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COVID-19 accounting considerations for CFOs

As a response to the COVID-19 global pandemic, the Singapore government has implemented measures through various to help businesses with their cash flows and help the Singapore economy recover. This article discusses key considerations to determine the appropriate accounting treatment for the various schemes announced by the Government.

Contents

1. Introduction

The Covid-19 global pandemic has created additional burden on businesses all over the world. In most jurisdictions, government has been implementing measures in helping businesses with their cash flows.

In Singapore, the government has also stepped in to help with various budgets to help businesses and economies over the past few months in response to the Covid-19 global pandemic.

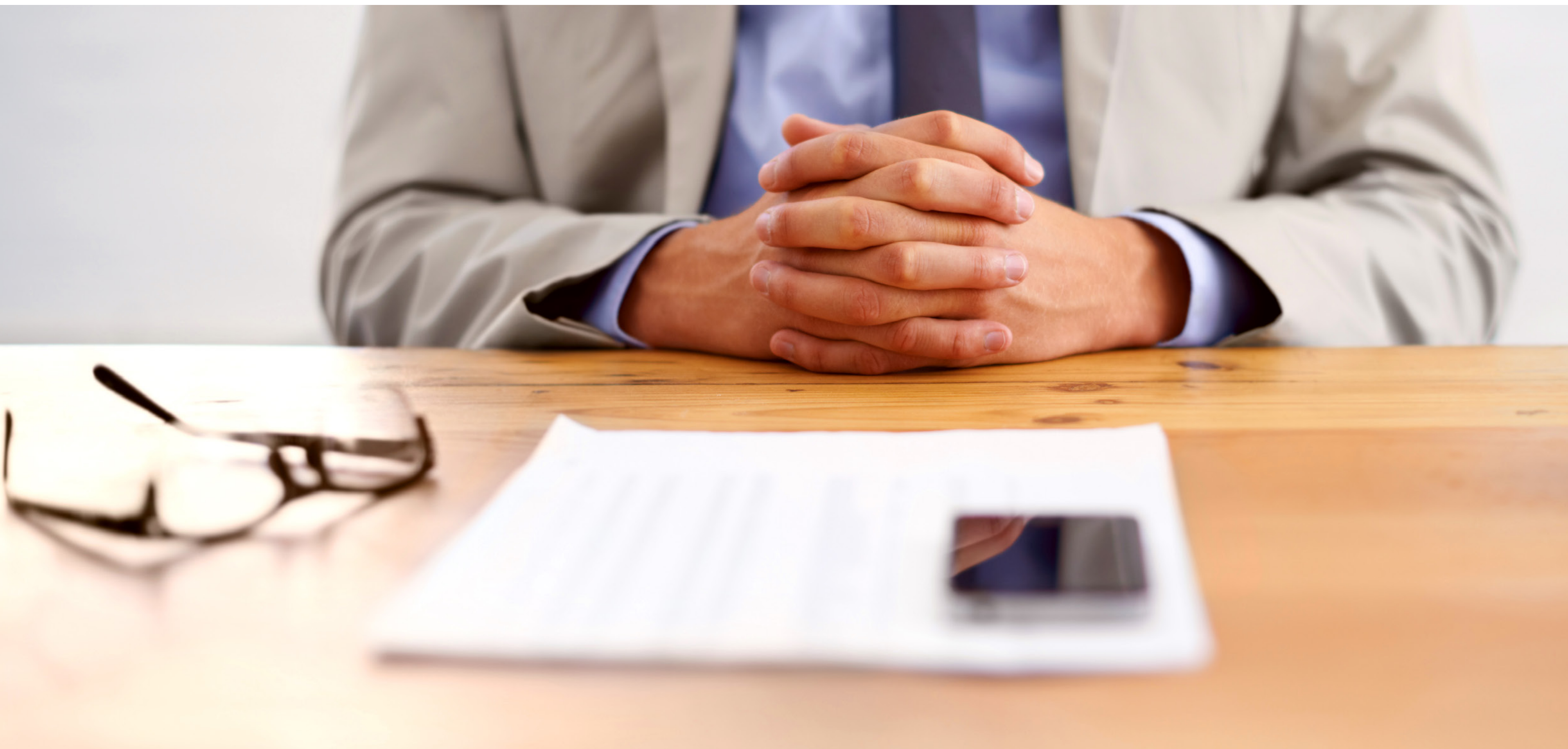
Some of the measures implemented include:

- Property Tax Rebate
- Jobs Support Scheme
- Rental Relief Framework

Entities will need to assess if the government assistance provided meets the requirement of the government grants stipulated in FRS 20 Accounting for Government Grants) or other standards (e.g. FRS 116 Leases) to determine the appropriate accounting treatment of the respective assistance provided.

