



NZ ACCOUNTING
STANDARDS
BOARD

GOING CONCERN DISCLOSURES (AMENDMENTS TO FRS-44)

Issued August 2020

This Standard was issued on 20 August 2020 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 17 September 2020.

Reporting entities that are subject to this Standard are required to apply the Standard in accordance with the effective date set out in Part D.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 For-profit Accounting Standard has been issued to establish more specific going concern disclosure requirements when material uncertainties exist or significant judgements were made when assessing the appropriateness of applying the going concern basis of preparation. The more specific disclosure requirements will assist preparers of financial statements to provide relevant and transparent information to users of financial statements in these circumstances, which is particularly relevant as a result of the COVID-19 pandemic in 2020.

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GOING CONCERN DISCLOSURES

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Part A – Introduction

This Standard sets out amendments to FRS-44 *New Zealand Additional Disclosures*.

The amendments introduce more specific disclosure requirements about going concern assessments to help preparers of financial statements to provide relevant and transparent information to users of those financial statements about the matters considered when making such assessments.

Tier 2 for-profit entities are required to comply with all the requirements in this Standard.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to FRS-44 *New Zealand Additional Disclosures*

Paragraphs 12A.1 and 12A.2, and a section heading, are added. Paragraph 20 is added. New text is underlined.

Going concern disclosures

12A.1 When preparing financial statements, paragraph 25 of NZ IAS 1 *Presentation of Financial Statements* requires management to make an assessment of an entity's ability to continue as a going concern. It 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. Furthermore, when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, paragraph 25 of NZ IAS 1 requires disclosure of those uncertainties. When such material uncertainties exist, to the extent not already disclosed in accordance with paragraph 25 of NZ IAS 1, an entity that prepares its financial statements on a going concern basis shall disclose:

- (a) that there are one or more material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;
- (b) information about the principal events or conditions giving rise to those material uncertainties;
- (c) information about management's plans to mitigate the effect of those events or conditions; and
- (d) that, as a result of those material uncertainties, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

12A.2 Paragraph 122 of NZ IAS 1 requires an entity to disclose the judgements, apart from those involving estimations (see paragraph 125 of NZ IAS 1), that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Paragraph 125 of NZ IAS 1 requires an entity to disclose information about the assumptions it makes about the future, and other 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. To the extent not already disclosed in accordance with paragraphs 122 and 125 of NZ IAS 1, where an entity prepares its financial statements on a going concern basis, and management is aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, it shall disclose information about the significant judgements and assumptions made as part of its assessment of whether the going concern assumption is appropriate.

...

Effective date

...

- 20 *Going Concern Disclosures (Amendments to FRS-44), issued in August 2020, added paragraphs 12.A1–12.A2 and the related heading. An entity shall apply those amendments for annual periods ending on or after 30 September 2020. Earlier application is permitted.*

In the NZASB Basis for Conclusions, paragraphs BC5 and BC6 are added.

Going concern disclosures

- BC5 In June 2020 the NZASB issued ED 2020-2 *Going Concern Disclosures* (Proposed amendments to FRS-44). The NZASB noted that the COVID-19 pandemic in 2020 resulted in significant business disruption and uncertainties for many entities and led to an increased interest in going concern disclosures. The NZASB was of the view that more specific going concern disclosure requirements would help preparers of financial statements when applying existing disclosure requirements to provide relevant and transparent information to investors, lenders and other users of those financial statements in these circumstances, both in the current environment and in the future. The NZASB considered that users had an increased need for information about going concern assessments at this time. The NZASB also noted that there was diversity in practice in the level of information provided by entities and was of the view that users would benefit from more consistent disclosure.
- BC6 The NZASB considered that the matter was of sufficient importance, and users' need for information sufficiently urgent, to propose New Zealand-specific disclosures. Constituents were broadly supportive of the proposals, although some would have preferred that the matter be addressed by international bodies. The NZASB finalised these amendments in August 2020.

Part D – Effective Date

This Standard shall be applied for annual periods ending on or after 30 September 2020. Earlier application is permitted.