



NIF A-2, *GOING CONCERN UNCERTAINTIES*

**Mexican Financial and Sustainability Reporting Standards Board
(CINIF – México)**

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Consistent with IFRS Accounting Standards:

- Financial statements are prepared on the assumption that the reporting entity is a going concern, **except** when the entity has the intention to enter on liquidation or to cease trading or has no realistic alternative to continue as a going concern.

Entity should disclose:

- When a limited time horizon is considered (e.g. due to a possible dissolution, bankruptcy or liquidation),
- Material uncertainties,
- Mitigation plans.



Scenarios

1

Going concern (GC)

- No material uncertainties about going concern (GC)

2

GC with uncertainties

- There are significant uncertainties about GC
- There are mitigation actions, and it is concluded that the entity is a GC

3

GC in the process of legal reorganization

- There are significant uncertainties about GC
- There are mitigation actions (legal reorganization)
- Agreement with creditors

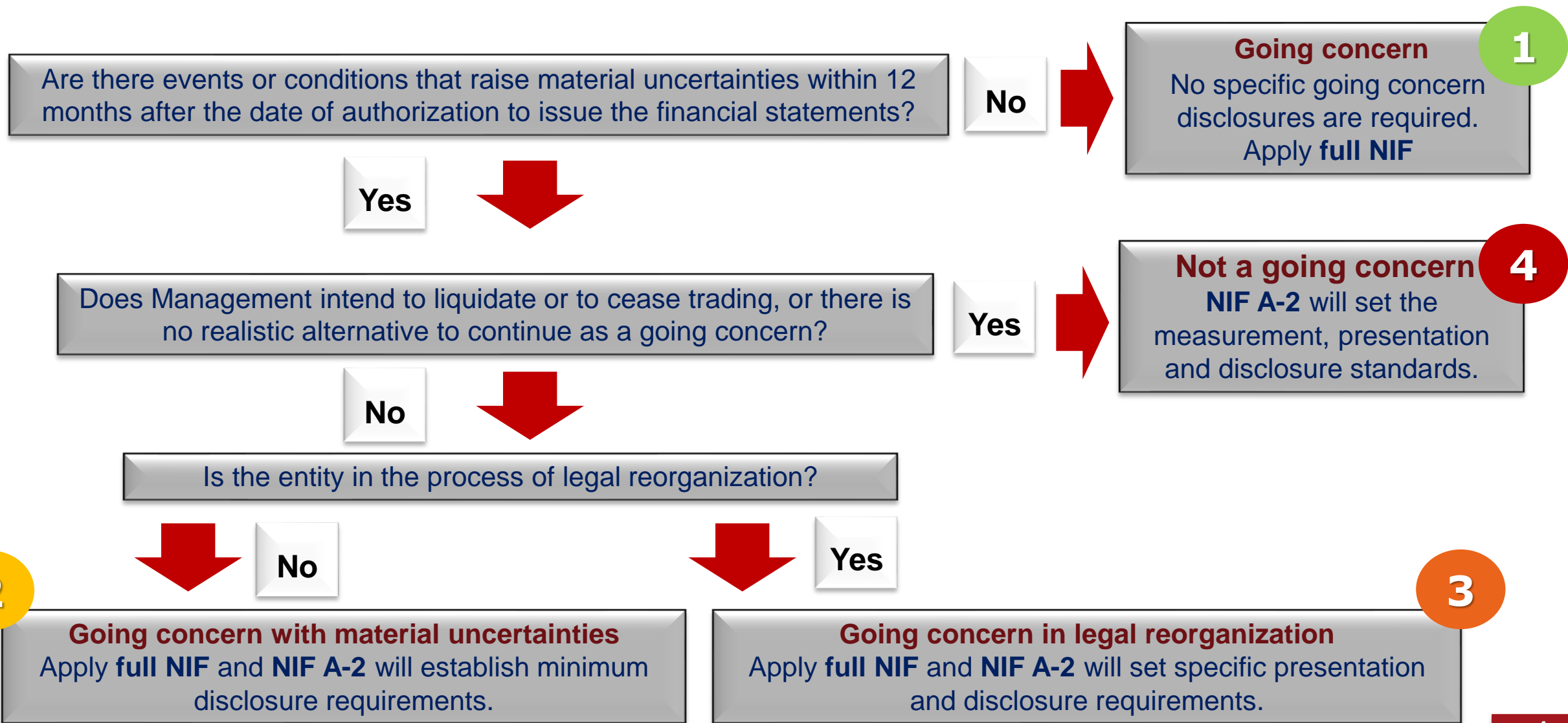
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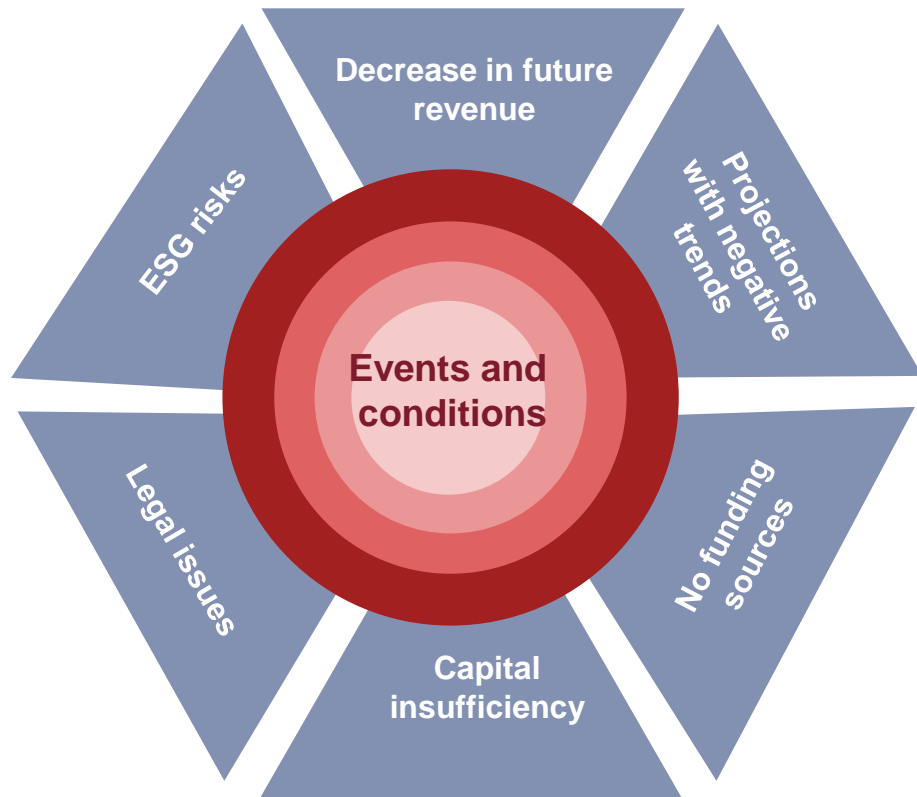
Not a Going Concern