In this article we will be discussing in detail key considerations prior to determining the appropriate accounting treatment for the various schemes that have been provided.

- Is the government assistance in the scope of FRS 20 or another standard?
- What is the correct recognition and measurement?
- Is it recognised in the correct period?
- How should the assistance received from governments be presented in the financial statements?



2. Property Tax Rebate

The Singapore government has given remission of property tax rebates under section 6(8) of the Property Tax Act (Cap. 254) to qualify non-residential properties for the period from 1 January 2020 to 31 December 2020 in response to the Covid-19 pandemic.

The landlord must transfer the benefit from the property tax rebate if it is currently leased to a tenant. If the property is currently vacant, the landlord will benefit from the property tax rebate.

Under the Act, there should be no conditions for the landlord to pass the benefit to the tenant.

Government grants

Definition of a government grant

'Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.' (FRS 20.3)

The Act requires the landlord to transfer the property tax rebate to the tenant without any changes to any term or condition of the lease agreement. Although the assistance to the tenant takes the form of a rental rebate, it is in substance a grant expense and not a reduction of rental income for the landlord. This is because the Singapore Government determines the grant unilaterally without regard to the commercial arrangements of the tenancy agreement and without modifying any terms. Therefore, the related rental rebate given to the tenant is an assistance given by the Singapore Government to the tenant (if the property is tenanted) through the landlord, which also meets the definition of a government grant under FRS 20 , and is not a lease modification under FRS 116.

Conditions of recognition

'Government grants, including monetary grants at fair value, shall not be recognised until there is reasonable assurance that (a) the entity will comply with the conditions attaching to them; and (b) the grants will be received.' (FRS 20.7)

Recognition by landlord

The landlord is required to fully pass on the property tax rebate to tenants and this is a 'condition' attached to this grant. Therefore, the landlord will need to recognise the grant income and the grant expense in its income statement.

The landlord should assess whether it has reasonable assurance as required by FRS 20. If there is reasonable assurance, the landlord should recognise a grant receivable (property tax rebate) and a deferred government grant income. For the tenanted properties, this deferred government grant income shall be recognised as a grant payable (related rental rebate). The timing and manner in which the grant will be received should not affect the accounting for the grant.

Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. The entity may regard either the property tax expense (if the property is not tenanted) or the reduction of rental income. In either case, the costs are recognised over time on a systematic basis. If a portion of the rebate relates to a past period, the landlord should recognise that portion in profit or loss immediately.

Measurement

'Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.' (FRS 20.12)

Presentation and disclosure

Entities could elect to present the grant income which are amortised over the periods as follows: -

(a) a reduction of rental expenses (for short-term or low value assets under FRS 116); or

(b) grant income (e.g. other income).

Our preference is that the grants be presented separately on the profit or loss and not netted against the related expense if it has predictive value. Presenting the expenses without offsetting this way reflects the uniqueness of the COVID-19 pandemic and its impact on its financial performance during the reporting period.

The accounting policy will need to be consistently applied to other grants where applicable to the entity. Effects on the grant income relating to the reduction of depreciation or rental expense needs to be disclosed in the financial statements.

Grant expense will be separately disclosed.

Entities will also need to assess the presentation of the grant receivable with the lease liability if there is a legal right to offset to determine the appropriate presentation.

Recognition by lessee

The tenant should view the related rental rebate as a government grant based on its substance.

The related rental rebate is recognised in the tenant's financial statements as related rental rebate receivable (which is presented net against the lease liability if there is a legal right to offset against the lease liability) when there is reasonable assurance that the tenant will receive the related rental rebate from the landlord.

As there are no conditions attached to the related rental rebates, the related rental rebates are recognised as grant income over the same periods as the related costs towards which they are intended to compensate.

