



# 31 DECEMBER 2020 ILLUSTRATIVE NZ NZ IFRS DISCLOSURES

## COVID-19 SUPPLEMENT

(Including COVID-19 NZ NZ IFRS Disclosure Checklist)

## BACKGROUND

BDO has published its 31 December 2020 illustrative financial statements, which are available [here](#). These publications demonstrate the changes in NZ IFRS that should be reflected in an entity's financial statements, along with some examples of disclosures relating to the effects of COVID-19.

COVID-19 has interrupted the movement of people and goods throughout the world, as well as affecting the profitability and viability of many entities. Its effects may vary significantly from one entity to another, therefore, it is not possible for a single illustrative financial statement to consider all of the financial reporting and disclosure considerations.

The purpose of this COVID-19 supplement is to provide additional matters for entities to consider in preparing their financial statements, including illustrations of certain disclosures. The presentation and disclosure requirements of NZ IFRS are substantial, therefore, this publication cannot adequately replace consulting the full requirements of NZ IFRS or complete disclosure checklists, which summarise all disclosure requirements within NZ IFRS.

This publication is divided into two major sections:

- [Section A: COVID-19 NZ IFRS disclosure checklist](#)
  - This section provides brief examples of areas of financial statements that may be affected by COVID-19. Preparers of NZ IFRS financial statements may find this checklist useful in identifying disclosures which may need to be modified or added.
- [Section B: Illustrative Disclosures](#)
  - This section provides illustrative disclosures for some of the items noted in Section A.

For further information on measurement implications of COVID-19 (e.g. impairment), please consult the resources listed below.

## OTHER COVID-19 RESOURCES

For additional resources relating to the effects of COVID-19 on financial reporting, please refer to BDO's [Global NZ IFRS Microsite](#). As at the date of publishing this document, the following documents may be

### Additional resources:

[IFR Bulletin 2020/02 - Potential Effects of Coronavirus on 31 December Year-end Financial Reporting](#)

[IFR Bulletin 2020/03 - Potential Effects of Coronavirus on 2020 Reporting Periods and Onward](#)

[IFR Bulletin 2020/07 - Impairment Implications of COVID-19 \(NZ IAS 36\)](#)

[IFR Bulletin 2020/09 - Impairment Implications of COVID-19 \(NZ IFRS 9\)](#)

[IFR Bulletin 2020/11 - Accounting for Rent Concessions: Lessee FAQs](#)

[IFR Bulletin 2020/12 - Implications of COVID-19 for Lessors](#)

[NZ IFRS In Practice 2020-2021 - NZ IAS 36 Impairment of Assets \(including guidance on the impact of COVID-19\)](#)

[31 December 2020 illustrative financial statements and 30 June 2020 illustrative interim financial statements](#)

### EXECUTIVE SUMMARY

The effects of COVID-19 on financial reporting are widespread.

Entities need to carefully consider how the financial and non-financial effects of the pandemic may need to be reflected in their financial statements and other filings.

## SECTION A - COVID-19 NZ IFRS DISCLOSURE CHECKLIST

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IAS 1 <i>Presentation of Financial Statements</i>	NZ IAS 1.17(c) and 31: to achieve fair presentation, provide additional disclosures when the disclosure requirements of specific NZ IFRSs is insufficient.	Specific NZ IFRSs contain detailed disclosure requirements. In addition to these requirements, to achieve fair presentation, additional disclosures may be required 'above and beyond' those specified. Given the widespread impact of COVID-19, the disclosure requirements of individual NZ IFRSs may not be sufficient, requiring additional disclosures. This requirement, in conjunction with the disclosures around significant judgements and estimates (see NZ IAS 1.122 and 125 below) may significantly increase disclosure in financial statements.	<a href="#">B.8</a>
	NZ IAS 1.25: financial statements are prepared on a going concern basis unless management either intends to liquidate, cease trading, or has no realistic alternative but to do so.	The effects of COVID-19 have been widespread, resulting in decreases in sales and liquidity for many entities. Uncertainties created by COVID-19 may result in uncertainties relating to an entity's assessment of its ability to continue as a going concern, some of which may be material uncertainties, requiring disclosure. If the going concern basis of preparation is no longer appropriate, then financial statements are no longer prepared on this basis.	<a href="#">B.1</a>
	NZ IAS 1.69: an entity shall classify liabilities as current liabilities unless one of NZ IAS 1.69(a)-(d) apply.	Liabilities are presented as current unless one of four criteria in NZ IAS 1.69 are satisfied. The effects of COVID-19 may affect an entity's unconditional right to defer settlement of certain liabilities (e.g. covenants attached to bank loans), resulting in them being classified as current liabilities. Note that the analysis in this document is based on the existing requirements of NZ IAS 1. Amendments to the classification requirements of liabilities have been made, however, they are effective for annual reporting periods beginning on or after 1 January 2023. <a href="#">Click here</a> for further information.	<a href="#">B.2</a>

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IAS 1 <i>Presentation of Financial Statements</i>	NZ IAS 1.85 and 85A: present additional line items in statement of profit or loss and OCI when such presentation is relevant to an understanding of the entity's financial performance.	Entities may wish to present additional line items and/or sub-totals in the statement of profit or loss to explain the effects of COVID-19 in comparison to prior periods. As emphasised by regulators worldwide, such line items may only be presented if they are made up of amounts recognised and measured in accordance with NZ IFRS and are consistent from period to period and are not displayed with more prominence than totals and subtotals required by NZ IFRS. Presentation of pro forma figures (e.g. sales adjusted as if the COVID-19 had not occurred) is not acceptable as such figures are not comprised of amounts recognised and measured in accordance with NZ IFRS. Additionally, presenting 'incremental' expenses (i.e. the increase in certain expenses that occurred due to COVID-19) may not be appropriate since an incremental figure requires an entity to estimate what expenses would have been if not for COVID-19, which is not historical financial information.	<a href="#">B.3</a>
	NZ IAS 1.122 and 125: disclose significant judgements and estimates made in the process of applying the entity's accounting policies.	The uncertainty created by COVID-19 may require entities to make significant judgements and estimates above and beyond those required in the past. Many financial reporting implications of COVID-19 (e.g. impairment calculations in the scope of NZ IAS 36 and NZ IFRS 9, provisions, fair value measurement, etc.) may require the use of more judgement and higher degrees of estimation uncertainty. Such judgements and estimates must be disclosed if significant. In disclosing significant estimates, entities must consider disclosures beyond those required by specific NZ IFRSs. For example, if an entity determines that the recoverable amount of a cash-generating unit exceeds its carrying amount, impairment would not be recorded, however, disclosure of the significant estimates made in arriving at that conclusion may be required by NZ IAS 1, despite the fact that none of the specific disclosures in NZ IAS 36 are triggered.	<a href="#">B.4</a>

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IAS 2 <i>Inventories</i>	NZ IAS 2.36(e): disclose any write-down of inventories recognised as an expense in the period.	The effects of COVID-19 may result in an entity being unable to sell its inventories entirely due to lockdown or local restrictions, or demand for certain goods may decrease. This may result in increased inventory write-downs if their net realisable values are lower than cost.	N/A
NZ IAS 7 <i>Statement of Cash Flows</i>	NZ IAS 7.44A: disclose information about the changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes.	The effects of COVID-19 may result in entities refinancing financial liabilities, entering into forbearance arrangements, renegotiating leases and/or other transactions that result in non-cash changes to the carrying values of liabilities. NZ IAS 7 requires an entity to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This disclosure is most often made in tabular format. This disclosure may need to be updated to reflect the changes in liabilities noted above.	N/A
NZ IAS 10 <i>Events after the Reporting Period</i>	NZ IAS 10.19: update disclosures for information received after the reporting period about conditions that existed at the end of the reporting period.	The effects of COVID-19 (and mitigating factors, such as vaccine development) are occurring rapidly, therefore, events after the reporting period may give rise to adjusting subsequent events requiring adjustments to period end results (i.e. those that provide additional information about conditions that existed as at the balance sheet date). Additionally, information obtained after period end may not be adjusting in nature, however, based on the information obtained, it may be appropriate to consider in light of that information, whether assumptions made at period end were complete and appropriately weighted in the case where multiple scenarios may be probability weighted (e.g. expected credit loss, value-in-use calculations, etc.).	<a href="#">B.5</a>
	NZ IAS 10.21: disclose information about non-adjusting events occurring after the reporting period that are material if non-disclosure could reasonably be expected to influence decisions.	In contrast to adjusting events occurring after the reporting period (see above), information may be obtained after the reporting period relating to COVID-19 (e.g. its financial effects and mitigating factors such as vaccine development), which does not relate to conditions as at the balance sheet date. If this information could reasonably be expected to influence decisions, such information should be disclosed.	<a href="#">B.5</a>

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IAS 12 <i>Income Taxes</i>	NZ IAS 12.82: disclose information about the nature of the evidence supporting the recognition of a deferred tax asset when its utilisation is in doubt (see criteria in NZ IAS 12.82(a)-(b)).	<p>The financial effects of COVID-19 may cast doubt relating to the recoverability of deferred tax assets (e.g. due to reductions in estimates of future taxable income). These effects may trigger the disclosure requirements of NZ IAS 12.82, which requires disclosure of the amount of a deferred tax asset and the evidence supporting its recognition when:</p> <ul style="list-style-type: none"> <li>(a) the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and</li> <li>(b) the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.</li> </ul> <p>See BDO's <a href="#">IFR Bulletin 2019/03</a> - ESMA Issues Public Statement on the Recognition of Deferred Tax Assets Arising from the Carry-forward of Unused Tax Losses for commentary on these disclosure requirements made by ESMA prior to COVID-19.</p>	<a href="#">B.6</a>
NZ IAS 19 <i>Employee Benefits</i>	Extensive disclosure requirements, including assumptions used in measuring defined benefit plans. Changes in employee benefits (e.g. curtailments, severance, restructuring, etc.) may require disclosure.	The effects of COVID-19 may result in restructurings of entities in order to remain solvent such as termination and severance packages, early retirement, etc., which require specific disclosures. Additionally, COVID-19 has increased market volatility, leading to changes in financial assumptions affecting defined benefit pension plans (e.g. discount rates), which require disclosure.	N/A

