

Implications of the Corona virus (Covid-19) for financial reporting, BMW case study

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Abstract: *This study highlights the impact of crises on the preparation of financial reports for companies, and from these crises the current crisis represented by the emerging corona virus (Covid-19), and to reduce its economic effects, those interested in it field rushed to develop solutions and introduce new mechanisms and procedures to exclude its epidemiological effects. On the financial results and among these procedures is what has been declared in the International Accounting Standard (10) regarding events after the reporting period, and the most important statement of International Standard No. (01) on the continuity of the company, and among the conclusions drawn from the companies that have prepared the financial reports and the negative effects of the virus that followed is a subsequent event that does not require no modification, and these companies must ensure their ability to continue*

Keywords: Coronavirus, Financial Statements, International Financial Reporting Standards, International Accounting Standard 1, International Accounting Standard 10.

JEL Classification: M420, M48, M42, M41

تداعيات فيروس كورونا (كوفيد-19) على التقارير المالية ، دراسة حالة بي إم دبليو

ملخص : هدفت الدراسة إلى بيان اثر الأزمات على إعداد التقارير المالية للشركات و من هذه الأزمات الأزمة الحالية المتمثلة في فيروس كورونا المستجد (كوفيد-19), و للتقليل من اثاره الاقتصادية سارع المهتمون بهذا المجال بوضع حلول و ادخال البات و اجراءات جديدة لاستبعاد اثاره الوبائية على النتائج المالية و من تلك الاجراءات ما جاء به معيار المحاسبة الدولي (10) المتعلق بالأحداث بعد فترة التقرير, و أهم ما جاء به المعيار الدولي رقم (01) حول استمرارية الشركة, و من ضمن الاستنتاجات التي تم التوصل إليها بالنسبة للشركات التي أعدت التقارير المالية و ما تبعها من تأثيرات سلبية للفيروس يعد حدثا لاحقا لا يستوجب التعديل, كما يجب على هذه الشركات التأكد من مدى قدرتها على الاستمرارية.

الكلمات المفتاحية: فيروس كورونا، التقارير المالية، معايير دولية لإعداد التقارير المالية، معيار المحاسبة الدولي 1، معيار المحاسبة الدولي 10.

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1.Introduction

The Coronavirus pandemic (Covid-19) is a new, very unique and rare event, and has spread rapidly around the world, causing a significant deterioration of the global economy, and it has had an immediate and negative impact on many businesses and at first glance. Specifically, entertainment, transportation, sales, education and tourism also affected supply chains and goods production for countries until all activities were completely halted. Financial services companies such as banks that lend to individuals and institutions, and insurance companies that provide services to individuals and entities involved have been affected and have had a negative impact on financial reporting, as financial reports are the official means of communicating information to financial shareholders who make investment decisions based on published financial reports companies must monitor current and (Covid-19) on their financial reports. As timely and targeted disclosures about the potential impact of the financial situation, performance and viability of the business, as well as measures taken to manage risk, are important to restore confidence, it is therefore necessary to know how the epidemic affects the business and what the financial implications of the epidemic are, which means that the information provided must enable users of financial statements , based on an understanding of financial and future results, to form an opinion on future returns.

What are the implications of coronavirus (Covid-19) on financial reporting?

To solve this problem, we asked the following sub-questions:

- Are events after the date of financial reporting following Coronavirus subject to change?
- Should companies consider the current and expected impacts of the viral epidemic on activities when assessing their viability?
- What are the implications of the Corona virus on the work of auditors, their orientations and opinions in the representation of financial reports?

In order to answer these questions, we relied on the following hypotheses:

Hypotheses:

- Coronavirus and its negative effects are a subsequent event that does not require modification.
- Business continuity is an existing assumption unless there is an intention to liquidate them, so it is necessary to assess their ability to remain in operation.
- The Coronavirus epidemic has affected the work of auditors, their attitudes and opinions in the representation of financial reports, particularly with regard to field work.

The importance of the study:

In light of a volatile environment, which is currently overwhelmed by the global spread of Coronavirus, although the epidemic is a global problem, the effects on the global economy in the first quarter of 2020 have been very significant, and thus the impact on financial reporting, and the importance of research lies in highlighting the effects that this has left behind. The outbreak affected corporate financial reporting and the most important provisions of International Standard No. (01) on entity continuity and the International Accounting Standard (10) related to post-reporting events.

The purpose of the study: The research aims to identify the effects left by Coronavirus on financial reporting and the most important measures taken to reduce its effects in the future.

Study methodology:

We relied on this research on the descriptive approach by collecting data, information and facts on the subject studied, in addition to the analytical approach to data and figures related to the financial statements of the Capital Markets Authority.

