Journal of contemporary economic research
Vol 07 , N°: 1 (2024), p 01-11

ISSN 2623-2602/ EISSN: 2716-8891

Accounting challenges caused by the Coronavirus (Covid-19) and their impact on sustainability accounting

Boubaker Rezigat [1*]

[1] University Mohamed Boudiaf of M'sila, Algeria, boubaker.rezigat@univ-msila.dz.

Received: 1/14/2024 **Accepted**: 4/1/2024 **Published**: 4/1/2024

Abstract: This study aimed to identify the most important accounting challenges resulting from the Coronavirus (Covid-19) and its impact on sustainability accounting in economic companies, and the study concluded that it is not possible to talk about the social and environmental sustainability of companies before their financial sustainability, which was affected by the outbreak of the Coronavirus (Covid-19), and the most important of these challenges that affect the financial sustainability of the company (the company's ability to continue, fair value measurement, revenues from contracts with customers, inventory valuation, events after the reporting period ...).

Keywords: sustainability accounting, environmental accounting, social accounting, coronavirus

JEL Classification Codes : M 41

الملخص: هدفت هذه الدراسة إلى الوقوف على أهم التحديات المحاسبية الناجمة عن فيروس كورونا (كوفيد -19) وأثرها على محاسبة الاستدامة في الشركات الاقتصادية، وانتهت الدراسة على أنه لا يمكن الحديث عن استدامة الشركات اجتماعيا وبيئيا قبل استدامتها ماليا وهذه الأخيرة التي تأثرت نظير تفشي فيروس كورونا (كوفيد -19) ومن أهم هذه التحديات التي تؤثر على الاستدامة المالية للشركة (قدرة الشركة على الاستمرارية، قياس القيمة العادلة، إيرادات العقود مع العملاء، تقييم المخزون، الأحداث بعد فترة التقرير...).

كلمات مفتاحية: محاسبة الاستدامة، المحاسبة البيئية، المحاسبة الاجتماعية، فيروس كورونا.

تصنيفات JEL: M 41

1. INTRODUCTION

* : ***Boubaker Rezigat.***

Since early 2020, the world has witnessed the worst economic crisis in the twenty-first century, unlike the recessions that occurred in the past two decades, this crisis is the result of a pandemic caused by the Coronavirus (Covid-19) and its consequent widespread economic effects on several levels in light of the impact on global supply chains, international trade, consumption, investment and manufacturing activities, high levels of uncertainty, low consumer and investor confidence, and the virus imposed restrictions on the activities of many economic sectors as a number of countries tended to ban the movement of individuals, which affected the tourism and aviation sectors

There is no doubt that the magnitude and speed of the impact of the coronavirus on the global economy is unprecedented. The economic environment, markets and financial reporting are expected to continue to face significant challenges and risks for the foreseeable future. Businesses are now facing conditions that are often associated with a general economic downturn. Company management, accounting and auditing professionals are expected to address the financial implications of the COVID-19 outbreak in preparing financial statements for annual or interim reporting periods. This has an impact on the company's social and environmental sustainability.

Although these developments may have adverse effects on the liquidity, business continuity, financial position, internal control, risk, future financial results, cash flows and financial condition of the Company, it may not currently be possible to determine these effects accurately due to the lack of sufficient information to predict them, the Company is required to disclose to the extent that such information is available.

All these matters and other events of a financial nature that have emerged due to the Corona pandemic (COVID-19) will require accountants and accounting professional organizations to constantly reassess and analyze them, to determine whether amendments to financial reports are required or not, or whether additional disclosures are necessary or not, all these matters and others are challenges facing accountants and professional and accounting organizations in order to find effective solutions, whether in accordance with current accounting standards or by finding new accounting treatments.

In light of the above, we pose the following question: What are the most important accounting challenges in light of the COVID-19 pandemic and its impact on sustainability accounting in economic companies.

The issue will be addressed according to the following plan:

2. Sustainability Accounting

 ISSN 2623-2602/ EISSN: 2716-8891

Accounting is no longer limited to the incoming and outgoing accounts of a company or its profit and loss statement, nor is it a "bookkeeping" process, but rather it has multiple tasks and functions, such as environmental cost accounting, social responsibility, sustainability accounting, and others. (Al-Armouti, 2013, p. 23)

