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COVID-19 Pandemic and Financial Reporting: A Contextual Analysis

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Abstract

COVID-19 pandemic unexpectedly ushered in a new normal in the world order. It is a health challenge but the preventive measures deployed caused an unprecedented impact on business entities' operation which undoubtedly has significant implications on financial reporting. The challenge of understanding the impact particularly on how entities affected can account and make disclosures is necessarily germane. Provision of reasonable guidance to accounting practitioners and issuers of financial statements is of utmost priority to ensure fair representation of companies' results. This overriding concern motivated the study to examine the pandemic impact on firms with an emphasis on financial reporting. The main objective is to highlight how COVID-19 impact can be accounted for and reflected in financial reporting taking into accounting: events after the reporting period- whether they are adjusting and non-adjusting events; financial statements presentation, going concern principle; fair value measurements, financial assets and liabilities impairment including non-financial assets; property, plant, and equipment; borrowing cost; leases, provisions, contingent assets and liabilities; inventories; and revenue from contracts. The literature review methodology was adopted supplemented by documentations from other books and commentaries including authors' observations from the numerous reviews. On this basis, the study was able to indicate the pandemic impact on financial reporting in the context of firms with reporting dates on 31st December 2019 and those with reporting dates within the year, 2020. Following was the study recommendations which harped on the deployment of appropriate professional judgment, compliance with the relevant IFRS and IAS standards that provide the necessary guidance on the way and manner COVID-19 disruption can be accounted for and reflected in financial reports of business entities.

Keywords: *COVID-19 pandemic, Accounting, Financial Reporting, IAS, IFRS.*

INTRODUCTION

The outbreak of COVID-19 in Wuhan city, China in the later part of 2019 and its subsequent rapid spread to most countries of the world, has caused unprecedented turmoil in countries' health systems; exposing the systems' gross inadequacy and lack of capacity. The sudden spike of the pandemic in the year 2020 is distressing when examined against the numerous countermeasures imposed by countries hit by it across the globe. This is unparalleled times as a significant number of infection cases are reported daily against the background of ramped-up testing capacity achieved by various countries. The evolving nature and unpredictability of the pandemic have heightened fears and generated degrees of business uncertainty and risk. The impact is not only unprecedented in countries, but it has also posed significant challenges to businesses resulting in a high degree of uncertainty with a knock-on effect on both economic and financial systems (European Securities and Market Authority, 2020).

Observably economic and business activities continue to suffer grave reductions in social interaction due to the shutdown of public facilities and limit on physical interaction (Institute of Chartered Accountants of Nigeria (ICAN) 2020).This understandably has made major economic units, financial markets, governments, and virtually all shades of industries and businesses to face enormous challenges from the economic conditions of the pandemic (Deloitte, 2020).It is important to note that, the countermeasures imposed such as the shutdown of regions, movement restriction, flights restriction, closure of non-essential businesses, closure of places of worship, closure of educational institutions, and cancellation of sporting and entertainment events led to a sharp decline in activities of so many businesses operating in the different sectors of an economy. The disruption to sectors appears to be disproportionate depending on the peculiarity of the economy. Amongst the sectors badly hit across the globe are tourism, transport, retail, wholesale, sports, and entertainment. The world supply chain for commodities equally suffered severe devastation with serious disruptions in production and distribution, resulting in the lowering of economic activities with an attendant severe reduction in business activities and a significant decline in demand and supply.

As the pandemic is spreading widely, businesses are experiencing conditions that can liken to the general economic downturn which include but not limited to financial markets volatility, market value erosion, deterioration of credit liquidity, increased unemployment, induced declines in consumers discretionary spending, increased inventories level, reduced production due to decreased demand and supply constraints, including layoffs and furloughs and other restructuring activities (Deloitte,2020) despite government interventions in the form of palliatives. The conditions if existed during or at the balance sheet date or before the financial statements are authorized may have a significant impact on accounting, operations, and financial reporting of entities'. Accounting in this respect cannot be overemphasized as it is known to be the sole medium used to communicate an organization's economic events which also reflects the economic as well as social changes of a nation or the level of the nation's development (IFRS bulletin from PwC, 2020b). Financial reporting, on the other hand, fosters accountability to a wide spectrum of users, which involves the communication of all current and potential material impact of the pandemic, which tends to enable a company's management not only to understand the risks affecting the company but to present how the risks have impacted the company's activities (IFRS in Focus, 2020).

It is no-gainsaying that several financial reporting areas were impacted potentially by the COVID-19 pandemic and continuation of the disease conditions may have a prolonged impact on an entity's financial conditions and performance. The impact of the disease depends largely on several variables whose predictions may be difficult. Deloitte (2020) opines that it includes the extent to which government can restrict business and personal activities, citizens' level of compliance, the degree to which the pandemic curve can be flattened successfully, the nature and effectiveness of assistance from the government. With the pervasiveness and evolving conditions, the full impact of pandemic disruption may not be fully known yet, however, the uncertainty and risks associated with it are likely to be far-reaching. This may have stimulated financial reporting considerations that are specific to industries and businesses.

It is therefore incumbent upon an entity to translate the macroeconomic conditions of the pandemic into estimates of its cash flow, make good-faith of any accounting estimates, prepare comprehensive documentation supporting the basis for arriving at the estimates, and provide also detailed disclosure of the key assumptions used as well as their potential sensitivity to changes in the assumptions (Deloitte, 2020). As the pandemic continues to gain traction, the duration and its impact remain unpredictable which in a way serves as a reminder for entities to engage in a deeper consideration of the crisis. With more information about the scale and impact of the pandemic coming to light in the year 2020, a greater degree of judgment is required particularly in identifying the conditions prevalent at the balance sheet date of companies as of 31st December 2019 and those ending during the year 2020 (Accounting Europe,2020). Thus accounting practitioners and entity managers should be concerned with how to consider and assess the disruptive impact of the pandemic on economic activities as it affects assets and liabilities' measurement, going concern status of the entity, disclosure, and ability of the entity to continue as a going concern, including both direct and indirect influences on all entities notwithstanding the territories they operate (Gould and Arnold, 2020).

