Technology Layoffs: Outlook and Accounting Considerations

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The biggest companies in the technology sector continued to cut jobs in the beginning of 2023. When these cuts occur, companies should consider certain accounting and business ramifications. Although the number of cuts is staggering, the outlook isn't all negative.

How We Got Here

During the COVID-19 pandemic, various factors — including a low interest rate environment, federal funding, and an immediate demand for technology services and products to facilitate remote working — led to significant investments in tech industry growth and personnel.

However, near the beginning of 2022, the outlook for some of the tech industry darlings began to plateau and reverse course. Oversaturated valuations, which included unreasonable growth expectations and low discount rates, along with seven consecutive rate hikes by the Federal Reserve, led to a 33% decrease in the heavily tech-reliant Nasdaq index.

Based on marketplace contractions and individual tech companies' operational and stock price performance, the public and private equity financing well (that set records in 2021 with IPOs and underwritten deals) began to dry up, necessitating job cuts. According to Crunchbase News (1), more than 140,000 jobs were slashed from public and private tech companies in 2022 and 66,000 so far in 2023 (through early February).

Outlook

Although there is obvious pain for individual employees when jobs are lost, there is cause for optimism. Per CNBC (2), the January jobs report showed an increase of 517,000 and the unemployment rate hit a 53-year low. According to Brian Lucas, CEO of Marcum Search, "The majority of the recent tech layoffs were related to right-sizing, and the total headcounts of most of the companies are higher than they were in 2021." Many of the tech companies that announced significant layoffs also have a significant number of open positions in various specialty technology fields and other departments. And thanks to the rise of remote work, which is specifically prevalent in the tech space, job seekers across the country and the world can now apply for these open positions.

Accounting and Business Considerations

Any companies that do cut jobs need to address various accounting and business considerations. First, leaders should determine the amount of severance to give, including benefits. Any future liability for severance should be recorded in company records upon termination. Second, a company could meet the criteria for reporting discontinued operations if it cuts, disposes of, or sells a significant component or segment of the business. Discontinued operations reporting is complex and results in significant adjustments to the profit and loss statement, along with balance sheet reclassifications related to the disposed segment. Other business considerations include understanding the legality of any non-compete agreements, and the company's public perception and future talent marketability after job cuts.

Takeaway

Tech job cuts seem to keep happening, but there is reason for optimism. However, if your company is considering slashing jobs, be sure to understand the accounting and business considerations.

Source

(1) https://news.crunchbase.com/startups/tech-layoffs/#:~:text=More%20than%2066%2C000%20workers%20in,person%20layoff%20announcements%20this%20week.
(2) https://www.cnbc.com/2023/02/03/jobs-report-january-2023-.html