Study Divisions: We divided the study into:

- The Corona epidemic and its impact on the global economy.
- The implications of Coronavirus for the preparation of companies' financial reports.
- BMW Group case of study.

I-The Corona Epidemic and Its Impact on the Global Economy**I-1- What is Corona virus?**

Coronaviruses are a large family of viruses that can cause disease in animals and humans. A number of coronaviruses in humans are known to cause respiratory diseases ranging from colds to more serious diseases such as Middle East Respiratory Syndrome (MERS) and Severe Acute Respiratory Syndrome (SARS). The recently discovered coronavirus has caused Covid-19, an infectious disease caused by the last virus discovered from the coronavirus strain. There was no knowledge of the new virus and its disease before the outbreak began in the Chinese city of Wuhan in December 2019. Covid-19 has now turned into a pandemic affecting many countries around the world.

The most common symptoms of Covid-19 disease are fever, fatigue and a dry cough. Other less common symptoms that may be experienced by some patients include: pain and aches, nasal congestion, headache, conjunctivitis, sore throat, diarrhea, loss of taste or smell, and the appearance of a rash or discoloration of the fingers or toes. These symptoms are usually mild and begin gradually, and some people are infected without experiencing very mild symptoms (WHO, 2019)

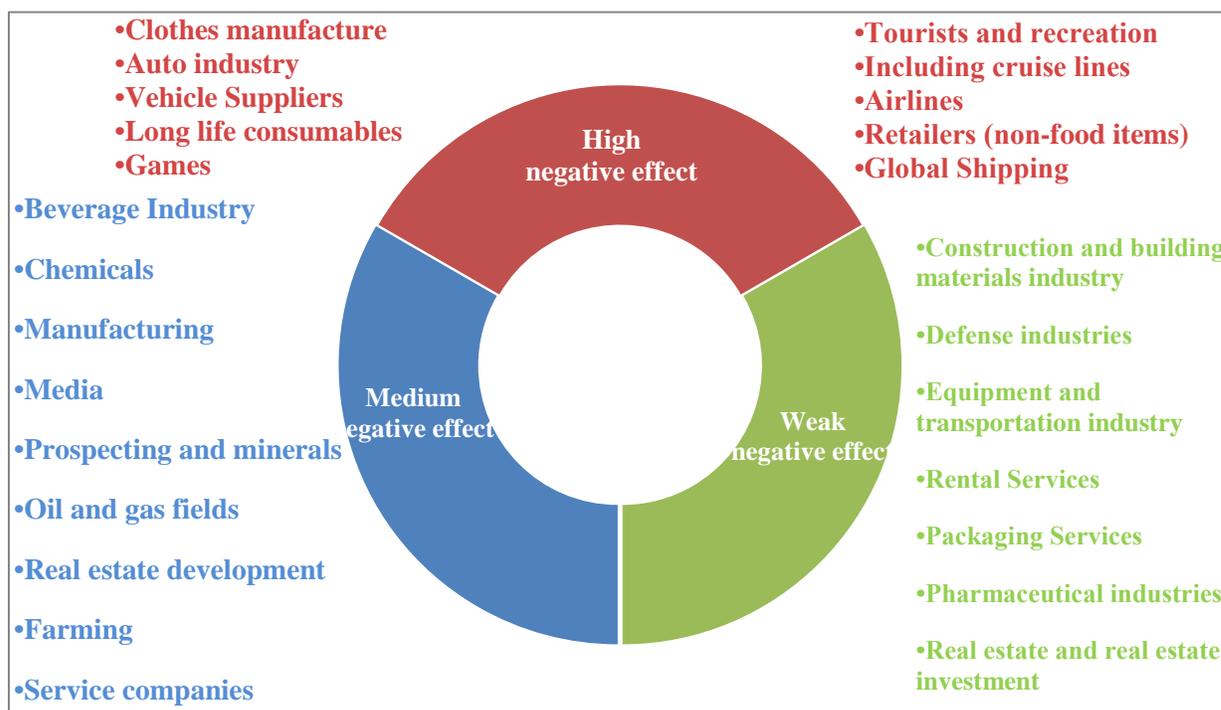
I-2- Coronavirus's Impact on the Global Economy

The global economy has been operating in a state of uncertainty since the end of 2019, as this year has brought a new kind of challenge to the economy, which is the challenge of dealing with a health crisis, which is the coronavirus crisis, which differs by nature from previous ones. The crises facing the economy in terms of the severity of the impact and the speed of transmission the inability to limit its spread, as the global economy has been more affected than the global financial crisis of 2008.

Dealing with the Corona epidemic is one of the unique challenges of the economy, as it is difficult to determine its delinquent impact due to the difference in its spread in the world and the unpredictable period, and the difficulty in predicting its end, as it is widespread and threatens not only a limited geographic area but the whole world, and if it spreads to a certain area, it will spread to all regions and there will be difficulties in avoiding it, causing complete paralysis in all sectors of the state such as industry, agriculture, education, tourism.