Presentation and disclosures:

Tenant may elect to present a grant income without reducing its depreciation of right-of-use asset (or rental expense if it is a short-term lease). This is because the government grant does not change the tenancy agreement between the landlord and the tenant.

This grant income can also be presented as a deduction against the related expenses (i.e. depreciation of right-of-use assets or rental expense if it is a short-term lease). This accounting policy choice will need to be consistently applied by the entity.

Where the grant income is deducted against the depreciation of right-of-use assets, clear disclosures on the effects of the grant income on the depreciation will need to be included in the notes to the financial statements.

Example: Property tax rebates

Landlord A owns a 2-storey property which is currently leased out to tenants (1 tenant for each storey) for a term of 3-year commencing from 1 January 2019.

Landlord A will receive property tax rebate of $60,000 in connection with the property which were announced in March 2020. Pursuant to the conditions of the property tax rebate, each tenant will receive $30,000 from April to June 2020.

<u>Accounting entries by Landlord</u>

March 2020

Dr Grant receivable (property tax rebate)	60,000	
Cr Grant payable (related rental rebate)		60,000

(recognition of grant receivable from government and payable to tenants)

April 2020 (recurring for May and June 2020)

Dr Grant payable	20,000	
Cr Lease receivable		20,000

(netting of grant receivable with lease payments)

Dr Grant payable (rental rebate)	20,000	
Cr Lease receivable		20,000

(transfer or rental rebate with lease payments)

Dr Grant expense	20,000	
Cr Grant income		20,000

(recognition of grant income and expense for April 2020)

<u>Accounting entries by Tenant A</u>

April 2020 (recurring for May and June 2020)

Dr Rebate receivable[1]	20,000	
Cr Grant income[2]		20,000

(recognition of rebate receivable from landlord for April 2020)

[1] Rebate receivable needs to be assessed if there is a legal right to offset against lease liability and if it should be presented net of lease liability.

[2] Entity needs to elect if the grant income is presented as a reduction of depreciation expense/rental expense or other income.

3. Rent concessions

As a response to the COVID-19 global pandemic, Singapore government has issued a rental relief framework whose main objective seeks to help small-medium enterprises (SMEs) with their cashflows by providing mandated co-sharing of rental obligations between government, landlords and tenants.

There are conditions relating to the eligibility of companies qualifying for the rental relief:

1. SME at the group level (<$100 million turnover in 2019); and
2. Substantial drop in average monthly revenue (average monthly revenue from April to May 2020 reduced by 35% compared to April to May 2019); and
3. The tenancy must be in force on 1 April 2020 and must have been entered before 25 March 2020.

In this article, we will be discussing on 2 main reliefs provided:

<u>Mandatory rental relief</u>

- Rental relief for eligible SMEs supported through government assistance [3]
  - o Qualifying commercial properties – 2 months (April to May 2020)
  - o Industrial/office properties – 1 month (April 2020)
- Additional rental relief for eligible SME borned by landlord
  - o Qualifying commercial properties – 2 months (June to July 2020)
  - o Industrial/office properties – 1 month (May 2020)

<u>Optional rental arrears repayment scheme for eligible SMEs</u>

- Portion of outstanding rental arrears accumulated from 1 February to 19 October 2020 can be repaid in instalments over remainder of lease

[3] The government assistance is supported through the property tax rebate mentioned above and government cash grant

Government grants

As the rent relief framework is partially supported by government through property tax rebates and cash grant to landlords, therefore, to extent the relief is supported by government, principles of FRS 20 Government Grants apply.

Similar to property tax, the landlord should recognise a grant receivable for cash grant (when there is reasonable assurance) and a deferred government grant income. For the tenanted properties, this deferred government grant income shall be recognised as a grant payable (related rental rebate).

Landlords shall recognise the government grants in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs which the grants are intended to compensate.

The related rental rebate is recognised in the tenant's financial statements as related rental rebate receivable (which is presented net against the lease liability if there is a legal right to offset against the lease liability) when there is reasonable assurance that the tenant will receive the related rental rebate from the landlord.

As there are no conditions attached to the related rental rebates, the related rental rebates are recognised as grant income over the same periods as the related costs towards which they are intended to compensate.

