cider category remains under pressure and is declining in value terms. The success of the relatively new Hard Seltzers' category in particular has squeezed other categories and resulted in less space being made available for our brands. In the short and medium term the outlook is not positive for growth in Cider in the US and the COVID-19 crisis and linked restrictions has further restricted our ability to innovate and trade our way back to sustainable profit growth.

An impairment of €0.1m was taken with respect to the Group's Matthew Clark Bibendum cash generating unit directly attributable to a discontinued brand.

(c) Contract termination

During the current financial year, the Group terminated a number of its long term apple contracts incurring a cost of €4.4m. These apple contracts were deemed surplus to requirements.

(d) Restructuring costs

Restructuring costs of €3.0m were incurred in the current financial year. These costs were primarily relating to severance costs arising from the acquisition and subsequent integration of Matthew Clark and Bibendum of €2.3m. Restructuring costs of €0.5m related to the centralisation of accounting services. Other restructuring initiatives across the Group in the current financial year resulted in a further charge of €0.2m.

In the prior financial year, restructuring costs of €5.3m were incurred primarily relating to severance costs arising from the acquisition and subsequent integration of Matthew Clark and Bibendum and the previously acquired Orchard Pig into the Group, of €3.4m and €0.5m respectively. Other restructuring initiatives across the Group in the prior financial year resulted in a further charge of €1.4m.

(e) Impairment of property, plant & equipment

Property (comprising land and buildings) and plant & machinery are valued at fair value on the Balance Sheet and reviewed for impairment on an annual basis. During the current financial year, as outlined in detail in note 11, the Group engaged external valuers to value the freehold land & buildings and plant & machinery at the Group's Clonmel (Tipperary), Wellpark (Glasgow), Vermont (USA) and Portugal sites, along with the Group's various Depots. Using the valuation methodologies, this resulted in a net revaluation loss of €1.0m accounted for in the Income Statement and a gain of €1.1m accounted for within Other Comprehensive Income.

In the prior financial year, the Group took the decision to impair an element of its IT system at a cost of €0.4m which had become redundant following a system upgrade.

(f) Acquisition related expenditure

During the current financial year, the Group incurred €0.2m of costs associated with a previous acquisition.

During the prior financial year, the Group incurred €2.1m of acquisition and integration related costs, primarily with respect to professional fees associated with the acquisition and subsequent integration of Matthew Clark and Bibendum into the Group.

(g) Other

Other costs of €0.6m were incurred during the current financial year with respect to incremental costs related to the dual running of warehouse management systems in Scotland due to system implementation delays.

12. GOODWILL & INTANGIBLE ASSETS (continued)

Other intangible assets

Other intangible assets have been attributed to operating segments (as identified under IFRS 8 *Operating Segments*) as follows:

	Ireland €m	Great Britain €m	International €m	MCB €m	Total €m
Cost					
At 1 March 2018	2.0	2.5	-	-	4.5
Additions	1.7	-	-	1.4	3.1
Arising on acquisition of Matthew Clark and Bibendum (note 10)	-	-	-	10.3	10.3
Reclassification from property, plant & equipment (note 11)	3.1	13.2	0.3	-	16.6
Translation adjustment	-	0.1	-	0.1	0.2
At 28 February 2019	6.8	15.8	0.3	11.8	34.7
Additions	**-**	**2.1**	**-**	**2.4**	**4.5**
Disposals	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Translation adjustment	**-**	**-**	**-**	**0.1**	**0.1**
At 29 February 2020	**6.8**	**17.9**	**0.3**	**14.2**	**39.2**
Amortisation and impairment					
At 1 March 2018	0.5	1.2	-	-	1.7
Reclassification from property, plant & equipment (note 11)	1.1	12.3	0.2	-	13.6
Amortisation charge for the year	0.5	0.7	-	1.2	2.4
At 28 February 2019	2.1	14.2	0.2	1.2	17.7
Disposals	**-**	**-**	**-**	**(0.1)**	**(0.1)**
Impairment charge for the year	**-**	**-**	**-**	**2.4**	**2.4**
Amortisation charge for the year	**0.7**	**0.2**	**0.1**	**1.5**	**2.5**
At 29 February 2020	**2.8**	**14.4**	**0.3**	**5.0**	**22.5**
Net book value					
At 29 February 2020	**4.0**	**3.5**	**-**	**9.2**	**16.7**
At 28 February 2019	4.7	1.6	0.1	10.6	17.0

At year end, the Group wrote off an IT intangible asset where the project will now not be completed, as a direct consequence of COVID-19 of €2.4m.

In the prior year, due to the acquisition of Matthew Clark and Bibendum, the Group acquired trade relationships which were valued at fair value at the date of acquisition in accordance with the requirements of IFRS 3 *Business Combinations* by independent professional valuers. These trade relationships have a finite life and are subject to amortisation on a straight-line basis.

Other intangible assets also comprise the fair value of trade relationships acquired as part of the acquisition of TCB Wholesale during FY2015, the Gleeson trade relationships acquired during FY2014 and 20 year distribution rights for third party beer products acquired as part of the acquisition of the Tennent's business during FY2010. These were valued at fair value on the date of acquisition in accordance with the requirements of IFRS 3 (2008) Business Combinations by independent professional valuers. The intangible assets have a finite life and are subject to amortisation on a straight-line basis.

During the prior financial year, the Group reclassified assets from property, plant & equipment which were deemed to be more appropriately classified as intangible assets. This assets primarily related to software and licences.

The amortisation charge for the year ended 29 February 2020 with respect to intangible assets was €2.5m (2019: €2.4m).

Notes forming part of the financial statements
(continued)

12. GOODWILL & INTANGIBLE ASSETS (continued)

Impairment testing

To ensure that goodwill and brands that are considered to have an indefinite useful economic life are not carried at above their recoverable amount, impairment testing is performed comparing the carrying value of the assets with their recoverable amount using value-in-use computations. Impairment testing is performed annually or more frequently if there is an indication that the carrying amount may not be recoverable. Where the value-in-use exceeds the carrying value of the asset, the asset is not impaired.

As permitted by IAS 36 *Impairment of Assets*, the value of the Group's goodwill has been allocated to groups of cash generating units, which are not larger than an operating segment determined in accordance with IFRS 8 *Operating Segments*. These business segments represent the lowest levels within the Group at which the associated goodwill is monitored for management purposes.

The recoverable amount is calculated using value-in-use computations based on estimated future cash flows discounted to present value using a discount rate appropriate to each cash generating unit and brand. Terminal values are calculated on the assumption that cash flows continue in perpetuity.

The key assumptions used in the value-in-use computations using level 3 inputs in accordance with fair value hierarchy are:-

- Expected volume, net revenue and operating profit growth rates – cash flows for each CGU and brand are based on detailed financial budgets and plans. These plans were recalculated post year end in light of COVID-19 and reflect the best estimate of the Group's projected cash flows over the next five years;
- Long-term growth rate – cash flows after the first five years were extrapolated using a long-term growth rate, on the assumption that cash flows for the first five years will increase at a nominal growth rate in perpetuity;
- Discount rate.

The key assumptions were based on management assessment of anticipated market conditions for each CGU both in the current financial year and over the next five years in light of COVID-19. A terminal growth rate of 1.75%-2.00% (2019: 1.75%-2.00%) in perpetuity was assumed based on an assessment of the likely long-term growth prospects for the sectors and geographies in which the Group operates. The resulting cash flows were discounted to present value using a range of discount rates between 5.6%-8.3% (2019: 6.0%-8.3%); these rates are in line with the Group's estimated pre-tax weighted average cost of capital for the three main geographies in which the Group operates (Ireland, Great Britain and North America), arrived at using the Capital Asset Pricing Model as adjusted for asset and country specific factors.

In formulating the budget the Group takes into account historical experience, an appreciation of its core strengths and weaknesses in the markets in which it operates and external factors such as macro-economic factors, inflation expectations by geography, regulation and expected changes in regulation (such as expected changes to duty rates and minimum pricing), market growth rates, sales price trend, competitor activity, market share targets and strategic plans and initiatives. The key macro-economic factor that influenced the cash flows was undoubtedly COVID-19 and the Group's assessment of how a recovery takes place.

With regard to the Group's North America segment and particular the Woodchuck suite of brands, the projected cash flows no longer supported the carrying value of the brand and an impairment of €34.1m was taken at 29 February 2020. Despite some signs of volume growth last summer on the back of innovation launches, the Woodchuck brands continue to struggle in an ever more crowded market place. The overall Cider category remains under pressure and is declining in value terms. The success of the relatively new Hard Seltzers' category in particular has squeezed other categories and resulted in less space being made available for our brands. In the short and medium term the outlook is not positive for growth in Cider in the US and the COVID-19 crisis and linked restrictions has further restricted our ability to innovate and trade our way back to sustainable profit growth.

Notes forming part of the financial statements
(continued)

13. EQUITY ACCOUNTED INVESTMENTS/FINANCIAL ASSETS (continued)

Canadian Investment
During the current financial year, the Group disposed of its equity accounted investment in a Canadian company for cash proceeds of €6.1m, realising a profit of €2.6m on disposal.

Whitewater Brewing Company Limited
On 20 December 2016, the Group acquired 25% of the equity share capital of Whitewater Brewing Company Limited, an Irish Craft brewer for £0.3m (€0.3m).

Other
During the current financial year, on 5 March 2019, the Group made a 10% investment in an English registered entity Jubel Limited, a craft beer producer for €0.3m (£0.3m).

In the current financial year, the Group made an additional investment in CVBA Braxatorium Parcensis of €0.2m following on from a less than €0.1m investment in the prior year. The Group has a 33% investment in the Belgium entity.

The Group also has an equity investment in Shanter Inns Limited, Beck & Scott (Services) Limited (Northern Ireland) and The Irish Brewing Company Limited (Ireland). The value of each of these investments is less than €0.1m in the current and prior financial year.

(b) Financial Assets – Company

	2020 €m	2019 €m
Equity investment in subsidiary undertakings at cost		
At beginning of year	**982.1**	980.2
Capital contribution in respect of share options granted to employees of subsidiary undertakings	**2.5**	1.9
At end of year	**984.6**	982.1

The total expense of €2.5m (2019: €1.9m) attributable to equity settled awards granted to employees of subsidiary undertakings has been included as a capital contribution in financial assets.

In the opinion of the Directors, the shares in the subsidiary undertakings are worth at least the amounts at which they are stated in the Balance Sheet. Details of subsidiary undertakings are set out in note 28.

14. INVENTORIES

	2020 €m	2019 €m
Group		
Raw materials & consumables	**46.2**	47.2
Finished goods & goods for resale	**99.6**	136.9
Total inventories at lower of cost and net realisable value	**145.8**	184.1

An analysis of the Group's cost of sale expense is provided in Note 2 to the financial statements.

Inventory write-down recognised within operating costs amounted to €2.2m (2019: €3.2m). The inventory write-down in the current financial year was with respect to breakages and write off of damaged and obsolete stock. The inventory write-down in the prior financial year of €3.2m was primarily due to the write-down of obsolete stock of €1.7m as a result of a change in a distribution company and the write-down of obsolete stock in our newly acquired distribution business of €1.5m due to a discontinued product. During the current financial year, the Group has reviewed the stock balances and in particular stock that was due to expire in the short to medium term and booked a provision of €10.6m as a result of COVID-19 (note 5).

Notes forming part of the financial statements
(continued)

15. TRADE & OTHER RECEIVABLES (continued)

The Group applies the simplified approach permitted by IFRS 9 *Financial Instruments* to measure expected credit losses for trade receivables, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables are assessed collectively in groups that share similar credit risk characteristics, such as customer segments, historical information on payment patterns, terms of payment and days past due. The expected loss rates are based on the payment profiles of sales and the corresponding historical credit loss experience. The historical loss rates are adjusted to reflect current and forward-looking information on customer specific and macroeconomic factors, which affect the ability of customers to settle receivables. COVID-19 had a material impact on the assessment of credit losses of the Group's receivables balances at year end and the Group booked an exceptional provision of €19.4m in this regard (note 5).

