

IFRS in Focus

IFRS Foundation publishes educational material on the requirements of IFRS Standards relevant for going concern assessments

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This *IFRS in Focus* addresses the educational material [Going concern – a focus on disclosure](#) published by the IFRS Foundation in January 2021.

The educational material, prepared as part of the IFRS Foundation's commitment to support stakeholders during the COVID-19 pandemic, highlights existing requirements of IFRS Standards on the assessment of whether the going concern basis of accounting remains appropriate and the disclosures that might be required about that assessment.

Significantly, the educational material notes that:

- Management's assessment of going concern is required to cover at least 12 months from the reporting date but that this is a minimum period, not a cap.
- That assessment needs to reflect the effect of events occurring after the end of the reporting period up to the date that the financial statements are authorised for issue.
- As well as the specific requirements to disclose the basis on which financial statements are prepared and any material uncertainties over going concern, disclosure of significant judgements made as part of a going concern assessment might be required under the general requirements of IAS 1.

Background

The COVID-19 pandemic has, along with other factors, led to a stressed economic environment and, for many entities, downturns in revenue, profitability and, importantly, liquidity giving rise to potential questions about their ability to continue as a going concern. For such entities deciding whether it remains appropriate to prepare their financial statements on a going concern basis may therefore involve a greater degree of judgement than is usual.

The IFRS Foundation's educational material does not change or add to the requirements of IFRS Standards in this respect, but rather highlights the existing requirements on assessing whether the going concern basis of preparation is appropriate and, importantly, the disclosures to be provided on that assessment.

Issues addressed by the educational material

The assessment of whether use of the going concern basis of preparation remains appropriate

The educational material highlights that:

- When preparing financial statements, whether annual or interim, IAS 1 *Presentation of Financial Statements* requires management to assess the entity's ability to continue as a going concern. The Standard defines going concern by explaining that financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.
- In making this assessment, IAS 1 requires management to look out at least 12 months from the end of the reporting period but emphasises that the outlook is not limited to 12 months. This is not inconsistent with some national regulations that require consideration of going concern for 12 months from the date that financial statements are authorised for issue.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Elaborating on these requirements, the educational material notes that management may need to consider factors that relate to the entity's current and expected profitability, the timing of repayment of existing financing facilities and potential sources of replacement financing and that, in the current stressed economic environment, an entity may be affected by a wider range of factors than in the past. For instance, the COVID-19 pandemic may give rise to factors such as the effects of any temporary shut-down or curtailment of the entity's activities, possible restrictions on activities that might be imposed by governments in the future, the continuing availability of any government support and the effects of longer-term structural changes in the market (such as changes in customer behaviour).

The financial reporting effects of the COVID-19 pandemic, including in respect of going concern, are discussed in more detail in [IFRS in Focus – Accounting considerations related to the coronavirus disease](#).

The educational material also highlights that IAS 10 *Events after the Reporting Period* explains that management's assessment of the use of a going concern basis of preparation needs to reflect the effect of events occurring after the end of the reporting period up to the date that the financial statements are authorised for issue. If, before the financial statements are authorised for issue, circumstances were to deteriorate so that management no longer has any realistic alternative but to cease trading, the financial statements must not be prepared on a going concern basis.

Observation
The reference to events after the reporting period may be particularly relevant in a dynamic environment which might arise due to changes in the severity of the COVID-19 pandemic and resulting actions by government or other parties (including the entity's own mitigating actions). It is important to note that developments after the reporting date but before the financial statements are authorised for issue should be factored into the assessment of going concern even if they are not themselves adjusting events under the general requirements of IAS 10.

The importance of disclosure

The educational material notes that the decision over whether to prepare the financial statements on a going concern basis is a binary one, but that the circumstances in which that basis is used can vary widely, from when an entity is profitable and has no liquidity concerns to when it is a 'close call' to prepare the financial statements on a going concern basis, even after considering any mitigating actions planned by management. In the current stressed economic environment, clear disclosure of where the entity sits within that spectrum and the assumptions and judgements made as part of management's assessment is likely to be a focus for users of financial statements.

In illustrating the disclosure requirements that might apply in different circumstances, the educational material presents a matrix of requirements that apply as an entity's circumstances deteriorate.

Entity situation deteriorating				
Scenario	No significant doubts about going concern	Significant doubts about going concern but mitigating actions judged sufficient to make going concern appropriate. Entity determines no material uncertainties.	Significant doubts about going concern but mitigating actions judged sufficient to make going concern appropriate. Material uncertainties about going concern remain after considering mitigating actions.	Intends to liquidate or to cease trading, or no realistic alternative but to do so.
Basis of preparation	No significant doubts about going concern			Alternate basis (not going concern)
Disclosure	Basis of preparation No specific disclosures	Basis of preparation Significant judgements?	Basis of preparation Material uncertainties Significant judgements?	Limited specific requirements

The educational material then highlights disclosure requirements which may be relevant for entities in each of the illustrated sets of circumstances.