To extent the rental rebate is not supported by government, tenants can apply optional practical expedient (introduced in a recent amendment to FRS 116) offered to lessees by accounting for any change in lease payments relating to the rent concessions due to Covid-19 not as a lease modification. There is however no relief offered for lessors.

FRS 116 practical expedient

Conditions to elect practical expedient

The practical expedient in paragraph 46A applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

(a) Change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; and

(b) Reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

(c) there is no substantive change to other terms and conditions of the lease.

Entities need to assess if the concessions meet the above conditions. If the conditions are met, lessee should treat the change as a lease modification.

Accounting treatment

The practical expedient provided exemptions to three types of changes in lease payments:

- Forgiveness or waiver of lease payments – a lessee would account for it as a variable lease payment into profit or loss
- Change in lease payments that result in a change only in timing of individual payments – a lessee would continue to account the interest on the lease liability and recognise the changes as interest-free principal payments
- Combination of waiver of lease payments and change of timing of individual payments – a lessee would account for them separately as shown above.

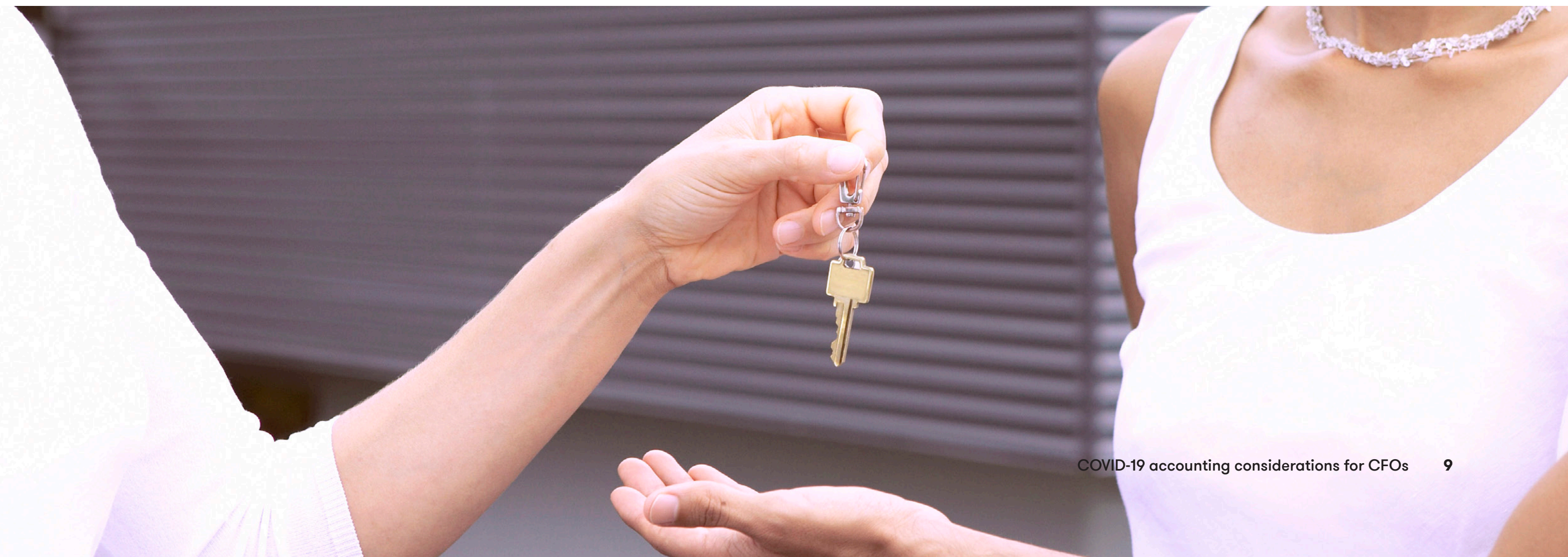
Presentation and disclosure

If applying the practical expedient, the amendments require the entity to disclose:

- That it has applied the practical expedient to all its rent concessions, or if only some of them, a description of the nature of the contracts it has applied the practical expedient to; and
- the amount in profit or loss for the reporting period that reflects the change in lease payments arising from rent concessions as a result of applying the practical expedient; and
- the effect as a non-cash change in lease liabilities in accordance with FRS 7 Statement of Cashflows

Transition

This is effective for annual reports beginning on or after 1 June 2020, early application is permitted for financial statements not yet authorised for issue at 28 May 2020.



