**THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN**

**AZERBAIJAN STATE UNIVERSITY OF ECONOMICS**

**INTERNATIONAL GRADUATE AND DOCTORATE CENTER**

**MASTER DISSERTATION**

**On the topic**

# "FEATURES OF THE REFLECTION OF COSTS IN THE ACCOUNTING AND TAX ACCOUNTING OF PRODUCTION FACILITIES IN CONNECTION WITH THE CORONAVIRUS PANDEMIC"

**Əskərova Aytac Musa**

**BAKU - 2022**

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**"_____" _____ 2022**

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**Code and name of the specialty:** 060402- Accounting and Audit

**Specialisation:** "Accounting and audit in the field of production"

**Group:** 454


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**BAKU - 2022**

## Elm andı

Mən, Əskərova Aytac Musa and içirəm ki, “Features of the reflection of costs in the accounting and tax accounting of production facilities in connection with the coronavirus pandemic” mövzusunda magistr dissertasiyasını elmi əxlaq normalarına və istinad qaydalarına tam riayət etməklə və istifadə etdiyim bütün mənbələri ədəbiyyat siyahısında əks etdirməklə yazmışam.

**“KORONAVİRUS PANDEMİYASI İLƏ ƏLAQƏDƏR İSTEHSAL MÜƏSSİSƏLƏRİNDƏ XƏRCLƏRİN MÜHASİBAT VƏ VERGİ UÇOTUNDA ƏKS ETDİRİLMƏSİ XÜSUSİYYƏTLƏRİ”**

## XÜLASƏ


**Tədqiqatın aktuallığı: Xərclərin mühasibat və vergi uçotunda əks etdirilməsi bütün müəssisələr, xüsusilə istehsal müəssisələri üçün son dərəcə vacibdir. Hər bir müəssisənin xərclərin uçotu qaydaları müvafiq uçot siyasətinə uyğun olaraq fərdi qaydada hazırlanmalıdır.Tədqiqat işi pandemiyanın davam edən təsirindən yaranan hər bir şirkət üçün mümkün mühasibat uçotu və açıqlama nəticələrini göstərəcəkdir.**

**Tədqiqatın məqsədi:Əsas məqsədi pandemiya şəraitində istehsal müəssisələrində mühasibat və vergi uçotunda xərcləri öyrənmək və təhlil etməkdir.**

**İstifadə olunmuş tədqiqat metodları: Araşdırmada müqayisə, analiz, riskin qiymətləndirilməsi metodlarından geniş istifadə edilmişdir (xüsusilə dissertasiyanın ikinci fəslində).**

**Tədqiqatın informasiya bazası: Tədqiqatın informasiya bazasına azərbaycan və ingilis dilində yazılmış məqalələr, ədəbiyyat, həmçinin internet resursları və jurnallar daxildir.**

**Tədqiqat məhdudiyyətləri: Tədqiqat heç bir şəkildə məhdudlaşdırılmır. Məhdudiyyətlərin olmaması mövzunun öyrənilməsi prosesini xeyli asanlaşdırır.**

**Tədqiqatın elmi yeniliyi və praktiki nəticələri: Tədqiqatın elmi yeniliyi COVID-19-a uyğun olaraq mühasibat və vergi uçotunun işlənib hazırlanması, praktiki nəticələri isə əldə edilən məlumatların istehsal müəssisələrində istifadəsidir.**

**Nəticələrin istafadə oluna biləcəyi sahələr: Dissertasiyada əldə edilmiş elmi nəticələr və təkliflərdən müəssisə və təşkilatlar, habelə dövlət orqanları və bu sahədə maraqlı olan digər şəxslər maliyyə uçotu siyasətini düzgün qurmaq üçün istifadə edə bilərlər.**



**Açar sözlər: vergi uçotu, istehsal müəssisələri, vergi tədbirləri, məsrəflərin uçotu, iqtisadi artım.**

**“FEATURES OF THE REFLECTION OF COSTS IN THE ACCOUNTING AND TAX ACCOUNTING OF PRODUCTION FACILITIES IN CONNECTION WITH THE CORONAVIRUS PANDEMIC”**

## SUMMARY

**The actuality of the subject: The reflection of costs in accounting and tax accounting is extremely important for all businesses, especially for production facilities. The cost accounting rules for each entity should be developed individually in accordance with the relevant accounting policies. The research will illustrate the potential accounting and disclosure implications that may arise for each company from the ongoing impact of the pandemic.**

**Purposes of research: The main purpose is to study and analyze the costs in accounting and tax accounting in production facilities during pandemic.**

**Used research methods: The method of comparison, analysis, risk assessment was widely utilized in the research (particularly in the second chapter of the dissertation).**

**Information base of the research: It involves articles, literature as well as Internet resources and magazines written in English and Azerbaijani.**

**Restrictions of research: Research is not restricted in any way. The lack of limits makes the process of studying the subject much easier.**

**The scientific novelty and practical results of investigation: The scientific novelty is the development of cost and tax accounting in accordance with COVİD-19, and the practical results are the use of the received information in production facilities.**

**Scientific-practical significance of results:The results used in this dissertation can be implemented and used by entities, government and others who is interested in the proper establishment of financial accounting policy.**

**Keywords: tax accounting, production facilities, tax measures, cost accounting, economic growth.**

## ABBREVIATIONS

**IMF** International Monetary Fund

**MNE** Multinational Enterprises

**WTO** World Trade Organization

**OECD** Organization for Economic Cooperation and Development

**NASA** National Aeronautics and Space Administration

**ESA** European Space Agency

**EEA** European Environment Agency

**IEA** International Energy Agency

**WBES** World Bank Enterprise Surveys

**CRM** Customer relation management

**KPI** Key Performance Indicator

**ICAO** International Civil Aviation Organization

**IATA** International Air Transport Association

**UNWTO** United Nation World Tourism Organization

**CAS** Cost Accounting Standards

**BDO** Banco de Oro

**ECL** Expected Credit Loss

**IFRS** International Financial Reporting Standards

**VAT** Value-added taxes

**CIT** Corporate Income Tax

**CONTENTS**

# INTRODUCTION

**Relevance of the research topic:** Nowadays, one of the global and actual issues all over the world is considered coronavirus pandemic. It is obvious that the Coronavirus viral pandemic is an unprecedented worldwide issue that is also a deeply personal experience with wide-range of impacts because the virus has disrupted lives through communities and states, as well as negatively affecting global economic development in 2020 beyond anything observed in nearly a century. Covid-19 is causing difficulties in more than one county. All over the world caught Covid-19. This paper attempts to analyze the macro economic and financial impacts of new coronavirus on the world. Our paper will illustrate the potential accounting and disclosure implications that may arise for each company from the ongoing impact of the pandemic.

**Statement of the problem and learning level:** Research is performed in order to analyse the situation, especially feature of reflection of costs in the accounting and tax accounting of production facilities and its needs from tax and accounting perspective during Covid-19 pandemic. Features of the reflection of costs in the accounting and tax accounting of production facilities in connection with the coronavirus pandemic have been studied by a number of authors to date and they are proffering ways by which individuals and governments of nations could plan and respond to mitigate the impact of the pandemic.As a result, we only highlight those that are most relevant to our research. These authors include Jinjin Mou, Olga Golubeva, James K. Jackson, Rebecca M. Nelson, T Ibn-Mohammed ,K B Mustapha, Oyinlola Abodunrin ,Gbolahan Oloye, Damilola Omodara, Deborah Ikhile,Gene Falk, Demmou, L., G. Franco, Ilaha Abasli, Gulnur Kazimova and others.

**Purposes and objectives of the research:** The primary focus of our research project is usually expressed in terms of aims and objectives. A research aim describes the main goal or the overarching purpose of our research project. The purposes of the research are as follows:

1. to present a framework that reflects the pandemic's effects and potential responses;
2. to explore the impact of Covid-19 on several major states' economies;
3. to investigate the relation of Azerbaijan accounting standards to IFRS;
4. to discuss the positive and detrimental impacts of COVID-19 on global economy and to propose a future action plan or COVID-19 recovery action;
5. to analyze and assess of the impacts of COVID-19 on specific industries;
6. to investigate the influence of business, country-specific and financial factors on company performance within COVID-19;
7. to analyze and compare the business atmosphere, GDP, accounting and tax issues;
8. the analyze the most important tax and accounting aspects of the issue;
9. to investigate the impact of the coronavirus pandemic on enterprise cost accounting;
10. to explore tax accounting implementations related to production facility costs;
11. to compare the pre and post pandemic situation of the economy, taxation and accounting;
12. to explore some accounting practices that can be used by firms during a pandemic.

**Subject and object of research:** The object is the accounting and tax accounting of production facilities and the subject is the features of reflection of costs in connection with the coronavirus pandemic.

**Research methods:** The research was written by the usage of multiple methods such as analytical method, synthesis method, comparative method and others. The methods will be explained in a detailed way through the paper.

First one is the analytical method which was used in research. Using this method, the analysis of the most important tax and accounting aspects of the issue was done,

especially, the international and local influence of the pandemic to the mentioned aspects.

As we know, accounting and tax issues are related, as the difference in the accounting method can change the taxation of the companies. In this work, I will be relying on IFRS changes that are caused by the Covid-19.

Another method used is the comparative method. This method is designed to differentiate by making analyzes. Considering that pandemic has changed the way of doing business across the world, we need to be able to analyse and compare the business atmosphere, GDP, accounting and tax issues around it. At the same time, using OECD platform as a tool for comparison, we will be able to fully present the comparison of it. The issues mentioned in the title relate to the pre and post pandemic situation of the economy, taxation and accounting.

Based on the survey results, the results will be reanalyzed using diagrams and tables. We use also the risk assessment method. After the risks are identified, they are evaluated and prioritized by considering their probability of occurrence and the impact they will create.

**Research database:** Accounting Act, Organisation for Economic Co-operation and Development (OECD), İnternational Financial Reporting Standards, National Accounting Standards for Business Entities, International Accounting Standards, etc. It has organized information about accounting indicators on internet resources.

**Research limitations**: Research is not restricted in any way. The lack of limits makes the process of studying the subject much easier.

**Scientific novelty of research:** The results used in this dissertation can be implemented and used by entities, government and others who is interested in the proper establishment of financial accounting policy.

**Practical significance of the results**: Because of the immediate stoppage, the production and the industry has taken losses due to shortage of raw material, rent, labor and etc. The practical results are the use of the obtained data in production facilities. Azerbaijan taxpayers can apply the results in their tax accounting and also the tax authorities can benefit from the dissertation results.

# CHAPTER I. TODAY'S UNPRECEDENTED CHALLENGE OF THE WORLD: CORONAVIRUS PANDEMIC

## 1.1 The impacts of Covid-19 on world and Azerbaijan economy

This paper will attempt to assess the impacts of today's global issue-COVID-19 on world and Azerbaijan economy. It is obvious that the Coronavirus viral pandemic is an unprecedented worldwide problem that is also a deeply personal experience with wide-range of impacts because the virus has disrupted lives throughout all communities and countries, as well as negatively affecting global economic development in 2020 beyond anything observed in nearly a century. Covid-19 is causing difficulties in more than one county. Economic growth is slow, especially in developing countries. Let's explore how the corona virus affects businesses and economic situations. Wuhan in China was the source of the COVID-19. This corona virus first appeared in Wuhan and then expanded over the world, slowly but steadily spreading from one country to another one, now the entire world is surviving from COVID-19. Coronavirus was causing problems in every country. All governments are attempting to keep their economies from collapsing. They're considering incentive packages that didn't bring the world economy into a deep recession. However, as a result of our deep research and analyses it can be concluded that Coronavirus has several positive impacts on world economy. We discussed some of them. Despite its numerous negative consequences, COVID-19 has caused certain natural changes in behavior and attitudes that have had a positive impact on the environment (T Ibn-Mohammed et al.; 2020).

Azerbaijan's economy has been strongly influenced by COVID-19 and the consequent sharp drop in oil prices. Azerbaijan allocated the largest share of GDP through post-Soviet Nations in an effort to mitigate the pandemic's negative economic impacts. The goal of this paper is to explore the economic and social reactions to COVID-19, question their accuracy and inclusivity and consider how oil price fluctuations and the pandemic can affect Azerbaijan's socioeconomic policy projections (Gulnur Kazimova; 2021).

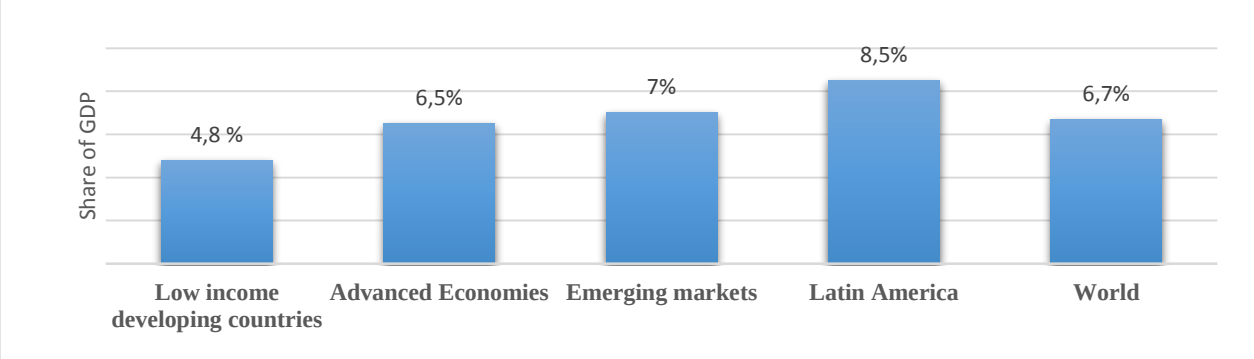
Infections decrease labor supply. To control the virus, quarantines, area lockdowns and social isolation are commonly adopted. Supply chains are disrupted and productivity suffers as a result of workplace closures. COVID-19 has a greater impact on the world economy than the Great Depression of 2008 (Jinjin Mou; 2020).

