Exposure Draft

Accounting Standard

Non-Going Concern Basis of Accounting

Comments to be received by September 20, 2022

The Accounting Standards Board

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Exposure Draft of the Accounting Standard Non-Going Concern Basis of Accounting is issued by the Accounting Standards Board (ASB) for comments only. Comments need to be received by September 20, 2022 and should be submitted by email to dtscomments@icap.org.pk

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Accounting Standard
Non-Going Concern Basis of Accounting

Objective

1. The objective of general-purpose financial statements prepared in accordance with the financial reporting standards as applicable in Pakistan is to provide information about the financial position, performance and cash flows of a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

2. Going concern is a fundamental assumption in preparation of the general-purpose financial statements. However, due to events and conditions this fundamental assumption may not be appropriate for a reporting entity. Information about an entity's adoption of assumption other than going concern and its basis of preparation of general-purpose financial statements is important and relevant for the users of financial statements.

   Financial reporting standards as applicable in Pakistan, including International Financial Reporting Standards (IFRSs) do not provide further guidance on the basis of accounting to be used where going concern assumption is not appropriate. The Conceptual Framework of IFRS provides that where entities prepare general purpose financial statements on an assumption other than going concern, the reporting entity shall disclose the basis of accounting used in preparation of general-purpose financial statements.

3. The objective of this Standard is to specify the basis of accounting used by reporting entities not adopting going concern assumption to provide relevant and useful information on a consistent basis to the users of general-purpose financial statements about reasons for an entity to adopt assumption other than going concern, and its current proceedings, future course of action and prospects.

Meeting the objective

4. In meeting these objectives, the Standard establishes principles and requirements for how a reporting entity:

   (a) recognises and measures in its financial statements, assets, liabilities, income and expenses when preparing financial statements on an assumption other than going concern; and

   (b) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of adopting assumption other than going concern.

   An entity shall consider the specific circumstances, events and conditions to assess its going concern when applying this Standard.

Scope

[Refer: Basis of Conclusions paragraphs BC15 – BC18]

5. This Standard applies to all entities that prepare financial statements in conformity with the financial reporting standards as applicable in Pakistan, and are preparing those financial statements on an assumption other than going concern.

   The requirements of the Accounting Standard become applicable after the management has assessed the entity as a non-going concern.

6. For selecting the basis of accounting for entities adopting assumption other than going concern, this Standard classifies such entities as:

   (a) an entity with high probability that entity will use going concern assumption in future periods.

   Management of entity may allow a business with financial difficulties to reorganize so that it can be viable again as a going concern. For example, there may be situation where an entity becomes dormant by ceasing its business activities for a period of time. However, management intends to keep the existence of this entity and also has viable plans to re-commence business activities in future. Management's control over the entity and viability of its future plans shall be considered in assessing future probability of being a going concern entity.

   Such entity would be a non-going concern till the time it is assessed as a going-concern.

   (b) an entity that is non-going concern at the reporting date, and it is not highly probable that entity will be a going concern in future period.

   For example, this would be the case when an entity is under liquidation and has a remote possibility of returning from liquidation.

   The recognition, measurement, disclosure and presentation of elements of financial statements under financial reporting standards as applicable in Pakistan are based on the continuity of an entity. This Standard builds-on and supplements the requirements of IFRSs and Conceptual Framework for Financial Reporting (the Conceptual Framework) and, therefore, discusses and specifies certain accounting and financial reporting requirements which are relevant and specific only to a non-going concern entity.

   The principles set out in this Standard have been developed in consideration of the following factors:

   (a) specific information needs of users of financial statements of a non-going concern entity;

   (b) no specific accounting and financial reporting guidance for other than going concern accounting in IFRSs and Conceptual Framework; and

   (c) basic presumption on which IFRSs and Conceptual Framework has been developed (i.e. continuity of an entity).

Non-going concern entity

[Refer: Basis of Conclusions paragraphs BC19 – BC35]

7. An entity is a non-going concern, when:

   (a) management intends to liquidate the entity;

   (b) management intends to cease business activities of entity; or

   (c) entity has no realistic alternative but to liquidate or cease business activities.

8. The Conceptual Framework states that it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease business activities. However, if such an intention or need exists the entity becomes a non-going concern. The financial

statements may have to be prepared on a different basis (other than going concern basis), and financial statements should describe the basis used.

9. Regarding going concern, IAS 1, *Presentation of Financial Statements,* in paragraph 25 requires that management shall, at each reporting date, assess entity's ability to continue as a going concern.

   There could be events and conditions relating to an entity, and situations when management assess that an entity is not a going concern.

10. IAS 1 also specifies that a non-going concern entity shall prepare financial statements on an alternate basis of accounting (i.e. other than going concern basis of accounting), and disclosure of following information in the financial statements:

    i. fact that the financial statements have not been prepared on a going concern basis;

    ii. reasons why the entity is not regarded as a going concern; and

    iii. basis of accounting on which the financial statements have been prepared.

    IFRS for SMEs in paragraph 3.9 also states above-noted requirements for a non-going concern entity.

    There is, however, minimal guidance in the financial reporting standards as applicable in Pakistan, including IFRSs that addresses, how to apply, the non-going concern basis of accounting.

11. IAS 1 in paragraph 26 explains that when assessing going concern management shall take into account all available information about the future which is at least twelve months from the end of the reporting period.

12. IAS 10, *Events after the Reporting Period*, also discusses going concern.

    (a) IAS 10 in paragraphs 1 and 14 states that an entity shall not prepare its financial statements on a going concern basis if events after the reporting period and before the date of authorization of financial statements indicate that the going concern assumption is not appropriate.

    (b) IAS 10 in paragraph 15 notes that if the going concern assumption is no longer appropriate, the effect is so pervasive that this standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.

    (c) IAS 10 in paragraph 16 specifies the disclosures, when financial statements are not prepared on going concern basis of accounting.

Categories of non-going concern entities for financial reporting

[Refer: Basis of Conclusions paragraphs BC36 – BC56]

13. In this Accounting Standard, non-going concern entities are categorized as under:

    (a) an entity is a non-going concern at the reporting date, and it is highly probable that the entity will become a going-concern in a future period.

(b) an entity that is non-going concern at the reporting date, and it does not fall under above category. Therefore, it is not highly probable that this entity will be a going concern in a future period.

Highly probable is defined in the IFRSs as ‘significantly more likely than probable’. Therefore, for categorization of an entity under (a) above, it is more likely that entity would be able to commence and continue trading in future.

Reasons for two categories of non-going concern entities

14. In this Standard certain measurement principles differ for the above noted two categories of non-going concern entities.

15. For an entity that is non-going concern at the reporting date, and it is not expected to become a going concern in future, the primary focus and activities of such entity is to convert its assets to cash or other assets and settle its obligations with creditors in anticipation of ceasing all activities or as a result of liquidation/winding up. As a result of this financial and non-financial assets are used to settle claims with any remaining assets distributed to the owners of the reporting entity.

    Such an entity will utilize cash and other economic resources controlled by the entity to satisfy its outstanding obligations. The measurement of assets and liabilities for such entities shall reflect the resources available to satisfy the obligations of the reporting entity as well as the expected settlement of those obligations. This information is relevant for the users of entity’s general-purpose financial statements.

16. An entity that is non-going concern at the reporting date, however, if it is highly probable that entity will become a going-concern in future, though the focus and activities of such entity could be to convert its assets to cash or other assets and settle its obligations with creditors, but it also has high probability of commencing business activities in future.

    The measurement of assets and liabilities for such entities shall reflect the combined effects of the reporting entity’s distressed situation as well as the expectation of recommencement and continuity of operations in the future.

Assessing non-going concern entity’s probability of becoming a going-concern in future

17. A non-going concern entity shall, at every reporting date, assess its ability to become a going concern. Management of entity shall give careful consideration when it assesses the probability of entity becoming operational and starting business activities in future, bearing in mind the entity’s specific facts and circumstances and external factors (such as regulatory requirements, industry outlook).

    Following factors shall be considered when evaluating the ‘highly probable’ aspect:

    (a) for an entity to be highly probable of becoming a going concern in future, the board of directors (other equivalent level of management) must be committed to a plan to commencing or recommencing trading.

    (b) management can establish and demonstrate control of the entity and also viability of future plans.

    (c) the plan to become going-concern must be actively pursued and actions required to complete the plan should indicate that that it is unlikely that significant changes to the plan will be made that may adversely impact the intention to recommence business or that the plan will be withdrawn.

(d) the aspect of shareholders and creditors approval should be considered as part of the assessment of whether entity is highly probable of becoming a going-concern.

Entities under reorganization and startups

[Refer: Basis of Conclusions paragraphs BC57 – BC61]

Entities under reorganization and restructurings

18. When an entity is acquired by another entity or merged into another entity in its entirety and with the expectation and intention that business activities of the acquired or merged entity will continue then such an entity is a going concern prior to its acquisition or merger.

Startups and development stage entities

19. A startup entity is generally devoting substantially all of its efforts to establish a new business for which planned principal operations have not commenced or have commenced but are not yet generating significant or sufficient revenue. Loss making operations and liquidity problems may trigger going concern related issues.

    Management shall assess startup entity's going concern based on the specific facts, conditions and events, including entity's ability to raise equity and arrange financing that are sufficient for continuing as a going concern.

Non-going concern basis of accounting

[Refer: Basis of Conclusions paragraphs BC62 – BC68]

Statement of compliance

20. A non-going concern entity shall prepare its general-purpose financial statements in accordance with the financial reporting standards as applicable in Pakistan, including this Standard.

    A non-going concern entity shall, accordingly, state that financial statements have been prepared in accordance with the financial reporting standards as applicable in Pakistan (including this Standard).

Basis of preparation

21. A non-going concern entity shall state in its financial statements that the financial statements are prepared on the non-going concern basis of accounting.

    This statement shall be disclosed, even if the financial effect of non-going concern basis of accounting is insignificant. This information is relevant because without such statement users of financial statements will presume that entity is a going concern.

22. For preparation of financial statements on a non-going concern basis of accounting, management should choose accounting policies that result in the most relevant and reliable financial information about the transactions, events and conditions, of and related to the entity.

Recognition

[Refer: Basis of Conclusions paragraphs BC69 – BC73]

23. A non-going concern entity preparing financial statements in accordance with the financial reporting standards as applicable in Pakistan shall recognize and derecognize equity, assets, liabilities, income and expenses in accordance with the relevant financial reporting standards applicable to those items, depending on their nature.

For example, a non-going concern entity preparing financial statements in accordance with IFRSs, shall consider the recognition criteria for elements of financial statements as specified in the IFRS applicable to that items. Some of the key areas that could be relevant to a non-going concern entity are discussed below, however, this list and discussion is not exhaustive.

