

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

FASB



► **SUBJECT:**

FASB ISSUES ASU ON GOING CONCERN

► **SUMMARY:**

The FASB recently issued a new ASU on going concern that applies to all companies, public and private. It defines *when* and *how* companies are required to disclose going concern uncertainties, which must be evaluated each interim and annual period. The ASU takes effect in 2016 calendar year-end financial statements and is available [here](#).

► **SCOPE, EFFECTIVE DATE AND TRANSITION:**

The amendments in ASU 2014-15¹ apply to all entities, unless they have adopted the liquidation basis of accounting under Subtopic 205-30. The new standard applies prospectively to annual periods ending after December 15, 2016, and to annual and interim periods thereafter. For example, a calendar year-end entity will apply the amendments for the year ended December 31, 2016 and each period thereafter. Early application is permitted.

► **MAIN PROVISIONS:**

The ASU requires management to determine whether substantial doubt exists regarding the entity's going concern presumption, which generally refers to an entity's ability to meet its obligations as they become due. If substantial doubt exists, the disclosures below are required. As such, management will now have primary responsibility for the going concern assessment under U.S. GAAP. To date, this responsibility has rested principally with the independent auditor.

CONTACT:

ADAM BROWN

National Director of Accounting
214-665-0673 / abrown@bdo.com

GAUTAM GOSWAMI

National Assurance Partner
312-616-4631 / ggoswami@bdo.com

CHRIS SMITH

Audit & Accounting Professional
Practice Leader
310-557-8549 / chsmith@bdo.com

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¹ Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

The ASU clarifies that management should prepare its financial statements under the going concern presumption until liquidation becomes imminent.² Assuming liquidation is not imminent, the ASU requires management to assess at each annual and interim reporting period whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern.

Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or available to be issued). Note, the one-year period begins on the issuance date, not the balance sheet date, and entities are permitted to look beyond one year if it is appropriate in the circumstances. The term probable is used consistently with its use in Topic 450, *Contingencies*, i.e., the future event or events are likely to occur.

In assessing whether substantial doubt exists, management should consider the following factors, among other information:

- a. The entity's current financial condition including sources of liquidity and available access to credit.
- b. Conditional and unconditional obligations due or anticipated within one year after the financial statement issuance date.
- c. Funds necessary to maintain operations within one year after the financial statement issuance date.
- d. Conditions and events, when considered in conjunction with a., b., and c. above, which could adversely affect the entity's ability to meet its obligations. The implementation guidance provides examples of such adverse conditions and events.

If substantial doubt about the entity's ability to continue as a going concern does not exist, no disclosures are required.

However, if substantial doubt exists, management's plans to mitigate the going concern uncertainty must be evaluated to determine the extent of required disclosures. Specifically, management's plans are deemed to have alleviated the substantial doubt if both of the following conditions are met:

- a. It is probable that management's plans will be effectively implemented within one year after the date that the financial statements are issued. Generally, this criterion is only met when management or those with appropriate authority have approved the plan prior to the date the financial statements are issued. Further, assessing the effectiveness of the plans is based on the feasibility of implementation in light of the entity's circumstances.
- b. It is probable that management's plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued.

The final amendments include examples of implementation plans that management might consider to address the company's going concern uncertainties.

When substantial doubt is not alleviated, the footnotes must specifically state that "there is substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued." In addition, entities must disclose:

- a. Principal conditions or events that raise substantial doubt about the entity's ability to continue as a going concern.
- b. Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations.
- c. Management's plans that are intended to mitigate the conditions or events that raise substantial doubt about the entity's ability to continue as a going concern.

These disclosures should become more extensive in subsequent reporting periods as additional information becomes available.

² See BDO's Flash report on the liquidation basis of accounting [here](#).

When substantial doubt exists, but is alleviated by management's plans, entities are still required to provide disclosures that are similar to the paragraph above, as follows:

- a. Principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern (before consideration of management's plans).
- b. Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations.
- c. Management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern.

However, the entity would not include a specific statement that substantial doubt about its ability to continue as a going concern exists, since that doubt has been alleviated.

In the period that substantial doubt no longer exists (before or after considering management's plans), management should disclose how the principal conditions and events that originally gave rise to substantial doubt have been resolved.