GOING CONCERN

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BRIEF HISTORY

March 1981	SAS 34; The Auditor's Considerations When a Question Arises About an Entity's Continued Existence
April 1988	SAS 59; The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern
July 2012	SAS 126; The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern
August 2014	ASU 2014-15; Presentation of Financial Statements – Going Concern
February 2017	SAS 132; The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern
May 2018	SSARS 24; Omnibus Statement on Standards for Accounting and Review Services

DEFINITION

What is going concern?

•The going concern assumption is a basic underlying assumption of accounting. For a company to be a going concern, it must be able to continue operating long enough to carry out its commitments, obligations, objectives, and so on. In other words, the company will not have to liquidate or be forced out of business. If there is uncertainty as to a company's ability to meet the going concern assumption, the facts and conditions must be disclosed in its financial statements.

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- Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for a reasonable period of time.

WHO IS RESPONSIBLE?

MANAGEMENT

Management is required to evaluate for each annual and interim reporting period whether it is probable that the entity will not be able to meet its obligations as they become due within **one year after the date that financial statements are issued** (*or are available to be issued, where applicable*).

MANAGEMENT

When management identifies substantial doubt about the entity's ability to continue as a going concern, management should consider whether its plans to mitigate conditions will alleviate the substantial doubt.

Substantial Doubt about an Entity's Ability to Continue as a Going Concern

Substantial doubt about an entity's ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate that it is probable (the future event or events are likely to occur) that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

EXAMPLES OF ADVERSE CONDITIONS AND EVENTS (NOT ALL INCLUSIVE):

MANAGEMENT

Negative financial trends, for example, recurring operating losses, working capital deficiencies, negative cash flows from operating activities, and other adverse key financial ratios

Other indications of possible financial difficulties, for example, default on loans or similar agreements, arrearages in dividends, 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, for example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project, uneconomic long-term commitments, and a need to significantly revise operations

External matters, for example, legal proceedings, legislation, or similar matters that might jeopardize the entity’s ability to operate; loss of a key franchise, license, or patent; loss of a principal customer or supplier; and an uninsured or underinsured catastrophe such as a hurricane, tornado, earthquake, or flood.

MANAGEMENT

When evaluating an entity's ability to meet its obligations, management shall consider quantitative and qualitative information about the following conditions and events, among other relevant conditions and events known and reasonably knowable **at the date that the financial statements are issued**:

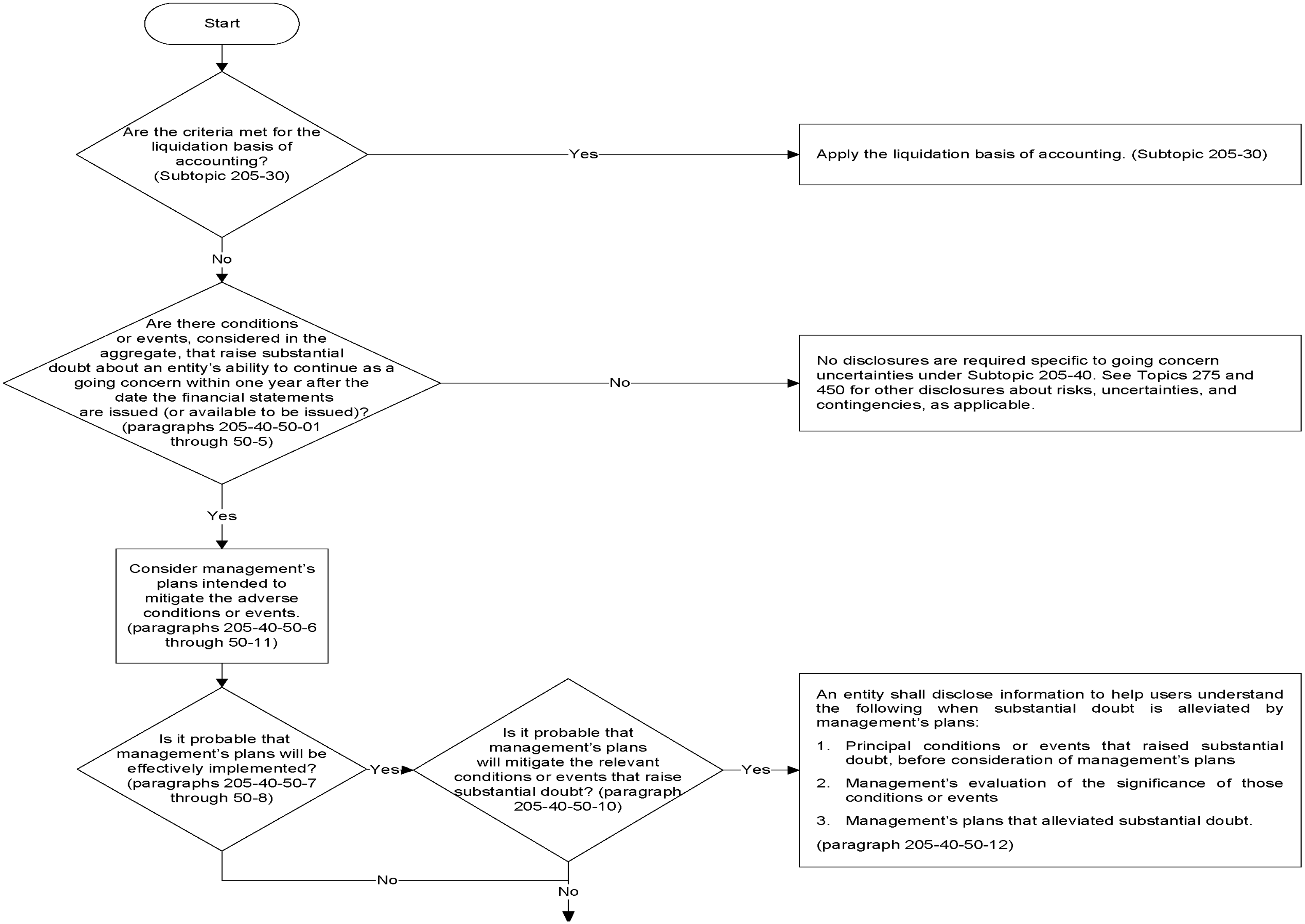
1. The entity's current financial condition, including its liquidity sources (for example, available liquid funds and available access to credit)
2. The entity's conditional and unconditional obligations due or anticipated within one year after the date that the financial statements are issued (regardless of whether those obligations are recognized in the entity's financial statements)
3. The funds necessary to maintain the entity's operations considering its current financial condition, obligations, and other expected cash flows
4. The other conditions and events, when considered in conjunction with (a), (b), and (c) above, that may adversely affect the entity's ability to meet its obligations within one year after the date that the financial statements are issued.

