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## ADDRESSING THE FINANCIAL REPORTING ISSUES ARISING FROM THE COVID-19 PANDEMIC

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**Annotation.** The COVID-19 pandemic has had a significant impact on the global economy and has presented numerous challenges for financial reporting. As companies continue to adapt to the new normal, there are several key issues that must be addressed in order to ensure accurate and transparent financial reporting. This article aims to explore these issues and provide possible solutions for addressing them. These include issues such as the impact of remote work on financial reporting, the use of estimates and assumptions in financial statements, and the increased need for financial reporting transparency. The article also discusses the importance of clear and timely communication with stakeholders in addressing these issues. Overall, this article serves as a valuable resource for companies and financial professionals as they navigate the ongoing challenges of financial reporting in the wake of the COVID-19 pandemic.

**Keywords:** pandemic, financial reporting issues, remote work, revenue recognition, a going concern.

### РЕШЕНИЕ ПРОБЛЕМ ФИНАНСОВОЙ ОТЧЕТНОСТИ, ВОЗНИКШИХ В РЕЗУЛЬТАТЕ ПАНДЕМИИ COVID-19

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**Аннотация.** Пандемия COVID-19 оказала значительное влияние на мировую экономику и создала многочисленные проблемы для финансовой отчетности. Поскольку компании продолжают адаптироваться к новым нормам, необходимо решить несколько ключевых вопросов, чтобы обеспечить точную и прозрачную финансовую отчетность. Эта статья направлена на изучение этих проблем и предоставление возможных решений для их решения. К ним относятся такие вопросы, как влияние удаленной работы на финансовую отчетность, использование оценок и допущений в финансовой отчетности и повышенная потребность в прозрачности финансовой отчетности. В статье также рассматривается важность четкой и своевременной коммуникации с заинтересованными сторонами в решении этих вопросов. В целом, эта статья служит ценным ресурсом для компаний и финансовых специалистов, поскольку они решают текущие проблемы финансовой отчетности после пандемии COVID-19.

**Ключевые слова:** пандемия, проблемы финансовой отчетности, удаленная работа, учет поступлений, действующее предприятие.

The COVID-19 pandemic has had a significant impact on financial reporting for companies all over the world. But the response to the pandemic has resulted in even more economic uncertainty and disruption to business operations as most developed countries have seen their long-term interest rates decline and asset prices get more volatile. Some of the issues that have arisen include the need for updated financial statements and the potential for increased financial volatility. Companies may also be required to make additional disclosures about the impact of the pandemic on their operations and financial results. Additionally, there may be increased scrutiny from regulators and investors regarding the accuracy and reliability of financial statements. To mitigate these issues, companies should closely monitor the impact of the pandemic on their operations and financial results, and provide clear and transparent disclosures in their financial statements.

Some of the specific ways COVID-19 has affected financial accounting include:

1. Impairment of assets: The pandemic has led to a significant decrease in demand for some goods and services, which has resulted in companies having to write off some of their assets as impaired. This can have a significant impact on a company's financial statements.

2.Revenue recognition: The pandemic has led to changes in the way companies operate, which can affect the timing and amount of revenue that is recognized. Companies may have to adjust their revenue recognition policies and practices as a result.

3.Lease accounting: The pandemic has led to a decrease in demand for commercial real estate, which has resulted in companies renegotiating their leases. This can have an impact on a company's lease accounting and the way it is reported in financial statements.

4.Disclosures: Companies may be required to make additional disclosures in their financial statements about the impact of the pandemic on their operations and financial results. This could include information about the potential impact of the pandemic on the company's liquidity and the effectiveness of its internal controls.

5.Estimations: The pandemic has led to increased uncertainty and volatility in financial markets. This may require companies to make more estimates and assumptions in their financial statements, which can lead to increased risk of errors.

The shift to remote work as a result of the COVID-19 pandemic has had a significant impact on financial reporting. One of the main challenges is the difficulty in maintaining proper controls and procedures for financial reporting when employees are working remotely. This can lead to a higher risk of errors or fraud in financial statements.

Another challenge is the difficulty in maintaining effective communication and collaboration among team members. This can lead to delays in the financial reporting process and can make it more difficult to identify and resolve issues. Additionally, remote work can also make it more difficult to conduct on-site audits and reviews, which are crucial for ensuring the accuracy of financial statements.

To address these challenges, companies should consider implementing new technologies and tools to facilitate remote collaboration and communication among team members. They should also consider implementing new internal controls and procedures to ensure the accuracy and integrity of financial statements. Additionally, companies should consider implementing new technologies to facilitate remote audits and reviews.

Companies should also provide regular training and education to employees on how to maintain accurate financial reporting while working remotely, and should also be prepared to adapt their financial reporting process as needed to ensure that it remains accurate and transparent. Overall, the impact of remote work on financial reporting is significant and requires companies to be proactive in addressing these challenges to ensure accurate and transparent financial reporting in the current environment.

