



2020 YEAR-END CHECKLIST

Ten areas of focus when preparing your
2020 financial statements

INTRODUCTION

2020 has been a tough year. While financial statement preparers will face many challenges at year end, the ten identified in this checklist are likely to be the most impactful.

Certain accounting and reporting issues, such as impairment and going concern, are not unfamiliar to financial statement preparers. COVID-19, however, has introduced more complexity and urgency that require greater time and attention this year. As a result, the 2020 audit season will likely be [one of the most challenging in recent memory](#). Although many December 31 year-end public companies have been dealing with the accounting and reporting impacts of COVID-19 since their Q1 filings, preparing for the year-end financial reporting cycle and the rigor of an audit brings these areas into sharper focus for all companies.

This checklist is designed to assist you in assessing the readiness of your company for the more challenging aspects of the 2020 year-end process. For each topic, we have included questions to ask yourself and recommendations to consider when going into this unusual financial reporting season.

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TOP 10 YEAR-END CHECKLIST

1 IMPAIRMENT

- ▶ Has your company experienced a decline in sales, EBITDA and income?
- ▶ Do you expect the impacts of COVID-19 to be prolonged?
- ▶ Is your industry experiencing widespread distress (e.g., energy, hospitality, retail)?

Prepare updated forecasts reflecting detailed plans for continued cost containment strategies, estimated recovery timing, and changes to leased assets. [Impairment assessments](#) over long-lived assets must also include shifts in strategy, such as long-term remote work, which can impact your analysis of right-of-use assets.

2 WORKFORCE ACTIONS

- ▶ Did you conduct layoffs or furloughs or restructure compensation?

[Employee terminations or furloughs](#) can affect financial reporting by resulting in point-in-time expense recognition or expense recognition over the term of the program.

3 GOING CONCERN

- ▶ Do you have ongoing debt service payments? Are significant amounts of debt coming due?
- ▶ Are you or do you expect to be in violation of any debt covenants?
- ▶ Are there other liquidity constraints impacting your ability to meet obligations?

Auditors will be intently focused on forecasted liquidity over the 12-month [assessment period](#), including contractual arrangements, as the uncertainty around the timing and pace of recovery increases the risk related to this assessment. Gather your liquidity forecasts and plans early in your audit process as extra scrutiny will be applied to this assessment this year.

TOP 10 YEAR-END CHECKLIST

4 FINANCING TRANSACTIONS

- ▶ Did you enter any transactions to restructure debt obligations?
- ▶ Did you have any capital raising or financing transactions?

Any kind of [distressed financing transaction](#) will have accounting complexities that require multiple layers of review and can delay audits if not addressed with auditors before year end.

5 TAX IMPACTS

- ▶ Did you take advantage of any [relief provisions](#), particularly those related to deferred tax assets (e.g., net operating loss (NOLs) carryback, business interest expense limitation relief, and qualified improvement property)?
- ▶ Has your ability to realize your deferred tax assets changed?

If you expect to carryback NOLs, the deferred tax assets (DTAs) should be remeasured to reflect the enacted tax rate in the year the NOLs will be utilized. Uncertainty on the timing and speed of a recovery will put tension on realization of DTAs and will be carefully evaluated by auditors.

6 VIRTUAL AUDITS

- ▶ Are your team and auditors experienced with running a virtual audit? Have virtual quarterly reviews run smoothly?
- ▶ Is the audit team familiar with your company?
- ▶ Have you identified and considered how controls reliance may be impacted by virtual teams (e.g., inventory observation procedures, signoffs)?

To avoid incremental testing where auditors have previously relied on in-person controls observations as part of their audit program, companies should engage in early planning discussions with audit teams and leverage online collaboration and communication tools to lessen the challenges of a virtual audit.

TOP 10 YEAR-END CHECKLIST

7 LOWER MATERIALITY THRESHOLDS

- ▶ Do you have accounts, processes, or locations that have historically been out of scope of the audit due to immateriality (e.g., inventory counts, controls reviews, international subsidiaries)?
- ▶ Have you reviewed the trial balance for accounts that have not been subject to auditor scrutiny in recent years?

Companies should review operating results now, revising their internal materiality thresholds and identify previously immaterial locations and processes as well as potential problem accounts for resolution before fieldwork to mitigate delays in the audit.

8 LEANER ACCOUNTING TEAMS

- ▶ Is your company's accounting department lower in headcount than prior years?
- ▶ Have you made any acquisitions or divestitures?
- ▶ Do you have capacity to take on additional aspects of financial reporting?

Consider the need for additional resources or third-party support, changes to the close calendar, or investments in technology and automation to avoid putting audit deadlines at risk.

9 RATE REFORM

- ▶ Do you have loan agreements where the interest rate is variable based on [LIBOR](#)?
- ▶ Do you have any hedging arrangements that have hedged an interest rate risk based on LIBOR?

Create an inventory of impacted contracts in order to document application of FASB relief guidance and build related disclosures.

TOP 10 YEAR-END CHECKLIST

10 CURRENT EXPECTED CREDIT LOSSES (CECL)

- ▶ Do you have outstanding accounts receivable with customers who have experienced financial difficulty?
- ▶ Have you considered the need to reassess risk pools as a result of the impacts of COVID-19?

Review risk pools and inputs into [expected credit loss](#) calculations for changes to assumptions and accounting policies as a result of COVID-19. Consider the expected impact of government relief on your customers and the change in current and future economic conditions.

FOR MORE INFORMATION



VIEW ADDITIONAL RESOURCES:
[AN AUDIT CYCLE UNLIKE ANY OTHER](#)
[PARTNERING WITH AUDIT FIRMS](#)
[ACCOUNTING ADVISORY](#)
[RELEVANT INSIGHTS](#)
[SUCCESS STORIES](#)



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