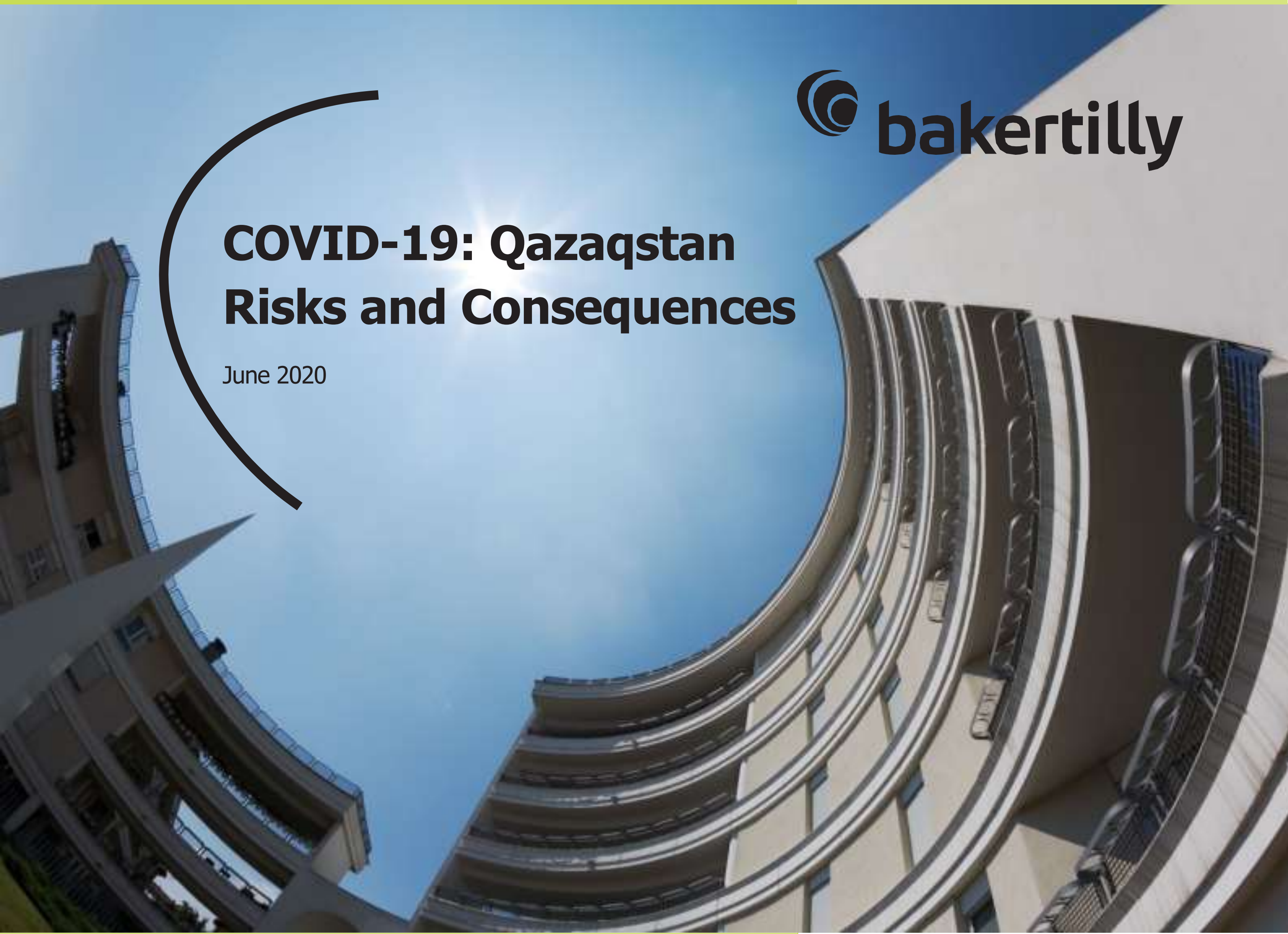


COVID-19: Qazaqstan Risks and Consequences

June 2020

Business after lockdown: what's next?

The coronavirus outbreak was declared as an international emergency and had a significant impact on countries and communities around the world.

As companies are exposed to this new global threat, businesses must have an understanding of what needs to be done now to be prepared for the challenges of tomorrow.

Based on the accumulated experience, qualifications and professionalism, the team of Baker Tilly Qazaqstan Audit will help you assess the emerging risks and consequences of coronavirus for financial reporting and accounting.

COVID-19

- December 31, 2019 – the World Health Organization (the WHO) reported on the situation in Wuhan for the first time.
- January 30, 2020 – the WHO declared the coronavirus outbreak an emergency.
- March 11, 2020 – the coronavirus outbreak was classified by the WHO as a global pandemic.
- March 16, 2020 – Kazakhstan introduced the emergency mode regime.
- May 11, 2020 **–** Kazakhstan has announced the ease of the quarantine measures and cancelled the state of emergency.