Example: Rent concessions

Company A is a 30 June 2020 year-end which has entered a lease commencing on 1 January 2019 for a lease term of 3 years. Prior to the concessions, Company A is required to pay $100 every 6 months.

Company A applied FRS 116 on 1 July 2019 as date of adoption and measure its right-of-use asset and lease liability using a 5% incremental borrowing rate.

Remaining payments as at 31 March 2020 are as follows:

Date	Outflow	Interest	Principal	NPV
Mar 20	-	5	(5)	(381)
Jun 20	(100)	5	95	(286)
Dec 20	(100)	7	93	(193)
Jun 21	(100)	5	95	(98)
Dec 21	(100)	2	98	-

Scenario 1

On 31 March 2020, the landlord issued a notice to the Company informing a one-time waiver of lease payment for the lease payment for June 2020.

The impact on the calculations and cashflows are as follows:

Date	Outflow	Interest	Principal	NPV
Mar 20	-	-	-	(281)
Jun 20	-	5	-	(286)
Dec 20	(100)	7	93	(193)
Jun 21	(100)	5	95	(98)
Dec 21	(100)	2	98	-

The Company will account this as a variable lease payment, directly decreasing the lease liability and recognising it as a gain in the profit or loss. Thus, there will be no impact to the interest expense before and after the waiver.

Entries

March 2020

Dr Lease Liability	100	
Cr Other Income		100

(being de-recognition of lease liability due to waiver of lease payment)

June 2020

Dr Interest expense	5	
Cr Lease Liability		5

(being recognition of interest expense for April to June 2020)

December 2020

Dr Interest expense	7	
Dr Lease Liability	93	
Cr Cash		100

(being recognition of interest expense for July to December 2020 and reduction of lease liability from December 2020 payment)

Scenario 2

On 31 March 2020, the landlord issued a notice to the Company allowing a portion of June lease payments to be deferred as follows:

- 40% remains paid in June 2020 by the Company
- Remaining 60% to be deferred and paid over the remaining life of the lease

The impact on the calculations and cashflows are as follows:

Date	Outflow	Interest	Principal	NPV
Mar 20	-	-	-	(381)
Jun 20	(40)	5	35	(346)
Dec 20	(120)	7	113	(233)
Jun 21	(120)	5	115	(118)
Dec 21	(120)	2	118	-

There will be no impact to the lease liability and thus there are no impact to the interest expense before and after the deferral of lease payment.

The Company will continue to recognise the interest expenses and account the deferral of lease payments as an interest-free principal payment.

Entries

March 2020

No entries are required

June 2020

Dr Interest expense	5	
Dr Lease Liability	35	
Cr Cash		40

(being recognition of interest expense for April to June 2020)

December 2020

Dr Interest expense	7	
Dr Lease Liability	113	
Cr Cash		120

(being recognition of interest expense for July to December 2020 and reduction of lease liability from December 2020 payment)

4. Jobs Support Scheme

The Jobs Support Scheme (JSS) was announced at Budget 2020, and further enhanced at the Resilience, Solidarity and Fortitude Budgets. The purpose of the JSS is to provide wage support to employers, helping enterprises retain their local employees (Singapore Citizens and Permanent Residents) during this period of economic uncertainty. Employers who have made CPF contributions for their local employees will qualify for the pay-outs under JSS.

Summary of the JSS and its subsequent enhancements

Unity Budget **18 February 2020**	Employers will receive an 8% cash grant on the gross monthly wages of each local employee for 3 months computed based on October 2019 to December 2019 monthly wages, subject to a monthly wage cap of $3,600 per employee.
Resilience Budget **26 March 2020**	Enhancements to JSS: Employers will receive a 25%* cash grant on the gross monthly wages of each local employee (applicable to Singapore Citizens and Permanent Residents only) for 9 months computed based on October 2019 to July 2020 (excluding January 2020) monthly wages, subject to a monthly wage cap of $4,600 per employee. * 75% for companies in the Aviation and Tourism sector; 50% for companies in the Food Services sector.
Solidarity Budget **6 April 2020**	Enhancements to JSS: The JSS payout for wages in April 2020 has been increased to 75% for all companies. The first tranche of JSS payout is brought forward from May 2020 to April 2020.
Multi-Ministry Task Force Press Conference **21 April 2020**	Enhancements to JSS: Top-up of support to 75% for all firms in May 2020 during circuit breaker
Fortitude Budget **26 May 2020**	Enhancements to JSS: Extension to cover wages paid in August 2020, bringing the total wage support under the JSS to ten months. The support for August 2020 wages will be paid out in October 2020. Employers allowed to resume operations will revert to receiving their base tier of support. Only employers who are not allowed to resume operations will continue to receive 75% support for wages paid to local employees, during the period for which they are not allowed to resume operations, or until August 2020, whichever is earlier.

