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EFFECTS OF THE COVID PANDEMIC ON FINANCIAL STATEMENTS AND PROPOSING MEASURES TO INCREASE INFORMATION TRANSPARENCY

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Certainly the most visible effects of the Covid-19 Sanitary Pandemic were also felt at the level of the financial statements of the economic entities. One of the most influential aspects from an accounting point of view was certainly the recording of accounting events after the balance sheet closing. O.M.P.F. 1802/2014¹, but also IAS 10² contain the necessary information regarding the correct recognition in the financial statements of subsequent events, distinguishing between those that have an impact on the book values, i.e. those that may affect going concern and those that should not be included in the values accounting, but which will have to be described and explained, if relevant in the explanatory notes.

Given the chronology of events and news broadcast in MNM after the closing date of the financial statements, the COVID-19 epidemic represented, in terms of financial statements for the year ended December 31, 2019, an event that occurred after the closing date of the financial statements and, as such, in accordance with IAS 10 and O.M.P.F. 1802/2014, the related effects did not involve adjustments to the carrying amounts recognized in the financial statements for this period; the event was generally classified in the context of events that occurred after the balance sheet date, which do not involve an adjustment but require specific information, in other words non-adjustable events.

In this context, a number of concerns and problems arise for reporting entities, which need to find solutions to resolve situations such as: how to incorporate their current situation of uncertainty into financial statements; what information to provide to stakeholders, especially shareholders and potential investors; what information to provide to funders; how they will manage the risks generated by the pandemic.

The most consistent problems with implications on the financial statements of companies are those of an accounting policy that should be applied to assets or liabilities, which occur at the level of new operations, such as those generated by government measures to support the economy. For example, the facilities granted to economic entities on committed credits, or on tax debts require the establishment of specific rules, accounting criteria that should be established by the Body of Expert and Licensed Accountants of Romania (BELAR), Ministry of Finance or the International Accounting Standards Board (IASB).

However, we believe that the most important issue concerns the general difficulty of making reliable forecasts of the following market trends during this emergency. Obviously and at the same time, inevitably, these aspects also have consequences in terms of the quality of information provided by financial reporting, stakeholders, which is why it is very important to consider the provisions of national accounting regulations or IAS/IFRS (depending on the framework for preparing these reports) to understand how to properly approach the procedure for approving future financial statements. Obviously, the purpose of this procedure is to provide a fair flow of information to those interested in financial reporting, in accordance with the legislation in force, and the interests of stakeholders.

As mentioned at the beginning of this article, the ability of a reporting entity to respond to the emergency of the Covid-19 epidemic integrates an event that took place after the end of the financial year. In practice, this event in any way cannot have an effect on the preparation of the financial statements for 2019. Therefore, the epidemic should not be taken into account in the valuation of going concern or even in terms of valuations at fair value, regardless of assets or liabilities, evaluated as such.

Certainly, the most appropriate way to avoid non-transparent information reporting that would subsequently lead to a deterioration of stakeholder relations is to create **an additional explanatory note**, dedicated or even entitled **Unforeseeable events**, describing the nature of these events and the risks which they entail on each asset or liability item, and of course the intervention measures by the reporting entity.

Of course, when assessing events after the balance sheet date, those events that have a significant impact on the carrying amounts must be taken into account; to distinguish between those subsequent events that do not have an impact on the carrying amounts recognized in the balance sheet and that do not lead to a change in them; and most importantly, to identify post-balance sheet events that have a direct impact on going concern.

We must also not ignore the situations of uncertainty and criticality that existed at the level of many companies even before the beginning of the pandemic, to which were later added its effects and which obviously should require a review regarding the assessment of going concern.

¹ Order of the Minister of Public Finance No. 1802/2014 for the approval of the accounting regulations regarding the individual annual financial statements and consolidated annual financial statements, as subsequently amended and supplemented

² International Accounting Standard (IAS) 10 – Events after the Reporting Period, included in International Financial Reporting Standards - IFRS, IFRS Foundation, 7th revised edition, Bucharest, CECCAR 2015.

