IMPACT OF COVID-19 ON FINANCIAL REPORTING FOR YEAR ENDING 31ST MARCH, 2020

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ABSTRACT:
This paper attempts to clarify the impacts of Corona Virus Disease on the Financial Reporting of Companies for the Year ending on 31st March, 2020. COVID19 was first reported to the World Health Organisation (WHO) in December 2019 and it has rapidly spread to many other countries. Very recently, WHO has declared it as global pandemic. COVID-19 has not only affected the health of people across the globe and it has also affected the accounting, disclosure, internal control and auditing implications for many entities. There is a great deal of uncertainty as to how the COVID-19 situation will continue to evolve and the scenario is rapidly changing. The uncertainty arises primarily from interruptions in production, supply chain disruptions, unavailability of personnel, closure of facilities / offices due to the rapid outbreak of COVID-19, decline in demand, liquidity, business community issues, etc. The resultant outbreak though started outside of India impacts entities in India as well.
Keywords: *Covid-19, Financial Reporting, Accounting Consideration*

INTRODUCTION:

Financial reporting is the disclosure of financial results and related information to management and external stakeholders (e.g., investors, customers, regulators) about how a company is performing over a specific period of time.

Financial reports are usually issued on a quarterly and annual basis and include the following:

- Balance Sheet or Statement of Financial Position
- Income Statement or Profit and Loss Report.
- Statement of Changes in Equity or Statement of Retained Earnings
- Cash Flow Statement

For publicly held corporations, these financial reports can be very detailed and complex. They typically include extensive footnotes, as well as a management discussion and analysis (MD&A). The notes provide details about each item on the balance sheet, income statement, and cash flow statement, including insights into the accounting method used.

Financial reporting for private and public companies must be performed in accordance with generally accepted accounting guidelines (GAAP). For example, Indian companies must report their results under IND AS, whereas companies in most international markets report under International Financial Reporting Standards (IFRS). These accounting guidelines provide principles and rules that must be followed to ensure accuracy, consistency, and comparability in financial results.

Coronavirus disease 2019 (**COVID-19**) is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). The disease was first identified in December 2019 in Wuhan, the capital of China's Hubei province, and has since spread globally, resulting in the ongoing 2019–20 coronavirus pandemic. Due to increasing cases of Corona Virus the PM of India declared the lockdown for safety measures. It has impacted a lot on Indian Economy as a whole.

OBJECTIVES OF THE STUDY

1. To examine the Impact of COVID-19 on Financial Reporting of Companies for the Year ended 31.03.2020
2. To study the accounting areas which are affected due to COVID-19 and how its should be Presented in Financial Statements

LIMITATIONS

1. This study is applicable only for the Companies in India.
2. The study is based on Indian AS.
3. It is limited only to accounting aspects of companies.
4. It is further limited to Impact of COVID 19 only on Financial Reporting.

RESEARCH METHODOLOGY

The study is based on secondary data. The information has been collected from Journals, Articles, Guidance Notes issued by ICAI, Newspapers and websites.

ACCOUNTING CONSIDERATIONS

As COVID-19 continues to spread globally, it may be appropriate for entities to consider the impact of the outbreak on accounting conclusions and disclosures related to, but not limited to, the following:

1. Inventory Measurement:

   Inventories are measured at the lower of their cost and net realisable value (NRV). In a difficult economic environment, the NRV calculation may warrant additional challenge and scrutiny at the reporting date. Also, if an entity's production level is abnormally low (for example, as a result of temporary shutdown of the production lines), it may need to review its costing of inventories to ensure that unallocated fixed overheads are recognised in profit or loss in the period in which they are incurred as per AS-2 (Accounting for Inventories)

2. Revenue:

   Due to COVID-19, there could be likely increase in sales returns, decrease in volume discounts, higher price discounts etc. Under Ind AS 115(Revenue from Contracts), these factors need to be considered in estimating the amount of revenue to recognised, i.e., measurement of variable consideration.

   Ind AS 115 also requires disclosure of information that allows users to understand the nature, amount, timing and uncertainty of cash flows arising from revenue. Therefore, entities may have to consider disclosure about the impact of COVID-19 on entities revenue.

   Entities to whom AS is applicable, may have postponed recognition of revenue due to significant uncertainty of collection in view of the impact of COVID-19. AS 9, Revenue Recognition requires entities to disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

3. Investments (AS-13 Accounting for Investments):

Current Investments are valued at lower of cost or fair value. Any reduction in the fair value due to uncertain events should be included in profit and loss account.