An example of how COVID-19 pandemic has affected financial reporting can be seen in the American Airlines Group, Inc. 2020 Annual Report, where the company reported a decline in revenue due to the significant reduction in passenger traffic and travel demand caused by the COVID-19 pandemic. The financial results of the company are evidenced in an excerpt from their annual report below:

In a hypothetical example, not based on a real company, we can analyze the effect of the pandemic on revenue recognition:

A company that sells tickets for live events, such as concerts and sports games, has seen a significant decrease in demand for its services due to the pandemic. As a result, it has had to cancel or postpone many of the events that were scheduled to take place. Under normal circumstances, the company would recognize revenue from ticket sales when the event takes place. However, with many events being canceled or postponed, the company may have to adjust its revenue recognition policy.

Illustration 1. Source: American Airlines Newsroom

<b>C. Total Operating Loss (A - B)</b>	<b>\$-10.4B</b>
<b>D. Total Nonoperating Expenses, Net</b> <small>Includes items such as interest expense and income, pension and other post-retirement benefit plan income and costs. Also includes \$170 million in net special items primarily related to mark-to-market net unrealized losses associated with certain equity investments and treasury rate lock derivative instruments.</small>	<b>-\$1B</b>
<b>E. Pre-tax Loss (C + D)</b>	<b>-\$11.5B</b>
<b>F. Subtract: Total Pre-tax Net Special Items</b> <small>Includes \$657 million of mainline operating net special credits (No. 12), \$309 million of regional operating net special credits (No. 6) and \$170 million of nonoperating net special items (D).</small>	<b>-\$796M</b>
<b>*G. Pre-tax Loss, Excluding Net Special Items (E + F)</b>	<b>-\$12.2B</b>
<b>*H. Income Tax Benefit (G x 22%)</b> <small>We recorded a benefit for income taxes at an effective rate of approximately 22%, which was substantially noncash.</small>	<b>\$2.7B</b>
<b>*I. Net Loss, Excluding Net Special Items (G + H)</b>	<b>-\$9.5B</b> <small>(or -\$19.66 per diluted share)</small>
<b>J. GAAP Net Loss</b>	<b>-\$8.9B<sup>1</sup></b> <small>(or -\$18.36 per diluted share)</small>

  

<small>*We use pre-tax loss and net loss excluding net special items (non-GAAP financial measures) to evaluate the company's current operating performance and to allow for period-to-period comparisons. As net special items may vary from period to period in nature and amount, the adjustment to exclude net special items allows management an additional tool to understand the company's core operating performance. We believe these non-GAAP financial measures may also provide useful information to investors and others. These non-GAAP measures may not be comparable to similarly titled non-GAAP measures of other companies and should be considered in addition to, and not as a substitute for or superior to, any measure of performance, cash flow or liquidity prepared in accordance with GAAP. Note: Amounts may not recalculate due to rounding.</small>	
<b><sup>1</sup>Reconciliation to GAAP Net Loss:</b>	
E. Pre-tax Loss	-\$11.5B
K. Income Tax Benefit (E x 22%)	\$2.6B
J. GAAP Net Loss (E + K)	<b>-\$8.9B</b>

For example, the company may decide to recognize revenue from ticket sales when they are sold, rather than when the event takes place. This would mean that the company would recognize revenue from ticket sales for canceled or postponed events in the period in which they were sold, rather than in the period when the event was scheduled to take place. This would have a significant impact on the company's financial statements, as it would result in a significant decrease in revenue in the periods when the events were scheduled to take place and an increase in revenue in the periods when the tickets were sold.

This is just one example, but it illustrates how the pandemic has affected revenue recognition for many companies. Different companies may have different policies and practices in place, depending on the nature of their business and the specific impact of the pandemic on their operations.

According to a recent global KPMG report, there are a couple of steps that a company's management can take in order to assess their ability to continue as a going concern.

- Update projections and sensitivities as necessary, taking into consideration the potential outcomes and identified risk factors. It's crucial to take into account potential negative outcomes, such as when it makes sense to evaluate the effects of a "lockdown."
- Examine expected covenant compliance under various conditions.
- Analyze the company's strategy to address any situations or occurrences that would seriously jeopardize its ability to continue as a going concern. Management will be asked to reevaluate the financing options in particular. The business must determine whether its goals can be reached and whether they are feasible.

Overall, the pandemic has led to increased complexity and uncertainty in financial accounting, including increased volatility in revenue and financial performance, changes in accounting estimates and disclosures, and potential difficulties in obtaining auditing and other financial information. As a result, it is more challenging for companies to produce accurate and reliable financial statements. Companies may also need to provide additional disclosures related to the impact of the pandemic on their operations and financial condition. It is important for companies to closely monitor and consider the potential financial reporting implications of the pandemic.

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