(Moody's, 2020), a global organization specializing in financial advisory services, economic research and evaluation of private and government institutions, published a graph showing the various consequences of Covid-19 on various economic sectors and indicated a marked variation in the effects of the economic crisis, as it divided the industrial sectors, according to the magnitude of their impact with the current crisis , from severely affected sectors to sectors that will have a potential positive impact.

Figure 01: Impact of the Corona Epidemic on global economic sectors



Source : (Moody's, 2020)

Through the figure above, we notice four influences:

High negative impact: The graph showed that the apparel, automotive, automotive, long-lasting consumables and toy sectors have been severely affected by the current crisis.

Moderate negative impact: Moody's ranked other industries as average negative impacts; These include the beverage, chemical, manufacturing, media, exploration and minerals, oil and gas, gas field services, real estate development (particularly in China), agriculture, service companies, the steel industry and technical equipment.

Potential positive impact: Moody's has identified three sectors in the list of industries that are experiencing a potential positive impact: Internet service companies, distance retail and gold exploration.

Low negative impact: While the list of low-impact sectors is rather long and includes the construction and building materials industry, defence industries, equipment and transportation industries, leasing services, packaging services, pharmaceutical industries, real estate and real estate investment funds, food and food retailing communications and waste management (Moody's, 2020).

In general, the Corona virus affected many non-industrial enterprises, particularly entertainment, transportation, retail, education and tourism, as it initially affected almost all supply chains and commodity production country by country until almost all activities stopped, and it also affected some of the sectors such as health and aviation. , while in other low-economic sectors, demand for many goods and services is reduced, and financial services companies, such as banks and insurance companies, are also likely to be affected.

II- The implications of Coronavirus for the preparation of corporate financial reports

The Coronavirus pandemic is a major event that has no precedent in recent history, which will have major effects on many companies around the world for an indefinite period and despite increased knowledge about the epidemic and significantly low infection rates in many regions of the world, however, it still represents a great risk for the rest of the year or after that has had an effect on the financial reports of institutions in general, and with the passage of time and the change in the effects of the epidemic and its development, it can become difficult to distinguish the information, facts and circumstances that must be incorporated into the measure at the end of the period and which should lead to the detection of a possible future event and the effects of the virus on financial reports can be demonstrated by:

II-1- Effects on business continuity according to the financial reporting standard (IAS 01):

International Accounting Standard No: 01 states that: In preparing financial statements, management must assess the institution's ability to remain in operation, and the

entity must prepare financial statements on a continuity basis, unless management intends to liquidate or stop operations, or has no realistic alternative than to do so (The Saudi Accounting Authority, 2020).

(EY, 2020) saw in conducting this assessment, management takes into account the current and expected effects of the epidemic on the activities of the facility in its assessment of the appropriateness of using the continuity base, for example when the organization has a history of successful operations and depends on external funding resources, but because of the epidemic Suspends these operations before or after the reporting date. Management will need to consider factors related to the current negative situation, including the expected effects on liquidity and profitability, before confirming that the principle of continuity of operations is appropriate.

(The Saudi Accounting Authority, 2020) confirms, in the case of the possible effects of Coronavirus conditions (Covid-19), that management must take future information for at least the reporting period for at least the reporting period, whether it is related to the negative effects of the virus on business conduct or the ability to pay the debt, or to what is related to the positive effects of the facilities and support programme provided by the State to the affected companies, by the spread of the virus.

As a result, (Carlson, 2020) believes that the facility's ability to continue operating is affected by several factors, and that the impact of the Covid-19 pandemic may affect some of the factors that the entity has historically relied upon to assess its ability to continue as a continuous facility for next year. Disclosure of uncertainties about the entity's ability to continue as a continuing company that requires such an analysis to be conducted up to the date of the release of the financial statements, as the forward-looking period is one year from the date of the financial statements that are and for all financial statements that have not yet been published, the impact must be included. The Covid-19 pandemic affected the entity in the analysis.

Given the significant impact of the uncertainties associated with estimates, and users of financial statements need useful information to make their economic decisions, International Accounting Standard No. 1 Presentation of Financial Statements requires the entity to provide information on the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, which involves significant risks that could result in a significant adjustment in the book value of assets and liabilities in the next fiscal year. In the current case of the spread of the Covid-19 virus, determining the accounting amounts of certain assets and liabilities requires an assessment of the effects of uncertain future events on these assets and liabilities at the end of the reporting period, which this epidemic may cause (Saudi Accounting Organization, 2020).