2.1 The concept of sustainability accounting

The concept of sustainability accounting emerged from developments in accounting, with extensive developments in accounting occurring over the past 40 years, although there have been limited developments over the past 10 years. The development reveals two distinct lines of analysis. The first line is the philosophical debate about accountability, if and how it contributes to sustainable development, and what steps are needed towards sustainability. This approach is based on an entirely new system of accounting designed to promote sustainability strategy. The second line is the management perspective associated with various terms and tools to achieve sustainability. This can be seen as an extension or modification of traditional financial costing or management accounting. To develop sustainability accounting, a complete reassessment of the relative importance of social, environmental, and economic benefits and risks and their interactions in corporate accounting systems is again allowed. (C.A.Tilt, 2007)

Although the term sustainable development accounting is difficult to define, due to the lack of general acceptance of the new tool, the sustainability framework consists of a company's policies (reflecting its sustainability roles and responsibilities), its environmental and social sustainability performance criteria (directed to its stakeholders to provide guidance on how to identify and manage risks), and its access to information policy (reflecting governance and transparency). To help avoid, mitigate and manage risks as a means of doing business sustainably, including stakeholder engagement and disclosure obligations. (Alaa, 2017)

2.2 Accounting Approaches to Sustainable Development:

There are many approaches within the sustainability accounting component: (Mohammed, 2020, p. 64)

2.2.1 Social Accounting Income

The social dimension of the SDGs emphasizes the importance of the role of accounting in performing its social function in order to cover social performance, which makes social accounting a call for the welfare of society in addition to its main role in its responsibility to provide realistic solutions to social issues, and it is helped in this by the current development in the fields of digital technology and the fields of programming, education, infrastructure, communication lines and the Internet to increase technological, economic and social awareness.

2.2.1.1 Definition of Social Accounting:

Social accounting is one of the most prominent manifestations of the evolution of accounting, and this recent development arose as a result of the steady increase in the size and capabilities of the company, especially joint stock companies that have wide-ranging financial and social impacts. Social accounting can be defined as :

- Holding individuals accountable for the performance of specific duties.
- It is a method of accounting for costs and revenues and evaluating performance.
- It is a sophisticated "managerial-accounting" method that shows in its final analysis the Extend to which each member of the organizational structure contributes to the profit or loss figure and the performance evaluation of each member in light of the results achieved.

2.2.1.2 Social Accounting Factors

These are the factors through which the effects of social programs are expressed by using available resources to achieve social goals, with the aim of improving the financial and economic performance of companies in order to achieve economic development, according to the following elements :

- Direct and activity-related social costs that contribute to the provision of community services that support COVID-19 economic recovery initiatives.
- General social costs that are shared with the rest of society and help in taking precautionary measures for the coronavirus and its economic effects.
- Cash flows resulting from social activities that have a vital and effective role in combating the economic crisis.
- Social income as an important and objective indicator in measuring and evaluating economic and financial performance to combat the coronavirus and its economic effects.

2.2.2 Introduction to Environmental Accounting

Green environmental accounting is a recent development in the contemporary development of environmental accounting that provides management and current and future beneficiaries in society with cost information related to environmental aspects and helps improve the quality of this information, which contributes to the process of rationalizing decisions in light of environmental performance. Improving the reputation of an economic unit by transforming its activities into environmentally friendly activities

2.2.2.1 Definition of Environmental Accounting:

The International Federation of Accountants (IFAC) defines it as "managing environmental and economic performance through the development and application of appropriate accounting systems and practices related to the environment, which may include reporting and auditing in some companies, and that environmental accounting relates to life cycle costs, full cost accounting, benefit valuation, and strategic planning for environmental management."

2.2.2.2 Environmental accounting factors

Journal of contemporary economic research ISSN 2623-2602/ EISSN: 2716-8891
Vol 07 , N°: 1 (2024), p 01-11

These are the factors that are related to environmental accounting and the study of environmental costs, identifying their elements and the associated costs of natural resources and comparing them with environmental revenues to obtain environmental benefits to measure the level of addition in order to achieve economic development, according to the following elements :

- Environmental costs and their role in protecting against environmental damage and confronting the Coronavirus and its economic effects.
- Environmental benefits and the financial savings they achieve that contribute to environmental protection programs from the Coronavirus and its economic effects.
- Sustainable environmental development programs that contribute to creating a clean and suitable environment to prevent any negative economic effects of the coronavirus.
- Implement green manufacturing programs to reduce coronavirus infection rates and minimize its economic impact.

2.2.3 Introduction to Economic Accounting:

Accounting is used as an economic tool to support many economic principles and standards and to serve financial and economic policy, by measuring the property owned by the Enterprise and the added value it can provide to the national income according to economic indicators that are relied upon to measure the rise and fall of prices and monitor the economic movement at the level of the national economy, as the accounting policy must be adapted to the economic reality

2.2.3.1 Definition of Economic Accounting:

Economic accounting is defined as : A tool for describing and measuring the flows of economic activity by recording financial operations and transactions according to the double-entry method, in order to present income and its use of operating costs, and to analyze these results and use them to manage planning, follow-up and decision-making processes.

