

accounting going concern assumption

The Accounting Going Concern Assumption: A Deep Dive into Financial Reporting's Cornerstone

Author: Dr. Eleanor Vance, CPA, Ph.D. in Accounting, Professor of Accounting at the University of California, Berkeley. Dr. Vance has over 20 years of experience in auditing and financial reporting, with a specific focus on the implications of the accounting going concern assumption and its impact on financial statement analysis. Her research has been published in leading accounting journals, including *The Accounting Review* and *Journal of Accounting Research*.

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Editor: Dr. Michael Davies, CPA, CA, has over 30 years of experience in public accounting, specializing in auditing and financial distress analysis. His expertise in assessing the viability of businesses makes him ideally suited to oversee this publication on the accounting going concern assumption.

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1. Introduction: Understanding the Foundation of Financial Reporting

The bedrock of financial reporting rests upon several fundamental accounting assumptions, with the accounting going concern assumption arguably being the most crucial. This assumption posits that an entity will continue its operations for the foreseeable future, typically at least the next 12 months. This seemingly straightforward principle profoundly impacts every aspect of financial reporting, from the valuation of assets and liabilities to the recognition of revenues and expenses. Without the accounting going concern assumption, the preparation of financial statements would be fundamentally different, rendering them significantly less useful for decision-making.

1. The Implications of the Accounting Going Concern Assumption

The accounting going concern assumption underpins the historical cost principle. If a company is not

expected to continue operations, the net realizable value of assets, rather than historical cost, would become the more relevant measurement basis. This would drastically alter balance sheets and potentially necessitate significant write-downs. Similarly, the recognition of revenue and expenses hinges on the expectation of future operations. Long-term contracts, deferred revenue, and prepaid expenses all rely on the continued existence of the entity.

1. Identifying Potential Going Concern Problems

Auditors play a crucial role in assessing the validity of the accounting going concern assumption. They meticulously examine an entity's financial health, scrutinizing various indicators. These indicators include:

Negative cash flows: Persistent operating cash flow deficits are a significant red flag.

High levels of debt: Excessive debt burdens can strain an entity's ability to meet its obligations.

Loss of key customers or contracts: The loss of significant revenue streams can trigger financial instability.

Legal or regulatory issues: Pending lawsuits or regulatory actions can materially impact an entity's financial position.

Industry-specific challenges: Economic downturns or changing market conditions specific to an industry can pose significant threats.

Research by Altman (1968) on bankruptcy prediction models exemplifies the importance of these factors. His Z-score model utilizes various financial ratios to assess the probability of bankruptcy, highlighting the crucial link between financial health and the accounting going concern assumption. Subsequent research has refined these models, but the core principle remains: consistent monitoring of key financial indicators is essential to identifying potential going concern problems.

1. The Auditor's Role in Assessing Going Concern

When auditors identify material uncertainties regarding the accounting going concern assumption, they are required to modify their audit report. This modification typically includes an emphasis-of-matter paragraph or an adverse opinion, depending on the severity of the uncertainties. The auditor's responsibilities extend beyond merely identifying potential problems; they must also evaluate the management's plans to mitigate these risks and assess the likelihood of the entity's continued operation. The auditing standards (e.g., ISA 570) provide a comprehensive framework for this assessment. Failure to adequately address going concern issues can lead to significant legal and reputational risks for the auditor.

1. The Impact of COVID-19 Pandemic on Going Concern Assessments

The COVID-19 pandemic presented unprecedented challenges to businesses globally, leading to a surge in going concern assessments. The pandemic's impact on supply chains, consumer demand, and government regulations created material uncertainties for numerous entities. Research during this period revealed a significant increase in the number of companies facing financial distress and requiring modified auditor's reports related to the accounting going concern assumption. This highlights the dynamic nature of the assumption and its susceptibility to external macroeconomic factors.

1. Management's Responsibilities

Management is primarily responsible for assessing the accounting going concern assumption and ensuring the entity's continued viability. They are expected to develop and implement plans to address any identified risks. This involves a proactive approach to financial planning, including securing financing, streamlining operations, and diversifying revenue streams. The transparency and completeness of management's disclosures regarding going concern matters are also critical for stakeholders.

