STAFF PAPER

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IFRS® Interpretations Committee meeting

Project	**Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10)**
Paper topic	Initial Consideration

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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the accounting applied by an entity that is no longer a going concern. The submitter asks whether such an entity:
   (a) can prepare financial statements for prior periods on a going concern basis if it was a going concern in those periods and had not previously prepared financial statements for those periods; and
   (b) restates comparative information in respect of the preceding period to reflect the basis of accounting used in preparing the current period's financial statements if it had previously prepared financial statements for that preceding period on a going concern basis.
2. The objective of this paper is to:
   (a) provide the Committee with a summary of the matter;
   (b) present our research and analysis; and
   (c) ask the Committee whether it agrees with our recommendation not to add a standard-setting project to the work plan.

Structure of the paper

3. The paper includes the following:

   (a) background information (paragraphs 5–10);

   (b) staff analysis (paragraphs 11–18); and

   (c) staff recommendation (paragraphs 19–20).

4. There are two appendices to this paper:

   (a) Appendix A—proposed wording of the tentative agenda decision; and

   (b) Appendix B—submission.

Background information

5. The submission describes a fact pattern in which an entity has not prepared financial statements for annual reporting periods ended 31 December 2017, 31 December 2018 and 31 December 2019. Management concluded that the entity was able to continue as a going concern during 2017, 2018 and 2019. However, in 2020, the entity's management decided to voluntarily liquidate the entity. After this decision was made, the entity prepares financial statements for each of the annual reporting periods ended 31 December 2017 (2017 financial statements), 31 December 2018 (2018 financial statements) and 31 December 2019 (2019 financial statements).

Question I

6. Paragraph 25 of IAS 1 *Presentation of Financial Statements* states:

   > …An entity shall prepare financial statements 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…

7. Paragraph 14 of IAS 10 *Events after the Reporting Period* states:

   > An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting

> period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

8. The submitter acknowledges that, applying paragraph 25 of IAS 1 and paragraph 14 of IAS 10, the entity cannot prepare its 2019 financial statements on a going concern basis. However, the submitter asks whether these requirements also apply to the entity's 2017 and 2018 financial statements (Question I)—that is, whether those financial statements also cannot be prepared on a going concern basis. The submission—reproduced in Appendix B—explains the rationale for the alternate views on this matter.

Question II

9. Assume that the entity described in paragraph 5 of this paper had previously prepared its 2018 financial statements on a going concern basis. Applying paragraph 14 of IAS 10, the entity can no longer prepare its financial statements on a going concern basis and, accordingly, prepares its 2019 financial statements on an alternate basis (non-going concern basis).

10. The submitter asks whether, in preparing its 2019 financial statements, the entity is required to restate comparative information in respect of the preceding period to reflect the non-going concern basis.

Staff analysis

Question I

11. IAS 10 applies to the accounting for, and disclosure of, events after the reporting period (paragraph 2 of IAS 10). Paragraph 3 of IAS 10 states:

> *Events after the reporting period* are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue...

12. In the fact pattern described in the submission, the 2017, 2018 and 2019 financial statements are all authorised for issue after the decision to liquidate the entity. Accordingly, the decision to liquidate the entity is an event after the reporting period

in respect of each of these financial statements. Applying paragraph 25 of IAS 1 and paragraph 14 of IAS 10 (see paragraphs 6–7 of this paper), the entity cannot prepare any of these financial statements on a going concern basis.

13. The requirements in IAS 1 and IAS 10 apply independently to each set of financial statements. We see no basis to support a view outlined in the submission that would confine the reading of the term ‘reporting period’ in paragraph 14 of IAS 10 as applying only to the 2019 financial statements and not to the 2017 or 2018 financial statements. Accordingly, we have not analysed this question further nor did we conduct outreach on this matter.

Question II

Additional research performed

14. We performed a keyword search of financial statements issued by publicly-listed IFRS reporters that prepare financial statements on a non-going concern basis. We used the financial search engine, AlphaSense[1], to search for entities that prepared IFRS financial statements on a non-going concern basis in the last five years. The search was limited to financial statements available in English. For these entities, we then compared the comparative information included in the first set of financial statements that were prepared on a non-going concern basis with the amounts included in the financial statements for the immediately preceding period (which were prepared on a going concern basis) to identify any restatement. We were able to identify and perform this analysis for ten entities.

15. We did not identify any entity that restated comparative information to reflect the non-going concern basis. Two entities explicitly disclosed the fact that comparative information had not been restated.

Staff analysis

16. IFRS Standards are silent regarding the restatement of comparative information in financial statements prepared on a non-going concern basis. IAS 1 *Presentation of Financial Statements* includes requirements that apply more generally to comparative

[1] AlphaSense is a search engine that allows for keyword and advanced phrase searching of publicly listed companies’ financial reports, press releases and event transcripts across multiple jurisdictions.

information (paragraphs 38–38B of IAS 1)—however, these requirements do not address the restatement of comparative information when an entity first prepares financial statements on a non-going concern basis.

