

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

heavy property damage along with lost sales during the time you're forced to close. Having a good understanding of the accounting rules related to natural disasters ...

Sep. 11, 2017



When a flood, fire, hurricane or other disaster strikes your business, you may suffer heavy property damage along with lost sales during the time you're forced to close. Having a good understanding of the accounting rules related to natural disasters can

help you fully account for your losses, reduce the economic harm to your business,

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

You will need to update your balance sheet to reflect the current value of your remaining inventory. You can generally include inventory losses as an expense when you prepare your financial statements and file your tax return. However, you will need to adjust for any insurance reimbursements — you cannot both claim a loss expense and exclude the insurance claim from your income.

Accounting for Property Damage

Damage to other assets, such as buildings or machinery, is handled in a similar manner to inventory. If the damage is so substantial that it causes a significant decrease in the asset's market value or prevents you from using the asset as you intended, you may be required to take an [impairment loss](#) and reduce the asset's value on your balance sheet.

When you file your taxes, you may also be able to [claim a deduction for any disaster-related decline in an asset's value](#) that was not reimbursed by insurance.

Calculating Payroll

If your business closes or brings in additional employees during a disaster, carefully review federal law, your local laws and your employment agreements to determine whether you're legally obligated to pay your employees.

Who Must Be Paid

Under the Fair Labor Standards Act (FLSA), [you may be required to pay exempt, salaried employees](#) during a temporary closing. In that circumstance, you may require your employees to use their paid leave time but may not refuse to pay them if they have no available leave time.

[Under federal law](#), nonexempt employees are generally only paid according to the

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

If a disaster delays processing paychecks, you should make issuing them one of your first priorities. Willfully failing to pay your employees in a timely manner is a violation of the FLSA and may also violate state laws. While you might be excused from penalties during a power outage or when your office is inaccessible, you should not delay payroll to try to manage your post-disaster cash flow.

Extending Tax Deadlines

After a major disaster, the IRS will automatically extend tax deadlines for individuals and businesses in the affected areas. Typical extensions vary based on the severity of the disaster and the type of tax.

- For income tax returns, the extension may be several weeks or months.
- For payroll tax deposits and information statements, the extension is generally only a few business days.

Note that an extension of time to file may not include an extension of time to pay. You should continue to make estimated tax payments as close to your usual schedule as possible to avoid additional interest charges.

If a major disaster disrupts your business and you are outside of the federally declared disaster area, or some other event, such as a fire, affects only your business, you may also be eligible for relief. Visit the [IRS website](#) or speak with [your accountant](#) to learn how to apply for an extension or to have penalties abated.

Reporting Insurance Proceeds

The exact accounting treatment of insurance proceeds depends on the nature of the policy and when payments are made. However, there are a few common themes.

- Insurance proceeds should be reflected on your financial statements. Even though

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

results of a disaster, remember that they follow [general accounting concepts](#). The goal is to accurately report your current assets and earnings. This includes totaling up your losses so you can claim your full tax deductions and any other post-disaster benefits you may be entitled to. Having a broad understanding of the general concepts will allow you to work more efficiently with your controller services to complete the technical reporting requirements.

Dennis Najjar is co-founder of [AccountingDepartment.com](#).

Accounting

CPA Practice Advisor is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2024 Firmworks, LLC. All rights reserved