Recognition of liabilities and provisions

24. A non-going concern entity shall recognize liabilities in accordance with the requirements of IFRSs that would apply to those liabilities.

All recurring liabilities, including employee benefits, asset retirement obligations, levies and other liabilities as set forth under the IFRSs shall be recognised.

25. A non-going concern entity shall recognise provisions in accordance with IAS 37, *Provisions, Contingent liabilities and Contingent Assets*.

A non-going concern entity shall account for and disclose contingent liabilities in accordance with the recognition provisions of IAS 37. For this entity shall consider:

(a) contingent liabilities that have been disclosed in the last financial statements prepared under the going concern basis; and

(b) potential liabilities, including claims, that are identified after the entity becomes a non-going concern.

Due to non-going concern status of an entity, certain contracts may become onerous. For example, entity could be required to pay penalties for non-completion of sales orders or early termination of leases. The provision for onerous contracts shall be recorded in accordance with IAS 37.

Provisions should not be made for the executory contracts (unless onerous) or restructuring costs that do not qualify as obligations under IAS 37.

Provision shall be not recognised for future operating losses.

Recognition of taxes and levies

26. A non-going concern entity shall recognize current and deferred income taxes, and levies, in accordance with the recognition provisions of IFRSs that otherwise would apply to those items.

Non-recognition of previously unrecognized assets

27. A non-going concern entity shall not recognize long-lived assets i.e. property, plant and equipment and intangible assets which have not been recognised and accounted for previously. For example, intangibles assets such as copyrights, trademarks, patents shall

not be recognised. However, for the unrecognized items a disclosure of such items along-with the amount of expected sale proceeds would provide useful information.

A non-going concern entity shall recognise such items in the period when they are sold or adjusted, and resultantly a financial asset (cash or receivable) is recognised or a liability is settled/set-off.

Recognition in accordance with other financial reporting standards

28. Non-going concern entities preparing financial statements in accordance with other financial reporting standards (for example, IFRS for SMEs, Revised AFRS for SSEs, Accounting Standard for NPOs) shall recognise equity, assets, liabilities, income and expenses in accordance with respective financial reporting standards applicable to those items, depending on their nature.

Measurement

[Refer: Basis of Conclusions paragraphs BC74 – BC77]

29. Prior to adopting the non-going concern basis of accounting the entity should consider whether any adjustments to its assets and liabilities are necessary, while preparing going concern financial statements. In the period(s) prior to adoption of the non-going concern basis of accounting, non-financial assets, including property, plant and equipment, intangible assets, goodwill and financial assets should be evaluated for impairment and adjustment under relevant IFRSs.

30. For a non-going concern entity, the measurement of assets and liabilities is generally affected by:

    (a) the change in the entity’s status (i.e. from a going concern to a non-going concern) and judgements that arise when the going concern assumption ceases to be valid; and

    (b) the possibility of entity becoming a going concern in future.

Measurement of assets and liabilities by a non-going concern entity that is highly probable of not becoming a going concern in future

[Refer: Basis of Conclusions paragraphs BC78 – BC87]

31. An entity that is preparing financial statements on a non-going concern basis of accounting shall apply following principles for measurement of assets and liabilities at the reporting date.

Measurement of assets

32. The entity shall measure assets at realizable value, at the reporting date.

The realizable value shall reflect the estimated amount of cash or other consideration that entity expects to collect in settling or disposing of those assets, under its non-going concern status. However, the realizable value shall not exceed carrying value of the asset as reported for that asset, immediately before the use of non-going concern basis of accounting.

Up-side to the carrying value through measurement at realizable value shall not be recorded.

The entity shall also consider and account for:

(a) estimated disposal costs of the assets that are expected to be sold shall be recognised and disclosed separately. The measurement of a reporting entity's estimate of its disposal costs shall be made on an undiscounted basis and disclosed separately from the realizable amounts of the related assets.

(b) property, plant and equipment and intangible assets once measured at realizable value shall not be depreciated, amortized or revalued. These assets shall be remeasured at every reporting date and any change in the realizable value shall be recorded in the period.

The entity shall assess the recoverability of non-financial assets (such as prepaid expenses, tax refunds) that may not be converted to cash or other considerations. The non-financial assets that are not expected to be recovered in cash or utilized for setting-off a liability shall be written off.

Measurement of liabilities and provisions

33. The entity shall measure liabilities and provisions, at the reporting date, using the principles of financial reporting standards as applicable to the respective liabilities and provisions. However, it shall not discount the liabilities and provisions.

Liabilities for the employee benefits shall be calculated as per the principles of the relevant applicable financial reporting standard (for example IAS 19 when preparing financial statements under IFRS Standards), however, these liabilities and related plan assets shall not be discounted.

Liabilities of specified contractual amounts shall not be decreased to their anticipated and expected settlement amounts until the liabilities are legally settled. Thus, they shall not be reduced to their expected settlement amounts prior to settlement.

Liabilities that are determined by the Court or result from a compromise with the creditor shall be adjusted based on the nature of the changes to the arrangements.

Liabilities without contractually specified amounts and timing shall be adjusted to incorporate all changes to assumptions which are impacted by the entity being a non-going concern.

Measurement of assets and liabilities by a non-going concern entity that is highly probable of becoming a going concern in future

[Refer: Basis of Conclusions paragraphs BC88 – BC91]

34. An entity that is preparing financial statements on a non-going concern basis and management assesses that it highly probable that entity will be a going concern in future, shall:

(a) measure liabilities in accordance with the measurement requirements of IFRSs applicable to those liabilities, including discounting of liabilities and provisions, where required.

(b) measure assets in accordance with the requirements of IFRSs, applicable to those assets. For example, such an entity shall:

i. perform impairment testing of non-financial assets in accordance with IAS 36, *Impairment of Assets.*

IAS 36, requires performing the impairment test on certain non-financial assets when there is an indication of impairment. A non-going concern entity should consider revision of estimates of recoverable amounts of assets. This could potentially result in the recognition of impairments to the carrying value of assets. However, in such circumstances, it would not be appropriate to recognize the expected profit on the intended disposal of assets, either as a reduction in the amounts recognized as impairments or provisions or as uplifts in the carrying value of the relevant assets.

ii. revalue the property, plant and equipment in accordance with previously established accounting policies., under IAS 16, *Property, Plant and Equipment*.

iii. account for the assets, including property, plant and equipment that are held for sale, in accordance with IFRS 5, *Non-Current Assets Held for Sale Discontinued Operations.*

iv. determine net realizable value of inventory items under IAS 2, *Inventories*. However, possible gain on sale of inventory or other items should not be recognized until actual sale.

v. measure investment property in accordance with the previously established accounting policies, under IAS 40, *Investment Properties.*

vi. measure financial assets, including modifications and impairment, in accordance with IFRS 9, *Financial Instruments*.

Liabilities shall be adjusted to reflect changes in assumptions that are a result of the entity's non-going concern (for example, timing of payments). Non going concern entities often consider a variety of potential transactions with creditors or security holders to enhance liquidity. The transactions may involve cash settlement, an exchange of debt, or modification of debt terms. These transactions shall be considered in accordance with the requirements of relevant financial reporting standard.

vii. continue to assess the realizability of its deferred tax assets in accordance with IAS 12, *Income Taxes*.

Such entity shall not recognise the expected profit on the intended disposal of assets, either as a reduction in the amounts recognised as impairments or provisions or as write-up in the carrying amount of the relevant assets.

Other considerations for all non-going concern entities

Cumulative adjustment in statement of profit or loss

35. All entities preparing financial statements under basis of accounting other than going concern shall present a cumulative adjustment in its statement of profit or loss, showing differences between:

(a) the carrying amounts of entity's assets and liabilities at the last date on which it was assessed as going concern; and

(b) the re-measured amounts of assets and re-measured and newly recognised liabilities (including measurement changes resulting from changes in assumptions) due to the non-going basis of accounting, at the reporting date.

The measurement of asset at its realizable value may result in a difference (positive or negative) from the carrying value of the asset (i.e. amount under going concern and prior to such estimation). Similarly, measurement of a liability may result in a difference (positive or negative) from the amount of the liability measured under the going concern basis.

Subsequent measurement

36. At each reporting date, a non-going concern entity shall remeasure and account for its assets and liabilities in accordance with this Standard and the financial reporting standards applicable to the entity.

Application of this Accounting Standard on a non-going concern entity

37. An entity that is non-going concern at the reporting date, however, it is highly probable that entity will become a going-concern in future, shall:

    (a) prepare financial statements under a basis other than going concern until such time as the only amounts reported in the current and prior year financial statements relate to the entity's ongoing existence i.e. any effects of ceasing to trade have been 'washed through'.

    (b) thereafter, the financial statements should be again prepared on a going concern basis.

Going concern consideration for group and consolidated financial statements

[Refer: Basis of Conclusions paragraphs BC92 – BC93]

38. Every reporting entity while preparing general purpose financial statements is required to have an assessment of going concern.

    When preparing consolidated financial statements, the parent shall make an assessment of going concern in respect of the group as a whole. The non-going concern subsidiaries do not imply that the group is also non-going concern. Similarly, if the parent and group are going concern it does not imply that the subsidiaries are also going concern.

    While preparing consolidated financial statements any potential adjustment to the assets and liabilities of a subsidiary would need to be considered. This may result in recognition and measurement differences between the consolidated financial statements and the subsidiary's individual financial statements.

Comparative information

[Refer: Basis of Conclusions paragraphs BC94 – BC95]

39. Financial Reporting Standards as applicable in Pakistan require presentation of comparative information in the financial statements. An entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements.

40. An entity preparing financial statements on a non-going concern basis:

    (a) would not be required to restate its comparative financial information, if financial statements for the previous year has been authorised for issue.

(b) would be required to restate its comparative information, if financial statements for the previous year have not been authorised for issue.

IAS 10, *Events After the Reporting Period,* discusses the date of authorization of financial statements, and for this aspect entity shall consider IAS 10.

Presentation

[Refer: Basis of Conclusions paragraphs BC96 – BC99]

Classification between current and non-current assets and liabilities

41. An entity that is preparing its financial statements on a non-going concern basis of accounting shall classify its assets and liabilities in accordance with financial reporting standards applicable to such entity.

Due to entity's non-going concern status, events may occur, such as breach of debt covenants and restructuring of liabilities. Entity shall consider the requirements of financial reporting standards to present the impact on the reported amounts such events in its financial statements.

A non-going concern entity shall not classify the assets and liabilities only on the basis of becoming a non-going concern rather it should consider the specific facts and circumstances, including the contractual terms for classification as current and non-current.

The financial reporting standards contain the criteria for classification of assets and liabilities. IAS 1 provides criteria for the classification of current assets and current liabilities. It also states that assets and liabilities that do not meet the criteria are non-current assets and liabilities. In accordance with IAS 1, an entity preparing its financial statements on a non-going concern basis shall reclassify its long-term liabilities as current liabilities, only if they meet the criteria in IAS 1 to be presented as current liabilities.