Generally, the impact of COVID-19 on accounting and financial reporting has attracted numerous commentaries and statements from accountancy bodies, accounting practitioners, and financial regulators, however, specific research studies on it are very sparse. It is in recognition of this fact that this study intends to examine how the pandemic can be accounted for and reflected in financial reporting. The specific objectives are to highlight how to assess and reflect COVID-19 impact on business financial reporting in the light of the following issues: events after the reporting period-adjusting and non-adjusting events; going concerned and presentation of financial statements; fair value measurement and impairment of non-financial assets; fair value measurement and impairment of financial assets (instruments); property, plant, and equipment; leases; provisions, contingent assets and liabilities; inventories; and revenue recognition from contracts with customers.

The study adds to the emerging literature on COVID-19 and financial reporting as it examined COVID-19 as an event that ought to be accounted for and reported given the disruption it unleashed on business entities' activities since its outbreak in different jurisdictions of the world. It is an unusual condition that affects not only assets and liabilities but most likely will cause disarray in reporting. In recognition of unforeseen difficulties that may arise and to provide evidence in that regard, the study relied on guidance provided by professional accountancy bodies worldwide on how to assess the implication of the pandemic on financial reporting. It employed the literature methodology and draws robustly from various collections of articles related to the pandemic with a financial reporting undertone. This was supplemented by the review of related books and commentaries coupled with the author's idea which flowed from observations. The adoption of these methods of data gathering is not farfetched as the methods are comparatively cost-effective, time-saving which encourages the rigorous and intensive search for appropriate information. The analysis covers consideration of the pandemic conditions and events requiring accounting and financial reporting concerning entities with reporting dates on 31st December 2019 and those with reporting dates within the year 2020.

LITERATURE REVIEW

Events after the Reporting Period: Adjusting and Non-Adjusting Events

IAS 10-provides guidance on events after the reporting period. It provides explanations on events after the reporting date of an entity which may be favorable or unfavorable. The events normally occur between the end of the reporting period and the date when the financial statements are authorized for issue. It makes a clear distinction between adjusting and non-adjusting events after the reporting period (EY, 2020). It highlights adjusting events as those that provide reasonable evidence of conditions that existed at the end of the reporting period while non-adjusting events are those conditions that may have arisen after the reporting period. Any amount recognized as an adjusting event should be adjusted in the financial statements while the disclosure is required for material non-adjusting events. The use of professional judgment on the part of the preparer is permitted to determine whether the events that occurred after the end of the reporting period are adjusting or non-adjusting events. This is highly dependent not only on the reporting date but also on specific facts and circumstances of each entity's operations including the value chain which are needed for review and updated up to when the financial statements are issued or authorized (Gould and Arnold, 2020).

The outbreak of COVID-19 before 31st December 2019 has generated some contention issues as to whether it is an adjusting or non-adjusting event. Financial Reporting Council of United Kingdom (2020) opines that entity's whose yearend is 31st December 2019, should treat the pandemic conditions as a non-adjusting event. However for companies with reporting date ending beyond 31st December 2019 should treat it as a current period event which requires an evaluation to determine the extent of the impact Consistent with the standard, professional judgment is significant in making the distinction between adjusting and non-adjusting events. It, therefore, behooves the management of firms to engage in critical analysis to conclude as to whether COVID-19 is a non-adjusting event that is material or not. Disclosure in terms of the nature of the event and estimate of its financial impact on the operational activities of the entity is required. Where an entity is unable to quantitatively estimate the event, a qualitative disclosure is required with a statement stating the impossibility of estimating the impact. The non- adjusting events that may be linked to the COVID-19 pandemic include breaches of loan covenants', declining fair values of investments held, discontinuation of management plans relating to an operation, or dropping the implementation of a major restructuring scheme, including large changes that may occur in asset prices after the reporting date.

Presentation of Financial Statements: Assessment of an Entity Going Concern Status

IAS 1-indicates the presentation of financial statements about the assessment of an entity going concerned. The standard specifically requires how an entity should be assessed for going concerned. Management of businesses is required to assess a company's ability to continue as a going concern into the future based on events occurring for a given period of one year. They are also expected to assess the entity activities up to the date when the financial statements are to be issued or authorized. The assessment must focus at least on the first twelve months after the balance sheet date, or after the date, the financial statements are signed (Gould and Arnold, 2020). Paragraph 25 of IAS 1, further requires that the entity should disclose the uncertainties when assessing the entity's ability to continue as a going concern. In carrying out this responsibility, issuers of a financial statement have a responsibility to consider all information available concerning the future that relates to the profitability and any form of restriction in accessing a financial resource (European Securities and Market Authority, 2020).

