GUIDELINE ON THE BASIS OF PREPARATION OF FINANCIAL STATEMENTS FOR COMPANIES THAT ARE NOT CONSIDERED GOING CONCERN

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Table of contents

		Page No.
1.	INTRODUCTION	1
2.	RECOGNITION AND MEASUREMENT	2
3.	PRESENTATION AND DISCLOURE	4

1. INTRODUCTION

1.1. The statutory financial statements for companies are prepared in accordance of approved accounting standards as applicable in Pakistan. In addition to the requirements of Companies Ordinance, 1984, which requirements take precedence, approved accounting standards also comprises International Financial Reporting Standards (IFRS), IFRS for Small and Medium Enterprises (IFRS for SMEs) issued by the International Accounting Standards Board and the Revised Accounting and Financial Reporting Standards for Small Sized Entities (AFRS) issued by the Institute of Chartered Accountants of Pakistan (ICAP) that are notified under the provisions of Companies Ordinance, 1984 by the Securities and Exchange Commission of Pakistan (SECP).

1.2. The financial statements are normally prepared on the assumption that the company is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the company has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exists, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

1.3. Accordingly the going concern assumption underlies the preparation of financial statements as it establishes the measurement and classification basis for assets and liabilities of any company.

1.4. The companies where the going concern basis of accounting is not considered appropriate, applicable financial reporting frameworks (i.e. IFRS, IFRS for SMEs or AFRS) do not prescribe the basis of accounting under which the financial statements are to be prepared. However the standards state that when a company does not prepare financial statements on a going concern basis, it should disclose that fact, together with the basis on which it prepared the financial statements and the reason why the company is not regarded as a going concern.

1.5. This Guideline provides requirements for preparation of annual and interim statutory financial statements under section 233 and 245 respectively of the Companies Ordinance, 1984 where the underlying assumption of going concern has been concluded to be not valid and such financial statements are to be prepared on the basis of accounting as a non-going concern company. It provides principles for the recognition and measurement of assets and liabilities for a company preparing its financial statements using the non-going concern basis of accounting and describes the related disclosures that should be made.

1.6. The financial statements required to be prepared in accordance with any other provisions of the Companies Ordinance, 1984 is not the subject of this document. Also the determination of whether a company is a going concern is outside the scope of this document.

1.7. The basis of accounting described is applicable to such companies, which determine that financial statements should be prepared under non going concern basis of accounting.

2. RECOGNITION AND MEASUREMENT

Principle of recognition and measurement for non-going companies

2.1. A company which is not a going concern will not be able to realize its assets and discharge its liabilities in the normal course of business therefore, assets and liabilities should be measured at their net realizable value so as to reflect the amount of cash or other consideration that the company expects to receive from realizing its assets or pay to settle its liabilities. This is however subject to the conditions specified in paragraph 2.2 below. The company will continue to state that financial statements have been prepared in accordance with the applicable approved accounting standards.

2.2. The measurement of assets and liabilities may be affected by changes in judgement that can arise when the going concern assumption ceases to be valid. For example, estimates of recoverable amounts of assets may require revision, potentially resulting in the recognition of impairments to the carrying value of some assets. However, in such circumstances, it would not be appropriate to recognise the expected profit on the intended disposal of assets, either as a reduction in the amounts recognised as impairments or provisions or as uplifts in the carrying value of the relevant assets (although some companies might revalue property, plant and equipment in accordance with previously established accounting policies in the normal way). Gain on sale of inventory or other items should not be recognised until actual sale.

Certain contracts may be regarded as onerous, requiring a provision. Provisions should not be made in respect of executory contracts (unless onerous) or restructuring costs that do not qualify as obligations under approved accounting standards e.g. IAS 37 or other applicable approved accounting standard at the balance sheet date.

2.3. A company reporting on the non-going concern basis of accounting as of the effective date should record a cumulative-effect adjustment as of the date of adoption to account for any differences between the company's recognized assets and the measurements of its assets and liabilities (including measurement changes resulting from changes in assumptions). Subject to the conditions specified in para 2.2

2.4. Subsequently, at each reporting date the company should re-measure its assets and liabilities to reflect change in value since the previous reporting date.

Items not recognized in the financial statements

2.5. A company may have items that it plans to sell that the company may not have previously recognized, such as trademarks or patents. A company applying the non-going concern basis of accounting should not recognize those items in financial statements. However, such a company is required to disclose those items at the amount of expected sale proceeds.

Impact on financial statements is negligible as non-going concern company

2.6. In some situations, the effect on the balance sheet of ceasing to regard the business as a going concern may be negligible. Nevertheless, approved accounting standards as applicable in Pakistan requires the financial statements to disclose that the company is no longer regarded as a going concern. Unless there is a statement to the contrary, these standards allow a reader to *presume* that a company is carrying on business as a going concern. Consequently, where necessary, the company should state that it has prepared its financial statements on a non-going concern basis, even if the effect of doing so has not been significant.

Going-concern consideration at subsidiary/parent level

2.7. The determination of going concern should be made for each reporting company. In many cases, a going concern basis may *not* be considered appropriate for an individual subsidiary, while the going concern basis may remain appropriate for the subsidiary's parent and for the group as a whole. Irrespective of the basis of accounting applied by a subsidiary, the going concern principles of approved accounting standards are applied in the group's consolidated financial statements if the group itself is a going concern. This might result in recognition and measurement differences between the consolidated financial statements and the subsidiary's individual financial statements.

Current and non-current classification

2.8. Under the principles of approved accounting standards assets classified as non-current should not be reclassified as current assets unless and until they meet the ‘held for sale’ criteria in the applicable approved accounting standards.

2.9. Long term liabilities should be reclassified as current liabilities if they meet the criteria in applicable approved accounting standards to be presented as current liabilities.

Companies becoming dormant

2.10. There may be situation where a company ceases to trade during the year but which management intends to keep in existence as a dormant company.

2.11. To provide clarity to users of the financial statements, and to avoid the risk of giving a misleading impression regarding the trading status of the company, the financial statements should be prepared on a basis other than of a going concern as explained above, until such time as the only amounts reported in the current and prior year profit and loss account and financial position relate to the company’s ongoing existence (i.e. any effects of ceasing to trade have been ‘washed through’). Thereafter, 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. Instead the financial statements should be prepared on a going concern basis.

3. PRESENTATION AND DISCLOSURE

3.1. When a company prepares its financial statements on non-going concern basis, the financial statements should disclose that fact together with the reasons thereof.

3.2. At a minimum, a company should disclose all of the following when it prepares financial statements using the non-going concern basis of accounting:

a) That the financial statements are prepared using the non-going concern basis of accounting, including the facts and circumstances surrounding the adoption of the non-going concern basis of accounting.

b) The methods and significant assumptions used to measure assets and liabilities, including any subsequent changes to those methods and assumptions.

c) A company should present an analysis of any upside not recognised in the profit or loss (under para 2.2) on assets during the period.

d) A company should also present an analysis of any items (such as trademark) that are not recognised in balance sheet (under para 2.5) during the period using a classification based on either their nature or their function within the company, whichever provides information that is reliable and more relevant.