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Impact of the Covid-19 Plan on Financial Reporting and Information Disclosure Practices

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ABSTRACT: This study aims to review the factors affecting financial statements and information disclosure of enterprises during the COVID-19 pandemic, which are: Financial factors; Business activities; Enterprise value; Business contract; related parties. On that basis, future studies can test the research hypotheses in enterprises in Vietnam as well as in any other country in order to suggest for the State and managers to issue related policies. Financial statements and disclose information as appropriate.

KEYWORDS: COVID-19, Financial factors, Business activities, Enterprise value, Business contract

1. ASK THE PROBLEM

Financial reporting and disclosure (FRD) refers to the accounting by which the various business transactions are recorded in the financial statements of an entity under accounting assumptions and standards. Specified report. FRD provides important information to help managers make appropriate decisions. Furthermore, the role of FRD is important because it describes the actual business scenario of an enterprise (Ailwan et al., 2013). As part of the business's operations, FRD focuses on disclosing the actual business scenario, potential risks of the business and related information used in the preparation of financial statements. This form of disclosure helps stakeholders make the necessary decisions in dealing with any adverse economic events. An adverse economic event represents an increase in any breakdown that slows down economic growth, increases unemployment, and makes the overall economy fragile. Adverse economic events include the outbreak of any global pandemic, worldwide economic disruption, etc. The recent outbreak of the COVID-19 pandemic can be considered an adverse economic event as it has caused a global recession (McKibbin and Fernando, 2020).

The COVID-19 pandemic has slowed down economic activities globally, disrupting supply chains as cities and countries have to undergo strict quarantine and closure. Movement restrictions imposed by governments have reduced sales and production volumes of business enterprises. Therefore, business performance of enterprises is negatively affected due to the existence of negative impacts of COVID-19 on business operations (Shen et al., 2020). The impact of the COVID-19 pandemic has changed aspects of financial reporting and disclosure. Because closing businesses for too long affects the estimates and measurement mechanisms for different elements of the financial statements. Furthermore, this negative impact will also cause uncertainty regarding various agreements and contracts previously made by business organizations.

2. RESEARCH METHODS

Our paper uses qualitative research methods to explore the factors affecting FRD during the COVID-19 pandemic. Factors affecting FRD include:

- Financial factors;
- Business activities;
- Enterprise value;
- Business contract;
- Related parties.

3. RESEARCH OVERVIEW

Similar to some global pandemics such as: acute respiratory syndrome in 2003, swine flu pandemic in 2009, avian influenza in 2013 (Springborn et al., 2015) and Ebola virus; the emergence of the COVID-19 pandemic has shaken the global economy. All

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Businesses have been directly or indirectly impacted by this pandemic. However, the economic uncertainty of the COVID-19 pandemic in business sectors such as aviation, apparel, consumer goods, automobiles, electronics, hotels and financial services is very severe in the region. (ICMAB, 2021). Due to the reported business activities, it can be said that the COVID-19 pandemic has had a severe impact on financial statements (ElMousawi and Kanso, 2020). Furthermore, this pandemic is posing a risk to the viability of the business as it will affect going concern assumptions, accounting estimates and asset valuations (KPMG, 2020a). As a result, professional accounting bodies have emphasized adequate disclosure in the case of organizations' ability to continue as a going concern and next period reporting (European Accounting, 2020; ICAB. 2020). PRI (2020) has recommended disclosure of risk and uncertainty in reporting. On the basis of a review of research literature, the authors identified five factors affecting FRD during the COVID-19 pandemic.

3.1. Financial factors: Since the emergence of the COVID-19 pandemic is hampering the economic activities of the business, all financial components including assets, liabilities, income and expenses need to be business operations will be affected. This global pandemic has forced many businesses to close, which can affect revenue accounting, revenue contract enforcement, revenue estimates, and loss of receivables. Commercial revenue (KPMG, 2020b). Declining operating revenues may depress future cash flows (RSM, 2020). As a result, this liquidity crisis can lead to payment liability or contract losses for the business organization (KPMG, 2020b). However, due to movement restrictions and border closures during the COVID-19 pandemic, it is very difficult to mobilize inventory for production and sales purposes. This causes inventory demand to change dramatically. In addition, the perishable nature of goods coupled with the increasing pressure of sustainability rules and standards make inventory management more difficult (Logistik Express, 2020). This poses a requirement for inventory management reporting and disclosure during the COVID-19 pandemic. In addition, businesses can also apply valuation and measurement of financial assets as this pandemic will reduce the fair value of financial assets held by business organizations. This lower value of financial assets exposes the business to credit risk (RSM, 2020; KPMG, 2020c).

