



Spotlight on Going Concern Disclosures

For-profit entities

2023

Introduction

Economies globally and in Aotearoa New Zealand are facing multiple challenges that are expected to lead to slower growth. Many companies are under pressure from the uncertainty and challenges on the economy and wider New Zealand society.

In the current environment, going concern related disclosures will be:

- more prevalent – with many companies facing significant uncertainty about their ability to continue as a going concern, and the extent of that uncertainty varying across industry sectors
- a key area of interest to investors, auditors and regulators – investors are looking for transparent and meaningful information to help them assess the company's financial position and its future prospects, including its ability to continue as a going concern, which also means that auditors and regulators will be closely examining such disclosures.

Going concern uncertainty is a reality for many companies; good disclosure is an opportunity to communicate that reality in a clear and transparent way.

What do directors need to know?

The directors are ultimately responsible for determining whether it is appropriate for the company's financial statements to be prepared using the going concern assumption and for providing going concern related disclosures.

Directors are responsible for ensuring the financial statements fairly present the financial position, financial performance, and cash flows of the company. Fair presentation will require consideration of the impact of the economic environment on all elements of the financial statements. Consideration should also be given to other information included in a company's annual report to ensure a consistent message is provided.

What accounting standards apply?

The relevant accounting standard requiring disclosures on going concern are [NZ IAS 1 Presentation of Financial Statements](#) and [FRS-44 New Zealand Additional Disclosures](#).



More specific requirements were added in August 2020 in response to the COVID-19 pandemic which resulted in significant disruption and uncertainties for many companies and led to an increased interest in going concern disclosures. These requirements continue to be relevant now, and in the future, to assist preparers to provide relevant and transparent information to resource providers and other users of financial reports.

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Overview of going concern

A company is considered a going concern for financial statement preparation purposes unless it either:

- intends to liquidate or to cease operating; or
- there is no realistic alternative but to do so.

Financial statements are normally prepared on what is described as a 'going concern basis' that is, the company expects to continue operating and meeting all of its obligations for the foreseeable future. In these circumstances the normal rules of accounting apply.

The need for a company to change how it operates or change the nature of its activities in response to the economic environment does not necessarily mean the company is no longer a going concern – the assessment is primarily based on the directors' consideration of the intention and ability to continue operating in the future.

Deciding if a company is a going concern

Those responsible for the preparation of the financial statements take into account **all available information about the future** when deciding if the going concern assumption is appropriate.

This is at least, but not limited to, 12 months from the balance date of the financial statements.

This will involve looking at a wide range of factors, such as the current and expected performance of the company, stability of expected revenue inflows, any external obligations such as borrowing, and access to other sources of funding.

There is no set formula or process for assessing whether the going concern basis of preparation remains appropriate, rather judgement is required based on all the information available at the time of this assessment. In periods of increased uncertainty, it is particularly important to document the basis and evidence for conclusions reached by directors.

What if a company is not a going concern?

