In brief

A look at current Canadian financial reporting issues

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Accounting implications of the Canada Emergency Wage Subsidy under International Financial Reporting Standards (IFRS)

At a glance

The Government of Canada recently introduced two wage subsidies to help Canadians and businesses facing hardship as a result of the COVID-19 outbreak.

The Temporary 10% Wage Subsidy is a three-month measure that will allow eligible small employers to reduce the amount of payroll deduction required to be remitted to the Canada Revenue Agency (CRA). The bill received Royal Assent and was brought into law on March 25, 2020.

The Canada Emergency Wage Subsidy (CEWS) introduces a wage subsidy of up to 75% for qualifying businesses, for up to 3 months, retroactive to March 15, 2020. The subsidy covers employers of all sizes and across all sectors who have suffered a drop in gross revenues of at least 15% in March, and 30% in April and May. The bill received Royal Assent and was brought into law on April 11, 2020.

Employers eligible for the CEWS are also entitled to receive a 100% refund for certain employer contributions.

This In brief addresses the accounting implications of the subsidies and the impact on reporting periods prior to April 2020.

In our view:

- The Temporary 10% Wage subsidy is accounted for as a government grant from March 25, 2020 when it was brought into law;
- The CEWS is accounted for as a government grant from April 11, 2020 when it was brought into law;
- Accounting for payments to employees relating to the CEWS depends on the arrangement between the employer and employee.

Changes to the subsidy programs or new arrangements introduced by governments or employers may result in a different analysis.

How should entities account for the Temporary 10% Wage Subsidy?

The subsidy is accounted for as a government grant in accordance with IAS 20 *Government grants.*

Eligible employers can start recognizing the subsidy as a receivable from the date the bill was brought into law, being March 25, 2020, provided there is reasonable assurance that they have met the relevant conditions. [IAS 20 para 7]

The 10% subsidy is recognized in profit or loss over the same period as the eligible remuneration paid from March 18, 2020 to June 19, 2020, subject to the limits of $1,375 per eligible employee and a total of $25,000 per employer. The amount of the subsidy is calculated using the published guidelines.

How should entities account for the Canada Emergency Wage Subsidy?

The subsidy (including the refund of certain employer contributions) is also accounted for as a government grant in accordance with IAS 20 *Government grants.*

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Eligible employers can start recognizing the subsidy as a receivable from the date the bill was brought into law, being April 11, 2020, provided there is reasonable assurance that they have met the relevant conditions.

The amount of the subsidy is calculated using the published guidelines. The 75% CEWS is recognized in profit and loss over the same period as the eligible remuneration up to June 6, 2020, subject to the limits of $847 per eligible employee per week. The bill is effective retroactively for qualifying amounts from March 15, 2020. Amounts relating to previous accounting periods are recognized in profit and loss when the subsidy is recognized as a receivable in April.

How should entities present the subsidies in their financial statements?

Either of the following approaches are acceptable:

- Present the subsidy as a separate income line item, or as part of 'Other income' or a similar existing line item in the income statement; or
- Deduct the subsidy from the same line item where the remuneration expense is recognized. [IAS 20 para 29]

The chosen presentation approach is applied consistently from period to period.

If an entity has a previously stated accounting policy for presenting government grants related to income, their chosen policy should be followed.

Is additional disclosure about the subsidies required?

Disclosure in the notes may be necessary for a proper understanding of the financial statements. This is particularly the case when the subsidy affects any item of income or expense which is required to be separately disclosed (for example, an individually material item). [IAS 20 para 31]

How should entities eligible for the CEWS account for corresponding payments to employees?

Employers who are eligible for the CEWS may have employees who are still rendering service, those who are furloughed (or no longer rendering services), or a combination of both. The accounting for these employee expenses depends on the arrangement between the employer and employee.

Employees are still actively rendering services

Remuneration paid to employees who are still actively rendering services to the employer (whether on a reduced basis or not), continue to be recognized as regular wages and salaries in accordance with the guidance in IAS 19 *Employee Benefits* relating to short-term employee benefits.

Employees who are not rendering services, but continue to be paid as a result of the CEWS

Payments to employees who aren't currently rendering services, but continue to be paid as a result of the CEWS and may return to work at some point in the future, are typically accounted for as short-term employee benefits, similar to non-accumulating short-term paid absences [IAS 19 para 13].

No liability or expense is recognized until the time of the absence, because employee service does not increase the amount of the benefit. The amount accrued for non-accumulating short-term paid absences will depend on the specific arrangements including communications with employees. The expense for the full benefit expected is recognized when the absence occurs.

How should entities account for termination benefits already announced and subsequent changes?

We have observed that some employers terminated employees in March as a result of the COVID-19 pandemic, and then subsequently decided to reactivate those employees when the CEWS was introduced. Upon the original termination, there may have been termination benefits offered in exchange for the termination of employment. A liability and expense for termination benefits is recognized at the earlier of the following dates:

- when the entity can no longer withdraw the offer of those benefits; and
- when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. [IAS 19 para 165].

Any termination benefits that were recognized in a previous period are reversed if they are withdrawn in a subsequent period. The reversal of the benefits liability is accounted for when it occurs. It is not accounted for as a change in accounting policy, change in estimate or an error in accordance with IAS 8, since facts and circumstances changed subsequently. For example, a termination benefit liability recognized before March 31, 2020 because the criteria above are met is still shown as a liability as at March 31, 2020 even if the benefits are withdrawn upon re-hiring of the employee in April.

However, if termination benefits can't be legally withdrawn, the employer still has an obligation to pay those benefits, and as a result will continue to account for that obligation in accordance with IAS 19. The requirements for long-term employee benefits are applied, to the extent that they are not expected to be settled in full before 12 months after the end of the reporting period. [IAS 19 para 169]

Where do I get more details?

For more information the Temporary 10% Wage Subsidy and Canada Emergency Wage Subsidy, refer to Canada's COVID-19 Economic Response Plan.

For more information on accounting for events after the reporting date refer to PwC In depth INT2020-04: Accounting implications of coronavirus.

Questions?

Employers impacted by the items described above can discuss these with their local PwC contact.

National office contacts

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