MANAGEMENT

Examples of plans that management may implement to mitigate conditions or events that raise substantial doubt about an entity’s ability to continue as a going concern (not all inclusive):

- Dispose of an asset or business
- Borrow money or restructure debt
- Reduce or delay expenditures
- Increase ownership equity

The mitigating effect of management’s plans should be considered only to the extent that (1) it is probable that the plans will be effectively implemented and, if so, (2) it is probable that the plans will mitigate the conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern.



An entity shall disclose information to help users understand the following when substantial doubt is not alleviated:

1. Principal conditions or events that raise substantial doubt
2. Management's evaluation of the significance of those conditions or events
3. Management's plans that are intended to mitigate the conditions or events that raise substantial doubt

The entity also should include in the footnotes a statement indicating that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued).

MANAGEMENT

Disclosures When Substantial Doubt Is Raised but Is Alleviated by Management's Plans (Substantial Doubt Does Not Exist):

- Principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern (before consideration of management's plans)
- Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations
- Management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern.

MANAGEMENT

Disclosures When Substantial Doubt Is Raised and Is Not Alleviated (Substantial Doubt Exists):

a. Principal conditions or events that raise substantial doubt about the entity's ability to continue as a going concern

b. Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations

c. Management's plans that are intended to mitigate the conditions or events that raise substantial doubt about the entity's ability to continue as a going concern.

Important

Include a statement in the footnotes indicating that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued

AUDIT

The auditor's responsibilities to perform the following:

1

Conclude, based on the audit evidence obtained, whether substantial doubt exists about an entity's ability to continue as a going concern for a reasonable period of time

2

Evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity's ability to continue as a going concern for a reasonable period of time

Reasonable period of time. The period of time required by the applicable financial reporting framework or, if no such requirement exists, within one year after the date that the financial statements are issued (*or within one year after the date that the financial statements are available to be issued, when applicable*).

AUDIT

When Management Is Not Required to Make a Specific Evaluation Under the Applicable Financial Reporting Framework

In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, when the going concern basis of accounting is a fundamental principle in the preparation of financial statements, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

AUDIT

Ultimately, the auditor is responsible to evaluate

a) management's plan and

b) adequacy of disclosure.

Reporting

- If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor should express an adverse opinion.

Reporting

- If, after considering identified conditions or events and management's plans, the auditor concludes that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains, the auditor should include an emphasis-of-matter paragraph in the auditor's report

AUDIT

Reporting

- If adequate disclosure about an entity's ability to continue as a going concern for a reasonable period of time is not made in the financial statements, the auditor should express a qualified opinion or adverse opinion, as appropriate.

Reporting

- If management is unwilling to perform or extend its evaluation to meet the period of time required by the applicable financial reporting framework when requested to do so by the auditor, the auditor should consider the implications for the auditor's report.

Reporting

- If substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time existed at the date of prior period financial statements that are presented on a comparative basis and that doubt has been removed in the current period, the going concern emphasis-of-matter paragraph included in the auditor's report on the financial statements of the prior period should not be repeated.

REVIEW

The accountant should perform review procedures related to the following:

- Whether the going concern basis of accounting is appropriate
- Management's evaluation of whether there are conditions or events that raised substantial doubt about the entity's ability to continue as a going concern
- If there are conditions or events that raised substantial doubt about the entity's ability to continue as a going concern, management's plans to mitigate those matters
- The adequacy of the related disclosures in the financial statements

REVIEW

Requires the accountant to include an emphasis-of-matter paragraph in the accountant's review report if, after considering conditions or events and management's plans, the accountant concludes that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time

If adequate disclosure about an entity's ability to continue as a going concern for a reasonable period of time is not made in the financial statements, the accountant should apply paragraphs .56-.60 regarding known departures from the applicable financial reporting framework

COMPILATION

Financial statements may be misleading, for example, if the applicable financial reporting framework includes the premise that the financial statements are prepared on the going concern basis, and undisclosed uncertainties exist regarding the entity's ability to continue as a going concern. If the accountant becomes aware that uncertainties exist regarding the entity's ability to continue as a going concern, the accountant may suggest additional disclosures concerning the entity's ability to continue as a going concern in order to avoid the financial statements being misleading.

Disclosure of items, such as an uncertainty, is not required in financial statements in which substantially all the disclosures required by the applicable financial reporting framework are omitted.