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**The Financial-Accounting Decision in the Crisis Generated by COVID-19.
The Role of the Professional Accountant in the Company**

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Abstract: 2020 has made its debut with an unexpected crisis: the emergence and the spread of the COVID-19 virus. It started in China, but soon it has taken over all the entire world. Sooner or later, all of us were affected by the Coronavirus outbreak. The european countries have now a majore problem: finding solutions to fight this comun enemy that has taken lifes and started a new economical global crisis. In this context, some financial-accounting decisions must be taken and in this process, the accountans have a very important role. The professional accountant must be more awake than ever in these situations. Through his work, that of accounting, financial analysis, consulting for managers, the struggle to avoid distortions in the financial statements, the professional accountant must defend both external and internal users of accounting information. More than ever, in these moments of crisis, the activities of the accountant must respond to the fabulous appreciation that these activities have a social stake and must respond to the public interest, that is to all.

Keywords: financial-accounting decision; COVID-19 crisis; business; accountant

Introduction

The pointing start of the corovavirus crisis began at the end of December 2019, when Chinese public health authorities reported several cases of acute respiratory syndrome in Wuhan City, Hubei province. The disease is now referred to as coronavirus disease 2019 (COVID-19), and the causative virus is called Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-CoV-2).²

For a while, many europeans saw the coronavirus outbreak as something happening to another continent. Though, the virus spread so fast, that Europe became in short time the center of a global pandemic. The first cases in Europe were diagnosed in France, on January 24. The number of cases remained quite flat until about a month later, with the outbreak in the north of Italy. In mid-March, over 40 percent of the confirmed cases in the EU plus the U.K. were in Italy, which was the epicenter of the outbreak in Europe. Spain had overtaken France and Germany, which have larger populations. In order to respond to the aggressive virus, the european countries implemented restrictions on movement as they scramble to flatten the curve of infections.³ This response involved economic

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² European Centre for Disease Prevention and Control, *COVID-19*, [online]. Available at: <https://www.ecdc.europa.eu/en/covid-19-pandemic>, accessed: 03 April 2020.

³ Arnau Busquets Guàrdia and Hanna Pawelec, "Coronavirus in Europe: Live data tracker", *Politico.eu*, 2020, [online]. Available at: <https://www.politico.eu/article/coronavirus-in-europe-by-the-numbers/>, accessed: 03 April 2020.

consequences. According to a study on the projected impact of COVID-19 on retail sales in Europe, between March 9, 2020 and April 21, 2020, retailers are expected to face a loss of 3.26 billion British pounds due to disruptions caused by the current outbreak.¹

The evolution of this crisis until this moment show us that this pandemic will affect most of the european companies, which will not be able to ensure salaries of their employees on a long term, or to sustain the development of their basic activity. It is vital to have decisive actions to support businesses now, coupled with measures to ensure that workers won't face financial ruin if they are laid off, could dramatically limit the trauma caused by restrictions on travel and public life, and help economies bounce back quickly once the crisis is over (Riley, 2020).

In these circumstances, accountants play a vital role in supporting management in the decision-making process, despite the fact that there are theories that sustain it is normal after a period of massive economic growth to follow the collapse. It is true that enterprises are complex organizations, like the entire economic world, similar with a product life cycle: they are born, they develop, they enter into difficulties, from which they can recover, or they can disappear. For this reason, we believe that the accounting profession must have an arsenal of techniques and methods to reflect these complex phases, but also have the ability to announce these possible risks, which once avoided, could help save the company. The purpose of this paper is to identify the actions that could be made by the accountants in order to be a strong suport to their companies in this complicated moments. For any company, the accounting information is the mirror of its activity and if it is studied carefully, it offers development opportunities, or, in our case economic recovery. For this reason, a correct decision, which is in accordance with the reality of the business environment, is taken after the analysis of the accounting statements (Sintea (Anghel), 2014, p. 320). For this reason, it is important that, especially in crisis situations, the accounting professional should use all the available mechanisms to help keep the company afloat.

Related Work

Being a very recent theme, we could not find books or specialty literature that make an analysis on the impact of the COVID-19 virus on the companies. At this time, there are some specialty studies made by the World Health Organization, European Accounting Association, United Nations, etc. Nevertheless, we appreciate that in the future, the specialty literature will have a special chapter called “the coronavirus crisis” because even if we try to keep an optimistic view of the future, in the realistic way, we all know that, this is the moment when the humanity will change and also will change the business enviroment.

Problem Statement

The european contries are now facing the pandemic generated by the spread of the COVID-19 virus. To understand the massive impact on daily lives and the economy, in the Figure 1 we presented the number of cases reported in Europe in 3rd of April, at 07:13AM. Even if the epicentre of the pandemic now is in the USA, several european countries have just entered the peak phase with a daily increase of new confirmed cases of more than 1,000 (Visual & team, 2020).

¹ Tugba Sabanoglu, “Expected cumulative impact of lost retail sales caused by the coronavirus outbreak in the United Kingdom (UK), Germany, and France from March 9, 2020 to April 20, 2020”, *statista.com*, 2020, [online]. Available at: <https://www.statista.com/statistics/1102658/coronavirus-lost-sales-impact-for-retailers-europe/>, accessed: 03 April 2020.