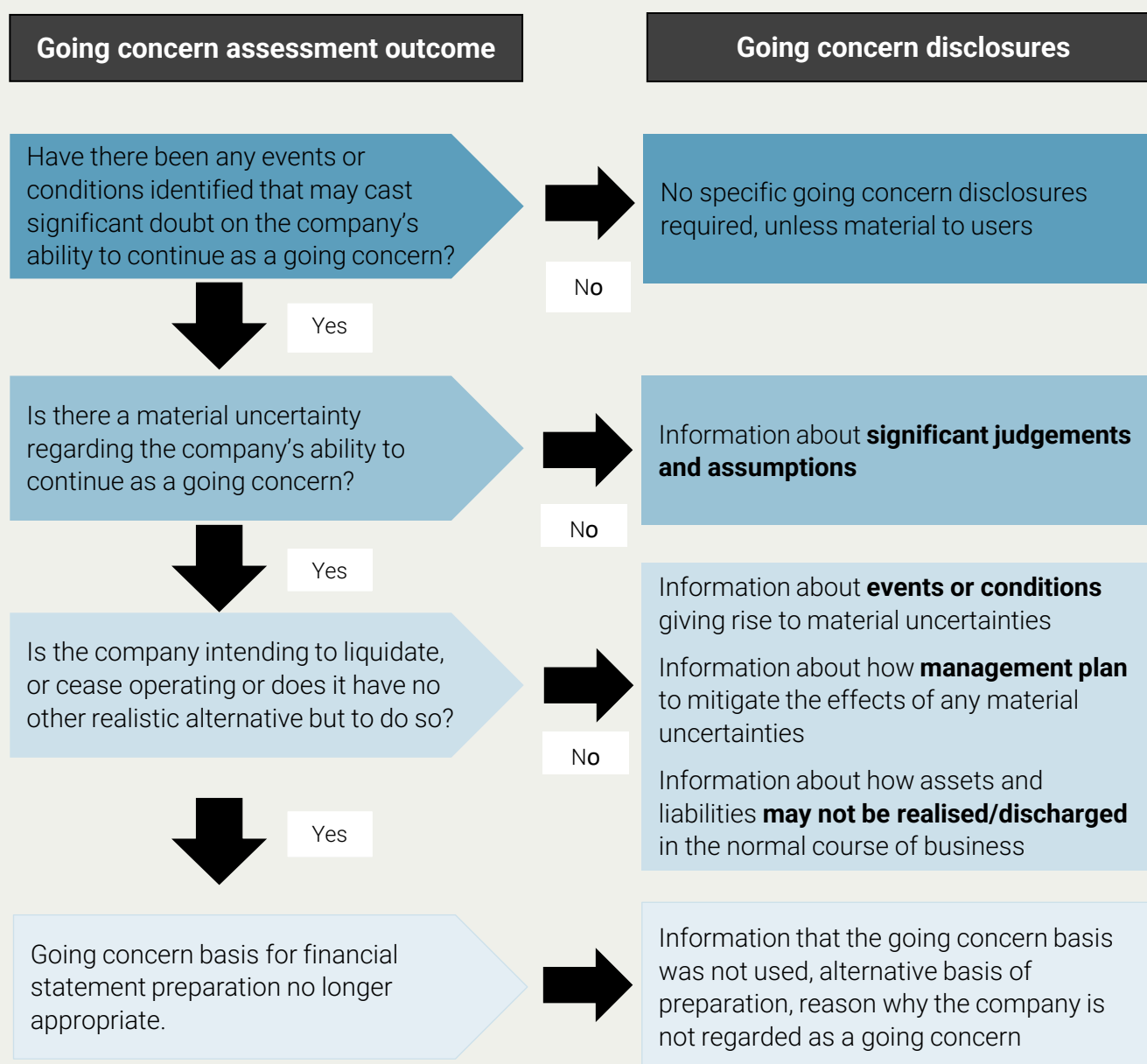
When a decision is made to liquidate a company or to cease operating, or the company has no realistic alternative but to do so, the financial statements should no longer be prepared on a going concern basis. In these circumstances, professional accounting and legal advice should be sought to confirm the company's financial reporting obligations.

In these circumstances, the financial statements are prepared under an alternative basis of preparation, which should reflect the company's particular circumstances, such as whether the company's operations are to be transferred to another entity, sold or liquidated.

What do companies need to disclose?

The nature and extent of going concern related disclosures will depend on each company's facts and circumstances. However, in general, it is expected that the going concern assessment will result in one of four possible outcomes. As outlined in Diagram 1 below, each of these outcomes results in different disclosure requirement considerations.

Diagram 1: Overview of going concern related disclosures



When those responsible for the preparation of the financial statements have applied significant judgement in reaching the decision that a company is a going concern, the auditor is required to consider whether the financial statements provide adequate disclosures about how these decisions were reached.