NIF A-2, *Going Concern Uncertainties*

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

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C.P.C. William Allan Biese Decker, *Board Member*

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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

4. 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. **Are there events or conditions that raise material uncertainties within 12 months after the date of authorization to issue the financial statements?**
   - Yes
   - No → **Going concern with material uncertainties**
     - Apply full NIF and NIF A-2 will establish minimum disclosure requirements.

2. **Is the entity in the process of legal reorganization?**
   - No
   - Yes → **Going concern in legal reorganization**
     - Apply full NIF and NIF A-2 will set specific presentation and disclosure requirements.

3. **Does Management intend to liquidate or to cease trading, or there is no realistic alternative to continue as a going concern?**
   - Yes
   - No → **Not a going concern**
     - NIF A-2 will set the measurement, presentation and disclosure standards.

4. **No specific going concern disclosures are required. Apply full NIF**
UNCERTAINTY ANALYSIS

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

**Scenarios**

1. Going concern (GC)
   - No material uncertainties about going concern (GC)

2. GC with uncertainties
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   - There are mitigation actions, and it is concluded that the entity is a GC

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   - There is no realistic alternative to continue as a GC

**Basis of financial statement preparation**

- 4 basic financial statements, without changes

**Presentation**

- 4 basic financial statements, without changes

**Disclosures**

- No specific disclosure requirements
- Judgments about GC
- Entity's plans for risk mitigation
- Material uncertainties

**Going concern**

Apply full NIF

**Disclosures for 2**, plus:

- Claims subject to the Agreement
- Non-estimable claims
- Interest claims

**Not a going concern**

- Use net liquidation value for assets and liabilities

**Sources and uses of cash**

- 2 basic financial statements:
  - Statement of Net Assets in Liquidation
  - Statement of Changes in Net Assets in Liquidation
- Judgments about GC
- Entity's plans
- Measurement assumptions
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**
- $480
  - 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**: 600
- **Legal reorganization effects**
  - Loss on disposal: 320
  - Professional fees: 78
  - Provisions: 280
  - Interest: 58
  - Total: 736

- **Loss before income tax benefits and discontinued operations**: (136)
Example:

### Statement of Net Assets in Liquidation

<table>
<thead>
<tr>
<th>Assets</th>
<th>20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and equivalents</td>
<td>300</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>220</td>
</tr>
<tr>
<td>Property plant and equipment</td>
<td>795</td>
</tr>
<tr>
<td>Intangibles</td>
<td>230</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>1,545</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>1,150</td>
</tr>
<tr>
<td>Income taxes</td>
<td>650</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>1,800</strong></td>
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</tbody>
</table>

**Net Liabilities in Liquidation**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Net liabilities at beginning of period</td>
<td>(70)</td>
</tr>
<tr>
<td>Changes in net assets</td>
<td>(185)</td>
</tr>
<tr>
<td>Net liabilities at end of period</td>
<td>(255)</td>
</tr>
</tbody>
</table>

### Statement of Changes in Net Assets in Liquidation

<table>
<thead>
<tr>
<th></th>
<th>20X2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>100</td>
</tr>
<tr>
<td>Intangible assets not previously recognized</td>
<td>130</td>
</tr>
<tr>
<td>Measurement of property, plant and equipment</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td><strong>245</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Cost of sales</td>
<td>30</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>50</td>
</tr>
<tr>
<td>Provisions</td>
<td>350</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>430</strong></td>
</tr>
</tbody>
</table>

**Total changes in net assets**

<p>| | |</p>
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**RESOURCES**

**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*

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**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*