**Table 1: The effect of COVID-19 on world economy compared with the economic crisis in 2009(%)**

| GDP growth rate | 2008 | 2009 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| World | 3 | -0.1 | 2.9 | -3 | 5.8 |
| China | 9.7 | 9.4 | 6.1 | 1.2 | 9.2 |
| Japan | -1.1 | -5.4 | 0.7 | -5.2 | 3 |
| Korea | 3 | 0.8 | 2 | -1.2 | 3.4 |
| United States | -0.1 | -2.5 | 2.3 | -5.9 | 4.7 |
| ASEAN-5 | 5.4 | 2.5 | 4.8 | -0.6 | 7.8 |
| European Union | 0.9 | -4.2 | 1.7 | -7.1 | 4.8 |
| Africa | 4.5 | 3.2 | 3.2 | -1.7 | 4.6 |

**Source:** International Monetary Fund

**Figure 1: By economy, the share of GDP lost as a consequence of the coronavirus pandemic (COVID-19) in 2020**

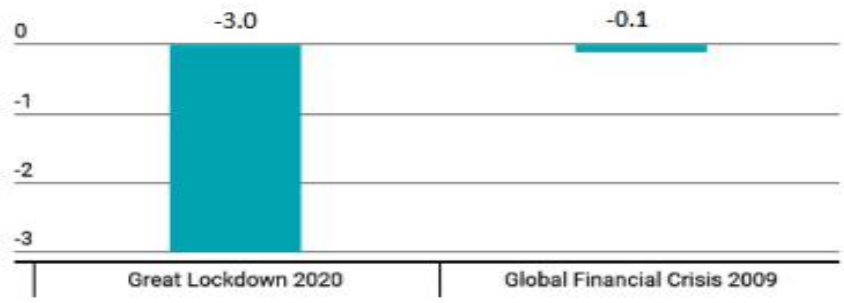



**Source:** M. Szmigiera,2021

## Negative macroeconomic impact of COVID-19

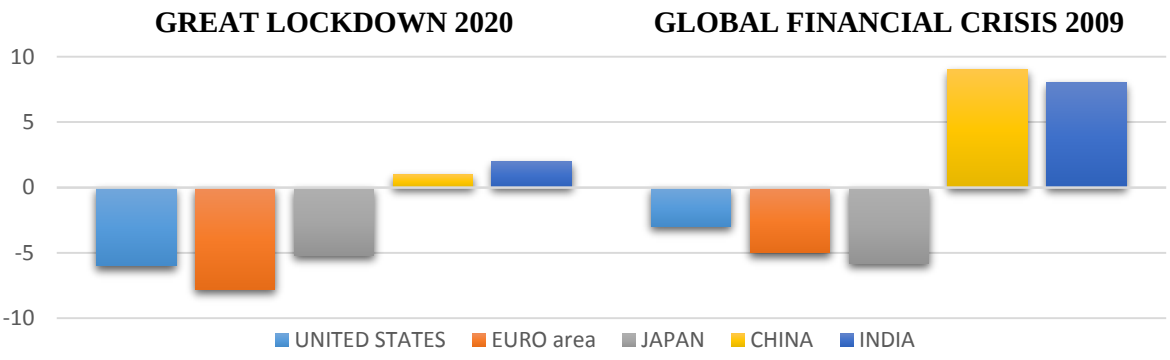
COVID-19 caused a significant damage on the world economy, causing governments, businesses and individuals to make some adjustments. In addition to the above mentioned, COVID-19 has caused assumptions of global operations to change and also has shown that the inability of global economic model to respond to crisis. COVID-19 has shown the inefficiency of centralization in worldwide supply and production chains networks (T Ibn-Mohammed et al.; 2020).

**Figure 2: Economic recession statistics all over the world during Covid-19 and global crisis in 2009**




**Source:** IMF,2020

**Figure 3:** Recession in major economies




**Source:** IMF,2020

## Negative impact of COVID-19 on global supply chain and international trade

Fragmentation and geographical dispersion are inevitable problems in supply chains. According to a study by the US Institute for Supply Management, 75%

businesses have experienced supply chain disruptions which in case caused the disruptions in export and import. In conclusion, it is obvious that COVID-19 destruction reduces the scale of manufacturing in an exporting state, hence limiting export supply. The World Trade Organization estimated 32 % drop in world trade as a result of COVID-19. Global trade, for example, has witnessed a significant decline as a result of lower Chinese imports as well as the subsequent drop in global economic activities. According to updated assessments of COVID-19's economic effect and earnings revisions by the largest multinational enterprises, the downward pressure on the FDI moved from -30 percent to – 40 percent in 2020-2021. Earnings estimates for the top 5000 MNE's, which account for a significant large share of global FDI, have been revised downward by 30% on average for 2020 (T Ibn-Mohammed et al.; 2020).

### Gross Domestic Product (GDP)

The economic fallout could involve recessions in the United States, the eurozone, and Japan, as well as China's slowest growth on record and an overall loss of $2.7 trillion in output—equivalent to the UK's entire GDP.

**Table 2: Changes in GDP Growth Rate (%) of 1000+ Corona Impacted Cases Countries**

| Countries | July-September 2019 | October-December 2019 | January-March 2020 |
|---|---|---|---|
| China | + 1.40 | + 1.50 | -1.80 |
| Italy | +0.06 | -0.30 | -2.80 |
| Spain | +0.41 | +0.53 | -2.20 |
| Germany | +0.20 | +0.03 | -0.30 |
| USA | +0.52 | +0.52 | +0.18 |
| France | +0.26 | -0.05 | -0.20 |
| S.Korea | +0.41 | +1.26 | +0.50 |
| Switzerland | +0.42 | +0.31 | +0.40 |
| UK | +0.49 | +0.02 | +0.02 |

**Source:** OECD , Trading Economics

| | | | |
|---|---|---|---|
| Netherland | +0.42 | +0.37 | +0.03 |
| Austria | +0.16 | +0.23 | +0.03 |
| Belgium | +0.44 | +0.40 | +0.02 |
| Norway | +1.58 | +0.02 | +0.04 |
| Sweden | +0.37 | +0.16 | +0.04 |
| Denmark | +0.51 | +0.19 | +0.40 |
| Canada | +0.28 | +0.09 | +0.02 |
| Malaysia | +0.60 | +0.60 | +1.30 |
| Australia | +0.55 | +0.53 | -0.30 |
| Japan | +0.03 | -1.81 | -1.20 |

## Balance of Trade

**Table 3: Balance of Trade (in Billion USD) of 1000+ Corona Impacted Cases Countries**

| Countries | October,2019 | November,2019 | December,2019 | January,2020 |
|---|---|---|---|---|
| China | +42.50 | +37.61 | +47.21 | -35.48 |
| Italy | +80.57 | +48.90 | +50.00 | +5.42 |
| Spain | -3.25 | -2.25 | -2.60 | -4.37 |
| Germany | +26.56 | +23.22 | +18.96 | +17.37 |
| France | -5.92 | -6.61 | -4.63 | -7.36 |
| S.Korea | +5.25 | +3.31 | +1.98 | +0.53 |
| Switzerland | +2.30 | +2.20 | +1.90 | +2.20 |
| UK | -2.10 | +4.06 | +7.30 | +4.88 |
| Netherland | +6.60 | +5.00 | +5.06 | +4.50 |
| Austria | +0.42 | -0.28 | -0.27 | -0.40 |
| Belgium | +2.30 | +1.72 | +0.80 | +0.77 |
| Norway | +15.90 | +23.06 | +17.38 | +16.28 |

| | | | | |
|---|---|---|---|---|
| Sweden | -4.00 | +2.4 | -2.30 | +9.90 |
| Denmark | +8.90 | +12.90 | +5.30 | +9.46 |
| Canada | -1.12 | -0.48 | -0.51 | -1.03 |
| Malaysia | +4.00 | +1.50 | +2.88 | +2.75 |
| Australia | +4.02 | +5.66 | +5.38 | +5.21 |
| Japan | +0.16 | -0.77 | -1.38 | -11.82 |

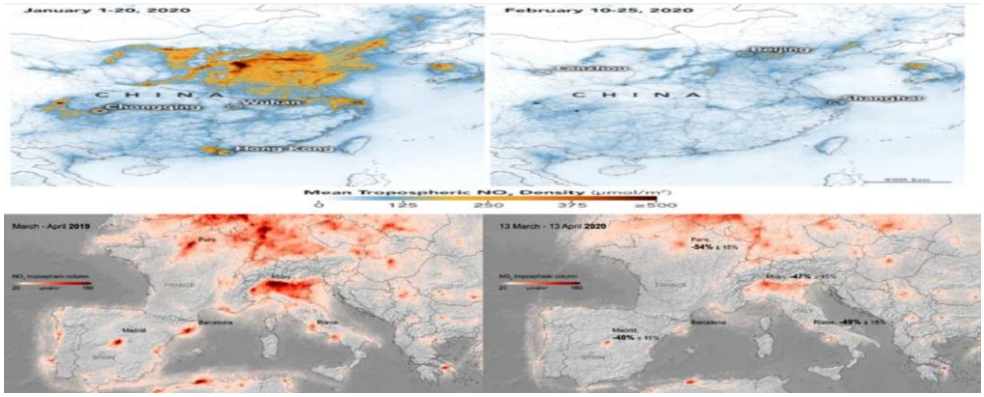
**Source:** Trading Economics

The immediate question that may occur when focusing on positive effects is, what are the positive effects in a worldwide pandemic situation?

### Improvements in air quality

As a result of COVID-19 effect, the air pollution in major cities throughout the world has decreased. As an example, China has achieved a 20-30% decrease in air pollution. Also same is applicable for India, Rome, Milan, Madrid and Paris where due to COVID-19, the air pollution has decreased (NASA, 2020).

**Figure 4: Changes in air quality during COVID-19**




**Source:** ESA,2020; NASA,2020

### Reduction in environmental noise

Along with the decrease in air pollution, the environmental noise has also decreased. It was identified by the European Environment Agency, EEA (2020) that environmental noise (eg. road traffic noise) constitutes environmental problem, which

impacts the well-being of millions of people across Europe. The problems include sleep distortion, annoyance, and metabolic problems (T Ibn-Mohammed et al.; 2020).

The exposure of Europe's population to long-term noise levels is about 20%. Thus, the environmental noise causes 48000 new heart disease each year. It was also reported that 22 million people is suffering from chronic annoyance, with 6.5 million people experiencing serious sleep disturbance.

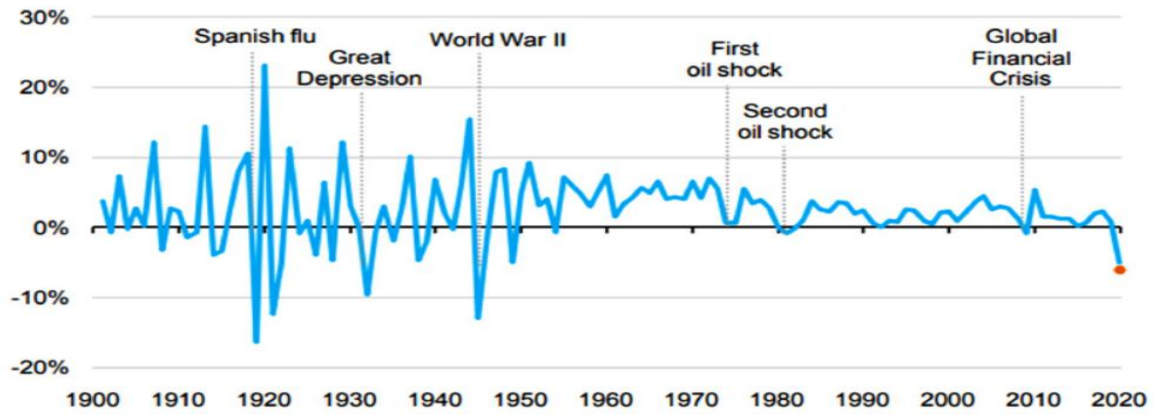
**Increased cleanliness of beaches**

Many beaches around the world has been modified in the mean of clearness, due to COVID-19 effects. Especially, considering that beaches are the land-ocean interface and that they are providing protection against marine storms, its clearness is an important component of natural capital assets in coastal areas.

**Decline in primary energy use**

Compared to the analogy period last year, in the 1st Quarter 2020, the demand for global energy has also declined by 3.8%. This decline was mainly due to control measures in North America and Europe increased (IEA, 2020). The International Energy Agency (IEA) mentions that in case the actions battling COVID-19 will continue, the demand for energy will fall by up to 6%, the impact of which will exceed the impact of the 2008 financial crisis more than seven times.

**Figure 5: Annual level of changing in primary energy demand since 1900**




**Source:** IEA,2020

**The impacts of Covid-19 on Azerbaijan economy**

Azerbaijan’s economy has been impacted strongly by COVID-19 and the consequent sharp drop in oil prices. The pandemic is having an impact on Azerbaijan's oil-dependent economy, with government critics claiming that Baku's lack of transparency has obscured the real picture. Azerbaijan’s post-Soviet economy has been mainly dependent on oil and gas,providing for 45% of the economy. The Baku-Tbilisi-Ceyhan Pipeline, the Baku-Novorossiysk Pipeline, and the Baku-Supsa Pipeline have all contributed to the country's significant economic growth throughout the years because of rising energy exports. Azerbaijan's economy grew at a modest pace after the 2014 crisis, when world oil prices fell by half overnight**.** The government concentrated on diversifying non-oil industries like as tourism, hospitality, and agriculture during this period. Nonetheless, the dual shocks of falling oil prices and the COVID-19 pandemic have raised the possibility of poverty and socioeconomic instability for oil-dependent countries like Azerbaijan, which lacks the financial resources absorbing these crises. Furthermore, the dramatic decline in demand for fuel attributable to worldwide lockdowns has had a detrimental influence on the government's revenue, resulting in a sharp fall in trade and financial activities, as well as severely impacting income obtained from the country's tourism and hospitality industries.Azerbaijan's government has imposed a special quarantine since March 2020, restricting travel and business operations. Despite these constraints, the COVID-19 virus was not prevented from spreading by these measures. The quarantine has had a significant economic effect on Azerbaijani society, resulting in increased unemployment and significant reductions in household income. With daily economic losses ranging from 120 to 150 million manats (71 to 88 million USD), Azerbaijan's economic forecast for the rest of 2021 looks increasingly bleak (Ilaha Abasli , 2020).

“The pandemic has weakened the Azerbaijani economy in two ways,” according to Togrul Valiyev, a former member of the opposition Republican Alternative Party

(REAL). "The first one is the problem of global oil prices, because oil and gas products represent for 90% of Azerbaijan's exports. As a result of falling oil prices, revenues have decreased.” **“**Then there was the domestic economy, in which retail sales dropped by up to 5%,” he said.The President of the Republic of Azerbaijan, Ilham Aliyev signed an Executive Order on initiatives to protect public health and strengthen anti-coronavirus countermeasures on March 19, 2020. The Special Coronavirus Response Fund was created, according to the Decree, to give financial support to the country's countermeasures. The President's Contingency Fund contributed around $12 million to the Fund. The Presidental Executive Order of March 19,2020, regulates a variety of actions that aimed at reducing the negative effects of pandemic on Azerbaijan’s economy, employment, macroeconomic stability and entrepreneurship. Large-scale, effective, and efficient actions are included in the Presidential Order Implementation Action Plan. For these purpose, $2 billion has been allocated. The state budget for 2020 was compared from the previous year's budget with 1.700.000 AZN ($1 million US) deficit. The government has started to roll out a significant support package for the unemployed (5.5 % in 2019) and small and medium enterprises, issued governmental guarantees for bank deposits, and generated a bail-out package valued 2.5 billion AZN ($1.47 billion USD) to counter the negative economic and social effects of the crisis on the country. Businesses will benefit from tax cuts and discounts as part of the package. The packages which included a a social security framework that involves financial assistance for the unemployed and business assistance in the way of tax cuts, new loan subsidies, as well as a financial assistance program worth a calculated 80 million AZN ($47 million USD) for 300,000 individual (micro) business owners working in the negatively affected sectors.