Classification as non-current assets held for sale

42. A non-going concern entity shall not classify its non-current assets as current assets unless and until they meet the 'held for sale' criteria in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

Presentation as discontinued operation

43. The objective of presenting discontinued operations as a separate item of income or loss is to segregate the results that have been discontinued from the results of continuing operations. Therefore, where the operations of the entity as a whole have been decided to be discontinued and the financial statements are being prepared on a non-going concern basis, it would rather be meaningless to present such operations as discontinued operation.

Hence, it is preferable to not to present discontinued operations under such a situation.

Disclosure

44. The objective of disclosure requirements is for a non-going concern entity to disclose sufficient information to enable users of financial statements to understand the nature and financial impact of entity being a non-going.

Disclosures for all non-going concern entities

45. All entities preparing financial statements on a non-going concern basis of accounting shall disclose:

    (a) financial statements have been prepared in accordance with the financial reporting standards as applicable in Pakistan.

    (b) that the financial statements are prepared using the non-going concern basis of accounting.

    (c) events, circumstances and reasons that have made the entity a non-going concern.

    (d) management judgment, including future plans and actions on the basis of which

        i. assets will be realised and liabilities will be settled;

        ii. a non-going concern entity is determined to be highly probable of becoming a going concern in future. Discussion of management intentions, plans and expected time period when entity is expected to be a going concern in future.

        In the absence of above disclosure entity shall be considered a non-going concern for future as well, and follow the financial reporting requirements specified for such entities.

    (e) the basis and significant assumptions used to measure assets and liabilities, including any subsequent changes to those basis and assumptions.

    (f) contingencies and claims that are not subject to reasonable estimation under IAS 37.

    Entities may receive claims from creditors that are not valid. In this situation, the amounts of the total claims submitted, the process for considering those claims, and the amount of these claims that are expected to be rejected should be disclosed. If the entity has not finished its assessment of valid claims, it should clearly disclose this fact as well as the amount of claims which have not yet been assessed.

    (g) disclose the items (such as trademarks, patents) along-with expected sale proceeds, which are not recognized in the statement of financial position during the period.

    (h) disclose a cumulative adjustment in the statement of profit or loss, as accounted for in accordance with paragraph 35 of this Accounting Standard.

    (i) a description of key events that have occurred during the reporting period and prior to the issuance of the financial statements.

    These might include key hearings before the Court (such as agreements allowing the reporting entity to pay certain creditors), agreement reached with creditors, decisions made by management, or other events that would be of interest to the user of the financial statements.

A non-going concern entity having less than high probability of becoming a going concern in future

46. An entity that is non-going concern at the reporting date, and is highly probable of not becoming a going concern in future, shall in addition to the disclosures required by paragraph 45 of this Accounting Standard, also disclose:

    (a) the expected disposal costs recognised during the period reported in the aggregate.

    (b) an analysis of the upside to the realizable value of assets not recognised during the period. Separately, disclose an analysis of any down-side recognized in the profit or loss on assets during the period.

A non-going concern entity having high probability of becoming a going concern in future

47. An entity that is non-going concern at the reporting date, and is highly probable of becoming a going concern in future, shall in addition to the disclosures required by paragraph 45 of this Accounting Standard, also make all disclosures required by the financial reporting standards as applicable to the entity.

Entity under liquidation

48. An entity that is a non-going concern and is under the process of liquidation or winding up, in addition to disclosures of paragraphs 45 and 46, shall also disclose:

    (a) a description of the events leading up to and during liquidation and a summary of the impacts and timeline of the liquidation/winding up proceedings.

    (b) an expected timeline of completion of liquidation/winding up of the entity.

49. An entity may disclose whatever additional information is necessary to provide relevant and useful information to the users of financial statements.

Disclosures and presentation in subsequent reporting periods

50. If an entity continues to be a non-going concern in subsequent annual or interim reporting period(s), the entity shall continue to provide the disclosures that are relevant to the specific entity based on the assessment of events and conditions.

    Disclosures should become more extensive as additional information becomes available about the relevant conditions or events and about management’s plans. An entity shall provide appropriate context and continuity in explaining how plans, conditions or events have changed between reporting periods.

    For the period in which entity’s probability of becoming a going concern in future changes, an entity shall disclose how the management plans and judgment, and relevant conditions or events changed the previous assessment about the entity.

Effective date

51. This Accounting Standard is applicable for financial statements prepared on or after December 31, 2022. Earlier application is permitted. If an entity applies this Accounting Standard for an earlier period, it shall disclose that fact.

Transition

52. The Accounting Standard shall be applied prospectively from the date entity is assessed as a non-going concern.

53. As a practical expedient entity may apply this Stanadard as from the beginning of the reporting period during which the entity was assessed as a non-going concern.

54. Where an entity is reporting on the non-going concern basis of accounting as of the effective date of this Standard and is using other guidance on when and how to apply the non-going concern basis of accounting, such non-going concern entity shall apply this Standard retrospectively with the cumulative effect adjustment as of the date of adoption for differences resulting from applying this Accounting Standard.

55. This Accounting Standard shall cease to apply as from the beginning of the financial year during which the entity is reassessed to be a going-concern.

CONTENTS

Basis for Conclusions

Accounting Standard
Non-going Concern Basis of Accounting

This Basis for Conclusions accompanies but is not part of the Accounting Standard, *Non-Going Concern Basis of Accounting*. It summarizes the considerations of the Board when developing the Accounting Standard.

Introduction

BC1 The Accounting Standard sets out requirements for the preparation of financial statements of an entity on a non-going concern basis of accounting.

It responds to the need for the provision of financial reporting requirements for an area where IFRSs and other financial reporting standards as applicable in Pakistan provide no or limited guidance.

BC2 The Basis for Conclusions is organized as follows:

(a) Need for this Accounting Standard

(b) Objective and scope of the Accounting Standard

(c) The requirements in the Accounting Standard

Need for this Accounting Standard

BC3 The main objective of general-purpose financial reporting is to provide information that is useful to the primary users of the financial statements.

Paragraph 1.2 of the *Conceptual Framework for Financial Reporting* (the Conceptual Framework) explains that the objective of general-purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity.

Those decisions of users of financial statements involve about:

(a) buying, selling, or holding equity and debt instruments;

(b) providing or settling loans and other forms of credit; or

(c) exercising rights to vote on, or otherwise influence, management’s actions that affect the use of the entity’s economic resources.

BC4 In Pakistan, statutory financial statements are prepared in accordance with the financial reporting requirements specified in the Companies Act, 2017.

Companies Act, 2017 specifies a differential financial reporting framework as different financial reporting standards are specified for different classes of companies. These financial reporting standards include:

(a) International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB);

(b) IFRSs issued by the IASB and notified by the Securities and Exchange Commission of Pakistan’

(c) International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs); or

(d) Revised Accounting and Financial Reporting Standard for Small-Sized Entities (Revised AFRS for SSEs).

The Accounting Standard for Not for Profit Organizations is also a part of the financial reporting standards as applicable in Pakistan and it is relevant to certain entities. Other entities which are not within the scope of the Companies Act, 2017, such as regulatory bodies, not-for-profit organizations, trusts, and societies also prepare annual financial statements in accordance with the above-noted financial reporting standards. In certain cases, an entity may be preparing its financial statements in accordance with the Accounting and Financial Reporting Standard for Small-Sized Entities (AFRS).

BC5 Going concern is a fundamental assumption. The financial reporting standards outline that normally financial statements are prepared on a going concern basis. Regarding this management of an entity, at each reporting date, is required to a make assessment about entity's going concern.

The financial reporting standards also acknowledge that owing to certain circumstances, events and conditions:

- the going concern assumption about an entity could be affected by material uncertainties; or

- the going concern assumption about an entity may not be appropriate.

For a going concern entity, IFRSs require the entity to disclose material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern. IFRS for SMEs also contains the same requirement.

For a non-going concern entity, IFRSs require the preparation of general-purpose financial statements on an alternate basis i.e. basis other than going concern. IFRS for SMEs also requires a non-going concern entity to prepare financial statements on an alternate basis, similar to the approach prescribed in the IFRSs.

BC6 IFRSs and IFRS for SMEs do not contain further discussion and guidance on the nature of disclosures relating to material uncertainties or the basis of preparation of financial statements on a non-going concern basis of accounting.

In relation to the adequacy of existing accounting enforceable guidance on the non-going concern basis of accounting, there are issues involving inconsistency and inappropriate interpretation of the current requirements which require clarity and standard-setting.

In the last few years, the economic impacts of the Covid-19 pandemic have further highlighted these issues. However, these issues existed before the pandemic and will continue to impact the consistency of financial statements in the future.

BC7 Clear financial reporting requirements are needed as there is a lack of understanding and resultantly lack of comparability between entities when preparing financial statements on a non-going concern basis. Clear and robust going concern reporting requirements are critical to ensure users of financial statements have sufficient information to make informed economic decisions.

BC8 Regarding going concern disclosures and non-going concern basis of accounting, various other national standard-setters have issued guidance and/or amendments to the existing IFRS requirements.

In the United States, the Financial Accounting Standards Board (FASB) develops and issues Generally Accepted Accounting Principles (GAAP).

Under U.S GAAP, Accounting Standards Codification, *Presentation of Financial Statements (ASC 205)* provides the basis for the preparation of financial statements.

In the US, stakeholders also requested guidance on when and how to prepare financial statements using the liquidation basis of accounting. FASB addressed their concerns and helped in reducing the diversity in practice by issuing a specific subtopic *Liquidation Basis of Accounting* in ASC 205. This subtopic discusses and addresses when it is appropriate to apply, or how to apply, the liquidation basis of accounting to a non-going concern company. It also provides guidance for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting

The above-noted requirements apply to all reporting organizations, including public companies, private companies, and nonpublic not-for-profit organizations that prepare financial statements under U.S GAAP.

In Saudi Arabia, the Saudi Organization for Chartered and Professional Organizations (SOCPA) has issued the Accounting Standard when the going concern basis becomes invalid due to an entity entering into liquidation.

In New Zealand, XRB has prescribed the 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.

BC9 IASB is also cognizant to the need for working on the going concern related project. IASB sets its work plan to determine and prioritize its projects. In 2021 it initiated the process and discussions on its next five (05) year work plan. In this regard, in 2021, the IASB carried out third agenda consultation with the stakeholders and noted going concern as one of the potential projects.

In response to the IASB's 2022-2026 agenda consultation (i.e. Third agenda consultation), various international accounting standard-setters have suggested the IASB to perform a fundamental review of the requirements related to the going concern basis of accounting where the going concern assumption is no longer appropriate.

