

**Answers to questions raised in Webinar hosted by WIRC, ICAI**

**Topic - Covid 19- Audit steps -GAAP accounts**

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**Date – Saturday, April 4<sup>th</sup>, 2020**

- 1) In case of Professional Services rendered during lockout period, can one raise an Invoice for work from home and book the same as on 31/03/2020?**

Revenue can be recognized in books to the extent of services delivered / completed as per the engagement letter. Unbilled portion has to be classified separately in financial statement under the head 'other current assets' instead of 'trade receivable'. Tax Invoice can be raised based on the Rules laid down under GST.

- 2) Have you come across any of your clients who had taken business interruption insurance?**

As mentioned during my presentation, the terms and conditions of insurance policies has to be evaluated minutely for the coverage in such scenario. Wimbledon has been taking specific insurance for pandemic for over 15 years. In other parts of the world, whether business interruption policy will cover non usage of premises or inability to conduct business due to lockdown by the government is subject matter of interpretation of the terms and conditions of the policy and also the amendments the government may bring about in this regard.

Have seen clients who has taken business interruption policy.

- 3) How to do the physical inventory as there was a lock down as on 31/03/2020. Also suppose there are some perishable stock as on 31/03/2020 but subsequently it is of no use, then how to recognise it? E.g. Vegetables and provisions of Restaurant was good as on 31.03.2020 but subsequently say on 10th April 2020 it was of no use.**

This case study is covered in my presentation. The requirements for attendance at stocktakes are set out in SA 501 *Audit Evidence - Specific Considerations for Selected Items*. If inventory is material to the financial statements, SA 501 requires the auditor to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory, including "attendance at physical inventory counting, unless impracticable".

If stock is counted at a date other than the date of the financial statements, in addition to attendance at the stocktake, the auditor is required to perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded.

If you have been unable to attend physical inventory counting due to unforeseen circumstances, you shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions.

If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with ISA 705.

**PERISHABLE STOCK**

The perishable stock items should be marked-down to Nil value as it has no subsequent realisable value..

- 4) Can we defer some fixed expenses like salary of non-operating period due to lock down on the ground that the benefit derived from the same will be of future period? E.g.: For retain the staff, arranging the full accommodation, other expense even salary remitted.**

Accounting Standards does not allow deferment of such cost.

- 5) For claiming deduction of donation, provisions of the same is to be made in the balance sheet if payment will be made after 31st March, 2020?**

This case study is covered in my presentation. In brief, provision should be made if there is an obligation as at balance sheet date and auditee is going to claim the donation made till 30<sup>th</sup> June 2020 against income tax liability of year ending 31/3/20.

- 6) What if CSR payments are not met by 31 March 2020 due to Covid-19, impact of non-payment on audit report?**

No reporting for 31/3/20 is required in audit report if explanatory note for unspent amount is appended by the management in its annual financial statement as per Section 135 of the Companies Act read with CSR Rules.

- 7) Should the COVID-19 find a mention in the KAM's or in the EOM para??**

Considering the pervasiveness of the COVID 19 including uncertainty/ unpredictably, alternative audit steps used for audit, it is quite likely that the matter will be forming part of KAM/ EOM