

Coronavirus – Hospitality Accounting Considerations

By Ronald R. Martinez, Senior Manager

The COVID-19 pandemic has resulted in substantial volatility in the global economy. The coronavirus outbreak has had – and will continue to have – an adverse effect on the results of operations of those companies operating in the hospitality and tourism industry. This article will address some issues specifically affecting the sector.

Recent federal, state and local regulations regarding the ability to travel, dine in bars/restaurants, and convene as a group for meetings and conferences has affected current operations and will affect future operations. This has caused a significant decline in occupancy for hotels, closures of restaurants, and cancellation of events to be held at event spaces. In many cases, hotel companies have temporarily closed down, or substantially reduced, operations and laid off or furloughed many of its employees.

The extent to which the COVID-19 pandemic impacts the operations of companies operating in the hospitality industry will depend on future developments which are highly uncertain and cannot be predicted. New information which may emerge concerning the severity of coronavirus and further actions taken by the government to contain the pandemic and its impact will influence the industry's operations.

Hospitality Considerations

Although the full impact of the COVID-19 pandemic cannot be reasonably estimated, a company's management should be considering the possible effects on future results of operations, cash flows, and financial condition, as well as the following:

- **Going concern** – Will the company be able to continue as a going concern? Does it have the ability and have enough liquidity to meet its obligations? Are its investors and shareholders willing [and have the ability to] sustain the operations of the hotel(s) when funds are needed?
- **Impairment of long-lived assets** – Are the closures permanent or temporary? Will the asset still generate revenues and income to justify the valuation of the hotel assets?
- **Compliance with mortgage and loan covenants** – Many loan agreements contain covenants that are based on companies meeting certain levels of income in order to meet debt service and make deposits in various restricted accounts. Will the company be able to meet its debt service obligations and covenants? Companies should start looking at their loan agreements and start having discussions with their lenders regarding any future inability to make such payments and deposits.
- **Internal controls over financial reporting** – Many companies have resorted to requiring its employees to work from home. Did the company reassess or make changes to the design of its internal controls in order to properly process, review, and approve transactions given that most employees are working remotely?
- **Subsequent event disclosures** – For those who have yet to release and issue their 2019 financial statements, adequate disclosures should be made regarding the effects of the pandemic on its business. Management may also need to reassess if any of its assets are impaired or require reserves.

General Considerations

To assist companies in coping with the pandemic, we recently published an article entitled [27 Practical Ideas to Help Keep Your Organization Up and Running During the Pandemic](#) for your reference. Of course, your company should monitor on a daily basis the federal, state and local websites for real time updates on conditions.

Contact Us

If you have any questions about this article or any other hospitality accounting matters, please contact Ronald R. Martinez, Senior Manager, at rmartinez@pkfod.com, or Clare E. Cella, Partner, at ccella@pkfod.com or your PKF O'Connor Davies engagement team. We are here to help.

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