

Informative Note

Main accounting measures approved in relation to COVID-19 adopted by Royal Decree Law 8/2020 and their impact on the Annual Accounts

18th March 2020

Regarding Royal Decree-Law 8/2020 on urgent extraordinary measures to deal with the economic and social impact of COVID-19

The Spanish Government has approved the 17th March [Royal Decree Law 8/2020](#), adopting exceptional emergency measures to deal with the economic and social impact of COVID-19

The regulation, which comes into force when it is published in the BOE (official state gazette) on March 18th, contains measures of different types and scope aimed at mitigating the effects on the production structure, demand and citizens caused by the health emergency caused by the COVID-19 pandemic and will be in force until April 18, unless a different deadline is set for any of them. This deadline may be extended by the Government by Decree-Law if necessary.

Below are the main new features included in Royal Decree-Law 8/2020 on accounting matters

Extension of the deadlines for the formulation, verification and approval of the Annual Accounts

At this time of uncertainty due to the strong expansion of COVID-19, in which companies are in the process of formulating their financial statements and, in turn, many auditors are faced with the difficulty of verifying accounting closures, Royal Decree Law 8/2020, of 17 March, on urgent extraordinary measures to deal with the economic and social impact of COVID-19, extends the legally established deadlines for the formulation, verification and approval of the financial statements for the year, as established in Article 40 thereof:

- *"The period of three months from the end of the financial year for the governing body or administration of a legal entity obliged to prepare the annual accounts, ordinary or abridged, individual or consolidated, and, if legally required, the management report, and to formulate the other documents that are legally required by company law, is suspended until the end of the state of alert, resuming again for another three months from that date"*.
- *Where, on the date of the declaration of the alert, the governing body or administrative body of a legal person bound by the obligation has already drawn up the accounts for the previous financial year, the period for the accounting verification of those accounts, if the audit is compulsory, shall be understood to be extended by two months from the end of the state of alert"*.



- *"The general meeting to approve the accounts for the previous financial year shall necessarily be held within three months of the end of the period for drawing up the annual accounts".*

Other accounting aspects and the impact of COVID-19 on the Annual Accounts

Although Royal Decree-Law 8/2020 of 17 March no longer refers to other measures that may affect the companies' financial statements, for many of them whose financial year ended on 31 December 2019, the appearance of the COVID-19 constitutes a "post-closing event" but prior to the formulation or approval of the financial statements and, therefore, it is essential that, in view of this extraordinary fact, companies make express reference to it and include the present and future impact on the activity of the companies so that the users of these companies can assess the situation.

Consequently, it is important to remember that the Registration and Valuation Standard "Events after the end of the financial year" (NRV 23 of the PGC of Royal Decree 1514/2007 of 16 November approving the General Accounting Plan), establishes the following:

"Subsequent events which reveal conditions that already existed at the end of the financial year must be considered in the preparation of the annual accounts. These subsequent events shall give rise in the annual accounts, depending on their nature, to an adjustment, information in the notes to the accounts or both.

Events occurring after the end of the financial year which reveal conditions that did not exist at the end of the year shall not give rise to an adjustment in the annual accounts. However, when the events are of such importance that failure to disclose them could distort the ability of users of the financial statements to evaluate them, the notes to the financial statements should include information about the nature of the subsequent event together with an estimate of its effect or, if appropriate, a statement that such an estimate cannot be made.

In any event, any information that could affect the application of the going concern principle must be taken into account in the preparation of the annual accounts. Accordingly, the annual accounts shall not be drawn up on the basis of that principle if managers determine, even after the end of the financial year, that they intend to wind up the undertaking or cease trading, or that there is no more realistic alternative but to do so".

Consequently, the Annual Accounts must refer to COVID-19 in different sections of the normal reports that are detailed below:

- Note 2. "Basis of presentation of the Annual Accounts": a specific section should be added: "Critical aspects of valuation and estimation of uncertainty" to gather information on the impact of COVID-19.
- Note 14. Provisions and contingencies: description by nature and, if possible, quantified estimate of the possible impact on the financial statements and, finally, if the provision could

- not be accounted for as it cannot be reliably quantified, explain the reasons.
- Note 22. Post-closing events: adjustment (if applicable), information on the subsequent event, application of the principle of operation or liquidation/ cessation of activity. Mitigating factors.
 - Management report: description of the company's situation caused by the COVID-19 and the foreseeable development of the business together with a description of the main risks and uncertainties it faces.

In the case of companies using the SME format, references to COVID-19 should be included in points 2 "Basis of presentation of the annual accounts" and 10 "Other information" of the report.

Finally, it should be noted that in the case of companies subject to mandatory auditing, both the section on subsequent events and the principle of Business as Usual will be of importance. Consequently, it is recommended that the strength of working capital (accounts receivable and payable), possible impairment of the company's assets, the possible effects of the breakdown of the supply chain, postponement of investment decisions and a review of the budget for the year be analysed and examined.

We hope the information is useful and of interest to you. At Andersen Tax & Legal we have created a multidisciplinary team to deal with all the questions that may arise on this aspect or in relation to the COVID-19.

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