Amendments to Tax Code that give incentives and advantages for enterprises affected by the COVID-19 have been approved as of June 2020. The changes exclude some industries, including as tourism, passenger road transportation and cultural centers, from paying land and property taxes for a year. 75 percent exemption is also

received by income taxpayers.Food and medical security goods and services are free from Value Added Tax (VAT). The government of Azerbaijan has contributed $5 million to the COVID-19 fund as part of the World Health Organization's Strategic Preparedness and Response Program. Turkey and China have also sent medical assistance in the form of medical staff and goods to Azerbaijan. In its attempt to mitigate the negative economic consequences of the pandemic, Azerbaijan allocated the greatest proportion of GDP among post-Soviet Union nations with the implementation of these economic and social programmes. To address the economic issues resulting from the pandemic, the state budget allocated a full 3% of GDP to the Cabinet Ministers. Efforts have also been made to address the problems that the non-oil and gas industries, including construction, digital economy, transportation, logistics, agriculture and domestic tourism face.

The pandemic has disproportionately impacted a number of groups economically. Younger employees (who are at a higher risk of losing their jobs), employees in the hospitality and medical services (mostly women) and gig workers are among them. Some applicants for economic assistance during the outbreak were rejected because they were married, had a car registered in their name, or owned property.

Not just low-income families and persons, but also the middle class, which represents for 29% of the Azerbaijani population, having trouble obtaining government assistance. During the pandemic, the government provided unemployment support to approximately 500.000 citizens.

**Measures to protect Azerbaijan economy**

As a measure for protection of the economy of the Republic of Azerbaijan, the followings can be done:

- Implementation of the Action Plan
- Reforms in battling the COVID-19

- Organizing the program for the economic expansion
- Financial assistance to the business
- Government wage assistance
- Tax and customs holidays
- Subsidies to banks for provision of low interests to the business
- Food and medical goods that are important for the population's needs are exempt from temporary customs duties
- In the mid-term period, continuation of state assistance programs and promotion of private investment in the sectors defined as the state's economic policy's primary priority
- Increasing salaries of for first-line medical staff by 3 to 5 times during the pandemic period.

## 1.2 The effects of the Covid-19 pandemic on business performance of companies

It is obvious that the global economy has been severely damaged by the corona virus pandemic and it continues to destroy the existence of businesses. The COVID-19 pandemic is expected to last until 2023 and if businesses do not act quickly enough, it might result in numerous business failures. According to a new World Bank assessment based on continuous surveys with more than 120.000 enterprises in more than 60 countries, companies' sales decreased 27% in October 2020-January 2021 from pre-pandemic rates, after falling 45% in April-September. However, even within countries and industries, performance has differed significantly. The goal of our surveys is to determine the effect of the pandemic on business performance. They help governments

and international institutions understand corporations' adjustment tactics and guide policy responses.

The data reveal that during the pandemic, a significant proportion of businesses saw their sales keep the same or increase—around 20% in the first few months and up to 34% in the months afterward. In contrast, 25% of the worst-affected firms reported a 72 percent reduction in sales in the early months of the pandemic and a 50 percent decline in the months afterward.

Some companies' management has been more innovative and creative to find new income resources or reinventing their companies, such as transferring sales online or switching to different products. Alternatively, some exporters have shifted from one groups of customers to another.

Olga Golubeva studied firms' performance during the COVID-19 outbreak in 13 countries. Her article investigates the influence of firm, finance, and country-specific factors on company performance during the COVID-19 pandemic. The analysis is based on data from the World Bank's enterprise surveys, which included 5,730 businesses from 13 countries. The importance of various factors for company performance is confirmed in this study: industry, size, participation in exports, and market demand for enterprises' products.

**Table 4: Classification of states and effect of COVID-19 on these economies**

| Country | GNI per capita (2019) | World Bank classification of economies | No. of respondents in survey | COVID19 no. of cases per million | Closed firms, permanently or temporarily (%) | Change in monthly sales compared to one year ago (%) |
|---|---|---|---|---|---|---|
| Albania | 5,240 | Upper-middle-income | 347 | 20,264 | 9.7 | –51.6 |
| Chad | 700 | Low-income | 132 | 129 | 65.8 | –37.6 |
| Cyprus | 27,710 | High-income | 207 | 25,139 | 6.7 | –40.2 |
| Georgia | 4,740 | Upper-middle-income | 614 | 57,009 | 15.5 | –47.1 |
| Greece | 20,320 | High-income | 553 | 13,321 | 2.p | –37.0 |
| Guinea | 950 | Low-income | 136 | 1,045 | 24.1 | –55.5 |
| Italy | 34,460 | High-income | 501 | 34,851 | 17.7 | –47.3 |
| Moldova | 3,930 | Low-middle income | 286 | 35,900 | 14.1 | –57.1 |
| Niger | 560 | Low-income | 125 | 137 | 11.9 | –56.0 |
| Russia | 11,260 | Upper-middle-income | 1,191 | 21,430 | 8.9 | –28.1 |
| Togo | 690 | Low-income | 111 | 439 | 13.6 | –44.7 |
| Zambia | 1,450 | Low-middle income | 578 | 1,127 | 25.5 | –43.0 |
| Zimbabwe | 1,390 | Low-middle income | 949 | 933 | 11.9 | –53.9 |

**Source:** World Bank, Our World in Data

Notes: According to the World Bank, the world's economies are divided into four income categories– high (US$12,536 or more), upper-middle (US $4,046–US$12,535), lower-middle (US$1,036 to US$4,045) and low (US$1,035 or less).

Response strategies that company owners may use to lessen the effect of the pandemic on their performance will help entrepreneurs, policymakers and other entrepreneurship participants to organize respond successfully, reducing the pandemic's effect on firm performance and survival. It also recommended response strategies that company owners may use to lessen the effect of the pandemic on their performance (Omodara Damilola, 2020).

**Business response activities to the COVID-19 pandemic**

All of the participants made ideas that they thought would help mitigate the negative effects of the COVID-19 problem. The discussions indicated three response strategies that firms may use in the event of a pandemic: re-strategizing business models, preserving client relationships and embedding health and safety practices into company activities.

**Re-strategizing**

Companies can change their business structure and face the effect of COVID-19 by digitalizing. In this term, we can mention the reaction of big companies, which were able to respond to such issue by changing the business concept, mainly by making the business digital. We can mention the contactless supply, online sales and so on.

**Maintaining an interactively linked relationship with clients**

Customer relation management (CRM) is key function in the company's activity. One of the functions of the CRM is to be able to provide client with care and support in all chain of the business support. COVID-19 affected the process of implementing the CRM functions into reality. Companies can make this function by implementing new advanced technologies, such as meta world. The meta world was first implemented by facebook company, where company can meet its client in the meta world and have

business meetings up to 100 persons. Such innovation can trigger the interest of a client to the company and its business.

**Exploit support opportunities offered by entrepreneurial stakeholders**

During first year of pandemic, the employees were forced to work offline (from home). A lot of studies defined such work condition as bad influence on mental health of the employee, which can lead to burnout. Having psychological support service within the firm can mitigate such issue and help employees to overcome such problem. Additionally, shareholders can promote top management by implementing bonus systems regardless of the KPI (Key Performance Indicator), which can finally help business to keep afloat.

**Analysis and assessment of the impacts on specific industries**

Restricting people's movement, banning flights and other travelling, temporarily closure of companies and schools, canceling activities are all measures being taken to prevent the virus from spreading. This will have an urgent impact on tourism, transportation, retail, and entertainment industries. Considering that business differs from industry to industry and COVID affection of each industry differs, we are aiming to discuss each industry separately.

**Impact on primary industry**

The effect of the primary industry will be exacerbated if the virus continues to spread throughout numerous countries. Pigs were euthanized, milk was dumped, and other economic downturn scenarios were repeated in the United States. A lot of beer was poured out of Germany. Many restaurants are unable to produce even hamburgers. Due to the outbreak of the pandemic, agricultural transportation is stopped, feed for livestock farming and poultry breeding is hard to obtain, and fully grown vegetables seem unable to unable to enter the market, causing vegetables to rot on the ground and livestock to be slaughtered and buried, resulting in significant losses and waste.

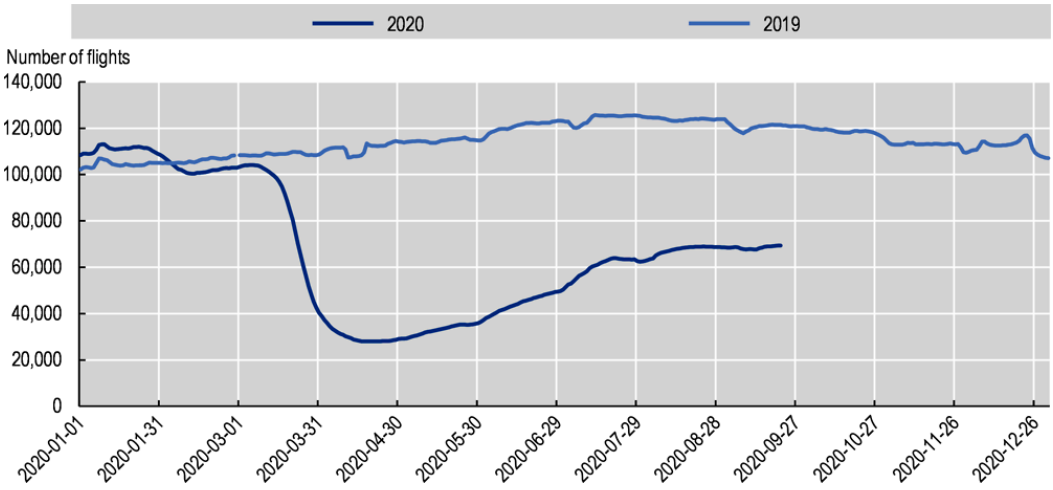
### Impact on secondary industry

The manufacturing industry is a significant portion of the economy, accounting for roughly 16% of global GDP in 2018. According to the UNCTAD, the COVID-19 pandemic might cause global FDI to drop by 5% to 15% as a result of the manufacturing sector's downturn and factory closures. Covid-19 caused raw material shortages in the automobile, manufacturing, electronics, metal, airline, pharmaceutical, aviation, food and drinks, chemical industries. Medical masks, ultrasonic CT, respirators, patient monitors, disposable hats, medical gloves, medical goggles, defensive clothes alcohol cotton ball and cotton swabs are among the national defense pandemic items with the highest estimated export value in 2020.

### Impact of COVID-19 on the aviation sector

The same effect as in tourism industry, the COVID-19 has the great impact on the transportation sector. As an example, considering that revenue in the aviation industry is generated based on traffic levels, the flight cancellations and restrictions resulted in fewer flights which in turn caused dramatic loss in revenue. It was also calculated by the ICAO (International Civil Aviation Organization) that there was 44% to 80% drop in international passengers in 2020 compared to 2019.

**Figure 6: Number of flights tracked daily**




**Source:** FlightRadar24 Statistics

In adding to the above mentioned, COVID-19 had an impact on the EU zone, which is typically different from all other economic zones and we are looking into it separately.

### Impact on the automotive industries

In 2019, the industry amounted for 2.6 % of total EU value added. Climate change and quickly shifting consumer demands caused to the automobile industries difficulties before the international development of the pandemic. The EU automobile sector lost 3.6 million vehicles in 1st half of 2020, resulting in a €100 billion loss. This number rose to 4,024,036 motor cars by the end of September 2020, accounting for 22.3 percent of total EU total production in 2020. The demand for vehicles in the EU had declined by 28.8% in September compared to the 2019 (Jan Maarten DE VET, 2021).

**Figure 7: EU new car registrations**


**Source:** ACEA,2021

### Impact on the construction industries

The construction industry is confronted with problems including as embracing innovation and new technology, incorporating and executing energy efficiency and dealing with climate change. In certain Member States (for example, Germany), it was able to continue business as more or less, whereas in others (for example, Italy, Spain, Slovakia, Ireland, or France), construction activity was heavily restricted. Even though most states have allowed construction industries to quickly continue production, a number of issues have arisen as a result of the restriction measures and travel

restrictions such as lack of labor, supply chain disruptions contributing to construction material shortages and increased costs caused by increased health and security measures (Jan Maarten DE VET, 2021).

### Impact on the food & drinks industries

Furthermore, the food sectors have significant interconnections and interrelations with other industries such as agriculture and hospitality. It is critical to distinguish between the many subsectors when assessing the implications of the COVID-19 pandemic on the EU food industry, as the effects are highly different. Thus, the sales of food retailers were high due to a shift in customer behavior as food was consumed at home. At the same time the subsectors with close linkages to the hotel, restaurant, lounge and cafe were impacted the hardest. Food retailers dealing with frozen and packaged food met the greatest rise in sales. As an example we can mention the fact that frozen food sales in France were 63 percent higher in the second half of March than in the same period last year. In Germany, similarly, packaged food sales increase by 56% in comparison 2019.While the HORECA-related subsectors have been negatively impacted, this is expected to be less severe, since some companies have been able to change packaging, labeling, and manufacturing to meet new demand and adapt to new demand (Jan Maarten DE VET, 2021).

### Impact on the cultural and creative industries

Compared to other industries, where the business model can be adjusted to the new realities, the cultural industry across the Europe is hard to adjust and thus were forced to close. On the other hand, the creative sector representatives like television, streaming, music, and radio channels saw strong growth; technology and logistics companies as well as home-based leisure providers (e.g. Netflix, Youtube, Amazon, Facebook) has heavily profited.

### Impact on the digital industries

Demand on digital equipment rose considering the pandemic influence on face-to-face market. Consumers have changed the habits of obtaining products and services. The businesses have to adopt to the new reality and start to digitalize their business by introduction digital softs and therefore services. Information and Communications Technology (ICT) sector has boosted in Europe due to pandemic. Infrastructure as a service, which is a form of cloud computing that provides virtualized computing resources over the internet, is leading in ICT spending in Europe.

**Impact on the tertiary industry**

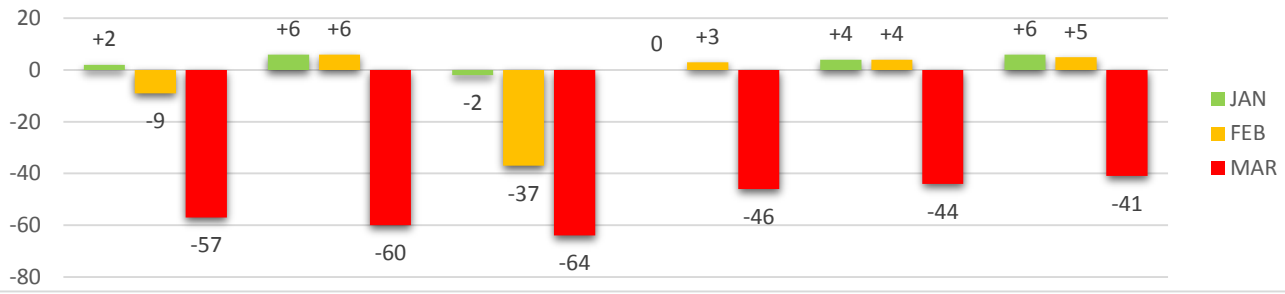
The travel and tourism industry has been particularly heavily damaged by the pandemic. The IATA calculates that passenger earnings might drop by US$252 billion or 44%, as a result of the intensity of travel restrictions and the projected worldwide recession. In a summary, the COVID-19 pandemic has made it difficult to shift agricultural goods from the primary to the secondary industries for processing, causing losses and wastes. Simultaneously, chemical fertilizers and machinery manufactured by the secondary sector cannot be distributed to farmers, putting the primary industry at a disadvantage. The tertiary industry has lost transportation due to the secondary industry's stoppage or slowdown. Even if the secondary sector produces goods, a shortage of transportation manpower will prevent the goods from reaching the next step. All industries will be restricted by each other as a result of preserving social distance and fewer people moving.