COVID-19 pandemic has brought about certain conditions resulting in uncertainty and risk which may cast significant doubts on an entity going concern basis. Entity managers need to take into account what the existing and anticipated impacts are to assess the appropriateness of applying a going concern basis for the entity (EY, 2020). Some of the conditions which require professional judgment is needed to determine their materiality includes travel bans, movement restrictions, temporary closure of business, the uncertainty of government assistance, unavailability of credit facilities, declining financial wherewithal of suppliers and customers, and dislocation of the commodities supply chain. The impact of these events is significant, especially on entity profitability, key financial performance ratios, and liquidity position. The long period of economy lockdowns has made some entities lose a sizeable number of customers thereby undermining the capacity to generate sufficient revenue to cover expected expenses. Access to credit facilities to fund operational capability by entities is no longer available stifling operations and the ability for expansion. These situations tend to affect an entity's going concerned and according to Accountancy Europe (March 2020), where an organization is negatively impacted by the novel COVID-19, there is a need to reflect its going concern impact which involves running sensitivity analysis to verify if there is any material uncertainty that is capable of threatening the organization's continuity as a going concern.

The predictability of the going concern assessment should be updated constantly up to the date the financial statements are approved which will enable management to consider in deciding to liquidate, cease business, or think about other alternative decisions that should be considered for reflection on the financial statements. Where the going concern is unpredictable and it resulted in material uncertainties that cast significant doubt on an entity's ability to operate as a going concern, a disclosure of the material uncertainties in the financial statements is required to provide clarity to readers about the going concern assumptions drawn by management subject to the material uncertainties given the evolving nature of the pandemic (EY, 2020).

Fair Value Measurements (FVM) of Financial Assets and Liabilities

Fair value measurement of financial assets and liabilities is one important revolutionary aspect of financial reporting. Due to its significance, IFRS 13 prescribes observable guidance that recognizes how to deal with changes occurring based on conditions that would impair values of financial assets and liabilities. This is important because a manifest change in fair value measurement would require disclosure. The standard seeks compliance requiring entities to disclose the valuation techniques, inputs used, and the sensitivity of the valuation to changes in the assumptions made. The reason is not farfetched because financial asset market prices are usually determined in an active market and indirectly wherefore inputs used in the valuation technique are obtained from the markets. the inputs are mainly forecasted cash flows and discount rates which are needed, reviewed, and aligned with the revised risk rating methodology of rating agencies. The changes that may arise from such fair value measurement are fundamental and material that could cause significant outcomes in an entity's financial result, which in the context of IFRS 13 are to be disclosed. This bothers particularly on the valuation technique, inputs used including the sensitivity of the valuation to changes in assumptions (ICAN, 2020; PwC, 2020b). The nature of the pandemic and the responses to curtail it as observed across countries has in a significant way exacerbated the volatility of equity markets. This has resulted in unprecedented manner massive changes in fair values of investments that pertain to subsidiaries, associates including joint venture companies when examined at the entity reporting date. Apart from the equity market, stocks, bonds, and money markets were equally impacted including the risk-free rates of government securities resulting in either increases or decreases in the cost of debt ((PwC,2020a). Market prices of market instruments continue to impact cash flows forecast due to uncertainties associated with business disruption, revision of risk-free rates, and asset values by rating agents which may have impacted significantly on counterparty risk (ICAN, 2020).

Fair value measurement and Impairment of Non-financial assets

Non-financial assets constitute a significant portion of an entity's overall assets. Their fair values and impairment are significant issues in financial reporting. This is why IAS 36 specifically provides several ways of accounting for fair value measurement and impairment of non-financial assets in the accounts. The standard mandates and clarify that a company's assets are to be carried at not more than their recoverable amount (i.e the higher of fair value fewer costs of disposal and value in use).In doing so, it specifically stipulated that companies must as a principle conduct impairment tests when there is any possible indication of impairment of an asset at the reporting date. Indicators of impairment are usually the significant changes that hurt a company that has taken place particularly during the reporting period or is likely to take place soon in the market or economic environment the company operates. The non-financial assets that should be affected include but not limited to property, plant and equipment, intangible assets, and goodwill which are expected to be stated at cost or revalued amount while other classes of assets that include right of use, investment property, biological assets which are stated at cost while investments in associates and joint ventures are valued based on the equity method (Gould and Arnold, 2020).

IAS 36 also requires that goodwill and indefinite-lived intangible assets should be tested at a minimum every year like any other non-financial assets whenever an indicator shows that they may be impaired. In the case of disposal cost of non-current assets held for resale changes in prices and market, realities must be reassessed for impairment requiring a complete review of changes occurring in the long term forecasts of estimated cash flow in calculating present values of future cash flows (ICAN, 2020). Changes also occurring to liabilities values that can reduce deferred tax liabilities amount and creation of additional deductibles on an ongoing basis should be identified, evaluated, and re-evaluated for recognition for the periods which they relate. COVID-19 period as observed led to complete closure of some businesses, temporary ceasing of some entity's operations, the decline in demand, and production of goods and services, asset prices, and profitability of entities. The unimaginable consequences were not only disruptive but caused significant volatility of a monumental proportion in a majority of capital markets around the globe. The was a significant free fall in share prices, drop in listed firms market capitalization; adjustment of assets and countries' risk rates, the meltdown of product and services prices, drop in sales, and reduction in firm's activities and operations (ICAN,2020). The aggregate impact is attributed to reduced overall economic activity visible in the lowering of business revenues and assets value. These induced COVID-19 conditions have implications for both the accounting and reporting date of an entity in terms of impairment test for some assets class, estimation of future cash flows, earnings, and specific assumptions (PwC, 2020b.).