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>	NZ IAS 20.39: disclose accounting policies for government grants including presentation, the nature and extent of government grants recognised and unfulfilled conditions and other contingencies related to government assistance that has been recognised.	<p>In response to COVID-19, various levels of government have provided significant assistance in entities. The form of this assistance has varied significantly, but included grants with various conditions affecting repayment, forgivable and partially forgivable loans, loan guarantees, etc.</p> <p>NZ IAS 20 contains disclosure requirements relating to the nature and extent of such relief and the conditions attached to such assistance.</p>	<a href="#">B.7</a>
NZ IAS 24	NZ IAS 24.18: disclose the nature of related party transactions as well as information about those transactions and outstanding balances including commitments.	The effects of COVID-19 may result in increased related party transactions, such as the granting or receipt of guarantees relating to borrowing facilities, related party loans, forgiveness or forbearance of related party loans, etc.	N/A
NZ IAS 34 <i>Interim Financial Reporting</i>	See BDO's publication <a href="#">Interim Financial Statements, IAS 34 explained (30 June 2020)</a>		

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IAS 36 <i>Impairment of Assets</i>	Extensive disclosure requirements, including the events or circumstances that led to the recognition of the impairment loss, descriptions of impaired assets/cash-generating units, the recoverable amount calculated, and significant inputs included in the determination of recoverable amount. Additional disclosure requirements exist if an annual impairment test is required for cash-generating units containing goodwill or intangible assets with indefinite useful lives.	<p>The financial effects of COVID-19 may result in significant impairment expenses being recorded. NZ IAS 36 requires the carrying value of assets (or cash-generating units/groups of cash-generating units) to be compared with their recoverable amount, which is the greater of value-in-use and fair value less costs of disposal. Both value-in-use and fair value less costs of disposal may have decreased substantially due to the effects of COVID-19. The uncertainty created by COVID-19 may also increase the discount rates used to estimate value-in-use and/or fair value, which also decreases their recoverable amounts.</p> <p>When an impairment expense is recorded relating to assets in the scope of NZ IAS 36 (e.g. property plant and equipment, right-of-use assets, goodwill, intangible assets, etc.), significant disclosure requirements exist. More significant disclosures are required when an impairment expense is recorded relating to cash-generating units containing goodwill or intangible assets with indefinite useful lives.</p> <p>Despite NZ IAS 36's requirements only applying to instances in which impairment is recorded, disclosure of significant judgements and estimates (NZ IAS 1.122 and 125) may be required where a reasonable change in assumptions would result in an impairment being recorded (i.e. a 'close call'). Additional disclosures may also be required due to NZ IAS 1.17(c) and 31 requiring disclosure beyond what is required by specific NZ IFRSs if compliance with the specific requirements in NZ IFRSs is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on an entity's financial position and financial performance.</p>	<a href="#">B.8</a>



NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	NZ IAS 37.85: disclose information about provisions, including a description, an indication of the uncertainties about the timing or amount of any resulting outflows and the amount of any expected reimbursement.	The financial effects of COVID-19 may result in the recognition of various provisions, including onerous contracts (e.g. unprofitable sales contracts), restructuring liabilities (e.g. the sale or termination of a major line of business, closure of a facility, change in structure, etc.).	<a href="#">B.9</a>
NZ IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	NZ IAS 37.86: disclose a description of the nature of a contingent liability including an estimate of its financial effect, the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.	Contingent liabilities may arise due to the effects of COVID-19, including lawsuits relating to breaches of contract, failure to provide goods or services as required by agreement, etc.	N/A
NZ IAS 40 <i>Investment Property</i>	For investment properties accounted for in accordance with the fair value model, see disclosure requirements for recurring fair value measurements (NZ IFRS 13 below).	COVID-19 has resulted in widespread changes to the real estate industry in many jurisdictions, including significant vacancies in commercial real estate, changes in demand for properties, the market prices of properties/rental rates, etc. These changes may significantly impact the measurement of investment property accounted for using the fair value model, which requires significant disclosures in NZ IFRS 13 relating to the assumptions used in estimating fair value. The changes in assumption made due to the effects of COVID-19 may require disclosure.	N/A

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IFRS 2 <i>Share-based Payment</i>	NZ IFRS 2.46 and 50: disclose information that enables users to understand how the values of share-based payments were determined and the effect of share-based payment transactions.	The financial effects of COVID-19 may result in changes to how entities value share-based payments. For example, pricing models may need to be adjusted due to changes in the volatility of the underlying equity instruments.	N/A
	NZ IFRS 2.47(c): disclose information about share-based payment arrangements that were modified during the period.	The financial effects of COVID-19 may result in entities making modifications to existing share-based payment schemes, or the introduction of new ones. This may be to make changes to market and non-market vesting conditions that may no longer be achievable as a result of COVID-19, and/or to reduce cash outflows.	N/A
NZ IFRS 3 <i>Business Combinations</i>	NZ IFRS 3.B67(e): disclose an explanation of any gain or loss recognised that relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period and is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.	<p>As at the end of the reporting period, assets acquired in a business combination occurring in the current or previous reporting period would have a value close to their fair values as at the acquisition date. This is because very little time will have elapsed between the acquisition date and period end, therefore, the likelihood that the carrying value of assets recently acquired will not be recoverable is higher, especially due to the dramatic changes in asset values as a result of COVID-19. Such impairments and/or writedowns to recently acquired assets require disclosure.</p> <p>Additionally, acquirers may have recognised liabilities in a business combination with 'earnout' clauses based on the future performance of the entity acquired. The effects of COVID-19 may result in significant adjustments to these liabilities due to worse than expected results.</p>	N/A

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
<p>NZ IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i></p>	<p>NZ IFRS 5.33: present a single amount in the statement of comprehensive income for a discontinued operation and disclose an analysis of the single amount in the notes (e.g. revenue, expenses, etc. comprising the single amount).</p>	<p>The financial effects of COVID-19 may result in entities adjusting their operations, such that components of the entity must be accounted for and presented as discontinued operations. This may be because entities are required to eliminate unprofitable or underperforming components of their operations in order to remain economically viable.</p>	<p>N/A</p>
	<p>NZ IFRS 5.41: for a non-current asset (or disposal group) that has been classified as held for sale or sold in a period, disclose a description, including the facts and circumstances of the sale and the gain or loss recognised if not separately presented in the statement of comprehensive income.</p>	<p>The financial effects of COVID-19 may require entities to dispose of assets and/or groups of assets in order to increase liquidity. For example, an entity may decide to sell real estate or other assets in order to access additional cash to finance its operations.</p>	<p>N/A</p>
<p>NZ IFRS 7 <i>Financial Instruments: Disclosures</i></p>	<p>NZ IFRS 7.7: disclose information that enables users to evaluate the significance of financial instruments for an entity's financial position and performance. NZ IFRS 7 contains extensive and complex disclosure requirements, therefore, only certain disclosure requirements have been highlighted below.</p>	<p>The financial effects of COVID-19 have been broad and entities have been affected differently. Actions taken (or imposed on) entities may affect the significance of financial instruments held and the exposure to risks arising from those financial instruments. Risks that may have been insignificant in previous reporting periods (e.g. credit risk on trade receivables when strong history of collections exists) may now be significant, resulting in significantly expanded disclosures.</p>	<p>N/A</p>

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IFRS 7 <i>Financial Instruments: Disclosures</i>	NZ IFRS 7.20(a)(v) and (vi): disclose in the statement of comprehensive income or in the notes the net gains or net losses on financial liabilities and financial assets measured at amortised cost.	<p>Borrowers may have renegotiated the terms of their financial liabilities (e.g. bank loans) in order to defer payments, change security, reduce interest rates, etc. Such adjustments may result in gains or losses relating to financial liabilities measured at amortised cost.</p> <p>Similar gains or losses may be recorded related to an entity's financial assets measured at amortised cost (e.g. loans receivable) if an entity is a lender.</p>	N/A
	NZ IFRS 7.21A-24J: extensive disclosure requirements for entities applying hedge accounting, including an entity's risk management strategy, how hedging activities affect the amount, timing and uncertainty of future cash flows and the effect of hedge accounting on the entity's financial statements.	<p>The financial effects of COVID-19 may result in significant changes to an entity's operations, including the expected timing and amount of cash flows as well as the values of items designated in fair value hedges. This may adjust an entity's risk management strategy as well as the effectiveness of its hedging relationships. In some cases, hedging relationships may no longer satisfy the criteria in NZ IAS 39/NZ IFRS 9 to apply hedge accounting.</p> <p>These changes would necessitate disclosure in accordance with NZ IFRS 7. For entities whose hedging relationships are also affected by interest rate benchmark reform, those entities should also consider the recent amendments to NZ IFRS 7 (NZ IFRS 7.24H-24J).</p>	N/A

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IFRS 7 <i>Financial Instruments: Disclosures</i>	NZ IFRS 7.35A-38: disclose quantitative and qualitative information about the entity's exposure to credit risk and its objectives, policies and processes for managing risk including any changes in exposure or policy from the previous period.	For credit entities (e.g. banks and entities which extend credit as a primary business activity), the financial effects of COVID-19 on their exposure to credit risk and the associated credit risk management policies are likely to be significant. Lenders may have offered forbearance or modifications to loans, which require disclosure. Expected credit losses may have changed significantly, including the models utilised by management, and adjustments to amounts derived from models ('overlays') may have been used. These changes in estimates may include changes in financial assumptions (e.g. the value of underlying security) and the way expected credit losses are estimated (e.g. historical loss rates adjusted for forward-looking information plus manual 'overlays' of additional expected credit losses). Note that the disclosures required by a credit entity due to COVID-19 are likely to be extensive and are beyond the scope of this publication. Disclosures included in Section B relate to those that may be made by a non-credit entity, whose primary exposure to credit risk relates to trade receivables where expected credit losses have been measured based on lifetime expected credit losses (NZ IFRS 9.5.5.15).	<a href="#">B.10</a>
	NZ IFRS 7.39: disclose quantitative and qualitative information about the entity's exposure to liquidity risk and its objectives, policies and processes for managing risk including any changes in exposure or policy from the previous period.	Changes to the payment terms of financial liabilities may require an entity's maturity analysis of financial liabilities to be adjusted.  Significant changes in liquidity risk may also result in an entity revising its judgement about the time bands used to disclose contractual maturities. Entities commonly use the time bands noted in NZ IFRS 7.B11(a)-(d) in disclosing their maturity analysis, however, changes in liquidity risk may require entities to revise these time bands. For example, if the weighting of contractual cash flows was evenly distributed over the next 5 years, an entity may have used time bands of 1 year each. Changes in liquidity risk may require an adjustment of the appropriate time bands.	N/A