**Impact of COVID-19 on the tourism industry**

COVID-19's influence on the tourism sector is dramatically damaging, which is in case highly reliant on air travel. Thus, because of COVID-19 restrictions, the air travel has shrunken, which is in turn affected the tourism sector. As an example, it was estimated by UNWTO (2020) that revenue from international tourism in 2020 has dropped for 22%, resulting in a loss of 67 million international arrivals. In case restrictions remain in place, tourism-related employment might be affected hardly.

Based on how long the restrictions on travel and border closures continue, current scenario model calculated a reduction in worldwide tourist arrivals of 58 percent to 78 percent, but the future remains quite uncertain. If the travel restrictions remain in place, between 100 and 120 million direct tourism-related employment might be threatened.

**Figure 8:** The impact of COVID-19 on tourism in quarter 1 of 2020




**Source:** UNWTO (2020)

Considering pandemic influence on several industries and relative recommendations on how to overcome the effect of pandemic on such industries, government support is crucial in helping the businesses to be able to get back on track. In addition, competitiveness of the economy, which has been struggling from the pandemic, needs more attention, which can lead to new inventions and higher digitalization of the economy.

# CHAPTER II. ANALYSIS OF THE IMPACT OF THE CORONAVIRUS PANDEMIC ON THE COST ACCOUNTING AND TAX ACCOUNTING OF PRODUCTION ENTERPRISES

## 2.1. Features of accounting of production enterprises in the conditions of the COVID-19 pandemic

COVID-19 has already had an important impact on global financial markets and it might have accounting consequences for a lot of companies. Many firms' financial performance is being impacted by the COVID-19 coronavirus outbreak. Companies may want to emphasize and explain these effects — for example, by presenting quantitative and qualitative data regarding them inside or outside the financial statements. We're primarily interested in how businesses report these effects on financial performance (KPMG, 2020).

The COVID-19 is anticipated having a significant effect on manufacturing companies. 60-90 percent of these companies may suffer from significant and considerable losses depending on the severity. It is inevitable to take reactive steps in the short term. However, as the financial crisis of 2008/2009 shown, corporations who implemented long term cost reduction strategies to beat the competition.They were, in fact, powerful and profitable winners (Oliver Wyman, 2020).

As the outbreak grows in magnitude and length, businesses are facing symptoms similar to those seen during a general economic downturn. Financial market volatility, worsening credit, liquidity issues, expanded government intervention, rising unemployment, reductions in consumer discretionary spending, rising inventory levels, production declines due to reduced demand, laying off workers as well as other restructuring actions are all examples of this. If these conditions continue, an even greater economic downturn might occur, having a long-term detrimental influence on an entity's financial results (DELOITTE, 2020). The COVID-19 virus has slowed worldwide economic activities by forcing cities and governments to close their borders

and impose stringent lockdowns. Government-imposed restrictions on movement have resulted in decreased sales and production volumes for businesses.

The COVID-19 outbreak is having a negative influence on the business. As a result, all business activities have been broken down into five categories: financial elements, business operations, business contracts, business value, and stakeholders. These five key activities were included as independent variables in the study. During the COVID-19 outbreak, this research aims to determine why and how companies should disclose critical information (including financial and non-financial) to financial statement users.

- **Financial factors**

Because the COVID-19 pandemic is disrupting business operations, all financial components, such as assets, liabilities, income, and expenses, will be impacted. Due to lengthy lockdowns, company collection is decreasing, potentially reducing future cash flows (RSM, 2020). During the COVID-19 outbreak, however, inventory mobilization was extremely difficult because to the lockdown, restricted movement, and isolation of land borders. As a result, inventory demand shifts dramatically. Inventory management is further made more challenging by the perishable quality of the goods, as well as the rising pressure of sustainability norms and standards (Logistik Express,2020).This problem raises questions concerning inventory management reporting and disclosure during a pandemic.

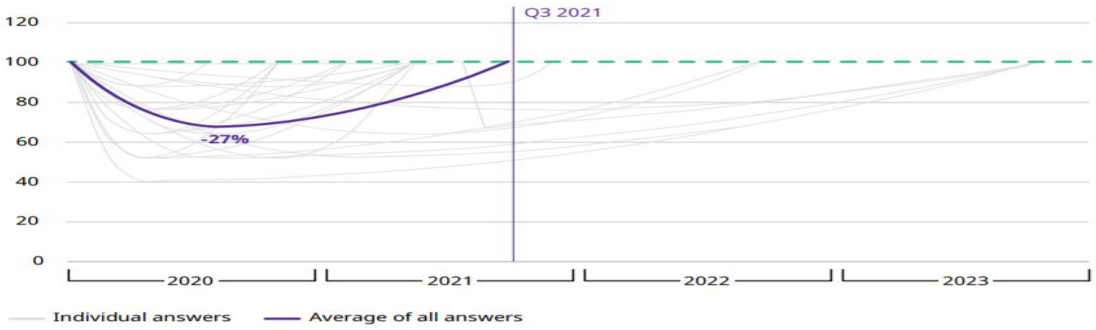
- **Business value**

As earnings quality, business value, and fair value worsen, the COVID-19 pandemic is bringing the business world to a new degree of uncertainty. The value of a business is declining due to a drop in current earnings due to lower client demand and forceful business shutdown of business during the pandemic. As a result, stock prices are worsening due to a drop in business profitability as a result of pandemic, as well as unstable stock market behaviors in response to the lengthy lockdown of business

operations (El-Mousawi and Kanso, 2020). Fair value isn't measurable and due to the expansion of COVID-19, there must be a fall in the subsidiaries', associates', and joint ventures' values, which will eventually influence investor consolidation accounting. As a result of the pandemic forcing financial statement accountants to re-adjust accounting assumptions and policies, the value and measurement of Non-Current Assets would certainly be impacted (for example, impairment and depreciation costs of different assets will be impacted due to lesser usage) (Rejamin Sultana,2020).

The manufacturing sector in the United States is one of the world's biggest manufacturing regions. Before COVID-19, the average profits before interest and taxes (EBIT) for US manufacturing firms was 9%. According to a recent survey conducted by Oliver Wyman, the majority of top-level executives of global manufacturing organizations expect a "U-shape" scenario. Three COVID-19 scenarios for manufacturing organizations have been developed by Oliver Wyman: COVID-19 lasts three to four months in the "V-shape" model, including public health measures containing individual outbreaks. The revenue decrease is most noticeable in the second quarter and the economy rapidly recovers in the third and fourth quarters.

**Figure 9: Expected revenue growth**




**Source:** Oliver Wyman analysis

**Note:** Depend on anticipated revenue slump, the lowest level in sales, followed by a recovery to pre-crisis levels

**Figure 10: US manufacturing companies / EBIT**

| EBIT margin | Status prior to COVID-19 | V-Shape: One-quarter recession | U-Shape: Two-quarter recession | L-Shape: Financial crisis + |
|---|---|---|---|---|
| >7% | 68% | 59% | 41% | 17% |
| 0 to 7% | 20% | 18% | 24% | 18% |
| 0 to -7% | 8% | 16% | 18% | 21% |
| <-10% | 4% | 6% | 17% | 44% |
| Average of all firms | 9% | 7% | 3% | -12% |

**Source:** Oliver Wyman analysis

**Note:** In 2020, around 35% of US manufacturing companies will have a negative EBIT

In this scenario, despite a successful first quarter, nearly 35% of US manufacturing companies will have a negative EBIT in 2020. This would be substantially worse under the "L-shape" model, with more than 60% of enterprises in the red with carry-over consequences well into 2021.

In general, the following types of impacts have been seen in businesses:

- **Change in Production, Sales and Capacity Utilization**–The businesses struggled with the sales process, especially in tourism passenger rail, hotel, entertainment and transportation industries due to the following reasons:

- absence or cancellation of orders
- advance supply of materials, goods and services
- lack of professional employees
- decrease in the income of customers
- restrictions due to pandemic situation

On the other side, considering that specific industries like dealing with essential goods and services were permitted to exist and operate, which resulted in production of goods and services more than their regular capacity. This one is an example of the opposite effect of the COVID-19.

- **The manpower costs have risen due to the following factors:**

- Cost of worker's health & well-being;
- Safety costs;
- Vaccination costs;
- Extra training costs.

The value of perishable inventory has been reduced due to greater storage costs and losses.

- **The following developments lead to additional costs:**

- Digitalization and automation of services;
- Repair and maintenance cost due to lockdown;
- Cybersecurity.

- **Following gains/losses were borne due to the following factors:**

- Non-payment of taxes;
- Bad debt increase;
- Demand for price reductions by customers;
- Change in prices of particular commodities;
- Change in exchange changes.

## 2.2 Analysis of the impact of the coronavirus pandemic on production enterprise cost accounting

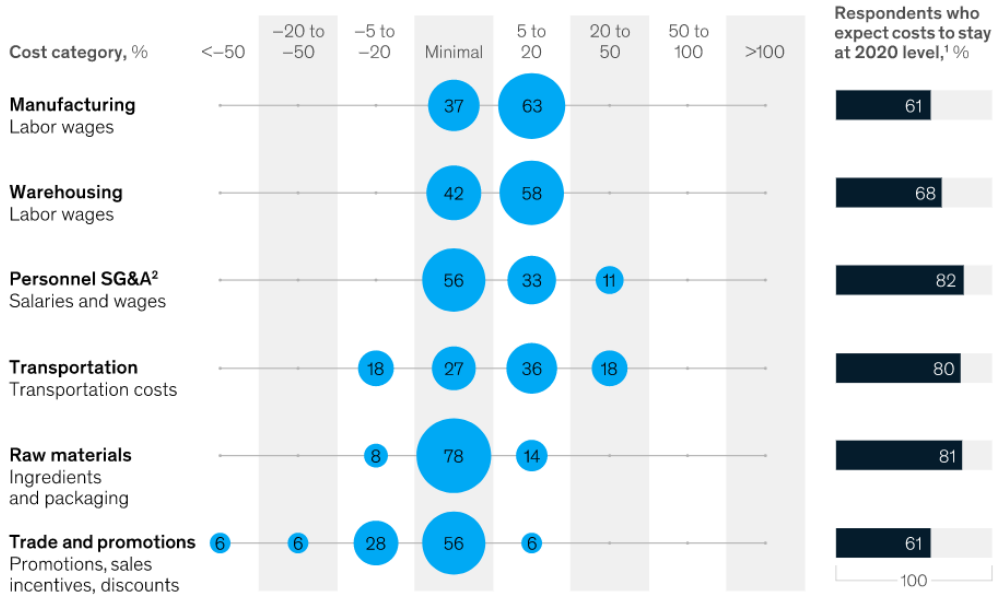
Covid-19 has created an emotional, social, and economic imbalance throughout the world. The effect is so deep that filling gap will take years. Production was slowed for more than two months due to an unexpected breakdown, and the industry suffered from significant losses as a result of raw lack of raw materials, idle labor, lost WIP, minimum guarantee payments for electricity or similar payments, insurance premiums, rent, and so on. Hotel and tourism, aviation, automobiles, and entertainment sectors were all heavily impacted, and millions of workers lost their jobs as a result. On the other hand, when fuel prices rose to new highs, transportation costs wreaked havoc on the annual budgets of all economic activities. The costing of every product and service was also impacted in the industry as a result of the sudden outbreak. On the one hand, output levels dropped drastically, while on the other hand, industry incurred costs to maintain the infrastructure running. Wages were also paid to maintain the workforce available for future work. Rental prices, premiums, minimum guarantee costs, working capital interest were paid without utilization of these services. In a nutshell, the industry suffered a significant loss (Cma Anıl Sharma, 2021).

It's critical to understand your costs and how they can affect your business and manufacturing operations in the event of a pandemic. Manufacturing costs is related to all of the direct and indirect costs that a company confronts when manufacturing a good or rendering a service. Manufacturers confront a broad range of expenses that can usually be divided into three groups:

- **Materials cost:** Based on the sourcing model, manufacturers may pay the costs for materials.
- **Labour costs:** Wages paid to workers that engage in the manufacturing process, such as operators and machinists.

- **Overhead costs:** They are costs that are necessary to maintain the factory operating but are not directly related to production, including such rent and utilities.

**Figure 11: Year-over-year change in Q2 costs,2019 to 2020**




**Source:** McKinsey Covid-19 impact Survey,2020

**Note:**Manufacturing costs rose the greatest during Covid-19, and they are likely to continue to rise in 2021.

There are three key elements that influence the cost of any products or services:

-Variable cost

-Fixed cost

-Capacity utilization (Cma Anıl Sharma, 2021).

**Variable Cost:** It is a cost that is directly related to output and rises as production rises and falls as production decreases. The price per unit stays the same. Examples of variable cost factors are as follows:

- Raw Material Cost
- Utility Cost
- Direct Expenditues

- Other Production overheads

**Fixed Cost:** It is a cost that is constant in nature, regardless of the degree of production. Variations in the manufacturing volume have no effect on fixed costs. The fixed costs will stay the same regardless of how much the company produces each month. The cost per unit decreases as production increases and rises as production decreases. Examples of fixed cost items are given below.

- Salary and wages
- Depreciation
- Machinery and equipment costs
- Electricity
- Property taxes
- Rent
- Premium
- Salary and wages
- Minimum commitment charges
- Interest Cost
- Insurance

The two main categories of costs might face are direct and indirect costs. **Direct costs** are those that go directly into manufacturing products or rendering services whereas indirect costs are those that sustain your company operating. **Direct costs** involve manufacturing supplies, equipment, raw materials, labor costs and other manufacturing costs. **Indirect costs** involve depreciation, production supervision wages, insurance as well as quality control costs.

Furthermore, all expenditures, costs, or overheads are not included in the products' or services' total cost, according to the Cost Accounting Standards (CAS). It signifies that non-cost products or non-costs are not counted in the cost of the products manufactured or services delivered. Here are some examples of non-cost items:

- Donations
- Foreign exchange fluctuation
- CSR expenditures
- Loss asz a result of a fire or a significant break or an unexpected breakdown
- Abnormal losses in operations
- Penalties, Fines
- Idle time salaries
- Goods lost in transit
- Expenses spent during political or civil disturbances

**Table 5: Example of manufacturing cost statement for company**

| | **$** | **$** | **$** |
|---|---|---|---|
| **Direct materials used:** | | | **9,000** |
| **Opening inventories** | | 800 | |
| **Purchases** | | 10,200 | |
| **Less: closing inventories** | | (2,000) | |
| **Direct Labor** | | | **60,000** |
| **Overheads** | | | **100,000** |
| **Indirect materials used:** | | 1,000 | |

| | | | |
|---|---|---|---|
| **Opening inventories** | 200 | | |
| **Purchases** | 1,300 | | |
| **Less: closing inventories** | (500) | | |
| **Indirect labor** | | 25,000 | |
| **Rent paid** | | 48,000 | |
| **Insurance** | | 12,000 | |
| **Water and electricity** | | 14,000 | |
| **Plus:Opening work in progress** | | | **3,000** |
| **Less:Closing work in progress** | | | **(2,000)** |
| **Cost of finished good** | | | **170,000** |

It is often recommended that when setting fixed pricing for products or services, one should first understand non-cost elements in operations and only then declare final prices for better market results.