Regarding advances to customers, the Group applies the general approach to measure expected credit losses which requires a loss provision to be recognised based on twelve month or lifetime expected credit losses, provided a significant increase in credit risk has occurred since initial recognition. The Group assesses the expected credit losses for advances to customers based on historical information on payment patterns, monitoring customer ordering activities, concentration maturity, and information about the current or forecasted general economic conditions, which affect the ability of customers to settle advances. The credit risk on advances to customers can be reduced through the value of security and/or collateral given. COVID-19 had a material impact on the assessment of credit losses with regard to advances to customers at year end and the Group booked an exceptional provision of €5.8m in this regard (note 5).

Trade receivables are on average receivable within 21 days (2019: 18 days) of the balance sheet date, are unsecured and are not interest bearing. For more information on the Group's credit risk exposure refer to note 23.

The movement in the allowance for impairment in respect of trade receivables and advances to customers during the year was as follows:

	Trade receivables 2020 €m	Advance to customers 2020 €m	Total 2020 €m	Total 2019 €m
Group				
At beginning of year	**11.5**	**5.7**	**17.2**	13.3
Arising on acquisition	**-**	**-**	**-**	6.9
Recovered during the year	**(3.9)**	**-**	**(3.9)**	(6.5)
Provided during the year	**25.6**	**6.7**	**32.3**	6.3
Written off during the year	**(3.6)**	**(2.0)**	**(5.6)**	(2.7)
Translation adjustment	**-**	**-**	**-**	(0.1)
At end of year	**29.6**	**10.4**	**40.0**	17.2

At 29 February 2020, regarding the impact of the expected loss model on trade receivables and advances to customers, the Group has provided for expected credit losses over the next twelve months of €22.3m (2019: €1.4m) and expected lifetime losses of €17.7m (2019: €15.8m).

25. COMMITMENTS

(a) Capital commitments

At the year end, the following capital commitments authorised by the Board had not been provided for in the financial statements:-

	2020 €m	2019 €m
Contracted	**2.3**	3.8
Not contracted	**7.7**	15.7
	10.0	19.5

The contracted capital commitments at 29 February 2020 primarily relate to an improved drainage system and waste water treatment plant in Clonmel amounting to €1.4m (2019: €0.7m), a waste water treatment plant in Wellpark of €0.7m (2019: €2.1m) and other of €0.2m (2019: €1.0m).

(b) Other commitments

At the year end, the value of contracts placed for future expenditure was:-

2020	Apples €m	Glass €m	Marketing* €m	Barley €m	Aluminium €m	Polymer €m	Wheat €m	Sugar/ glucose €m	Natural gas	Electricity	Total** €m
Payable in less than one year	**8.1**	**4.7**	**7.6**	**7.6**	**0.8**	**0.3**	**0.9**	**7.5**	**0.3**	**0.1**	**37.9**
Payable between 1 and 5 years	**13.3**	**-**	**6.4**	**14.8**	**-**	**-**	**-**	**-**	**-**	**-**	**34.5**
Payable greater than 5 years	**23.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**23.6**
	45.0	**4.7**	**14.0**	**22.4**	**0.8**	**0.3**	**0.9**	**7.5**	**0.3**	**0.1**	**96.0**

* An element of committed marketing spend is now deemed to be onerous in light of COVID-19 (note 5).
** Commitment obligations range from between 1 year to 25 years.

2019	Apples €m	Glass €m	Marketing €m	Barley €m	Aluminium €m	Polymer €m	Wheat €m	Sugar/ glucose €m	Natural gas	Electricity	Total* €m
Payable in less than one year	7.6	3.0	4.2	7.8	0.6	0.2	0.9	7.9	-	0.7	32.9
Payable between 1 and 5 years	11.7	-	3.4	17.9	-	-	-	-	-	-	33.0
Payable greater than 5 years	23.0	-	-	-	-	-	-	-	-	-	23.0
	42.3	3.0	7.6	25.7	0.6	0.2	0.9	7.9	-	0.7	88.9

* Commitment obligations range from between 1 year to 26 years.

Notes forming part of the financial statements
(continued)

28. SUBSIDIARIES AND EQUITY ACCOUNTED INVESTMENTS (continued)

Equity accounted investments

	Notes	Nature of business	Class of shares held as at 29 February 2020 (100% unless stated)
Joint venture			
Beck & Scott (Services) Limited (Northern Ireland)	(a)	Wholesale of drinks	Ordinary, 50%
Brady P&C Limited (England)	(b)	Holding Company	Ordinary, 49.9%
Drygate Brewing Company Limited (Scotland)	(c)	Brewing	B Ordinary, 49%
The Irish Brewing Company Limited (Ireland)	(d)	Non-trading	Ordinary, 45.61%
Associate			
CVBA Braxatorium Parcensis	(e)	Brewing	33.33%
Shanter Inns Limited (Scotland)	(f)	Public houses	Ordinary, 33%
Whitewater Brewing Co. Limited (Northern Ireland)	(g)	Brewing	25%
Jubel Limited	(h)	Brewing	10%

Notes:
(a) – (h)
The address of the registered office of each of the above equity accounted investments is as follows:
(a) Unit 1, Ravenhill Business Park, Ravenhill Road, Belfast, BT6 8AW, Northern Ireland.
(b) 49 Berkeley Square, 2nd Floor, London W1J 5AZ.
(c) 85 Drygate, Glasgow, G4 0UT, Scotland.
(d) Bulmers House, Keeper Road, Crumlin, Dublin 12, D12 K702, Ireland.
(e) 3001 Leuven-Heverlee, Abdij van Park 7, Belgium.
(f) 230 High Street, Ayr, KA7 1RQ, Scotland.
(g) Lakeside Brae, Castlewellan, Northern Ireland, BT31 9RH.
(h) Office 311 Edinburgh House, 170 Kennington Lane, London, England, SE11 5DP.

29. POST BALANCE SHEET EVENTS

As outlined in the Group's viability statement on page 20, COVID-19 is having a material impact on the Group's business and the Group has accounted for this as an adjusting event in the current year's financial statements. Post year end COVID-19 continues to have an impact on the Group's financial statements. In response to this, the Group has implemented a series of measures to reduce operating costs, maximise available cash flow, and maintain and strengthen the Group's liquidity position.

In March 2020, the Group completed the successful issue of approximately €140 million of new US Private Placement ('USPP') notes. The unsecured notes have maturities of 10 and 12 years and diversify the Group's sources of debt finance. The Group's Euro term loan included a mandatory prepayment clause from the issuance of any Debt Capital Market instruments. A waiver of the prepayment was successfully negotiated post year end in addition to a waiver of a July 2020 repayment which now becomes payable with the last instalment in July 2021. The Group also received a waiver on its debt covenants from its lending group for FY2021, to be replaced by a minimum liquidity covenant and monthly gross debt cap.

The Group has also received confirmation from the Bank of England that it is eligible to issue commercial paper under the COVID-19 Corporate Financing Facility ('CCFF'') scheme. The Group had not drawn down on this facility as at 3 June 2020.

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Annual Report 2019

Royal Dutch Airlines

KLM 100

Financial Statements financial year 2019

Notes to the consolidated financial statements

General

Koninklijke Luchtvaart Maatschappij N.V. (the "Company" or "the Group") is a public limited liability company incorporated and domiciled in The Netherlands. The Company's registered office is located in Amstelveen.

The Company is a subsidiary of AIR FRANCE KLM S.A. ("AIR FRANCE KLM"), a company incorporated in France. The Company financial statements are included in the financial statements of AIR FRANCE KLM which can be obtained from the AIR FRANCE KLM Financial communication department. AIR FRANCE KLM's shares are quoted on the Paris and Amsterdam stock exchanges.

These financial statements have been authorised for issue by the Board of Managing Directors on April 8, 2020 and will be submitted for approval to the Annual General Meeting (AGM) of shareholders on April 23, 2020.

Subsequent events and going concern

COVID-19 impact and uncertainties

The worldwide spreading of COVID-19 in the first quarter of 2020 has had and continues to have a major impact on air traffic around the world. Many countries have taken increasingly stringent measures in an attempt to slow the expansion rate of the epidemic. Some countries have imposed constraints on the movement of travellers from the Netherlands or, more broadly from Europe. Consequently, air traffic to most of KLM's destinations will be significantly reduced for a period of time to some 20 to 10 per cent of normal traffic levels. KLM's financial performance for at least 2020 will be affected severely by a loss of revenue, sales of tickets and significant negative cash flows to an extent and for a duration that are currently uncertain.

As at the date of this Annual Report, the crisis is still evolving, bringing many uncertainties, which makes it impossible to predict the scale of impact of the COVID-19 crisis on KLM and its future including our operations, financial performance and liquidity. Various scenarios are possible with no consensus on how the recovery will actually evolve, when the direct impact will end and how the economy will recover.

Marks and Spencer Group plc
Annual Report & Financial Statements
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COVID-19 ADJUSTING ITEMS

Following the declaration by the World Health Organisation of the Covid-19 global pandemic and the subsequent UK and International government restrictions, Clothing and Home has been unable to trade from full line stores, M&S outlet stores and a number of Food franchises have temporarily closed and trade in Food has had to continue with social distancing measures in place. As a result, charges of £212.8m have been recognised relating to the Covid-19 pandemic. The charges relate to stock provisioning, impairments of intangible assets, property, plant and equipment and onerous contract provisions, cancellation charges and one-off costs. Should the estimated charges prove to be in excess of the amounts required, the release of any amounts previously provided would be treated as adjusting items.

The impact that Covid-19 has had on underlying trading is not recognised within adjusting items.

The charges relate to:

- Stock provisioning: £157.0m.
- Incremental impairments of intangibles and PP&E: £49.2m.
- Onerous contract provisions, cancellations, one-off costs: £6.6m.

Following a detailed assessment of all retail inventory, a charge of £157.0m has been recognised (C&H: £145.3m; Food: £6.0m and International: £5.7m). The provision relates to items from previous seasons which are unlikely to be saleable when stores reopen; items in the summer sale that are likely to be cleared below cost and the cost associated with hibernating stock to Spring/Summer 2021. The provision in Food includes charges related to unsaleable seasonal goods as a result of the lockdown of activity in late March.

As a direct result of the Covid-19 pandemic, following a reperformance of all impairment assessments using the cash flows in the Covid-19 scenario, incremental impairment charges have been recognised of £49.2m (Store impairments: £24.2m, per una: £13.4m and UK store estate programme: £11.6m).

£6.6m of charges have been recognised relating to onerous contracts and other provisions, cancellation charges and impairment and write-off of intangible assets in the course of construction following project cancellations.

TAXATION

The effective tax rate on profit before tax and adjusting items was 20.7% (last year 20.7%). This was lower than the expected effective tax rate due to an increase in the estimated deferred tax assets of the Group which resulted from a change to the previously enacted UK corporate tax rate of 17% back to 19%. The effect of this increase is not expected to impact future years. The effective tax rate is higher than the UK statutory rate due to the recapture of previous tax relief under the Marks and Spencer Scottish Limited Partnership ("SLP") structure. The effective tax rate on statutory profit before tax was 59.3% (last year 46.2%) due to the impact of disallowable adjusting items.

EARNINGS PER SHARE

Basic earnings per share were 1.3p (last year 2.5p), due to the decrease in profit year-on-year and the increase in weighted average shares outstanding. The weighted average number of shares in issue during the period was 1,894.9m (last year restated for the bonus factor related to the rights issue: 1,698.1m), reflecting the issuance of 325m shares following the completion of the rights issue.

Adjusted basic earnings per share decreased 29.5% to 16.7p largely due to lower adjusted profit year-on-year and the increase in weighted average shares outstanding.