The Board also shared its views on the importance and priority of going concern project in response to the IASB request for information for Work Plan 2022-2026.

The Board identified 'going concern' as an important and significant project for IASB's action and inclusion in the Work Plan 2022-2026, and in its submission to the IASB noted that

"We observe that the current requirements of IFRS Standards, on how management should assess the going concern basis of preparation, need more clarity and implementation guidance. Further, we also agree that the IFRS Standards should contain specific accounting requirements about the basis on which entities should prepare financial statements when the going-concern assumption is inappropriate."

It was also noted by the Board that internationally various standard-setters have raised the concern that the current IFRSs requirements about going-concern related disclosures and where an entity is no longer going concern do not specify how the basis of preparation should be adjusted or what the revised basis should be.

For example, the Australian Accounting Standards Board (AASB) has noted that the feedback it has received indicates that the IASB needs to revisit the existing going concern reporting requirements contained in IAS 1 as they may not be sufficient in their current form.

BC10 The Board is also cognizant of the fact that the IASB is more focused on the enhancing going concern disclosures (narrowly scoped to focus on clarifying existing disclosure requirements. The present IASB discussion on its Work plan 2021-2025 is not conclusive, however, the available IASB work papers suggests that going concern is a less priority project. Further, any development of an accounting standard or improvement in existing IFRSs by the IASB would be a large-term or a medium-term project. This indicates that if a project on 'going concern' becomes part of the IASB work plan, it would possibly require a significant time for the development of IFRS requirements.

BC11 The Board also observed that Institute issued an Accounting Guidance titled 'Guideline on the Basis of Preparation of Financial Statements for Companies that are not Considered Going Concern', in 2017. However, this guidance is not mandatorily applicable to the entities, and it is not a part of the financial reporting framework applicable to companies under the Companies Act, 2017. This situation also provides an opportunity to the entities to apply varied accounting practices and basis for preparing non-going concern accounting, leading to divergent application and non-comparable financial information.

With the issuance of this Accounting Standard under the Companies Act, 2017 the Institute's 'Guideline on the Basis of Preparation of Financial Statements for Companies that are not Considered Going Concern' will be withdrawn.

BC12 The Board in view of the above considered that there is a need for the development of an accounting standard on a non-going concern basis of accounting. To summarise, the Board's consideration included that:

- Non-going scenarios or material uncertainties about going concern are prevalent in Pakistan. Different classes and types of companies in Pakistan can be affected and could be required to prepare financial statements on a non-going concern basis.

- Financial reporting standards as applicable in Pakistan (IFRSs, IFRS for SMEs, and AFRS for SSEs) require a non-going concern entity to prepare its financial statements on an alternate basis of accounting (i.e. other than going concern basis).

- However, financial reporting standards contain minimal or limited guidance about the financial reporting of a non-going concern entity.

- Lack of guidance under the financial reporting standards, results in the diversity of understanding and accounting practices in accounting for non-going concern basis in Pakistan.

- The issue of lack of IFRSs guidance on financial reporting of a non-going concern entity has been identified by the IASB and various international standard-setters as an area requiring IFRSs improvement.

- Another global standard-setter, i.e. the US has developed requirements in the GAAP for the non-going concern basis of accounting.

The Board also analyzed the complexity and feasibility of the development of an Accounting Standard, including the capacity of the Board and its stakeholders to make timely progress on the project.

BC13 The Board considered it needful to develop and prescribe accounting requirements for non-going concern so that diversity of accounting practices could be eliminated and users of financial statements are provided with the relevant, comparable and faithful presentation of financial information.

The Accounting Standard would be useful to ensure consistency and comparability of financial statements when the entity is disclosing material uncertainties and judgments about the going concern or an entity that is no longer a going concern.

The preparers would benefit from there being clear and enforceable guidance, users would have access to more comparable information, and auditors would have a clear basis of accounting to provide an opinion against.

BC14 The objective of the Accounting Standard is to improve how entities prepare and present the general-purpose financial statements under the non-going concern basis of accounting.

The Accounting Standard sets out the principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the non-going concern basis of accounting.

The Accounting Standard also sets out the disclosures for the entities that prepare their financial statements in accordance with the non-going concern basis of accounting.

Scope of the Accounting Standard

BC15 The Accounting Standard scopes in all entities that are preparing financial statements in accordance with the financial reporting standards as applicable in Pakistan, and are preparing those financial statements on a non-going concern basis of accounting.

BC16 In Pakistan, statutory financial statements are prepared in accordance with the financial reporting requirements specified in the Companies Act, 2017. These include:

(a) IFRSs issued by the IASB

(b) IFRSs issued by the IASB and notified by the SECP

(c) IFRS for SMEs issued by the IASB and notified by the SECP

(d) Revised AFRS for SSEs issued by the Institute and notified by the SECP

The Accounting Standard for Not for Profit Organizations is also a part of the financial reporting standards as applicable in Pakistan and it is relevant to certain entities. Other entities such as regulatory bodies, not-for-profit organizations, trusts, and societies also prepare annual financial statements in accordance with the above-noted accounting and reporting standards. In certain cases, an entity may be preparing its financial statements in accordance with the AFRS.

BC17 The entities preparing their general-purpose financial statements may be assessed as a non-going concern in accordance with the above noted financial reporting standards.

However, as discussed in previous paragraphs, the financial reporting standards do not provide guidance for the preparation of financial statements on a non-going concern basis of accounting.

BC18 The principles provided in this standard shall also be considered by entities that are preparing financial statements in accordance with the IFRS for SMEs or AFRS for SMEs.

The requirements of the Accounting Standard become applicable once the entity has been assessed as a non-going concern. Therefore, this Accounting Standard does not set out the requirements relating to management's assessment of going concern (or non-going concern) at the reporting date.

Although, the Board's discussions and rationale provided in this Basis for Conclusion are based mostly in context of the IFRSs, however, entities preparing their financial statements in accordance with IFRS for SMEs or AFRS for SSEs, should also apply the Accounting Standard. When applying the recognition and measurement principles for the assets, liabilities, equity, income, and expense, the requirements of IFRS for SMEs or AFRS for SMEs (as the case may be) shall be applied in place of IFRSs guidance discussed in the Accounting Standard and this Basis for Conclusions.

The requirements in the Accounting Standard

Non-going concern entity

BC19 Businesses are generally formed and managed with the intent of operating as ongoing entities.

BC20 The financial reporting standards as applicable in Pakistan do not define going concern. These standards note that the continuation of an entity is assumed unless the entity has an intention or the need to enter liquidation or cease trading.

The Conceptual Framework, IFRSs, IFRS for SMEs, and AFRS for SSEs state that financial statements shall be prepared on a going concern basis, unless, entity's management:

(a) intends to liquidate;

(b) intends to cease trading; or

(c) has no realistic alternative but to liquidate or cease trading.

The going concern is based on both entity's ability and intention by management to continue operating.

The U.S GAAP also does not define going concern. Instead, it notes that the continuation of an entity is presumed in preparing financial statements unless liquidation is imminent.

BC21 The Conceptual Framework discusses Going concern assumption. Paragraph 3.9 of the Conceptual Framework states that financial statements are normally prepared on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease trading. If such an intention or need exists, the financial statements may have to be prepared on a different basis. If so, the financial statements describe the basis used.

Even though the Conceptual Framework does not require an entity to assess whether it is a going concern or provide disclosures about going concern, identifying the going concern assumption as an underlying assumption in the Conceptual Framework provides a basis for including such requirements in other IFRSs.

BC22 For financial reporting purposes, IFRSs and IFRS for SMEs contain three distinct requirements relating to going concern:

(a) assessment and use of going concern assumption for the preparation of financial statements;

(b) disclosure of material uncertainties about an entity's ability to continue as a going concern; and

(c) preparation of financial statements of a non-going concern company on an alternate basis of accounting

Going concern related discussion is available in IFRSs, IFRS for SMEs, and AFRS for SSEs is as under:

<u>IFRSs</u>

IAS 1, *Presentation of Financial Statements,* in paragraphs 25 and 26 states that

"When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. 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. 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, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern."

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate."

IAS 10, *Events after the Reporting Date*, also discusses going concern. While explaining the objective, IAS 10 states that *"the Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.*

IAS 10, in paragraphs 14-16 further discusses going concern and 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.*

- *Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of* *accounting, rather than an adjustment to the amounts recognized within the original basis of accounting.*

- *IAS 1 specifies required disclosures if:*

  (a) the financial statements are not prepared on a going concern basis; or

  (b) *management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.*

<u>IFRS for SMEs</u>

IFRS for SMEs, in paragraph 3.8 states that when preparing financial statements, the management of an entity using this Standard shall make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless management either intends to liquidate the entity or cease operations or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least but is not limited to, twelve months from the reporting date.

Paragraph 3.9 of IFRS for SMEs states that when management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.

<u>AFRS for SSEs</u>

Paragraph 1.4 of AFRS for SSEs states that financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or cease trading within the next twelve months or has no realistic alternative but to do so.

Liquidation or ceasing trading

BC23 Non-going concern of an entity is linked to the liquidation or ceasing trading. Various IFRSs use the term 'liquidation' and 'cease trading'. However, IFRSs do not provide definition or explanation of these terms.

USGAAP in Subtopic *Liquidation Basis of Accounting* defines liquidation as '*the process by which an entity converts its assets to cash or other assets and settles its obligations with creditors in anticipation of the entity ceasing all activities. Upon cessation of the entity's activities, any remaining cash or other assets are distributed to the entity's investors or other claimants (albeit sometimes indirectly). Liquidation may be compulsory or voluntary. Dissolution of an entity as a result of that entity being acquired by another entity or merged into another entity in its entirety and with the expectation of continuing its business does not qualify as liquidation.'*

BC24 Entities are incorporated and established to carry out specific businesses and to achieve specific objectives. The term trading is used for considering the going concern of an entity, and this term is not restricted to any specific entity. Trading would refer to the business operations and activities of any entity based on the entity's objectives, and ceasing trading would mean ceasing the business operations and activities.

IASB has not explained the term cease trading. The previous version of the Conceptual Framework issued by IASB while explaining the going concern used the term 'curtail materially the scale of its operations'. The IASB while revising the Conceptual Framework substituted the phrase 'curtail materially the scale of its operations' with the phrase 'cease trading'. In the Basis for Conclusions accompanying the Conceptual Framework, the IASB explained that this change is made to align the description more closely with that used in IAS 1 and IAS 10.

BC25 The Board noted that the threshold for departing from the going concern basis of accounting is very high, as generally realistic alternatives to liquidation or ceasing trading/operations could exist. Management while making an assessment about going concern is required to consider the realistic alternatives to liquidation or ceasing trading/operations, and accordingly conclude on the going concern status of an entity.

