Business Rescue

The Going Concern Assumption

Going Concern

Introduction

- A fundamental decision management has to make in preparing financial statements applying IFRS Standards is whether to prepare them on a going concern basis.

- Covid-19 pandemic, many entities have seen a significant downturn in their revenue, profitability and hence liquidity which may raise questions about their ability to continue as a going concern.

- Greater degree of judgement may be required by management to fully assess this.

Going Concern

What is GC?

- IAS 1 requires management to assess the entity's ability to continue as a going concern.
- AFS prepared on a going concern basis UNLESS:

1. management either intends to liquidate the entity
2. or to cease trading, or
3. has no realistic alternative but to do so.

- The standard further suggests that considerations by management should include the entity's current and expected profitability, the timing of repayment of existing financing facilities and potential sources of replacement financing.

Going Concern

The Impact of COVID 19

A **wider** range of factors may need to be considered in assessing GC. These could include:

1. the effects of any temporary shut-down or curtailment of the entity's activities,
2. possible restrictions on activities that might be imposed by governments in the future, (think alcohol)
3. the continuing availability of any government support and
4. the effects of longer-term structural changes in the market (such as changes in customer behaviour (think office requirements).

Sourced from IASB 2021 - A focus on going concern

Going Concern

The Impact of COVID 19

- The time period of 12 months should be seen as a minimum – closer to the term foreseeable future.

- The link to IAS 10 – Events after the reporting period. This may require the GC assumption to be relooked at subsequent to year end. If the situation deteriorates significantly post year end prior to signing of AFS – could require AFS to no longer be prepared on the GC basis.
- In light of the above the IASB are placing emphasis on the disclosure requirements.

Helpful Going Concern Disclosures

Disclosure Requirements

- ✓ Clearly **explain whether there are any material uncertainties** that may cast doubt on the company's going concern status.
- ✓ Clearly state the **period the going concern assessment covers**. Explain the different going concern scenarios that have been considered. *The best disclosure clearly states the key Covid-19 assumptions within each forecast and how those assumptions affected the going concern conclusion*.
- ✓ Indicate which **inputs have been subject to stress tests and explain how these stress tests affect the going concern conclusions**.
- ✓ **Identify and explain any mitigating actions** the board could take to improve liquidity.
- ✓ Explain **any post balance sheet changes** to liquidity, specifically the arrangement of new lending facilities, the extension of existing facilities or the renegotiation or waiving of bank covenants.
- ✓ Describe the **level of drawn and undrawn finance facilities in place**. State what covenants are in place and whether they expect to breach them.
- ✓ Explain whether the company **would need to make structural changes** in order to continue to operate as a going concern.

Sourced from the Gauteng Board Course

Going Concern

Disclosure Requirements

- Management's decision will be underpinned by assumptions and judgements that, given the volatility in the current environment, may involve more uncertainty than in the past.
- A reminder of para 122 – requiring disclosure of judgements that have the most significant effect on the amounts recognised in the financial statements. – Certainly may be one such judgement. Disclosure of BRP plans and analysis is an important aspect of this
- Suggested that one places oneself through the lens of a user of the AFS, what questions would they have around the GC assumption and does the disclosures provide evidence that is useful in that regard?
- The slide below is a graphical representation produced by the IASB

Source: IASB Educational Material on Going Concern, published Jan 2021
Available at: https://cdn.ifrs.org/-/media/feature/news/2021/going-concern-jan2021.pdf?la=en

Applying the requirements in IAS 1

The requirements in IAS 1 can be depicted as set out in the diagram below:

... entity situation deteriorating ...

Scenario	1 No significant doubts about going concern	2 Significant doubts about going concern but mitigating actions judged sufficient to make going concern appropriate Entity determines no material uncertainties	3 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	4 Intends to liquidate or to cease trading, or no realistic alternative but to do so
Basis of preparation	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

Going Concern

Disclosure Requirements

- Consideration of the concept of material uncertainties – scenario 3 and its link to the BRP process.

Going Concern

Situation 4 (carried over from slide 8).

- This is the scenario where deemed to no longer be a GC.
- In such cases, if the entity prepares financial statements applying IFRS Standards, it does not prepare them on a going concern basis.
- IAS 1 does not specify an alternate basis for preparing financial statements if the entity is no longer a going concern. Paragraph 25 of IAS 1 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.

Sourced from IASB 2021 - A focus on going concern

Going Concern

Attention is also drawn to the following 2 education documents produced by SAICA's Accounting Practices Committee (APC).

1. APPLICATION OF IFRS STANDARDS IN LIGHT OF THE CORONAVIRUS DISEASE (COVID-19) UNCERTAINTY – EVENTS AFTER THE REPORTING PERIOD available at https://www.accountancysa.org.za/wp-content/uploads/2020/04/COVID-19_IAS_10_and_going_concern_final.pdf
2. APPLICATION OF IFRS STANDARDS IN LIGHT OF THE CORONA VIRUS DISEASE (COVID-19) UNCERTAINTY – GOING CONCERN available at

https://www.accountancysa.org.za/wp-content/uploads/2020/04/Educational_material_2_-_COVID-19_Going_concern.pdf

Thank you