CAPITAL EXPENDITURE

52 weeks ended	28 March 20 £m	30 Mar 19 £m	Change £m
UK store remodelling	60.3	26.0	34.3
New UK stores	33.3	40.1	(6.8)
International	12.3	11.0	1.3
Supply chain	39.2	48.7	(9.5)
IT & M&S.com	84.5	88.2	(3.7)
Property asset replacement	102.4	69.0	33.4
Capital expenditure before disposals	**332.0**	**283.0**	**49.0**
Proceeds from property disposals	(2.7)	(48.1)	45.4
Capital expenditure	**329.3**	**234.9**	**94.4**

Group capital expenditure before disposals increased £49.0m to £332.0m.

UK store remodelling spend increased £34.3m largely reflecting the investment in five 'test and learn' trial stores. Spend on UK store space was down as 13 fewer owned Food stores opened compared with the prior year.

Supply chain expenditure reflects investment in the expansion of the Bradford distribution centre. Spend has reduced due to the significant prior year investment in the Welham Green national distribution centre.

IT and M&S.com spend decreased largely due to the completion of the technology transformation programme. Property asset replacement increased £33.4m due to the initiation of an asset replacement programme in stores.

STATEMENT OF FINANCIAL POSITION

Net assets were £3,708.5m at the year end, an increase of 50.2% on last year largely due to the investment in Ocado and the increase in the net retirement benefit surplus.

1 ACCOUNTING POLICIES CONTINUED

Determining whether forecast purchases are highly probable

The Group is exposed to foreign currency risk, most significantly to the US dollar as a result of sourcing Clothing & Home products from Asia which are paid predominantly in US dollars. The Group hedges these exposures using forward foreign exchange contracts and hedge accounting is applied when the requirements of IFRS 9 are met, which include that a forecast transaction must be "highly probable".

The Group has applied judgement in assessing whether the forecast purchases remain "highly probable", particularly in light of the decline in expected sales resulting from the Covid-19 pandemic and the related store closures.

At the reporting date, a £2.9m gain has been recognised in the income statement as a result of US$76.6m notional forecast purchases no longer expected to occur in relation to the Clothing & Home Autumn and Winter season requirement. In making this assessment, the Group has considered the most recent budgets and plans, including the Covid-19 scenario. The Group's policy is a "layered" hedging strategy where only a small fraction of the forecast purchase requirements are initially hedged, approximately 15 months prior to a season, with incremental hedges layered on over time, as the buying period for that season approaches and therefore as certainty increases over the forecast purchases. As a result of this progressive strategy, reducing the supply pipeline of Clothing & Home inventory, as described in the basis of preparation, does not immediately lead to over-hedging and the disqualification of "highly probable". If the forecast transactions were no longer expected to occur, any accumulated gain or loss on the hedging instruments would be immediately reclassified to profit or loss.

Key sources of estimation uncertainty

UK store estate programme

The Group is undertaking a significant strategic programme to review its UK store estate resulting in a net charge of £29.3m (last year: £216.5m (restated)) in the year. A significant level of estimation has been used to determine the charges to be recognised in the year. The most significant judgement that impacts the charge is that the stores identified as part of the programme are more likely than not to close. Further significant closure costs and impairment charges may be recorded in future years depending on decisions made about further store closures and the successful delivery of the transformation programme.

Where a store closure has been announced there is a reduced level of estimation uncertainty as the programme actions are to be taken over a shorter and more immediate timeframe. Further significant estimation uncertainty arises in respect of determining the recoverable amount of assets and the costs to be incurred as part of the programme. Significant assumptions have been made including:

- Reassessment of the useful lives of store fixed assets and closure dates.
- Estimation in respect of the expected shorter-term trading value in use, including assumptions with regard to the period of trading as well as changes to future sales, gross margin and operating costs. In light of the ongoing Covid-19 pandemic, the Group's cash flow projections over the three-year strategic plan period have been revised and include a Covid-19 overlay in year 1 (see the basis of preparation section and the glossary for details on this Covid-19 scenario).
- Estimation of the sale proceeds for freehold stores which is dependent upon location-specific factors, timing of likely exit and future changes to the UK retail property market valuations.
- Estimation of the value of dilapidation payments required for leasehold store exits, which is dependent on a number of factors including the extent of modifications of the store, the terms of the lease agreement, and the condition of the property.

The assumptions most likely to have a material impact are closure dates and changes to future sales. See notes 5 and 15 for further detail.

Useful lives and residual values of property, plant and equipment and intangibles

Depreciation and amortisation are provided to write down the cost of property, plant and equipment and certain intangibles to their estimated residual values over their estimated useful lives, as set out above. The selection of the residual values and useful lives gives rise to estimation uncertainty, especially in the context of changing economic and market factors, the channel shift from stores to online, increasing technological advancement and the Group's ongoing strategic transformation programmes. The useful lives of property, plant and equipment and intangibles are reviewed by management annually. See notes 14 and 15 for further details. Refer to the UK store estate programme section above for specific sources of estimation uncertainty in relation to the useful lives of property, plant and equipment for stores identified as part of the UK store estate programme. Due to the nature of the Group's property, plant and equipment, it is not practicable to provide a meaningful sensitivity analysis.

Impairment of property, plant and equipment and intangibles

Property, plant and equipment and computer software intangibles are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and indefinite life brands are reviewed for impairment on an annual basis. When a review for impairment is conducted, the recoverable amount is determined based on the higher of value in use and fair value less costs to sell. The value in use method requires the Group to determine appropriate assumptions (which are sources of estimation uncertainty) in relation to the cash flow projections over the three-year strategic plan period, the long-term growth rate to be applied beyond this three-year period and the risk-adjusted pre-tax discount rate used to discount the assumed cash flows to present value. In light of the ongoing Covid-19 pandemic, the Group's cash flow projections over the three-year strategic plan period have been revised and include a Covid-19 overlay in year 1 (the Covid-19 scenario), focusing on the external impact of social-distancing measures, and the internally controllable mitigating actions the Group is taking to protect the business.

The assumption that cash flows continue into perpetuity (with the exception of stores identified as part of the UK store estate programme) is a source of significant estimation certainty. A future change to the assumption of trading into perpetuity for any Cash-Generating Unit (CGU) would result in a reassessment of useful economic lives and residual value and could give rise to a significant impairment of property, plant and equipment and intangibles, particularly where the store carrying value exceeds fair value less cost to sell. See notes 14 and 15 for further details on the Group's assumptions and associated sensitivities.

5 ADJUSTING ITEMS

The total adjusting items reported for the 52-week period ended 28 March 2020 is a net charge of £335.9m (last year: £427.5m (restated)). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	Notes	2020 £m	2019 (Restated) £m
Strategic programmes – UK store estate[1]	15, 22	**29.3**	216.5
Strategic programmes – Organisation	15, 22	**13.8**	4.9
Strategic programmes – Operational transformation		**11.6**	16.4
Strategic programmes – UK logistics	15, 22	**10.2**	14.3
Strategic programmes – Changes to pay and pensions	22	**2.9**	6.2
Strategic programmes – International store closures and impairments	22	**2.2**	5.3
Strategic programmes – IT restructure	22	**0.4**	15.6
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic[1]		**163.6**	–
Store impairments and other property charges[1]	15, 22	**78.5**	103.5
Goodwill impairment – per una[1]	14	**13.4**	–
M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision		**12.6**	20.9
Amortisation and fair value adjustments arising as part of the investment in Ocado Retail Limited		**16.8**	–
Establishing the investment in Ocado Retail Limited		**1.2**	3.4
Remeasurement of contingent consideration including discount unwind		**2.9**	–
Other		**(23.5)**	–
GMP and other pension equalisation	11, 22	**–**	20.5
Adjustments to profit before tax[2]		**335.9**	427.5

1. Gains/expenses directly attributable to the Covid-19 pandemic in the current year are presented below; this includes the resulting incremental impairment charge disclosed within the strategic programmes above related to the UK store estate, UK store impairments, International store impairments and the impairment of per una goodwill.

UK store estate impairments	11.6
Store impairments	24.2
Goodwill impairment – per una	13.4
Directly attributable (gains)/expenses resulting from the Covid-19 pandemic	163.6
Total Covid-19 charges	**212.8**

2. All adjusting items are included within operating profit with the exception of £2.9m (last year: £nil) relating to the remeasurement of contingent consideration including discount unwind which is included within finance costs and a gain of £2.9m (last year: £nil) relating to forecast purchases no longer expected to occur, within directly attributable (gains)/expenses resulting from the Covid-19 pandemic, which is included within finance income.

Strategic programmes – UK store estate (£29.3m)

In November 2016, the Group announced a strategic programme to transform the UK store estate. During 2017/18, the Group announced its intention to accelerate this programme in line with the strategic aim of significantly growing the online share of sales, as well as better than expected levels of sales transfer achieved from recent store closures. This acceleration of the UK store estate programme resulted in an acceleration of the timing of recognition of the associated costs, primarily driven by a shortening of the useful economic life, for impairment testing purposes, of those stores identified as part of the transformation plans.

The Group has recognised a charge of £29.3m (of which, £11.6m represents the directly attributable incremental impairment due to Covid-19 (see below for further details)) in the period in relation to those stores identified as part of its transformation plans to make the store estate fit for the future. The charge primarily reflects an updated view of latest store exit routes and assumptions underlying estimated store closure costs, as well as revised cash flows to reflect the impact of Covid-19. The charge primarily relates to impairment of buildings and fixtures and fittings and depreciation as a result of shortening the useful economic life of stores based on the latest approved exit routes. Refer to notes 15 and 22 for further detail on these charges.

Further material charges relating to the closure and re-configuration of the UK store estate are anticipated as the programme progresses, the quantum of which is subject to change throughout the programme period as decisions are taken in relation to the size of the store estate and the specific stores affected. Following restatement for IFRS 16 and the updated view of store closure costs, future charges of up to c.£110m are estimated within the next two financial years, giving post-IFRS 16 total programme charges of up to £680m in line with previous disclosures.

5 ADJUSTING ITEMS CONTINUED

Store impairments and other property charges (£78.5m)

The Group has recognised a number of charges in the period associated with reductions to the carrying value of items of property, plant and equipment.

In response to the ongoing pressures impacting the retail industry, as well as reflecting the Group's strategic focus towards growing online market share, and in light of the ongoing Covid-19 pandemic, the Group has revised future cash flow projections for UK and international stores (excluding those stores which have been captured as part of the UK store estate programme). As a result, UK store impairment testing has identified stores where the current and anticipated future performance does not support the carrying value of the stores. A charge of £78.5m (of which, £24.2m represents the directly attributable incremental impairment due to Covid-19 (see below for further details)) has been incurred primarily in respect of the impairment of assets associated with these stores. Refer to note 15 for further details on the impairments.

The charges have been classified as an adjusting item on the basis of the significant quantum of the charge in the period to the results of the Group.

M&S Bank charges incurred in relation to insurance mis-selling and Covid-19 forward economic guidance provision (£12.6m)

The Group has an economic interest in Marks and Spencer Financial Services plc, a wholly owned subsidiary of HSBC UK Bank plc, trading as M&S Bank, by way of a Relationship Agreement that entitles the Group to a 50% share of the profits of M&S Bank after appropriate deductions. The Group does not share in any losses of M&S Bank and is not obliged to refund any profit share received from HSBC, although future income may be impacted by significant one-off deductions.

Since the year ended 31 December 2010, M&S Bank has recognised in its audited financial statements an estimated liability for redress to customers in respect of possible mis-selling of financial products. The Group's profit share income from M&S Bank has been reduced by the deduction of the estimated liability in both the current and prior years. In addition, further charges have been recognised by M&S Bank in relation to forward economic guidance provisions recognised as a result of Covid-19. In line with the accounting treatment under the Relationship Agreement, there is a cap on the amount of charges that can be offset against the profit share in any one year, whereby excess liabilities carried forward are deducted from the Group's future profit share from M&S Bank. The deduction in the period is £12.6m.

The Group considers this cost to be an adjusting item, despite its recurring nature, as the charges are significant in nature and value in each period to the results of the Group. While the August 2019 deadline to raise potential mis-selling claims has now passed, costs relating to the estimated liability for redress are expected to continue into 2020/21 and beyond as the Group's share of the total charge since September 2013 of £327.6m exceeds the total offset against profit share of £242.7m to date. The Group therefore expects future adjusting items charges of c.£100m – predominantly related to PPI mis-selling claim liabilities – which will be offset against the share of M&S Bank profits in future years.