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IFRS 7 <i>Financial Instruments: Disclosures</i>	NZ IFRS 7.40-42: disclose quantitative and qualitative information about the entity's exposure to market risk (e.g. currency, interest rate and other price risk) and its objectives, policies and processes for managing risk including any changes in exposure or policy from the previous period.	<p>Adjustments to the contractual terms of financial instruments may result in changes to the entity's sensitivity to market risk. For example, the deferral of loan payments in exchange for an adjustment to a variable interest rate may increase an entity's exposure to interest rate risk.</p> <p>The financial effects of COVID-19 have also resulted in increased volatility in the value of certain currencies, which may affect an entity's exposure to reasonably possibly changes in risk variables.</p>	N/A
NZ IFRS 8 <i>Operating Segments</i>	NZ IFRS 8.20-21: disclose information about operating segments to enable users to understand the nature of business activities and the economic environments in which it operates.	<p>The financial effects of COVID-19 may result in changes to the size and/or composition of operating segments, and the number of inter-segment transactions occurring.</p> <p>Additionally, because the disclosure of operating segments is subject to quantitative rules (NZ IFRS 8.13-15), changes in the results of operating segments may result in an adjustment to the number of operating segments reported and which operating segments are disclosed.</p>	N/A
NZ IFRS 13 <i>Fair Value Measurement</i>	NZ IFRS 13.91-99: disclose information about fair value measurement in financial statements, including significant assumptions, valuation techniques, inputs used, sensitivity of the fair value measurement to unobservable inputs, etc.	<p>Various IFRSs require fair value measurement, including numerous IFRSs that permit or require recurring fair value measurement (e.g. NZ IAS 40, NZ IAS 16, NZ IFRS 9, etc.). The financial effects of COVID-19, including volatility in underlying financial and non-financial assumptions may result in significant adjustments to disclosures of unobservable inputs and valuation techniques used to estimate fair value.</p> <p>In determining the fair value of unquoted equity instruments in the scope of NZ IFRS 9, entities should consult the IASB's <a href="#">educational materials</a>.</p>	N/A

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IFRS 15 <i>Revenue from Contracts with Customers</i>	NZ IFRS 15.114: disclose a disaggregation of revenue recognised into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.	<p>The financial effects of COVID-19 may affect how an entity determines the manner in which its revenue should be disaggregated. For example, prior to COVID-19, an entity may have disclosed revenue arising from particular geographic regions on an aggregated basis. The effects of COVID-19 may change this geographic composition (e.g. country X may now be a substantial portion of total revenue due to the effects of COVID-19 being less widespread there than others).</p> <p>COVID-19 may also change the types of goods or services offered by entities, resulting in changes in disaggregation. For example, an entity may have sold primarily services prior to COVID-19, but due to lockdowns and restrictions imposed by various governments, it may have shifted to different types of goods and services (e.g. online delivery, sale of goods via e-commerce, etc.).</p>	N/A
NZ IFRS 16 <i>Leases</i>	NZ IFRS 16.59: disclose qualitative and quantitative information about its leasing activities (e.g. nature of leasing activities, future cash flows not included in the measurement of the lease liability such as variable lease payments, restrictions or covenants imposed by leases, etc.).	<p>The financial and operational impacts of COVID-19 may result in changes to its lease contracts, which require disclosure. For example, NZ IFRS 16.59(b)(i) requires an entity to disclose exposure to future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. If a lessee modifies its lease contracts to adjust the fixed and variable lease payments (e.g. lower fixed rent in exchange for a higher percentage of sales generated at a retail location), then the entity's exposure to these 'off balance sheet' liabilities may increase.</p> <p>Lease modifications might give rise to other disclosures, such as restrictions or covenants imposed by leases in exchange for forbearance of payments or other concessions provided by lessors to lessees.</p>	N/A

NZ IFRS Standard	Disclosure / Presentation Requirement	Impact of COVID-19	Reference to Illustrative Disclosure in Section B
NZ IFRS 16 <i>Leases</i>	<p>NZ IFRS 16.60A: if an entity elects to use the practical expedient introduced by <i>COVID-19 Related Rent Concessions</i>, disclose that it has used the practical expedient to all lease concessions satisfying the criteria for its use or if not applied consistently, information about the nature of the contracts to which the practical expedient has been applied. An entity must also disclose the amount recognised in profit or loss to reflect changes in lease payments that arise from rent concessions to which the practical expedient has been applied.</p>	<p>The financial effects of COVID-19 have resulted in lessors providing a wide variety of rent concessions to lessees. Concessions accounted for in accordance with the practical expedient must be disclosed, including the effect in profit or loss arising from the utilisation of the practical expedient.</p> <p>For further information on the practical implications of the practical expedient, refer to BDO's <a href="#">IFRB 2020/11 - Accounting for Rent Concessions: Lessee FAQs</a>.</p>	<p><a href="#">B.11</a></p>



## SECTION B - ILLUSTRATIVE DISCLOSURES

Common fact pattern used in all illustrative disclosures:

- Z Layout Inc. ('Z Layout') is preparing its annual financial statements for the year ended 31 December 2020 in accordance with NZ. Z Layout prepares a classified statement of financial position (i.e. it differentiates between current and non-current assets/liabilities).
- Z Layout is a distributor of gym equipment in Country X and has experienced significant reductions in sales and profitability during 2020 due to the effects of COVID-19.
- Many of Z Layout's customers (e.g. gyms, fitness retailers, etc.) have closed or been forced to significantly reduce activities due to restrictions imposed by the government of Country X.
- Some aspects of Z Layout's business have improved, such as online sales and shipping directly to consumers.
- Further information is provided in the preface to each of the following illustrative disclosures.
- Unless otherwise noted, all figures presented are in Currency Units ('CU').
- Many of the disclosures below illustrate the use of significant judgement in determining which information should be disclosed in order to satisfy the requirements of particular NZ IFRS standards, as well as the overall objectives of NZ IAS 1. In each case, management of Z Layout has determined that the information disclosed is material (quantitatively and/or qualitatively) as defined by NZ IAS 8, and therefore, should be disclosed. Such disclosures may not be material for other entities based on their own particular fact patterns.
- Note that some disclosures are based on different underlying fact patterns (aside from the base information provided above), therefore, all illustrative examples will not be consistent with one another.

## B.1 - GOING CONCERN UNCERTAINTY

### B.1(a) - Going concern disclosure when no material uncertainty exists

Additional information: Z Layout's increase in online sales have been so significant that there is virtually no doubt that it will be able to continue as a going concern for the next 12 months.

Reference(s)	Illustrative disclosure
N/A	None.
	<i>Analysis: As no material uncertainties exist related to events or conditions that may cast significant doubt upon Z Layout's ability to continue as a going concern, no disclosures are required.</i>

### B.1(b) - Going concern disclosure when uncertainty exists, but not material uncertainty

Additional information: Z Layout's increase in online sales has been significant, however, cash balances have continued to decrease due to an inability to mitigate many operating costs (e.g. rent, salaried employees, etc.). Z Layout has obtained loan commitments from several banks, therefore, it is unlikely that it will be unable to continue as a going concern for the next 12 months, however, some uncertainty exists relating to consumer's sentiment for the new product lines offered by Z Layout.

Reference(s)	Illustrative disclosure
	<u>Implications of COVID-19</u>
NZ IAS 1.122	The effects of COVID-19 have resulted in decreased demand for the Company's goods due to government-imposed closures of its main clients, including gyms and recreation centres. The Company has experienced decreases in overall sales, however, this has been mitigated by increased online sales and shifting the Company's focus to direct to consumer business. As disclosed in note X, the Company's term balance loan of \$5,000,000 is due to be repaid on 30 September 2021, however, the Company has obtained firm commitments from three financial institutions, which will enable the Company to refinance the obligation for a further 4 years.
	<i>Analysis: the uncertainty relating to going concern is not a material uncertainty, therefore, the disclosures in NZ IAS 1.25 are not required. The uncertainties relating to the assessment of going concern are a significant judgement, which must be disclosed (NZ IAS 1.122). In our view, such disclosures would generally be less detailed than those required by NZ IAS 1.25 and may be presented with less prominence than disclosures of material uncertainty relating to the going concern assumption.</i>

## B.1 - GOING CONCERN UNCERTAINTY (CONTINUED)

### B.1(c) - Going concern disclosure when materiality uncertainty exists

Additional information: Z Layout's increase in online sales has not been significant and cash balances have decreased substantially in the past 12 months. Management has assessed that the development of appropriate vaccines must occur promptly with cash flows returning to pre-COVID-19 levels by 30 June 2021 in order for Z Layout to be able to refinance its term loan coming due on 30 September 2021. Management has entered into discussions with other lenders to refinance the obligation on a long-term basis, however, no firm commitments have been obtained. The Company is in compliance with its bank covenants as at 31 December 2020, however, it does not expect to be by 30 June 2020, the next point at which the test is performed. If the test is failed, the lender has the right to demand immediate repayment.

