

CHALLENGES WITHIN THE FINANCIAL-ACCOUNTING ACTIVITY IN THE CONTEXT OF COVID-19

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Abstract

The period of the COVID-19 pandemic brought many economic, social and environmental challenges. In the financial-accounting sector, the situation of uncertainty, including remote work, has generated and continues to generate various problems for companies and their employees. One of these is the temporary inability of employees to carry out their activity even within the financial-accounting activity. Another challenge that many companies have faced has been the adoption of online commerce as a method of maintaining the business during the pandemic. This form of trade also meant different work for the financial-accounting departments, which had to adapt to the new style of trade, which also involves new financial-accounting rules and regulations.

In this paper we analyze the challenges to which the financial-accounting activity have been subjected as a result of the numerous measures of fiscal and commercial nature, but also some long-term benefits of these measures.

Keywords: COVID – 19, financial-accounting activity, essential services, big winners in pandemic, losers and survivors in pandemic.

1. Introduction

The COVID-19 pandemic took all economic sectors by surprise. No one was prepared for such big changes in the way and pace of daily activities. As a result of the lock-down measures, the companies had to reorganize their activity, and because the authorities took a series of financial protection measures, the financial-accounting departments had additional obligations.

Regardless of the reasons for local or global problems, within the financial-accounting department, the economic entity is obliged to ensure the registration (recognition) of transactions in up-to-date accounting with the appropriate internal control of the company to allow the correct collection of information and, more chosen, they should be timely. It is essential to consider compliance with internal audit requirements, but also the obligation to prepare financial and fiscal statements on time. Daily financial-accounting activities, which must ensure continuity in the collection and processing of information, put additional pressure on the economic entity that, in the context of the current crisis, must dedicate itself to preparing the necessary reports for information users in the decision-making process.

In the presence of such a context, any economic entity must analyse its internal economic resources in order to be able to consider the appropriate solution,

adapted to the particularities of the current situation. Accelerating digitalization within the finance department by adopting existing tools on the market, can be one of the ideal solutions for companies that not only want to solve a problem related to the impossibility of employees to carry out their activity, but also aim at streamlining existing processes .

In analysing the situation of the team in the financial-accounting department, in the context of the digital economy, companies can use modern solutions such as outsourcing their own processes to the financial-accounting department, the department responsible for preparing reports necessary for decision making. Another solution would be to outsource operational reporting, using business intelligence tools - Power BI, Tableau, QlickSense.

2. Economic challenges during the pandemic

Since the beginning of the COVID-19 pandemic, the National Institute of Statistics has conducted several statistical surveys on economic activity trends, the impact of SARS-COV2 on the volume of exports and imports of goods and the assessment of the environmental impact of COVID-19 to quantify the impact of the crisis on economic activity and the volume of foreign trade, the results of which were of real interest to decision-makers, the media and users in

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general. The implications of the pandemic on economic activity and the natural movement of the population underlie new national and European statistical data requirements on the impact of prevention measures on sectors of national economies.

In order to control the pandemic with the new coronavirus, unprecedented measures were taken, measures that left traces on many areas of activity. Many sectors of activity are currently in a situation where they need to rethink their strategy, protect their employees and ensure business continuity. The latter is a central element that companies must ensure, including for financial-accounting activities. In the context of the Covid - 19 pandemic, the Romanian state came to the aid of companies but also of citizens with a series of fiscal measures in order to help the business environment to overcome the financial difficulties it is currently facing, as well as to prevent the accumulation of new debts to the state by supporting taxpayers' compliance with payments. Taxpayers are therefore in a rare situation of currently having a very diverse range of tax facilities at their disposal, and the choice of the optimal route requires an analysis of these options.

We can group the fiscal measures into three categories:

- Immediate fiscal measures: funds to strengthen the health system; risk incentive for employees in medical units; subsidizing technical unemployment - 75% of gross salary; allowances for reducing working time; allowances for parents (suspension of courses).

- Fiscal deferral measures, the most important of which are:

- the total cancellation of interest, penalties and all accessories related to outstanding budget obligations on March 31, 2020. The tax amnesty allows taxpayers to request the cancellation of all accessories related to tax obligations due on March 31, 2020. This it applies not only to unpaid accessories, but also allows the return of accessories already paid, but only if they have been paid after the date of entry into force of the ordinance (14 May 2020). Although the scope of the amnesty is quite wide, taxpayers wishing to benefit from this facility must meet certain conditions specific to each of the situations presented above. Of these, the most important is that, at the time of registration of the cancellation request, the taxpayers have submitted all the declarations and have paid up to date (or have extinguished by any method) all the main or ancillary tax obligations due to the state budget, with except for ancillary obligations whose cancellation is sought.