Establishing the investment in Ocado Retail Limited (£1.2m)

In the prior year, the Group recognised a charge of £3.4m in adjusting items relating to due diligence for the Ocado Retail transaction. As part of the preparation for the launch in September 2020, the Group has incurred £1.2m of one-off charges that will not be part of the day-to-day operational costs of our business with Ocado Retail.

An estimated further £1m–2m of "getting ready" costs are expected in H1 2020/21 prior to launch in September 2020. These "getting ready" costs, combined with the costs recognised in 2018/19 relating to setting up the investment in Ocado Retail, bring the total expected one-off charges relating to Ocado Retail up to in the range of £6m-7m.

These costs are adjusting items as they relate to a major transaction and but for the transaction the business would not have incurred these costs and as a result prior to the Ocado "go-live" in September 2020 are not considered to be normal operating costs of the business.

Amortisation of intangible assets and fair value adjustments on property, plant and equipment arising as part of the investment in Ocado Retail Limited (£11.7m) and related deferred tax adjustments (£5.1m)

The identifiable net assets of Ocado Retail Limited that were acquired included intangible assets (a brand and customer relationships) with a fair value of £366.0m, which is recognised as part of the cost of the investment in associate. In addition, fair value adjustments of £2.3m were made to property, plant and equipment on acquisition. A related deferred tax liability of £63.3m has also been recognised on acquisition as part of the cost of the investment in associate. The amortisation of these intangible assets and fair value adjustments and changes in the related deferred tax liability are included within the Group's share of the profit or loss of the associate and are considered to be adjusting items as they are based on judgements about their value and economic life and are not related to the Group's underlying trading performance. Identifying these items as adjusting allows greater comparability of underlying performance. These adjusting items will be recognised over their useful economic lives of 10-40 years.

Remeasurement of contingent consideration including discount unwind (£2.9m)

Contingent consideration, resulting from the investment in Ocado Retail Limited, is remeasured at fair value at each reporting date with the changes in fair value recognised in profit or loss. The change in fair value and the related unwind of discounting is considered to be an adjusting item as it relates to a major transaction and consequently is not considered representative of the normal operating performance of the Group. The charge for 2019/20 of £2.9m represents the unwind of discounting from acquisition to the year end. Discount unwind will be charged to adjusting items until the final contingent consideration payment is made in 2023/24.

5 ADJUSTING ITEMS CONTINUED

Directly attributable gains/(expenses) resulting from the Covid-19 pandemic

In March 2020, following the declaration by the World Health Organization of the Covid-19 global pandemic and subsequent UK government restrictions, while the Group has been able to continue to trade its Food business (albeit with social-distancing rules in place), Clothing & Home has been unable to trade from full-line stores, with any sales therefore predominantly coming from online sales and Click & Collect in stores. All M&S Outlets stores and a number of Food franchise stores have also closed. Given the global political and economic uncertainty resulting from the Covid-19 pandemic, coupled with the already fast-paced changes taking place across the retail sector, the Group expects to see significant volatility and business disruption, reducing the expected performance in 2020/21. As set out in the basis of preparation on page 116, the Board has approved a Covid-19 scenario budget and three-year plan, which assumes that the current government guidelines continue in place for a period of at least four months, and results in a significant decline in sales for the remainder of 2020/21.

As a result, in order to improve the transparency and usefulness of the financial information presented and improve year-on-year comparability, the Group has identified charges of £212.8m relating to directly attributable gains and expenses resulting from the Covid-19 pandemic. The charges relate to three separately identifiable areas of accounting judgement and estimates: the write-down of inventories to net realisable value; impairments of intangible assets and property, plant and equipment; and onerous contract provisions, cancellation charges and one-off costs. Should the estimated charges prove to be in excess of the amounts required, the release of any amounts previously provided would be treated as adjusting items.

The impact that Covid-19 has had on underlying trading is not recognised within adjusting items.

Write-down of inventories to net realisable value (£157.0m)

The Group has performed a detailed assessment of all retail inventory, including all items in our stores, warehouses and outlets, taking into consideration the period of trading disruption, current sales and sell through plans and considered the impact on the stock holding at year end. The review concluded that there was a need to provide for items from previous seasons which are unlikely to be saleable when stores reopen; that items in the summer sale are likely to be cleared below cost and the need to provide for hibernated stock (stock that will be stored within our warehouses) at reduced prices when we look to sell it in Spring/Summer 2021.

The Group has recognised an incremental write-down of inventory to net realisable value of £157.0m (UK Clothing & Home: £145.3m; UK Food: £6.0m and International: £5.7m), reflecting management's best estimate of the impact on the Group of the Covid-19 pandemic. The total UK Clothing & Home inventory provisions represent 33% of UK Clothing & Home inventory. A 5% increase in the UK Clothing & Home inventory provision would result in a reduction in inventory held on the balance sheet of £26.0m and would result in a corresponding reduction to recognised profit before tax in 2019/20.

Impairments of intangible assets and property, plant and equipment (£49.2m)

As a direct result of the Covid-19 pandemic, all impairment assessments were reperformed using the cash flows resulting from the Board-approved Covid-19 scenario detailed above. Incremental impairment charges as a direct result of Covid-19 have been recognised for the following assets: Goodwill – per una (£13.4m); Strategic programme – UK store estate (£11.6m); and Store impairments (£24.2m).

Refer to notes 14 and 15 for further details on the impairment charges relating to per una goodwill and stores, as well as note C6 of the Company accounts.

Onerous contract provisions, cancellation charges and one-off costs (£6.6m)

The Group has incurred a total of £6.6m of one-off charges relating to onerous contract and other provisions, and cancellation charges incurred pre-year end as a result of the disruption caused by Covid-19 to normal operating activities. In addition, a number of projects have been cancelled, leading to the impairment and write-off of intangible assets in the course of construction recognised up to 28 March 2020.

The £212.8m directly attributable net charges from the Covid-19 pandemic are considered to be adjusting items as they meet the Group's established definition, being both significant in nature and value to the results of the Group in the current period. Further charges are anticipated during 2020/21 to reflect actions that will be taken as a direct result of the length of time that the government restrictions are in place, and trade and consumer behaviour is impacted. Any future credits relating to these items will also be classified as adjusting.

Other (£23.5m credit)

In 2017/18, a provision was recorded to cover the potential costs of probable liabilities for certain employee-related matters. During the period, the Group paid £0.6m in settlement of the liability for these employee-related matters, resulting in a £23.5m release of the provision.

14 INTANGIBLE ASSETS CONTINUED

Impairment testing

Goodwill is not amortised but is tested annually for impairment with the recoverable amount being determined from value in use calculations.

Goodwill for India is monitored by management at a country level, including the combined retail and wholesale businesses, and has been tested for impairment on that basis.

The per una brand is a definite life intangible asset amortised on a straight-line basis over a period of 15 years. The brand intangible was acquired for a cost of £80.0m, and is held at a net book value of £nil (last year: £2.8m). The per una goodwill and brand are considered together for impairment testing purposes and are therefore tested annually for impairment.

The cash flows used for impairment testing are based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. The Board-approved Budget and Three-Year Plan reflect a more conservative view of the short-term future performance of the per una assets and the Board-approved Covid-19 scenario further significantly reduces sales and profits in 2020/21. A proportion of UK Clothing & Home operating costs are allocated to per una based on the sales mix.

Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on the Group's current view of achievable long-term growth. The Group's current view of achievable long-term growth for per una is 0.7%, which is a reduction from the overall Group long term growth rate of 2%, reflecting the risk associated with the early stage of the relaunch of the per una brand and the potential impact of the Covid-19 pandemic. This is lower than the long-term growth rate used in the prior year (2.3%). The Group's current view of achievable long-term growth for India is 5.9%.

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to each asset or CGU. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital (WACC) which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The post-tax WACC is subsequently grossed up to a pre-tax rate and was 9.7% for per una (last year: 9.1%) which reflects the additional risk of Covid-19 as at 28 March 2020 and 14.3% for India (last year: 17.3%).

Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions, both individually and in combination. Management has considered reasonably possible changes in key assumptions that would cause the carrying amounts of goodwill or brands to exceed the value in use for each asset.

For India, there is no reasonably possible change in key assumptions that would lead to an impairment and the assumptions do not give rise to a key source of estimation uncertainty.

per una

The future cash flows applied in the per una calculation reflect the Group's plans to grow the per una brand over the next three years; however, adjustments have been made to reflect the impact of Covid-19 on the Clothing & Home business and the proximity of the brand relaunch to the disruption caused by Covid-19. The plan assumes a sales decrease of 46.4% in 2020/21 (reflecting the Covid-19 scenario of 70% decline in Clothing & Home sales compared with budget in the four months to July 2020, followed by a slow recovery back to budget by February 2021), followed by a significant increase in sales in 2021/22 of 82.6% (returning to the original levels planned for the year) and a 0.7% increase in 2022/23. The success of these plans will determine the strategic role of the brand within the Group.

The outcome of the value in use calculation is an impairment of £13.4m.

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to a further impairment. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions for the per una brand. Neither a 50 basis point increase in the WACC rate nor a reduction in the perpetuity growth rate to 0% would cause a significant increase in the impairment charge. A 20% reduction in operating profit over the whole three-year plan period would cause an £11.2m increase in impairment and in combination, these reasonably possible changes in the key assumptions would cause an increase of £17.0m in the impairment charge.

15 PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment of £5,494.2m (last year: £5,662.3m) consists of owned assets of £3,863.9m (last year: £3,986.9m) and right-of-use assets of £1,630.3m (last year: £1,675.4m).

PROPERTY, PLANT AND EQUIPMENT – OWNED

	Land and buildings £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
At 31 March 2018				
Cost	2,932.5	7,003.4	96.8	10,032.7
Accumulated depreciation, impairments and write-offs	(532.2)	(5,102.2)	(18.0)	(5,652.4)
Net book value	2,400.3	1,901.2	78.8	4,380.3
Year ended 30 March 2019				
Opening net book value	2,400.3	1,901.2	78.8	4,380.3
Additions	0.9	30.9	170.1	201.9
Transfers and reclassifications	(7.8)	166.7	(168.8)	(9.9)
Disposals	(2.5)	(0.4)	–	(2.9)
Asset impairments	(18.6)	(74.6)	–	(93.2)
Asset write-offs	(35.3)	(8.6)	–	(43.9)
Depreciation charge	(85.5)	(356.1)	–	(441.6)
Exchange difference	(2.7)	(1.1)	–	(3.8)
Closing net book value	2,248.8	1,658.0	80.1	3,986.9
At 30 March 2019				
Cost	2,885.9	5,673.6	98.1	8,657.6
Accumulated depreciation, impairments and write-offs	(637.1)	(4,015.6)	(18.0)	(4,670.7)
Net book value	2,248.8	1,658.0	80.1	3,986.9
Year ended 28 March 2020				
Opening net book value	**2,248.8**	**1,658.0**	**80.1**	**3,986.9**
Additions	**2.1**	**27.7**	**244.9**	**274.7**
Transfers and reclassifications	**22.2**	**183.6**	**(205.0)**	**0.8**
Asset impairments	**(48.2)**	**(20.3)**	**–**	**(68.5)**
Asset write-offs	**(1.8)**	**(7.1)**	**–**	**(8.9)**
Depreciation charge	**(62.0)**	**(267.2)**	**–**	**(329.2)**
Exchange difference	**6.3**	**1.8**	**–**	**8.1**
Closing net book value	**2,167.4**	**1,576.5**	**120.0**	**3,863.9**
At 28 March 2020				
Cost	**2,887.5**	**5,457.1**	**138.0**	**8,482.6**
Accumulated depreciation, impairments and write-offs	**(720.1)**	**(3,880.6)**	**(18.0)**	**(4,618.7)**
Net book value	**2,167.4**	**1,576.5**	**120.0**	**3,863.9**

Asset write-offs in the year include assets with gross book value of £680.5m (last year: £1,467.9m) and £nil (last year: £nil) net book value that are no longer in use and have therefore been retired.