Capacity utilization of any facility, machinery or manufacturing areas is another factor that influences the cost of any goods or services. Low capacity utilization entreprises are forced to expense all fixed manufacturing expenses connected with unused capacity in the present year. These changes will have an effect on the net operating profit and ending inventory quantities reported for 2020 (Benjamin P. Foster, 2021). The principle of capacity utilization is based on normal circumtances. In normal circumtances, we obtain our maximal production.

COVID is an abnormal case. It's not normal situation with negative consequences for company. Variable cost, fixed cost, and capacity utilization have all been impacted by the COVID-19 issue. As a result, we must redefine our capacity available & capacity used when calculating the cost of goods or services provided in FY 2020-21. Likewise,

there was no production during COVID-19, but businesses had to pay wages as well as other welfare expenditures, such as electricity bills, leases, advertisement expenditures, lost WIP, supply chain disruption, and so on. To maintain the production facilities live, industry has paid both variable and fixed costs. Similarly, there was idle capacity as a result of no output, and production losses decreased earnings (Cma Anıl Sharma, 2021).

### Calculation of Ending Inventory Cost

Considering that companies were forecasting their overhead rates for 2020 based on rates of 2019, due to COVID-19, manufacturing capacity has declined. According to quarterly financial reporting statistics accessible in the Compustat database, some manufacturing industries reported decline in sales and COGS. The decline was noted for the 2nd quarter of 2020, as in comparison with the second quarter of 2019. Manufacturing capacity utilization has increased slightly from the second quarter of 2020. In 2020, capacity utilization levels were still much below than estimated one. (Benjamin P. Foster, 2021).

**Ending inventory=Beginning Inventory +Inventory Purchased during the year-COGS**

**Table 6: Calculation of Ending Inventory**

| | |
|---|---|
| Beginning Inventory | 100,000 |
| Purchases | 80,000 |
| Cost of Goods Sold | (120,000) |
| **Ending Inventory** | **60,000** |

The virus has also introduced some ambiguity in the way essential financial statement is offered in order for users to make smart decisions. In order to make sure accurate and fair reporting, the global accounting authorities really aren't leaving any stone unattended. To that purpose, the standard-setters have made certain changes to the current accounting standard in order to lessen the amount of uncertainty or at very least, remove some doubts for both users and accountants of financial statements. The accounting of manufacturing costs in the financial statements in the year of the virus is one such area that requires special consideration. Manufacturing and wholesale/retail businesses are the worst harmed by Covid-19's influence on inventory measurement—raw materials, work in progress, and finished products. The primary focus of this article is on entities with a yearend in 2020.

The average price of non-core raw materials, labor allocations and variable and fixed overhead are all included in the finished products cost. All costs of acquisition, conversion and other delivery costs are examples of inventory costs (BDO, 2020).

**Costs of conversion**

Inventory must be transformed or changed into finished items after it is purchased. Costs directly related to production units, comprise of the allocation of fixed and variable production overheads involved in transforming products to final items. Factory management and administration expenditures, as well as depreciation and maintaining of industrial structures, machinery, assets with right of use which utilized in production process and equipment, are all examples. Variable manufacturing overheads, such as indirect materials and indirect labor are production associated indirect expenses that change directly or almost immediately with output volume (BDO, 2020).

What if scheduled maintenance was performed during Covid-19 The best thing to do is to distinguish the period covered by scheduled maintenance/shutdown from the period of idleness caused by COVID-19 and charge any costs associated with it appropriately. After identifying the capacity lost as a result of Covid-19, all related

costs should be recognized as abnormal costs and adjusted accordingly. Employee expenditures, inventory losses, quality deterioration, and additional expenses incurred as a result of the shutdown are examples of such costs. Businesses that deal in fast-moving consumer products are nevertheless mired in a tangle of inventory losses and rising transportation costs (BDO, 2020).

**Table 7: Total manufacturing cost example**

| | |
|---|---|
| Direct Labor | $17,000 |
| Indirect labor | $6,500 |
| Direct materials | $52,100 |
| Indirect materials | $6,480 |
| Inventory at the beginning of period | $1,250 |
| Inventory at the end of period | $5,632 |
| Revenues | $150,000 |
| Marketing expenses | $15,000 |
| SGAs | $11,000 |
| Rent | $3,500 |
| Utilities | $1,200 |
| Insurance | $800 |
| Taxes | $750 |
| Depreciation | $1,500 |

**Source:** My Accounting Cource,2021

### Why be cautious at this time?

Because of low output or idle plant caused by Covid-19, the amount of fixed overhead attributed to each unit of production may be unnecessarily raised if accurate capacity is not identified. What about those businesses who experienced a sharp increase in production as a consequence of the pandemic? Manufacturers of face masks, hand sanitizers noodles, some important drugs are good examples. During periods of abnormally high output, the amount of fixed overhead allotted to every unit of production is reduced, ensuring that inventories do not exceed cost. Only if all abnormal costs are adjusted for or eliminated and expensed will this be possible. The notion is that during periods of abnormally high output, you should minimize the amount of fixed

overheads capitalized to every unit of production. Otherwise, the cost reflected in the financial statements regarding inventories may be exaggerated (BDO,2020).

**Labor cost statistics**

Labor costs statistics measures the employers' labor costs of the production factor as well as their employees' resulting revenue.

For this purpose, government obtain the following data:

- quantity of hours worked and paid

- amounts paid by the employer in connection to employing labor

- taxes and subsidies on labor obtained.

Labor statistics also defines the notion of a worker to be included.

**Recording of COVID-related arrangements**

Short-term jobs on the one side, and temporary layoffs on the other, are the most common programs established or expanded by states in the context of virus outbreak. Short-time job and related systems require employees to work less hours and are compensated by their employer, government, or both for the hours they do not work. Employees may be compensated by the employer owing to contractual duties and collective bargaining agreements in effect, or at the employer's discretion. In the event of temporary layoffs, the employee retains a connection to their work in the type of an employment agreement, but is unable to work for a period of time. The employee is reimbursed financially, at least in part, by government money that may or may not transfer via the employer.

## 2.3 Relation of Azerbaijan accounting system to International Financial Reporting Standards and changes in IFRS treatments during COVID-19

As we noted before IFRS are a collection of accounting standards created by the IASB which is become the world standard for the compilation and preparation of public

financial statements. According to the Republic of Azerbaijan Accounting Law of 2004, IFRS are implemented in their entire history for use by non-state (private) social funds, credit institutions, insurance firms, enterprises with securities that trade on the stock. According to the Republic of Azerbaijan Accounting Law of 2004, IFRS are implemented in their entire history for use by non-state (private) social funds, credit institutions, insurance firms, enterprises with securities that trade on the stock. Furthermore, any commercial company having one or more subsidiaries (other than a very small one) must submit consolidated financial statements in compliance with IFRS (Aygun Askerova et al., 2015).

Azerbaijan has implemented International Financial Reporting Standards (IFRS) in his accounting since 2017 by reconciling and adjusting its "accounting laws" to IFRS standards. Considering that tax accounting and book accounting (in our case, it is IFRS accounting) has differences (depreciation financial lease and etc.,) and that only minor changes were made to Azerbaijan Tax Code due to COVID and the changes to cost accounting will be reviewed under IFRS changes.

There will be issues that need to be taken into account in this year's reporting, as in future years. Some organizations may record financial impacts firstly in interim financial statements (in compliance with IAS 34 – Interim Financial Reporting), that will almost certainly require greater accounting estimations. However, information must be accurate and all material financial information necessary for understanding the company's financial status or performance should be disclosed. The IFRS have a wide range of implications, such:

- financial instruments and leases;
- non-financial obligations;
- disclosures;
- non-financial assets;

- going concern;
- revenue recognition and
- interim financial statements

**Non-financial assets**

IAS 36 imposes extensive disclosure requirements. In the perspective of testing goodwill as well as indefinite lived intangible assets, management should pay special attention to the requirements for disclosing assumptions and sensitivities. Management should also examine the requirements in IAS 1 Presentation of financial statements, which require management to disclose the primary sources of estimating uncertainty that are likely to result in a considerable material change to the financial statements in the coming period (PWC, 2020).

- **Inventories**

Inventory write-downs to net realizable value may be required. Reduced inventory movement, decreased commodity costs, inventory obsolescence attributable to lower sales than the expected sales may all be reasons in these write-downs. Fixed production overheads must be included in the cost of inventory depending on normal manufacturing capacity, according to IAS 2 Inventories. Reduced production may limit the amount of overhead that may be included in inventory costs. Entities should evaluate the importance of any write-downs and determine whether they need IAS 2 disclosure (PWC, 2020).

- **Property, plant and equipment**

The Covid might result in under-utilized or non-utilized PPE as well as the suspension of capital projects. Depreciation must be recorded in the income statement even if an asset is temporarily idle, according to IAS 16 Property, Plant, and Equipment. When the improvement of the asset is suspended, IAS 23 Borrowing costs demands that the capitalization of interests must be suspended (PWC, 2020).

**Financial instruments and leases**

- **Impairment under IFRS 9 Financial instruments**

Management should examine the effect of COVID-19 on the ECL if an organization has any financial instruments that are covered by IFRS 9's expected credit loss model (ECL). Loans, trade, other receivables, debt instruments not assessed at fair value through profit or loss, contract assets, leasing receivables, financial guarantees, loan commitments are among the instruments to be considered.

- **Fair value**

At the reporting period, the fair value of asset or liability should be calculated within the appropriate IFRS standards. The quoted price at reporting period should be utilized when fair value depends on an observable market value. The fair value of an asset at the reporting reflects hypothetical exit transaction. As a result, modifications in market values after the reporting period are not accounted for in asset valuation. As a result of the expansion of COVID-19, price volatility has risen on various marketplaces. This has an impact on fair value assessment either directly, if fair value is calculated using market prices or indirectly, if a valuation technique is reliant on volatile market inputs (PWC, 2020).

- **Leases**

As a result of COVID-19, a lessor and a lessee may renegotiate the conditions of a lease, or a lessor may give a lessee a lease payment concession of some form. In some situations, the local government may compensate a lessor as an incentive to offer such concessions. Both lessors and lessees should examine whether the concession should be accounted for as a lease adjustment and distributed over the remaining lease period under IFRS 16 Leases. Lessors and lessees should also think about whether local government incentives are government grants (PWC, 2020).

**Revenue recognition**

Because of the decreased economic activity as a result of the virus control measures, an entity's sales and revenue may decrease. When this occurs, it is accounted for. However, there might be an impact on management's assumptions when calculating revenue from previously delivered items or services, particularly when measuring variable consideration. Decreased demand, for example, might result in increased expected returns, extra price concessions, decreased volume discounts, penalties for late delivery, or a decrease in the prices that a client can acquire. All of these factors might have an impact on the assessment of the variable consideration (PWC, 2020).

**Non-financial obligations**

- **Contingent assets**

One of the techniques adopted to prevent the virus's spread is the temporary closure of some companies. If a company has business continuity insurance, it may be able to recover most or all of the costs associated with closing down. Management should assess if COVID-19-related damages are covered by their insurance policies. When a recovery is actually certain then the advantage of such insurance is recognized. This is generally the case when the insurer has received a valid claim and management is confident in the insurer's ability to satisfy its obligations. Insurance benefits are frequently recognized after expenditures for which it compensates (PWC, 2020).

- **Income taxes**

As a consequence of direct and indirect variables (impact on consumers, suppliers, and service providers), the virus may have an impact on future profitability. Deferred tax obligations may be reduced as a result of asset impairment, and new deductible temporary differences may be created. Entities having deferred tax assets should revaluate expected earnings and deferred tax asset recoverability in line with IAS 12 Income taxes, taking into consideration the virus’s added uncertainty and the efforts taken to combat with it. Management may also assess if the virus has an impact on its intentions to distribute earnings from subsidiaries, whether it has to review the

recognition of any deferred tax obligation related to undistributed profits as a result (Tony Debell, 2020).

### Going concern

When reviewing the entity's capacity to remain as a going concern, management should evaluate the possible implications of COVID-19 and the steps taken to control it. If management either wants to liquidate the firm or cease trade, or has no realistic choice, the entity is no longer as a going concern. In assessing the business's going concern, management should evaluate the influence of government and local bank actions. Events after the reporting date that suggest a business is no longer a going concern considered always adjusting events, according to management (PWC, 2020).

## Disclosures including financial risk

- **General disclosures**

The specific requirements under IAS 1 for disclosing important accounting rules, the most important judgments made in implementing those accounting rules, and the estimations which are most probably to result in a profit adjustment in future periods should all be considered by management. As a result of the virus's effects, all of these disclosures may differ. Estimation uncertainty disclosures may need to be expanded. For instance, within the next year, the carrying volume of more items might be subject to an important change (PWC, 2020).

- **Disclosure outside the financial statements**

Stakeholders in a company will be interested in the virus's effect and the steps taken to stop it from spreading. Some of these stakeholders' demands may be more appropriately met by making disclosures outside of the financial statements. Management may choose to adjust its analysis of the primary risks and uncertainties. Any special local disclosure requirements, such as those imposed by a local securities authority, should also be considered by management. (PWC, 2020).

- **Interim financial statements**

Many companies may record the virus's effect firstly in their interim financial accounts. The above guideline on recognition and measurement also applies to interim financial statements equally. For interim reporting, there are typically no restrictions to recognition or measurement, however management may have to assess whether the virus's effect is a discrete incident for the purposes of estimating the expected effective tax rate. IAS 34 Interim financial statements specify that while estimates may be used greater often in interim financial statements, the information must be reliable and all applicable information must be disclosed (PWC, 2020).

# CHAPTER III. PANDEMICS AND THE EVOLUTION OF TAXATION: TAX BENEFIT SYSTEM AND MAIN TAX INNOVATIONS

## 3.1. Feedback of tax system to the damages of the economic crisis related to coronavirus pandemic

Many people's lives will be affected by the COVID-19 emergency, and governments throughout the world are implementing a variety of measures to aid citizens, firms and the provision of essential public services.

Measures done by tax administrations to relieve the burdens on taxpayers and to assist firms and people experiencing cash flow concerns, difficulties fulfilling tax reporting or payment responsibilities. This section gives an explanation of the initiatives that a number of tax administrations are currently implementing. (Sımeon Djankov and Joanna Nasr, 2020).