II-2- Potential Effects of Coronavirus Epidemic on Final Financial Reports **International Standard No. (10) Events After the Reference Period**

Post-reporting events are adverse and adverse events that occur between the reporting period. The date on which financial statements are approved for publication and two types of events can be identified:

The first type: events that provide evidence of circumstances that existed at the end of the reporting period (requiring changes).

The second type: events referring to post-reporting circumstances (requiring no change) (Al-Hadari, 2019)

The question is: Should the impact of the Covid-19 pandemic be calculated as a Type 1 event (requiring adjustments) or a Type 2 event (requiring no change) for entities ending December 31, 2019?

There are several points of view in this regard:

At the beginning , (Carlson, 2020) sees that before December 31, 2019, the only known information was that researchers in China had identified a new virus that was infecting dozens of people in Asia. There was no evidence at the time that the virus spread easily by humans or that there would be an impact on the global economy. The subsequent spread of the virus and its escalation into a global pandemic did not occur until after 31 December 2019, as such, it should be considered a Type 2 (non-modifiable) event.

Therefore, it is generally appropriate to consider the effects of the viral epidemic on a business following events after the notification date, and the best example is the decisions made in response to its spread, which may require disclosure of its results in financial reports, and at the same time they will affect recognized values. As with subsequent reporting periods, the accounting and valuation of assets and liabilities may be affected by the resulting effects.

In the sense that financial reports prepared after 31 December 2019 must be included with the effects resulting from this virus as a subsequent event requiring a change in financial reports (Saddam & Ali Ibrahim, p. 10) .

Based on the above, the results of the coronavirus impact on financial reports of subsequent events can be determined as follows:

Measurement function: The results of Coronavirus effects are treated in financial reports as of December 31, 2019 as a non-modifiable event in accordance with International Standard No : 10.

Disclosure function: Since the results of the coronavirus impact is a non-modifiable event and have a significant impact, the company must disclose the nature of the event and estimate its financial impact.

Data for the period ending December 31st, 2019 are prepared on an operating continuity basis.

Accordingly, (BDO, 2020) considers it necessary to examine whether events that occurred after the entity's reporting date of 31 December 2019 in connection with the coronavirus outbreak have caused a deterioration in the economic conditions of the facility, or the emergence of considerable uncertainty.

II-3- Accounting for IFRS rental concessions 16

On May 28th, 2020, the International Accounting Standards Board issued amendments to IFRS 16, which grant tenants an exemption to account for rental concessions granted as a direct result of Covid-19. The global pandemic has resulted in many types of concessions that have been agreed between landlords and tenants, including rent deferral, rent relief, forgiveness and many other types of relief. As a result, the International Accounting Standards Board has decided to amend the IFRS 16 requirements for tenants to simplify the tenant's accounting requirements for rental liens (BDO, 2020) as a practical means, the tenant may choose not to assess whether the leasehold privilege associated with the lessor's Corona is to change the lease. A tenant who makes these choices counts for any eligible change in rent payments resulting from the Covid-19 lease in the same way that the change would be calculated under IFRS 16 if the change were not a rent adjustment. The taker may choose to apply the practical method on an ongoing basis to contracts with similar characteristics and in similar circumstances, as defined in paragraph 2 of IFRS 16. The practical method applies only to rental concessions resulting directly from the Covid-19 epidemic and only if all the following conditions described in IFRS 16, paragraph 46B: (EY, 2020)

- The change in rental payments results in a cash exchange rate of the lease contract substantially equal to or below the rental value immediately preceding the change.
- Any reduction in rents affects payments originally due no later than June 30, 2021 (for example, the rental concession will meet this condition if it results in a reduction in rents before June 30, 2021 and an increase in rents beyond June 30, 2021).
- There is no significant change to the other terms and conditions of the lease.

II-4- Influence the views of listeners:

In light of the Corona pandemic, many statements and views have been made about its implications for the work of auditors, their directions and opinions on the extent to which financial reports represent the reality of corporate performance. (Saddam & Ali Ibrahim, p. 21)

Among the things that have come in this area are:

(Saddam & Ali Ibrahim, p. 22) argue that field work can pose a particular problem for auditors, as regulators have expressed concern that auditors may have difficulty accessing evidence and those who need it to support their views in the audit process. Travel, for example, would prevent them from visiting clients' websites, requiring them to disclose in their reports the limitations of the scope of their usual procedures. Due to the fuzzy and the unpredictable nature of the effects of this pandemic, their assessments of their clients' accounting estimates are expected to be more complex than they will be in future reporting periods. Auditors are fully aware of the significant impact that will affect many key accounts, particularly sales, inventories and bad debts, as well as core business activities such as production and distribution.