Assessment of going concern

BC26 As noted earlier, financial reporting standards require an entity to assess whether it is a going concern or provide disclosures about going concern. The requirements of the Accounting Standard become applicable once the entity has been assessed as a non-going concern.

For example, IAS 1, establishes the requirement that when preparing financial statements management shall make an assessment of an entity's ability to continue as a going concern.

Management is required to perform the going concern assessment for each annual and interim reporting period.

BC27 Management shall carry out the assessment proportionate to the size, complexity, and particular circumstances of the entity.

IAS 1 in paragraph 26 states that the degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules, and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Some entities tend to be less complex as they could be dependent upon fewer providers of finance, have fewer business activities, and have a more limited number of creditors. As a result, the process and procedures for those entities are likely to be simpler and less extensive than those for more complex companies.

BC28 Management's assessment is based on relevant conditions and events that are known and reasonably knowable at the assessment date. For this management should consider and take into account the relevant facts and circumstances at the date of approval of the financial statements.

In performing this assessment, management should consider all reasonably available information about the future, the realistically possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to the management.

BC29 For the public sector companies, there may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern.

For example

(a) a public utility company may have the power or regulatory right to levy rates. This may enable such entities to be considered as a going concern even though they may operate for extended periods with negative equity;

(b) an assessment of an entity's statement of financial position at the end of the reporting period may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the entity.

BC30 For individual entities, in assessing whether the going concern basis is appropriate, management may need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organizational units, estimates of revenue or the likelihood of continued funding from bodies such as the government, and potential sources of replacement financing.

BC31 The International Standard on Auditing 570, *Going Concern*, (ISA 570) also discusses the management responsibility for assessment of the entity's ability to continue as a going concern.

ISA 570 in paragraph 5 states that management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:

- The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.

- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.

- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Minimum look-forward period and foreseeable period

BC32 The Conceptual Framework for Financial Reporting while explaining going concern uses the term 'foreseeable future'. Various IFRSs use the term foreseeable future. For example:

- IAS 12, *Income Taxes,* uses the term in the context of recognition of deferred taxes.

- IAS 21, Effects of Changes in Foreign Exchange Rates, uses the term in relation to the net investment in a foreign operation.

- IAS 38, Intangible Assets, uses this term while discussing the useful life of intangible assets.

However, the term 'foreseeable' is not explained in the Conceptual Framework or IFRSs. IASB while revising the Conceptual Framework for Financial Reporting decided not to further explain the term foreseeable, because it considered that it is discussed in different IFRSs and more appropriately addressed in those IFRSs. Confiding the term to a certain time period would have resulted in unintended consequences in the IFRSs.

BC33 Financial reporting standards set the minimum look-forward period for the assessment of going concern.

For example, IAS 1 in paragraph 26 states that *'in assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.'*

BC34 When assessing whether to prepare financial statements on a going concern basis, IAS 1 requires management to look out at least 12 months from the end of the reporting period.

IAS 1 in paragraph 26 states that in assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least but is not limited to, twelve months from the end of the reporting period.

However, emphasizes that the outlook is not limited to 12 months, and consideration of time periods longer than 12 months will not be inconsistent with the requirements in IAS 1, which establishes a minimum period.

For example, an entity while preparing financial statements for the year ended 20x2 assesses that it will cease operations after two years. The financial statements for 20x2 shall not be prepared on a going concern basis.

Impact of events after the reporting date on the going concern assessment

BC35 IAS 10 applies to account and disclose of events that happen between the reporting date and the date when financial statements are authorized for issue.

Regarding going concern assessment IAS 10 explains that management's assessment of the use of a going concern basis of preparation should reflect the effect of events occurring after the end of the reporting period up to the date that the financial statements are authorized for issue.

This means that events after the reporting date are considered in the going concern assessment. An adverse event or condition that occurs after the reporting date may raise substantial doubt about an entity's going concern. Similarly, an adverse event or condition that after the reporting date becomes expected to occur during the foreseeable period may also raise substantial doubt about an entity's going concern. This might require management to update assessments of the going concern basis of preparation and decisions about which disclosures are necessary.

If, before the financial statements are authorized for the issue, in accordance with IAS 10:

(a) circumstances were to deteriorate so that management no longer has any realistic alternative but to cease trading or liquidate, the financial statements shall not be prepared on a going concern basis.

For example, the management of an entity while preparing financial statements for a reporting period noted that events and conditions that took place after the reporting date are expected to result in the entity ceasing business within the coming two years. In this scenario, the entity's financial statements for the reporting period shall not be prepared on a going concern basis. This is because the events after the reporting date have made the entity a non-going concern i.e. it is expected to cease operations.

(b) material uncertainties cast substantial doubt on the entity's ability to continue as a going concern arises because of post balance sheet events, however, management has mitigating plans and assesses that entity is a going concern, in such a scenario financial statements shall provide disclosure of the material uncertainties.

Categories of non-going concern entities for financial reporting purposes

BC36 The Conceptual Framework, IFRS, IFRS for SMEs, and AFRS for SSEs state that financial statements shall not be prepared on a going concern basis, when management:

(a) intends to liquidate;

(b) intends to cease trading; or

(c) has no realistic alternative but to liquidate or cease trading.

There could be events and conditions relating to an entity, and situations, when management assesses that entity, is not a going concern. The going concern is based on both entity's ability and intention by management to continue operating. In certain cases, the liquidation or ceasing of trading would be management's own decision, while in certain cases management despite its actions and plans would not be in a position to avoid the entity's liquidation or ceasing of trading.

BC37 A going concern entity prepares its financial statements based on the assumption that it would be able to realize its assets and settle its liabilities in the ordinary course of business. However, a non-going concern entity is generally in a distressed condition and its ability to realize assets and settle its liabilities depends on various factors, including the possible inability to continue the ordinary course of business.

BC38 In view of the significant change in the ability to continue the trading in the normal course and its impacts on the realizability of assets and settlement of liabilities, the financial reporting standards require that the non-going concern entities shall not prepare financial statements on a going concern basis of accounting. Rather, the financial reporting standards state that such an entity shall prepare financial statements on an alternate basis of accounting.

IAS 1 in paragraph 25 states that '*when an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.'*

The above requirements transpire that a non-going concern entity shall:

(a) prepare financial statements on a basis other than going concern basis of accounting; and

(b) disclose the following in its financial statements:

i. fact the financial statements have not been prepared on a going concern basis;

ii. reasons why the entity is not regarded as a going concern; and

iii. basis of accounting on which the financial statements have been prepared.

BC39 The financial reporting standards do not contain further requirements and guidance on the basis of accounting for a non-going concern entity. Due to this, as noted earlier, a diversity in understanding and application of the non-going basis of accounting has been observed. The objective of this Accounting Standard is to outline and specify the accounting requirements and guidance for entities that are preparing financial statements on a going concern basis of accounting.

BC40 The non-going concern entities when preparing the general-purpose financial statements are required to provide relevant and useful information to the users of financial statements. The financial and non-financial information provided in the financial statements should provide a user the information about the non-going concern status and its accounting implications on the assets, liabilities, equity, income, and expenses of the entity. The financial statements should also provide information about the current actions of management, legal proceedings, and future plans of management to rehabilitate or re-start the currently non-going concern entity.

BC41 The Board noted that the information need of users for a non-going concern entity would vary for an entity that has no realistic possibility of rehabilitation, compared to an entity that has a high probability of rehabilitating and re-commencing its trading in future periods. The Board considered this distinction between non-going entities when considering and developing this Accounting Standard

Non-going concern entities which are not highly probable of becoming a going concern in future

BC42 The entities with financial or operational difficulties may try to reorganize so that they can be viable again as a going concern. However, there could be circumstances where the entity's business has reached a point where the best result for its stakeholders is for the reporting entity to cease trading, liquidate its assets, and settle its obligations, with any remaining resources distributed to its owners. Such entities may wind up, liquidate or remain in a non-concern situation with no significant chance of economic revival. Winding up and liquidation are also used interchangeably.

BC43 Liquidation or winding up may be a voluntary decision based on economic conditions, a defined event for a limited-life entity, or an involuntary act brought about by a reporting entity's creditors, the court, or other parties.

Liquidation or winding up is not defined in the IFRSs.

SECP publication Guide on Winding up Dissolution explains winding-up as under:

The term 'winding up' of a company may be defined as the proceedings by which a company is dissolved (i.e. the life of a company is put to an end). Thus, the winding-up is the process of putting an end to the life of the company. And during this process, the assets of the company are disposed of, the debts of the company are paid off out of the realized assets or from the contributories and if any surplus is left, it is distributed among the members in proportion to their shareholding in the company. The winding-up of the company is also called the 'liquidation' of the company. The process of winding up begins after the Court passes the order for winding up or a resolution is passed for voluntary winding up. The company is dissolved after the completion of the winding-up proceedings. On the dissolution, the company ceases to exist. So, the legal procedure by *which the existence of an incorporated company is brought to an end is known as winding up.*

US GAAP also defines liquidation as the process by which an entity converts its assets to cash or other assets and settles its obligations with creditors in anticipation of the entity ceasing all activities. Upon cessation of the entity's activities, any remaining cash or other assets are distributed to the entity's investors or other claimants (albeit sometimes indirectly). Liquidation may be compulsory or voluntary. Dissolution of an entity as a result of that entity being acquired by another entity or merged into another entity in its entirety and with the expectation of continuing its business does not qualify as liquidation.

BC44 The information need of users of financial statements of such entities is different from a going concern entity or an entity that is a non-going concern at the reporting but has a high probability of economic revival.

Information about the past is usually less useful in assessing prospects for an entity's future if the entity is in winding up, liquidating, or is expected to enter winding up liquidation. The emphasis shifts from performance to the termination of the entity's business and liquidation of its resources and settlement of its obligations.

The objectives of financial reporting do not necessarily change if an enterprise shifts from expected operation to expected liquidation, but the information that is relevant to those objectives, including measures of elements of financial statements, may change.

For a reporting entity facing liquidation, the operating results and cash flows of the going concern reporting entity are not particularly relevant. Instead, the outstanding reporting entity's obligations and the cash or other resources on hand that can be used to satisfy those obligations are the information that is relevant for financial statement users. Accordingly, the measurement of assets and liabilities under the liquidation basis of accounting reflects the resources available to satisfy the obligations of the reporting entity as well as the expected settlement of those obligations. Historical reporting of results changes to a presentation of the resources that a liquidating reporting entity possesses and how those resources compare to its obligations. In many respects, this presentation is developed from and is based on, the expectations of management as the liquidation process evolves.

BC45 IFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations,* discusses the management's intention and commitment to sell the disposal group of assets.

For the management intention for liquidation or ceasing trading to be highly probable, the plan to liquidate or cease trading has been approved by management with the authority to make such a plan effective, and the likelihood is remote that either of the following will occur:

- execution of the plan will be blocked by other parties (e.g. those with shareholder rights); or
- the entity will return from liquidation or start trading again.