Reference(s)	Illustrative disclosure
NZ IAS 1.25	<p data-bbox="344 643 2000 678"><u>The Company's ability to continue as a going concern - COVID-19 and material uncertainty</u></p> <p data-bbox="344 678 2000 861">The effects of COVID-19 have resulted in decreased demand for the Company's goods due to government-imposed closures of its main clients, including gyms and recreation centres. The Company has experienced decreases in overall sales, and while this has been partially mitigated by increased online sales and shifting the Company's focus to direct to consumer business, the current business model is not sustainable in the long-term due to the Company's current unavoidable cash outflows. These include rent on its retail locations, management salaries and post-retirement contributions.</p> <p data-bbox="344 861 2000 893">A summary of the financial effects and operational effects of COVID-19 have been as follows (all figures and percentages comparing to the year ended 31 December 2019):</p> <ul data-bbox="344 893 2000 1085" style="list-style-type: none"> <li data-bbox="344 893 2000 925">• Decrease in net sales of 41%.</li> <li data-bbox="344 925 2000 957">• Increase in inventory writedowns as a percentage of total sales of 30%.</li> <li data-bbox="344 957 2000 989">• The closure of 25 of the Company's stores (130 total stores as at 31 December 2019).</li> <li data-bbox="344 989 2000 1085">• The reduction of total headcount from 375 to 210, with recurring salary expenses being reduced from \$13,000,000 to \$6,900,000.</li> </ul> <p data-bbox="344 1085 2000 1391">Based on management's estimate of cash flows, under current conditions with no further reductions in staff and other operating costs, excluding its obligation to repay its bank loan of \$5,000,000, the Company is able to continue operations until 31 December 2021. However, the Company may be required to repay its bank loan on 30 June 2021 if it fails its debt to equity covenant on that date, and the loan is otherwise repayable on 30 September 2021. The Company's obligation to repay its bank loan creates a material uncertainty as to its ability to continue as a going concern.</p>

## B.1 - GOING CONCERN UNCERTAINTY (CONTINUED)

B.1(c) - Going concern disclosure when materiality uncertainty exists (continued)	
Reference(s)	Illustrative disclosure
	<p>In response to these uncertainties, the Company has undertaken the following:</p> <ul style="list-style-type: none"> <li>• Early retirement packages have been offered to 10 senior managers with delayed payment terms from 1 January 2022 - 31 December 2024, which if accepted, would reduce cash flows in 2021 by \$980,000.</li> <li>• Subsequent to period end, the Company obtained a waiver from its lender relating to the debt to equity ratio loan covenant requirements as at 30 June 2021, therefore, the earliest point in time that the Company may be obligated to repay its bank loan is 30 September 2021. By this point in time, the Company believes cash flows will have returned to 85% of pre-COVID-19 levels due to the reopening of gyms and health centres.</li> <li>• The Company has entered into negotiations with its lender to syndicate the loan coming due on 30 September 2021. This would consist of three other lenders accepting 75% of the total \$5,000,000 of the loan and refinancing it to be repaid as an amortising loan over 4 years at an interest rate of 10%. These negotiations remain ongoing.</li> </ul> <p>If the Company is unable to refinance its bank loan or receive forbearance from its lender, the Company would be unable to continue operations.</p> <p>These uncertainties are significant, however, management believes that the actions taken and those still underway are sufficient to mitigate the uncertainty and therefore, these financial statements have been prepared on a going concern basis.</p>
	<p><i>Analysis: if an entity concludes that there is material uncertainty relating to its ability to continue as a going concern, the disclosure of the material uncertainties should be prominently presented in the financial statements. As the going concern assumption is still considered appropriate, the entity should disclose mitigating factors and the courses of action it plans to take in order to continue operations. Where there is uncertainty surrounding those plans (e.g. the ability to obtain financing), those uncertainties should be disclosed.</i></p>

## B.1 - GOING CONCERN UNCERTAINTY (CONTINUED)

B.1(d) - Going concern disclosure when going concern assumption is no longer appropriate

Additional information:

Reference(s)	Illustrative disclosure
	Not illustrated.
	<i>Analysis: the financial reporting, legal, regulatory and other implications of the going concern assumption no longer being appropriate are extensive and are therefore beyond the scope of this publication. If an entity intends to liquidate, cease trading or has no realistic alternative but to do so, management and those charged with governance should seek professional advice.</i>

## B.2 - BANK COVENANTS

B.2(a) - bank covenant violated as at period end, resulting in a bank loan becoming due on demand; covenant violation is not remedied by the date the financial statements are completed.

Additional information: Z Layout has a bank loan that is repayable on 31 December 2022 (2 years from period end), however, the bank has the right to demand repayment if Z Layout's debt to equity ratio exceeds 1. Due to the effects of COVID-19, Z Layout has violated this covenant as 31 December 2020, and a waiver has not been obtained by the date the financial statements are completed. Note that in this scenario, the violation does not give rise to a material uncertainty relating to going concern (see B.1.).

Reference(s)	Illustrative disclosure
NZ IFRS 7.18	The Company's bank loan contains a debt to equity covenant, whereas the loan becomes repayable at the option of the lender if the ratio exceeds 1 as at 31 December 2020. The Company was in violation of that covenant as at 31 December 2020, and therefore, the lender has an unconditional right to demand repayment from the Company immediately. The bank loan has been presented as a current liability in the statement of financial position. This breach was not remedied by the date the financial statements were authorised for issue.
	<p><i>Analysis: as Z Layout does not have an unconditional right to defer settlement of the bank loan for at least 12 months after the reporting period, the bank loan is presented as a current liability in the statement of financial position. Z Layout does not have this right because the bank loan is due on demand as a result of it failing its debt covenant test as at 31 December 2020.</i></p> <p><i>In preparing its maturity analyses for financial liabilities as required by NZ IFRS 7.39(a) and (b), Z Layout would be required to present the contractual cash flow arising from the bank loan as immediately repayable. This is because NZ IFRS 7.B11C(a) requires the cash flows in the maturity analyses to be based on the earliest period in which the entity can be required to pay.</i></p>

## B.2 - BANK COVENANTS (CONTINUED)

B.2(b) - bank covenant violated as at period end, resulting in a bank loan becoming due on demand; covenant violation is remedied by the date the financial statements are completed.

Additional information: same fact pattern as B.2(a), except that Z Layout's borrower waives its right to demand repayment as a result of the covenant violation on 15 February 2021, before the financial statements are authorised for issue.

Reference(s)	Illustrative disclosure
NZ IFRS 7.18	The Company's bank loan contains a debt to equity covenant, whereas the loan becomes repayable at the option of the lender if the ratio exceeds 1 as at 31 December 2020. The Company was in violation of that covenant as at 31 December 2020, and therefore, the lender has the unconditional right to demand repayment from the Company immediately. The bank loan has been presented as a current liability in the statement of financial position. This breach was remedied on 15 February 2021, therefore, the Company will not be required to repay the loan based on the covenant violation as at 31 December 2020.
	<p><i>Analysis: despite the fact that Z Layout obtained a waiver relating to its covenant violation, the bank loan is classified based on the requirements of NZ IAS 1.69 based on conditions as at period end. Even if the lender agrees to waive this covenant violation after period end, this does not affect the classification of the liability (NZ IAS 1.74).</i></p> <p><i>In preparing its maturity analyses for financial liabilities as required by NZ IFRS 7.39(a) and (b), Z Layout would be required to present the contractual cash flow arising from the bank loan as immediately repayable. This is because NZ IFRS 7.B11C(a) requires the cash flows in the maturity analyses to be based on the earliest period in which the entity can be required to pay.</i></p> <p><i>Disclosure about the waiver obtained on 15 February 2021 would be disclosed as a non-adjusting post balance sheet event in accordance with the requirements of NZ IAS 10.</i></p>

## B.2 - BANK COVENANTS (CONTINUED)

B.2(c) - bank covenant is expected to be violated as at period end; however, a waiver is obtained before period end.

Additional information: same fact pattern as B.2(a), except management of Z Layout contacts its borrower on 15 December 2020 and informs them that they expect to not be in compliance with the debt to equity covenant as at 31 December 2020. On 20 December 2020, Z Layout's borrower waives the covenant as at 31 December 2020.

Reference(s)	Illustrative disclosure
N/A - see analysis	No disclosure required.
	<p><i>Analysis: as the covenant was waived prior to 31 December 2020, Z Layout had an unconditional right to defer settlement of the liability for at least 12 months, therefore, the loan is classified as non-current. As the violation of the covenant was remedied before the end of the reporting period, NZ IFRS 7.19 does not require the disclosures illustrated in B.2(a) and (b) above. In practice, many entities voluntarily disclose covenants being waived and/or violations being remedied prior to a period end as such disclosures may be seen as desirable to financial statement users.</i></p> <p><i>In preparing its maturity analyses for financial liabilities as required by NZ IFRS 7.39(a) and (b), Z Layout would present the contractual cash flows based on normal repayment terms of the loan. This is because NZ IFRS 7.B11C(a) requires the cash flows in the maturity analyses to be based on the earliest period in which the entity can be required to pay and since the bank waived its right to demand repayment relating to the covenant violation, the contractual repayment terms of the loan represent the earliest period where repayment may occur based on conditions as at 31 December 2020.</i></p>



## B.3 - ADDITIONAL LINE ITEMS

### B.3(a) - Incremental increases in expenses due to COVID-19 and presentation outside of operating profit

Additional information: during 2020, Z Layout incurred an additional \$750,000 of expenses it would not have incurred if not for the pandemic. These costs include:

1. Personal protective equipment for employees ('PPE');
2. Hand sanitiser, minor renovations to its offices to permit social distancing;
3. IT costs to enable and promote working from home arrangements; and
4. Salaries of employees who were unable to perform their duties (e.g. in person sales representatives), but remained on staff, standing ready to return to work.

Management proposes presenting these expenses separately in the statement of profit or loss under an additional line item labelled 'COVID-19 expenditures'. This line item would appear above operating profit, as these expenses still relate to operating activities.

