



MALAYSIAN INSTITUTE OF ACCOUNTANTS
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE
("FRSIC")

FRSIC Issue No. 28 [2008]

Circumstances for Preparation of Financial Statements on Going Concern Basis

The issue:

Should the following financially healthy entities' financial statements be prepared on a basis other than the going concern basis:

- a) management intends to cease trading; or
- b) management intends to curtail materially the scale of its operations; or
- c) had ceased trading; or
- d) had curtailed materially the scale of its operations; or
- e) cash rich but with no business operations; or
- f) dormant since date of incorporation.

If the above entities' financial statements are to be prepared on a basis other than the going concern basis, what is this other basis and what should the accounting policies be.

Fact Pattern:

Should financially healthy entities that:

- a) management intends to cease trading; or
- b) management intends to curtail materially the scale of its operations; or
- c) had ceased trading; or
- d) had curtailed materially the scale of its operations; or
- e) are cash rich but with no business operations; or
- f) are dormant since date of incorporation

be prepared on a basis other than the going concern basis?

Suggested Conclusion:

FRS 101.23 states that: *"..... Financial statements shall be prepared 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, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern."*

The Framework, paragraph 23 also states that *"The financial statements are normally prepared on the assumption that an 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 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."

Based on the above meaning of the going concern, each of the above entities' financial statements should be prepared on a basis other than the going concern basis.

Under AI 570, it states that *"When the entity's management has concluded that the going concern assumption used in the preparation of the financial statements is not appropriate, the financial statements need to be prepared on an alternative authoritative basis."*

A generally acceptable alternative authoritative basis other than the going basis is the "break-up basis" or the "liquidation basis". Under the break-up or the liquidation basis, all assets are stated at the lower of carrying value and their estimated realizable amounts and provision is made for any further estimated liabilities. All assets and liabilities are classified as current.

Current accounting practice as observed by the Submitter:

Financial statements of such financially healthy entities are prepared on the going concern basis.

Reasons for the FRSIC to address the issue:

To provide guidance on the use of the appropriate basis of accounting.

Submitter's proposal or recommendation to address the issue:

See the section on "Suggested Conclusion".

Submitted on:

28 July 2008

Corresponding FRSIC Consensus:

ISSUE WAS REJECTED FROM FURTHER DELIBERATION.

The FRSIC's deliberation: FRSIC decided not to take up the issue as the provisions in FRS 101 are clear. FRS 101 has stated clearly that when an entity demonstrates inability to be regarded as a going concern, the financial statements of the entity shall not be prepared on a going concern basis. The FRSIC views that Para. 23 of FRS 101 can be used as reference to determine situations in which an entity may be deemed as not operating on a going concern. The submitter has been informed of the Committee's decision.

[Last updated: 31 October 2008]