Now,
for tomorrow

EVENTS AFTER THE REPORTING PERIOD

IAS 10 "Events after the reporting period" refers to the events that occur between the reporting date and the date when the financial statements are approved for issue. IAS 10 defines the corrective events as events that provide evidence of conditions as of the end of the reporting period. According to IAS 10, a corrective event requires an adjustment to the financial statements.

The WHO reported the situation in Wuhan for the first time on December 31, 2019. The world coronavirus outbreak was officially announced a month later - on January 30, 2020. Since the spread of COVID-19 and the control measures imposed on the business do not provide additional evidence of the situation as of December 31, 2019, these events will not be considered as corrective by nature and will not require any disclosure of the impact on the financial statements as of December 31, 2019.

GOING CONCERN

The impact of COVID-19 can have a negative impact as on the company's cash flows, so on its overall profitability. To continue running business in the future, the company's management will need to assess the level of liquidity and resources, as well as to analyze the sufficiency of the funds.

If a company determines that the going concern is not an issue, but there are significant uncertainties about the consequences of the coronavirus outbreak that may cause serious doubts on the ability to continue its activity on a continuous basis, then IAS 10 requires the disclosure of these significant uncertainties in the financial statements.

If management believes that the principle of going concern needs to be considered, then as per requirements of the IAS 1 "Presentation of financial statements" the company needs to disclose the reason why the company is not considered to be continuously operating.

FAIR VALUE MEASUREMENT OF AN ASSET OR A LIABILITY

According to IFRS 13 "Fair value measurement", in order to determine the fair value of an asset or a liability at the reporting date, the company must consider what information about COVID-19 was available and could have been available to the market participants at the specified valuation date.

Thus, information about the development of coronavirus, its impact and negative consequences for business, known since the beginning of 2020, is not taken into account by the company's management when assessing the fair value of an asset or a liability as at December 31, 2019.

In addition to IFRS 13, the company's management should take into account the requirements of IAS 10 on the information disclosure.

If the events or circumstances that happened after December 31, 2019 (for example: imposture of controls on the business) resulted in a decrease in the fair value of the company's asset or liability, then users of the financial statements would consider this effect as a significant event.

IMPAIRMENT OF ASSETS

The decline in demand for goods and services, as well as supply chain disruptions that occurred after the acceptance of control measures could not have been anticipated at the reporting date. The company may need to assess whether there were any impairment of assets due to exposure of coronavirus.

IAS 36 "Impairment of assets" requires the company to assess whether there is any evidence of impairment of a non-financial asset at the end of each reporting period. If such indication exists, then company must estimate the recoverable value of the asset.

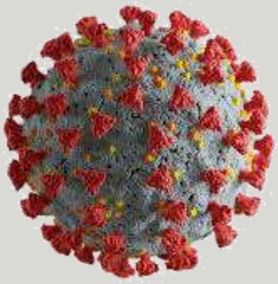
The retrospective approach is not used for the purposes of assess impairment when the recoverable cost of asset is based on the cost of its use.

In assessing events after the reporting date, management should base its assessment on the best estimate of the economic conditions that would exist over the remaining useful life of the asset, as well as take into account information that provides additional evidence for events that existed as of December 31, 2019.

EXPECTED CREDIT RISKS

Subsequent events and conditions related to the development of coronavirus are not considered in assessment of expected credit losses as future economic conditions, because they did not exist at the reporting date as of December 31, 2019.

If the company's management takes into account the significant impact of COVID-19 in estimating expected credit losses at the reporting date, then following the requirements of IFRS 9 “Financial instruments” the company should assess whether the credit risk of a financial instrument has increased significantly since its initial recognition.



OTHER ACCOUNTING ESTIMATES

Since the current statistics and other information about the impact of COVID-19, which became available after the reporting date, does not provide additional evidence about the conditions and events that existed as of December 31, 2019, therefore, it should not be taken into account by the company's management when making appropriate assumptions or forecasts.

Here are the standards that assume other accounting estimates, though this is not the exhaustive list of them:

- IAS 2 “Inventories” – net realizable value of inventory
- IAS 12 “Income taxes”- recoverability of deferred tax assets and liabilities
- IAS 16 “Property, plant and equipment” – remaining useful life and residual value of property, plant and equipment
- IAS 37 “Provisions, contingent liabilities and contingent assets” – provision for liabilities

The unpredictability of coronavirus development creates the uncertainty in estimation and increases the risk that the book value of assets and liabilities may require significant adjustments in the following financial year.

Depending on the level of risk, the company may require additional disclosure of information regarding:

- Management’s judgment regarding COVID-19 and its subsequent impact.

Depending on the nature of the company's assumptions, additional disclosures may be required on:

- the nature of the assumption or other estimation uncertainty;
- the sensitivity of the book value to the methods, assumptions and estimates made supporting their calculation, including the reasons for such sensitivity;
- the expected resolution of the uncertainty and within the range of reasonably possible outcomes over the next financial year in relation to the carrying amount of the concerned assets and liabilities; and
- explaining changes to the assumptions made in the past regarding these assets and liabilities, if the uncertainty remains present.

Baker Tilly is represented in **146** countries around the world

Baker Tilly in Kazakhstan

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