- restructuring of outstanding tax liabilities on 31 July 2020 under certain express conditions. The restructuring procedure, as regulated by this ordinance, with subsequent amendments and completions, is a solution that can benefit any legal entity, except public institutions and administrative-territorial units, which are in financial difficulty, are obliged outstanding on 31 July 2020 and presents a restructuring plan. Legal entities that meet the legal conditions must notify the

tax authorities of their intention to benefit from this facility by March 31, 2021, the deadline for submitting the actual application being June 30, 2021.

- a simplified procedure for granting payment rescheduling in accordance with the rules of the Fiscal Procedure Code and, in the alternative, postponing certain deadlines in the context of the COVID-19 epidemic. More specifically, it offers taxpayers the possibility to pay in several instalments the main and ancillary tax obligations whose maturity / payment deadline has been met after the date of declaration of the state of emergency, based on a request subject to conditions of grant, which can be formulated until 15 December 2020. The main and ancillary tax obligations are staggered for a maximum period of 12 months, the beneficiary being any natural or legal person. In addition to the new provisions on payment rescheduling, another welcome measure is the extension of deadlines, namely the extension of the period of non-application of accessories for outstanding debts until 25 December 2020 and the extension of the deadline for VAT refund with subsequent control until 25 January 2021.

- Monetary measures NBR - liquidity requirements

- reduction of the reference interest rate (from 2.5% to 1.5%)

- acquisitions of government securities on the secondary market (5 billion lei)

- framework arrangement with the ECB through which they can borrow up to EUR 4.5 billion (valid until July 2021).

Therefore, taxpayers facing financial difficulties have these modalities at their disposal for the restructuring, cancellation or staggering of outstanding tax obligations, which partially overlap. The decision to choose one of these should be preceded by a careful analysis of the current situation and business forecasts for the next period.

3. The impact of the pandemic on the Romanian economy

The year 2020 had a good economic start, according to data published by the National Institute of Statistics, in the first quarter of 2020 compared to the first quarter of 2019 the economy registered an advance of 2.4% (gross series, provisional data). In terms of economic growth, Romania recorded the second highest growth in the EU (Ireland, 4.6%). Across the EU as a whole, economic growth contracted by 2.4%. On a seasonally adjusted series, the quarterly gross domestic product in Romania increased by 2.7% in the first quarter of 2020 compared to the corresponding quarter of the previous year.

The volume¹ “of industrial production decreased in the first 6 months of 2020 compared to the same period in 2019, by 16.4%, the most vulnerable branches, in the context of the pandemic, being those of light industry and capital goods industry (manufacture of motor vehicles, cars and machinery and electrical equipment manufacturing).”

“In the case of the light industry branches, there was a continuation of the decline in recent years, caused by a gradual loss of competitiveness, but also a narrowing of external demand during the pandemic crisis. The minimum activity registered in April resulted in reductions of about 50% in the case of the textile industry and the manufacture of clothing and of 70% for the leather industry. May marked the beginning of the process of recovering from this contraction, as in the vast majority of industries.”²

Starting with March 2020, the health crisis is also found in the economic one, aiming at the reaction of the economy both in the short term and in the long term, the Romanian economy being impacted differently from one branch to another, from one sector economically to another. The performance of the construction sector is notable in the context of the pandemic, the volume of construction works increasing in the first half by 18.9%. However, in the last two months, the momentum in the first part of the year has moderated, especially in the new construction component, which recorded an annual increase of only 0.4% in June, as noted by the National Strategy and Forecast Commission.³

The specialists of the Faculty of Economic Sciences within the Babeş-Bolyai University of Cluj-Napoca monitor in real time the impact of the COVID-19 pandemic on the Romanian economy. UBB has launched an online platform in which economics researchers publish interactive infographics with the evolution of COVID-19 cases in Romania and in the world, government social and economic measures, stock market reactions, reactions of top 50 companies in Romania to the coronavirus pandemic⁴. The analyses of UBB experts show that the areas most affected by the COVID-19 pandemic, after the decrease in the contribution to GDP, are:

- 1. Tourism - 75%
- 2. Culture - 60.4%
- 3. Administrative services - 47.2%.

Having as subject the impact of the pandemic on tourism, the National Institute of Statistics published, on April 2, 2021, a report according to which⁵:

- In February 2021, compared to the corresponding

month of the previous year, arrivals in tourist accommodation structures with accommodation functions decreased by 31.2%, and overnight stays by 32.9%.

