

The COVID-19 pandemic has provided many lessons for business owners. One is how to report the impact of a disaster on a company's financial statements.

Under U.S. Generally Accepted Accounting Principles (GAAP), disasters such as this year's crisis are referred to as "[subsequent events](#)," of which there are two types:

1. **Recognized subsequent events.** These events provide additional evidence about conditions, such as bankruptcy or pending litigation, that existed at the balance sheet date. The effects of these events generally need to be recorded directly in the financial statements.
2. **Non-recognized subsequent events.** These provide evidence about conditions, such as a natural disaster, that didn't exist at the balance sheet date. Rather, they arose after that date but before the financial statements were issued (or available to be issued). Such events should be disclosed in the footnotes to prevent the financial statements from being misleading. Disclosures should include the nature of the event and an estimate of its financial effect (or disclosure that such an estimate can't be made).

For example, the World Health Organization didn't declare the COVID-19 outbreak a public health emergency until January 30, 2020. However, events that caused the outbreak had occurred before the end of 2019. The risk was present in China on December 31, 2019. Accordingly, calendar-year entities may have needed to recognize the effects in their financial statements for 2019 and, if applicable, the first quarter of 2020.

[Contact us](#) for help with your financial statements.