

Impact of the Crisis Generated by Covid-19 on Financial Reports Prepared in Accordance with National Regulations

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Abstract: In the current economic context, caused by the COVID - 19 pandemic, decisions need to be taken, in particular, to restart or recover the activity of certain economic entities. This will be possible due to the creativity of managers and professional accountants who need to provide viable solutions.

Both half-yearly and annual financial reports will be a starting point in establishing strategies to achieve the objectives of improving the financial performance of the business.

This article presents perspectives on the impact of the crisis generated by the COVID - 19 pandemic on the activity of certain economic entities through indicators found in the financial reports, both from the point of view of companies that have temporarily reduced / closed their activity, and from of those who prospered.

Kay-Words: half-yearly financial reports, annual financial reports, financial position, financial performance, accounting information, COVID - 19

1. Introduction

In March 2020, the President of Romania declared the establishment of a state of emergency following the outbreak of the global pandemic caused by COVID-19. In this context, several normative acts have been issued by the ministries involved, imposing social distancing measures as a way to prevent the spread of the virus that causes the above-mentioned disease.

Social distancing has affected the activity of several economic entities in the sense of reducing or even temporarily interrupting it. The economic entities whose activity has been affected operate in the field of service provision (SPA salons, cosmetics, gyms), tourism, transport, production of goods that are not indispensable during the crisis, construction, production and sale of cars. However, there are also companies that have developed during this period, such as those whose business is the production and marketing of articles aimed at preventing, treating, combating COVID - 19, food production and marketing, IT that provides support to economic entities that allow employees to work from home, online sales. The way in which the micro economy has actually been affected will be seen after the submission of financial reports by economic entities. Romanian economic entities that apply the Accounting Regulations regarding the individual annual financial statements and the consolidated annual financial statements approved by Order of the Minister of Public Finance no. 1802/2014 and whose turnover, registered in the previous year, exceeded the amount of 220,000 lei, submit to the territorial units of the Ministry of Public Finance a report on June 30 and an annual report.

Through these reports, the managers of the entities make available to the various users the information on the results of the activity carried out in a certain period, semester or financial year ended, as well as the short-term strategy. Such reports provide an image of the financial position and financial performance of economic entities, which will allow both a diagnosis of the business environment during the crisis and the identification of business development directions. Therefore, this paper presents perspectives on the impact of social distress generated by the COVID - 19 pandemic on the indicators in the half-yearly and annual reports both from the point of view of economic entities that had to restrict or temporarily cease their activity, and of those who prospered.

The motivation for studying the topic addressed in this paper lies in the very current situation generated by the COVID -19 pandemic.

The working procedures for substantiating the approached topic materialized only in the theoretical documentation, respectively in the study of the specialized literature, the analysis of the legislation and regulations in force, because the half-yearly reports and annual reports that will show economic effects of

social distancing will be submitted to the territorial units of the Ministry of Public Finance only in August 2020, respectively in the first 5 months of 2021.

2 Financial reports prepared according to national regulations - source of information

In the current context of the crisis caused by COVID - 19, more than ever, accounting information is needed in order to track the results of the activity, identify existing material, financial, human resources and possible to use to maintain the level of activity and a possible increase after cessation of the state of emergency. In the current situation, the accounting information that will result from the half-yearly and annual reports will be followed with great interest by both managers of economic entities and external users, especially investors, public authorities, creditors, suppliers, customers, population.

Managers of economic entities are interested in information about existing and possible resources to maintain a certain level of activity, relaunch or growth after the end of the state of emergency.

For public authorities, the financial reports of economic entities are sources of information on the activity carried out in a certain period of time and for making estimates on future activity, economic entities being part of the taxpayers who by paying taxes and contributions ensure public revenues, sources of financing public expenditures.

Existing and potential investors look for information that shows how profitable investments in certain economic entities are, changes in their earnings, respectively income in the form of dividends or the establishment of losses.

Creditors are interested in the ability of the economic entities they have financed to pay their installments on time and in full, respectively the related interest.

The suppliers and the clients of the companies follow if the economic entities to whom they have commercial relations can continue their activity and honor the obligations according to the contractual provisions.

For financial-accounting information to be useful for the decision-making process, it must meet four main qualitative characteristics. The four main qualitative characteristics are intelligibility, relevance, credibility and comparability.[1]

Financial-accounting information is complex in nature, and users should have the necessary knowledge to understand it. Intelligibility means understanding information easily.

The relevance of financial-accounting information stems from their ability to help users make optimal decisions. Relevant information has predictive, confirmatory, or both. Predictive information does not refer to predictions, estimates, but offers the possibility for users to make their own predictions based on them.[2]

Confirmatory information helps users to assess the current situation of the economic entity in order to make the necessary corrections. When talking about the relevance of financial-accounting information, it must also be considered whether it is significant or not. The omission or incorrect presentation of significant information leads to decisions that would prevent the achievement of the proposed objectives.