Right-of-use assets

From 31 March 2019, the Group has adopted IFRS 16 Leases. Refer to notes 1 and 29 for the accounting policy and restatements respectively. The right-of-use assets recognised on adoption of the new leasing standard are reflected in the underlying asset classes of property, plant and equipment.

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Right-of-use assets

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
As at 31 March 2018	1,762.5	46.8	1,809.3
Additions	187.1	1.3	188.4
Transfers and reclassifications	4.6	–	4.6
Disposals	(68.6)	–	(68.6)
Right-of-use asset impairments	(93.2)	–	(93.2)
Depreciation charge	(153.2)	(10.5)	(163.7)
Exchange difference	(1.4)	–	(1.4)
As at 30 March 2019	**1,637.8**	**37.6**	**1,675.4**
Additions	**140.3**	**40.4**	**180.7**
Transfers and reclassifications	**0.2**	**(0.2)**	**–**
Disposals	**(18.9)**	**–**	**(18.9)**
Right-of-use asset impairments	**(34.2)**	**–**	**(34.2)**
Depreciation charge	**(155.9)**	**(18.7)**	**(174.6)**
Exchange difference	**1.8**	**0.1**	**1.9**
As at 28 March 2020	**1,571.1**	**59.2**	**1,630.3**

Impairment of property, plant and equipment and right-of-use assets

For impairment testing purposes, the Group has determined that each store is a separate CGU, with the exception of Outlets stores, which are considered together as one CGU. Click & Collect sales are included in the cash flows of the relevant CGU.

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. Stores identified within the Group's UK store estate programme are automatically tested for impairment (see note 5). The UK government trade restrictions implemented on 23 March 2020 as a result of the Covid-19 pandemic are considered an impairment trigger and as a result all stores have been tested for impairment.

The value in use of each CGU is calculated based on the Group's latest budget and forecast cash flows, covering a three-year period, which have regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed initiatives. The cash flows include ongoing capital expenditure required to maintain the store network, but exclude any growth capital initiatives not committed. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on management's future expectations, with reference to forecast GDP growth. These growth rates do not exceed the long-term growth rate for the Group's retail businesses in the relevant territory. If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the value in use calculated has been modified by estimation of the future cash flows up to the point where it is estimated that trade will cease and then estimation of the timing and amount of costs associated with closure detailed fully in note 5. The forecasts used to calculate the value in use have been updated to take into account the Board-approved Covid-19 scenario. This assumes a significant impact on 2020/21 revenues and profits.

The key assumptions in the value in use calculations are the growth rates of sales and gross profit margins, changes in the operating cost base, long-term growth rates and the risk-adjusted pre-tax discount rate. The pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium and a risk adjustment (beta). The pre-tax discount rates range from 12% to 17% (last year: 9% to 21%). If the CGU relates to a store which the Group has identified as part of the UK store estate programme, the additional key assumptions in the value in use calculations are costs associated with closure, the disposal proceeds from store exits and the timing of the store exits.

15 PROPERTY, PLANT AND EQUIPMENT CONTINUED

Impairments – UK stores (excluding the UK store estate programme)

During the year, the Group has recognised an impairment charge of £69.3m as a result of UK store impairment testing unrelated to the UK store estate programme (last year: £103.0m (restated)). These stores were impaired to their 'value in use' recoverable amount of £105.5m, which is their carrying value at year end. These impairments have been recognised within adjusting items (see note 5).

For UK stores, cash flows beyond the three-year period are extrapolated using the Group's current view of achievable long-term growth of 2%, adjusted to 0% where management believes the current trading performance and future expectations of the store do not support the growth rate of 2%. The rate used to discount the forecast cash flows for UK stores is 8.6% (last year: 9.1%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store portfolio.

A reduction in sales of 5% from the three-year plan in years 2 and 3 to reflect a potential recession would result in an increase in the impairment charge of £72.7m and a 20 basis point reduction in gross profit margin throughout the plan period would increase the impairment charge by £2.5m. In combination, a 1% fall in sales and a 10 basis point fall in gross profit margin would increase the impairment charge by £7.1m. Reasonably possible changes of the other key assumptions, including a 50 basis point increase in the discount rate or reducing the long-term growth rate to 0% across all stores, would not result in a significant increase to the impairment charge, either individually or in combination.

Impairments – UK store estate programme

During the year, the Group has recognised an impairment charge of £75.2m and impairment reversals of £51.0m relating to the on-going UK store estate programme (last year: £83.4m (restated)). These stores were impaired to their 'value in use' recoverable amount of £289.0m, which is their carrying value at year end. The impairment charge relates to the store closure programme and has been recognised within adjusting items (see note 5).

Where the planned closure date for a store is outside the three-year plan period, no growth rate is applied. The rate used to discount the forecast cash flows for UK stores is 8.6% (last year: 9.1%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment models for the UK store estate programme are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the UK store estate programme.

A delay of 12 months in the probable date of each store exit would result in a decrease in the impairment charge of £36.8m. A 5% reduction in planned sales in years 2 and 3 (where relevant) would result in an increase in the impairment charge of £22.9m. Neither a 50 basis point increase in the discount rate, a 20 basis point reduction in management gross margin during the period of trading nor a 2% increase in the costs associated with exiting a store would result in a significant increase to the impairment charge, individually or in combination with the other reasonably possible scenarios considered.

Impairments – International stores

During the year, the Group has recognised an impairment charge of £9.0m in Ireland and £0.2m in the Czech Republic as a result of store impairment testing (last year: £nil).

For Irish and Czech Republic stores, cash flows beyond the three-year period are extrapolated using a long-term growth rate of 0%. The rate used to discount the forecast cash flows for Irish stores is 14.1% (last year: 10.4%) and for Czech Republic stores is 12.4% (last year: 10.7%).

As disclosed in the accounting policies (note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions.

For Irish stores, a reduction in sales of 5% from the three-year plan in years 2 and 3 to reflect a potential recession would result in an increase in the impairment charge of £6.5m. Reasonably possible changes in other key assumptions, including a 20 basis point reduction in gross profit margin throughout the plan period, a 50 basis point increase in the discount rate or a 1% fall in sales combined with a 10 basis point fall in gross profit margin would not result in a significant increase to the impairment charge. Reasonably possible changes in key assumptions for Czech Republic stores do not lead to a significant increase in the impairment charge.

30 INVESTMENTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

Reconciliation of the above summarised financial information to the carrying amount of the interest in Ocado Retail Limited recognised in the consolidated financial statements:

	As at 28 Mar 2020 £m
Ocado Retail Limited	
Net assets	**23.6**
Proportion of the Group's ownership interest	**11.8**
Goodwill	**449.1**
Brand	**255.7**
Customer relationships	**98.9**
Other adjustments to align accounting policies	**(66.4)**
Acquisition costs	**5.7**
Carrying amount of the Group's interest in Ocado Retail Limited	**754.8**

The contingent consideration arrangement requires Ocado Retail Limited to achieve a target level of earnings in the financial year ending in November 2023, for specified capacity levels to be achieved and utilised within a specific customer fulfilment centre (CFC) by November 2023 and to begin providing service to customers from a new CFC. The potential undiscounted amount of all future payments that the Group could be required to pay under the contingent consideration arrangement is up to £187.5m plus 4% interest. The fair value of the contingent consideration arrangement of £202.4m was estimated by applying an appropriate discount rate to the expected future payments which are based on the current five-year plan for Ocado Retail Limited.

In addition, the Group holds immaterial investments in joint ventures totalling £5.6m (last year: £4.0m). The Group's share of losses totalled £0.9m (last year: £0.5m loss).

31 SUBSEQUENT EVENTS

The impact of the Covid-19 pandemic on the Group's operations is discussed within the principal risks and uncertainties on page 34 as well as set out within note 1 and the basis of preparation on page 116 which summarises the Covid-19 scenario modelled by the Group.

Subsequent to the balance sheet date, the Group has monitored trade performance, internal actions, as well as other relevant external factors (such as changes in any of the government restrictions). No adjustments to the key estimates and judgements that impact the balance sheet as at 28 March 2020 have been identified. Where any material changes in key estimates and judgements have been identified updates have been made to the financial statements as adjusting post balance sheet events.

The following non-adjusting events have occurred since 28 March 2020:

- Use of the UK government's Coronavirus Job Retention Scheme to furlough c.27,000 colleagues across our Clothing & Home business and Support centres, which should generate cash savings of c.£50m up to 30 June 2020.
- On 28 April, the Group announced that formal agreement had been reached with the lending syndicate of banks providing the £1.1bn revolving credit facility to remove or substantially relax the covenant conditions for the tests arising in September 2020, March 2021 and September 2021.
- The Group received confirmation from the Bank of England that it was an eligible issuer under the UK government's Covid Corporate Financing Facility (CCFF) and allocated an issuer limit of £300m.
- In addition, the Group implemented extended payment terms for suppliers in Clothing & Home.

Review of the key financial assumptions relating to the Group's defined benefit pension schemes subsequent to the balance sheet date indicate that fluctuations in obligations fall within the range of sensitivities described in note 11 of the financial statements. The fair value of plan assets is expected to be volatile in the short term due to uncertain market conditions.

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Notes to the consolidated financial statements continued

2. Critical accounting estimates and key judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying our accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. Management has discussed its critical accounting estimates and associated disclosures with the *Audit and Risk Committee*. The areas involving a higher degree of judgement or complexity are described in the applicable notes to the financial statements. Critical accounting estimates and key judgements can be identified throughout the notes by the following symbol .

We have the following critical accounting estimates (E) and key judgements (J):

- Current and deferred income tax, see note 10 (E, J).
- Goodwill impairment, see note 13 (E, J).
- Government grants relating to Building Digital UK (BDUK) contracts, see note 14 (J).
- Reasonable certainty and determination of lease terms, see note 15 (J).
- Provisions and contingent liabilities, see note 19 (E, J).
- Pension obligations, see note 20 (E, J).

Judgements made in assessing the impact of Covid-19 on the financial statements

We have exercised judgement in evaluating the impact of Covid-19 on the financial statements. A number of areas have been recognised as being potentially affected. These are identified throughout the notes by the following symbol .

- The impact on our contract loss provisions, see notes 5, 19 & 31.
- Impairment of contract assets, see note 5.
- One-off charges arising from Covid-19 meeting the criteria for classification as specific items, see note 9.
- Impact on future cash flows included within our value in use calculations used in impairment assessments, see note 13.
- Impact on reasonable certainty used in determining the lease term, see note 15.
- Retirement benefit plans, see note 20.
- Programme rights assets and commitments affected by postponement or cancellation of events, see notes 16 & 31.
- Assumptions within our expected credit losses on trade receivables, see note 17.
- Impact on hedge effectiveness for any cash flow hedges if cash flows are no longer 'highly probable', see note 28.
- Contingent liabilities, see note 31.

3. Significant accounting policies that apply to the overall financial statements

The significant accounting policies applied in the preparation of our consolidated financial statements are set out below. Other significant accounting policies applicable to a particular area are disclosed in the most relevant note. We have applied all policies consistently to all the years presented, unless otherwise stated.

Basis of consolidation

The group financial statements consolidate the financial statements of BT Group plc and its subsidiaries, and include its share of the results of associates and joint ventures using the equity method of accounting. The group recognises its direct rights to (and its share of) jointly held assets, liabilities, revenues and expenses of joint operations under the appropriate headings in the consolidated financial statements.

All business combinations are accounted for using the acquisition method regardless of whether equity instruments or other assets are acquired. No material acquisitions were made in the year.

A subsidiary is an entity that is controlled by another entity, known as the parent or investor. An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Non-controlling interests in the net assets of consolidated subsidiaries, which consist of the amounts of those interests at the date of the original business combination and non-controlling share of changes in equity since the date of the combination, are not material to the group's financial statements.

