The global economy is more connected than ever, with virtually every business from mom-and-pop specialty retailers to multinational conglomerates now routinely operating on a global scale. While that's been a boon for productivity and profitability, it can be a big hassle for accounting professionals, who must stay on top of global events and capture the financial statement effects.

This issue is coming to a head right now as the U.S. continues to threaten and impose trade tariffs on various countries, such as China and Mexico, the fallout of Brexit still looms, and several other countries, such as Venezuela, Zimbabwe and Turkey, are struggling with currency crises. The ripple effects are seemingly endless.

For accounting professionals around the globe, these events present some very

such as income, expenses, gains, losses, receivables, and payables.

FASB's Accounting Standards Codification for Topic 830, Foreign Currency Matters, provides some guidance on accounting for foreign currency transactions and translating financial statements. It explains that changes in exchange rates must be captured, as appropriate, when applying Topic 830, but tracking every fluctuation in exchange rates can be difficult.

For reporting entities that operate globally, it may be impractical to measure each transaction using the exchange rate on the transaction date. Therefore, as a practical matter, Topic 830 allows a reporting entity to use a weighted average exchange rate for the period to translate revenues, expenses, gains, and losses.

Some reporting entities have limited foreign currency transactions. In these cases, it generally is more appropriate to use the exchange rate on the transaction date. This provides a more accurate measurement, especially if exchange rates have varied widely during the period.

Topic 830 also provides specific guidance on measuring the financial statements of a foreign entity in a highly inflationary economy.

Valuations

Global disruption also creates a great deal of uncertainty. Uncertainty leads to market volatility and swings in asset valuations. Companies must ensure that their valuations are current as of the reporting date. For assets measured at fair value, the measurement must incorporate assumptions that a market participant would use. Those assumptions can change quickly when market volatility is high, so entities must be prepared to capture up-to-date information.

Hedge accounting

Companies that use hedge accounting under FASB Topic 815, Derivatives and

Impairments

The current environment also may raise concerns about impairments. Borrowers and investees in disrupted countries may be suffering from new tariffs, currency swings, changes in product demand, or other factors. This may ultimately increase credit risk. Therefore, investors and lenders must consider if any credit impairments or loan write offs must be recorded. For instance, investors and lenders may be closely watching assets tied to China, Mexico, Iran, Venezuela, Zimbabwe, Turkey, and the U.K.

Many assets require ongoing impairment evaluations, such as available-for-sale debt securities. Other assets only require a periodic impairment evaluation, unless a trigger event occurs. For instance, goodwill must be tested for impairment annually unless a trigger event happens. Global events, such as Brexit or changes in foreign policy, may qualify as trigger events.

Segment reporting

FASB Topic 280, Segment Reporting, generally requires a public entity to provide certain disclosures about its segments. Segments are identified based on how the chief operating decision maker (CODM) views the organization to allocate resources and evaluate performance. Major global developments may force companies to reconsider the structure of their organizations. In turn, an entity's segments may also need to be updated. Significant organizational shifts can also change the identity of the CODM.

Income taxes

Deferred tax assets and liabilities must be adjusted, as appropriate, to reflect changes in the amounts recorded in an entity's financial statements. For instance, an entity must revisit deferred tax amounts related to gains and losses on investments affected

when the change is enacted. An entity must stay abreast of tax reform in jurisdictions to which it is subject.

Disclosures

Disclosure is critical in times of change. Companies may need to disclose risks, uncertainties, and the financial statement effects of global disruption.

To determine appropriate disclosures, a reporting entity must consider whether information is important for users of its financial statements. Qualitative disclosures are helpful even if an entity cannot quantify the exact financial statement effects. In addition to footnote disclosures, an SEC filer must consider disclosures in earlier sections of its filings, such as its business description, risk factors, quantitative and qualitative disclosures about market risk, and management’s discussion and analysis. The timing of disclosures is also important. Early warning disclosures are required. The SEC may question companies that record losses due to global disruption but failed to provide sufficient early warning disclosures in prior filings.

Moving Forward

In an ever-evolving landscape, the list of global disruptors can change by the day. As a result, accounting professionals and reporting entities alike must follow recent developments and be prepared to capture the effects in their financial statements. It may feel like a moving target, but the stakes are high, and hyper-vigilance can be the key to navigating this global volatility.

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