- There is an intention to liquidate or cease trading, or
- There is no realistic alternative to continue as a GC



GOING CONCERN DECISION TREE





1. EVENTS AND CONDITIONS

Analysis of events and conditions that could raise substantial uncertainties about an entity's ability to continue as a going concern

2. MITIGATION ACTIONS

Management's plans to mitigate the risk, evaluating feasibility and effectiveness

3. MATERIAL UNCERTAINTIES

Despite the plans, there are still doubts about the company's ability to continue, and it is concluded whether the entity:

- Is a going concern with uncertainties, or
- Is not a going concern

SUMMARY

| | 1 | 2 | 3 | 4 |
|---|---|---|---|--|
| Scenarios | <p>Going concern (GC)</p> <ul style="list-style-type: none"> No material uncertainties about going concern (GC) | <p>GC with uncertainties</p> <ul style="list-style-type: none"> There are significant uncertainties about GC There are mitigation actions, and it is concluded that the entity is a GC | <p>GC in the process of legal reorganization</p> <ul style="list-style-type: none"> There are significant uncertainties about GC There are mitigation actions (legal reorganization) Agreement with creditors | <p>Not a Going Concern</p> <ul style="list-style-type: none"> There is an intention to liquidate or cease trading, or There is no realistic alternative to continue as a GC |
| Basis of financial statement preparation | <p>Going concern Apply full NIF</p> | | | <p>Not a going concern</p> <ul style="list-style-type: none"> Use <i>net liquidation value</i> for assets and liabilities |
| Presentation | <ul style="list-style-type: none"> 4 basic financial statements, without changes | <ul style="list-style-type: none"> 4 basic financial statements, without changes | <ul style="list-style-type: none"> 4 basic financial statements, separating: <ul style="list-style-type: none"> Agreement liabilities from other liabilities (SFP); and Effects of legal reorganization (P/L and SCF) | <ul style="list-style-type: none"> 2 basic financial statements: <ul style="list-style-type: none"> Statement of Net Assets in Liquidation Statement of Changes in Net Assets in Liquidation |
| Disclosures | <ul style="list-style-type: none"> No specific disclosure requirements | <ul style="list-style-type: none"> Judgments about GC Entity's plans for risk mitigation Material uncertainties | <p>Disclosures for 2, plus:</p> <ul style="list-style-type: none"> Claims subject to the Agreement Non-estimable claims Interest claims | <ul style="list-style-type: none"> Judgments about GC Entity's plans Measurement assumptions Sources and uses of cash |