In order to be credible, the financial-accounting information must be neutral, complete, free of significant errors, present the events and transactions according to their economic reality, without underestimating or overestimating certain patrimonial elements.

Comparability is a feature of financial-accounting information that allows users to determine the current situation of the economic entity compared to previous periods, as well as to other entities operating in the same field.

The indicators necessary for decision-making are presented in the half-yearly report and the annual report for entities whose financial year coincides with the calendar year.

The economic entities whose turnover, established on the basis of the data from the balance sheet prepared in the previous year, exceeds 220,000 lei, will present, obligatorily, a report on June 30. The structure of the accounting reporting as of June 30 depends on the type of entity that prepares it.

The types of entities are stable according to certain size criteria set out in the accounting regulations covering turnover, total assets and the number of employees according to which economic entities are divided into micro-entities, small entities and medium and large entities. Thus, the micro-entities draw up the following forms: Statement of assets, liabilities and equity, Abbreviated profit and loss account, Informative data; and small, medium and large entities prepare the Statement of assets, liabilities and equity, Profit and loss account, Informative data.

The Statement of Assets, Liabilities and Equity presents, in summary form, the elements of assets, liabilities and equity, grouped by nature and liquidity, respectively by nature and exigibility. [3]

The Profit and Loss Account, respectively the Abbreviated Profit and Loss Account comprises the net turnover, the realized income and the expenses incurred, as well as the financial results obtained, profit or loss. The Indicative Data form presents in more detail certain indicators from the Statement of Assets, Liabilities and Equity, Profit and Loss Account / Abbreviated Profit and Loss Account.

The annual financial statements prepared by micro-entities include the Abbreviated Balance Sheet, the Abbreviated Profit and Loss Account, Explanatory Notes.

The forms that make up the annual financial statements of small entities are the Abbreviated Balance Sheet, the Profit And Loss Account, Explanatory Notes to the annual financial statements. Optionally, they can prepare the Statement of Changes in Equity and / or the Statement of Cash Flows.

Medium and large entities prepare Annual Financial Statements that include the Balance Sheet, Profit and Loss Account, Statement of Changes in Equity, Statement of Cash Flows, Explanatory Notes to the annual financial statements.

The Balance Sheet and the Abbreviated Balance Sheet provide information to users on the financial position of the company. The financial performance of an economic entity is reflected by the indicators presented in the Profit and Loss Account / Abbreviated Profit and Loss Account. Information on receipts and payments made by a company in a financial year can be found in the Statement of Cash Flows and changes in equity items are presented in the Statement of Changes in Equity.

The reporting forms as of June 30 show the cumulative information from the beginning of the financial year to the end of the first semester, while the reporting as of December 31, respectively the financial statements, presents the cumulative information for the whole year. Thus, the reporting from 30 June 2020, includes the period in which the state of emergency was declared and social distancing was imposed, will reflect the impact of the crisis generated by COVID -19 on the activity of economic entities, and the Financial Statements for 2020 will present, among these, the effects of managers' decisions to recover, increase activity performance. It should be noted that not all companies prepare half-yearly reports, therefore an overview of the impact of the crisis generated by COVID - 19 on the economic environment we will have after the submission of the financial statements of 2020, meaning in the first half of 2021.

3 The influence of the crisis caused by COVID-19 on financial reporting

The military ordinances and decrees approved by the President of Romania, in the context of the COVID-19 pandemic, regarding the social distancing measures that affected the activity of some economic entities have, according to Body of Expert Accountants and Certified Accountants in Romania's specialists, the following effects:

- interruptions in supply chains; decrease in sales revenues and, implicitly, in revenues;
- the impact on liquidity, determined by the non-collection of customers;
- cessation / reduction of production for certain periods for certain categories of goods;
- restructuring plans determined by the closure of some work points or shops;
- losses caused by the cancellation of certain contracts;
- dismissing employees or resorting to measures of technical unemployment;
- renegotiating the maturity of debts resulting from contracts with suppliers.[4]

Taking into account the effects mentioned above, but also the situations in the activity of companies, independent of the crisis generated by the COVID-19 pandemic, the impact on financial reporting is highlighted by the evolution of certain indicators.

For companies that prepare half-yearly reports, the indicators presented in the Statement of Assets, Liabilities and Equity and in the Profit and Loss Account, respectively the Shortened Profit and Loss Account, will reflect the impact of the effects caused by COVID-19 on the activity carried out in the first half of 2020. Economic entities that have reduced or discontinued their activity, during the period of decree of the state of emergency, will register reductions of assets, increases of debts, decreases of incomes, maintenance or diminutions of expenses.