The property, Plant, and Equipment

Property, plant, and equipment are fundamental assets for the long term survival and continued functioning of an entity. The need for their replacement at the end of their economic useful life cannot be overemphasized. As a result, IAS 16 addressed the basic accounting issues related to property, plant, and equipment by requiring continuous charging of depreciation on the asset in the income statement even when the asset is seen to be temporarily idle. This is particularly important when changing conditions arise that may affect these classes of assets, which require a reassessment of the asset's useful lives, residual values, and impact on depreciation to be charged (PwC,2020). The shutdown of businesses due to containment of COVID-19 resulted in minimal or no operating activities of property, plant, and equipment-making them to be idle (ICAN, 2020). In some entities, it led to under-utilization, non-utilization, and suspension of capital projects relating to property, plant, and equipment. This is a significant way that has resulted in changes in asset consumption (PwC,2020).The idleness of these classes of assets on account of the pandemic raises fundamental accounting treatment. In the circumstance, companies need to consider obsolescence issues, impairment, and as well as write down the values of the assets. The changing nature relating to these classes of assets are fundamental in many ways to account for the change in their estimates as well as critical estimation of the uncertainties and their disclosure (ICAN, 2020).

Borrowing Cost

Borrowing to finance or create an asset and the cost implication is very vital in accounting and disclosure purposes. This particularly makes IAS 23 significant which prescribes the way and manner on how to treat borrowing costs associated with asset development. The standard notes specifically that in event of a shutdown of activities, capitalization of borrowing costs need to be suspended throughout idleness until construction of the asset begins again.It stipulates further that in a situation where the temporary delay is necessary for getting an asset ready for use or sale, companies should not capitalize on borrowing costs associated with the asset.This is also complemented by IAS 39 which deals with borrowings and financial liabilities. It stipulates that where seems to be the application of temporary exemption from IFRS 9, the contractual terms of the borrowing entity or other payables must be amended considering the conditions prevalent in the entity's accounting periods well as changes affecting the borrowing terms. Essentially, COVID-19 control measures in many countries led to the shutting down of non-essential business services. Some companies may have or are already engaged in financial contracts that bother borrowing to finance the construction of qualifying assets (ICAN, 2020).The physical distancing and lockdown measures may have resulted in the suspension of capital projects by these businesses, for which funds may have been borrowed relating to the development of property, plant, and equipment. These events necessarily need to be examined to whether they fit into the criteria provided in IAS 23 (ICAN, 2020). If found to fit into the criteria, the entity manager is expected to ensure compliance with the standard by determining the change in the terms of the contracts and whether it would result in de-recognition or be accounted for in the accounts as a modification (PwC, 2020b).

LEASES

Leasing is an important financing option an entity can explore to use and acquire an asset and it is dealt with effectively by IFRS 16. The standard provides sufficient guidance on the accounting and disclosure of lease assets and liabilities and their carrying amount when impacted by certain conditions. The standard stipulates the need to carrying out impairment tests on a lease asset and liability to assess whether it will turn burdensome with regards to its potential inclusion in the company's reporting of the principal risks and uncertainties (Parker Russell Intl., 2020). Distortions associated with COVID-19 may have triggered events that forced entities to engage in the renegotiation of lease agreement terms relating to issues of granting free rent periods and other forms of concession by the lessor or government (ICAN, 2020). Where the events do or do not lead to modification of the lease, it must be reassessed in terms of the liability and asset right of use. Where a change occurs in the scope or consideration of the lease agreement, and it forms part of the original terms or supported by law, such as a force majeure event, it cannot be considered as a modification.COVID-19 shutdown event is likened to such an event and as such would not impact the amount, right of use asset or lease liability, and lease receivable. Delayed rental payment alone associated with the pandemic may not also constitute a modification of the lease life. However, events of this nature should be treated as variable lease payments and recognized in the profit or loss statement, shown as loss of income to the lessor or an expense item to the lessee (ICAN, 2020).

Where concessions are made by the government in lease arrangement on account of the pandemic as a palliative or support measure to the lessee such should be treated as grants to the lessee. Moreover, where the lessee receives partial release from the lease obligations, that part of the lease liability is said to be extinguished and needed to be derecognized in line with the requirement of IFRS 9. Concessions such as these were offered by governments of various countries and institutional lenders as a measure to caution the impact of the pandemic which should be treated about IAS 16. The portion of loss or expense arising in such A concession arrangement should be treated according to the requirements of IFRS 9 on impairment of lease in the reporting period of the entity

Non-Financial Obligations - Provisions, Onerous contracts, Contingent Assets, and Contingent liabilities

Making provisions for an uncertain expense in an accounting period is a significant part of the matching principle of accounting which is ably dealt with in IAS,37 on provisions, contingent assets, and contingent liabilities.The standard provides that provisions should be recognized only where an entity has a present obligation to discharge which is associated with a probable outflow of resources. A reliable estimate of the provision is required to be determined for any contingent asset or liability which requires full disclosure of the obligation nature and the timing of the expected economic benefit outflow. The standard does not, however, permit making provisions for future operating costs or future recovery costs (PwC, 2020). The countermeasures of COVID-19 such as social and physical distancing and shutdown of businesses triggered events that pertain to the expectation of future operating losses, losses relating to running contracts entered into in which costs were incurred or no income received during the shutdown period, and where business continuity insurance may continue to become receivable (ICAN,2020).The possible financial reporting triggers bother on how to recognize a provision for future losses that may arise; losses on onerous contracts whether at a lower cost of exit or cost of fulfilling; recognition of payout from reimbursable assets, and how to value contingent assets or liabilities. Onerous contracts are contracts with an unavoidable cost exceeding the economic benefits.