- Compared to February 2020, in February 2021, at the border points, the arrivals of foreign visitors decreased by 61.0%, and the departures abroad of Romanian visitors by 59.0%.

The National Strategy and Forecast Commission⁶ states that the impact of the pandemic on HORECA activity (this being one of the most affected areas) at the territorial level cannot yet be assessed based on data from official sources, but the indicator of overnight stays in tourist accommodation structures (Romanian tourists plus foreigners) is a satisfactory proxy for the real evolutions of the sector.

It is also specified that in 2020 measures were taken to reduce the risk of job loss and provide sources of income for employees and other categories of economically active persons, granting technical unemployment during the suspension of the individual employment contract for about 1,200 thousand employees, being made payments of 4,280 million lei, part of the amount was subsidized by the project #SPER, and the rest from the European Instrument for Temporary Support for Emergency Risk Mitigation (SURE).

“The COVID-19 pandemic also caused a negative evolution in the export activity of goods, both due to the deterioration of world trade flows and as an effect of the measures for distancing. Thus, in the first 10 months of 2020 compared to the similar period of 2019, the largest decreases in exports were registered in the regions: South - East (-19.89%), South Muntenia (-19.79%) , North - East (-18.13%) and West (-15.0%), given that at national level the reduction was 12.21%. At the same time, moderate decreases compared to the national level of exports were in the regions: Bucharest - Ilfov (-9.8%), Center (-9.7%) and North - West (-7.9%)”⁷.

On 11 February 2021, the European Commission⁸ published its 2021 winter economic forecast. According to them, the Romanian economy suffered a depreciation of 12.2% in the second quarter of last year, returned by 5.8% in the third quarter of 2020, mainly due to the recovery of private consumption, and supported by the strong performance of the construction sector sustained increase in gross fixed capital formation throughout the year. Industrial production offset some of its previous losses in the second and third quarters of 2020, but this

¹ Report on the economic and budgetary situation for the first six months of 2020, https://ec.europa.eu/info/sites/info/files/economy-finance/raport_edp_2020_final_en.pdf.

² Ibidem.

³ http://cnp.ro/user/repository/prognoze/Prognoza_de_vara_2020_prevederi_si_influente_Nota.pdf.

⁴ <https://www.edupe.ro/impactul-pandemiei-asupra-economiei-romanesti-reactiile-companiilor-din-top-50-evolutia-indicilor-bursieri-monitorizate-in-timp-real-de-cercetatorii-in-stiinta-economice-de-la-universitatea-babes/>?fbclid=IwAR3LHQjCS8-zzV6tvx8rN8twzXdLuEt-ol8mKEtqKZuMN60KpsDF9YIK8cY.

⁵ https://insse.ro/cms/sites/default/files/com_presa/com_pdf/turism02r21.pdf.

⁶ http://cnp.ro/user/repository/prognoze/Nota_prognoza_teritoriala_iarna_2020_2024.pdf.

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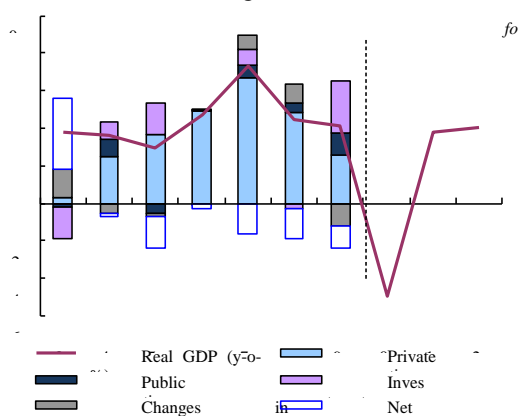
⁸ Ibidem.

positive performance appears to have stopped at the beginning of the last quarter.

In the 4th quarter, economic activity weakened somewhat as isolation restrictions caused by the pandemic were reintroduced in response to a new wave of infections. Fiscal support measures, some of which have been extended until mid-2021, have mitigated the impact of the crisis on the economy in 2020. Real GDP is projected to grow by 3.8% in 2021 and 4% in 2022.

By 2022, consumption is expected to remain robust in 2022. Investments will remain strong above the forecast horizon, supported by the construction sector.