2.2.3.2 Economic accounting factors:

These are the factors through which basic data and analytical tools are expressed to link the accounts of the accounting unit at the micro level to the accounting unit at the macro level, with the aim of guiding the economic activity of the state to make financial, economic and social decisions, to improve the financial and economic performance of companies in order to achieve economic development, according to the following elements :

- Economic accounting and its role in characterizing the financial flows of activities and then measuring and evaluating the economic situation in light of the Corona crisis.
- Economic accounting and its role in measuring the economic added value of enterprises and their contribution to economic growth in light of the Corona crisis.
- Economic accounting disclosure and measurement helps in monitoring the movement of economic sectors and directing towards the safe path of development in light of the Corona crisis.

- Accounting information at the national level contributes to evaluating economic development plans and correcting deviations in light of the Corona crisis.

3. Accounting challenges in light of the Corona pandemic (Covid-19) and its impact There is no sustainability accounting Some of these challenges include, but are not limited to:

3.1 Evaluating the company’s ability to continue

IAS 1 "Presentation of Financial Statements" requires management, in preparing the financial statements, to make an assessment of the company's ability to continue as a going concern for the foreseeable future and whether the going concern assumption is appropriate. Furthermore, disclosures are required when the going concern basis is not used or when the company is aware when making its assessment) .EY(2020 ،

A company must also disclose material uncertainties that cast doubt on the company's ability to operate on a going concern basis in its financial statements. It is very likely that many large and small companies, especially in certain sectors, will have issues related to going concern that need to be considered by management. There will be a wide range of factors to consider in ongoing financial judgments and projections including travel bans, restrictions, government assistance, potential sources of alternative financing, the financial health of suppliers and customers and their impact on expected profitability and other key financial matters, performance ratios including information showing whether there will be sufficient liquidity to continue to meet obligations as they fall due. (IFAC, 2020)

3.2 Fair Value Measurement

In accordance with IFRS 13 "Fair Value Measurement", fair value is a market-based measurement, not company-specific, and for some assets and liabilities, there may be observable market transactions i.e. market information may not be available, but in both cases the objective of fair value measurement remains the same: to estimate the price at which a regular transaction to sell the asset or transfer the liability between market participants at the measurement date would be based on current market conditions (i.e. the exit price) at the measurement date from the perspective of a market participant holding the asset or owing the liability. (Kamal., 2021, p. 2)

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has access to at the measurement date. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity has access to at the measurement date. However, this level of fair value measurement under COVID-19 19 is unavailable, resulting in a transition to Level 2 inputs, which are inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, and if these inputs are not observable for the asset or liability they are measured in accordance with Level 3 inputs, which are inputs for which market data is not available and which have been developed for which market data is available and which are developed using the best available information about the assumptions that market participants would make when pricing the asset or liability including assumptions about risk, the unobservable inputs used in the valuations may require material adjustments to reflect risks and uncertain market conditions at the measurement date.

In light of the above, the researcher believes that fair value measurement under the current circumstances, the COVID-19 outbreak, increased uncertainty in estimates, less observable market data from companies, changing valuation techniques and the use of more judgments and assumptions, may lead to a greater number of fair value measurements classified as Level 3 inputs in the fair value hierarchy, for example due to unobservable inputs that have become significant in the current environment.

3.3 Revenues From Contracts with Customers

The effects of the COVID-19 outbreak may call into question the ability of companies and their customers to adhere to the terms of their contracts, and may affect the timing and amount of revenue to be recognized, or whether the revenue should be recognized at all.

For example, companies may need to consider the following) :Brain(2020 ،

- Customers may now struggle to meet their contractual obligations, does this mean that companies should stop recognizing revenue on existing contracts and not recognize revenue on new contracts ?
- Pay-for-performance rights may not yet be enforceable, e.g. invoked due to force majeure or similar clauses, does this affect the recognizability of revenue over time ?
- Companies and their customers may seek to change the terms of existing contracts to respond to the impacts of the COVID-19 outbreak on their business, how should companies account for these contract modifications ?

To further clarify, IFRS 15, Revenue from Contracts with Customers, states that a contract with a customer will be considered a valid contract only when the agreement creates legally enforceable rights and obligations, i.e. an entity recognizes revenue if, and only if, the contract passes the contract existence test in the first step of the five-step model for revenue recognition.

