

# Chapter 10

## Impact of the COVID-19 Pandemic on the Financial Statements of Portuguese Stock Index 20 Companies

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### ABSTRACT

*COVID-19 emerged and spread all over the world. Portugal was no exception. Rules and measures applied, regarding the impacts of the pandemic, have affected the economy and, naturally, the entities life. The main objective of this chapter is to investigate the standards and rules entities have to obey and orientations that they have to follow vis a vis COVID-19, and to understand how COVID-19 has impacted interim financial statements of the entities included in the selected sample. Then it seeks to measure entities financial health using financial ratios and Zmijewski model and to compare those entities in order to try to find any relation among financial health and the disclosures made about COVID-19. It verifies that, as a rule, entities have followed the necessary procedures and that COVID-19 has had an impact, specially over credit risk, revenues, and expenses, and that the financially healthier entity is a quite transparent one.*

### INTRODUCTION

In Portugal as well as in, perhaps, every country in today's world Covid-19 pandemic (Covid-19) emerged and spread becoming a quite serious problem not only for people (unhappily deaths and diseases) but also for companies and economies as a whole.

Companies have to deal with growing costs derived from the appliance of Direção Geral de Saúde (DGS) rules to prevent the spread of the pandemic and also with the decreasing sales due to the confinement and the less financing capacity of people and other companies. Naturally, financial markets also suffer with Covid-19.

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The main objective of the present chapter is to investigate the standards and rules entities have to obey and orientations that they have to follow *vis a vis* Covid-19, and to understand how Covid-19 has impacted interim financial statements of the entities included in the selected sample. Then it seeks to measure entities financial health using some financial ratios and Zmijewski model; and, this way, to compare those entities in order to try to find any relation among financial health and the disclosures about Covid-19.

For this purpose, content and conformity analysis are used and the 1<sup>st</sup> semester 2020 interim financial accounts of the Portuguese Stock Index 20 (PSI20) companies on august 27<sup>th</sup> (with the exception of the financial companies due to their special characteristics), are the object of analysis. This is a bibliographic; documentary; qualitative and quantitative; and descriptive research. Primary and secondary data are used.

Requirements from related accounting standards about the present subject are reviewed and comparison between financial health, measured by some financial ratios, and compliance is performed. Comissão de Mercado de Valores Mobiliários (CMVM) main decisions and rules are, also, reviewed.

It is expected that the results provide information about the conformity of PSI20 companies financial statements with the accounting standards applied; show which companies, among those, are financially healthier and therefore better prepared to face Covid-19 crisis; and indicate that they are more transparent.

This study will provide information for students of both levels about the impact of the pandemic on the financial statements. It also will show preparers of financial statements the main efforts they have to undertake and investors how strong companies are to face Covid-19 crisis. Therefore, at least it is justified by academic and professional reasons. It is one of the first studies to inform about accounting and financial reporting impact of Covid-19.

This chapter is structured as follows: after this brief introduction, a revision of accounting standards and market rules related with the subject in study; and a brief approach to some financial ratios used to measure financial health is performed. Then the methodology used is explained, including the sample composition; the study is developed; and its results are presented. Finally, the conclusion is referred.

## **BACKGROUND**

Companies listed in Euronext Lisbon, as those in the present study are, have to respond to the International Accounting Standards Board accounting standards when preparing financial statements and to decisions and rules derived from CMVM.

## **IMPACT OF COVID-19 ON ACCOUNTING AND FINANCIAL REPORTING**

Interim financial statements should be prepared taking in consideration IAS 34. Specifically, providing “an update on the latest complete set of annual financial statements. Accordingly, it focuses on new activities, events, and circumstances and does not duplicate information previously reported” (IAS 34, § 6).

In what concerns information regarding the material impact of Covid-19, entities are encouraged to make its presentation included in the explanations of the amounts presented and recognized in the statement of financial performance, as a “single note as part of the notes to the financial statements” (ESMA, 32-63-972, may 20th 2020). And, as referred by PWC (2020, p. 8), “the steps taken to control the spread ...” must be disclosed.

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