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# Financial Reporting Considerations Arising From the Conflict in the Middle East

## Introduction

The ongoing conflict and instability across parts of the Middle East have introduced uncertainties that may affect financial reporting for many entities, including those with and without direct operations in the region. This *Financial Reporting Alert* is intended to raise awareness of some of the key potential impacts arising from the conflict in the Middle East that entities should consider. These include:

- Production interruptions and physical asset/inventory damage in affected regions.
- Supply-chain threats.
- Shipping and logistics disruption on key maritime routes.
- Airspace and travel suspension affecting the movement of people and cargo.
- Energy and broader commodity price volatility affecting input costs and margins.
- Foreign exchange and financial market repricing (equity volatility and widening credit spreads).
- Commercial impacts, including demand shifts and reduced sales/earnings in exposed markets.
- Elevated costs and operational risk from security/insurance increases, cyberattacks, and critical infrastructure/service outages.

Entities with minimal exposures or no existing operational footprint in the region may also need to evaluate the potential impacts of the conflict highlighted above. It is important that entities aggregate and consider their direct and indirect exposures to these impacts and consider the related financial accounting and reporting implications. Such implications could be numerous, particularly for entities with (1) material subsidiaries, operations, investments, contractual arrangements, or joint ventures in the region or (2) significant suppliers, vendors, customers, lenders, borrowers, or insureds with direct or indirect exposure to the region.

Although it may be too early to assess the conflict's broad implications, an entity's related accounting and financial reporting considerations may be similar to those arising from a substantial market disruption or catastrophic natural disaster. Further, because the current and future macroeconomic impacts of the conflict are not presently known, entities should reassess the repercussions of the conflict both throughout the reporting period and for the duration of the conflict and consider whether new accounting and reporting effects have materialized. The following sections address these considerations in greater detail:

- [Forecasting](#)
- [Inflation](#)
- [Supply-Chain Disruptions](#)
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## **Broad Financial Reporting and Accounting Considerations**

### **Forecasting**

Many entities may face significant challenges related to forecasting as a result of ongoing uncertainties associated with the conflict in the Middle East.

In response to cost structure changes that include higher inventory and freight costs, entities should (1) consider how they expect the altered cost structures to continue into the future and (2) evaluate whether they will be able to offset any increased costs with pricing adjustments. If entities are unable to procure resources needed to produce and deliver goods and services, they may see a significant decline in revenues.

An entity's forecasts are used in a variety of accounting estimates, including, but not limited to, those related to the assessment of (1) goodwill or other long-lived assets for impairment, (2) whether valuation allowances related to the recovery of deferred tax asset balances are needed, and (3) liquidity and the appropriateness of the going-concern presumption. In developing forecasts and assessing the related accounting implications, an entity should consider whether the effects of the uncertainties are short-term or long-term and how that determination will affect various accounting estimates. It should also ensure that the forecasts used in business planning are consistent with those used in developing accounting estimates.

### **Inflation**

The conflict in the Middle East may exacerbate inflationary pressures globally by disrupting energy markets, shipping routes, and key commodity flows. In particular, oil and natural gas supply risks and logistics constraints have contributed to higher energy prices. Although inflation affects entities differently, there are common considerations related to the evaluation of how recent inflationary trends may affect their accounting and financial reporting.

For example, because the conflict and related supply disruptions may drive up the costs of acquiring goods, inventory, and related packaging materials, entities should consider whether they can pass along those increased costs to their customers. See the [Supply-Chain Disruptions](#) section for considerations related to costs that are capitalized as part of inventory. The International Monetary Fund (IMF) warned that a sustained 10 percent increase in oil prices throughout the year may result in a global inflationary increase of 40 basis points.<sup>1</sup> Entities should consider, as applicable, the need to reflect such macroeconomic outlooks when updating budgets, sensitivity analyses, and forward-looking overlays used in estimates.

Entities may also have increased costs associated with long-term revenue contracts that they may or may not be able to pass along to their customers. If an entity is unable to raise its prices under a revenue contract, it may incur a loss or a decline in its estimated profitability associated with the contract. Entities should consider the potential accounting implications of reduced or negative profitability on a revenue contract, including the period in which to record a loss if applicable.

As a result of inflation, long-term contracts such as leases or certain supply agreements may need to be renegotiated or possibly terminated, which in turn may have accounting implications. For example, if a lease contract is modified, an entity may (depending on the terms) be required to reassess the lease's classification and measurement.

In addition, inflation may lead to an increase in interest rates and corresponding declines in the fair value of fixed-rate financial assets. Entities should also consider the impacts of inflation on estimated credit and loan loss reserves.