- If there are no significant doubts about going concern, apart from the need to describe the basis of preparation, there are no specific disclosure requirements relating to going concern. It is also less likely that significant judgements were involved in reaching the conclusion to prepare the financial statements on a going concern basis.
- If the going concern basis of accounting is applied but there are material uncertainties (for example, about management's ability to execute its turnaround strategy to address reduced demand for its products and/or to renew or replace funding), IAS 1 requires disclosure of those uncertainties.
- If there are material uncertainties over going concern or there are significant doubts about going concern but not to the extent that a material uncertainty is considered to exist (for example, management might have started executing a turnaround strategy that is showing sufficient evidence of success including identifying feasible alternative sources of financing), disclosure of the significant judgements made by management (on whether the entity is a going concern or whether there is a material uncertainty) is required under the general requirements of IAS 1.
- The overarching requirements of IAS 1 on disclosure of sources of estimation uncertainty could also be relevant if there are any major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

As reported in the [July 2014 IFRIC Update](#), the IFRS Interpretations Committee discussed a circumstance in which management of an entity has considered events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. Having considered all relevant information, including the feasibility and effectiveness of any planned mitigation, management concluded that there are no material uncertainties that require disclosure in accordance with paragraph 25 of IAS 1. However, reaching the conclusion that there was no material uncertainty involved significant judgement.

In this circumstance, the Committee concluded that the disclosure requirements of paragraph 122 of IAS 1 would apply to the judgements made in concluding that there remain no material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

Entities that are not a going concern

The educational material notes that IAS 1 does not specify an alternate basis for preparing financial statements if the entity is no longer a going concern, but requires the entity to disclose the fact that the financial statements have not been prepared on a going concern basis and the reasons why the entity is not regarded as a going concern, as well as disclosing the basis on which the financial statements have been prepared.

Status of the educational material

The IFRS Foundation specifies that the educational material is published to support consistent application of IFRS Standards and does not change, or add to, existing requirements. As it is only highlighting existing requirements, the educational material has no effective date and the IFRS Foundation is not requesting comments on that material. However, the educational material does note that the topic of going concern has been identified as a potential agenda item to be covered in the International Accounting Standards Board's upcoming agenda consultation, for which it will be publishing a request for information in March 2021.

Further information

If you have any questions about the educational material please speak to your usual Deloitte contact or get in touch with a contact identified in this *IFRS in Focus*.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature. [iGAAP on DART](#) allows access to the full IFRS Standards, linking to and from:

- Deloitte's authoritative, up-to-date, iGAAP manuals which provide guidance for reporting under IFRS Standards; and
- Model financial statements for entities reporting under IFRS Standards.

To apply for a subscription to DART, click [here](#) to start the application process and select the iGAAP package.

For more information about DART, including pricing of the subscription packages, click [here](#).

Key contacts

Global IFRS Leader

Veronica Poole

ifrsglobalofficeuk@deloitte.co.uk

IFRS Centres of Excellence

Americas		
<i>Argentina</i>	Fernando Lattuca	arifrscoe@deloitte.com
<i>Canada</i>	Karen Higgins	ifrsca@deloitte.ca
<i>Mexico</i>	Miguel Millan	mx_ifrs_coe@deloittemx.com
<i>United States</i>	Robert Uhl	iasplus-us@deloitte.com
Asia-Pacific		
<i>Australia</i>	Anna Crawford	ifrs@deloitte.com.au
<i>China</i>	Gordon Lee	ifrs@deloitte.com.cn
<i>Japan</i>	Kazuaki Furuuchi	ifrs@tohmatu.co.jp
<i>Singapore</i>	James Xu	ifrs-sg@deloitte.com
Europe-Africa		
<i>Belgium</i>	Thomas Carlier	ifrs-belgium@deloitte.com
<i>Denmark</i>	Jan Peter Larsen	ifrs@deloitte.dk
<i>France</i>	Laurence Rivat	ifrs@deloitte.fr
<i>Germany</i>	Jens Berger	ifrs@deloitte.de
<i>Italy</i>	Massimiliano Semprini	ifrs-it@deloitte.it
<i>Luxembourg</i>	Martin Flaunet	ifrs@deloitte.lu
<i>Netherlands</i>	Ralph Ter Hoeven	ifrs@deloitte.nl
<i>Russia</i>	Maria Proshina	ifrs@deloitte.ru
<i>South Africa</i>	Nita Ranchod	ifrs@deloitte.co.za
<i>Spain</i>	Jose Luis Daroca	ifrs@deloitte.es
<i>Switzerland</i>	Nadine Kusche	ifrsdesk@deloitte.ch
<i>United Kingdom</i>	Elizabeth Chrispin	deloitteifrs@deloitte.co.uk



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