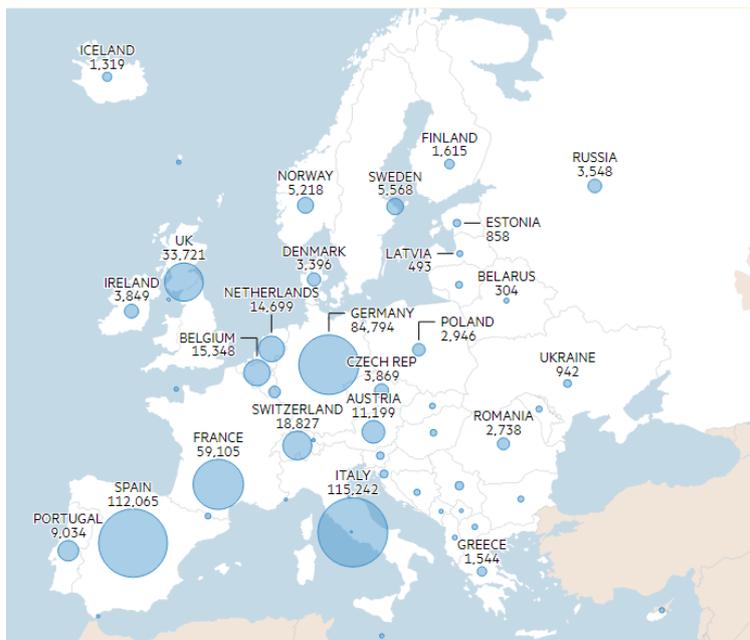


Figure 1. The Number of Cases Reported in Europe in 3rd of April, at 07:13AM

In these circumstances, the measures taken to avoid the spread of the virus in the entire world, had a major impact on the European Union economy in different areas, like machinery, automotive, and chemicals,¹ but not only. Every business in Europe is now affected by this crisis. The trade is massively affected because of many reasons: the people are avoiding spending money on goods that are not food or medicines; the international tourism is affected because people do not travel anymore perhaps out of the fear, but also because of the travel restrictions imposed by the authorities; in many countries of Europe the restaurants and the hotels are closed, but also big commercial centres and non-food stores; many companies reorganized their activity and embrace some crisis methods like telework or work from home.

The major problem is that in absence of trade, companies will get in the situation that they will be not able to pay their employees, their taxes, refill the stocks, or even worse, to face the collapse. Another point of view is the most affected companies will be the SMEs, because of the limited resources. This is why in this moment it is vital for the companies to find in their accountant a support, a counselor, that could help them to overcome this complicated situation the company may face.

The Role of the Accountant

Having to deal with all the problems generated by the coronavirus pandemic, the companies must take some important decisions, based on accounting information. The decision is a result of the financial-accounting process. According to Business Dictionary, the decision is “a choice made between alternative courses of action in a situation of uncertainty”.² The quality and quantity of the information provided to the decision-makers by the accounting information system within the organization, is a mandatory condition in order to elaborate correct decisions, in accordance with the reality and which can help to identify solutions to the problems arising in the business activity. Most of the information

¹ United Nations Conference on Trade and Development, *Global trade impact of the coronavirus (COVID19) epidemic*, 2020, [online]. Available at: <https://unctad.org/en/PublicationsLibrary/ditcinf2020d1.pdf>, accessed: 03 April 2020.

² Business Dictionary, [online]. Available at: <http://www.businessdictionary.com/definition/decision.html>, accessed: 03 April 2020.

that the decision makers can have, is the accounting informations thus, they are offered the possibility of an accurate representation of the economic phenomena and processes, having the highest degree of certainty (Vătăşoiu, Gheorghe, Motoni, & Boca, 2010).

Having this arguments, it is important to identify the role of the accountants during the coronavirus crisis. European Accounting Association identified some key steps for accountants to guide the companies through this crisis:¹

The Accountant must Inform Himself of all the Aids Options

Accountants should inform himself about all financial and other forms of aid provided by national governments or at EU level. It is vital the accountants be aware of this forms of aids, because this aids might be the key to guarantee the survival of the company. Some exemples of these aids could be:²

- Taxes may be paid in instalments, no default interest in case of late payment; and no penalties in case of late payment;
- Advantages regarding the loans provided by banks to companies, like temporary subsidies covering the interest and the guarantee management fee for the loans;
- Funding of employee wage compensation paid by employers to employees who stay at home because of quarantine or because the business was ordered to shut down under measures imposed by the Government;
- Amounts of money allocated by the Government to support families and businesses;
- One-off cash bonuses paid by the Government for certain categories of workers.

The Accountant must Apply the Available aid to the Client Situation

In these circumstances the accountant must develop a quick analysis of his client and identify the ways of how the company can benefit most from public support measures. Then, the accountant must offer assistance and counseling in order to accessing these emergency financing provided by governments. This point is very important, because to acces this funds, as a company, you have to fulfill some conditions. That's the role of the accountant, to identify these conditions, all the related paper work, deadlines, etc., and to procede to reach them.