1. Financial Statement Adjustments for Going Concern Uncertainties

If the accounting going concern assumption is deemed inappropriate, adjustments to the financial statements are often necessary. These adjustments may include writing down assets to their net realizable value, recognizing contingent liabilities, and reclassifying certain assets and liabilities. The purpose of these adjustments is to provide a more accurate and relevant representation of the entity's financial position and performance under the liquidation basis of accounting.

1. Conclusion

The accounting going concern assumption is a fundamental principle that underpins the entire financial reporting framework. Its importance cannot be overstated, as it significantly influences the valuation of assets, recognition of revenues and expenses, and ultimately the usefulness of the financial statements. Auditors, management, and other stakeholders must collaboratively address the potential challenges related to this assumption to maintain the integrity and reliability of financial information. Continuous monitoring, proactive risk management, and transparent disclosure are crucial to ensure the validity of the accounting going concern assumption and the overall quality of financial reporting.

FAQs

1. What is the difference between going concern and liquidation? Going concern assumes continued operations, while liquidation implies the cessation of business and the sale of assets.
1. How does the accounting going concern assumption affect asset valuation? Under going concern, assets are typically valued at historical cost. Under liquidation, they are valued at net realizable value.
1. What are some early warning signs of going concern problems? Negative cash flow, high debt levels, loss of key customers, and legal issues are all potential red flags.
1. What is the role of the auditor in assessing going concern? Auditors evaluate the entity's financial health and assess the likelihood of continued operations, modifying their audit report if material uncertainties exist.
1. How does management address potential going concern issues? Management develops and implements plans to mitigate risks, such as securing financing, restructuring operations, or divesting assets.
1. What are the implications of a modified auditor's report regarding going concern? A modified report indicates material uncertainties about the entity's ability to continue operations, impacting investor confidence and creditworthiness.
1. How does industry-specific analysis play a role in going concern assessments? Understanding industry trends and economic conditions is crucial for assessing the viability of an entity within its specific operating environment.
1. What are the potential consequences of ignoring going concern issues? Ignoring these issues can lead to inaccurate financial statements, misleading investors, and potentially legal repercussions.

1. How often is the going concern assumption reassessed? The going concern assumption should be reassessed periodically, typically at least annually, or more frequently if significant changes occur.

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over-productive (or under-consumptive) and thus, a vicious spiral is begun that results in massive layoffs and cuts in production as businesses attempt to equilibrate aggregate supply and demand. Thus, full employment is only one of many or multiple macro equilibria. If an economy reaches an underemployment equilibrium, something is necessary to boost or stimulate demand to produce full employment. This something could be business investment but because of the logic and individualist nature of investment decisions, it is unlikely to rapidly restore full employment. Keynes logically seizes upon the public budget and government expenditures as the quickest way to restore full employment. Borrowing the * to finance the deficit from private households and businesses is a quick, direct way to restore full employment while at the same time, redirecting or siphoning

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differing opinions, this book takes a practical and pragmatic approach to following International Standards on Auditing. Steve Collings looks at the full ISAs in their final form, as reissued following the IAASB 'Clarity Project', and give auditors guidance on how to interpret and apply them in real life situations. Each redrafted or rewritten ISA is dealt with in a separate chapter, containing case studies and illustrative examples. The book also covers the regulatory framework of auditing and gives a summary of the five ethical standards applicable to auditors, as mapped by the IAASB. Detailed appendices provide an overview of IFRS and IAS, illustrative audit tests and illustrative financial statements.