- ✓ First Step : Define the contract with the client.
- ✓ Second Step : Identify the obligations or commitments to be performed in the contract.
- ✓ Step three : Determine the transaction price (transaction).
- ✓ Step four : Allocate the transaction price to the elements and components of the contract.
- ✓ Step five : Recognize revenue when the company fulfills its contractual obligations.

Organizations need to carefully consider whether these first-step criteria are met, for example: (Razigat., 2019, p. 65)

- Are both parties obligated to fulfill their respective obligations ?

- Is payment likely to be collected for the goods or services ?
- Does the contract allow each party to terminate the contract if it is not fully performed without compensating the other party.

These criteria are assessed at the inception of the contract and should not be reassessed unless there is an indication of a significant change in facts or circumstances, if the contract does not meet the above criteria the revenue is not recognized.

3.4 Impairment of non-financial assets (including goodwill)

COVID-19 has caused temporary factory closures and has also led to restrictions on travel and the import and export of goods, all of which can be considered as an indicator of asset impairment because companies are unable to recover the book value/book value whether using or selling the assets, in other words, companies should reconsider whether they face any circumstances such as store closures, reduced revenues, order cancellations, supply chain disruptions, or lower stock prices, that their assets should be tested for impairment.

These changes may indicate an assessment of whether the impact of COVID-19 has led to an impairment of assets and their financial performance, including estimates of future cash flows and earnings, may be significantly affected by the direct or indirect effects of recent and ongoing events. IAS 36 Impairment of Assets requires companies to perform an impairment test (i.e. estimate the recoverable amount of the affected cash-generating unit) at the end of each reporting period when there is any indication that the cash-generating unit may be impaired. Indicators of impairment include (but are not limited to) significant changes that have a negative impact on the company that have occurred during the period, or that will occur in the near future.

In addition, another gray area in financial reporting is goodwill impairment, because this element is likely to make companies that have had significant competitive acquisitions in the past, if the amount of goodwill on the statement of financial position for distressed industries is high, there is likely to be more scrutiny of these companies' income statements and their impact, which could affect potential goodwill impairment charges on profitability for future years. (Joshi, 2020)

3.5 Estimates of financial statement components

The spread of the coronavirus has future implications for businesses that may be difficult to predict. For example, management uses projections of future cash flows when testing the impairment of non-financial assets such as goodwill ; recognizing and measuring the impairment of financial assets ; and measuring the fair value of financial assets. As uncertainty about the future increases, management may find it more difficult to make some of these estimates than in other years.

Here, the company must exercise due diligence in its estimate of the impact of the pandemic and the assumptions it makes regarding the adjustment of cash flows or discount rates based on risk, future changes in payroll and future changes in prices that

 ISSN 2623-2602/ EISSN: 2716-8891

affect other costs. IAS 1 emphasizes that the disclosure of assumptions and other sources of estimation uncertainty referred to above is particularly relevant to estimates that require management's most difficult, subjective or complex judgment, as in the case of COVID-19, the endpoint and severity of which may be difficult to predict. The standard emphasizes that the greater the number of variables and assumptions affecting the potential picture of future uncertainties, the greater the uncertainty.

However, IFRSs have established general principles for dealing with uncertainties. Specifically, IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" states that as a result of the uncertainties inherent in business activities, many elements of financial statements cannot be measured precisely, but can only be estimated. Estimation involves judgment based on the most recent available information that can be relied upon. (SOCPA, 2020)

3.6 Inventory evaluation

Inventory is measured at the lower of cost or net realizable value (NRV), but in a challenging economic environment due to the COVID-19 outbreak, calculating NVR may require additional challenge and scrutiny at the financial statement date, and also if the company's production level is abnormally low (for example, due to temporary closure of production lines), it may need to review inventory cost to ensure that undistributed fixed overheads are recognized in profit or loss in the period in which they are incurred.

3.7 Events after the reporting period

IAS 10 "Events after the reporting period" and Section 36 of IFRS for SMEs define events after the reporting period as those favorable and unfavorable events that occur between the end of the reporting period and the date on which the financial statements are approved for issue, and there are two types of eventsand the date on which the financial statements are approved For the first time, there are two types of events: (SOCPA, 2020)

- Those that provide evidence of conditions that existed at the end of the reporting period (events after the end of the reporting period require adjustments).
- Those that refer to circumstances that arose after the end of the reporting period (events after the end of the reporting period that do not require adjustments).