(ASIC, 2020) believes that areas of interest in reviewing financial reports in light Covid-19 conditions should include:

- To solve problems affecting financial reporting.
- To understand how the activity of the audited entity is affected, and likely to be affected, by many factors (including the impact of these factors on suppliers, customers, investors and others).
- To determine the impact of non-Covid-19 changes that affect the activities of the controlled entity, such as new competitors and technological changes.
- To identify and respond to fraud and other risks, including uncertainties and difficult judgments about assets, provisions, solvency and information continuity.
- To address the impact of remote work arrangements during and after the end of the year.
- To consider the significant nature of performance due to assessed risks and the decline in asset values, revenues and/or profits that affect the nature, timing and scope of audit procedures.
- To be critical and appropriate question estimates, assumptions and assessments, as well as the adequacy and relevance of the evidence.
- To apply the required expertise in light of the challenges and judgments involved, including increased partner involvement and appropriate supervision and review.
- To assess the adequacy of previous data, assumptions and methods to support asset values and other estimates, as well as the auditor's analytical procedures.
- To consider the adequacy of the information provided on issues such as uncertainty of estimates, key assumptions and government support, which are likely to be important to investors and other users in the context of the overall financial report (including semi-annual reports).

- To project planning and management to reduce time-related stress.
- The documentation of audit work and reasons for judgments rendered.

II-5- Other effects:

Here is a short list of other potentials affected:

Provisions according to the International Accounting Standard (37): This is one of the subjects that deserves more attention in the current circumstances, looking at the company's contracts that have not yet been implemented, in order to determine whether one of them is no longer feasible with the continuation of virus conditions until the time of the implementation of these contracts , and then it is necessary the proof intended for him. IAS 37 defines an inefficient contract as a contract in which the unavoidable costs of fulfilling contract obligations outweigh the expected economic benefits of the contract. Costs that cannot be avoided under the contract reflect the lowest net exit cost of the contract, which is the cost of its execution or any compensation or fine resulting from non-compliance (Saudi Organization for Accountants, 2020).

Inventory measurement according to IAS (2): Stocks of different types may decrease in value, simply because some of them may have an expiration date (and you cannot sell them due to the closure of the retail business), or because customers are willing to spend less because they earn less money. , (Carlson, 2020)

Financial instruments according to the International Accounting Standard (9): The financial instruments of the international standard (IFRS9) came into force in most European countries in 2018, but it seems that this standard has met with strong opposition with its first obstacle in the first half of 2020 when it tried Financial authorities stop working with it and cancel its effect on banks during the Coronavirus crisis , given that this standard has serious negative effects on banks during the economic recession, due to forcing banks to increase loan loss allocations (Saddam and Ali Ibrahim, 2020, page 18).

Contract with customers under IFRS 15: some customers will not have enough money to meet their contractual obligations, which may result in early termination of contracts, contract changes and changes in changing considerations. , (Carlson, 2020)

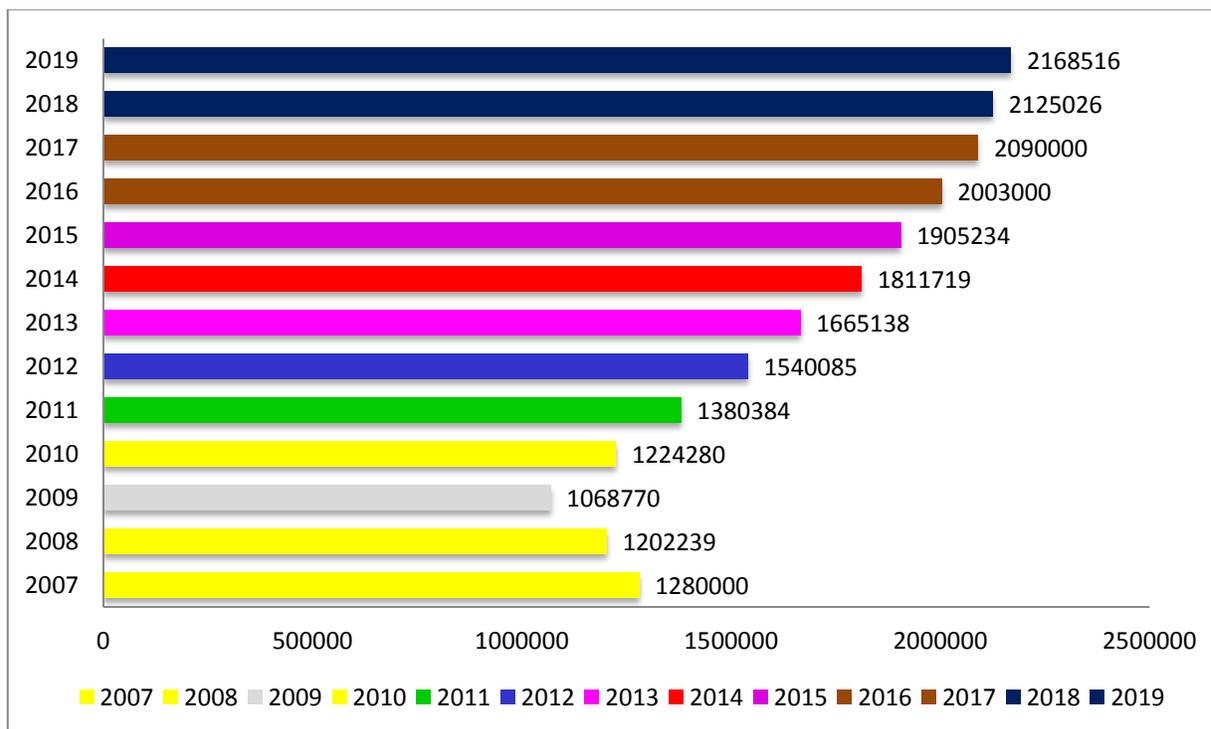
III. BMW Group Case Study**III-1- BMW Group at a glance:**