The Board also noted that the liquidation or ceasing of trading could be imposed by other events, conditions or circumstances. The impact of those factors could be of such significance that it is highly probable that entity will be able to avoid liquidation or cease of trading.

BC46 The Board noted that the statutory law applicable to an entity may contain provisions and requirements relating to liquidation and winding up. For example, Companies Act, 2017 contains specific provisions for liquidation of companies.

Management of an entity would be required to consider and meet the statutory and legal requirements, including those of the Companies Act, 2017.

Non-going concern entities which are highly probable of becoming a going concern in future

BC47 There could be entities that have not commenced trading or ceased trading in a period. Management of such entities has decided to not commence or not re-commence trading in the period, but management intends to keep the existence of the entity with the objective and plans to recommence its trading activities in the future.

The entity is, therefore, expected to:

- not to be liquidated or wound up; and
- commence or recommence trading i.e. business activities

Such entities are generally called 'dormant', under bankruptcy, or under rehabilitation. The entity would be ordinarily, a non-going concern when it ceased its business activities, however, in some cases, an entity could be dormant from its formation (i.e. when the entity, since its formation, has not commenced its business activities).

BC48 Entity that is dormant, under rehabilitation, or in bankruptcy has 'ceased trading during the period. The entity, at the reporting date, is a non-going concern, as an entity that ceases trading is a non-going concern. However, another distinct feature of such entities is that management intends to keep the existence of the entity and is actively pursuing a plan to commence the trading of the entity in the future. Therefore, such an entity can start trading activities and become a going concern in future periods.

BC49 Whether an entity would be able to become a going concern in the future should be carefully considered in light of the facts and circumstances and the actions of management regarding its plans for the reporting entity.

BC50 IFRSs and other financial reporting standards applicable in Pakistan do not discuss or define an entity that is dormant, under bankruptcy, or under rehabilitation. However, the concept of a dormant entity is contained in the statutory laws of different jurisdictions. While the concept of bankruptcy and its impact on accounting is discussed in USGAAP.

BC51 The ceasing of trading or absence of trading activities in the period is generally indicated by the absence of:

- Any accounting transactions
- Payments or receipts of money
- Employing staff
- Selling and buying goods and services
- Buying or leasing property
- Issuing share capital
- Issuing dividends to shareholders
- Paying directors' salaries

- Receiving dividend payments
- Managing investments

However, some activities may relate solely to maintaining the legal existence of the entity and complying with the statutory provisions. These activities can be termed ‘maintenance’ activities. These activities do not affect the dormant or rehabilitation state of an entity.

A few examples can be the maintenance of the registered office, election, and appointment of directors, payment of statutory fees or charges, appointment of statutory auditors, and payment of auditor’s remuneration.

The above list and examples are helpful but are far from exhaustive. An entity is required to use all information in aggregate to consider the dormant status at the reporting date.

BC52 An entity that is a non-going concern at the reporting date may become a going concern entity in the future period. However, this will depend on various internal and external factors.

Management shall consider both internal and external factors to assess the entity’s ability to become a going concern in the future.

The internal factors mainly include management intentions, plans, and the ability to commence/recommence the trading of the entity in the future. The external factors include the legal and contractual requirements and the availability of necessary infrastructure and technology.

Management plans and high probable assessment of becoming a going concern in future

BC53 A non-going concern entity, at the reporting date, may become a going concern entity in the future period. However, this will depend on various factors including management intentions and plans.

Management’s plans are intended to be a fairly broad concept and include all strategies that are primarily intended to alleviate the specific conditions or events that would lead to alleviating the non-going concern-related conditions and making an entity a going concern.

BC54 A non-going concern entity shall, at every reporting date, assess its ability to become a going concern. Management of the entity shall give careful consideration to assessing the probability of the entity becoming operational and starting trading in the future, bearing in mind its own specific facts and circumstances.

This shall happen only when the entity is ‘highly probable’ to become going concern in the future period due to the following conditions:

a) The board of directors (other equivalent levels of management):

   i. must be committed to a plan to commencing or recommencing trading.

   ii. can establish and demonstrate control of the entity.

   iii. can also demonstrate the viability of the future plan to commencing or recommencing trading

b) the plan to become going-concern must be actively pursued and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

c) the shareholders and creditors approval of the management plan to make the entity a going concern should be considered as part of the assessment of whether the entity is highly probable of becoming a going concern.

BC55 The conditions required for a non-going concern entity to be considered as a going concern in the future should be highly probable.

Management shall also assess the ‘probability’ of the entity becoming a going concern in the future period.

Under the IFRSs, probable is defined as ‘more likely than not’. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).

IFRSs also use the phrase ‘highly probable’. Highly probable implies a significantly higher probability than ‘more likely than not’.

Paragraphs 8 of IFRS 5 and part of paragraph 12A set out highly probable criteria for sale transactions and distribution to owners, respectively. These criteria contain specific criteria. The IASB’s reasoning for this is stated in BC18 of IFRS 5 as follows: […]

> *“although the held for sale classification begins from an intention to sell the asset, the other criteria for this classification are tightly-drawn and are significantly more objective than simply specifying an intention or commitment to sell. Some might argue that the criteria are too specific. However, the Board believes that the criteria should be specific to achieve comparability of classification between entities. […]”*

The Board decided that the use of any new term might result in diversity in practice because entities might interpret the new term in different ways. Consequently, the Board decided that the most appropriate level of confidence for a non-going concern entity to become a going concern would be ‘highly probable’ as used in IFRSs.

Additionally, the Board noted that an assessment for highly probable, for expected events leading to going concern of an entity, is just as relevant as one required for a sale transaction or a distribution to owners. This is because due to the distressing circumstances and situation of an entity, the entity’s management has no complete control of future events and circumstances. In these cases, the management has to assess the probability of an actual occurrence of the events leading to viable commencement of trading. Therefore, a highly probable assessment is required for expected events resulting in a change in the status of the entity from a non-going concern to a going concern.

Therefore, to achieve the same meaning in the Accounting Standard as IFRSs, the boards decided to use the term ‘highly probable’ for determining the chances of an entity becoming a going concern after the reporting date.

BC56 The entity which is a non-going concern at the reporting date, however, the entity is highly probable of becoming a going concern in the future, shall prepare its financial statements:

(a) on non-going concern basis of accounting in accordance with this Accounting Standard; and

(b) on a going concern basis of accounting from the date it commences or re-commences trading, and is assessed as a going concern.

Such an entity shall prepare financial statements under a non-going concern basis until such time as the only amounts reported in the current and prior year financial statements relate to the entity's ongoing existence i.e. any effects of ceasing to trade have been 'washed through'. The financial statements prepared on a basis other than of a going concern would provide clarity to users of the financial statements, and would also avoid the risk of giving inappropriate information regarding the trading status of the entity,

Thereafter, the financial statements should be again prepared on a going concern basis. The financial statements will no longer include any items relating to the trade that has ceased and, therefore, references to such cessation will be confusing. And so from then onwards, the financial statements should be again prepared on a going concern basis.

Going concern of entities under restructuring and reorganization

BC57 The going concern requires an assessment of the entity's ability to continue without the need or intention to cease trading or liquidating.

The restructuring and reorganization transactions may involve the merger or acquisition of business or assets.

In a merger, two separate legal entities become one surviving entity. All of the assets and liabilities of each are owned by the new surviving legal entity. The merger of an entity with another entity does not in itself indicate that the entity is a non-going concern at a date prior to the merger.

In an acquisition transaction, the entity generally remains a going concern after the acquisition, and its business, assets, and liabilities continue unaffected by the transaction.

BC58 When an entity is acquired by another entity or merged into another entity in its entirety and management assesses that trading (i.e. business activities of the merged or acquired entity will continue) then such an entity does not qualify as a non-going concern, and merger or acquisition transaction in itself does not make the entity a non-going concern at the date prior to the merger or acquisition.

The events after the merger or acquisition would require an assessment of the entity's going concern in accordance with the financial reporting standards applicable to such entity.

Going concern assessment of startups

BC59 An entity is generally considered to be in a development stage when it devotes substantially all of its efforts to establishing a new business for which planned principal operations have not commenced or have commenced but are not yet generating significant revenue.

Startups ordinarily have unique challenges due to the nature of their different nature of businesses. However, all startups might have some common challenges, including financial challenges. Typically, the entity does not have a stable source of revenue.

Often, the entity has no material current or non-current liabilities and limited contractual commitments requiring cash outflows in the next twelve months. While the entity has significant levels of planned future spending, the existing funding is typically not sufficient to carry out such activity. Instead, the entity is reliant on future funding to achieve its business objectives and to meet its near-to medium-term capital expenditure budget. This entity could defer planned future expenditures necessary to achieve its business objectives until such funding is available, and typically does not face the risk of ceasing trading, nor does it have the intent to liquidate in the foreseeable future.

BC60 The challenges faced by the startup and development stage activities require consideration during the financial reporting. Given most start-ups have to continue to raise equity and debt funding as they grow, management shall at the reporting date assess whether the entity is a going concern. The assessment shall be based on the specific facts, conditions, and events, including the entity's ability to raise equity and arrange financing that is sufficient for continuing as a going concern. For this management will need proper support for the analysis including cash flow forecasts. and disclosure of any material uncertainties may need to be made in the financial statements.

BC61 The outcome of management assessment about the entity's going concern may require:

(a) disclosure of sufficient detail for a user to have a proper understanding of the nature of the business and the stage of the business cycle.

(b) disclosure of material uncertainties relating to going concern in accordance with financial reporting standards as applicable in Pakistan; or

(c) Preparation of financial statements on a non-going concern basis;

Preparation of financial statements under non-going concern basis of accounting

BC62 Assessment of an entity as a non-going concern is a significant event. The non-going concern entity based on the applicable statutory requirements may be required to prepare financial statements in accordance with the applicable financial reporting framework.

When preparing these financial statements, the entity is required to comply with the statutory requirements for the preparation of financial statements. However, the non-going status does not ordinarily affect or change the application of the financial reporting standards followed by the entity in the preparation of its financial statements.

BC63 The non-going concern does not necessarily affect the accounting for most items on the statement of financial position and in the statement of profit and loss. In most cases, financial reporting standards as applicable to the items of assets, liabilities, income, expense, and equity would continue to apply in the recognition and measurement of assets and liabilities as if a reporting entity is a going concern. For example, income tax considerations would still apply after an entity becomes a non-going concern.

BC64 The entity shall continue to prepare financial statements in accordance with the financial reporting standards applicable to the entity. However, the needs of financial statement users may change, and thus changes in the reporting practices previously followed by the entity are necessary.

