



Reporting implications of **Covid-19** UK Government Job Retention Scheme

On 11 March 2020 the World Health Organisation declared the spread of coronavirus (“Covid-19”) a global pandemic and the UK government has taken unprecedented steps to protect the economy, businesses and jobs during these very difficult times.

The resulting economic uncertainty and geopolitical impact will present the biggest test to a company’s business model, its longer-term viability and the ability to remain a going concern. This level of uncertainty is expected to continue for a considerable amount of time.

One major aspect of UK government support is the Coronavirus Job Retention Scheme (“the scheme”) where eligible employers can claim to cover the wages of employees who are on temporary leave (“furlough”) due to the impact of coronavirus (“Covid-19”).

Businesses are electing to either not use the scheme, employ the scheme in full or apply the scheme in part.

This article focuses on the accounting and reporting implications for UK companies and limited liability partnerships (“LLPs”) taking advantage of the scheme and to help preparers draft appropriate accounting policies under UK GAAP and EU adopted IFRS (“IFRS”).

Some key features of the scheme

At the date of this article the scheme has been extended to run from 1 March 2020 to the end of June 2020 and could be subject to further extension by the Chancellor.

Some key features of the scheme include:

- Financial support under the scheme is limited to the lower of 80% of the salary of an eligible employee at 19 March 2020 and £2,500 per month
- Eligible employees must be employed under an employment contract (e.g. full time, part time or zero hours contract)
- To be eligible for support affected employees must be informed in writing
- Employers must not ask affected employees to provide services to the employer or make money on behalf of the employer
- Claims can be backdated to 1 March where affected employees have already been furloughed by that date



- Claims also cover employers' national insurance and pension contributions of furloughed employees but not employers' national insurance on top up payments or pension contributions in exceeding the mandatory pension contribution
- Claims also cover regular payments for which there is an obligation (e.g. past overtime payments and compulsory commission) but exclude discretionary payments for example tips, commissions and bonuses
- Financial support excludes non-monetary benefits in kind and benefits that are paid as part of a salary sacrifice scheme
- Employers can top up payments to employees however such payments do not qualify for support.
- For Income and Corporation tax purposes payments received under the scheme must be included as income in the calculation of its taxable profits
- The government refers to the scheme as a grant.

The above is not an extensive list of features or rules. When calculating amounts to be reclaimed Companies and LLPs should refer to government guidance and seek professional advice.

The financial reporting considerations

The considerations outlined below are relevant under UK GAAP (FRS 101, FRS 102 and FRS 105) and IFRS.

Nature of arrangement

In our view amounts receivable from the government in connection with furlough payments under the scheme are government grants.

Commencing recognition of income

Under both UK GAAP and IFRS a government grant is recognised when there is **reasonable assurance that:**

- the employer will comply with the conditions attaching to the grant; and
- the grants will be received.

In our view we believe that it is not appropriate to recognise income under the grant until approval to use the scheme has been granted by the government.

In appropriate circumstances it is possible to recognise a receivable and accrue income for amounts due from the government under the scheme.

In addition to applying for assistance and obtaining approval the key conditions for being able to recognise the amounts as a government grant in the **financial statements are:**

- communicating to affected employees in writing that they are furloughed
- maintaining the affected employees under contracts of employment
- ensuring that those employees are not providing any services to the employer or otherwise making money on behalf of the employer during the furlough period.

Further, it is important to retain records and correspondence to support any claim.

Pattern of recognition of income

FRS 101, FRS 105 and IFRS adopt the accrual method of recognising government grants meaning that income from a grant is recognised to match related expenditure.

In respect of grant income, FRS 102 permits, on a class of grant basis, the adoption of the accrual method or the performance method.

Under the performance method grant income is recognised when the conditions for receiving the grant are complied with, this can be at a point in time or over time.

On the basis that amounts receivable are paid in arrears and relate to continued employment, we would not expect there to be a difference in applying an accrual method or performance method.

Presentation of income

IFRS

Presentation depends on what accounting policy choice is adopted.

Entities which present grant income separately from related expenditure should recognise amounts receivable in other income.

Entities which have an accounting policy of netting off should recognise grant income against related expenditure.

FRS 101, FRS 102 and FRS 105

Under company law both FRS 101 and FRS 102 prohibit the netting of grant income against related expenditure. Amounts receivable under the scheme should be presented in other income.



Overall summary of accounting

Please see table below for summary of accounting and disclosure requirements.

Additional considerations for accounting records

A key condition of eligibility for the grant is that employers must confirm in writing to their employee that they have been furloughed.

The government requires that a record of that written communication must be retained for a period of five years.

The following sets out a table of detailed requirements:

	IFRS	FRS 101	FRS 102	FRS 105
Relevant standard	IAS 20	IAS 20	Section 24	Section 19
Presentation choice	Net or gross	Gross	Gross	Gross
Presentation of income where gross	Other income	Other income	Other income	Other income
Recognition criteria	Reasonable assurance that employer will comply with the conditions attaching to the grant; and the grant will be received.	Reasonable assurance that employer will comply with the conditions attaching to the grant; and the grant will be received.	Reasonable assurance that employer will comply with the conditions attaching to the grant; and the grant will be received.	Reasonable assurance that employer will comply with the conditions attaching to the grant; and the grant will be received.
Recognition basis	Accrual model	Accrual model	Accrual model or performance model on class of grant basis	Accrual model
Disclosure requirements	Accounting policy adopted Methods of presentation adopted Nature and extent of government grants recognised Unfulfilled conditions and other contingencies attaching to grant	Accounting policy adopted Methods of presentation adopted Nature and extent of government grants recognised Unfulfilled conditions and other contingencies attaching to grant	Accounting policy adopted Methods of presentation adopted Nature and extent of government grants recognised Unfulfilled conditions and other contingencies attaching to grant	None
Other financial statements disclosures	Disclose nature and amount of material items of income	Disclose nature and amount of material items of income	Disclose nature and amount of material items of income	None

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