The pandemic may have made some entities unable to fulfill some supply contracts entered into earlier and contingent assets may have been created due to temporary closure of operation. Before the pandemic business continuity insurance may have been entered into to recover all or some of the costs related to the closure of the business. In compliance with the standard, entity management must assess whether the losses that have arisen due to temporary closure of business due to COVID-19 are covered in the insurance contract policy. Where the insurance company accepts that the claim is valid and payment of the obligation, the benefits of the insurance should be recognized in the accounts. However, provision for future losses should not be recognized while losses on onerous contracts should be recognized at a lower cost to exit and cost to fulfill, including payouts from reimbursable assets. These items should be disclosed as contingent assets after a thorough review of their valuation (ICAN, 2020)

IAS 2 Inventory Valuation

Inventory valuation has a significant impact on the profit and closing inventory values of an entity.To prevent under or overestimation of inventory, IAS 2 was developed to deal with the accounting and disclosure issues associated with inventory. IAS 2 stipulates how inventory valuation should be measured at the lower of cost or net realizable value (NRV). The NRV calculation requires more detailed methods or assumptions, particularly when companies want to write-down stock due to fewer sales.COVID 19 situation has created events such as temporary closure of business, fewer sales particularly of non-essential products causing a build-up of inventory, deterioration, and loss in value in warehouses and stores.Entities with a reporting accounting date during this period are bound to face this unpleasant scenario.There is every possibility of interim inventory impairment losses when considering interim accounts which must be reflected in the period as stipulated in the standard. However, wherein the subsequent periods, subsequent recoveries are made, it is pertinent as a requirement in the standard to recognize such as gains in future periods. The standard further requires that organizations are mandated to consider and submit the potential impacts of events on their operations by reporting not only the major risks and uncertainties associated but also the control measures put in place. The events associated with COVID-19 clearly may necessitate valuing inventory based on net realizable value due to reduced movement of inventories, lower commodity prices, or inventory obsolescence on account of sales being lower than expected. (PwC, 2020). Several businesses witnessed the reduced movement of inventory on account of the interstate ban, movement restriction including temporary closure for some non-essential sectors. Production below normal capacity by some businesses made it problematic how to impute fixed production overhead as part of inventory cost which is normally based on normal production capacity. In this context, the management of entities is specifically required to assess the significance of inventory write-down and determine whether they require disclosure in line with IAS 2.

IFRS 9 Financial Instruments: Measuring Expected Credit Loss (ECL)

Financial instruments provide the vehicle through which funds are mobilized from savers and channeled to users of funds to prosecute viable projects that may have a positive on the economic growth and employment-generating capacity of a nation**.** Many businesses ' corporate financial structures are replete with various amounts raised through, loans, and overdrafts, debt, and equity instruments. These financial instruments expressly contain the terms of agreement concerning repayment of capital and interest element or redemption of the total amount involved.The instruments according to KPMG in Nigeria, (2020) generate income to investors to support investments and are subject to volatility in market variables which include interest, discounts, prices of underlying assets, and foreign exchange rates. To properly account for and disclose financial instruments in the accounts, IFRS 9 was developed. IFRS 9 on financial instruments provides reasonable guidance about accounting for financial instruments including how to measure expected credit loss that may arise. The standard requires entities to include reasonable and supportable information relating to past events, current conditions, and forecasts about future economic conditions in assessing financial assets measured at fair value for expected credit loss to be accounted for in the profit or loss account. According to the standard, the nature of the assessment should be based on information at the entity's reporting date but where the events occur after the reporting date, the entity should consider providing additional evidence about the information existing already at the reporting date (IASB, 2020)

The existing market conditions in money and stock markets may have been impacted by events generated by the COVID-19 pandemic which resulted in a general economic downturn which in some cases triggered the failure of counterparties to make payments as at when payment is due; caused a downgrade of both sovereign and corporate ratings worsening default risks and fair values of the instruments. Investment incomes from securities were impacted negatively including yields on government and corporate securities which fell significantly (KPMG in Nigeria, 2020).Temporary liquidity constraint ensued which affected credit risk assessment for impairment in line with IFRS requirement

(ICAN,2020). In some instances, governments and institutional lenders rolled out support measures in the form of moratoria, renegotiation of debts, roll-over of debts, debt rescheduling based on cash flow, and rates below market rates.Such measures tend to reduce default risk in the instrument lifetime. Moratoria definitely will lead to delay in payment capable of causing significant increases in credit risk that may not be immediate. Payment default occurring well over 30 days, will exacerbate credit risk due to COVID-19 events. Loan guarantees' support measures classified as part of receivables are impaired largely due to changes in macroeconomic variables such as currency devaluation and interest rate changes due to COVID-19 disruption (ICAN, 2020).

Apart from indebted entities, providers of finance such as banks and lenders faced increased credit risk due to lockdown measures. The measures aggravated the borrowers' risk exposures, particularly in sectors of the economy that were highly affected. With increased borrower's credit risks, lending firms are expected to estimate provisions for expected credit loss for the entire or remaining life of the financial instrument and disclosed such accordingly (Gould and Arnold, 2020). In the case of non- financial institutions, IFRS 9 should apply to ensure faithful representation of expected credit losses. Expected credit loss measurement according to the standard, should apply to all companies across different industries other than the financial services industry (ESMA,2020). COVID-19 events should be weighed in this context to determine both the qualitative and quantitative disclosure of expected credit losses to understand the real effect of credit risk on the loan amount, timing, and uncertainty about future cash flows; including assumptions, inputs, and the estimation techniques applied (Gould and Arnold, 2020).

Hedge Accounting Issue.