The purpose of this research is to show how tax policy might help governments coping with the COVID-19 situation. According to the research, governments have taken strong measures to prevent and minimize the virus's spread, as well as to limit the negative effects on their populations and economy. Countries are assisting firms in staying afloat, helping households, and preserving employment through a variety of measures. This willingness to act boosts self-assurance. However, more action is required, including wider and more powerful measures. Developing countries would require special help, such as international coordination, financial assistance, and the adoption of tax regulations that benefit all states. It will be necessary to restore public finances at a certain point. All possibilities, including updating old instruments, introducing new ones, and increasing ongoing attempts to solve the international tax issues created by the digitalization of the economy (OECD, 2020).

The purpose of this research is to start a discourse on tax policy design alternatives that states might want to consider in order to create inclusive development that is both fiscally and ecologically desirable in the medium to long term.

Tax administrations will need to examine a variety of considerations while designing COVID-19 measures, including:

• Whether they use a targeted strategy, focusing on the taxpayers who are most impacted with COVID-19.

• Whether to impose measures to all taxpayers or to taxpayers in certain sectors like individuals, self-employed people, huge companies and SMEs.

• The potential implications for taxpayers as a result of tax administration activities

• The length of the measurements

• The risk of fraud

• How to make options accessible to people with digital challenges

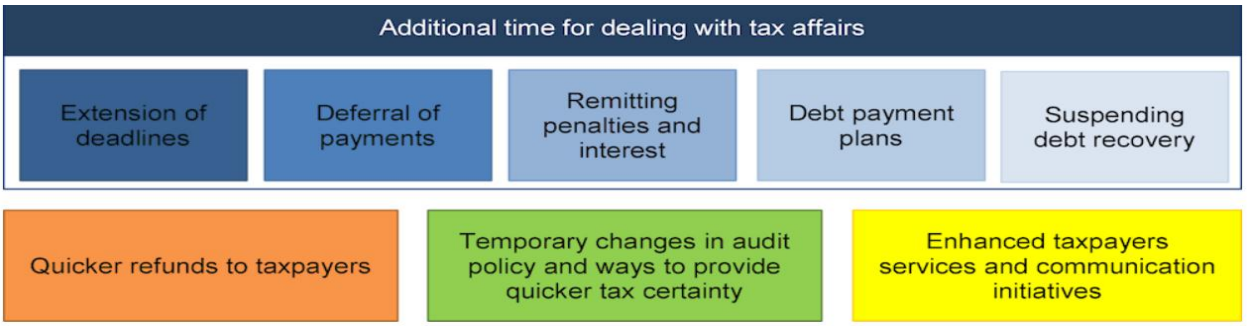
Tax assistance should be targeted at those who most need it. Targeting may assist improve results over time by providing increased support where the need is most urgent, despite the administrative costs. Support might be concentrated on the most severely affected industries. Small and medium-sized businesses might be prioritized because they are more vulnerable to liquidity and solvency issues. Companies with high unemployment risks might be targeted as well, limiting negative effects on households and aggregate demand (OECD, 2020).

Adjustments in tax policy must take into account the various methods and degrees which structural tendencies will influence households. Lower-income, less-skilled, and unemployed households are expected to be hurt worse by numerous structural changes than higher-income and higher-skilled employees, who have more financial resources to bear transition costs and to be able more to profit from such longer-term shifts.

Tax policy can help meeting the costs of the crisis as well as policy measures. Initiatives to rebuild public finances should not begin too soon, but when they do, taxes will play an important role. Following the pandemic, revenue rates and tax structures may need to be adjusted (OECD, 2020).

### Measures to support taxpayers

**Figure 12: Tax affairs**




**Source:** 2021 OECD Tax Policy Reform Survey

### Extension of deadlines

In many countries, the COVID-19 outbreak coincides with the time it takes to file and pay income tax returns. Furthermore, many taxpayers must submit also pay sales taxes and employer withholding taxes (ex, PAYE) as well as VAT on a regular basis. These deadlines might be extended back many weeks or months to provide COVID-19-affected people and companies more time to complete their tax returns and related associated documents, as well as pay their taxes. This might be done automatically or in a simpler version on request (e.g. email, phone).

This is especially significant if taxpayers require the help of intermediaries or professional personnel and systems to submit taxes. For certain taxpayers, remote working may be impossible due security and access issues and essential workers may not always be available owing to illness or care concerns (Josh Malancuk and Karen Koch, 2021).

### Deferral of payments

The COVID-19 breakout has had an extraordinary effect on the cash position of many people, who may be temporarily laid off from their jobs or forced into taking unpaid leave to care for family members. The downturn in economic activity will have serious effects for many enterprises, particularly small companies and the self-employed, because stores closed, consumer numbers may drop considerably, contracts may be cancelled, supply chains disrupted, and so on. Those firms, on the other hand, continue to incur typical expenses such as rent, energy bills, and employee wages. Cash-flow problems can lead to the downfall of not just one company however also several associated businesses because of domino theory.

Even if profits are expected for the fiscal year, tax administrations could take into account aiding taxpayers and trying to ease cash-flow pressures by deferring these that are attributable in instalments (for example, quarterly or six monthly) or through descending adjustments to advance tax obligations (or even cessation of such payments). As previously said, attention could be given to the length of the deferral and the possibility for longer-term cash-flow concerns if tax due amounts accumulate sufficiently (Josh Malancuk and Karen Koch, 2021).

**Suspending debt recovery**

Administrations would like to take into consideration delaying of loan recovery, such as postponing the wage garnishment or bank account freezing and asset seizures and sales. In the current situation, this can have serious consequences for individual taxpayers. In the current environment, it's possible that tax administrations will wish to review the guidelines for case-by-case choices. As indicated in the introduction, the effect of a substantial build-up of debt must also be considered, as it may raise the difficulties faced by taxpayers over time and raise the risk of default (OECD, 2020).

**Quicker refunds**

Where money is owed to taxpayers, refund procedures may be prioritized to guarantee that money is paid out fast, especially when the sums involved may have a

major influence on cash flow, either because to the numbers involved or the taxpayer's nature. In addition to faster processing, tax administrations may desire to take into consideration loosening risk checks performed before distributing some refunds, while being aware of the risks of fraud when it comes to taxpayers below specific thresholds or in the situation of taxpayers with good compliance histories.

While this may force taxpayers to submit returns, especially in the term of VAT, it is not in contradiction with aiding taxpayers by prolonging filing deadlines, because the delays are typically voluntary and taxpayers seeking refunds can submit earlier (OECD, 2020).

**Tax and capital investment**

Previous study on the relationship between tax structures and economic activity has highlighted the negative impact of taxes on capital and labor income when compared to other tax classifications. Tax incentives often result in high cost to a state, so their usage should be closely monitored and analyzed to see if the advantages exceed the costs. Incentives that are poorly designed may limit earnings capacity without resulting in substantial investment rises, restricting efforts to mobilize domestic resources and establishing profits for investors, or generating low-quality investments with restricted productivity and employment spillovers. As a result, it's critical that these incentives are well-thought-out, clear, and maximize additionality while minimizing windfall advantages. Investment tax incentives should be integrated with wider policy aims such as furthering decarbonization measures, enhancing employment quality, or strengthening local supply links to maximize beneficial spillovers (De Loecker, Eeckhout and Unger, 2020).

Investment tax incentives have varying effects depending on their design, with data showing that expenditure-based incentives work better than revenue-based incentives, despite the fact that they can still be costly. Investment tax incentives include a lot of design and context-specific costs and advantages that aren't usually fully

understood. Although there is scant empirical data on the effects of tax incentives, the research so far shows that the design of incentives is important to their performance. Because they directly target investment costs, expenditure-based incentives improve the probability of additional investment. Income-based incentives (e.g., decreased rates and exemptions), on the other hand, are valued according to a company's profit rate.

**Tax and labor market participation**

It is critical to promote labor market participation, particularly among people with low incomes and poor levels of labor market commitment, in the aftermath of the COVID-19 crisis and in the perspective of ageing populations. Labor taxes have the potential to have significant effects on both the quantity and quality of jobs, especially for low employees (OECD, 2018). Work incentives can be enhanced (and have already been strengthened in many jurisdictions) by extending in-work advantages like earned-income tax credits or comparable forms of in-work advantages. Politicians need to draw up labor income tax obligations to encourage work, taking into account the effects on informal employees, women, and the low-skilled, whose labor force attachment may be weaker.

**Tax and productivity**

Maintaining productivity will be critical in supporting growth in the face of a downturn in investment in certain advanced economies, as well as ageing societies. In the large percentage of G20 countries, however, productivity development has faltered in recent decades. Policymakers must support productivity growth by promoting productivity dispersion, business dynamism, and investment in intangible assets. The linkages between tax policy and productivity, on the other hand, are complicated and understudied.

Increased productivity and development may be achieved by investing in intangibles like as research and development (R&D) but not all businesses are able to make and gain the advantages from these investments. Because intangible capital is

more difficult to collateralize than physical capital, financing intangible growth is a significant obstacle for start-ups and new businesses (Demmou, Franco and Stefanescu , 2020). Differences in tax expenses of MNEs against non-MNEs and huge companies versus small companies, for example, might exacerbate such financing hurdles. MNEs can minimize tax obligations by profit-shifting, for example (Sorbe and Johansson, 2017). Apart from financial restrictions, businesses at the bottom of the productivity curve lack the skills and absorption ability to profit from these investments. In digital and information-intensive industries, where productivity dispersion is larger, these obstacles to technology and knowledge dispersion become more significant (Berlingieri et al. 2020).

**Tax policy challenges faced by developing countries**

The G20 reiterated its commitment to assisting developing countries in enhancing their capabilities to generate sustainable tax revenue bases in April 2021. The COVID-19 pandemic has had a tremendous impact on people's health as well as economies, especially in developing states bearing the brunt of the damage. Balancing the requirement to offer income assistance while also collecting taxes to sustain spending has been exceedingly difficult for developing countries with little fiscal space and high debt burdens.

As this article demonstrates, the need to focus on domestic resource mobilization is especially noticeable in developing countries, where tax revenues were already low as a percentage of GDP prior to the COVID-19 crisis. Many developing nations will need to increase their tax collections in order to meet their long-term development goals. Many nations are prioritizing improving tax policy to link it with sustainable development aims funding methods in order to ensure that important public goods like skills growth and education, medicine and infrastructure are financed sufficiently and that social protection is provided to all citizens (OECD, 2020).

Large informal sectors exist in many developing states, reducing the tax base and putting pressure on tax collections. Along with social security and the policy of labor market, strong tax system might be helpful in order to reduce this multidimensional informality both directly and indirectly. This level of informality might result in high rates of taxes paid by the workers of official sector and this can cause poor tax system. This may also drive these sectors to work partly or fully in unofficial sector, as a result all this informality will increase the role of government for raising the tax rates established by law.

Most of the developing countries possesses a very important scope in order to make strong the structure and functionality of the VAT systems. So that in order to improve the productivity and effectiveness of the VAT systems especially the revenue raising capability several developing countries have taken important steps by reductions in the rates of VAT and in the release of VAT. Solid growth in e-commerce of developing countries is also establishing significant challenges for VAT system. Key challenges for VAT system are mainly considered as increase in online sales to private clients in terms of digital services and products such as movies, films, games, streaming music, so on and so forth. Moreover, Significant growth is faced in online sales by foreigners for which the tax is not gathered by the government since there is not any requirement for the collection of VAT (Daniel Bunn, 2021).

Many developing nations may strengthen the design and execution of personal income and property taxes as well. In the future years, developing nations' tax policy debates will focus on expanding the base of personal income taxes and improving the overall progressivity of these taxes. The establishment of the automated exchange of taxpayer information has also increased the possibility for more successful taxation of capital revenues in developing states (Josh Malancuk and Karen Koch, 2021).

### 3.2. Tax accounting implementations related to production facility costs

Businesses all across the world are being impacted by the COVID-19 pandemic. As companies examine the impact of COVID-19 on their worldwide operations, they must pay close attention to the accounting consequences of these changes. The COVID-19 pandemic's various consequences and entity's reaction to these modifications, may have an influence on determination of company's income tax accounting and associated estimations in a variety of areas (Kevane Grant Thornton, 2020).

Governments may provide tax reliefs for particular forms of income, extra tax deductions, a lower tax rate, or an expanded period to utilize tax losses carried forward in response to the COVID-19 outbreak. Azerbaijan has implemented some changes to the Tax Code regarding the effect of COVID-19 to the taxpayers residents of Azerbaijan. Considering that the changes are mainly related to the timing of profit recognition, and that generally tax accounting treatment remained unchanged, our analysis covers mainly cost accounting under IFRS. In addition, no changes were made to the accounting law of the Republic of Azerbaijan.

Companies record one-time tax credits in the interim period in which the incident happens, rather than include them in their yearly effective tax rate estimation. A substantively implemented tax rate change in an interim period, on the other hand, may be recognized as a one-time event or extended over the remainder of the year reporting period via a change to the anticipated annual effective tax level (KPMG, 2020).

#### Deferred tax asset recognition

Subsequent transactions should not be represented in the measurement of (deferred) taxes in line with IAS 12 'Income Taxes', because the measurement of asset,liabilities should only represent the situations that existed at the reporting date. Companies may encounter situations at the conclusion of the first quarter that were not expected when their year-end financial statements were issued, due to the rapid shift in the economic environment. Businesses having deferred tax assets should evaluate

expected earnings and deferred tax asset recoverability in line with IAS 12, taking into account the increased uncertainty caused by the virus and the efforts taken to combat it. Deferred tax liabilities may be decreased as a result of asset impairment,new deductible temporary differences may be created. Management must also evaluate if any of these one off adjustments to the company's current deferred tax balances connected to the virus should be recognized as a discrete transaction for interim reporting purposes, according the entity's accounting rules (PWC, 2020).

Companies which no longer aim to claim indefinite reinvestment should evaluate if the deferred tax liability recognized during the period is reasonable and accurately represents the tax impacts of repatriation at every stage of the business.

Companies which claim that a one-time repatriation of accumulated earnings and income is required, but that the rest will be reinvested indefinitely should assess if there is enough evidence to establish a partial reinvestment assertion.

**Changes in tax law or tax rate**

In the period that involves the enactment date-that is, the day on which a tax bill is signed into law, firm recognizes the impact of an enacted modifications in tax rules or rates. When the president signs legislation, such as federal tax law and rate adjustments, it becomes law. Because the impact of a change in tax legislation or tax rates cannot be predicted in the financial statements, they should not be reflected until the period in which the change is adopted. In response to the COVID-19 outbreak, many countries are proposing various economic incentive programs. Tax cuts, credits, grants, and other legislative advantages may be used to provide this aid. When this kind of law is adopted, a company's anticipated annual effective tax rate should be adjusted in the interim period which involves enactment date (Kevane Grant Thornton, 2020).

**Tax accounting method changes**

As businesses assess their capital requirements, they may want to consider switching to a more tax-efficient accounting and reporting system. A company may, for example, modify its methodology of capitalizing inventory costs or the timing of reducing prepaid expenses to a more advantageous approach. Under tax authority laws, moves from one appropriate tax system of accounting to the other might be either automatic or non-automatic. When a taxpayer alters the method of accounting for an element on their tax return, it creates temporary differences. The income tax accounting results of automatic methodology modifications are generally recognized in the financial statements in the timespan when management considers that the company qualifies for a method modification and has the intention and capacity to seek it. Modifications to non-automated processes require the approval of the tax authorities. As a consequence, until approval is given, companies should not show the income tax accounting effect of non-automatic method modifications in their financial statements (Kevane Grant Thornton, 2020).