■ Example:

Statement of Financial Position

LIABILITIES

Liabilities not subject to Agreement

Current liabilities

| | |
|---------------------------|-----|
| Short-term borrowings | 200 |
| Accounts payable | 35 |
| Total current liabilities | 235 |

Liabilities subject to Agreement

| | |
|------------------------|----------|
| Secured debt (20%) | 200 |
| Priority tax claims | 120 |
| Trade and other claims | 522 |
| Subordinated debt | \$ 1,322 |

Liabilities not subject to Agreement

| | |
|-------------------------|----|
| Non-current liabilities | 10 |
|-------------------------|----|

| | |
|-------------------|----------|
| Total liabilities | \$ 1,567 |
|-------------------|----------|

Statement of Profit or Loss

| | |
|--------------------|------|
| Revenues | 1200 |
| Costs and expenses | 600 |

Earnings before reorganization items and income tax benefits

| | |
|--|-----|
| Earnings before reorganization items and income tax benefits | 600 |
| Legal reorganization effects | |
| Loss on disposal | 320 |
| Professional fees | 78 |
| Provisions | 280 |
| Interest | 58 |
| | 736 |

Loss before income tax benefits and discontinued operations

| | |
|---|-------|
| Loss before income tax benefits and discontinued operations | (136) |
|---|-------|

■ Example:

Statement of Net Assets in Liquidation

| | 20X2 |
|--|----------------------------|
| <u>ASSETS</u> | |
| Cash and equivalents | 300 |
| Accounts receivable | 220 |
| Property plant and equipment | 795 |
| Intangibles | 230 |
| Total assets | <u>1,545</u> |
| <u>LIABILITIES</u> | |
| Accounts payable | 1,150 |
| Income taxes | 650 |
| Total liabilities | <u>1,800</u> |
| NET LIABILITIES IN LIQUIDATION | <u><u>(255)</u></u> |
| Net liabilities at beginning of period | (70) |
| Changes in net assets | <u>(185)</u> |
| Net liabilities at end of period | <u><u>(255)</u></u> |

Statement of Changes in Net Assets in Liquidation

| | 20X2 |
|--|----------------------------|
| Revenues | |
| Sales | 100 |
| Intangible assets not previously recognized | 130 |
| Measurement of property, plant and equipment | 15 |
| Total revenue | <u>245</u> |
| Expenses | |
| Cost of sales | 30 |
| Operating expenses | 50 |
| Provisions | 350 |
| Total expenses | <u>430</u> |
| Total changes in net assets | <u><u>(185)</u></u> |

CINIF – NIF A-1, *Conceptual Framework & RT 50 Going concern*

IASB – *Conceptual framework, IAS 1 Presentation of Financial Statements and Going concern - a focus on disclosure*

USGAAP

205-30 *Liquidation Basis of Accounting*

205-40 *Going concern*

852 *Reorganizations*

COLOMBIA

Appendix 5 Financial Reporting Standards for Entities That Do Not Meet the Going Concern Assumption

SAUDI ARABIA (SOCPA)

*Liquidation Basis Financial Reporting Standard:
Principles and Requirements for Recognition, Measurement,
Presentation and Disclosure*

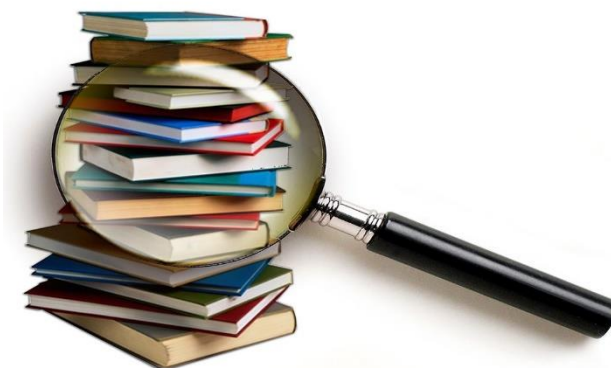
Other standards reviewed but not considered:

AUSTRALIA (AASB)

Going concern, AASB Staff paper

NEW ZEALAND (NZASB)

*NZ1 IAS 1 Presentation of financial statements
XRB Alert 2020-2 Spotlight on Going Concern
Disclosures – for profit entities*



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