

Emerging Issues in Financial Reporting Due to COVID-19 — What Accountants Need to Know

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Agenda

- **Accounting and Financial Reporting Considerations Due to COVID**
- **Review the need for ongoing assessment of the COVID-19 pandemic on accounting considerations.**
- **Focus on: Financial Disclosures, Risk Factors and Management Discussion & Analysis**
- **Additional Answers in CCH[®] Accounting Research Manager[®] —
Beth Patrick, Sales & Business Development Manager,
Wolters Kluwer Tax & Accounting**

Ongoing Assessment of the Impact of COVID

COVID-19 and Accounting

- The pandemic is affecting major economic/financial markets, and virtually all industries/governments are facing challenges
- As the spread of the pandemic continues, entities are experiencing conditions associated with a general economic downturn
- The significance of the topics will vary by industry/entity.
 - Certain accounting/reporting issues be the most pervasive and challenging due to the pandemic's impact. This session highlights key accounting and financial reporting considerations that may arise.
 - We will focus a bit deeper on Financial Statement Disclosures, Risk Factors and Management Discussion & Analysis
- So many changes ... so little time to discuss

Accounting Changes

- Companies are in the process of making a diverse range of operational adjustments in response to the effects of COVID-19
 - Adjustments may have an impact on a company that would be material to an investment or voting decision
- Companies should clearly disclose material uncertainties
- Within DG Topic 9 and DG Topic 9A the SEC staff provided questions to consider in developing disclosures related to the COVID impact including issues surrounding:
 - Transition to telework
 - Supply chain and distribution issues
 - Suspending or modifying certain operations to comply with H&S guidelines

Issues

Questions highlight a consistent theme:

Improving disclosures for liquidity, capital resources and going concern.

Additional Issues

| | | | |
|---|--|---|--|
| Economic Outlook | Operating results | Near/ LT financial condition | ICFR & DCP |
| Liquidity and capital resources | Debt or other financial obligations | Recent financing transactions including SC financing. | Contract modifications that affect financial condition |
| Human capital | BC plans | SC matters | Customer demand |
| Access to credit and unused capital | Changes to cost of capital, credit ratings, planned capital expenditures | Known trends and uncertainties and significant judgments & estimates | Share repurchases and dividend payments |
| Recent financing transactions including supply chain financing arrangements | Contract modifications that may affect financial condition or liquidity | Changes to COC, credit ratings, CapEx, share repurchases, dividend payments | Collateral guarantee requirements |

Technical Accounting Implications

As a result of these many issues, there continue to be many accounting and FR issues that should be on the radar of accounting professionals. These include (but not limited to):

| Technical Accounting Implications to Focus On | | | |
|---|---|--|--|
| Forward looking CF estimates | Impairment testing and recoverability of impairment of assets | Indefinite lived intangible assets other than goodwill and LLA | Accounting for financial assets: <ul style="list-style-type: none">• Inventory,• Equity method investments,• Revenue recognition |
| Leases | Goodwill | Subsequent Events | Going Concern |
| Disclosures, Risk Factors and MD&A | ICFR | Exist or Disposal Costs | Loss Contingencies |
| Future Operating Losses | Insurance Recoveries | Government Grants | |



POLLING QUESTION

Which featured topic area is most important to your company?

- A. Financial Disclosures
- B. Risk Factors
- C. Management Discussion and Analysis (MD&A)

Financial Disclosures

Company Disclosures

SEC and the Division of Corporate Finance released a joint statement providing considerations for public companies as they prepare for earnings releases/investor calls

- Stresses need for timely information regarding a company's financial and operating status and future expectations
- Highlighted the importance of public companies' disclosures of forward-looking information regarding the economic recovery



DG Topic 9



Within DG Topic 9 and DG Topic 9A the SEC stressed the need to provide disclosure and other considerations associated with the evolving impact of COVID-19, including:

- Guidance on earnings releases
- Non-GAAP measures
- Material nonpublic information

Company Disclosures *(cont'd)*

- **Topic 9A: Coronavirus (COVID-19) — Disclosure Considerations Regarding Operations, Liquidity, and Capital Resources** — This guidance provides additional views regarding operations, liquidity, and capital resources disclosures companies should consider with respect to business and market disruptions related to COVID-19.
 - The Division continues to monitor disclosures made by companies on the effects/risks of COVID-19 on their businesses, financial condition, and results of operations.
- These disclosures should enable an investor to understand how management and the BOD are analyzing the current and expected impact of COVID-19 on the company's operations and financial condition, including liquidity and capital resources.



