

COVID-19 will change how companies report earnings – these are the top 20 things execs need to keep in mind

- **The Institute of Chartered Accountants of India (ICAI) has issued an advisory on the factors that companies should keep in mind while reporting earnings for FY 2019-20.**
- **The advisory covers 20 key items spread across five categories.**
- **Given that this is an advisory, the nature and extent of items to be considered will differ between companies.**

The COVID-19 pandemic has had an adverse impact on all aspects of the economy, be it earnings, supply chains, operational efficiencies and the stock markets.

Since the financial year ends on March 31, 2020 in India, it falls amidst the COVID-19 pandemic. This will have an impact on the way companies report their earnings for the financial year 2019-20. To deal with the accounting issues caused due to the volatility, financial uncertainty and fluctuating valuations, the Institute of Chartered Accountants of India (ICAI) has [issued an advisory](#).

Nangia Andersen, a tax practice firm has summarised the top 20 accounting challenges that companies will have to keep in mind while reporting earnings this year. These challenges are divided across five key categories:

Assets measurement and impairment

Property, plant and equipment (PPE)

The expected useful life and remaining useful life of PPE will have to be reassessed if needed. If there are any changes in this regard, the depreciation and amortisation will have to be assessed and recorded accordingly.

Inventory valuation

Assess whether inventory needs to be written down as at balance sheet date due to reduced movement, declined selling prices or obsolescence.

Physical verification of inventory

Physical verification of inventory to be done at an alternate date. Companies will have to do the necessary reconciliation to arrive at an estimated inventory count as on the balance sheet date.

Impairment of non-financial assets

If there are any indicators suggesting impairment of non-financial assets like Goodwill, Intangible assets, immovable properties and fixed assets, companies will have to reassess and record the estimated values of these assets after accounting for impairment.

Impairment of loans & receivables

Analyse the recoverability of loans and receivables and incorporate post-balance sheet events like insolvency of debtors. Accordingly, write off or create a provision for bad debts.

Impairment of investments

Account for any long-term decline in the value of investments.

Loans & advances of banks and insurance companies

Classification of loans and advances into Standard, Sub-standard, Doubtful and Loss categories based on guidelines issued by RBI and IRDAI. [RBI has suspended](#) asset reclassification as NPA during the moratorium period of 92 days – from March 1 to May 31.

Income, expenses & provisions

Revenue recognition

Revenue to be recognized keeping in mind the certainty of collection. Companies should also consider likely increases in sales returns and discounts. If there is significant uncertainty in revenue collection, companies should evaluate the need to defer or postpone revenue recognition.

Insurance claims

Insurance policies that cover loss of profits due to business disruptions to be recognized if the recovery is *virtually certain* (highly probable).

Income taxes

Companies which have deferred tax assets should reassess forecasted profits and account for the change in the value of assets accordingly.

Onerous contract provisions

Identification of contracts which have become onerous (where the costs exceed the economic benefits) and accounting for them accordingly.

Provision for penalty

Ensure appropriate provision for penalty/liquidated damages towards delay in completion of contracts or for non-fulfilment of performance obligations.

Modification or termination of contracts

Consider specific accounting standards and guidance notes applicable for contract modifications or terminations like share based payments, insurance contracts, etc.

Leases

Any changes in lease arrangements due to COVID-19 should be suitably accounted for. However, anticipated revision should not be considered.

Post-balance sheet date events and disclosures

Post-balance sheet date events

Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date.

Accounting disclosures

- **Disclosure of events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise.**
 - **Disclosure of significant recognition and measurement uncertainties that might have been created in measuring various assets and liabilities.**
 - **Disclosure on how impact of COVID -19 on the financial position and financial performance of the entity is dealt with.**
 - **Disclosure of information about the impact of COVID-19 on nature, amount, timing and uncertainty of cash flows arising from revenue may be considered.**
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Going concern & internal controls

Going concern

Impact of COVID-19 and measures taken by an entity on ability to continue as going concern shall be factored in assessing going concern.

Internal controls

Companies should evaluate effectiveness of existing internal controls and may need to offer alternate controls in work-from-home environment, data inaccessibility, absence of authorised person etc.

Discounting and foreign exchange translation

Discounting rate

Discount rate used to determine the present value may need to incorporate any risk associated with COVID-19.

Foreign exchange translation

For restatement of monetary items and foreign operations using closing rate where closing rate may not be reasonable or realistic, the restatement to be done at the amount which is likely to be realised from, or required to disburse.