Question 1 for the Committee
Does the Committee agree with our analysis in paragraphs 11–16 of this paper regarding the application of the requirements in IFRS Standards to the fact pattern described in the submission?

Should the Committee add a standard-setting project to the work plan?

Question I

17. Based on our analysis, we conclude that the requirements in IFRS Standards provide an adequate basis for the entity described in the submission to assess whether it can prepare its financial statements for prior periods on a going concern basis.[2]

Question II

18. There is no evidence of diversity in the application of IFRS Standards in this respect. Based on our research, entities do not restate comparative information when they first prepare financial statements on a non-going concern basis. We note that the submission describes this question as a hypothetical one, without providing evidence that the matter has widespread effect.[3]

Staff recommendation

19. Based on our assessment of the work plan criteria in paragraph 5.16 of the *Due Process Handbook* (discussed in paragraphs 17–18 of this paper), we recommend that the Committee does not add a standard-setting project to the work plan. Instead, we recommend publishing a tentative agenda decision that:

    (a) outlines how IFRS Standards apply in respect of Question I; and

[2] Paragraph 5.16(b) of the *Due Process Handbook*.
[3] Paragraph 5.16(a) of the *Due Process Handbook*.

(b) explains why the Committee did not recommend standard-setting in respect of Question II.

20. Appendix A to this paper sets out the proposed wording of the tentative agenda decision. In our view, the proposed tentative agenda decision (including the explanatory material contained within it) would not add or change requirements in IFRS Standards.[4]

Questions 2 and 3 for the Committee
2. Does the Committee agree with our recommendation not to add a standard-setting project to the work plan? 3. Does the Committee have any comments on the proposed wording of the tentative agenda decision in Appendix A to this paper?

[4] Paragraph 8.4 of the *Due Process Handbook* states: 'Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision.'

Appendix A—proposed wording of the tentative agenda decision

Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10 *Events after the Reporting Period*)

The Committee received a request about the accounting applied by an entity that is no longer a going concern (as described in paragraph 25 of IAS 1 *Presentation of Financial Statements*). The request asked whether such an entity:

(a) can prepare financial statements for prior periods on a going concern basis if it was a going concern in those periods and has not previously prepared financial statements for those periods (Question I); and

(b) restates comparative information to reflect the basis of accounting used in preparing the current period's financial statements if it had previously prepared financial statements for the comparative period on a going concern basis (Question II).

Question I

Paragraph 25 of IAS 1 requires an entity to prepare financial statements 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. Paragraph 14 of IAS 10 states that 'an entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so'.

Applying paragraph 25 of IAS 1 and paragraph 14 of IAS 10, an entity that is no longer a going concern cannot prepare financial statements (including those for prior periods that have not yet been authorised for issue) on a going concern basis.

The Committee therefore concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity that is no longer a going concern to determine whether it prepares its financial statements on a going concern basis.

Question II

Based on research conducted, the Committee observed no diversity in the application of IFRS Standards with respect to Question II—entities generally do not restate comparative information when they first prepare financial statements on a basis that is not a going concern basis. Therefore, the Committee has not [yet] obtained evidence that the matter in Question II has widespread effect.

For the reasons noted above, the Committee [decided] not to add a standard-setting project on these matters to the work plan.

Appendix B—submission

B1. We have reproduced the submission below, and in doing so deleted details that would identify the submitter of this request.

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Subject: Application of paragraph 14 of IAS 10 on prior periods

We appreciate your consideration of the following inquiries:

First inquiry: The [relevant legislation] requires companies to issue financial statements for each year independently (i.e., as a separate document) even if such financial statements were prepared much later after the end of the reporting period to which financial statements belong (such delay happens sometimes due to extraordinary circumstances). A company is behind the deadline for preparing financial statements for the last three years (e.g. 2017, 2018 & 2019). The company had no issue with going concern for the first two years (i.e., 2017 & 2018). However, the management decided voluntarily to liquidate the company after the end of the third year and to prepare financial statements for each preceding years (first, second and third, each in a separate document). IAS 10 prohibits preparation of "financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so". However, it is not clear, in a situation like the one described above, whether the preparation of the financial statements on other than going concern basis is confined to the latest reporting period (latest FS, i.e., 2019) or it covers all preceding periods (all 3 years FS), given the fact that every set of financial statements for each year would be published separately.

Considering the above scenario, our question is whether the company is prohibited from preparing independent financial statements for each of the preceding years (2017 & 2018), other than the latest one (2019), on a going concern basis? We hope the IFRS Interpretation Committee consider the situation as we believe that at the time of writing IAS 10, it might not have been envisaged the subject of late preparation of financial statements for earlier periods and the requirements of some jurisdictions that companies have to file financial statements for each year in a separate document (i.e., IAS 10 may assume the normal situation where entities issue their financial statements after the end of the reporting date but before the end of the next reporting period).