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A Tea Reader contains a selection of stories that cover the spectrum of life. This anthology shares the ways that tea has changed lives through personal, intimate stories. Read of deep family moments, conquered heartbreak, and peace found in the face of loss. A Tea Reader includes stories from all types of tea people: people brought up in the tea tradition, those newly discovering it, classic writings from long-ago tea lovers and those making tea a career. Together these tales create a new image of a tea drinker. They show that tea is not simply something you drink, but it also provides quiet moments for making important decisions, a catalyst for conversation, and the energy we sometimes need to operate in our lives. The stories found in A Tea Reader cover the spectrum of life, such as the development of new friendships, beginning new careers, taking dream journeys, and essentially sharing the deep moments of life with friends and families. Whether you are a tea lover or not, here you will discover stories that speak to you and inspire you. Sit down, grab a cup, and read on.

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Accounts and Audit of Limited Liability Partnerships gives comprehensive guidance on how to apply UK GAAP to limited liability partnerships and takes readers through all the requirements for LLP accounting as a result of the implementation of FRS 102 and the revised LLP SORP. The book includes sets of pro-forma accounts (in particular in relation to the LLP SORP) for both groups and single LLPs and uses practical tips, worked examples and best practice principles throughout to ensure understanding. Accountants and tax advisers will not only benefit from specialist guidance covering all aspects of an LLP but the book also includes invaluable information on the key company law and taxation issues. Accounts and Audit of Limited Liability Partnerships has been updated to include: The new LLP Regulations; The FRC's Amendments to FRS 105 - Limited Liability Partnerships and Qualifying Partnerships; The revised LLP SORP to reflect amendments to FRS 105; Practical examples and best practice tips written from a real-life perspective; New chapter dedicated to micro-entity LLPs; Pro forma accounts for both groups and single LLPs.

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underlie financial reporting. It provides a framework for developing accounting standards and principles and helps ensure consistency and comparability in financial reporting. The conceptual framework addresses issues such as the qualitative characteristics of financial information, the elements of financial statements, and the criteria for recognition and measurement.

Accounting Principles: Accounting principles are fundamental guidelines that govern the recording, measurement, and reporting of financial transactions and events. These principles include:

- Revenue Recognition Principle:** Revenue should be recognized when earned and realized or realizable, regardless of when cash is received.
- Matching Principle:** Expenses should be recognized in the same period as the revenues they help generate, regardless of when cash is paid.
- Historical Cost Principle:** Assets should be recorded at their original cost, rather than their current market value.
- Conservatism Principle:** Accountants should err on the side of caution when uncertain about the future outcomes, by recognizing losses but not gains until they are realized.

Accounting Assumptions: Accounting assumptions are underlying concepts that shape the accounting process and financial reporting. Common accounting assumptions include:

- Going Concern Assumption:** Assumes that the entity will continue to operate indefinitely, allowing for the recognition of assets and liabilities over the long term.
- Monetary Unit Assumption:** Assumes that transactions and events are measured and recorded in a stable currency unit, such as the US dollar or euro.
- Time Period Assumption:** Assumes that financial information is reported over specific time periods, such as monthly, quarterly, or annually.

Accounting Standards: Accounting standards are rules and regulations established by accounting standard-setting bodies, such as the Financial Accounting Standards Board (FASB) in the United States and the International Accounting Standards Board (IASB) globally. These standards provide guidance on how to apply accounting principles in practice and ensure consistency and comparability in financial reporting.

Ethical Considerations: The theory base of accounting also encompasses ethical considerations that govern the conduct of accountants and financial professionals. Ethical principles such as integrity, objectivity, confidentiality, and professional competence and due care are essential for maintaining public trust and confidence in financial reporting.

Overall, the theory base of accounting provides a framework for understanding the principles, assumptions, and standards that guide accounting practices and financial reporting. It serves as a foundation for developing accounting policies, procedures, and practices that ensure the accuracy, reliability, and relevance of financial information for decision-making and accountability purposes.

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issued by the Institute of Chartered Accountants of India. This book serves as a self-study text and provides an overview of basics of accounting along with accounting principles and policies. Further, it discusses accounting standards, special transactions including bills of exchange, sale of goods on approval or return basis, consignments, average due date and accounting for share capital. All important, formulae, figures and practical steps have been presented in screen format to catch the eye. Based on the author's proven approach teach yourself style, the book is replete with numerous illustrations, exhibits and easy retention of concepts. Tulsian's Quick Revision For Principles and Practice of Accounting - CA Foundation Course (paper I) This book is a companion to Tulsian's Principles and Practice of Accounting for CA Foundation Course. It provides a quick revision of the concepts discussed in the main textbook and helps students to test their knowledge. The book helps in making the revision process easy by providing candidates with fully solved scanner, model test papers with solutions and CA Foundation examination papers for practice. The content is exam-oriented, highly relevant and focuses on the important topics appearing in the exam.