The reduction in the value of assets will be caused by:

- decrease in the value of intangible / tangible assets due to lack of investment and physical wear and tear, recorded in accounting as depreciation. Depreciation decreases the carrying amount of the assets and the result is presented in the financial statements;
- decrease in stocks, to companies that restrict their activity during the state of emergency, due to the capitalization of existing stocks and non-realization of new supplies or new products;
- reduction of customer receivables;
- the decrease of the necessary liquidities in order to be able to exist certain functions regarding the due debts and the non-collection of others.

The increase in debt is caused by the lack of liquidity which mainly leads to an increase in obligations to utility providers and creditors. The authorities have adopted legislative measures to provide the possibility of postponing the payment of certain debts, such as taxes, installments (including interest and commissions) on bank loans, rent, utilities and other debts.[5] These debts are only deferred, not canceled, and in terms of debts to credit institutions will generate interest at interest, therefore an increase in the future. Thus, the companies will be burdened and if the managers, after resuming the activity, will not adopt measures as a result of which to obtain incomes over the value of the debts and which will be collected in a short term, many will stop their activity.

The decrease in revenue is caused by the temporary restriction or interruption of activity, which implies a decrease in sales.

The expenses of the companies are maintained or diminished for the employers who allow the work at home, of those who resort to the technical unemployment, to the reductions of personnel or to the closing of some work points. However, the decrease in expenses is not necessarily a favorable situation for the companies concerned, as revenues will decrease at a faster rate than the decrease in expenses.

On the other hand, there are companies that have prospered during the state of emergency either because they have focused their attention and resources on online sales, or because they operate in areas that are indispensable or vital. Such economic entities will report indicators that have increased compared to the previous period, respectively increases in assets, liabilities, but not in line with assets, revenues as a result of the intensification of sales / services. In terms of expenditure, it depends on the costs generated by the activity carried out, but the growth rate will not exceed that of income.

In the case of companies with online sales, production of goods necessary to prevent, combat and treat COVID - 19, food production and / or marketing, the value of assets will increase due to the increase of inventories to be capitalized, cash collected, customer receivables.

At IT companies that provide support to other companies operating in the virtual space, there will be an increase in customer receivables and cash.

Indicators reflecting the effects of the crisis caused by the COVID - 19 pandemic in the report prepared on 30 June will also need to be monitored in the annual financial statements of all entities. They will not only reflect the effects of the crisis, but also the ability of managers to make decisions that will lead or not to the maintenance /recovery of the activity or even its development, whose barometer will be the net profit. The recovery of companies' activity depends on the duration of the crisis. If it is just a temporary crisis, as most experts predict, then we will see a rapid recovery. However, if the period is long, a delayed recovery or even a prolonged crisis is possible, as is to be expected in the field of services (restaurants, hotels, passengers transport). [6]

The creativity of managers will be influenced by the opportunity and relevance of accounting information. In the near future, companies will need investors to have liquidity, which used in the economic circuit, to increase its value. This will involve professional accountants who need to present the range of information needed by investors so that transactions are completed and lead to the achievement of the objectives of maintaining the same level or development of the business.

4 Conclusion

The financial reports of economic entities are sources of information for various categories of users. In Romania, the economic entities that apply the provisions Order of the Minister of Public Finance no. 1802/2014 for the approval of the Accounting Regulations regarding the individual annual financial statements and the consolidated annual financial statements prepares half-yearly reports, only those whose turnover in the previous year exceeds 220,000 lei, and annual financial statements, all entities that apply the provisions of the normative act.

Through these reports, users know the level of certain indicators at the beginning and end of the reporting period, indicators such as assets, liabilities, equity, income, expenses, results of economic entities. The information provided by financial reporting can help users make decisions based on the goals they want to achieve.

In the context of the current situation caused by the COVID 19 pandemic, users of financial-accounting information will need to know what indicators have been affected and to what extent, in order to establish the strategies to be followed.

The half-yearly financial reports, which will be submitted by the entities obliged by legislation to prepare them, will be a starting point in establishing the directions to be followed for maintaining, recovering or improving the activity.

The annual financial statements will show the creativity of the management in using the remaining resources available to the economic entity, attracting other resources with the lowest possible costs, as well as the accounting capacity to provide relevant and timely information to make decisions to recover or improve business.

The financial statements for 2020 will be submitted by May, inclusivly, of 2021, therefore an overview of the effects of the COVID - 19 pandemic, both at micro and macro level, we shall have in the first half of next year.

However, in this paper, we have presented some indicators that have a high probability of being affected and the causes that will influence their change.

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