
Post-lockdown costs business owners need to think about

Financial literary expert Frank Conway from [Moneywhizz](#) outlines additional costs business owners will need to factor as they emerge from lockdown.

The sudden and sharp onset of Covid-19 caught the vast majority of people unprepared. The outcome has resulted in an equally sharp rise in uncertainty. Concerned business owners must now readjust the way they factor in changes if they are to survive.

For individuals, there has been a general decline in household spending as a result of various stay-from-home routines. It's difficult to spend a lot of money under such conditions.

On the income side, the severe contraction in general employment has been cushioned by emergency Covid-19 measures. Additionally, some insurance rebates have provided a modest boost for some.

An additional uncertainty for individuals is around the whole area of pre-paid or partial-paid events, including holidays, weddings and so forth. Here, it is a game of clarity and obligation. On the matter of clarity, where Government actions resulting in restrictive travel measures, event providers generally issued refunds or vouchers to be used at a later date.

However, for some, including certain flights to the US, things are less clear; for example, where flights were not cancelled, some passengers were unable to travel due to highly restrictive measures announced by authorities there. In such cases, options are less clear. However, for such cases, it is advisable to consult with the Competition & Consumer Protection Commission (www.ccpc.ie) or Citizens Information (www.citizensinformation.ie).

The other side of the coin: businesses

The scene is a lot different for business owners. As individuals have drastically altered spending habits, the knock-on impact is enormous. Where businesses continue to operate, there is a big shift in costs. Understanding those, factoring them into future operating expenses even if the path to recovery remains clouded is essential.

Based on lockdown reasons, medical expert recommendation and consumer concerns, some of the immediate costs business need to factor into their planning include:

- Increased costs associated with contingency planning
- Rise in customer screening measures

- Additional security and/or staffing
- Lower customer density numbers
- Event and journey cancellations
- Manufacturing and production delays
- Product destruction
- Accounting considerations

When it comes to accounting for the wide range of expenses and considerations, there are specific accounting rules in place that factor for those. Items that would be listed as “unusual” and/or “infrequent” should normally be presented as a separate component of expense from continuing operations.

Technical guidance for treatment of expenditures

The accounting side of a business is one end of the operation, the other is financial and setting a scene for what the landscape is likely to present. Looking forward, some of the many considerations include:

- What aspects of the business operation are likely to be in demand and which are likely to be severely affected
- What aspects of the business operations could be pivoted quickly to meet the needs of an operation and which aspects are unlikely to be adaptable in the near to medium term
- It is important to keep in mind that for any business, so-called “infrequent” refers to events and transactions that would not reasonably be expected to recur in the foreseeable future, taking into account the operating environment

It is also important to remember that a business’s normal operating environment refers to the characteristics of the industry, the consumer demand for what the business sells, the state of governmental regulation and of course, the geographical location of its business operations.

An example of this would be a past event experienced by the business, such as a natural disaster or industry volatility, provides evidence to assess the probability of it occurring again in the foreseeable future. In this way, the probability of recurrence takes the entity’s operating environment into account.

Cash-flow factors

A rise in costs to a business that may have previously been considered “unusual,” “infrequent,” or both, could become normal in the months and years ahead. Hygiene and distance-measuring practices are just one example.

For large event organisers, this can mean fewer attendees, fewer passengers for airlines and lower

through-put of customers in shops.

The financial impact of each event or transaction that is unusual in nature or occurs infrequently, or both, should be presented as a separate component of expenses.

Special consideration

If a governmental or non-profit organization's mission or charter includes responding to natural disasters or infectious disease outbreaks, this may be considered part of "normal operations" and would not be an unusual or infrequent event.

Insurance proceeds

A business owner may have business interruption insurance policies. When incurred damages or losses have been mitigated through insurance, accounting treatment has strict rules related to the recognition of gain contingencies (in this case, insurance proceeds).

It is likely that insurance premium costs will be impacted by the onset of Covid-19 although at this time, that impact is far from clear. What is certain generally is that for significant cross-section of our economies, changing practices will have a significant impact on income at a personal and commercial level and as such, those must be carefully considered.

Finally, it is vital business owners maintain a close relationship with their accountant to fully account for the new business landscape.

Frank Conway collaborates with Bank of Ireland on [Financial Wellbeing](#) and promoting financial literacy. He is a qualified financial adviser, founder on [MoneyWhizz](#) and chair of the Price Monitoring Group at the Department of Communications, Climate Action and Environment.