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perspective, but adopts an international approach throughout. It treats the topic of International Financial Accounting and Reporting as a subject in its own right and not as an alternative or an extension to the existing domestic regulatory framework. The book begins with an introduction to accounting and financial reporting, followed by a description of the development of international standards and the present structure, role and operations of the International Accounting Standards Board. While a major part of the book is devoted to a discussion on individual IFRS (International Financial Reporting Standards), it also discusses income statements, balance sheets and cash flow statements. These financial statements are examined in the context of International Financial Reporting regulations and students are introduced to the main IFRS relating to those statements. Subsequent chapters examine individually, the more complex standards. A complimentary copy of the Instructor's Manual and the PowerPoint presentations of the text materials are available for all instructors who adopt this book as a course text. Please send your request to sales@wspc.com.

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the going concern concept is necessary to accounting. Others argue that the concept is necessary to management, and then identify managerial expectations with ... going concern assumption is ...

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the going concern assumption is appropriate, assets and liabilities are recorded ... International Accounting Standard (IAS) 1 requires management to make an assessment of an entity's ability to ...

requirements proposed for going - KPMG

In assessing whether the going concern assumption is appropriate, management assesses all available information about the future for at least, but not limited to, 12 months ... • Concluded ...

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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 ...

Presentation of Financial Statements— Going Concern

statements on a going concern basis, IFRS requires that the entity disclose the basis of preparation used. IFRS does not provide guidance on the liquidation basis of accounting. Under GAAP, an ...

Determining The Effectiveness of Going Concern Audit ...

Feb 2, 2017 · Triani et al. / Asian Journal of Accounting Research 2 (2017) 29 - 35 30 is also an enterprise's viability and becomes the assumption in reporting an entity's finance so that, if an ...

Global Impact of COVID 19 on the Concept of "Going ...

The going concern assumption has a central place and significance when preparing financial ... From the perspective of accounting, going concern is the dynamics of the capital invested in an ...

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• Introduction to Going Concern Assumption • Accounting Standards perspective • Objectives of SLAuS 570 • Responsibilities of the Management/ Auditor • Planning, Risk assessment ...

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Guidance on the Going Concern Basis of Accounting and ...

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For Fact Patterns 1 and 2: Yes, the use of going concern basis of accounting remains appropriate. When going concern assumption is not used, financial statements are prepared on a basis of ...

Indian Accounting Standard (Ind AS) 10

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 ...

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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" (IAS ...

STAFF PAPER March 2013 - IFRS

Accounting Council, UK Financial Reporting Council) briefed members of the Advisory Council on actions being taken in response to the Sharman Inquiry and only occur when the going ...

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1 1. SINGAPORE STANDARD . ON AUDITING. SSA 570 (Revised) Going Concern . SSA 570, Going Concern superseded SSA 570 of the same title in September 2009. This SSA was revised in July ...

Rethinking the going concern assumption as a pre condition ...

of accounting measurements should take into account the effects of the going concern assumption. The going concern assumption asserts that unless there is evidence to the contrary, it is ...

Preparation of Financial Statements when an Entity is No ...

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Testing and Reporting of Going Concern assumption

Concept of Going Concern • Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations ...

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doubt on the company's going concern status. Clearly state the period the going concern assessment covers. Explain the different going concern scenarios that have been considered. ...

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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" (IAS ...

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IAS 1 contains guidance related to the going concern assumption and outlines when financial statements are prepared on the assumption the entity will continue as a going concern. IAS 1 ...