Long Term investments are usually carried at Cost. However, when there is a decline, other than temporary nature in the carrying amount then it should be reduced to recognize the said decline.

4. Going Concern Assessment:

The Financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Management of the entity should assess the impact of COVID-19 and the measures taken on its ability to continue as a going concern. The impact of COVID-19 after the balance sheet date should also be considered in assessing whether going concern assumption is appropriate or not. Events occurring after the balance sheet date may indicate that the enterprise ceases be a going concern. It may be necessary for the management to evaluate whether it is proper to use the fundamental accounting assumption of going concern in the preparation of the financial statements.

5. Income Tax:

COVID-19 could affect future profits and/or may also reduce the amount of deferred tax liabilities and/or create additional deductible temporary differences due to various factors (e.g., asset impairment). Entities with deferred tax assets should reassess forecasted profits and the recoverability of deferred tax assets in accordance with Ind AS 12, Income Taxes, considering the additional uncertainty arising from the COVID-19 and the steps being taken by the management to control it.

Management might also consider whether the impact of the COVID-19 affects its plans to distribute profits from subsidiaries and whether it needs to reconsider the recognition of any deferred tax liability in connection with undistributed profits.

6. Consolidated Financial Statements:

AS21 prescribes that the financial statements of parent and subsidiaries used in preparation of the consolidated financial statements are usually drawn upto the same date. It may be noted that in any case, difference between the reporting dates should not be more than six month

7. Borrowing Costs:

AS 16 Borrowing Costs require that the capitalisation of interest is suspended when development of an asset is suspended. The management may consider this aspect while evaluating the impact of COVID-19

8. Fixed Assets: (Property, Plant and Equipments)

Ind AS 16 and AS 10 (Accounting for Fixed Assets) require that useful life and residual life of PPE needs revision in annual basis. Due to COVID-19, PPE can remain under-utilised or not utilised for a period of time. It may be noted that the standards require depreciation charge even if the PPE remains idle. Further, COVID-19 impact may have affected the expected useful life and residual life of PPE.

9. Onerous Contracts

Onerous Contracts are those contracts for which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to received under it.

Due to COVID 19, Some Contracts may become onerous contract due to increase in the cost of material, labour, overheads, halt in production, etc. The same should be accounted as per AS-29 (Provisions, Contingent Liabilities and Contingent Assets)

10. Other potential impacts

There is a number of other areas in the financial statements that might be affected by the COVID-19, including:

- Derivative and hedging considerations, e.g. hedge accounting requirements in respect of derivatives for which the expected transaction is no longer highly probable or expected to occur.
- Insurance claims, e.g. whether it is virtually certain that amounts are receivable under business interruption and/or other insurance and the potential disclosure of contingent assets.
- Appropriate recognition of employee termination benefits resulting from a workforce reduction, e.g. as a result of closure or reorganisation of operations.
- Probability of meeting performance vesting conditions under share-based payment arrangements and the appropriate accounting for modifications or settlements of such arrangements.
- Probability of meeting performance targets in business combination arrangements, rebate arrangements with customers or suppliers, variable considerations, commission accruals.
- Appropriate accounting for modification of contractual arrangements, for example a reduction or deferral of lease payments granted by a lessor to a lessee.
- Tax considerations, e.g. impact of reduced flow of goods and services on transfer pricing agreements; recoverability of deferred tax assets

CONCLUSION:

The impact of COVID-19 on the economy, financial markets and entities in particular continues to evolve. The role of Companies Management at times like this is increased, have to complete the accounting work in accordance with professional standards and ethics requirements. Under the current circumstances, Management must recognize that the manner in which they should prepare the financial statements and reporting should be done to meet the challenges and uncertainties arising out of the impact of COVID-19. They should follow the Guidelines given by ICAI and Expert Committee on various aspects of Financial Reporting. Irrespective of the challenges and uncertainties, there should not be any dilution or non-compliance with the accounting standards while Financial Reporting

SUGGESTIONS:

In view of above study the following suggestions are offered:

1. The Companies should follow the various Accounting Standards strictly while framing the Financial Reports.
2. Financial Reporting Considerations should form part of Notes on Accounts, no need of having separate disclosures.

REFERENCES:

1. Guidance Notes issued by ICAI
2. Bombay Chartered Accountants Magazines
3. Chartered Accountant Journal

WEBSITES:

- www.icai.org
- www.deloitee.com
- www.kpmg.com