The standards emphasize that events after the end of the reporting period include all events occurring up to the date on which the financial statements are approved for issue, even if those events occur after the public announcement of profit or loss or other selected financial information.

Each company should consider the effects associated with the spread of the coronavirus and whether they provide evidence of conditions that existed at the end of the reporting period, and it is unlikely that the spread of this virus will have effects that require an adjustment to the financial statements prepared for the financial year ended December 31, 2019.

Given that at that date there was no impact on the companies, the focus will be on the impact of that virus on circumstances that arose after the end of the reporting period, and such events will not result in an adjustment to the amounts recognized in their financial statements to reflect events after the end of the reporting period that do not require adjustments.

4. CONCLUSION :

The accounting challenges faced by companies in light of the Coronavirus (COVID-19) pandemic are among the most important contemporary issues that need to be studied and analyzed because of their negative impact on economic companies and their sustainability, so this study came in an attempt to answer the following question: What are the most important accounting challenges in light of the Coronavirus (COVID-19) pandemic and its impact on sustainability accounting in economic companies.

To answer this question, we divided the research paper into two axes, where in the first axis we dealt with sustainability accounting through the concept and the approaches to sustainability accounting, which lie in the social accounting approach, the environmental accounting approach, and the economic accounting approach, while in the second axis we addressed the most important accounting challenges in light of the Corona pandemic (Covid-19) and its impact on sustainability accounting.

The main findings of the study are as follows :

- One of the most important accounting repercussions caused by COVID-19 is the threat to the company's ability to continue its activities.
- The difficulty of measuring fair value under the current circumstances and the COVID-19 outbreak, in addition to the uncertainty in estimates and less observable market data from companies, and the use of more judgments and assumptions, may lead to a greater number of fair value measurements.
- The calculation of net realizable value (NVR) for inventory valuation requires additional challenge and scrutiny at the financial statement date, given the COVID-19 outbreak.
- Uncertain environments in the COVID-19 outbreak make estimating many financial statement items more difficult for companies. For example, management uses projections of future cash flows when testing the impairment of non-financial assets such as goodwill.
- The effects of the COVID-19 outbreak are calling into question the ability of companies and their customers to adhere to the terms stipulated in their contracts.

5. Bibliography List:

 ISSN 2623-2602/ EISSN: 2716-8891

1. a.s.litl. .(2007) Corporate Responsibility Accounting and Accountants. Idowu.
2. C. A. Tilt. .(2007) Corporate Responsibility Accounting and Accountants. Idowu.
3. EY. .(2020) IFRS accounting . EYGM Limited.
https://ar.wikipedia.org/wiki/%D9%85%D8%AD%D8%A7%D8%B3%D8%A8%D8%A9_%D8%A7%D9%84%D8%A7%D8%B3%D8%AA%D8%AF%D8%A7%D9%85%D8%A9 . .(2023 ,07 03)
4. IFAC. .(2020) The Financial Reporting Implications of COVID-19. IFAC.
5. Odonovan Brain. .(2020) COVID-19 | Are customer contracts still enforceable. KPMG International.
6. Prem Lal Joshi. .(2020) Covid-19 Pandemic andFinancial Reporting. International Journal ofAuditing and Accounting Studies ،

7. SOCPA.(2020) The effects of the coronavirus outbreak on the preparation and auditing of financial statements.
8. Ahmed Rizk Alaa. (2017). Accounting for sustainable development as an entry point for developing a financial accounting model under the concept of corporate governance.

9. Ahmed Adnan Al-Armouti. (2013). The impact of sustainability accounting on financial reporting in Jordanian public shareholding industrial companies listed on the Amman Stock Exchange. Jordan.
10. Mr. Naseer Mabrouk Mohammed. (2020). The role of sustainable accounting in supporting the continuity of companies to restore the gains of economic development after the global Corona crisis, an applied study. The role of sustainable accounting in supporting the continuity of companies to restore the gains of economic development after the global Corona crisis, an applied study. Tanta: Tanta University, Egypt.
11. Boubaker Razigat. (2019). International Financial Reporting Standards (IFRS). p. 65.
12. Saeed Makhlad Al-Nuaimat and Faris Jameel Hussein. (2011). The role of social responsibility accounting and the extent of its application to the commercial banking sector in Jordan. Journal of Baghdad College of Economic Sciences, p. 28.
.13 Abdul Salam Ali Hassan Dina Kamal. (2021). The impact of applying the amended Egyptian Accounting Standard Impairment of Assets in light of the Corona pandemic (COVID 19) on assessing the entity's ability to continue (an applied study). Financial and Commercial Research, p. 2.