Romania - Real GDP growth and contributions



Source:

https://ec.europa.eu/economy_finance/forecasts/2021/winter/ecfin_forecast_winter_2021_ro_en.pdf

One of the sectors severely affected by the COVID - 19 pandemic, restaurants have shifted to online orders. Since the outbreak of the COVID-19 pandemic, "orders for bundled and delivered food have increased by 14% among consumers who order at least once a month, prompting restaurants to reconfigure their networks, according to the Deloitte study" The Restaurant of the Future Arrives Ahead of Schedule - Time to Get on Board ", conducted among US restaurant customers and managers. Almost two thirds (68%) of consumers say they order food with delivery, 52% order in bulk, and almost half (46%) of respondents expect to maintain these habits after the end of the pandemic.

"Millennials exponents⁹, aged between 23 and 39, place the most delivery orders (65%), up 13% from the pre-pandemic period, and 77% of Generation X exponents, aged between 40 and 55 years old, order packaged food, 20% more than in the pre-COVID period¹⁰ "shows the Deloitte study.

In addition to the negative effects of the COVID - 19 pandemic, we can say that there are some benefits. Among the important changes with a positive effect on the economy caused by the influence of the pandemic is

the way we use digital activity. Thus, a Deloitte¹¹ study shows that "During the COVID-19 pandemic, more than eight in ten consumers (82%) tried at least one digital activity for the first time, such as ordering groceries online, using an educational or an exercise app, according to Deloitte Global Marketing Trends 2021, and more than half of them (53%) believe that their new digital experiences are an adequate substitute for activities they used to conduct prior to the pandemic. The study highlights the importance of expanding brands' digital ecosystem, as almost a third of respondents say that digitally native activities were a superior alternative to their in-person experiences... The current context is rapidly changing consumers' behaviour, who seem to favour the adoption of digital channels, with 66% agreeing that the pandemic has increased their appreciation for well-designed technologies. The health crisis has not only contributed to this change towards digital technologies, but it has also set a pattern for the years to come, according to the findings of the study, as 63% of respondents agreed that they would continue to use digital technologies more often well after the pandemic subsides."

The report concludes that purpose, agility, human experience, trust, consumers' participation, fusion and talent are the main seven global marketing trends on which brands need to focus in 2021 in order to build better connections with their customers, workforces and society.

The conclusion of this study should serve as a model for companies to focus on the use of online activity both for sale (those that have the field of trade) and for the development of financial-accounting activity. Since companies operate in unprecedented times, they need to adapt and embrace change as quickly as possible and adapt to new economic trends, seek partnerships outside their traditional fields, and use digital solutions to meet the needs of their customers.

The category of benefits also includes a series of improvements regarding the relationship of citizens, individuals or legal entities, with state institutions, by implementing online communication systems on most levels of social and economic-financial interest, action that brought important benefits in the financial-accounting activity. During the pandemic, online platforms were developed through which taxpayers can communicate with state institutions, submit statements, makes online payments and appointments for those operations that require their physical presence.

4. Conclusions

In order to control the pandemic with the new coronavirus, unprecedented measures were taken, measures that left traces on many areas of activity.

⁹ Millennials (Generation Y) are people born between January 1983 and December 1994.

¹⁰ Idem: Deloitte study.

¹¹ Half of consumers consider new digital experiences are an adequate substitute for activities they used to conduct prior to the COVID-19 pandemic, 25 November 2020. The study was conducted globally with the help of more than 2,400 consumers from China, the Kingdom of Saudi Arabia, Mexico, Qatar, Sout.

Many sectors of activity are currently in a situation where they have to rethink their strategy, protect your employees and ensure business continuity. The latter is a central element that companies must ensure, including for financial-accounting activities.

We can say without fear of error that the economic effects generated by the COVID - 19 pandemic at the sectoral level had an asymmetric social, economic and financial impact and divided the business into four categories. Thus, depending on the vulnerability, the 4 categories are: essential services, big winners, losers and survivors.

“The pharmaceutical services, food, health, telecommunications and utilities sectors are part of the essential services category. The big winners, those for whom the current crisis has represented an increase in market demand, are, for example, companies operating in e-commerce, video communications, cloud or

telemedicine platforms, courier services. The obvious losers of the shock are the economic entities in the field of tourism, entertainment, traditional retail or restaurants. The survivors, i.e. those sectors that could "escape" less affected by the crisis, could be companies in the field of financial services, real estate, online retail, fashion or media.¹²”

Regardless of the area in which they operate, companies have felt and will feel the economic effects of COVID-19. The World Bank has forecast that global GDP will decline by 5.2% in 2020, with recessions in both advanced and emerging market economies. This seems to outline the worst recession since the Great Depression and much worse than the Global Financial Crisis of 2008. Some countries in the world have come to the aid of companies and we have seen that they have been and will continue to be given generous to support companies in difficulty.

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