In 1934, BMW, which had been manufacturing aircraft engines since 1913, separated its aeronautical business from its automotive business. After the Second World War, the engine industry continued to produce engines mainly licensed by General Electric or Rolls-Royce. The name of the company was changed to "BMW Triebwerkbau" in 1957.

In 1965, MAN AG bought the aeronautics division and since then BMW has focused solely on its automotive and two-wheel drive business.

In 2013, the BMW Group had 24 production sites worldwide in 13 countries on four continents.

Figure 2: BMW Group Global Sales (2007-2019)



Source: (Wikipedia, 2020)

Through the figure, we note that the group has a history of profitable transactions and quick access to sources of financing, and according to the international accounting standard No. 01, it can be concluded that the accounting base of the company is an indicator of continuity.

III-2- Reported Key Performance Indicators (2019-2020):

The spread of coronavirus worldwide has left international automotive markets in a very weak state after the first three months of the year. Initially, the decline in registrations in China in February and March dominated the events, and then all the other major automotive markets subsequently reported declines, some particularly strong.

With respect to the review of its sales and associated reporting practices, the BMW Group reviewed its retail vehicle delivery data for the previous and current period based on the following table:

Table 01: BMW Group Sales (2019-2020)

		1 st quarter 2020	1 st quarter 2019	Change in %
Group				
Profit before tax	€ million	798	762	4.7
AUTOMOTIVE SEGMENT				
Deliveries ^{1,2}	units	477,111	600,614	-20.6
EBIT margin ³	change in % pts	1.3	-1.6	2.9
MOTORCYCLES SEGMENT				
Deliveries ^{1,2}	units	34,774	38,606	-9.9
EBIT margin ³	change in % pts	12.9	15.2	-2.3

Source : (BMW, 2020)

From the table, it is noted that the Corona pandemic caused a significant halt in car deliveries in a difficult political and economic environment, the global spread of Coronavirus has greatly reduced the number of vehicles delivered by the BMW Group in the first quarter of 2020. As a result, car sales figures have declined significantly large as 477,111 units in the first three months, while the year (2019) reached 600,614 units, a difference of 20.6%.

Table 02: Reported KPI (2019-2020)

		1 st quarter 2020	1 st quarter 2019	Change in %
AUTOMOTIVE SEGMENT				
Deliveries ^{1,2}				
BMW ³	units	411,609	515,297	-20.1
MINI	units	64,449	84,145	-23.4
Rolls-Royce	units	853	1,172	-27.2
Total	units	477,111	600,614	-20.6
Production volume				
Total		584,142	672,042	-13.1
FINANCIAL SERVICES SEGMENT				
New contracts with retail customers		449,607	469,624	-4.2
Free cash flow automotive segment	€ million	-2,218	-559	-
Group revenues	€ million	23,252	22,462	3.5

Automotive	€ million	17,989	19,213	-6.4
Motorcycles	€ million	557	586	.4.9
Financial services	€ million	7,598	7,146	6.3
Other Entities	€ million	1	1	
Eliminations	€ million	-2,893	-4,484	35,5
Group profit/loss before financial result (EBIT)	€ million	1,375	589	-
Automotive	€ million	229	-310	-
Motorcycles	€ million	72	89	-19.1
Financial services	€ million	542	648	-16.4
Other Entities	€ million	12	4	-
Eliminations	€ million	520	158	-
Group profit/loss before tax (EBT)	€ million	798	762	4.7
Automotive	€ million	80	-27	
Motorcycles	€ million	72	87	-17.2
Financial services	€ million	484	627	-22.8
Other Entities	€ million	-344	-58	-
Eliminations	€ million	506	133	-
Group income taxes	€ million	-224	-218	2.8
Profit/loss from continuing operations	€ million	574	544	5.5
Profit/loss from discontinued operations	€ million	-	44	-
Group net profit	€ million	574	588	-2.4
Earning per share	€	0.84/0.84	0.85/0.85	-1.2/-1.2
Group pre-tax return on sales	Change in %pts	3.4	3.4	-

Source : (BMW, 2020)

The table above shows that the number of vehicles delivered by BMW Group fell sharply in the first quarter of 2020. As a result, according to sales figures for BMW and MINI vehicles, they decreased compared to 2019, however, Rolls-Royce brands have declined significantly, with a total of 477,111 units in the first three months. For the year 2019, the total number reached 600,614 units, a difference (-20.6%).