Reference(s)	Illustrative disclosure
	See analysis below.
	<p><i>Analysis: entities must be cautious when considering whether additional line items and/or sub-totals may be presented in financial statements. NZ IAS 1.85 requires additional line items, headings and sub-totals in the statement(s) of profit or loss and comprehensive income when such presentation is relevant to an understand of the entity's financial performance. Entities must also consider that not all costs that they consider relating to COVID-19 may be appropriate to present separately.</i></p> <p><i>NZ IAS 1 requires consistent presentation in both the current and comparative periods, therefore, presentation of expenses in the current period must be accompanied by consistent presentation in the comparative period. For example, items #1 and 2 above (PPE, hand sanitiser and minor renovations to its offices - assuming they should not be capitalised in accordance with NZ IAS 16), may not have given rise to any similar expense in the prior period, therefore, an entity might consider presenting a 'personal protective equipment' expense line item if it is considered significant and in compliance with the requirements of NZ IAS 1.85.</i></p> <p><i>Items #3 and #4 (IT costs and idle employee costs) may be challenging to differentiate from costs that would have been incurred regardless of the pandemic. Presenting only an incremental figure (i.e. expenses that would not have been incurred if not for a particular set of circumstances) does not comply with the requirement of NZ IAS 1.99 to present an analysis of expenses recognised in profit or loss using a classification based on either their nature or their function within the entity. This is because this method of presentation might result in some portion of similar expenses being presented in one line item while other amounts are recognised in a separate line item.</i></p>

## B.3 - ADDITIONAL LINE ITEMS (CONTINUED)

B.3(a) - Incremental increases in expenses due to COVID-19 and presentation outside of operating profit (continued)	
Reference(s)	Illustrative disclosure
	<p><i>Entities should consider whether this type of analysis may be more appropriate to include in the notes to the financial statements (NZ IAS 1.112(c) - information that is not presented elsewhere, but is relevant to an understanding of the entity) or in management discussion and analysis, which is included with, but is separate from, the financial statements.</i></p> <p><i>Regulators worldwide have published views relating to the effects of COVID-19 on financial statement presentation, including additional line items and sub-totals.</i></p> <p><i>Disclosing the effects of COVID-19 through adjusting figures calculated in accordance with NZ IFRS (alternative performance measures - 'APMs' in some jurisdictions) may also require significant judgement. For further information, see <a href="#">ESMA's Q&amp;A</a> - Guidelines on Alternative Performance Measures (APMs) published in April 2020, which includes FAQs on the effects of COVID-19 being disclosed in APMs.</i></p> <p><i>Finally, while 'operating profit' is not currently defined in NZ IFRS, it is a commonly presented line item. NZ IAS 1 does not provide requirements for how it should be calculated, however, the inclusion or exclusion of items from this sub-total is a common area of focus for regulators and enforcers worldwide. The basis for conclusions to NZ IAS 1 notes the following (NZ IAS 1.BC56, <b><u>emphasis added</u></b>):</i></p> <p><i>In the Board's view, it would be misleading and would impair the comparability of financial statements if items of an operating nature were excluded from the results of operating activities, even if that had been industry practice. For example, <b><u>it would be inappropriate to exclude items clearly related to operations</u></b> (such as inventory write-downs and restructuring and relocation expenses) <b><u>because they occur irregularly or infrequently</u></b> or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve cash flows, such as depreciation and amortisation expenses.</i></p>

## B.3 - ADDITIONAL LINE ITEMS (CONTINUED)

### B.3(b) - Pro forma figures presented in the statement of profit or loss and comprehensive income

Additional information: Z Layout forecasted revenue of \$ 25,000,000 for the year ended 31 December 2020 based on its budget, which was approved in January 2020. The effects of COVID-19 resulted in sales from retail locations being significantly under-budget, however, online sales were significant over budget. In order to provide financial statement users with information about the performance of Z Layout if COVID-19 had not occurred, management is preparing its statement of profit or loss and comprehensive income to include revenue as per the budget, with variance from the budget explained in multiple additional columns. See below for management's proposed presentation.

Reference(s)	Illustrative disclosure				
	<b>Management proposed presentation (not in compliance with NZ IFRS - see analysis below)</b>				
		<i>2020 budget (no COVID-19)</i>	<i>Variance from budget</i>	<i>Actual 2020</i>	<i>2019</i>
	Revenue				
	Retail locations	20,000,000	(10,000,000)	10,000,000	18,750,000
	Online store	<u>5,000,000</u>	<u>4,500,000</u>	<u>9,500,000</u>	<u>4,250,000</u>
	Total revenue	25,000,000	(5,500,000)	19,500,000	23,000,000
	Cost of sales	<u>18,750,000</u>	<u>(4,250,000)</u>	<u>14,500,000</u>	<u>16,900,000</u>
	Gross margin	6,250,000	(1,250,000)	5,000,000	6,100,000
	<i>Analysis: management proposed presentation does not comply with the presentation requirements of IFRS. This is because this presentation presents figures in the financial statements that are not comprised of line items made up of amounts recognised and measured in accordance with NZ IFRS (NZ IAS 1.85A(a)). Presenting the 2020 budget and variance from budget introduces pro forma information into the financial statements, which is not permitted by NZ IAS 1. Comparison of actual results, which are comprised of figures recognised and measured in accordance with NZ IFRS, with budgeted figures may be appropriate (or required in some instances) in other documents, such as management commentary.</i>				

## B.4 - SIGNIFICANT JUDGEMENTS AND ESTIMATES

### B.4 - Summary of significant judgements and estimates made in preparing 31 December 2020 financial statements

Additional information: in preparing its 31 December 2020 financial statements, Z Layout's management has determined that a number of significant judgements and estimates had to be made in the process of applying Z Layout's accounting policies.

Reference(s)	Illustrative disclosure
NZ IAS 1.122	<p>The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. 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. The effects of COVID-19 have resulted in certain judgements and estimates being significant in the current period when they had not been in the past. This is due to the uncertainty introduced by the effects of the pandemic, such as collection risk for customers, the cash flows included in estimates of recoverable amounts, etc.</p> <p><i>Judgements</i></p> <ul style="list-style-type: none"> <li>• The Company's assessment of its ability to continue as a going concern (see note X)</li> <li>• Determining whether a contract is or contains a lease (see note X)</li> <li>• Assessment of de-facto control (see note X)</li> <li>• Determining the appropriate valuation techniques to estimate the fair value of investment properties (see note X) and investments in unquoted equity instruments (see note X)</li> <li>• Assessing whether the Company will satisfy the qualitative and quantitative stipulations relating to conditionally forgivable government loans (see note X)</li> </ul>
NZ IAS 1.125	<p><i>Estimates and assumptions</i></p> <ul style="list-style-type: none"> <li>• Impairment of goodwill and other long-lived assets - Estimate of future cash flows and determination of the discount rate (see note X)</li> <li>• Estimating the amount of restructuring provisions, including termination benefits (see note X)</li> <li>• Estimating expected credit losses for trade receivables, including the incorporation of forward-looking information to adjust historic loss rates (see note X)</li> <li>• Defined benefit scheme - actuarial assumptions (see note X)</li> </ul>

## B.4 - SIGNIFICANT JUDGEMENTS AND ESTIMATES (CONTINUED)

B.4 - Summary of significant judgements and estimates made in preparing 31 December 2020 financial statements (continued)	
Reference(s)	Illustrative disclosure
NZ IAS 1.129	<p><i>Estimates and assumptions (continued)</i></p> <ul style="list-style-type: none"> <li>• Assessing whether the Company is reasonably certain to exercise lessee options (see note X)</li> <li>• The determination of the incremental borrowing rate used to measure lease liabilities (see note X)</li> <li>• Revenue recognition - Provision of rights to return goods if customers are dissatisfied and volume rebates (see note X)</li> <li>• Income taxes - provisions for income taxes in various jurisdictions, including uncertainty over income tax treatments and estimating the recoverability of deferred tax assets (see note X)</li> </ul> <p>See the above referenced notes for disclosure of the nature of the uncertainty, sensitivity of carrying amounts to the methods, assumptions and estimated underlying their calculation, the expected resolution of the uncertainty and ranges of reasonably possible outcomes.</p>
	<p><i>Analysis: NZ IAS 1.122 and 125 require the disclosure of significant judgements and estimates made in applying an entity's accounting policies. In many cases, it may be simplest to provide these disclosures within the related note (e.g. disclose significant estimates made relating to the estimation of assets' recoverable amounts in the impairment of assets note, accompanying other disclosures required by NZ IAS 36).</i></p> <p><i>See the following sections for illustrations of significant judgements and estimates being disclosed in the related notes:</i></p> <ul style="list-style-type: none"> <li>• <i>B.6: evidence supporting the recognition of deferred tax assets;</i></li> <li>• <i>B.7: judgements made in assessing whether stipulations relating to forgivable government loans will be complied with;</i></li> <li>• <i>B.8: significant judgements and estimates made when estimating the recoverable amounts of assets subject to the impairment requirements of NZ IAS 36, including major assumptions made and the sensitivity of the recoverable amount's carrying value to changes in those assumptions;</i></li> <li>• <i>B.9: estimates made in measuring restructuring provisions, including assumptions used to estimate termination benefits; and</i></li> <li>• <i>B.10: estimates of expected credit losses relating to trade receivables, including the incorporation of forward-looking information to adjust historic loss rates.</i></li> </ul>

## B.5 - EVENTS AFTER THE REPORTING PERIOD

B.5(a) - information relating to going concern is obtained subsequent to period end

Additional information: Z Layout is not in compliance with bank loan covenants as at 31 December 2020, which allows the bank to demand repayment at any time. On 31 January 2021, before Z Layout's financial statements are approved for issuance, the bank immediately demands repayment. The outstanding balance of the loan is significantly more than Z Layout's cash balances and management has been unsuccessful in obtaining alternative sources of financing. Z Layout has no realistic alternative but to liquidate the entity in order to satisfy its contractual obligation to the bank.

Reference(s)	Illustrative disclosure
NZ IAS 10.14	Z Layout was not in compliance with the debt to equity covenant relating to its bank loan with lender ABC (see note X) as at 31 December 2020, which permits the lender to require repayment on demand. On 31 January 2021, the lender served notice to Z Layout that it is demanding immediate repayment of the loan. Z Layout does not have sufficient cash or access to liquidity in order to satisfy this obligation.
NZ IAS 1.25	Management has considered all available options, however, it is management's opinion that the Company has no realistic alternative but to cease operations and liquidate the Company in order to satisfy its contractual obligations. As such, these financial statements have not been prepared on a going concern basis.  <i>Accompanying disclosure related to the basis of accounting used is not illustrated in this example.</i>
	<i>Analysis: NZ IAS 10.14 prohibits the going concern basis of accounting from being used if management determines after the reporting period that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so. This is regardless of whether the events and circumstances giving rise the going concern assumption no longer being appropriate existed at period end. Said another way, if information obtained after the reporting period affects an entity's ability to continue as a going concern, it is always treated as an adjusting event after the reporting period for purposes of assessing the going concern assumption as at period end in accordance with NZ IAS 1.</i>

## B.5 - EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

### B.5(b) - non-adjusting events after the reporting period

Additional information: on 15 February 2021, the government announces a new wage subsidy program, which will reimburse Z Layout for approximately 65% of its salary expenses retroactively from 1 December 2020 to 31 March 2021.