IFRS 9, Financial instrument, apart from providing how to account for financial instruments, it also makes provision for the application of hedging when the instrument meets the said criteria. IFRS 7, Financial Instruments, requires disclosure of the defaults and breaches relating to loans payable; gains and losses arising from de-recognition or modification; and any form of reclassification associated with cash flow hedge reserve resulting from hedged future cash flows expected not to occur any longer. The disclosures according to Gould and Arnold (2020) should focus on quantitative data relating to liquidity risk and narration of how the risk is managed. Furthermore, hedge accounting under IAS 39, Financial Instruments requires that accumulated gains or losses on a hedged instrument should be reclassified in the profit or loss statement. Risk management strategy related to IFRS 9 financial instruments is part of overall efforts to mitigate credit risk on an entity operation and performance**.** The standard allows that where a forecasted hedge transaction is not likely to occur or is no longer highly effective then hedge accounting should be discontinued especially when the hedged financial asset becomes impaired

The challenge of COVID-19 induced unexpectedly conditions that led to falling prices of major market indexes across the world especially crude oil prices, currency rates, and interest rates (ICAN,2020) impacting greatly on several entities' existing hedges, reducing the likely probability of hedged forecast transactions occurring and their timing. Hedge accounting under IAS 39, Financial Instruments can as well be applied where COVID-19 impacts on an entity’s existing hedges, which continuously satisfies the criteria for hedge accounting. That apart, where management ability to designate new hedges is impacted by COVID-19 conditions, extreme care must be exercised by the entity management (PwC, 2020).Moreover, where there are any accumulated gains or losses on a hedged instrument during the pandemic, in the reporting of the entity it should be reclassified in the profit or loss statement. Where, hedge items cash flow are probably affected by the pandemic resulting in fall in the sale or drop in purchase volumes below levels originally forecasted, cancellation or delayed planned debts including the interest payments falling below forecasted levels, canceled or delayed business purchase or disposal, in tandem with IAS 39 require the provision of additional disclosure (Gould and Arnold,2020).

Revenue from Contracts with Customers

IFRS 15, Revenue from contracts with customers reasonably provides sufficient guidance on the recognition of revenue from contracts. The standard prescribes that revenue is accounted for when it occurs, however, assumptions made by an entity’s management in measuring the revenue that will accrue from goods or services delivered can be affected. Events likely to affect assumptions include reduced demand that can lead to decreased expected returns, acceding to additional price concessions, reduction of volume discounts, the imposition of penalties for late delivery, or a reduction in prices of goods and services to encourage customers’ patronage (Gould and Arnold, 2020). The standard grants company allows modifying its enforceable rights or obligations under a contract with a customer based on certain terms such as granting a price concession in which it is necessary to consider whether the concession is due to the resolution of variability that existed at contract inception or a modification that changes the parties' rights and obligations due to unforeseen circumstances. Contracts’ prices should contain insertion clauses for variable consideration from the out-set which indicates the extent to which, probably, a significant revenue reversal will not happen when unexpected conditions or events are thrown up. COVID-19 condition exemplifies such events that have accounting and reporting considerations concerning revenue recognition and contract modification. The severity of the pandemic has a potential impact on current and future revenue contracts of entities particularly as it relates to revenue collection which was almost improbable with entities’ cash flows are impacted negatively. An evaluation to determine whether such an arrangement still qualifies as revenue by the standard and must be a matter of concern. That apart, of concern, also is that during the pandemic, entities continue to sell products and services to customers offering some form of discounts. Estimation of such volume discounts, returns, rebates, and refunds are no doubt impacted negatively in the process. The standard prescribes that management for accounting and reporting purposes must engage in an assessment of customer’s payment ability and consider whether a write-off is necessary for existing receivables. It is also required to update the previous transaction estimates including the amounts likely to be constrained.(Adams, 2020)

Cash and Cash Equivalents

IAS7 defines cash equivalents to be short-term highly liquid investments that are easily and rapidly convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (PwC, 2020). Cash equivalent mostly relates to money market funds. The funds ordinarily have clauses that allow the fund manager to exercise some level of responsibilities relating to redemption restriction in certain unexpected and unlikely conditions or events. COVID-19 events approximate some of the events, where it caused values of some money market and other associated funds instruments to decline significantly. In this respect for accounting and disclosure purposes, entity management must consider whether investment previously classified as cash equivalent has continued to meet the definition prescribed in the standard. The fallout from the pandemic has led to a significant decline in cash and cash equivalent values including redemption restrictions covenant warranting the consideration and reclassification of such investments whenever they fail to meet the definition prescribed in the standard.

IAS 20- Government Grants

IAS 20 defines what government grant is al about and indicates how such grants should be treated in an entity's accounts and reflected in financial reporting (PwC,2020). The impact of COVID-19 has elicited reactions from governments across the world which led to putting in place various initiatives and palliative measures such as tax rebates, tax holidays, financial assistance, and bail-outs The measures are aimed at providing specific support for businesses in some sectors to sustain continued business activity, business customers, prevent job losses and stimulate the general economy. Entity management according to IAS 20 is required for accounting and disclosure to consider whether this type of assistance received from the government during the pandemic meets the definition of a government grant as specified. Where grants given by the government to cushion the COVID-19 impact perfectly fits into the description and definition of grants in IAS 20, it should be treated as a government grant and disclosed as such.

Employee benefits and share-based payments

IFRS 2, Share-based payment specifically requires entities to duly explain modifications that affect share-based payments, the incremental fair value granted including information about how the incremental fair value is determined. Apart from this, IAS-19 provides for an extensive disclosure of the assumptions made in estimating the employee benefit liabilities including the sensitivities and changes in assumptions (PwC,2020).On the other hand, IAS 37 deals on costs related to the restructuring of employee benefits and stipulate that any assumption used to estimate employee benefits and share-based payments needed to be revised. Such assumptions relate to changes in bond yields, risk-free interest rates in a given currency, and developments in an economy including an employee likelihood of meeting set conditions for receiving bonuses or share based payments in an entity. The standard requires] that management put in place a share-based payment plan to address likely changes caused by any prevailing economic development including performance conditions probability to be met.