Accounting treatment

Jobs Support Scheme is a form of assistance offered by the Government in the form of transfer of resources to an enterprise in return for past or future compliance with the stipulated conditions. Therefore, FRS 20 Accounting for Government Grants and Disclosures of Government Assistance should be applied in accounting for the JSS.

Recognition and measurement

JSS is meant to provide wage support to employers to help them retain their local employees (Singapore Citizens and Permanent Residents) during the period of economic uncertainty. While the pay-outs are calculated with reference to wages paid in certain months, they are meant to support businesses during the period in which the pay-outs are received.

Judgement is required to determine the period which the JSS grant is intended to compensate. For most companies, the ten months period of economic uncertainty is likely to commence following the announcement of circuit breaker measures.

As the stated purpose of the JSS is to provide nine months of wage support to entities to retain their local employees during the period of economic uncertainty until end of 2020, the JSS grant income should be recognised in the profit or loss on a systematic basis over the period of economic uncertainty in which the entity recognises the related salary costs in the calendar year 2020 (but not earlier than the date of the Unity Budget which was announced on 18 February 2020).

The grant income can be presented either (1) separately as grant income or under “other income”; or (2) deducted against the salary costs. Therefore, there is a policy decision available as to how the grant is presented on the face of the profit or loss. This accounting policy choice will need to be consistently applied by the entity.

Example

RetailCo was significantly adversely impacted by decreases in foot-traffic and closed its store from April 2020 onwards following the circuit-breaker measures. Retail Co has one local employee who is paid a gross monthly wage of $4,600. The company is eligible for the Jobs Support Scheme. Retail Co belongs to Tier 3 business resuming operations on 2 June 2020.

For the period ended 31 March 2020 and 30 June 2020

	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20
Salary (capped at $4,600)	4,600	4,600	4,600	4,600	4,600	4,600	4,600	4,600	4,600
JSS grant (%)	25%	25%	25%	0%	25%	25%	75%	75%	25%
Computed grant ($)	1,150	1,150	1,150	-	1,150	1,150	3,450	3,450	1,150
Computed payout ($)	-	-	-	-	-	-	5,750	3,450	-
Other income recognised (P/L)	-	-	-	-	-	-	3,450	3,450	1,150
Grant receivable (B/S)	-	-	-	-	864	5,750	3,450	3,450	4,600
Deferred grant income (B/S)	-	-	-	-	864	5,750	5,750	5,750	5,750

As at 31 March 2020, RetailCo recognises a grant receivable of $5,750 and a corresponding deferred grant income of $5,750, being the amount RetailCo is entitled up to 31 March 2020. Grant income of $Nil is recognised in the profit or loss as RetailCo is only significantly impacted from April 2020 onwards.

As at 30 June 2020, RetailCo recognises grant income from April 2020 when the company was significantly adversely impacted.

For the period ended 31 March 2021 and 30 June 2021

	Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21
Salary (capped at $4,600)	4,600	4,600	4,600	4,600	4,600	4,600	4,600
JSS grant (%)	25%	25%	0%	0%	0%	0%	0%
Computed grant ($)	1,150	1,150	-	-	-	-	-
Computed payout ($)	3,450	-	-	3,450	-	-	-
Other income recognised (P/L)	1,150	1,150	1,150	1,150	1,150	1,150	1,150
Grant receivable (B/S)	2,300	3,450	3,450	-	-	-	-
Deferred grant income (B/S)	5,750	5,750	4,600	3,450	2,300	1,150	-

RetailCo recognised grant income totalling $6,900 during the period from July to December 2020.

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