Navigating the impact of COVID-19 on financial reporting

Accounting and disclosure considerations

As a result of the current economic instability, there could be a number of potential accounting and financial reporting implications and challenges for entities, particularly those with foreign subsidiaries, operations, investments, or joint ventures in regions experiencing disruption from COVID-19. Additionally, the overall economic uncertainties in some regions could indirectly affect entities that do not have direct exposure if these uncertainties broadly cause widening interest rate spreads or increase global market volatility.

Identifying, assessing and managing risks of disruption

Whether you are operating in a region with significant disruption due to COVID-19 or you have significant business relationships with customers, suppliers, or service providers in one of the affected regions, it is important to consider:

- Changes in accounting assumptions and estimates used in financial reporting;
- Appropriate disclosure of accounting principles applied in areas subject to assumptions and estimates;
- Appropriateness of disclosures about the ability to continue as a going concern given the changes brought about by the economic downturn;
- Liquidity and impairment concerns that may affect income tax accounting; and
- Controls over financial reporting processes as a result of the economic downturn and interruption caused by work stoppages.

Questions businesses should be asking

Have we reassessed accounting conclusions and adequacy of disclosures for key areas? Including:

- Asset (including goodwill) impairments
- Exit or disposal cost obligations
- Loss contingencies
- Revenue—contracts with customers
- Consolidation or restructuring
- Valuation of defined benefit plan assets and obligations
- Stock compensation performance conditions and modifications

Have we appropriately disclosed our ability to continue as a going concern? Including consideration of the following:

- Negative financial trends; for example, recurring operating losses, working capital deficiencies, negative cash flows from operating activities, and other adverse key financial ratios
- For many companies it will be necessary to fully update financial and valuation models for the significant impacts on businesses highlighted above
- Other indications of possible financial difficulties; for example, default on loans or similar agreements, arrearages in dividends, denial of usual trade credit from suppliers, denial of access to banking facilities, a need to restructure debt to avoid default, noncompliance with statutory capital requirements, and a need to seek new sources or methods of financing, or to dispose of substantial assets
- Internal matters; for example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project, uneconomic long-term commitments, and a need to significantly revise operations
- External matters; for example, legal proceedings, legislation, or similar matters that might jeopardize the ability to operate; loss of a key franchise, license, or patent; loss of a principal customer or supplier

Have we disclosed subsequent events related to coronavirus impacts? Including:

- the nature of the event
- an estimate of its financial effect, or a statement that such an estimate cannot be made

Have we appropriately disclosed impacts on business in the management discussion and analysis section of the annual report (MD&A)?

- Not every event warrants recognition on financial statements or disclosure in notes to the financial statements, yet they may be of relevance to stakeholders
- Businesses should consider with due care information to be disclosed in the MD&A in order to send the right message on the risks and prospects of the businesses

For more information on how to respond, recover and thrive:

- Connect to Deloitte leaders www.deloitte.com/COVID-19-leaders
- Visit www.deloitte.com/COVID-19