A non-going concern entity is clearly in circumstances different from those of a going concern entity, some changes in the financial statements are needed to reflect the unique aspects of the non-going concern.

Statement of compliance with financial reporting standards as applicable in Pakistan

BC65 All entities in Pakistan ordinarily prepare their financial statements in accordance with the financial reporting standards as applicable in Pakistan.

A non-going concern entity shall prepare its general purpose financial statements in accordance with the financial reporting standards as applicable in Pakistan.

The statement of compliance of a non-going concern entity shall state that the financial statements have been prepared in accordance with the financial reporting standards as applicable in Pakistan.

Non-going concern basis of preparation

BC66 Each situation needs to be assessed on its own facts and circumstances as some entities in a non-going concern situation will be closer to liquidation or ceasing trading than others. The accounting will typically reflect this.

BC67 In some situations, the effect of an entity's non-going concern status may be insignificant on the entity's financial position, performance, or cash flows. Nevertheless, the financial statements shall disclose that entity is no longer a going concern and financial statements have been prepared in accordance with an alternate basis of accounting.

BC68 Prior to adopting the non-going concern basis of accounting, a reporting entity should consider whether any adjustments to its assets and liabilities are necessary while preparing going concern financial statements. In the periods prior to the adoption of the non-going basis of accounting, assets, including goodwill, intangible assets, and long-lived assets, should be evaluated for impairment under the applicable standards.

Recognition principle under non-going concern basis of accounting

BC69 The recognition is the process of capturing for inclusion in the statement of financial position or the statement of financial performance an item that meets the definition of an asset, a liability, equity, income, or expenses.

The amount at which an asset, a liability, or equity is recognized in the statement of financial position is referred to as its carrying amount.

BC70 A non-going concern entity shall prepare financial statements in accordance with the requirements of the financial reporting standards as applicable in Pakistan.

BC71 A non-going concern entity, in earlier periods, might not have recognized and recorded certain items such as trademarks, internally generated goodwill etc.

These items would not have been recognized as they did not meet recognition principles of financial reporting standards as applicable to such entities and items.

However, the entity may now expect to generate sales proceeds from the previously unrecognized assets. In this regard guidance about contingent assets also explains that these are possible assets whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events that are not wholly within the control of the entity. Contingent assets are not recognized, but they are disclosed when it is more likely than not that an inflow of benefits will occur.

In view of the above, previously unrecognized assets should not be recognized on the basis of future expectations. Rather, the recognition principles of financial reporting standards as applicable in Pakistan shall be followed and such assets should be recorded at the time of their actual sale.

BC72 A non-going concern entity should carefully evaluate whether any significant events have occurred that would require recognition or remeasurement of the obligations. For instance, restructuring activities, such as those previously described, could result in a planned curtailment, settlement, or significant benefit plan amendment that will typically have accounting consequences.

BC73 A non-going concern entity should recognize income and expenses in accordance with the financial reporting standards applicable to such items of income or expenses.

It shall accrue future income that it expects to earn. Similarly, costs it reasonably expects to incur, also shall not be recognized, unless the cost relates to the disposal of an asset measured at net realizable value.

For example, on the date it adopts the non-going concern basis, a reporting entity may expect to continue to employ three employees to assist with closure and liquidation activities. Its liquidation is expected to last two years. The entity should not accrue two years of payroll and related costs for the three employees, though it has a reasonable basis to estimate the anticipated costs.

The financial statements may contain disclosures of the anticipated costs and expected income of the future period.

Measurement: Factors to consider in setting the measurement basis

BC74 The assets, liabilities, equity, income, and expenses recognized in the financial statements require quantification in monetary terms. This requires the selection and application of a measurement basis, which in turn creates a measure of the asset or liability and related income and expense.

The Conceptual Framework discusses the historical cost and current value.

BC75 The Conceptual Framework in paragraph 6.43 states that in selecting a measurement basis for an asset or liability and for the related income and expenses, it is necessary to consider the nature of the information that the measurement basis will produce in the statement of financial position and statement of financial performance, as well as other factors.

The Conceptual Framework in paragraph 6.45 explains that the information provided by a measurement basis must be useful to users of financial statements. To achieve this, the information must be relevant and it must faithfully represent what it purports to present. In addition, the information provided should be, as far as possible, comparable, verifiable, timely, and understandable.

BC76 The relevance of the information provided by a measurement basis for an asset or liability and for the related income and expenses is affected by the characteristics of the asset or liability and how the asset or liability contributes to the future cash flows.

BC77 IFRSs are developed on the basis of the Conceptual Framework, and IFRSs use the historical cost and current value (which includes fair value and current cost) as the measurement basis for the asset and liabilities. IFRSs also specify the accounting requirements, including those for the measurement of assets and liabilities on the presumption that the entity will continue as a going concern entity.

A going-concern entity could be in financial or operational distress, and IFRSs require such entities to consider the implications of adverse financial or operational circumstances and events on the measurement of assets and liabilities. These adverse impacts are recorded in the form of impairment, write-down or write-off of assets, and up-ward revision of liabilities, including provisions.

A non-going concern entity will ordinarily be in financial or operational distress, however, the financial information needs of users of its financial statements would be an important factor in determining the measurement basis.

Measurement basis for non-going concern entities that are not highly probable of becoming a going concern in future

BC78 As explained earlier, a non-going concern entity that is not highly probable of becoming a going concern in the future would be ordinarily under liquidation or winding up. If such an entity is not under liquidation or winding up, still it will not have a realistic chance of becoming a going concern in the future.

BC79 For a non-going concern entity that is not highly probable of becoming a going concern in the future, the emphasis shifts from reporting about the reporting entity's economic performance and position to reporting that focuses on the amount of cash or other consideration that an investor might reasonably expect to receive upon liquidation/winding-up.

BC80 For such an entity, the measurement basis used to prepare going concern financial statements may not always be appropriate. Specific measurement requirements would give more relevant and useful information to the users of financial statements. Accordingly, the carrying amounts as reported under the going-concern basis of accounting in the previous period, or fair value measurement or value in use measurement (for non-financial assets) would not be the measurement basis that would provide relevant and faithful information about the reported assets and liabilities.

Fair value measurements require the use of market participant assumptions and the consideration of the most advantageous market when estimating fair value. However, for a non-going concern entity under liquidation or winding up the appropriate for a reporting entity in liquidation is because the process of liquidation can involve distressed or forced sales of assets without a sufficient period to market the assets or wait for an illiquid or depressed market to recover.

The value in use requires estimation of the future cash inflows and outflows to be derived from continuing to use the asset and from its ultimate disposal. However, as noted above for a non-going concern entity under liquidation or winding up the continuing use of the asset would be less relevant, rather the focus would be on disposing of the asset.

BC81 The above-noted measurement basis and methods do not provide the most relevant information to the users of financial statements of a non-going concern that is under liquidation or has no realistic chance of revival. On the other hand, the Conceptual Framework does not specify the liquidation basis of accounting for the measurement of assets and liabilities.

BC82 Assets of the reporting entity are measured at the estimated amounts of cash or other consideration it expects to collect, which could be different from the fair value of those assets.

BC83 The Board in view of the above considered that the net realizable value is the most suitable measurement basis for the assets of an entity. Net realizable value is defined in

IAS 2, *Inventories,* as the estimated selling price in the ordinary course of business less the estimated costs of the completion and the estimated costs necessary to make the sale.

The net realizable value of assets would be the estimated amounts of cash or other consideration the entity expects to collect or obtain.

The estimated costs to make the sale shall also be considered and recognized separately.

The expected disposal costs should be reported in the aggregate separately from the carrying amounts of the related assets. The measurement of an estimate of disposal costs should be made on an undiscounted basis.

The estimated costs of the completion of the asset would not be relevant. The net realizable value of assets, generally, would not include the estimated costs of the completion.

BC84 Assets presented under the net-realizable value basis are not depreciated, and accumulated depreciation is not presented. An asset may be in the use of the entity, however, impacts of its wear and tear would now be accounted for through the realizable value. Impairment and other methodologies for adjusting asset values are not relevant under the net-realizable value basis. In theory, since assets are measured at the amount of cash the reporting entity expects to collect upon sale, expenses, gains, or losses on asset use or disposition would be reflected in the net-realizable amount.

BC85 The deferred charges and other assets that will not be converted to cash or other considerations (e.g., deferred financing costs, prepaid expenses) should be written off at the date of adoption of the net-realizable basis of measurement unless the entity expects to utilize those deferred charges and other assets in future.

BC86 The liabilities, including provisions shall be recognized in accordance with the recognition provisions of financial reporting standards that would otherwise apply to those liabilities.

Certain events that may occur in connection with a non-going concern status, such as a covenant violation or a troubled debt restructuring, have specific accounting guidance that a reporting entity should consider even when applying the non-going basis of accounting.

Further, liabilities of specified, contractual amounts should not be written down to their estimated settlement amounts until the liabilities are legally settled. However, liabilities without contractually specified amounts that are measured based on estimates of settlement amounts and timing should be adjusted to incorporate all changes to assumptions that are impacted by the reporting entity’s decision to cease trading or liquidate.

For example, a non-going concern entity may have a product warranty obligation for which, prior to applying the non-going basis of accounting and assessing the probability of becoming a going concern in the future, it estimated would be settled in three years. Upon adopting the liquidation non-going concern basis of accounting, the entity now expects the product warranty obligation will be settled within one year. The entity should re-measure the obligation on the date it adopts the non-going concern basis of accounting to incorporate its updated estimate of the settlement date of the liability. However, it should not reduce the estimated cash flows inherent in the warranty estimate for any anticipated lapse/forgiveness until such liability is contractually lapsed/forgiven.

BC87 The measurement of liabilities under the financial reporting standards may require discounting and consideration of the time value of money.

The Board considered that for a non-going concern entity that is not highly probable of becoming a going concern in the future, discounting of liabilities may not provide the relevant information to the users of financial statements, including the court or other authority involved in the liquidation or winding-up. Further, such a non-going concern entity will have limited human resources. The discounting would involve significant efforts and cost, which for a non-going concern entity could be a constraint.

The Board in consideration of the above factors decided that a non-going concern that is not highly probable of becoming a going concern in the future shall measure its liabilities without discounting the same.

Measurement basis for non-going concern entities that are highly probable of becoming a going concern in future

BC88 A non-going concern entity that is highly probable of becoming a going concern in the future shall continue to measure its liabilities in accordance with the financial reporting framework applicable to the entity and such item of liability.

For example, non-going concern entities often have liquidity problems and resultantly face challenges in repaying their debts, especially loans. To alleviate this problem, entities consider a variety of potential transactions with lenders and creditors to enhance liquidity. The transactions may involve cash settlement, an exchange of debt, or modification of debt terms.