The results of subsidiaries acquired or disposed of during the year are consolidated from and up to the date of change of control. Where necessary, accounting policies of subsidiaries have been aligned with the policies adopted by the group. All intra-group transactions including any gains or losses, balances, income or expenses are eliminated in full on consolidation.

When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The profit or loss on disposal is recognised as a specific item.

Inventories

Network maintenance equipment and equipment to be sold to customers are stated at the lower of cost or net realisable value, taking into account expected revenue from the sale of packages comprising a mobile handset and a subscription. Cost corresponds to purchase or production cost determined by either the first in first out (FIFO) or average cost method.

Government grants

Government grants are recognised when there is reasonable assurance that the conditions associated with the grants have been complied with and the grants will be received.

Grants for the purchase or production of property, plant and equipment are deducted from the cost of the related assets and reduce future depreciation expense accordingly. Grants for the reimbursement of operating expenditure are deducted from the related category of costs in the income statement. Estimates and judgements applied in accounting for government grants received in respect of the BDUK programme and other rural superfast broadband contracts are described in note 14.

9. Specific items

Significant accounting policies that apply to specific items

We separately identify and disclose those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence (termed 'specific items'). Specific items are used to derive the adjusted results as presented in the consolidated income statement presented on page 124. Adjusted results are consistent with the way that financial performance is measured by management and assist in providing an additional analysis of the reporting of the trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, retrospective regulatory matters, historical insurance or litigation claims, business restructuring programmes, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years.

In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items. We have also included the impacts of Covid-19 on various balance sheet items as at 31 March 2020 as specific. The impact of Covid-19 on underlying trading is recognised in our underlying (adjusted) results and not as a specific item.

Year ended 31 March	**2020 £m**	2019 £m	2018 £m
Revenue			
Retrospective regulatory matters	(81)	31	23
	(81)	**31**	**23**
Operating costs			
Restructuring charges	322	386	287
Divestment-related items	199	5	(1)
Covid-19	95	–	–
Property rationalisation	(131)	36	28
Spectrum annual licence fee refund	(82)	–	–
Retrospective regulatory matters	9	(4)	26
Italian business investigation	2	(55)	22
Provision for claims	(5)	–	–
Pension equalisation costs	–	26	–
EE acquisition warranty claims	–	–	225
	409	**394**	**587**
Operating loss	**328**	**425**	**610**
Net finance expense			
Interest expense on retirement benefit obligation	145	139	218
Interest on spectrum annual license fee refund	(5)	–	–
	140	**139**	**218**
Associates and joint ventures	39	–	–
Net specific items charge before tax	**507**	**564**	**828**
Taxation			
Tax credit on specific items above	(73)	(112)	(87)
Tax charge on re-measurement of deferred tax	156	–	–
	83	**(112)**	**(87)**
Net specific items charge after tax	**590**	**452**	**741**

Notes to the consolidated financial statements continued

9. Specific items continued

Restructuring charges
During the year we incurred charges of £322m (2018/19: £386m, 2017/18: £287m), primarily relating to leaver costs. These costs reflect projects within our group-wide cost transformation programme. Of this £8m (2018/19: £29m; 2017/18: £46m) relates to the completion of our EE integration activities and £22m (2018/9: £23m; 2017/2018: nil) costs to close the BT Pension Scheme and provide transition payments to affected employees.

Divestment-related items
During the year we entered into agreements to sell our domestic operations in France, our domestic operations in Spain and selected domestic operations and infrastructure in 16 countries in Latin America. These divestments are expected to complete in financial year 2020/21. We have classified the assets and liabilities of these operations as held for sale at the lower of their carrying amount and fair value less costs to sell, which has resulted in an impairment charge of £127m relating to the France and Latin America divestments. See note 23.

In addition we have recognised losses on disposal of £36m (2018/19: £5m) relating to the completed divestments of BT Fleet Solutions and Tikit, and £36m of costs relating to ongoing divestment projects.

Covid-19
During the year we recognised one-off charges of £95m relating to the impact of Covid-19 on various balance sheet items as at 31 March 2020. This comprises an £88m increase in our expected credit loss provisions for receivables due from customers and contract assets, and £7m contract loss provisions in respect of revenue contracts that are expected to become loss-making as a result of Covid-19 impacts.

Should we recover the amounts owed, for which we have provided, this recovery would be reversed back through the income statement as a specific item.

Property rationalisation costs
We have recognised a net credit of £(131)m (2018/19: charge £36m, 2017/18: charge £28m) relating to the rationalisation of the group's property portfolio under our Better Workplace Programme including the gain on sale of BT Centre of £115m.

Spectrum annual licence fee refund
In May 2019 we received a payment of £87m from Ofcom, relating to overpaid fees that were charged during the period 2015-2017 under the previous 2015 fees regulation that was quashed by the Court of Appeal in 2017. Ofcom obtained permission to appeal the judgment to the Court of Appeal and in February 2020 the Court of Appeal ruled in our favour. Ofcom have informed us that they are not planning to pursue an appeal to the Supreme Court and we have therefore released our £87m provision and recognised this in the income statement as a specific item including interest on the refund of £5m.

Retrospective regulatory matters
We have recognised a net credit of £(72)m (2018/19: charge £27m, 2017/18: charge £49m) in relation to regulatory matters. This reflects the settlement of various matters. Of this, £(81)m credit is recognised in revenue and £9m charge in operating costs.

Italian business investigation
During the year we recognised £2m costs relating to the historical investigation in our Italian business (2018/19: a credit of £(55)m, 2017/18: a charge of £22m).

Provision for claims
We have recognised a credit of £5m (2018/19: £nil) in relation to release of provisions for claims created through specific items in 2012/13 which have now been fully settled.

Pension equalisation costs
During 2018/19 we recognised a charge of £26m in relation to the high court requirement to equalise pension benefits between men and women due to guaranteed minimum pension (GMP).

EE acquisition warranty claims
In 2017/18 we reached settlements with Deutsche Telekom and Orange in respect of any warranty claims under the 2015 EE acquisition agreement, arising from the issues previously announced regarding our operations in Italy. This represents a full and final settlement of these issues and resulted in a specific item charge of £225m.

Interest expense on retirement benefit obligation
During the year we incurred £145m (2018/19: £139m, 2017/18: £218m) of interest costs in relation to our defined benefit pension obligations. See note 20 for more details.

Associates and joint ventures
Following renegotiation of a contract, an amount of £39m (2018/19: £nil, 2017/18: £nil) owed by an associate has been determined irrecoverable. The resulting impairment has been recognised as a specific item.

Tax on specific items
A net tax charge of £83m (2018/19: credit of £112m, 2017/18: credit of £87m) was recognised in relation to specific items. During the period, legislation was enacted to maintain the UK corporation tax rate at 19% (see note 10). Accordingly the group has re-measured its deferred tax balances which has resulted in a charge of £156m.

13. Intangible assets

Significant accounting policies that apply to intangible assets

We recognise identifiable intangible assets where we control the asset, it is probable that future economic benefits attributable to the asset will flow to the group, and we can reliably measure the cost of the asset. We amortise all intangible assets, other than goodwill, over their useful economic life. The method of amortisation reflects the pattern in which the assets are expected to be consumed. If the pattern cannot be determined reliably, the straight line method is used.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the identifiable net assets (including intangible assets) of the acquired business. Our goodwill impairment policy is set out later in this note.

Acquired intangible assets – customer relationships and brands

Intangible assets such as customer relationships or brands acquired through business combinations are recorded at fair value at the date of acquisition and subsequently carried at amortised cost. Assumptions are used in estimating the fair values of these relationships or brands and include management's estimates of revenue and profits to be generated by them.

Telecommunications licences

Licence fees paid to governments, which permit telecommunications activities to be operated for defined periods, are initially recorded at cost and amortised from the time the network is available for use to the end of the licence period or where our usage can extend beyond the initial licence period, over the period we expect to benefit from the use of the licences, which is typically 20 years. Licences acquired through business combinations are recorded at fair value at the date of acquisition and subsequently carried at amortised cost. The fair value is based on management's assumption of future cash flows using market expectations at acquisition date.

Computer software

Computer software comprises computer software licences purchased from third parties, and also the cost of internally developed software. Computer software licences purchased from third parties are initially recorded at cost. We only capitalise costs directly associated with the production of internally developed software, including direct and indirect labour costs of development, where it is probable that the software will generate future economic benefits, the cost of the asset can be reliably measured and technical feasibility can be demonstrated, in which case it is capitalised as an intangible asset on the balance sheet. Costs which do not meet these criteria and research costs are expensed as incurred.

Our development costs which give rise to internally developed software include upgrading the network architecture or functionality and developing service platforms aimed at offering new services to our customers.

Other

Other intangible assets include website development costs and other licences. Items are capitalised at cost and amortised on a straight line basis over their useful economic life or the term of the contract.

Estimated useful economic lives

The estimated useful economic lives assigned to the principal categories of intangible assets are as follows:

– Computer software	2 to 10 years
– Telecommunications licences	2 to 20 years
– Customer relationships and brands	1 to 15 years

Impairment of intangible assets

Intangible assets with finite useful lives are tested for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, the recoverable amount is assessed by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant cash generating unit and the fair value less costs to dispose.

Goodwill is reviewed for impairment at least annually as described below. Impairment losses are recognised in the income statement, as a specific item. If a cash generating unit is impaired, impairment losses are allocated firstly against goodwill, and secondly on a pro-rata basis against intangible and other assets.

Notes to the consolidated financial statements continued

13. Intangible assets continued

	Goodwill £m	Customer relationships and brands £m	Telecoms licences and other £m	Internally developed software[a] £m	Purchased software £m	Total £m
Cost						
At 1 April 2018	7,945	3,410	2,951	4,822	1,574	20,702
Additions	–	–	304	520	160	984
Disposals and adjustments[b]	(2)	–	(3)	(945)	(141)	(1,091)
Transfers	–	–	4	120	(80)	44
Exchange differences	63	7	(4)	1	(8)	59
At 31 March 2019	**8,006**	**3,417**	**3,252**	**4,518**	**1,505**	**20,698**
Reclassification of assets held under finance leases[c]	–	–	(185)	–	–	(185)
At 1 April 2019	**8,006**	**3,417**	**3,067**	**4,518**	**1,505**	**20,513**
Additions	–	–	–	598	192	790
Disposals and adjustments[b]	(30)	(28)	(34)	(765)	(541)	(1,398)
Transfers	–	–	(2)	14	(3)	9
Exchange differences	52	8	1	2	10	73
Transfer to assets held for sale[d]	(83)	–	–	(13)	(45)	(141)
At 31 March 2020	**7,945**	**3,397**	**3,032**	**4,354**	**1,118**	**19,846**
Accumulated amortisation						
At 1 April 2018	–	1,191	421	3,680	963	6,255
Charge for the year	–	377	142	525	110	1,154
Disposals and adjustments[b]	–	–	(3)	(941)	(147)	(1,091)
Transfers	–	–	3	(43)	43	3
Exchange differences	–	3	(3)	–	(8)	(8)
At 31 March 2019	**–**	**1,571**	**560**	**3,221**	**961**	**6,313**
Reclassification of assets held under finance leases[c]	–	–	(115)	–	–	(115)
At 1 April 2019	**–**	**1,571**	**445**	**3,221**	**961**	**6,198**
Charge for the year	–	373	177	538	85	1,173
Disposals and adjustments[b]	–	(22)	(49)	(786)	(529)	(1,386)
Transfers	–	–	–	(15)	15	–
Exchange differences	–	8	1	1	9	19
Transfer to assets held for sale[d]	–	–	–	(8)	(39)	(47)
At 31 March 2020	**–**	**1,930**	**574**	**2,951**	**502**	**5,957**
Carrying amount						
At 31 March 2020	**7,945**	**1,467**	**2,458**	**1,403**	**616**	**13,889**
At 31 March 2019	8,006	1,846	2,692	1,297	544	14,385

[a] Includes a carrying amount of £538m (2018/19: £668m) in respect of assets in course of construction, which are not yet amortised.
[b] Fully depreciated assets in the group's fixed asset registers were reviewed during the year, as part of the group's annual asset verification exercise, and certain assets that were no longer in use have been written off, reducing cost and accumulated depreciation by £1.1bn (2018/19: £1.0bn).
[c] On adoption of IFRS 16 on 1 April 2019, assets held under finance leases were reclassified as right-of-use assets. See note 1.
[d] Assets transferred to held for sale during 2019/20 relate to our domestic operations in France, our domestic operations in Spain and selected domestic operations and infrastructure in 16 countries in Latin America. On reclassification to held for sale, goodwill associated with the France and Latin America disposals was impaired by £58m, and other intangible assets associated with these disposals were impaired by £1m. See note 23.