As entities review their investment strategies in light of recent and ongoing inflation, they may consider making different types of investments or moving away from holding excess cash on hand. For example, an entity may consider investing in gold, digital assets (such as cryptocurrencies), or Treasury Inflation-Protected Securities as a hedge against inflation. Entities contemplating such investments should consider the complex accounting and financial reporting that may result from holding them. For example, inflation-indexed debt securities are subject to specific interest recognition guidance under U.S. GAAP. Further, entities should evaluate them to determine whether they contain a derivative that must be accounted for separately. In applying these policies, management should also remain alert to sanctions and compliance constraints when counterparties or instruments could have exposure to Iran or other parts of the Middle East.

Further, certain entities should monitor the appropriateness of the discount rate used to measure any pension-related liabilities, particularly since even a seemingly small change in the discount rate can significantly affect an entity's pension liability. For example, higher interest rates may lead to decreases in both pension liabilities and required employer contributions. However, such decreases may be offset by higher employee wages or increases in inflation-linked benefits.

## **Supply-Chain Disruptions**

Heightened security risks in the region have led many carriers to seek alternative routes, which are often longer voyages and may cause delays and material increases in fuel consumption. These factors drive longer lead times, capacity constraints, and higher costs for a broad range of goods.

For many entities, such disruptions are increasing the costs associated with moving goods through the supply chain. Entities should consider whether to include these costs in inventory and, if so, whether adjustments based on the expected net realizable value of the inventory

<sup>1</sup> See IMF Managing Director Kristalina Georgieva's [keynote speech](#) "Coping and Thriving in a Fluid World," which was delivered at Japan's Ministry of Finance's symposium "Future of the Global Economy Amid a Fluid International Economic and Monetary Order" in Tokyo on March 9, 2026.

are warranted. This determination is likely to vary by industry and entity given (1) the use of different types of materials, (2) supplier diversity, and (3) an entity's ability to transfer cost increases to its customers through higher selling prices.

As raw materials, finished goods, and supplies make their way through a disrupted supply chain, entities should consider the point in time at which the buyer assumes ownership of them to ensure their appropriate reporting on the balance sheet. If transit times increase or the transport of goods is stalled, entities that may have had only immaterial amounts of goods in transit because of historically short transfer times may find it necessary to implement more robust accounting processes and internal controls to appropriately account for their inventories (some of which may be physically held by third parties). Likewise, entities should ensure that suitable cut-off procedures result in revenue recognition in the appropriate period. Given the greater variability in delivery timing, controls related to recognition of inventory in transit, proof of delivery, and changes to International Commercial Terms (commonly referred to as "Incoterms") may require enhancement.

Further, entities struggling to obtain certain products that are inputs to finished goods may consider adjusting their manufacturing processes to use different inputs or produce the products differently. Entities should also consider whether the need to use alternative raw materials or processes affects the warranties offered and the accounting for those warranties. Changes in the terms and conditions of warranties, the expected life of products, or expected warranty claims may differ by product type, and such differences, combined with increased material and labor costs, could affect the related warranty accounting.

## Risks and Uncertainties

Entities that apply accrual accounting must make estimates in current-period financial statements on the basis of current events and transactions, the effects of which may not be precisely determinable until some future period. The outcome of such events and transactions may not match original expectations. Uncertainty about the outcome of future events is inherent in economics, and that fact should be understood when reading reports on economic activities, such as published financial statements. A business, to a great extent, is a function of the environment in which it operates. Thus, it can be affected by changing social, political, and economic factors. Further, any entity (or the industry it operates in) may be affected by uncertainties associated with future events.



### Disclosure Considerations

Uncertainties associated with the conflict in the Middle East may or may not be considered contingencies under ASC 450-10-20;<sup>2</sup> accordingly, the disclosures required by ASC 275-10-50 supplement and, in many cases, overlap those required by ASC 450-20-50. Although conflicts such as that in the Middle East and impacts of changes in regulations are not directly within the scope of ASC 275, an entity should consider whether to disclose certain significant estimates and current vulnerabilities that may be attributable to concentrations associated with (1) its operations in regions affected by the conflict or (2) its holding of investments with exposures to those regions.

Entities with concentrated exposures in the affected regions are vulnerable to greater risk of loss relative to other entities. Examples of concentrations include those associated with:

- The volume of business with a particular customer in an affected jurisdiction.
- Revenue from particular products or services.
- The sources of supply of materials, labor, or services.
- The market or geographic area in which an entity conducts its business.