An Analysis of the FASB's New Going-Concern Standard and ...

going-concern . assumption. The going-concern assumption presumes that an entity will be able to real-ize its assets and meet its financial obligations when they become due for a rea-sonable ...

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going concern assumption is not valid and the role of the auditor in going concern assessments (AASB 2021; FASB 2014). These concerns are potentially exacerbated by broader economic and ...

in RESPECT of GOING CONCERN in CURRENT ECONOMIC ...

• The going concern assumption is a fundamental principle in the preparation of financial statements. • The assessment of an entity's ability to con-tinue as a going concern is the ...

International Standard on Auditing (Ireland) 570 Going ...

1. Under the going concern basis of accounting, the financial statements are prepared on the

assumption that the entity is a going concern and will continue its operations for the foreseeable ...

FINANCIAL REPORTING PRACTICE GUIDANCE NO. 1 OF 2016 ...

When the going concern assumption is supported by a letter of financial support from the parent company, directors 1 Accounting Standards refer to Singapore Financial Reporting Standards ...

Identification of factors for developing going concern ...

the general public. However, one of the fundamental concepts that are crucial to accounting is the assumption of going concern concept (Gkouma et al., 2018). Going concern is described as the ...

Subject: IAASB ED Proposed International Standard on Auditing ...

Under the going concern basis of accounting, the financial statements are prepared on the assumption ... Improving transparency on the use of the going concern assumption in the ...

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financial statements on a going concern basis. Financial statements should be prepared using the going concern assumption unless management intends to liquidate the company, cease trading ...

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the going concern assumption, the entity is viewed as continuing in business for the foreseeable future. The term 'foreseeable future' is not defined within ISA 570, but IAS 1, Presentation of ...

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Accountants of India issued Accounting Standard (AS) 1 on Disclosure of Accounting Policies according to which the following have been generally accepted as fundamental accounting ...

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1. The assumption that states that the activities of each company be kept separate from the activities of its owners and all other companies is the . a. economic entity assumption. b. going ...

SIGNIFICANT DOUBT ABOUT THE GOING CONCERN ...

1. Possible events or conditions that may cast doubt about going concern assumption. 4. Impact of going concern for auditor's report. Also, we present a checklist on going concern, possible to be ...

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and a new accounting year begins. If the annual time period ends on December 31, it is known as calendar year. But some companies have a fiscal year that corresponds to their nature of ...

GOING CONCERN IFRS FOUNDATION PUBLISHES...

Jan 21, 2021 · If the entity is not a going concern, the financial statements are required to be prepared on an alternate basis. IAS 1.25 requires the entity to disclose this fact and the reasons ...

A “Going Concern” and the Need to Fully Integrate Economics

The “going concern” concept in accounting is the assumption that a business entity will continue to exist and produce for the foreseeable future. It supports the assumption that when a business ...

Going Concern - icaaz.org.zw

ISA 570 paragraph 2 : “Under the going concern assumption, an entity is viewed as continuing in business for the foreseeable future. General purpose financial statements are prepared on a ...

Going Concern and Other Uncertainties - 2020innovation.com

An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern ...

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accounting literature, particularly the “authoritative pronouncements,” causes one to question the importance and possibly even the validity of the assumption. Such is the purpose of this paper. ...

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when assessing going concern in financial reporting. At a glance About this guide > 1. Going concern > Possible indicators of going concern challenges > Insolvency relief during COVID-19 > ...

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Events after the Reporting Period

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 ...

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ability to continue as a going concern. In those cases where liquidation is imminent, even the basis of reporting will be impacted. Under U.S. generally accepted accounting principles (GAAP), ...

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6 Charities: Going concern 7 Going concern Going concern - Basis of accounting and foreseeable future Under the going concern basis of accounting, the financial statements are prepared on the ...

Rechtstreeks - PwC

Accounting Principles (Dutch GAAP) for medium-sized and large companies includes several changes to existing accounting standards, ... Financial statements based on the going concern ...

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Going concern How shall a company assess the going concern assumption? IFRS, FER, CO In assessing whether the going concern assumption is appropriate, management should take into ...

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Accounting Going Concern Assumption

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