The Accountant must Offer his Help with Immediat Business Survival

There are some measures that the companies could take in order to avoid collapse, and the accountant must inform the management about their possibilities, such as:

- Access the reliefs on offer as soon as possible to maximise the impact;

¹ European Accounting Association, *COVID-19: 5 key steps for accountants to guide SMEs through the crisis*, 2020, [online]. Available at: <https://www.accountancyeurope.eu/publications/covid-19-5-key-steps-for-accountants-to-guide-smes-through-the-crisis/>, accessed: 03 April 2020.

² Clifford Chance, *Coronavirus: Government Financial aid to business. An international guide*, 2020, available at: <https://www.cliffordchance.com/content/dam/cliffordchance/briefings/2020/03/coronavirus-government-financial-aid-to-business-an-international-guide.pdf>, accessed: 03 April 2020.

- Review and adjust their cash flow forecasts to determine what impact cuts in sales will have on their ability to pay their suppliers and debt. Businesses should continue to pay their suppliers when they can to help avoid a wide-spread collapse of the financial system;
- Consider the business model to ascertain whether the company can deliver goods or services in an alternative manner – such as by home delivery or online, and whether it can downsize or stop certain activities, such as travel, sales and marketing;
- The supply of products and services might get disrupted. This may involve scaling back production for some parts and stock and re-considering suppliers and clients from countries heavily impacted by the virus;
- The accountant must check if the company is eligible for a claim for any financial losses;
- Ensure that company financials are up to date so they can monitor profitability, stock, and debtor-creditor balances;
- The accountant could advice the management to renegotiate their payment terms with suppliers and help them communicate with their bank, if they are unable to respect the loan commitments;
- The accountant could advice the management also to negotiate with their debtors, for example to offer discounts in exchange for early paymen;
- If all else fails, the accountant must consider the insolvency options as it may be possible to rescue viable businesses by debt reorganisation rather than be forced into full liquidation.

The Accountant Could Help the Company to Develop a Plan for the Medium Term

In the actual context the company management could find only one way to avoid the collapse by laying off employees. The accountant must have a realistic and complete analysis and establish if this is the only way. On top of having negative social and societal impacts, cutting down on workforce also constitutes a loss of key skills for the business. This should be a last resort option only, so the accountant should help the company to access all alternative options, aid and financing available first. It is possible that staff would prefer taking a temporary pay cut over redundancy.

The Accountant Should Have a Strong Collaboration with the Internal Audit Department

According to the The Institute of Internal Auditing “internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”¹ According to this definition, the internal audit help the company to improve the effectiveness of risk management, control, and governance processes. In this context, it is vital to have a strong connexion between the accountant and the internal auditor, because the company needs all the expertise of its specialists, in order to identify the optimal solutions to ensure the survival of the company.

¹ The Institute of Internal Auditing, [online]. Available at: <https://global.theiia.org/about/about-internal-auditing/Pages/About-Internal-Auditing.aspx>, accessed: 03 April 2020.

The Accountant Should Collaborate with the Financial Statements Auditor

According to International Standard of Auditing (ISA) 570, the principle of business continuity implies that the financial statements are prepared on the same current considerations, unless the management intends to, either liquidate the entity, either ceases trading or has no other realistic alternative. Evaluation, if it is based on adequate continuation of the activity, is appropriate to take into account through the subsequent events, after the end of the reporting period.

For example, from 31st of December 2019, in companies that are seriously affected by the impact of the pandemic by COVID-19, it will be necessary to consider, by the management, the opportunity to prepare the financials statements based on a continuous activity. When the management is aware of the significant uncertainties that seriously question the ability of the entity to continue its activity, the entity should include these material uncertainties in the financial statements.¹

Thus, according to ISA 560 “Subsequent Events”, it is necessary to include in the annual financial statements from 31st of December 2019, detailed informative notes with the impact of this situation on the company so that users can assess the implications, or at least be aware of the effects on the entity itself and the economy in general.²

Including this material uncertainties in the financial statements, in base of a declaration of the management, the company will also have another opinion concerning the situation of the company. Having complete and corect informations, the management can take the optimal decisions and ensure the continuity of the company activities.

Conclusions

In conclusion, we appreciate that we are living a very difficult moment for the companies, but also for the humanity. It is important to have a comun effort made by all of us, governments, companies, accountants, employees, to identify the optimal solutions, in order to restart the economy. In these moments, all the companies in Europe, need suport to exceed this hard moments. This is the reason why the accountans, with their experties, have a very important role. We have shown in the previous paragraphs, that the role of the accountant is to inform himself of all the aids options, must offer his help with immediat business survival, can help the company to develop a plan for the medium term, have a strong collaboration with the internal audit department and with the the financial statements auditor, in order to help the company to succeed to avoid the collapse.

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¹ International Standard of Auditing (ISA) 570, [online]. Available at: [https://www.ifac.org/system/files/publications/files/ISA-570-\(Revised\).pdf](https://www.ifac.org/system/files/publications/files/ISA-570-(Revised).pdf), accessed: 03 April 2020.

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