Reference(s)	Illustrative disclosure
NZ IAS 10.21	<p>On 15 February 2021, the federal government announced a new wage subsidy program, the salary protection program ('SPP'). SPP reimburses eligible employers for a portion of the salary and benefits expenses paid to employees. To qualify for the program, employers must have experienced a significant decrease in revenue, with the subsidy adjusting based on the decrease in revenue compared to the same period in the prior year. The program is retroactive from 1 December 2020 and will continue to at least 31 March 2021. On 21 February 2021, the Company applied for the program for payroll costs incurred from 1 December 2020 to 31 January 2021. Based on the Company's decrease in revenue, reimbursements are expected to be \$550,000 for the month of December 2020 and \$650,000 for the month of January 2021.</p> <p>The subsidy relating to December 2020 has not been reflected in these financial statements because the legislation approving the program had not been enacted by 31 December 2020 and no application was made until 21 February 2021.</p>
	<p><i>Analysis: the introduction of, and the company's application for, government support subsequent to period end is an example of a non-adjusting event after the reporting period, because they may be indicative of conditions that arose after the reporting period. NZ IAS 10.21 requires disclosure of such non-adjusting events after the reporting period when non-disclosure could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The introduction of a government program subsequent to period end would not affect the period end financial statements, except if that program affected the entity's ability to continue as a going concern (see 5.5(a)).</i></p>

## B.6 - INCOME TAXES

### B.6 - recognition of deferred tax assets when utilisation of the benefit is uncertain

Additional information: Z Layout has \$3,500,000 of unused tax losses, which may be carried forward to off-set future taxable profits for the next 20 years. Z Layout has incurred a significant loss in the current annual reporting period and a small profit in the previous annual reporting period. The reversal of existing taxable temporary differences over the next 20 years is not significant.

Reference(s)	Illustrative disclosure
NZ IAS 12.82	<p>The Company has recognised a deferred tax asset of \$875,000, which relates to \$3,500,000 of unused tax losses, which may be carried forward to reduce taxable income for the next 20 years. As the Company has suffered a loss in the current period and the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences, the Company is required to disclose the evidence supporting the recognition of the deferred tax asset.</p> <p>Based on the improving fiscal performance of the Company in 2021, and the development of viable COVID-19 vaccines to mitigate the effect of closures and social distancing, the Company expects to return to 85% of pre-pandemic cash flows by the end of 2021. Based on management's forecast of future taxable profits, the tax losses should be fully utilised by the end of 2023.</p>
NZ IAS 1.129(a)	<p>Included in management's assumptions is the expectation that substantially all government-imposed closures and social distancing requirements will be lifted by 31 August 2021, with gyms and health spas reopening in cities representing 80% of the Company's major customers by 30 June 2021.</p>
	<p><i>Analysis: NZ IAS 12.82 requires disclosure of the evidence supporting the recognition of a deferred tax asset when conditions are met (see Section A). In addition to the evidence supporting its recognition, management of Z Layout considered the estimates made in estimating that support to be significant, and therefore disclosed additional information as required by NZ IAS 1.125 and 129(a).</i></p>



## B.7 - GOVERNMENT GRANTS AND ASSISTANCE

### B.7 - disclosure of government grants

Additional information: Z Layout applied for various government grants during the year ended 31 December 2020, one of which is forgivable if Z Layout satisfies certain conditions.

Reference(s)	Illustrative disclosure
	The Company applied for various government support programs introduced in response to the global pandemic.
	<u>Payroll support</u>
NZ IAS 20.39(a)	Included in profit or loss is \$1,000,000 of government grants obtained relating to supporting the payroll of the Company's employees. The Company has elected to present this government grant separately, rather than reducing the related expense. The Company had to commit to spending the assistance on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Company does not have any unfulfilled obligations relating to this program.
NZ IAS 20.39(b)	
	<u>Forgivable loans</u>
NZ IAS 20.39(c)	Included in profit or loss is \$400,000 of government grants relating to forgivable loans. The Company is required to repay the loan to the federal government of country B on 31 December 2021 if it terminates the employment of a certain percentage of its employees in that country. As there is reasonable assurance that the Company will meet the terms for the loan to be forgiven, it has been accounted for as a government grant.
NZ IAS 20.39(a)	
NZ IAS 20.39(b)	In assessing whether there is reasonable assurance that the Company will meet the terms of the loan for it to be forgiven, the Company estimated its cash flows for 2021 and determined that there is reasonable assurance that it will retain sufficient employees such that the terms of the loan forgiveness will be satisfied. This may not be the case if assumptions relating to the return to normal operations and cash flows are incorrect (see note X - going concern assessment). If operations and cash flows do not return to pre-pandemic levels by 31 October 2021, the Company will likely not have sufficient liquidity to repay the loan. For a maturity table of financial liabilities, see note X.
NZ IAS 20.39(c)	
NZ IAS 1.122	A Layout has applied for additional government grants, which did not meet the recognition criteria as at 31 December 2020. See note X.
	<i>Analysis: Z Layout has disclosed terms and conditions relating to the government grants as required by NZ IAS 20.39. In addition to this disclosure, Z Layout made the judgement that</i>

## B.8 - IMPAIRMENT OF ASSETS

The following three scenarios demonstrate how the disclosures required by NZ IAS 36 vary depending on the facts and circumstances. NZ IAS 36 contains various disclosure requirements, which apply in different situations:

- NZ IAS 36.126-133: disclosures are only required when impairment is recognised (e.g. indicators of impairment exist for property, plant and equipment and impairment is recorded). If no impairment is recorded, these disclosure requirements do not apply.
- NZ IAS 36.134-135: disclosures are required whenever the recoverable amount is determined for cash-generating units containing goodwill or intangible assets with indefinite useful lives. As the recoverable amount for these assets must be determined annually at a minimum, this information must always be disclosed if an entity has recognised goodwill or intangible assets with indefinite useful lives in its statement of financial position.

The extent of disclosures provided by an entity will depend on whether impairment is recorded, whether goodwill and/or intangible assets with indefinite useful lives are recognised, and regardless of whether impairment is recognised, whether judgements and estimates made in performing the impairment test may result in adjustments to the carrying value of assets in the next financial year. For example, if an impairment test results in no impairment being recognised, but it is a 'close call' (i.e. recoverable amount exceeds carrying amount but by very little, or the recoverable amount is highly sensitive to changes in assumptions), then many (or all) of the disclosures in NZ IAS 36 may not technically apply, however, NZ IAS 1's requirement to disclose information about significant judgements and estimates may result in significant disclosures regardless.

NZ IAS 1.17(c) and 31 also require additional information to be disclosed if doing so is necessary in order to achieve fair presentation and/or compliance with specific requirements in NZ IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

See B.8(c) for an example of this situation where complying with the requirements of NZ IAS 36 are insufficient based on the judgement of the entity.

## B.8 - IMPAIRMENT OF ASSETS (CONTINUED)

### B.8(a) - impairment of assets is recorded, including goodwill

Additional information: the effects of COVID-19 have resulted in decreased sales, which management of Z Layout has identified as an indicator of impairment for its property, plant and equipment, right-of-use assets, goodwill and intangible assets. The impairment test results in the recoverable amount of some cash-generating units being lower than their carrying amount, resulting in the impairment of some assets in the GTSE group of cash-generating units, including goodwill. The groups of cash-generating units that are impaired were acquired in a business combination in 2018, and include goodwill arising from that business combination.

Reference(s)	Illustrative disclosure
NZ IAS 36.130(a)	<p>Most revenue streams have experienced significant reductions since the pandemic's effects became widespread. The Company considered the reduced sales and reductions in budgeted revenue as indicators of impairment, and therefore determined the recoverable amount for all of its cash generating units. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use was higher in all cases due to the nature of the assets included in the carrying amount of cash generating units.</p>
NZ IAS 36.130(d)	<p>Groups of cash generating units are summarised as follows, with each Z Layout branded retail location and Great Times Sports Equipment representing a distinct cash generating unit:</p> <ul style="list-style-type: none"> <li>- Online sales function;</li> <li>- Z Layout branded retail locations; and</li> <li>- Great Times Sports Equipment (GTSE) retail locations, which were acquired in a business combination in 2018.</li> </ul>
NZ IAS 36.134(c)	<p>Recoverable amount exceeded the carrying amount of all cash generating units based on forecast cash flows, except for GTSE. The cash flow forecasts are based on budgets for the next 5 years, with a terminal value thereafter. The cash flows were probability weighted based on the following scenarios:</p>
NZ IAS 36.132 NZ IAS 36.134(d) (i), (ii), (iii), (iv)	<ol style="list-style-type: none"> <li>1. Base case (50% weighting): stores remain closed for 16 weeks, with consumer demand not returning to pre-pandemic levels until September 2021, resulting in a significant effect on most of the summer selling season.</li> <li>2. Positive case (20% weighting): stores remain closed for 8 weeks, with consumer demand returning to pre-pandemic levels by June 2021, in time for the summer selling season.</li> <li>3. Negative case (20% weighting): stores remain closed for 24 weeks, with consumer demand not returning to pre-pandemic levels until December 2021.</li> <li>4. Worst case (10% weighting): stores remain closed for 40 weeks, causing significant disruptions to the 2021 Christmas selling season, with consumer demand not returning to pre-pandemic levels until March 2022.</li> </ol>
	<p>The terminal value includes a growth rate of 2.5%, which is the average long-term growth rate for the Company's industry.</p>

(Continued...)

These cash flow projections were weighted as noted above for all cash generating units except for those related to GTSE, where the negative case was weighted 40% and the positive case was weighted 0%. This is due to expectations that GTSE's product lines will take longer to return to pre-pandemic demand than other cash generating units and GTSE's locations being more significantly affected by government-imposed lockdowns.

The cash flows were discounted at a rate of 9.5%, which reflects the time value of money and risks specific to the Company's industry, which were not reflected in the value in use cash flows.

NZ IAS  
36.130(g)  
NZ IAS  
36.134(d) (v)  
  
NZ IAS 36.81,  
88

Due to GTSE's focus on sporting goods, including products that have experienced the sharpest decline in demand due to social distancing requirements, the carrying amount of GTSE's stores exceeded their recoverable amount. As goodwill has been allocated to the group of GTSE CGUs rather than each GTSE CGU individually, impairment has first been recorded proportionately to GTSE's store assets, which consisted primary of right-of-use assets for store locations and allocations of corporate assets (e.g. head office right-of-use assets, including office space and leased IT infrastructure) and then to the carrying amount of goodwill allocated to the group of CGUs.