POLLING QUESTION

Which topic would you like to be covered during next month's Lunch and Learn webinar?

- A. Payroll Protection Program (PPP)
- B. Internal Controls & ICFR
- C. Leases & Revenue Recognition
- D. Accounting for Financial Assets and Financial Instruments
- E. Goodwill and Going Concern

Risk Factors and MD&A

Risk Factors and MD&A

- MD&A supplements the FS's by providing information about a registrant's financial condition, results of operations, and liquidity
- Registrants must disclose information about the most significant risks facing the entity or its securities
 - Many companies already disclose general risk related to issues such as potential natural disasters/pandemics
 - They should consider whether to clarify the risk is no longer hypothetical and provide more specificity about the actual/potential future impact of COVID-19 on their business



Risk Factors and MD&A *(cont'd)*

MD&A should discuss the material quantitative and qualitative impact of COVID-19 on its business. **Examples:**

- Potential issues such as changes in consumer behavior, including an unusual increase or decrease in demand
- Store or facility closures
- Declines in customer traffic
- Supply chain interruptions
- Production delays or limitations
- Risk of loss on significant contracts
- Liquidity challenges or debt covenant issues
- Regulatory risks
- Impact on human capital



Risk Factors and MD&A *(cont'd)*

- Companies are also expected to disclose:
 - “Any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact” on their financial condition, results of operations, or liquidity.”
- As a result of COVID-19, liquidity may be significantly impacted given the potential disruptions to normal levels of revenues and operating cash flows as well as to access to cash.
- In MD&A disclosures about liquidity, consider discussing:
 - WC or other cash flow needs
 - Anticipated changes in amount and timing of cash generated from operations
 - Availability of other sources of cash along with potential limitations associated with accessing such sources
 - Possible ramifications of inability to meet their ST or LT liquidity needs.

Risk Factors and MD&A *(cont'd)*

- Early-warning disclosures should be considered by management in connection with accounting areas that require significant judgment (contingencies, valuation assessments, impairments).
- Given the uncertainty associated with COVID-19, there is likely to be a substantial increase in the level of judgment to apply in estimating future results and range of reasonably likely outcomes.
- Consider expanding disclosures about:
 - The key assumptions used in their most significant estimates and
 - The sensitivity of such estimates to changes that could reasonably occur as events associated with COVID-19 continue to develop.

Summary

Summary

- There are an abundance of accounting and FR impacts that all organizations (public, private, NFP, government), should consider when recording transactions and preparing FS's.
- Due to the volume of considerations, we have tried to highlight those that would be relevant to most companies and industries.
- It is strong urged to research accounting issues prior to final recording in the books and records.
- If you are a public organization, this is critical to adequate filing.

A woman with dark hair tied back, wearing a green button-down shirt over a white t-shirt, is smiling and looking at a laptop screen. She has a white earbud in her left ear. Her hands are on the laptop keyboard. To the left of the laptop is a white cup of coffee. The background is a bright, out-of-focus office or home workspace with large windows.

POLLING QUESTION

How do you stay up to date and find additional answers to your accounting and financial reporting questions?

- A. Search online
- B. Use a research platform
- C. Ask a co-worker
- D. None of the above

Additional Answers in
CCH[®] Accounting Research Manager[®]
Beth Patrick, Wolters Kluwer



POLLING QUESTION

Would you like a more in-depth demo of how CCH Accounting Research Manager can help you avoid risk and remain compliant?

- A. Yes
- B. No

Q&A



Thank you for attending

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Lynn Fountain has over 38 years of experience spanning public accounting, corporate accounting and consulting. 20 years of her experience has been working in the areas of internal and external auditing and risk management. She is a subject matter expert in multiple fields including internal audit, ethics, fraud evaluations, Sarbanes-Oxley, enterprise risk management, governance, financial management and compliance.

Beth Patrick



Beth Patrick is a Sales & Business Development Manager at Wolters Kluwer and has over 20 years' experience serving Accounting Professionals. She works with both CPA firms and Corporations sharing best practices to ensure they are utilizing CCH Accounting Research Manager to its fullest.

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