Where the changes occurring are beneficial to an employee, the extent ordinarily should determine whether the change is a modification, if it is, it should be accounted for and the additional cost arising be recognized in the profit or loss statement. Where the share-based payments award is canceled even when there is the probability that the employee would not satisfy the conditions to receive it, it is necessary to recognize the expense or the cost involved and post it to the income statement.COVID-19 disruption in many ways has caused a lot of dislocations to business activities such as temporary closure or complete closure where a few employees attended to duties while others were asked to remain at home constraining maximum production capacity while normal capacity costs continued to be incurred during the period. Meanwhile during the pandemic management of some entities especially those cash flow constraints were compelled to consider the reduction of employee's workforce or reduction of salaries. In the light of IAS 19, this development should be evaluated whether it qualifies for employee benefits as defined by the standard. The standard recognizes a liability for employee termination especially when an entity cannot withdraw the offer of those benefits accruing to the employees. Where a modification of employees' benefit becomes necessary such as a downward review of emoluments and associated benefits, then the related costs should be recognized by the guidance provided in IAS 37. Furthermore, where employees or an employee fall sick during the pandemic or was taken to an isolation center for several days, which created some form of liabilities. In this circumstance, management needs to consider whether it is legally binding on it as an obligation to discharge the liability during the pandemic period, and whether to pay for sick pay or pay the employee's isolation cost. Where a liability of such falls within the definition of employee's benefits as stipulated in IAS 19, then the liability must be recognized, estimated, accounted for, and reflected in the accounts.

Income Taxes

IAS 12, Income taxes is an important accounting consideration in the COVID-19 period.The standard requires entities to consider and assess forecasted profits and the recognition of recoverability of deferred tax assets. IAS 1 on the other hand, provides that management must disclose any significant judgments and estimates made when assessing deferred tax asset recoverability COVID-19 may have a long-term impact on future profit generation of some businesses either through direct, indirect, or both on entities customers and suppliers. Apart from the disruptive nature of the pandemic, entities' business assets were not spared due to impairment culminating into some form of deferred tax amount reduction and/ or the creation of a temporary additional deductible deferred tax liability.

For purposes of accounting, IAS 12, mandates consideration of events at the balance sheet that have an impact on an entity's plans to effectively distribute profits, particularly by a subsidiary company to its parent company and reconsideration of the need to recognize if any, deferred tax liability from undistributed profits. Drawing from the exposition, where deferred tax estimates appear to be glaring in the accounts during the pandemic period, all significant judgments made and the estimates concerning the recoverability of deferred tax liability must be recognized and reflected in the accounts.

DISCUSSION

Impact of COVID-19 on Financial Statements prepared as of 31st December 2019

It is remarkable to note that entities whose financial year ended on 31st December 2019 must take into account the following accounting and reporting aspects in evaluating the treatment of COVID-19 in the financial statements. Cognizance and compliance with the relevant standards in the environment where the entity operates, such as international accounting standards (IAS), international financial reporting standards (IFRS), and generally accepted accounting principles (GAAP) are significant.Entities are expected to apply the relevant standards in such a manner to respond appropriately to the accounting and reporting challenges triggered by the COVID-19 pandemic.

For entities whose financial year ended on 31st December 2019, operating outside China where the outbreak occurred in the latter part of December 2019 will treat the virus impact as a non-adjusting event why those operating in Wuhan City, China where the virus originated would treat it as an adjusting event. It is an adjusting event to those entities because more substantive and sufficient information about the pandemic came to light especially in the early part of the year 2020. Going concerned and other disclosures were thrown up as business entities needed to evaluate COVID-19 impact on business activities such as liquidity plans, production plans, liquidity constraints, breakdown of supply chains for goods including related problems. Where material uncertainty is suspected based on assessments of factors that cast doubts on the entity's going concerned, an extensive disclosure becomes unavoidable including the mitigating measures undertaken.

Specifically, entities must focus on estimating the possible increases in risk associated with financial instruments relating to credit risk, liquidity risk, and market risks. Issues relating to the estimation of possible impairment of financial and non-financial assets of the entity due to the pandemic should be considered. Breach of covenants and other commitments entered into resulting from the pandemic including suspension or termination of contracts as well as the possibility of recovering deferred tax must be accounted for and so reflected in the disclosure.

The basis for the presentation of the accounts should take cognizance of disclosing the method of assets' valuation and estimation of the uncertainties caused by the COVID-19. Also to be disclosed is the estimate for provisions by taking into account possible contingencies that the pandemic has caused, indicating a brief description of nature, the future development, and the influencing factors. Moreover, where there is an impossibility to quantify the estimates, information relating to the factors which are chiefly responsible for the uncertainties should be stated indicating their minimum and maximum limits. Furthermore, where there is any existence of reimbursement right in a contract, such a right should be indicated. About subsequent events, COVID-19 impact analysis is necessary to the extent that the evaluation method employed, the main risks assumed and the mitigating measures must be indicated. Disclosure of the content is required which depends largely on the entity's specific circumstance, activity level, liquidity position, indebtedness level, capacity to assess, and explore new avenues of financing (Rodl &Partner,2020).