Impairment of goodwill

Significant accounting policies that apply to impairment of goodwill

We perform an annual goodwill impairment review.

Goodwill recognised in a business combination does not generate cash flows independently of other assets or groups of assets. As a result, the recoverable amount, being the value in use, is determined at a cash generating unit (CGU) level. These CGUs represent the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other groups of assets. Our CGUs are deemed to be legacy BT Consumer, legacy EE, Enterprise, and Global.

We allocate goodwill to each of the Cash Generating Units (CGUs) that we expect to benefit from the business combination. Each CGU to which goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes.

The value in use of each CGU is determined using cash flow projections derived from financial plans approved by the Board covering a five-year period. They reflect management's expectations of revenue, EBITDA growth, capital expenditure, working capital and operating cash flows, based on past experience and future expectations of business performance. Cash flows beyond the fifth year have been extrapolated using perpetuity growth rates.

13. Intangible assets continued

Critical accounting estimates and key judgements made in reviewing goodwill for impairment

Determining our CGUs
The determination of our CGUs is judgemental. The identification of CGUs involves an assessment of whether the asset or group of assets generate largely independent cash inflows. This involves consideration of how our core assets are operated and whether these generate independent revenue streams. The legacy BT Consumer and EE CGUs remain as two separate CGUs due to their having independent cash flows.

Estimating value in use
Our value in use calculations require estimates in relation to uncertain items, including management's expectations of future revenue growth, operating costs, profit margins, operating cash flows, and the discount rate for each CGU. Future cash flows used in the value in use calculations are based on our latest Board-approved five-year financial plans which reflect the anticipated impact of Covid-19. Expectations about future growth reflect the expectations of growth in the markets to which the CGU relates. The future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money. The discount rate used in each CGU is adjusted for the risk specific to the asset, including the countries in which cash flow will be generated, for which the future cash flow estimates have not been adjusted.

We tested our goodwill for impairment as at 31 March 2020. The carrying value of goodwill and the key assumptions used in performing the annual impairment assessment are disclosed below.

Cost	Legacy BT Consumer £m	Legacy EE £m	Enterprise £m	Business and Public Sector £m	Wholesale and Ventures £m	Global £m	Total £m
At 1 April 2018	1,183	2,768	–	2,562	942	490	7,945
Transfer	–	–	3,504	(2,562)	(942)	–	–
Exchange differences	–	–	5	–	–	58	63
Acquisitions and disposals	–	–	–	–	–	(2)	(2)
At 31 March 2019	**1,183**	**2,768**	**3,509**	**–**	**–**	**546**	**8,006**
Exchange differences	–	–	4	–	–	48	52
Acquisitions and disposals	–	–	(30)	–	–	–	(30)
Transfer to assets held for sale	–	–	–	–	–	(83)	(83)
At 31 March 2020	**1,183**	**2,768**	**3,483**	**–**	**–**	**511**	**7,945**

In connection with disposals of BT Fleet Ltd and Tikit Ltd, £30m of goodwill in the Enterprise CGU has been eliminated. As discussed in note 23, we have recorded the net assets of certain Global businesses as held for sale. As a result, goodwill impairment charges of £58m in respect of France and Latin America have been recorded, and £25m of goodwill related to Spain has been reclassified. There are no reasonably possible changes to our assumptions that would result in the carrying value exceeding the value in use.

What discount rate have we used?
The pre-tax discount rates applied to the cash flow forecasts are derived from our post-tax weighted average cost of capital. The assumptions used in the calculation of the group's weighted average cost of capital are benchmarked to externally available data. The pre-tax discount rate used in performing the value in use calculation in 2019/20 was 8.0% (2018/19: 8.2%). We've used the same discount rate for all CGUs except Global where we have used 8.6% (2018/19: 8.7%) reflecting higher risk in some of the countries in which Global operates.

What growth rates have we used?
The perpetuity growth rates are determined based on the forecast market growth rates of the regions in which the CGU operates, and they reflect an assessment of the long-term growth prospects of that market. The growth rates have been benchmarked against external data for the relevant markets. None of the growth rates applied exceed the expected long-term average growth rates for those markets or sectors. We used a perpetuity growth rate of 2.4% (2018/19: 2.4%) for Global and 2.0% (2018/19: 2.0%) for Enterprise and our legacy BT Consumer and EE CGUs.

Has Covid-19 had a material impact on the impairment assessment?
Covid-19 is not considered to have a significant impact on the assessment of impairment. Its impact on the group is considered to be short-term, and it is not anticipated to have a significant impact on the terminal year which is a key driver of our value in use calculations.

Notes to the consolidated financial statements continued

14. Property, plant and equipment

Significant accounting policies that apply to property, plant and equipment

Our property, plant and equipment is included at historical cost, net of accumulated depreciation, government grants and any impairment charges. Property, plant and equipment acquired through business combinations are initially recorded at fair value and subsequently accounted for on the same basis as our existing assets. We derecognise items of property, plant and equipment on disposal or when no future economic benefits are expected to arise from the continued use of the asset. The difference between the sale proceeds and the net book value at the date of disposal is recognised in operating costs in the income statement.

Included within the cost of network infrastructure and equipment are direct and indirect labour costs, materials and directly attributable overheads.

We depreciate property, plant and equipment on a straight line basis from the time the asset is available for use, to write off the asset's cost over the estimated useful life taking into account any expected residual value. Freehold land is not depreciated.

Estimated useful economic lives

The estimated useful lives assigned to principal categories of assets are as follows:

Land and buildings	
– Freehold buildings	14 to 50 years
– Short-term leasehold improvements	Shorter of 10 years or lease term
– Leasehold land and buildings	Unexpired portion of lease or 40 years, whichever is the shorter
Network infrastructure	
Transmission equipment	
– Duct	40 years
– Cable	3 to 25 years
– Fibre	5 to 20 years
Exchange equipment	2 to 13 years
Other network equipment	2 to 20 years
Other assets	
– Motor vehicles	2 to 9 years
– Computers and office equipment	3 to 7 years

Residual values and useful lives are reassessed annually and, if necessary, changes are recognised prospectively.

Network share assets

Certain assets have been contributed to a network share arrangement by both EE and Hutchison 3G UK Limited, with legal title remaining with the contributor. This is considered to be a reciprocal arrangement. Our share of the assets on acquisition of EE were recognised at fair value within tangible assets, and depreciated in line with policy. Subsequent additions are recorded at cost.

Impairment of property, plant and equipment

We test property, plant and equipment for impairment if events or changes in circumstances (assessed at each reporting date) indicate that the carrying amount may not be recoverable. When an impairment test is performed, we assess the recoverable amount by reference to the higher of the net present value of the expected future cash flows (value in use) of the relevant asset and the fair value less costs to dispose. If it is not possible to determine the recoverable amount for the individual asset then we assess impairment by reference to the relevant cash generating unit as described in note 13.

Key judgements made in accounting for our BDUK contracts

We receive government grants in relation to the Building Digital UK (BDUK) programme and other rural superfast broadband contracts. Where we have achieved certain service levels, or delivered the network more efficiently than anticipated, we have an obligation to either re-invest or repay grant funding. Where this is the case, we assess and defer the income with a corresponding increase in capital expenditure.

Assessing the timing of whether and when we change the estimated take-up assumption is judgemental as it involves considering information which is not always observable. Our consideration on whether and when to change the base case assumption is dependent on our expectation of the long-term take-up trend.

Our assessment of how much grant income to defer includes consideration of the difference between the take-up percentage agreed with the local authority and the likelihood of actual take-up. The value of the government grants deferred is disclosed in note 18.

16. Programme rights

Significant accounting policies that apply to programme rights

Programme rights are recognised on the balance sheet from the point at which the legally enforceable licence period begins. They are initially recognised at cost and are amortised from the point at which they are available for use, on a straight line basis over the programming period, or the remaining licence term, as appropriate, which is generally 12 months. Programme rights are tested for impairment in accordance with our impairment policy as set out in note 13.

Additions reflect TV programme rights for which the legally enforceable licence period has started during the year. Rights for which the licence period has not started are disclosed as contractual commitments in note 31. Payments made to receive commissioned or acquired programming in advance of the legal right to broadcast the programmes are classified as prepayments (see note 17).

	Total £m
At 1 April 2018	272
Additions	879
Amortisation	(841)
At 1 April 2019	**310**
Additions	870
Amortisation	(870)
At 31 March 2020	**310**

£310m of programme rights recognised on the balance sheet at 31 March 2020 relate to sporting events postponed as a result of Covid-19. These are not considered to be impaired at the balance sheet date as sporting governing bodies, for example the Premier League and UEFA, are still determining how, or if, to complete the current season. Whether and how the seasons are completed could have an impact on whether there is any impairment. The majority of programme rights assets affected by Covid-19 relate to domestic and European football leagues which are amortised over 12 months from August and which will be fully amortised by July 2020. If any impairment is recognised in future periods we would also seek compensation in respect of rights which have not been fulfilled. Until this is established any potential recoveries would represent contingent assets and would not meet the criteria for recognition until this is virtually certain.

Covid-19 is not anticipated to have an impact on commissioned or acquired programming for which we have made an advance payment. At 31 March 2020 these total £110m and are classified as prepayments within trade and other receivables (note 17).

17. Trade and other receivables

Significant accounting policies that apply to trade and other receivables

We initially recognise trade and other receivables at fair value, which is usually the original invoiced amount. They are subsequently carried at amortised cost using the effective interest method. The carrying amount of these balances approximates to fair value due to the short maturity of amounts receivable.

We provide services to consumer and business customers, mainly on credit terms. We know that certain debts due to us will not be paid through the default of a small number of our customers. Because of this, we recognise an allowance for doubtful debts on initial recognition of receivables, which is deducted from the gross carrying amount of the receivable. The allowance is calculated by reference to credit losses expected to be incurred over the lifetime of the receivable. In estimating a loss allowance we consider historical experience and informed credit assessment alongside other factors such as the current state of the economy and particular industry issues. We consider reasonable and supportable information that is relevant and available without undue cost or effort.

Once recognised, trade receivables are continuously monitored and updated. Allowances are based on our historical loss experiences for the relevant aged category as well as forward-looking information and general economic conditions, this includes the impact of Covid-19. Allowances are calculated by individual customer-facing units in order to reflect the specific nature of the customers relevant to that customer-facing unit.

Following the outbreak of Covid-19 we have reassessed our expected loss provisions including assessing the risk factors associated with various industry sectors and applying a risk weighting to each sector.

Contingent assets such as any insurance recoveries, or prepaid programme rights which we expect to recoup, have not been recognised in the financial statements as these are only recognised within trade and other receivables when their receipt is virtually certain.

20. Retirement benefit plans continued

How is the BTPS governed and managed?
BT Pension Scheme Trustees Limited (the Trustee) has been appointed by BT as an independent trustee to administer and manage the BTPS on behalf of the members in accordance with the terms of the BTPS Trust Deed and Rules and relevant legislation (principally the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004).

Under the terms of the Trust Deed there are nine Trustee directors, all of whom are appointed by BT, as illustrated below. Trustee directors are usually appointed for a three-year term but are then eligible for re-appointment.

Chairman of the Trustees
Appointed by BT after consultation with, and with the agreement of, the relevant trade unions.

Member nominated Trustees
Appointed by BT based on nominations by trade unions.

Employer nominated Trustees
Appointed by BT. Two normally hold senior positions within the group and two normally hold (or have held) senior positions in commerce or industry.