3.2. Business activities: Business activities of the enterprise are also severely affected by the rapidly spreading COVID-19 virus. As a result, the global Accounting authorities and local Professional Accounting regulators have recommended that business organizations negatively impacted by the COVID-19 pandemic conduct sensitivity analysis to determine the going concern and disclose sufficient information in the event of uncertainty (KPMG, 2021d; European Accounting, 2020; ICAB, 2020). The impact of the COVID-19 pandemic will be considered an unwarranted event for a business enterprise with a reporting deadline that falls on December 31, 2019 (ICAB, 2020; ICMAB, 2021). As the pandemic surge is also continuing into 2020 and 2021, organizations should disclose the major impacts businesses are experiencing as a result of the COVID-19 pandemic. In response to this uncertain situation, PWC (2020) has recommended that management consider the impact of COVID-19 in the case of both interim and annual financial statements. Furthermore, entities should also disclose their assessment and efforts in developing key accounting policies and estimates to respond to this period of crisis (Accounting Europe, 2020; KPMG, 2020a).

3.3 Corporate Value:The COVID-19 pandemic is triggering the business world towards a new level of uncertainty as it is worsening earnings quality, corporate value and fair value. Business value is decreasing due to falling current income, decreasing customer demand, and businesses being forced to close their businesses (Sadang, 2020). As a result, stock prices also fell due to falling business profits during the COVID-19 pandemic and the stock market's volatile response to prolonged business lockdowns (El-Mousawi and Kanso, 2020)). As a result, the inputs that are observable at market prices are no longer relevant, leading to subjectivity regarding the measurement of fair value (ICMAB, 2021). In addition, investments in subsidiaries, joint ventures and associates are accounted for using the cost, fair value or equity method. Fair value cannot be measured and there must be a decline in the value of subsidiaries, joint ventures and associates as a result of the spread of COVID-19, which will affect the accounting of business combinations. Enterprises (RSM, 2020). This pandemic is forcing financial statement preparers to revise their estimates and accounting policies, which will inevitably affect the determination and measurement of long-term assets.

3.4. Business Contracts: The economic turmoil caused by the COVID-19 pandemic has caused businesses to rethink the terms and conditions of different types of contracts and forms of business. Blake and Conticelli (2020) argue that a strict policy to recover money from borrowers is no longer applied by lenders when borrowers become unscrupulous and borrowers' ability to pay to make payments. Existing long loan agreements with limited income is a question. Given the current economic situation, many countries have extended the maturity period for borrowers, including Vietnam. Furthermore, credit officers cannot go to businesses for property valuation, which will affect property valuation uncertainty in the case of loan processing. Various construction projects and jobs have been halted due to labor or supply shortages affecting the capitalization of borrowing costs. As a result, renegotiation or adjustment of loan terms can affect the level of qualified borrowing costs (KPMG, 2020c). Not only loan contracts but also rental agreements can be affected in terms of renewal, termination or purchase choice between lessor and lessee resulting in lessee considering the loan rate. increase (ICMAB, 2021). In addition to these arrangements, any business combination undertaken during this period requires careful consideration of the circumstances in which the fair value of the acquired assets is assessed, the going concern acquired entity and impaired Goodwill balance upon acquisition (RSM, 2020).

3.5. Stakeholders: Business organization includes internal organizations (employees, Board of Directors) and stakeholders (government, suppliers, creditors, banks,). The COVID-19 pandemic has upset the balance between these parties. Some organizations offer special incentives to employees working on a temporary layoff, which may affect the recognition of employee benefits (ICMAB, 2021). Due to the liquidity crunch during this pandemic, companies are arranging payments to their own employees and other suppliers based on equity (RSM, 2020). The government needs timely support so that business organizations can survive this Covid pandemic. Vietnam, like many other countries, has activated a business support package to maintain and restore economic activities such as low-interest loans, tax cuts, tax deferrals, etc. (Bhowmik and Bala, 2020; KPMG, 2020e). Such consideration of government and employee benefits has a significant impact when it is recorded and measured by following relevant reporting standards.

4. CONCLUSION

The COVID-19 pandemic has caused a severe decline in the global economy from 2020-2022 and may continue for the following years. However, many countries are trying to cope with the shock of this pandemic and support business organizations with stimulus funds, loan extensions, tax cuts, tax deferrals, and more. Business organizations are also doing their best to combat the shock of COVID-19 and return to a normal business atmosphere. The combined effort to fight COVID-19 is the only solution so far. All of these efforts by governments and business organizations should be communicated appropriately to investors and other business stakeholders. Because the right communication can increase the transparency and accountability of the business organization and increase the social acceptance of the business. Therefore, the appropriate way to communicate this information to stakeholders is FRD. This study aims to review the factors affecting FRD in the context of the COVID-19 pandemic. The COVID-19 pandemic has had an adverse impact on business operations. Therefore, all business activities are classified into five main aspects namely financial factors, business operations, business contracts, enterprise value and related parties.

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