**Interim periods' estimated annual effective tax rate**

Generally, a company enters income tax expenditure in interim period depend on the underlying assumption that each period is an integral element of the yearly period. The entity assesses its entire year effective tax rate and applies it to its year-to-date ordinary income or loss using this rationale. If a business can't reliably predict its yearly effective tax level, the actual year-to-date tax level could be the best estimate. This might be applicable for a certain jurisdiction or a specific component of ordinary income. Companies that use a discrete method to one or more elements of the overall income tax expense or benefit must typically need to declare inability to forecast such income accurately (Kevane Grant Thornton, 2020).

COVID-19 can help a company identify substantial, unusual, or seldom occurring events including goodwill or asset impairments, substantial loan or lease changes, debt restructuring, and other major events. The tax consequences of these unusual or rarely

occurring events are recorded in the interim period when the transaction occurs. It's critical to know if an impairment or related event is actually unusual whether rare and whether such occurrences should be taken into account when adjusting the estimated annual effective tax level applied ordinary income from year to year. As a consequence of an unusual occurring transaction, a corresponding modification in the valuation allowance assessment may influence either the expected annual effective tax level and tax expense in the period the event happens (Kevane Grant Thornton, 2020).

**Income tax**

Entities should examine how the consequences of COVID-19 on profitability, liquidity, and impairment issues may influence an income tax accounting under IAS 12. A drop in current-period revenue or actual losses, along with a fall in predicted income or a projection of future losses, might lead to a revaluation of whether it is likely that most or all of an entity's deferred tax assets can be recoverable. Such evaluations will be especially difficult in cases where changes in present and predicted future profitability result in, or are likely to lead cumulative losses, and the firm has not had a consistent financial history prior to the implementation of COVID-19. If decreasing profits or impairments result in losses, businesses must also determine whether there is enough taxable income available within the applicable character's carryback and carryforward periods to completely or partially realize the corresponding deferred tax asset (Deloitte, 2020).

Modifications to the carrying value of assets and liabilities (for instance, as a consequence of impairment losses or declines in the amount of a pension surplus) will also have to be evaluated in terms of deferred tax effects.

**Deferred tax payments and tax reporting extensions**

The most popular tax solution used to improve business cash flow is the deferment of CIT and other corporate taxes. Deferrals of CIT payments have been implemented in over 75% of the nations and jurisdictions studied. Tax deferrals were often

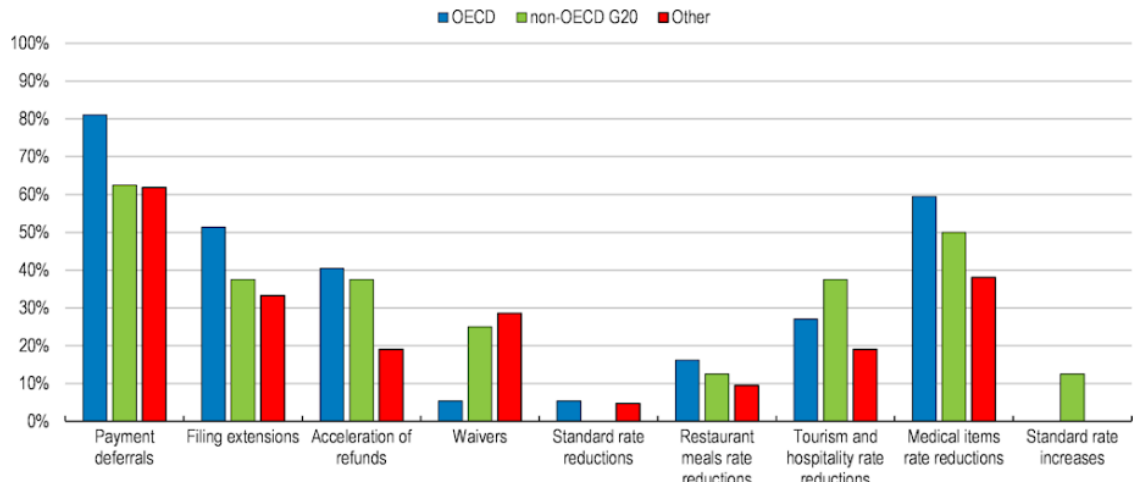
accompanied with delays for submitting tax returns and other relevant documents in several states. CIT payments were even postponed for a year in some jurisdictions (e.g. Japan and Tunisia). The majority of jurisdictions have put in place regulations that apply to all types of enterprises. Increased CIT and other company tax deferrals were also aimed at firms badly impacted by the crisis (tourism, sports, transportation, catering, amusement and education) as well as companies in all industries with annual sales under EUR 50 million and with large turnover declines. Since the beginning of the crisis, some jurisdictions have exclusively focused tax deferrals and/or simplified systems towards SMEs (e.g. Brazil, Peru, New Zealand and Korea) (OECD, 2021).

Some states enacted tax measures to lower rent expenditures for enterprises participating in industries that were disproportionately impacted by the COVID-19 issue, either directly or indirectly. Tax credits were created in Italy to partially offset the expenses of building renting. The measure was primarily aimed at small businesses in badly impacted industries, but it was later broadened to include all sizes of businesses until December 2020. Owners who lowered part or all of the rent owed by enterprises affected by social distancing restrictions received a tax credit in France (OECD, 2021).

**CIT and other business tax increases**

In order to raise income, some governments have previously implemented or announced corporation and company tax increases. Many nations will see a considerable loss in tax income as a result of the crisis. Budget balances will deteriorate due to the costs of fiscal packages to help firms and households during (part) shutdowns and efforts to incentivize economic growth, as well as a rise in public spending to minimize health-related losses. Several states have enacted or planned initiatives targeted at increasing income in the future in this context. In the medium term, a few states have announced CIT rate rises or reversed projected tax cuts. The CIT rate in the United Kingdom has been raised from 19 percent to 25 percent as of April 2023 (KPMG, 2021).

**Figure 13:Main VAT/GST initiatives across categories of countries**




**Source:** 2021 OECD Tax Policy Reform Survey

## Business property taxes

In 2020, many regional and local governments' emergency operations and relief programs were at capacity. Because operational costs increased considerably during the outbreak,those costs will almost certainly be transferred to commercial property taxpayers in the way of higher tax levy levels. During the next year or two, these tax bombs will impact capital-dependent enterprises particularly difficult. One of the worst-affected industries is manufacturing.

**Manufacturing sector:** The majority of manufacturers have enormous facilities and a considerable amount of equipment. Manufacturers are frequently subjected to high real estate and personal property taxes. Even though the outbreak has drastically affected consumer demand, output, and income, this is unlikely to change. Why? So the property tax is a regressive levy on these capital-intensive firms. In addition, many firms are finding it harder to meet their loan obligations due to cash flow issues. Depending on how powerful (and successful) government involvement is, more manufacturers may battle to recover — and may even file bankrupt — if the COVID problem continues. For manufacturing customers, the solution may be as easy as understanding what deductions or valuation allowances a certain jurisdiction provides

– options that numerous manufacturers and their financial consultants neglect (Josh Malancuk and Karen Koch,2021).

### 3.3. Tax measures taken by different counties to tackle COVID-19

This section gives an update on the tax policies implemented by countries in the aftermath of the COVID-19 issue. In many nations, fiscal packages in reaction to the crisis were unparalleled in terms of size and extent. Tax measures have played crucial role in giving crisis assistance to firms and households as part of these larger fiscal packages. Tax policies have been especially important in assisting enterprises with liquidity.

Many of the tax policies enacted during the early phases of the crisis have been extended, however some have been adjusted to help the most vulnerable companies and households. Some states (Germany and Italy have enhanced the generosity of early relief initiatives or expanded availability for assistance to recipients were previously not covered (Lithuania, Italy and United Kingdom). However, changes in the targeting of public assistance programs such as salary subsidies and employment retention programs have been significantly less pronounced than changes in the targeting of tax policies (OECD, 2021).

Several countries have withdrawn the payroll taxes / social security contributions from the employer's part. This is done in order to improve the cash flow of the company.

As an example, the China has waived the followings contributions:

- employer contributions to worker endowment insurance

- unemployment insurance

- industrial accident and injury insurance

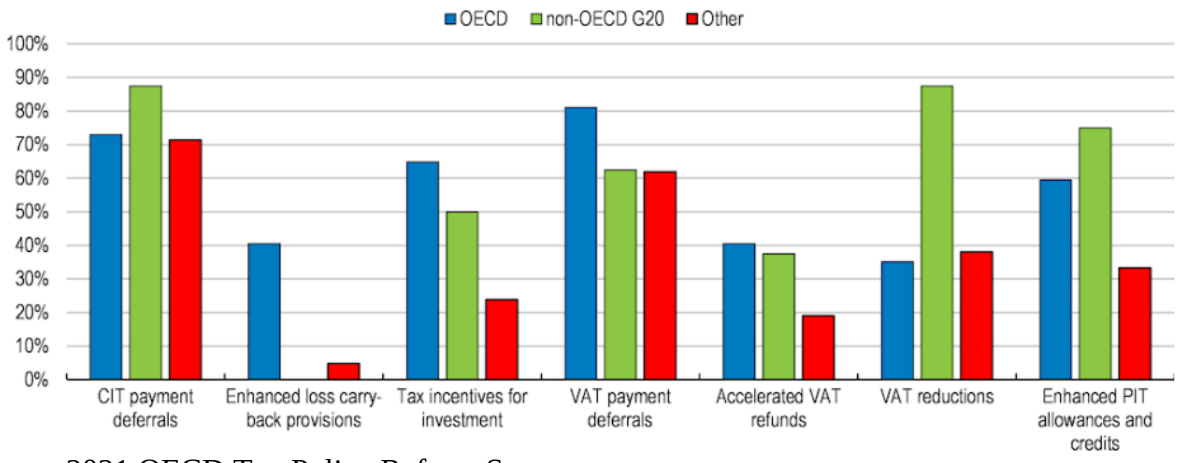
Small businesses get a five-month waiver, whereas big companies have three-month waiver. Employer contributions to the jobless severance financing in Brazil have

been canceled until the end of June. Montenegro has put off paying social security contributions for up to 90 days (Sımeon Djankov and Joanna Nasr, 2020).

Some countries took steps to speed up tax refunds, particularly for VAT/GST input credits. Thailand made it possible to get a refund of excess VAT input within 15 days if you request online or 45 days if you request in a tax branch office. Saudi Arabia has also expedited reimbursements for VAT inputs that were overpaid. Extra VAT input refund assertions are reimbursed within 30 days and excess VAT input credits can be brought forward from previous periods (Sımeon Djankov and Joanna Nasr, 2020).

Some programs, largely in the form of VAT decreases, aims to keep consumption from collapsing. For medical items, Greece reduced the VAT rate from 24% to 6%. In Turkey, the VAT rate on domestic air travel has been decreased from 18% to 1%. For cultural and tourism activities, Norway reduced the VAT rate from 12 percent to 8%. Kenya has decided that the VAT rate would be lowered from 16 percent to 14 percent as of April 1. A list of essential products will be excluded from VAT and receive a full refund of customs charges upon importation in South Africa (Sımeon Djankov and Joanna Nasr, 2020).

**Figure 14:Most general tax actions around the world**

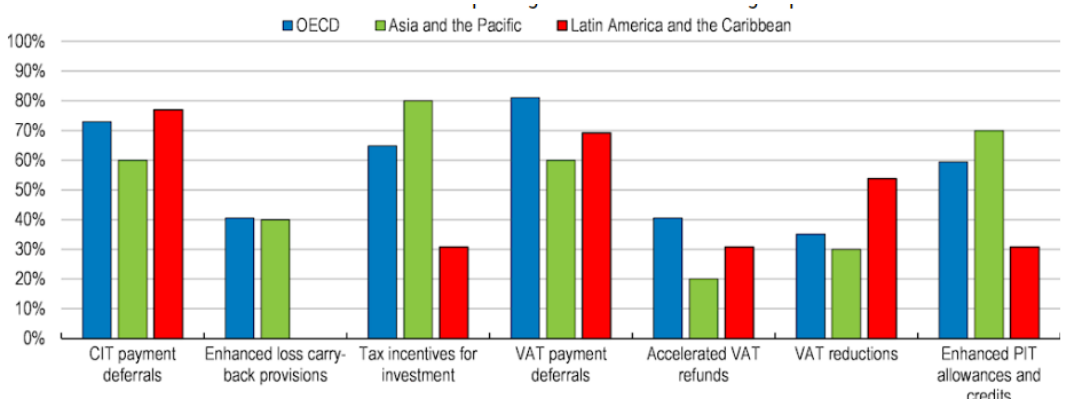



**Source:** 2021 OECD Tax Policy Reform Survey

Although certain general trends, there have been substantial discrepancies in the scope and types of tax programs among regions and states, owing in part to the virus's

prevalence and control strategies. States with rigorous closure policies have enacted more extensive tax assistance measures, whereas states with less rigorous containment strategies have enacted less COVID-19-related tax reduction initiatives (OECD,2021).

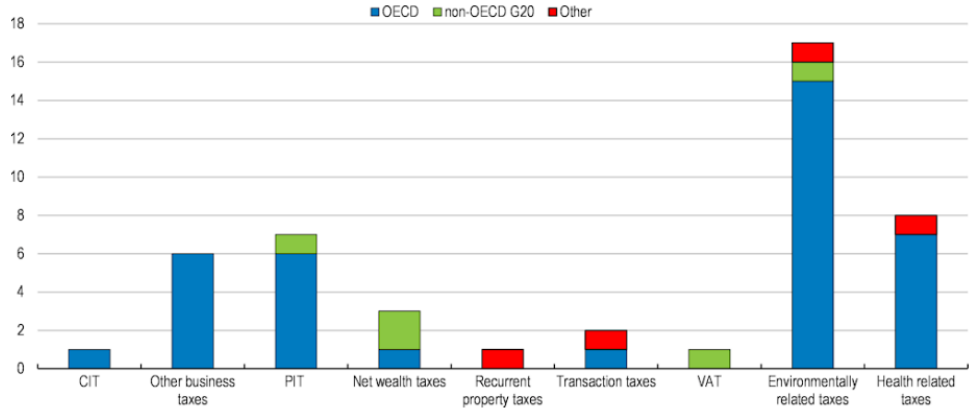
**Figure 15: Most general tax actions in selected regions**




**Source:** 2021 OECD Tax Policy Reform Survey

**Figure 16: Increases in tax rates and new taxes have been reported in all states**

By category, the number of tax interest rate rises and new taxes introduced




**Source:** 2021 OECD Tax Policy Reform Survey

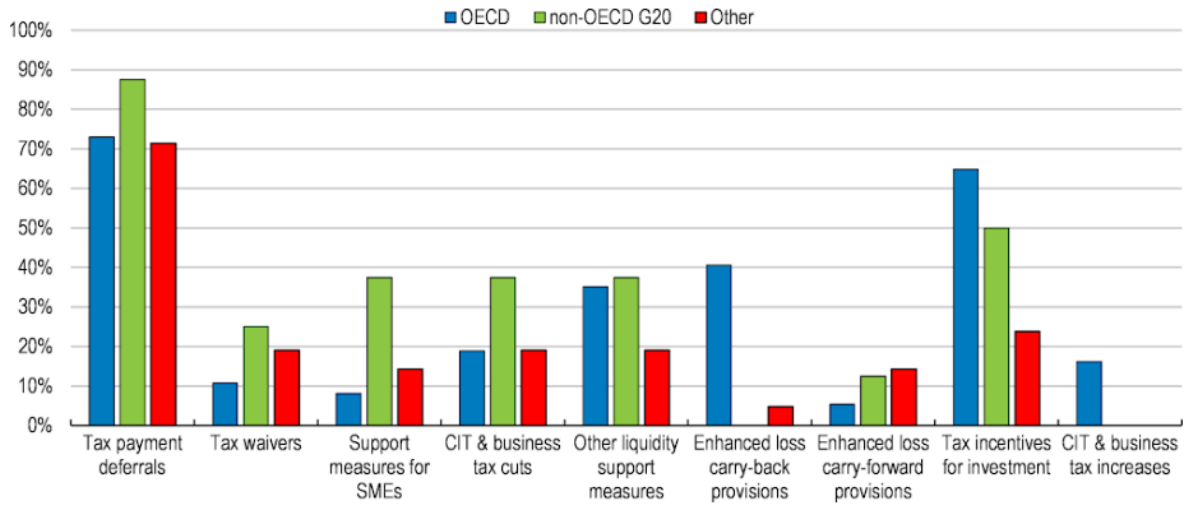
Note:37 OECD states, 8 non-OECD countries and 21 other states are shown in figure.