There are two views about tackling this issue:

The first view confines the phrase "reporting period" in IAS 10 to the latest reporting period covered by the financial statements (i.e., 2019 in this scenario). Therefore, in case of going concern being determined inappropriate after the latest reporting period while there was no issue about going concern after the end of each of the relevant preceding reporting periods (i.e., 2017 and 2018), it is believed that the company has to prepare only the financial statements for the latest year (2019) on other than going concern basis (for example, the liquidation basis) and to prepare the financial statements for the preceding years (2017 and 2018) on a going concern basis. In other words, the financial statements are to be prepared according to the conditions that existed at the time when such financial statements would have been prepared (i.e., the normal time frame for preparation of financial statements for each period runs from the end of the reporting period until the end of the next reporting period). This view is supported by the following arguments:

1. IAS 10 mentions "reporting period' to mean the latest reporting period covered by the financial statements. When financial statements are to be prepared annually, the phrase "after the reporting period" in IAS 1 and IAS 10 means the "last reporting period" for which financial statements are to be prepared. This is supported by the requirement of IAS 1 that an entity has to present a complete set of financial statements (including comparative information) at least annually. Therefore, the preparation and authorization of financial statements is supposed to take place during the period running from the end of the period to which financial statements belong to the end of next reporting period. Whether an entity publishes its financial statements or not, it is reasonable to believe that events after reporting periods should be limited to those events that may take place during the normal time frame for preparation of financial statements for each period, which runs from the end of the reporting period until the end of the next reporting period. We believe this is the rationale behind prescribing specific requirements for events after reporting period, i.e., events that are related to the latest reporting period to catch up on information that usually would not be available until the next set of financial statements are prepared. Otherwise, and in case of late preparation of financial statements, such events would belong to several reporting periods, for each of which financial statements are to be prepared.

2. When going concern is determined to be inappropriate, IAS 10 does not require restatement of preceding years' comparative figures (that were prepared on the going concern basis) presented alongside with the latest financial statements' figures that are prepared on other than going concern basis. This can be understood that, despite the fact that financial statements for preceding years were not prepared on timely basis, they should be prepared according to the conditions that existed at the time when such financial statements would have been prepared (i.e., the time frame for preparation of financial statements for each period runs from the end of the reporting period until the end of the next reporting period).

3. According to IAS 8, hindsight "should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about *what management's intentions would have been in a prior period* [emphasis added] or estimating the amounts recognised, measured or disclosed in a prior period". This should be more prominent when there is a change in the accounting basis, regardless whether financial statements for preceding years were prepared on timely basis or not.

4. Preparing financial statements for preceding years on other than going concern basis (for example, the liquidation basis) although the going concern assumption was valid after the reporting date of each preceding year, will mislead users about the history of the company, especially when it fails to prepare financial statements for many preceding years on timely basis where the going concern assumption was valid at the end of those years.

5. According to the Conceptual Framework, paragraph 1.16, information about a reporting entity's past financial performance and how its management discharged its stewardship responsibilities is usually helpful in predicting the entity's future returns on its economic resources. Therefore, delaying the preparation of the financial statements until future periods should not relief the management from providing such information on the basis that was suitable according to the assumptions and conditions that have been outstanding at the

time when those financial statements would have been prepared. Specifically, late preparation of financial statements for preceding years (where going concern was valid) on the liquidation basis will deny the users' right to assess the entity's past financial performance and how its management discharged its stewardship responsibilities.

The second view states that the phrase "reporting period" in IAS 10 means all preceding periods as long as the company doesn't publish financial statements for those preceding years (no matter how many). Accordingly, in this scenario, the company has to apply the liquidation basis to the financial statements for every single preceding year (2017, 2018 & 2019) regardless of the fact that the company was a going concern after the end of each preceding year (2017 & 2018) and the absence of the going concern assumption was only determined after the latest year. Going concern is a fundamental concept in setting IFRSs, including their measurement and presentation requirements. Therefore, preparation and authorization of financial statements on going concern basis after liquidation is inappropriate application of IFRSs since the assumption on which they are developed is no longer exist. It is noteworthy that financial statements for general purpose must prioritize the needs of users outside the entity over those of the management, which can be fulfilled internally. In addition, hindsight does not apply since IAS 10 clearly specifies the mere intention to liquidation prior to authorization of financial statements for issue, which is by itself a reason not to prepare its financial statements on a going concern basis.

Second inquiry: Assuming the company has already prepared and published (as usual) the financial statements for the first two preceding years on going concern basis. It prepared the financial statements for the latest year on liquidation basis. Is the company required to restate the comparative figures in these latest financial statements to be also on liquidation basis? IAS 10 is silent about the comparative figures for the preceding years in the case where preceding periods financial statements were prepared and published on going concern basis, i.e., whether the comparative figures shall be restated according to a basis other than going concern? We are in favor of not restating such comparative figures as it is not practical to do so without the use of hindsight. An entity, however, shall disclose the fact that the comparative figures are prepared according to different bases. Another alternative is to prohibit comparison since the numbers are prepared on different bases.

We would appreciate it if the Committee could consider the above inquiries…

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