- Due to declining sales and in accordance with the standard (IAS10), the results of Coronavirus's effects in the group's financial reports are treated as a non-modifiable event, estimate its financial impact.

- A total of 449,687 new credit and leasing contracts was signed with retail customers during the three-month period, slightly less (-2%) 2019, when it reached 469,624 contracts. The decline in new business with retail customers is mainly due to the decrease in the volume of credit financing (-7.8%), mainly in China. On the other hand, the number of new

leases signed increased slightly by 2.9% Leasing activity in Germany, which in turn contributed to this growth in the first quarter of 2020.

- In particular, the decline in customer demand as a result of the pandemic and associated containment measures, as well as the resulting production disruptions in many countries, have a negative impact on the financial group's net assets.

- First quarter revenue increased slightly on an annual basis to 23252 million euros and in the year 2019 amounted to 22462 million euros, a difference (up 3.5%), while the financial services sector achieved strong year-over-year revenue growth, mainly driven by High Rental Income Reduction in Automotive Revenues due to lower demand in China due to the Corona pandemic and the closure of dealers in other major markets. The decrease in the amount of revenue excluded as a result of the decrease in new leases expected due in part to the decline in the turnover of the automotive sector, contributed to the increase in the group's turnover, at the same time the provider charges for high risks, including those recognized in the assessment of the residual value and credit risk related to the Corona pandemic, on the one hand, and the larger size associated with the pandemic, on the other hand.

- The decline in the value of leased vehicles, on the other hand, had a negative impact on the cost of sales, as well as a slight decrease in manufacturing costs for the automotive sector due to the decline in customer demand caused by the pandemic, while research and development spending remained at a level similar to that of the previous year, mainly reflecting the continued strengthening of the group.

- Virtually all of this saves approximately 1.4 billion euros recorded in the first quarter of the previous fiscal year under current antitrust measures.

As a result, the group's profits before the three-month financial results rose sharply to 1375 million euros and in 2019 they amounted to 589 million euros.

III-3- Sales review and related reports

Table 03: BMW Group Performance Indicators Related to Research and Development Expenditure

In %	1 st quarter 2020	1 st quarter 2019	Change in %
Research and devolepement as percentage of revnues	5.9	6.2	-0.3
Research and devolepement ratio	5.7	6.0	-0.3
Capitalization rate	28.4	26.5	1.9

In € million	1 st quarter 2020	1 st quarter 2019	Change in %
Research and devolepement expenses	1,380	1,396	-1.1

Capitalization developement costs	376	359	4.7
Amortization	-432	-402	7.5
Research and developement expenditure	1,324	1,353	-2.1

Source : (BMW, 2020)

The table shows that research and development spending for 2020 was almost identical to 2019.

III-4- Vehicle Delivery Performance Indicators

Car delivery has been severely affected by the coronavirus crisis. The first quarter of the year dominated the coronavirus epidemic worldwide, with restrictions on public life in many countries, resulting in a significant drop in demand, with only 477,111 cars delivered by BMW, MINI and Rolls-Royce. For customers during the three-month period and for the year 2019, 600,614 units were delivered, a difference of 20.6%. Total global deliveries of BMW commercial vehicles reached 411809 units and in 2019 total deliveries reached 515297 units, with a difference (-20.1%). Similarly, Rolls-Royce Motor recorded Cars, a significant drop in deliveries to 853 units in 2019 for an amount of 1,1722 units, a difference (-27.2%). See table No. (1).

Table 04: *Delivery of auto parts from vehicles by region and market*

In units	1 st quarter 2020	1 st quarter 2019	Change in %
Europe	221,024	270,645	-18.3
Thereof Germany	66,004	72,377	-8.8
Thereof UK	44,474	62,373	-28.7
Americas	82,078	99,709	-17.7
Thereof USA	64,956	78,652	-17.4
Asia	162,940	217,415	-25.1
Thereof China	116,577	168,650	-30.9
Other markets	11,069	12,845	-13.8
Total	477,11	600,614	-20.6

Source : (BMW, 2020)

In Europe, after two good months at the beginning of the year, delivery volumes began to decline in March, since in the first quarter they reached a total of 221024 units, and in 2019 a total of 270645 units (-18.3%) were delivered. Customers across the region. Germany 66,004 units are also affected, 2019 it reached 72,377 units (-8.8%) and the United Kingdom 44,474 units and in 2019 it reached 623,732 units (-28.7%).