The impairment of GTSE's assets is summarised as follows:

Class of assets	(in '000)			
	Carrying value before impairment	Recoverable amount	Impairment	Carrying value after impairment
Goodwill	1,650		981	669
Corporate assets	224		224	-
Right-of-use assets	895		895	-
Total	2,769	669	2,100	669

NZ IAS  
36.130(e)  
NZ IAS  
36.134(a)

The recoverable amount exceeded the carrying amount for the Company's other cash generating units, however, as the carrying amount of goodwill allocated to Z Layout branded retail locations is significant in comparison with the Company's total carrying amount of goodwill, the following information about the Z Layout branded retail locations is disclosed:

- The carrying value of goodwill allocated is \$ 1,250,000.
- The recoverable amount was determined based on value in use, which utilises current budgets and cash flow projections as noted above, with the discount rate disclosed above.
- The amount by which the recoverable amount exceeded the total carrying value ('headroom') is \$1,137,000.

<p>NZ IAS 36.126(a)</p> <p>NZ IAS 36.134(f)(i)</p> <p>NZ IAS 36.134(f) (iii)</p>	<p><i>(Continued...)</i></p> <ul style="list-style-type: none"> <li>- The amount by which the values assigned to key assumptions must change for the recoverable amount to be equal to the carrying value are (independent of one another): <ul style="list-style-type: none"> <li>o Increase in discount rate from 9.5% to 14%; or</li> <li>o Adjustment in the assumptions used in the base case (i.e. the most likely case) cash flow scenario from (i) to (ii): <ul style="list-style-type: none"> <li>(i) 16 weeks of closures and return to pre-pandemic consumer demand in September 2021;</li> <li>(ii) 32 weeks of closures and return to pre-pandemic consumer demand in December 2021.</li> </ul> </li> </ul> </li> </ul>
	<p><i>Analysis: as impairment was recorded relating to the GTSE group of cash-generating units, significant disclosures are required by NZ IAS 36. Regardless of whether impairment was recorded, NZ IAS 36.134-135 requires significant disclosures for determining the recoverable amount of cash-generating units containing goodwill or intangible assets with indefinite useful lives. Therefore, even if the GTSE group of cash-generating units had not been partially impaired, all disclosures required by NZ IAS 36.134-135 would have still been required. See scenario B.8(b) below for the disclosures that would have still been required if no impairment was recorded.</i></p>

B.8(b) - indicators of impairment exist, however, no impairment of assets is recorded (cash-generating units contain goodwill)

Additional information: the effects of COVID-19 have resulted in decreased sales, which management of Z Layout has identified as an indicator of impairment for its property, plant and equipment, right-of-use assets, goodwill and intangible assets. The impairment test results in the recoverable amount of all cash-generating units being higher than the carrying value for all cash-generating units, therefore, no impairment is recorded. The GTSE group of cash-generating units were acquired in a business combination in 2018, and include goodwill arising from that business combination.

Reference(s)	Illustrative disclosure
<p>NZ IAS 36.134(c)</p> <p>NZ IAS 36.134(d) (i), (ii),(iii),(iv)</p>	<p>Most revenue streams have experienced significant reductions since the pandemic's effects became widespread. The Company considered the reduced sales and reductions in budgeted revenue as indicators of impairment, and therefore determined the recoverable amount for all of its cash generating units. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use was higher in all cases due to the nature of the assets included in the carrying amount of cash generating units.</p> <p>Groups of cash generating units are summarised as follows, with each Z Layout branded retail location and Great Times Sports Equipment representing a distinct cash generating unit:</p> <ul style="list-style-type: none"> <li>- Online sales function;</li> <li>- Z Layout branded retail locations; and</li> <li>- Great Times Sports Equipment (GTSE) retail locations, which were acquired in a business combination in 2018.</li> </ul> <p><i>(Continued...)</i></p> <p>Recoverable amount exceeded the carrying amount of all cash generating units based on forecast cash flows for all cash-generating units. The cash flow forecasts are based on budgets for the next 5 years, with a terminal value thereafter. The cash flows were probability weighted based on the following scenarios:</p> <ol style="list-style-type: none"> <li>5. Base case (50% weighting): stores remain closed for 16 weeks, with consumer demand not returning to pre-pandemic levels until September 2021, resulting in a significant effect on most of the summer selling season.</li> <li>6. Positive case (20% weighting): stores remain closed for 8 weeks, with consumer demand returning to pre-pandemic levels by June 2021, in time for the summer selling season.</li> <li>7. Negative case (20% weighting): stores remain closed for 24 weeks, with consumer demand not returning to pre-pandemic levels until December 2021.</li> <li>8. Worst case (10% weighting): stores remain closed for 40 weeks, causing significant disruptions to the 2021 Christmas selling season, with consumer demand not returning to pre-pandemic levels until March 2022.</li> </ol> <p>The terminal value includes a growth rate of 2.5%, which is the average long-term growth rate for the Company's industry.</p>

<p>NZ IAS 36.134(d) (v)</p> <p>NZ IAS 36.134(a)</p> <p>NZ IAS 36.134(f)(i)</p> <p>NZ IAS 36.134(f) (iii)</p>	<p>These cash flow projections were weighted as noted above for all cash generating units except for those related to GTSE, where the negative case was weighted 40% and the positive case was weighted 0%. This is due to expectations that GTSE's product lines will take longer to return to pre-pandemic demand than other cash generating units and GTSE's locations being more significantly affected by government-imposed lockdowns.</p> <p>The cash flows were discounted at a rate of 9.5%, which reflects the time value of money and risks specific to the Company's industry, which were not reflected in the value in use cash flows.</p> <p>The carrying amount of goodwill included in GTSE's cash-generating units is \$1,650,000.</p> <p>The recoverable amount exceeded the carrying amount for the Company's cash generating units, however, as the carrying amount of goodwill allocated to GTSE is significant in comparison with the Company's total carrying amount of goodwill, the following information about GTSE is disclosed:</p> <ul style="list-style-type: none"> <li>- The recoverable amount was determined based on value in use, which utilises current budgets and cash flow projections as noted above, with the discount rate disclosed above.</li> <li>- The amount by which the recoverable amount exceeded the total carrying value ('headroom') is \$1,137,000.</li> <li>- The amount by which the values assigned to key assumptions must change for the recoverable amount to be equal to the carrying value are (independent of one another):</li> </ul> <p>(Continued...)</p> <ul style="list-style-type: none"> <li>o Increase in discount rate from 9.5% to 14%; or</li> <li>o Adjustment in the assumptions used in the base case (i.e. the most likely case) cash flow scenario from (i) to (ii): <ul style="list-style-type: none"> <li>(iii) 16 weeks of closures and return to pre-pandemic consumer demand in September 2021;</li> <li>(iv) 32 weeks of closures and return to pre-pandemic consumer demand in December 2021.</li> </ul> </li> </ul>
	<p><i>Analysis: despite the fact that no impairment was recorded, NZ IAS 36.134-135 requires significant disclosures for determining the recoverable amount of cash-generating units containing goodwill or intangible assets with indefinite useful lives even if no impairment is recognised. In addition to the disclosure requirements of NZ IAS 36, NZ IAS 1's requirements to disclose significant judgements and estimates may also require entities to make disclosures because a reasonably possible change in the estimates made may significantly affect the carrying value of assets (i.e. whether assets are impaired or by how much). See B.8(c) for an example of disclosures when no impairment is recorded and the cash-generating units do not contain goodwill, therefore, the requirements of NZ IAS 36.134-135 do not apply.</i></p>

B.8(c) - indicators of impairment exist, however, no impairment of assets is recorded (cash-generating units do not contain goodwill)

Additional information: the effects of COVID-19 have resulted in decreased sales, which management of Z Layout has identified as an indicator of impairment for its property, plant and equipment, right-of-use assets, and intangible assets. The impairment test results in the recoverable amount of all cash-generating units being higher than the carrying value for all cash-generating units, therefore, no impairment is recorded. GTSE and all other business lines were formed by Z Layout from inception, therefore, the financial statements do not contain goodwill. While the recoverable amount of all cash-generating units exceeds their carrying amounts, the excess (i.e. 'headroom') is not significant. A reasonably possible change in assumptions would result in impairment being recognised.

Reference(s)	Illustrative disclosure
NZ IAS 1.122	<p>Most revenue streams have experienced significant reductions since the pandemic's effects became widespread. The Company considered the reduced sales and reductions in budgeted revenue as indicators of impairment, and therefore determined the recoverable amount for all of its cash generating units. The recoverable amount is the higher of fair value less costs of disposal and value in use. Value in use was higher in all cases due to the nature of the assets included in the carrying amount of cash generating units.</p> <p>Groups of cash generating units are summarised as follows, with each Z Layout branded retail location and Great Times Sports Equipment representing a distinct cash generating unit:</p> <ul style="list-style-type: none"> <li>- Online sales function;</li> <li>- Z Layout branded retail locations; and</li> <li>- Great Times Sports Equipment (GTSE) retail locations, which were acquired in a business combination in 2018.</li> </ul> <p><i>(Continued...)</i></p>
NZ IAS 1.129(a)	<p>Recoverable amount exceeded the carrying amount of all cash generating units based on forecast cash flows for all cash-generating units. The cash flow forecasts are based on budgets for the next 5 years, with a terminal value thereafter. The cash flows were probability weighted based on the following scenarios:</p> <ol style="list-style-type: none"> <li>9. Base case (50% weighting): stores remain closed for 16 weeks, with consumer demand not returning to pre-pandemic levels until September 2021, resulting in a significant effect on most of the summer selling season.</li> <li>10. Positive case (20% weighting): stores remain closed for 8 weeks, with consumer demand returning to pre-pandemic levels by June 2021, in time for the summer selling season.</li> <li>11. Negative case (20% weighting): stores remain closed for 24 weeks, with consumer demand not returning to pre-pandemic levels until December 2021.</li> <li>12. Worst case (10% weighting): stores remain closed for 40 weeks, causing significant disruptions to the 2021 Christmas selling season, with consumer demand not returning to pre-pandemic levels until March 2022.</li> </ol>