<sup>2</sup> For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification.](#)"

ASC 275-10-50-16 requires disclosure of concentrations if all the following conditions are met:

- “The concentration exists at the date of the financial statements.”
- “The concentration makes the entity vulnerable to the risk of a near-term severe impact.”
- “It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.”

Entities with material exposures to the affected regions will need to consider whether to provide disclosure of concentrations, particularly if they have met the second condition above.

## Going-Concern Disclosures

The conflict in the Middle East may significantly disrupt the operations of businesses that have material operations in the regions affected by it or that may hold material investments or lending activities with entities in such regions. Those entities will need to assess whether any disruptions may be prolonged and result in diminished demand for products or services or significant liquidity shortfalls (or both) that, among other things, raise substantial doubt about whether the entities may be able to continue as going concerns.

As part of performing this assessment, management may need to consider whether an entity's financial statements should continue to be prepared on a going-concern basis (i.e., whether ASC 205-30 is applicable). Even more importantly, management must consider whether, on the basis of ASC 205-40, (1) there are conditions and events that, when considered in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern within one year after the date on which the interim or annual financial statements are issued and (2) these conditions are able to be mitigated by management's plans.

ASC 205-40 requires an entity to provide disclosures in the **annual** and **interim** financial statements when events and conditions the entity identifies raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued. The disclosures are required even when management's plans alleviate such doubt. If management's plans do not alleviate such doubt, management must, in addition to providing the required disclosures, state in the footnotes to the financial statements that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date on which the annual or interim financial statements are issued.

As indicated in ASC 205-40-55-2, assessing whether there is substantial doubt about an entity's ability to continue as a going concern may involve the consideration of factors such as the following:

- Negative financial trends, such as working capital deficiencies and short-term negative cash flows from operating activities, that may stem directly from the conflict.
- Other indications of possible financial difficulties such as default on loans or similar agreements, denial of usual trade credit from suppliers, a need to restructure debt to avoid default, noncompliance with statutory capital requirements, and a need to seek new sources or methods of financing or to dispose of substantial assets.
- Internal matters such as substantial dependence on operations in regions affected by the conflict, uneconomic long-term commitments, and a need to significantly revise operations.
- External matters such as legal proceedings, sanctions, legislation, or similar matters that might jeopardize the entity's ability to operate in affected regions; loss of a key franchise, license, or patent; or loss of a principal customer or supplier. These circumstances would apply primarily to affected entities.

## Subsequent Events

Given the uncertainty resulting from the conflict in the Middle East and the likelihood that changes may occur rapidly or unexpectedly, entities should carefully evaluate information that becomes available after the balance sheet date but before the issuance of the financial statements. ASC 855-10-25-1 and ASC 855-10-25-3 provide the following guidance on evaluating subsequent events:

An entity shall recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. See paragraph 855-10-55-1 for examples of recognized subsequent events.

An entity shall not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date but before financial statements are issued or are available to be issued. See paragraph 855-10-55-2 for examples of nonrecognized subsequent events.

For example, in their interim and annual financial statements for periods ended as of December 31, 2025, and January 31, 2026, entities are likely to have accounted for the risks associated with the conflict as nonrecognized subsequent events. Entities with interim or annual financial statements for periods ended as of or in close proximity to February 28, 2026, may need to carefully evaluate whether certain conditions existed on the balance sheet date and whether those conditions will result in recognized or nonrecognized subsequent events. However, depending on the conflict's duration and evolution, we expect that future filings (e.g., Form 10-Q for the quarter ended March 31, 2026, or annual or interim financial statements for periods ended on or after February 28, 2026) may reflect an increase in the recognition of associated accounting impacts for entities that have material exposures to them.



### Disclosure Considerations

ASC 855-10-50-2 notes, in part, that “[s]ome nonrecognized subsequent events may be of such a nature that they must be disclosed to keep the financial statements from being misleading.” In such circumstances, the disclosures must include (1) the “nature of the event” and (2) an “estimate of its financial effect, or a statement that such an estimate cannot be made.”

## Next Steps

As discussed in the [Introduction](#) section, this *Financial Reporting Alert* is intended to raise awareness of potential financial reporting impacts arising from the conflict in the Middle East. As the conflict evolves, entities should continue to evaluate both direct and indirect effects on their facts and circumstances related to financial reporting. We will continue to monitor developments and assess whether updates to this *Financial Reporting Alert* may be warranted as additional information becomes available. Reporting entities must use judgment in evaluating the effects of the conflict on financial reporting. Entities may consider consulting with a professional accounting adviser as necessary in evaluating specific facts and circumstances.

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