

Snapshot: *Non-Going Concern Basis of Accounting*

This Snapshot provides an overview of the Exposure Draft *Non-Going Concern Basis of Accounting* published by the Accounting Standards Board (ASB)

The Board's objective:	To provide accounting and financial reporting framework for non-going concern entities and to ensure that relevant and useful financial information is provided to the users of the financial statements.
Proposals:	<p>The Board under the Accounting Standard proposes:</p> <ul style="list-style-type: none">▪ classification of non-going concern entities in two categories for the financial reporting:<ol style="list-style-type: none">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 periodb) an entity that is non-going concern at the reporting date, and it is not highly probable that this entity will be a going concern in a future period▪ specific requirements for recognition, measurement, presentation and disclosure of the assets, liabilities, income and expenses in the general-purpose financial statements.
Next steps:	The Board will consider feedback received on the Exposure Draft in developing its final requirements.
Comment deadline:	20 September 2022



Why is ASB undertaking this project?

What is the issue?

The Board developed the Exposure Draft because the financial reporting standards applicable in Pakistan, including International Financial Reporting Standards (IFRSs), do not provide specific guidance for the accounting and financial reporting for preparation of financial statements of a non-going concern entity. This leads to varied views, accounting treatments and presentations, resultantly impacting the comparability and relevance of the financial statements of non-going concern entities.

When an entity is a non-going concern?

In accordance with the financial reporting standards as applicable in Pakistan 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

Scope of the Accounting Standard

The Accounting Standard scopes in all entities:

- preparing general-purpose financial statements in accordance with the financial reporting standards as applicable in Pakistan, and
- preparing those financial statements on a non-going concern basis of accounting.

The Accounting Standard builds-on and supplements the requirements of IFRSs and Conceptual Framework for Financial Reporting and specifies financial reporting requirements which are relevant and specific only to non-going concern entities.

International Development

- 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.
- Standard-setter in the US has developed requirements in the GAAP for the non-going concern basis of accounting.

What are ASB proposals?

The Exposure Draft explains:

- Financial statements shall be prepared in accordance with the financial reporting standards as applicable in Pakistan (including the Accounting Standard on *Non-Going Concern Basis of Accounting*).
- Application of the Accounting Standard after the management has assessed that the entity is a non-going concern.
- Two categories of non-going concern entities for the general-purpose financial reporting.
- Principles for the recognition, measurement of assets and liabilities, including provisions, claims, current and deferred taxes.
- Classification of assets and liabilities between current and non-current
- Specific disclosures for providing relevant and useful information.
- Requirements for the comparative information
- Specific considerations for:
 - dormant entities
 - entities under reorganization and restructurings
 - Start-ups and development stage entities
 - group and consolidated financial statements
- Proposed effective date of the Accounting Standard for the financial statements for the periods ending on or after December 31, 2022.

Why two categories of non-going entities?

Non-going concern entity - not highly probable of becoming a going concern in future

Non-going concern entity - highly probable of becoming a going concern in future

Reason for two categories

The management of the entity has assessed that the entity is a non-going concern and it would not be in position to change its status.

Ordinarily, such entities are liquidating and winding-up. The primary focus of 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.

The measurement of assets and liabilities for such entities should reflect the resources available to satisfy the obligations of the reporting entity as well as the expected settlement of those obligations. This information would be relevant for the users of entity's general-purpose financial statements.

The focus of such entity could be to convert its assets to cash or other assets and settle its obligations with creditors, but it also has a high probability of commencing business activities in future

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

Measurement of assets and liabilities

- Assets at realizable value
- Liabilities using the principles of applicable financial reporting standards.
However, liabilities shall not be discounted.

- Assets in accordance with the requirements of IFRSs, applicable to those assets
- Liabilities in accordance with the requirements of IFRSs, applicable to those liabilities, including discounting of liabilities, where required.

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Information for respondents

Exposure Draft package

The Exposure Draft includes draft Accounting Standard 'Non-Going Concern Basis of Accounting', along with in Basis for Conclusions.

The 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.

Deadline for comments

ASB welcomes the views and input from the members and stakeholders on the Exposure Draft.

The deadline for comments on the Exposure Draft is 20 September 2022.

The comments can be submitted by emailing them to dtscomments@icap.org.pk

This document

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