<p>NZ IAS 1.129(b)</p>	<p>The terminal value includes a growth rate of 2.5%, which is the average long-term growth rate for the Company's industry.</p> <p>These cash flow projections were weighted as noted above for all cash generating units except for those related to GTSE, where the negative case was weighted 40% and the positive case was weighted 0%. This is due to expectations that GTSE's product lines will take longer to return to pre-pandemic demand than other cash generating units and GTSE's locations being more significantly affected by government-imposed lockdowns.</p> <p>The cash flows were discounted at a rate of 9.5%, which reflects the time value of money and risks specific to the Company's industry, which were not reflected in the value in use cash flows.</p> <p>The recoverable amount exceeded the carrying amount for the Company's cash generating units, however, as the carrying amount of goodwill allocated to GTSE is significant in comparison with the Company's total carrying amount of goodwill, the following information about GTSE is disclosed:</p> <ul style="list-style-type: none"> <li>- The recoverable amount was determined based on value in use, which utilises current budgets and cash flow projections as noted above, with the discount rate disclosed above.</li> <li>- The amount by which the recoverable amount exceeded the total carrying value ('headroom') is \$1,137,000.</li> <li>- The amount by which the values assigned to key assumptions must change for the recoverable amount to be equal to the carrying value are (independent of one another): <ul style="list-style-type: none"> <li>o Increase in discount rate from 9.5% to 14%; or</li> </ul> </li> </ul> <p>(Continued...)</p> <ul style="list-style-type: none"> <li>o Adjustment in the assumptions used in the base case (i.e. the most likely case) cash flow scenario from (i) to (ii): <ul style="list-style-type: none"> <li>(v) 16 weeks of closures and return to pre-pandemic consumer demand in September 2021;</li> <li>(vi) 32 weeks of closures and return to pre-pandemic consumer demand in December 2021.</li> </ul> </li> </ul>
	<p><i>Analysis: no impairment has been recognised, therefore, the disclosure requirements of NZ IAS 36.126-133 do not apply and none of the cash-generating units contain goodwill or intangible assets with indefinite useful lives, therefore, the disclosure requirements of NZ IAS 36.134-135 do not apply. Management of Z Layout considered the fact that the recoverable amount of its cash-generating units exceeded their carrying amounts, however, the excess (i.e. 'headroom') is not significant, and minor adjustments to assumptions would result in an impairment loss. Therefore, management discloses information about its significant estimates made in applying its accounting policies, in accordance with NZ IAS 1.125. The related disclosures in NZ IAS 1.129 are examples of how an entity discloses the effects of its significant estimates, therefore, management exercises judgement in determining the extent of the disclosures it should make. As a change in assumptions would result in impairment being recorded, the disclosures focus primarily on the nature of the assumptions made (NZ IAS 1.129(a)) and the sensitivity of carrying amounts to the assumptions made (NZ IAS 1.129(b)). In determining which information to disclose, management develops an accounting policy in accordance with NZ IAS 8 and considers the</i></p>

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	<p><i>requirements of IFRSs dealing with similar and related items, therefore, management makes several disclosures contained in NZ IAS 36.134. While NZ IAS 36.134 does not apply, management makes the assessment that disclosing this information satisfies the requirement of NZ IAS 1.125 and 129.</i></p>
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## B.9 - PROVISIONS

### B.9 - provision recognised relating to onerous contracts

Additional information: in February 2020, Z Layout entered into an agreement with Sluggish Consulting to provide certain staff to consult on improving the wellness of Sluggish Consulting's employees for the next 24 months, ending in February 2022. Z Layout's compensation is based on the amount of weight lost by Sluggish Consulting's employees. As at 31 December 2020, management of Z Layout has determined that this contract is onerous because the unavoidable costs of satisfying the obligation under the contract (providing consulting services) exceeds the economic benefits expected to be received. This is because the effects of the pandemic have resulted in Sluggish Consulting's employees not meeting their weight loss targets, however, Z Layout is still obligated to provide consulting services, despite the fact management believes it will lose money by satisfying the contract.

Reference(s)	Illustrative disclosure
NZ IAS 36.85(a)	In February 2020, the Company entered into an agreement to provide consulting services to a customer, where substantially all of the fees earned will be based on the weight loss of those participating in the program being run by the Company. Expected revenue to be earned under the contract has been significantly less than the Company expected, therefore, the contract is onerous as at 31 December 2020.
NZ IAS 36.85(b)	Therefore, the Company has recognised a provision of \$100,000 relating to the onerous contract, which represents the excess of unavoidable costs of meeting the obligation over the economic benefits expected to be received under it. The major assumptions underlying the measurement of the provision include the Company's estimate of total revenue to be earned, which is based on \$10 per pound lost by participants. Management expects only \$50,000 to be earned for the contract in total. The discount rate used to measure the provision is 3%.
	<i>Analysis: if the provision had arisen in an earlier period, it would also be required to disclose a reconciliation of the provision, including the carrying amount at the beginning and end of the period, additional provisions made in the period, amounts used/incurred against the provision during the period, unused amounts reversed and the effect of discounting (i.e. accretion) (NZ IAS 36.84).</i>

## B.10 - FINANCIAL INSTRUMENTS: CREDIT RISK

### B.10 - disclosure of credit risk exposure and measurement of expected credit losses (ECL)

Additional information: Z Layout has experienced significantly higher bad debts in 2020 due to several customers experiencing financial difficulties, however, increases in its online sales (which do not give rise to significant receivables as sales are direct to consumers and are paid via credit cards) have resulted in little to no bad debts. Z Layout estimated ECL based on lifetime expected credit losses in accordance with NZ IFRS 9.5.5.15.

Reference(s)	Illustrative disclosure																												
NZ IFRS 7.35B	The Company applies the NZ IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging.																												
NZ IFRS 7.35G (a),(c)	The expected loss rates are based on the Company's historical credit losses experienced over the three-year period prior to the period end, however, the Company has weighted losses in the last 6 months of 2020 at 80% as recent bad debts are more indicative of future expectations due to the effects of the pandemic. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers. The Company has identified the expected timing of gyms being reopened and the development of COVID-19 vaccines as being the most significant estimates of forward-looking information as most of the Company's customers are dependent on reductions in social distancing and government-imposed closures in order to operate.																												
NZ IFRS 7.35G(b)	The Company has estimates ECL using historic loss rates, adjusted for forward looking information, only for sales made on account, which does not include online sales, as they are paid by credit card at the point of sale and do not give rise to significant credit losses.																												
	The lifetime expected loss provision for trade receivables and contract assets is as follows:																												
	<table border="1"> <thead> <tr> <th></th> <th>31 December 2020</th> <th>Current</th> <th>More than 30 days past due</th> <th>More than 60 days past due</th> <th>More than 120 days past due</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Expected loss rate</td> <td></td> <td>5%</td> <td>15%</td> <td>25%</td> <td>75%</td> <td></td> </tr> <tr> <td>Gross carrying amount</td> <td></td> <td>140,000</td> <td>50,000</td> <td>200,000</td> <td>350,000</td> <td>740,000</td> </tr> <tr> <td>ECL</td> <td></td> <td>7,000</td> <td>7,500</td> <td>50,000</td> <td>262,500</td> <td>327,000</td> </tr> </tbody> </table>		31 December 2020	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total	Expected loss rate		5%	15%	25%	75%		Gross carrying amount		140,000	50,000	200,000	350,000	740,000	ECL		7,000	7,500	50,000	262,500	327,000
	31 December 2020	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total																							
Expected loss rate		5%	15%	25%	75%																								
Gross carrying amount		140,000	50,000	200,000	350,000	740,000																							
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NZ IFRS 7.35N																													
	<table border="1"> <thead> <tr> <th></th> <th>31 December 2019</th> <th>Current</th> <th>More than 30 days past due</th> <th>More than 60 days past due</th> <th>More than 120 days past due</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Expected loss rate</td> <td></td> <td>1%</td> <td>8%</td> <td>11%</td> <td>35%</td> <td></td> </tr> <tr> <td>Gross carrying amount</td> <td></td> <td>250,000</td> <td>275,000</td> <td>45,000</td> <td>25,000</td> <td>595,000</td> </tr> <tr> <td>ECL</td> <td></td> <td>2,500</td> <td>22,000</td> <td>4,950</td> <td>8,750</td> <td>38,200</td> </tr> </tbody> </table>		31 December 2019	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total	Expected loss rate		1%	8%	11%	35%		Gross carrying amount		250,000	275,000	45,000	25,000	595,000	ECL		2,500	22,000	4,950	8,750	38,200
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ECL		2,500	22,000	4,950	8,750	38,200																							
	<i>Analysis: this publication does not illustrate the effects of COVID-19 on credit entities such as banks, credit unions and other financial institutions.</i>																												

## B.11 - LEASES: PRACTICAL EXPEDIENT, COVID-19 RELATED RENT CONCESSIONS

### B.11 - rent concessions accounted for using the practical expedient

Additional information: Z Layout entered into numerous rent concessions with lessors during 2020.

Reference(s)	Illustrative disclosure
	<p>Due to government policy, the Company had to close substantially all of its stores in March 2020. Certain locations were able to reopen in Countries A and B during September 2020, however, a significant number of stores remain closed as at 31 December 2020.</p> <p>The Company has received numerous forms of rent concessions from lessors due to the Company being unable to operate for significant periods of time, including:</p> <ul style="list-style-type: none"> <li>- Rent forgiveness (e.g. reductions in rent contractually due under the terms of lease agreements);</li> <li>- Deferrals of rent (e.g. payment of April-June 2020 rent on an amortised basis from July 2020 - March 2021); and</li> <li>- Conversion of a portion of fixed lease payments to variable lease payments not based on an index or rate (e.g. forgiveness of fixed monthly rent in exchange for a percentage of sales generated at store locations in the future).</li> </ul>
NZ IFRS 16.60A(a)	As discussed in note X (summary of significant accounting policies), the Company has elected to apply the practical expedient introduced by the amendments to NZ IFRS 16 to all rent concessions that satisfy the criteria. Substantially all of the rent concessions entered into during the year ended 31 December 2020 satisfy the criteria to apply the practical expedient.
NZ IFRS 16.60A(b)	<p>The application of the practical expedient has resulted in the reduction of total lease liabilities of \$1,505,000. The effect of this reduction has been recorded in profit or loss in the period in which the event or condition that triggers those payments occurs.</p> <p>The Company has engaged in further negotiations with lessors subsequent to the 31 December 2020 period end. See note X (events after the reporting period).</p>
	<i>Analysis: if Z Layout had not applied the practical expedient to all rent concessions satisfying the criteria in NZ IFRS 16.46B, the entity would be required to disclose information about the nature of the contracts to which it has applied the practical expedient (e.g. certain classes of leases).</i>



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