The corporate income tax and other company tax policies were designed to give firms relief and stimulate investment. The most of CIT policies in advanced and emerging market economies have aimed to mitigate cash flow problems, such as tax payment deferrals, quicker tax refunds, CIT pre-payment decreases and expanded loss

offset provisions. These steps were designed to help firms that were facing a sudden drop in liquidity and to minimize potential ripple impacts across the economy caused by enterprises' inability to pay for salaries, rent, intermediate products and loan interest. Since the initial wave of the pandemic, when sanitary constraints began to loosen, stimulus initiatives, particularly investment tax incentives have been a growingly important component of tax packages in reaction to the crisis. Despite this, the timeframe and scope of fiscal stimulus initiatives differed across jurisdictions, reflecting disparities in the timing of the spread of the virus and the speed with which economies reopened. While the primary goal of CIT and other corporate tax adjustments has been to offer relief and stimulation, a few nations have already implemented or proposed reforms targeted at increasing tax collections, such as increases in CIT and other corporate tax rates, as well as base expanding measures (OECD, 2021).

**Figure 17: Primary CIT measures across categories of states**

Shares of states reporting tax initiatives in each category




**Source:** 2021 OECD Tax Policy Reform Survey

Note:37 OECD states, 8 non-OECD countries and 21 other states are shown in figure.

## Reduction of tax prepayments

During the first half of 2020, certain states put a halt to CIT prepayments (Slovenia, Chile, Greece, Indonesia, Luxemburg). Slovenia abolished CIT and tax prepayments for unincorporated enterprises for the most of 2020, whereas Greece did the same, although only for pandemic-affected industries. Chile eliminated all monthly CIT prepayments for all enterprises in the second quarter of 2020 and prolonged the suspension until September for companies that saw a revenue decrease of at least 30% in the second quarter.

For a longer length of time, a number of states lowered prepayments for SMEs. Under 2021, Portugal will remove tax prepayments for partnerships, micro businesses, and SMEs, while Chile would lower monthly payments for enterprises in the SME system by half until 2022. To give help to small taxpayers, New Zealand temporarily raised the threshold for firms that must make prepayments.

**Tax waivers and rebates**

Only a few states have allowed partial or whole exemptions of CIT obligations. Indonesia provided withholding tax exemptions for enterprises engaged in the health crisis until June 2021. From April through July 2020, Peru will delay or decrease CIT payments, based on the income decrease suffered by businesses compared to the same month in 2019.

The majority of tax exemptions, on the other hand, applied to other corporate taxes. For the next nine months, Brazil will not charge a financial transaction tax on credit transactions. Both Hungary and Tunis temporarily eliminated corporation taxes in the hard impacted travel industry, with Hungary waiving the tourist growth contribution and tourism tax until the national emergency is abolished. Tunisia eliminated a particular corporate tax for travel companies in the first half of 2021. For companies in the shipping industry, Italy abolished stamp customs on electronic invoicing throughout 2020 and port taxes and fees are eliminated. Some jurisdictions

have eliminated recurring taxes on immovable equipment held by enterprises, which might be a significant burden for companies experiencing significant income losses.

In several states, tax exemptions were aimed at SMEs and self-employed people. For the tax year ending June 30, 2020, Korea gave qualifying small sized firms a 60 percent income tax decrease and a 30 percent income tax reduction to mid-sized enterprises situated in significantly impacted areas. As January 2021, Portugal will no longer levy a particular tax on firms that declare losses for some microenterprises and SMEs (PWC, 2022).

**Tax support for employment**

Some states implemented tax incentives to incentivize firms to keep or hire new employees. While many advanced states have provided help to companies through job retention strategies, which partially cover companies' salary costs in order for them to continue paying (probably a portion of) their workers' salaries rather than lay them off, some states have also utilized tax incentives to encourage employment. Some states have used tax policies such as deferrals and exemptions of personal income tax obligations, particularly social security contributions, to stimulate employment. Due to COVID-19, US has implemented a tax credits for companies that were covering sick vacation, healthcare vacation. (OECD,2021).

Some states have concentrated employment tax incentives on enterprises that hire low-wage workers, who have been one of the most impacted by the crisis. From the second quarter of 2020 onwards, British Columbia (Canada) implemented a tax credit for businesses who generated new positions or boosted payroll for current low- or medium-income workers. Thailand implemented a number of new tax breaks, including a 300 percent exemption for salaries paid to low-wage workers hired by SMEs.

**Tax incentives for investment**

Countries implemented steps to stimulate investment, in addition to corporate tax initiatives targeted at giving liquidity help, notably from mid-2020 onwards. After the initial wave of the outbreak, sanitary limitations began to loosen in many states and economies began to recover, more typical stimulus measures were implemented with the goal of attracting new investment and speeding up scheduled investments. Nonetheless, the timeframe and extent of corporate investment stimulus has differed, with states that were able to contain the virus more swiftly receiving earlier and stronger tax benefits. Several states that initially provided temporary investment incentives in 2020 have now expanded and increased these incentives in 2021 and 2022. As part of larger CIT adjustments, some states implemented new investment tax incentives.

A few states have adopted or strengthened COVID-19 related tax measures, such as allowances to help firms adjust their workplaces to new sanitary regulations. In the United States a tax provision was implemented that allow firms, particularly in the hospitality sector, to instantly deduct costs related with facility improvements. Tax credits were created in Italy to partly pay the expenses of sanitizing businesses and renovating, maintaining and protecting workplaces to allow for safer working conditions; these credits were later extended until 06.2021. Investments undertaken to improve the production capacity of firms engaged in manufacturing crucial supplies connected to COVID-19 protection and control were permitted to be expensed immediately in China (James K. Jackson et., 2021).

Investments into big projects were provided by government in order to increase cash flow and initiate enterprises to carry forward investments (Australia, Norway, the Czech Republic). In addition to the allowance of subtraction of investments undertaken by 2022 by the firms operating in Oil and gas industry, they also were temporarily allowed to include the specific reduction (rise) from the special tax base utilized for petroleum tax revenue objectives.

Following countries have made steps to stimulate investment by establishing accelerated tax depreciation plans:

- ✓ Accelerated depreciation for structures/buildings, also declining balance depreciation was provided to Austrian firms.
- ✓ Investment deduction rate was increased to 25% for investments in fixed assets in Belgium.
- ✓ Certain assets, such as engines, motor vehicles, machineries and audio-visual equipment have been allowed for tax depreciation for several years in the Czech Republic.
- ✓ New Zealand permanently implemented a 2% yearly tax depreciation rate for new and current industrial and commercial buildings.
- ✓ Singapore offered the option of depreciating the cost of equipment and machinery over 2 years and cost of renewal over 1 year for tax purposes.
- ✓ Peru temporarily enhanced tax depreciation levels for some assets beginning in 2021, permitting tourist agencies, restaurants, hotels and similar services to depreciate facilities at a 20% rate.

Also, some discounts were made by following countries in order to stimulate the purchases of machinery and equipment:

- ✓ From the United Kingdom will offer a 130 percent capital allowance reduction for qualifying new primary rate plant and equipment investments, as well as a 50 percent first-year reduction for special rate (long-life) qualifying assets.
- ✓ The eligibility requirements for tax depreciation allowances were enlarged by Germany, and included in SMEs.
- ✓ A temporary investment tax credit of up to 20% of the costs of the investments for assets was implemented by Portugal. The tax credit is

restricted to 70% of the CIT obligation, however it can be brought forward for a maximum of five years.

- ✓ Sweden has declared the implementation of an Investment Tax Incentive.

Following countries have also provided some tax incentives:

- ✓ The tax credits aimed at taxpayers which are one third of the income tax obligation, which were set to expire in 2020 as well as expanding the scope to include the southern border area was extended by Mexico. Furthermore, eligible enterprises in the southern border area can now take advantage of these tax incentives.
- ✓ Canada has adopted a new refundable tax credit for capital expenditures in commercial, industrial facilities.

The VAT reforms, such as tax filings, were on lowering compliance costs and relieving business liquidity difficulties, such as VAT refund acceleration or payment postponements. Some of these methods really improve the efficiency of VAT systems and guarantee that businesses are not burdened by VAT. Relief from VAT and import duties was also a big component of governments' attempts to make medical products and services more accessible. After the first wave of the pandemic, as a sanitary restrictions started to relieve and economies began to reopen, a number of countries implemented temporary VAT/GST rate discounts, generally aimed at specific industries, as a way to motivate demand and support companies in seriously impacted sectors. As new lockdowns and containment procedures were implemented, many of these interim rate decreases were extended. The decreases in VAT/GST rates were mostly centered in OECD nations. In a few of nations, however, excise charges on harmful consumption, particularly tobacco goods, have been raised in order to increase income and promote healthy behaviors (Daniel Bunn, 2021).

## CONCLUSIONS AND RECCOMENDATIONS

To sum up, this research attempted to investigate the economic effects of the COVID-19 pandemic on the world and Azerbaijan economy.The findings demonstrate that coronavirus has a huge influence on significant economic variables such as GDP growth rate, supply chain, foreign trade, investment and employment rate. That is, the governments of the impacted countries' actions (shutdown, quarantine) are impeding the smooth execution of economic activities. Supply chains may help the business reduce operational costs, enhance financial situations, increase customer value, keep effective coordination and gain a competitive advantage.

Our findings found out that companies had limited opening hours, a drop in customers, reduced turnover, and personnel demotivation during the outbreak. As a result, company owners should consider re-strategizing their operations, preserving client relationships and taking use of available support resources. The findings describe that during the pandemic, a significant proportion of businesses' sales remained stable or increased. Smaller businesses are being affected far harder, according to the research. Some companies have been more resourceful in generating new income streams or restructuring their company, such as transferring sales online or shifting to new goods. Alternatively, some exporters have shifted from one set of consumers to another.

The quarantine has had a huge economic impact on Azerbaijani society, with rising unemployment and considerable income losses. Azerbaijan's economy has been severely hit by COVID-19 and the subsequent dramatic drop in oil prices. In an effort to alleviate the pandemic's negative economic impacts, Azerbaijan allotted the greatest proportion of GDP among post-Soviet Union states.

Governments may implement tax exemptions for particular forms of income, new tax deductions, a lower tax rate, or an expanded timeframe to utilize tax losses carried forward in response to the outbreak. Azerbaijan has amended its tax code to address the impact of COVID-19 on Azerbaijani taxpayers. Because the changes are mostly linked

to the timing of profit recognition and the tax accounting method has remained constant, our research focuses on IFRS cost accounting. Furthermore, no amendments to the Republic of Azerbaijan's accounting legislation have been enacted.

The sudden pandemic has an influence on the cost of every goods or services in the sector. On the one side, output levels declined dramatically, while industry faced costs to keep the infrastructure operational. In addition, wages were provided to keep the workers accessible for future jobs. Without following services, rental rates, premiums, minimum guarantee costs and working capital interest were paid. As a result, the industry lost a lot of money.

Considering that how different industries suffered from the pandemic and in order to be able to maintain the economic growth, several recommendations were prepared.

**Recommendation 1: Make sure that national recovery and resilience strategies take into account the unique characteristics of the industrial tissue**

Governments should help each sector on a sector-by-sector basis. In a pandemic, a unilateral strategy is not acceptable because it can lead to a rise in one industry and a sag in the other industry.

**Recommendation 2: National recovery and resilience strategies should attempt to boost EU industrial competitiveness by investing in R&D and digital re/upskilling**

Due to the pandemic, industry competitiveness has weakened, requiring further government attention. The government may obtain new solutions to the existing corporate model by financing R&D projects. Furthermore, by enabling complete deductibility of R&D costs for tax purposes, the government can simulate a rise in R&D expenditures that would produce the desired outcome.

**Recommendation 2.1: Ensure support is provided to aligned government and private R&D investments**

Investment stimulations should be provided as the firms R&D expenses initiative may be not enough. The expenditure of the European Union has been focused mainly on healthcare and short-term countermeasures. But, industrial sectors need help in their efforts to innovate. The connection of government R&D investments with private investments is needed to be done in order to put have the growth in the sector.

**Recommendation 2.2: Provide sufficient investments in digital and technical re/upskilling in the recovery strategies**

The digital upskilling can help the firms become more resilient and competitive. The importance of smart health/telehealth adoption is needed in order to ensure that the government is prepared for the digital age and future global health issues.

**Recommendation 3: To take additional measures to prevent damage to companies, to provide financial assistance from the government in Azerbaijan**

Although several companies and firms couldn't obtain revenue during the pandemic because of the closure, low amount of sales and worries about cash receiving, they still continued to pay the salaries of the employees to keep the employee staff for future and next projects. Fixed costs like rent, premiums, interest of working capital and etc. were still paid by the company without usage. Therefore, it would be better if the governmental assistance is provided to the companies that get damaged during pandemic in Azerbaijan.

**Recommendation 3.1: Provide loans at a discount for the successful implementation of reproduction and service activities of enterprises in Azerbaijan**

COVID- 19 credits, debt relief and subsidies are available to assist companies in continuing to operate and pay their workers. Many businesses have been pressured to close or are experiencing significant revenue declines. This provided loan should meet specific payroll expenditures, mortgage interest, rent and utility.

**Recommendation 3.2: Provide elimination of fines imposed on companies for not wearing a mask in Azerbaijan**

High fines and interests for not wearing the masks putting the companies at a disadvantage.

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## Lıst of Tables



## Lıst of Schemes