After two months of volume growth for the three BMW Group brands in the Americas region, the March figures were almost halved compared to the previous year.

For the hard-hit Asia, the spread of Coronavirus in the first quarter of 2020 had a particularly significant impact on BMW Group activity in Asia, particularly in China. First

quarter deliveries of the group's three brands in Asia fell to 162,940 units and in 2019 reached 2, 174,515 units, a difference (-25.1%). After a strong start in Vijanvi, car sales in China fell dramatically and in February the first signs of recovery appeared in the group, with 116577 BMW, MINI and Rolls-Royce cars delivered to customers in China in the first three months.

III-5- International automotive markets

Automotive markets contracted significantly in 2020 due to the coronavirus pandemic due to widespread lockdowns. And there was no other realistic conclusion of the current economic situation. Even on the optimistic assumption of a rapid recovery and the absence of new waves of infections, the International Monetary Fund expects a negative growth rate of around 3%. The extent of the contraction is likely to depend in large part on the economic recovery programmes implemented by different countries, and consumer reaction to the rest.

III-6- Assumptions used for projections

Assumptions used for forecasts at the time of the release of the 2019 Annual Report, on which the projections for fiscal year 2020 were based on the assumption that deliveries in all major markets will return to normal after a few weeks, but in the meantime, measures to contain the Corona pandemic have been extended, such as closures and restrictions on commercial activities, especially in Europe and America.

Almost all cross-border travel has ceased and the ongoing restrictions related to the pandemic will lead to a slowdown in the global economy and an uncertain macroeconomic outlook for 2020.

A rapid recovery seems unlikely in its revised forecasts, as the BMW Group expects the business environment to begin to stabilize until the third quarter, and in the first and second quarters there will be a longer and deeper recession in key markets, and a more severe economic slowdown in China due to the recession in other parts of the world. , Significant market distortions due to a stronger competitive environment and the potential effects of the second wave of contagion and related containment measures were not included in the revised forecast.

The general unclear situation makes it difficult to provide accurate forecasts and has led to the expansion application scenarios, which is reflected in the corresponding expansion of the target range of EBIT margin in the automotive sector for 2020.

III-7- Full evaluation by group management

In a volatile environment, currently overwhelmed by the global spread of Coronavirus, companies are expected to grow negatively in fiscal year 2020, despite

expectations that many new car and motorcycle models and services related to individual mobility will generally generate additional momentum.

Research and development spending will remain at a high level to advance forward-looking projects in light of the negative impact of the Corona global crisis, and pre-tax earnings over the forecast period are likely to decline significantly due to the negative consequences of the spread of the virus.

Automotive deliveries to customers are expected to be significantly lower than in the previous year, influenced by the negative factors described above, and automotive EBIT margins are also expected to be in the target range of 0 and 3% in 2020.

Carbon dioxide emissions are expected to decrease significantly. In terms of return on equity in the financial services sector, the decrease in the volume of new commercial contracts and higher refinancing costs adds to a more volatile risk environment, mainly due to negative economic expectations. As a result, return on equity for services The motorcycle sector is expected to decline. Moderately year-on-year financial data, motorcycle sector deliveries to customers are expected to decline significantly in 2020.

The high level of uncertainty, particularly regarding the spread of coronavirus and economic and political developments such as negotiations between the European Union and the United Kingdom on a trade agreement by 31 December 2020, and international trade and customs policies can lead to economic developments in many regions, a departure from recent trends and expected outcomes, these factors having a major impact on the BMW Group's commercial performance.

Conclusion:

The Coronavirus epidemic (Covid-19) has a major impact on the global economy and business performance, and this effect has its future impact in addition to the real damage it has inflicted on most of the joints of countries' economies and their In light of this context, it is necessary for companies to provide sufficient and relevant information to their shareholders and other users of financial information. Clearly and transparently, the pervasive impacts, the way management will respond and consider this major challenge, and assumptions about uncertainties in the near future are fundamental.

Based on what has been presented in this study, we have the following key recommendations for the preparation of financial reports:

- Users should receive detailed and quantitative information on the COVID-19 pandemic on mid-year results, financial situation, especially debt and net liquidity.
- Companies need to clearly explain their measures to mitigate potential impacts and provide as much quantitative information as possible.

- Given the high degree of uncertainty, companies should expand the scope of existing information to explain its implications.

- Clear data on current year's guidelines and expectations, basic assumptions and scenarios should be assessed by users. It is also preferable to disclose a wide range of data and to be transparent about uncertainties.

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