Impact of COVID-19 on Financial Statements Prepared within the year 2020

Assessment of COVID-19 impact on financial statements prepared at year-end within the year 2020 period is particularly interesting for entities especially those with financial year-end or reporting date of 31st March or 30th June 2020. It throws up a great deal of significant accounting and reporting issues for consideration in preparing financial information under the COVID-19 situation. The issues bother chiefly on the application of the relevant IFRS and IAS standards requiring review of all aspects of the accounts subject to judgment and uncertainty estimation relating particularly to non-financial assets, inventories, property, plant and equipment, fair values measurement of non-financial assets and liabilities, financial assets, hedge accounting, borrowings and other financial liabilities, leases, cash and cash equivalents, nonfinancial obligations- provisions, onerous contracts, contingent assets, employment benefits and share-based payments, income taxes, breach of covenants, events after the reporting period, and going concerned.

COVID-19 accounting under this context is an adjusting event for entities reporting period from 1st January 2020. This was so because during the 2020 period there was an immediate decline in assets demand, prices, profitability, economic activities, and revenues with varying levels of implication on assets and liabilities. Fair value measurements for financial and non-financial assets must be considered as well as asset impairment. Where there is suspicion of impairment, the entity must consider the potential impairment on assets, by subjecting them to impairment test based on assumptions and cash flow forecasts. An extensive disclosure in respect of the assumptions and sensitivities about the asset impairment is required in compliance with IAS 1-Presentation of financial statements; including the major sources of estimation about the uncertainties that have significant risk resulting in a material adjustment on the financial statements in a subsequent period. Where COVID-19 causes a significant change in fair values of investments in joint ventures and associates is a big concern. When it results in the renegotiation of the investment terms, the impairment guidance of IFRS 9- Classification and measurement of financial assets becomes handy for application and the best valuation practices for such assets need to be considered. Where the valuation method changes from the multiple market methods to the discounted cash flow method, or the weighting multiple valuation method, the changes occurring need to be considered as a change in the accounting estimate. Disclosure should ordinarily focus on the valuation method applied, asset cost, market inputs, and risk-free rates.

Reduced inventory movement, falling prices, and obsolescence due to reduced sales characterized the pandemic. The write-down of inventories' cost was a challenge particularly to net realizable value in compliance with IAS 2 due to fixed production overheads which constitutes an integral part of inventory cost based on normal production capacity. This was pertinent as reduced production or temporary stoppage of production during the period implies the extent to which fixed production overhead can be included in inventory cost. Under this circumstance, IAS 2 provided guidance that requires an objective assessment and determination of the fixed production overhead amount to be imputed into the inventory cost when writing-down inventories.

Where property plant and equipment are subjected to momentary dis-use or under-utilization or where capital project costs on these groups of assets are suspended such as in the case of the pandemic the guidance prescribed in IAS 16 on Property, plant, and equipment need to be complied with. The standard prescribes the continuous charging of depreciation on these assets to the income statement notwithstanding the asset(s) is/ are temporarily idle or in disuse. That apart, the issue of the borrowed fund was also very crucial. Where an entity has borrowed funds to develop any the assets but COVID-19 event, unfortunately, forced the entity to suspend the development, it has serious reporting implications. IAS 23-Borrowing cost provides reasonable guidance in the circumstance. The standard stipulates suspension of capitalization of interest on the funds borrowed for the asset development until when development begins again.

Lease changes and modifications relating to non-current assets is also an accounting item likely to be impacted due to the pandemic. Accordance IFRS 16, it provides for a critical reassessment of the lease in the light of the event or conditions wherefore the lease payment should be recognized in the profit and loss account. Where concessions arise such as those granted by government or lessor, to cushion the pandemic impact, any part of the lease which is not extinguished should be accounted for in terms of the value and lease payments. Delayed lease rental payment does not constitute a modification of the lease life. It should be treated as a variable lease payment and recognized in the profit or loss statement. To the lessor, it should be shown as a loss of income whereas to the lessee it should be an expense. Hedging for the financial instrument cannot be ruled out as the pandemic caused different degrees of impairment resulting in expected credit losses. Entities are required to make sound assumptions, assessment, and estimation of provisions for expected credit risk losses for the entire or remaining life of the instrument, which are needed to be disclosed. Deserved consideration for going concerned is key including breaches of covenants of onerous contracts and restructuring of management plans by way of notes in the financial statements or the management report.

CONCLUSION

COVID-19 interestingly has introduced some challenges to business activities and relations of entities that ordinarily should have an impact on transactions entered into earlier and during the pandemic and the way it should be reported in the financial accounts to avoid either misrepresentation or misreporting that is likely to undermine full disclosure of information. From the review of the literature methodology adopted, the study was able to identify conditions associated with the COVID-19 pandemic that have an impact on accounting areas as mentioned in the specific objectives. It was able to highlight the potency of the impact on assets, liabilities, income, and expenses of entities whose accounting year end is 31st December 2019 and those ending 31st January 2020 and beyond in line with guidance stipulated in the appropriate IFRS's and IAS's standards. It highlighted the standards' prescription of professional judgment, assumptions, value measurement criteria, and impairment testing in the estimation of uncertainty, risk, and accounting estimates for accounting and financial reporting requirements.

Consequently, the following recommendations are important if stakeholders need to understand how COVID-19 has impacted the present and immediate future activities and performance of their entities. As such entities' management need to diligently evaluate: the impact on accounting policies, assumptions, fair value measurement and impairment testing for assets and liabilities recoverability of deferred tax assets if any, revenue recognition, and how accounting estimates resulting in the process can be accounted for in the accounts and disclosed accordingly in conformity with the relevant standards. To this end, the study believes that COVID-19 did not only generate uncertainties and risks that affected how assets and liabilities of entities can be measured but has thrown up challenges of how they should be accounted for in the accounts as well as reported in the financial statements.

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