In response, some lenders may agree to change the borrowing terms or provide waivers or modifications to debt covenant arrangements. Resultantly, the debt may be modified or extinguished. A non-going concern entity needs to determine the impact of these changes and then apply the guidance set out in the applicable financial reporting standard.

Similarly, non-going concern entities should carefully evaluate whether any significant events have occurred that would require a remeasurement of employee benefit obligations (pension or other post-employment benefit obligations). For instance, the non-going concern status may result in curtailment of a plan, settlement, or significant benefit plan amendment that will typically have accounting consequences in accordance with the applicable financial reporting standard.

BC89 A provision shall be measured at the amount that the non-going concern entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. Risks and uncertainties are taken into account in measuring a provision. A provision is discounted to its present value, under IAS 37.

IAS 37 elaborates on the application of the recognition and measurement requirements for three specific cases:

- future operating losses—a provision cannot be recognized because there is no obligation at the end of the reporting period;
- an onerous contract gives rise to a provision; and
- a provision for restructuring costs is recognised only when the entity has a constructive obligation because the main features of the detailed restructuring plan have been announced to those affected by it.

BC90 If a non-going concern entity that is highly probable of becoming a going concern in the future determines that it will continue to operate its long-lived assets, the long-lived assets should continue to be classified as held and used.

The entity should not cease depreciating long-lived assets that are to be held and used and should evaluate the remaining useful lives of such assets.

At each reporting date, the management should reassess the entity's likelihood of becoming a going concern, and the appropriateness of the held and used classification when facts and circumstances indicate that it is not highly probable that the entity will become a going concern or the assets may be sold.

BC91 A non-going concern entity that is highly probable of becoming a going concern in the future should continue to apply the financial reporting standards applicable to the entity, and accordingly:

- assess its long-lived assets for indicators of impairment in accordance with the provisions of financial reporting standards applicable to those assets.
- measure its inventories at lower of cost or realizable value;
- measure its receivables by adjusting for doubtful and unrecoverable receivables;
- assess the realizability of deferred tax assets; and
- assess the value of its investments for any impairment

The above list is not exhaustive. An entity is required to use all information about items of its assets to consider the application of the financial reporting standard applicable to such entity and its asset item.

Impairment of long-lived assets

The nature of the asset (i.e., held and used or held for sale) determines how to measure and record such impairment in the financial statements. Such an entity should consider the significance of any changes to the reorganization plan affecting expected cash flow forecasts of its asset groups as well as the entity's commitment to a plan to sell long-lived assets. Events or circumstances that arise from the ongoing non-going status may result in a material and sustained decrease in the cash flows generated from long-lived assets that are held and used. Adverse interactions with customers, suppliers, and vendors are examples of factors that would impact the cash flow projections used in the recoverability test for long-lived assets in most scenarios. If a reporting entity meets all of the criteria in IFRS 5 to classify assets as held for sale, the disposal group should be reported at its fair value, less cost to sell, beginning in the period the held-for-sale criteria are met.

Measurement of inventories

The non-going concern is typically preceded by reduced sales volume, declining gross margins, and reduced operating profits. Entities should consider the impact of these declining operating results on inventories and whether any provisions are needed. For example, a decline in product gross margin resulting from reduced sales prices or higher costs may indicate that a provision is necessary to reduce the carrying value of inventory to net realizable value.

It is also possible that inventory quantities are in excess of forecasted sales volumes given the overall sales pipeline and projections. This could also result in the need for a provision for excess or obsolete quantities.

Another important area for entities to consider is whether under absorbed overhead or production costs should be expensed when production volumes decrease due to reduced demand or unplanned facility downtime. When production levels are determined to be abnormally low, the portion of the fixed production overhead attributable to the underutilized capacity should not be allocated to and capitalized as a cost of inventory. Rather, it should be recognized as an expense in the period in which it is incurred. Judgment is required to determine when a production level is abnormally low—that is, outside the range of the expected variation in production.

Measurement of receivables

A non-going concern entity that is highly probable of becoming a going concern in the future may find it increasingly difficult to collect outstanding receivables. As customers become aware of the financial difficulties of a reporting entity, they may have concerns that certain support or warranty obligations may not be performed, and therefore delay or withhold payments until the financial viability of the reporting entity is more certain. This could result in the need to increase the level of allowance for doubtful debts in accordance with the applicable financial reporting standard.

Assessment of realizability of deferred tax assets

A non-going concern entity that is highly probable of becoming a going concern in the future should continue to assess the realizability of its deferred tax assets in accordance with IAS 12, *Income Taxes*. While the need for an adjustment to the recognized deferred tax asset is subject to management's judgment, it would be usual for a non-going concern entity to adjust the deferred tax owing to lesser realizability.

Management should assess the likelihood of implementing any tax adjustment and planning strategies in light of the entity's going concern status, and the resulting impact, if any, on the deferred tax.

Impairment in investments

A periodic assessment for the declines in the value of investments shall be carried out. Entities in troubled industries with investments within that industry are more likely to experience declines in investment values, which may result in the recognition of impairment charges.

On the other hand, circumstances leading to an investee becoming a non-going concern would likely trigger an impairment assessment by the investor.

Going concern consideration at the subsidiary/parent level

BC92 Every reporting entity when preparing general purpose financial statements is required to assess going concern.

In a group structure, the reporting entities involve the parent and its subsidiaries. In the group structure:

(a) a parent would be required to prepare its separate financial statements as well consolidated financial statements.

(b) a subsidiary would be required to prepare separate or standalone financial statements.

Each entity of the group is required to assess and consider the going concern implications on their respective financial statements.

As a reporting entity, the parent would be assessing going concern when preparing its separate and consolidated financial statements. The consolidated financial statements are financial statements in which the assets, liabilities, equity, income and expenses, and cash flows of the parent and its subsidiaries are presented as those of a single economic activity, and going concern would be assessed for these financial statements separately, regardless of the going concern or non-going concern status of parent and subsidiaries.

As reporting entity, each subsidiary would be required to assess going concern only in the context of their separate or standalone financial statements.

BC93 In a group structure there could be a situation where the going concern basis of accounting may not be considered appropriate for a subsidiary. However, going concern basis may remain appropriate for the subsidiary's parent and for the group as a whole.

Irrespective of the basis of accounting used by a subsidiary, the principle of going concern accounting shall be applied in the group's consolidated financial statements if the group itself is a going concern.

While preparing consolidated financial statements any potential adjustment to the assets and liabilities of a subsidiary would need to be considered. This might result in recognition and measurement differences between the consolidated financial statements and the subsidiary's financial statements.

Comparative information

BC94 The financial reporting standards require the presentation of comparative information in the financial statements. An entity, accordingly, discloses comparative information in respect of the previous period for all amounts reported in the current period's financial statements.

In IFRSs, IAS 1 in paragraph 38 specifies the requirements for the presentation and disclosure of comparative information in respect of the preceding period.

IFRS for SMEs in paragraph 3.14 specifies the requirement for disclosing comparative information in respect of the previous comparable period for all amounts presented in the current period’s financial statements.

AFRS for SSEs in paragraph 1.19 states that the entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period’s financial statements.

BC95 The impact of non-going concern accounting on comparative information would depend on whether the entity has issued its financial statements for the previous period.

(a) An entity may become a non-going concern in a particular period, necessitating the preparation of its financial statements on a non-going concern basis. Such a company would not be required to restate its comparative financial information if financial statements for the previous year have been authorized for issue.

This could be a situation when, an entity at the reporting date assesses that it can no longer be considered to be a going concern, requiring preparation of financial statements on a non-going concern basis of accounting. The entity's financial statements for the previous year have been issued. The entity would be required to prepare financial statements for the current year ended on a non-going concern basis, however, the comparative information in those financial statements shall not be restated to reflect any impact of going concern assessment.

(b) On the other hand, if the entity's financial statements for the previous year(s) have not been authorized for the issue then in accordance with IAS 10, then the entity would be required to consider all available information till the issuance of financial statements. Moreover, such a company, in accordance with IAS 1 and IAS 10 shall not prepare financial statements for previous years (which have not been authorized for the issue) in accordance with the going concern basis of accounting.

This could be a situation when, an entity at the reporting date assesses that it is a non-going concern, requiring preparation of financial statements on a non-going concern basis of accounting. The entity's financial statements for the previous year(s) have not been issued. Due to non-going assessment at the reporting date and non-issuance of financial statements for the previous year(s), the entity cannot prepare financial statements for the current and previous year(s) for which its financial statements have not been issued on a going concern basis. This would be in accordance with the requirements of IAS 1 (paragraph 25) and IAS 10 (paragraph 14).

Classification of assets and liabilities as current and non-current

BC96 A non-going concern entity is required to prepare its general purpose financial statements in accordance with the financial reporting standards as applicable in Pakistan. Those financial reporting standards contain guidance regarding the classification of current assets and current liabilities. An asset or liability that does not meet the criteria of current, is classified as non-current.

The guidance regarding the classification of assets and liabilities, contained in financial reporting standards as applicable in Pakistan is similar.

Under IFRSs, IAS 1 in paragraph 60 requires an entity to present current and non-current assets, and current and non-current liabilities, as separate classifications on the face statement of financial position. Further, IAS 1 in paragraphs 66 and 69 contains the criteria for the classification of current assets and current liabilities. It also states that assets and liabilities that do not meet the criteria are non-current assets and liabilities. Non-current assets held for sale shall be classified in accordance with IFRS 5.

IFRS for SMEs in paragraphs 4.4 - 4.7 specifies the requirements for the classification of current assets and non-current assets, and current liabilities and non-current liabilities.

AFRS for SSEs in paragraphs 1.13 and 1.16 specifies the requirements for the classification of current assets and non-current assets, and current liabilities and non-current liabilities.

BC97 An entity that is preparing its financial statements on a non-going concern basis shall classify its assets and liabilities in accordance with the financial reporting standards applicable to such entity.

BC98 A non-going concern entity shall, accordingly, reclassify its long-term liabilities as current liabilities, only if they meet the criteria of applicable financial reporting standards, to be presented as current liabilities.

Due to the deteriorating financial conditions usually associated with the non-going concern entity, such entity might violate covenants (financial and nonfinancial) in existing debt agreements. When a covenant violation is triggered, the debt may become due on demand, or callable, by the lender. Under the guidance of IAS 1, the debt may need to be classified as current unless the lender has waived or subsequently lost the right to demand repayment for more than a year (or operating cycle) from the reporting date.

The non-going concern status of the entity would not in itself lead automatically to the conclusion that the non-current liabilities and assets should be reclassified as current. Rather the non-going concern status of an entity would be an indicator for reclassification. Management should consider the specific facts, including contractual terms for the reclassification of non-current liabilities as current liabilities.

BC99 A non-going concern entity shall not classify its non-current assets as current assets unless and until they meet the criteria of IAS 1 or ‘held for sale’ criteria in accordance with the IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.