BTPS assets

Critical accounting judgements and key estimates made when valuing our pension assets

Under IAS19, plan assets must be valued at the bid market value at the balance sheet date. Our pension assets include quoted and unquoted investments. A portion of unquoted investments are valued based on inputs that are not directly observable, which require more judgement. The assumptions used in valuing unquoted investments are affected by current market conditions and trends which could result in changes in fair value after the measurement date.

Valuation of main quoted investments
- Equities listed on recognised stock exchanges are valued at closing bid prices.
- Bonds that are regularly traded are valued using broker quotes.
- Exchange traded derivative contracts are valued based on closing bid prices.

Valuation of main unquoted investments (prior to estimated adjustments)
- Equities are valued using the IPEVC guidelines where the most significant assumptions are the discount rate and earnings assumptions.
- Property investments are valued on the basis of open market value by an independent valuer. The significant assumptions used in the valuation are rental yields and occupancy rates. In light of the negative impact of the Covid-19 pandemic on financial markets, the independent valuers included material uncertainty clauses in respect of £2bn of the UK Property asset valuations. The directors still consider these valuations to be the best estimate of the valuation of the Property investments, but there is a higher degree of uncertainty compared to previous years.
- Bonds that are not regularly traded are valued by an independent valuer using pricing models making assumptions for credit risk, market risk and market yield curves.
- Over the counter derivatives are valued by an independent valuer using cashflows discounted at market rates. The significant assumptions used in the valuation are the yield curves and cost of carry.
- Holdings in investment funds are valued at fair value which is typically the Net Asset Value provided by the fund administrator or investment manager. The significant assumption used in the valuation is the Net Asset Value.
- Infrastructure investments are valued by an independent valuer using a model-based valuation such as a discounted cash flow approach. The significant assumptions used in the valuation are the discount rate and the expected cash flows.
- The value of the longevity insurance contract held by the BTPS is measured by discounting the projected cash flows payable under the contract (projected by an actuary, consistent with the terms of the contract). The significant assumptions used to value the asset are the discount rate and the mortality assumptions.

Estimated adjustments to the valuation of main unquoted investments
Under IAS 19, around £6bn of these unquoted assets have been initially measured using the most recent valuations, adjusted for cash movements between the last valuation date and 31 March 2020. As the latest valuations for these assets precede the negative impact of the Covid-19 pandemic on financial markets, we have applied an estimated adjustment by reference to either market indices or estimated 31 March 2020 valuations provided by the portfolio investment manager.

BT Beyond Limits Brand Launch, London, Wembley Arena. October 2019. BT launched its new brand ambition – Beyond Limits – with an epic World Record-breaking indoor drone show coded by school children from St Joseph's School, Islington.

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Suppliers of Communications, Broadband
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Trócaire (Northern Ireland)
(a company limited by guarantee)

Annual Report and Financial Statements for the financial year ended 29 February 2020

COMPANY NUMBER:	NI021482
HMRC NUMBER:	XR10431
NI CHARITY COMMISSION NUMBER:	NIC103321

20. TAXATION

Trócaire (Northern Ireland) is a registered charity and therefore is not liable to income tax or corporation tax on income derived from its charitable activities. All of its income falls within the various exemptions available to registered charities.

21. FINANCIAL INSTRUMENTS

The carrying value of the company's financial assets and liabilities are summarised by category below:-

	2020	2019
	£	£
Financial Assets		
Measured at undiscounted amount receivable		
Amounts due from parent	**446,053**	-
Donor income accrued	**263,576**	699,055
Other debtors	**-**	30,818
Deposit income accrued	**1,027**	3,150
Financial Liabilities		
Measured at undiscounted amount payable		
Sundry creditors and accruals	**456,313**	298,146
Amounts due to parent	**-**	2,466,136

22. SUBSEQUENT EVENTS

The most significant event affecting the company is the emergence of Covid-19 as a global pandemic since the financial year end. Details of this impact are included on page 38 together with other subsequent events concerning the structure of the group and changes to the company constitution. These are non-adjusting subsequent events.

23. ULTIMATE CONTROLLING PARTY

Since the establishment of Trócaire (Northern Ireland), the company has been deemed to be a subsidiary undertaking of Trócaire, a registered charity in the Republic of Ireland. This has been based on the control exercised by Trócaire, particularly in the appointment of the company members of Trócaire (Northern Ireland). On 1st March 2020 Trócaire (Northern Ireland) as a subsidiary company was transferred from Trócaire "The Trust" transferred to Trócaire "Company Limited by Guarantee (CLG)" together with all of the operations, assets and liabilities of Trócaire "The Trust". As of 3rd April 2020 Trócaire "Company Limited by Guarantee (CLG)" has become the sole company member of Trócaire (Northern Ireland). Both Trócaire "The Trust" and Trócaire "Company Limited by Guarantee (CLG)" are agencies of the Irish Episcopal Conference.

Trócaire (Northern Ireland) is a subsidiary of Trócaire, the largest and smallest group for which group accounts are drawn up is Trócaire. Copies of the group accounts are available to the public on Trócaire's website www.trocaire.org

Portwest International Sales Limited

Directors' report and
financial statements

**Period from the date of incorporation,
12 December 2018 to 29 February 2020**

Registered number: 639645

Portwest International Sales Limited

Notes *(continued)*

9 Commitments

Security
The company is party to mortgage debenture with AIB Bank which secures charges over certain assets of the company.

10 Controlling party

The smallest group in which they are consolidated is that headed by Mayo Investments (Westport) Unlimited Company, incorporated in Ireland, with a registered address at Portwest House, IDA Business & Technology Park, Westport, Co. Mayo.

11 Events are the end of the financial year

As discussed in the directors' report, the directors are addressing the impact of the Covid-19 pandemic on the operations of the company. As the pandemic is a non-adjusting post balance sheet event, there is no impact on the recognition and measurement of the company's assets and liabilities as at 29 February 2020. There have been no other significant events since the end of the financial year.

12 Approval of financial statements

The board of directors approved these financial statements on 28 October 2020.

William Bird & Sons Limited

Abridged Financial Statements

for the financial year ended 29 February 2020

Company Number: 48117

William Bird & Sons Limited
Balance Sheet
as at 29 February 2020

	Notes	2020 €	2019 €
Fixed Assets			
Tangible assets	7	380,360	382,704
Investments	8	384,400	384,400
		764,760	767,104
Current Assets			
Stocks	9	1,319	3,348
Debtors	10	219,676	385,540
Cash and cash equivalents		240,356	158,535
		461,351	547,423
Creditors: Amounts falling due within one year	11	(516,597)	(545,734)
Net Current (Liabilities)/Assets		(55,246)	1,689
Total Assets less Current Liabilities		709,514	768,793
Creditors			
Amounts falling due after more than one year	12	(29,836)	(37,467)
Net Assets		679,678	731,326
Capital and Reserves			
Called up share capital presented as equity		1,524	1,524
Revaluation reserve	13	204,856	204,856
Other reserves	13	19,046	19,046
Profit and Loss Account	13	454,252	505,900
Equity attributable to owners of the company		679,678	731,326

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime and in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", applying Section 1A of that Standard.

We as Directors of William Bird & Sons Limited, state that -
The company has relied on the specified exemption contained in section 352 Companies Act 2014. The company has done so on the grounds that it is entitled to the benefit of that exemption as a small company and confirm that the abridged financial statements have been properly prepared in accordance with section 353 Companies Act 2014 and the small companies' regime.

Approved by the board on 21/11/2020 and signed on its behalf by:

Don Birdthistle
Director

Norman Birdthistle
Director

The notes on pages 10 to 16 form part of the abridged financial statements

3. Significant Accounting Judgements and Key Sources of Estimation Uncertainty

The directors consider the accounting estimates and assumptions below to be its critical accounting estimates and judgements:

Going concern

The directors have reviewed the financial position of the company for a period of at least twelve months from the date of the approval of the financial statements and have considered the implications and effect that COVID-19 may have on the financial statements.

As noted in the directors' report, the ongoing extent and impact of COVID-19 on the company's business and financial results is highly uncertain and will depend on future developments, including the duration and spread of the outbreak and the related impact on consumer confidence and spending. The company has had limited opportunity to trade in 2020 since the onset of the pandemic and the sweeping nature of COVID-19 makes it extremely difficult to predict how the company's business and operations will be affected in the longer run. However, the likely overall economic impact of the pandemic is viewed as highly negative to the general economy. Any of the foregoing factors, or such other events of the pandemic. could materially increase the company's costs, negatively impact its sales and damage the results of its operations. The duration of any such impacts cannot be predicted at this stage, however the directors continue to monitor the situation closely and have implemented measures to provide additional financial flexibility as the company works to protect its cash position and liquidity into the future.

The company is dependent on the continued support of its group companies, related parties and its creditors. The directors have a reasonable expectation that future operating cash flows, together with the ongoing financial support of the aforesaid sources, mean that the company will have adequate cash to fund it for the foreseeable future. The main assumptions underpinning these expectations are 1) the commitment from its group companies and related parties not to seek repayment until such time as it is financially viable and 2) the effective management of working capital within the company once trading recommences.

There is a material uncertainty which may cast significant doubt as to the company's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, based on the aforementioned assumptions, the directors believe that it is appropriate for the financial statements to be prepared on a going concern basis. The financial statements do not include any adjustments that would result from a withdrawal of the continued support of its group companies, related parties or its creditors.

Useful lives of tangible fixed assets

Long-lived assets comprising of land, equipment and motor vehicles represent a material portion of total assets. The annual depreciation charge depends primarily on the estimated life of the asset and, in certain circumstances, estimates of residual values. The directors regularly review these useful lives and change them if necessary to reflect current conditions. In determining these useful lives management consider technological change, patterns of consumption and expected economic utilisation of the assets.

Impairment of financial assets

At the end of each reporting period, the company assesses whether there is objective evidence of impairment of any financial assets measured at cost or amortised cost, including loans, investments, trade debtors and cash. If there is objective evidence of impairment, impairment losses are recognised in the Profit and Loss Account in that financial year.

16. Related Party Transactions

William Bird & Sons Limited trades with, provides and receives finance from other group companies.

The company is a related party of William Bird (Sales) Limited, WB Funderland Limited, William Bird (Rollercoaster) Limited and William Bird Tramore Limited due to commonalities of directors and shareholders.

1) At year end the net amount owed by William Bird & Sons Limited to William Bird (Sales) Limited is €154,279 (2019: €59,665).

2) At year end the net amount owed to William Bird & Sons Limited by William Bird Tramore Limited is €42,716 (2019: €41,795).

3) At year end the net amount owed by William Bird & Sons Limited to WB Funderland Limited is €20,443 (2019: €20,433).

4) At year end the net amount owed by William Bird & Sons Limited to William Bird (Rollercoaster) Limited is €2,275 (2019: €2,451).

17. Post-Balance Sheet Events

The most significant event affecting the entity and the global economy since year end has been the emergence of COVID-19. In March 2020, a global pandemic was declared by the World Health Organisation regarding the spread of the COVID-19 virus. Accordingly, the Irish government took measures to safeguard public health and implemented nationwide restrictions which resulted in the company ceasing operations in line with the recommendations provided.

The ongoing extent and impact of COVID-19 on the company's business and financial results is highly uncertain and will depend on future developments, including the duration and spread of the outbreak and the related impact on consumer confidence and spending. The company has had limited opportunity to trade in 2020 since the onset of the pandemic and the sweeping nature of COVID-19 makes it extremely difficult to predict how the company's business and operations will be affected in the longer run. However, the likely overall economic impact of the pandemic is viewed as highly negative to the general economy.

The duration of any such impacts cannot be predicted at this stage, however the directors continue to monitor the situation closely and may implement measures to provide additional financial flexibility as the company works to protect its cash position and liquidity into the future.

18. Bank Security

Allied Irish Bank Plc. hold the following as security:

- Mortgage over Folio 29085F

19. Comparative Amounts

Comparative amounts have been regrouped/restated, where necessary, on the same basis as those for the current year.

20. Approval of Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 21/11/2020.