



Accounting and reporting implications resulting from the Ukraine war

The geopolitical situation in Eastern Europe intensified on February 24, 2022, with Russia's invasion of Ukraine. The war between the two countries continues to evolve as military activity proceeds and additional sanctions are imposed. In addition to the human toll and impact of the events on entities that have operations in Russia, Ukraine, or neighboring countries (e.g., Belarus) or that conduct business with their counterparties, the war is increasingly affecting economic and global financial markets and exacerbating ongoing economic challenges, including issues such as rising inflation and global supply-chain disruption. Because of its broader impact on these macroeconomic conditions, many companies globally may need to consider the war's effect on certain accounting and financial reporting matters.

It is important that entities aggregate and consider their direct and indirect exposures to the impacts of the war and consider the financial accounting and reporting implications, which could be numerous, particularly those with material subsidiaries, operations, investments, contractual arrangements, or joint ventures in Ukraine and Russia. Entities with significant suppliers, vendors, or customers

in Ukraine or Russia, as well as organizations that lend to or borrow from entities in those countries, also may experience accounting challenges. Even entities that do not have direct exposure to Ukraine or Russia may be affected by the overall economic uncertainty and negative impacts on the global economy and major financial markets arising from the war.

Although it may be too early to assess the war's broad implications, an entity's related accounting and financial reporting considerations may be similar to those arising from a severe economic downturn or catastrophic natural disaster. This document summarizes some of the relevant potential impacts arising from the Russia-Ukraine war that we may help our clients address.

Take a deeper dive

For more detailed discussion on each of the areas discussed in this point of view, please refer to Deloitte's "[*Financial Reporting Alert 22-1 on Financial Reporting Considerations Arising From the Russia-Ukraine War.*](#)"



SEC Reporting and Disclosure Considerations

In a manner similar to the treatment of other emerging risks, entities may need to add to their SEC filings disclosures about the impact of the war. When considering impacts, registrants should take into account broad potential issues such as closure or damage to facilities, disruption to operations and supply-chains, regulatory changes, the risk of increased cyberattacks, and others.

Sections of a filing where registrants most commonly provide disclosures about emerging risks include risk factors, MD&A, and the footnotes to the financial statements. While these disclosures would most often be included in a Form 10-K or Form 10-Q, providing a Form 8-K might give investors more timely information regarding a registrant's financial and operating status or the potential impact on revenue and earnings guidance for future periods.

Other considerations may include:

- Preliminary earnings estimates
- Non-GAAP measures
- Alternatives to non-GAAP measures, such as disclosing quantified estimated impacts of the war



Broad Financial Reporting and Accounting Considerations

It is important that entities carefully consider their unique circumstances and risk exposures when analyzing how the accounting impacts arising from the war may affect their financial reporting. Specifically, financial reporting and related financial statement disclosures need to convey all material current or potential effects arising from the war. The significance of the issues will of course vary depending on an entity's industry and circumstances, but we believe that those related to the following topics could be among the most pervasive and challenging:

• Recoverability and impairment of nonfinancial assets

When performing impairment tests for long-lived assets, intangibles, and goodwill, entities use recoverability and impairment models that rely on the development of cash flow projections, which are subject to significant uncertainties as a result of the war.

• Loss of control, the ability to exercise significant influence, or cessation of operations

Entities with subsidiaries, investments, or operations in the affected regions may lose control of or the ability to exercise significant influence over such operations or determine that they will voluntarily stop operating them or exit the affected countries.

• Foreign currency

It is possible that foreign currency restrictions or the development of multiple exchange rates could arise in certain countries, or that the economies of Russia and neighboring countries will become highly inflationary.

• Subsequent events

It may be challenging for an entity to distinguish between recognized and unrecognized subsequent events in a global marketplace that is extremely volatile and in which major developments occur daily.

Other considerations may include the accounting and reporting impact of:

- Forecasting challenges
- Inflation
- Supply-chain disruptions
- Balance sheet classification, including the determination of current vs. noncurrent assets and liabilities
- Income statement classification (e.g., the potential separate presentation of the financial effects of the war)
- Financial instruments and contract assets, including valuation and impairment considerations
- Exit or disposal cost obligations
- Revenue arrangements (e.g., contract terminations or modifications, estimates of variable consideration, etc.)
- Contingency and loss recovery matters
- Employee termination benefits
- Disclosure of risks and uncertainties
- Assistance and aid
- Income taxes
- Going concern disclosures



Internal Control Considerations

Entities should consider providing disclosures about the effects, if material, of the Russia-Ukraine war on their internal controls and disclosure controls and procedures. As a result of the war's impact, entities may need to implement new internal controls or modify existing ones. Entities must disclose in their quarterly or annual filings in Item 4 of Form 10-Q or in Item 9A of Form 10-K (or, for foreign private issuers, in Item 15 of Form 20-F) any changes in internal controls that have materially affected, or are reasonably likely to materially affect, their internal control over financial reporting.

Other considerations may include:

- Operating effectiveness of disrupted controls
- Compensating controls
- Identification and evaluation of deficiencies in disrupted controls
- Ability to complete financial statements and disclosures timely

How Deloitte can help

Deloitte has a team of professionals with experience advising and assisting companies on the issues discussed previously. We can help, whether through providing advice on accounting and reporting matters, assistance with drafting accounting positions and SEC filing disclosures, or assistance with augmenting or implementing internal controls.

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