GOVERNMENT OF PAKISTAN

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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Islamabad, the 1st February, 2024

NOTIFICATION

S.R.O. 69 (I)/2024.- The Securities and Exchange Commission of Pakistan, in exercise of powers conferred by section 510 read with sub-section (1) of section 225 of the Companies Act, 2017 (Act No. XIX), hereby directs that the annexed Accounting Standard on 'Non-Going Concern Basis of Accounting' shall be followed by companies, for the preparation of financial statements for the annual reporting periods beginning on or after January 1, 2024 (earlier application is permitted), that are required to prepare their financial statements in conformity with the financial reporting standards as applicable in Pakistan.

[File No. SMD/ PRDD/Comp/(108)/2023]

(Bilal Rasul)
Secretary to the Commission

Annexure as above

Accounting Standard

Non-Going Concern Basis of Accounting

The Institute of Chartered Accountants of Pakistan

CONTENTS

Accounting Standard
Non-Going Concern Basis of Accounting

Objective

1. The objective of general-purpose financial statements prepared in accordance with the financial reporting standards as applicable in Pakistan is to provide information about the financial position, performance and cash flows of a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

2. Financial statements are normally prepared on the going concern assumption i.e. that the reporting entity is a going concern and will continue in operations for the foreseeable future. However, due to events and conditions this fundamental assumption may not be appropriate for a reporting entity.

   The assessment of entity's going concern has to be made in accordance with the financial reporting standards applicable to the entity. In IFRS Standards, IAS 1, *Presentation of Financial Statements,* requires management to make an assessment of entity's going concern at the reporting date.

   Management has to assess the going concern of the entity in accordance with the guidance provided in the Conceptual Framework for Financial Reporting (the Conceptual Framework) and relevant financial reporting standard (i.e. IAS 1, IFRS for SMEs, AFRS for SSEs). Based in this assessment management has decide whether to prepare the general-purpose financial statements on going concern basis or any other basis (i.e. non going concern basis).

3. Information about an entity's adoption of assumption other than going concern and its basis of preparation of general-purpose financial statements is important and relevant for the users of financial statements.

   The Conceptual Framework and financial reporting standards as applicable in Pakistan explain that where entities prepare general purpose financial statements on an assumption other than going concern, the reporting entity shall disclose the basis of accounting used in preparation of general-purpose financial statements. However, financial reporting standards as applicable in Pakistan, including International Financial Reporting Standards (IFRSs), do not provide specific guidance on the basis of accounting to be used where going concern assumption is not appropriate.

4. The objective of this Standard is to specify the basis of accounting for a non-going concern entity.

   The basis of accounting establishes principles and requirements for how the non-going concern entity shall account for and present effects of transactions, other events and conditions in its financial statements. This will enable users of the financial statements in evaluating the nature and financial effects of non-going concern on entity's financial position, financial performance and cashflows.

   Meeting the objective

5. The Standard establishes principles and requirements for how a reporting entity when preparing financial statements on an assumption other than going concern:

   (a) recognises and measures in its financial statements, assets, liabilities, income and expenses; and

   (b) discloses information.

Scope

[Refer: Basis of Conclusions paragraphs BC15 – BC18]

6. This Standard applies to all entities that prepare financial statements in conformity with the financial reporting standards as applicable in Pakistan, and are preparing those financial statements on an assumption other than going concern.

7. A non-going concern entity shall prepare its general-purpose financial statements in accordance with the financial reporting standards as applicable in Pakistan, including this Standard.

   Entity shall consider the specific circumstances, events and conditions to assess its going concern. An entity shall apply this Standard after it has assessed itself as a non-going concern entity.

8. This Standard builds-on and supplements the requirements of the Conceptual Framework and financial reporting standards as applicable in Pakistan. It specifies accounting and financial reporting requirements which are relevant and specific only to a non-going concern entity.

   The principles set out in this Standard have been developed in consideration of the following factors:

   (a) specific information need of users of financial statements of a non-going concern entity; and

   (b) no specific accounting and financial reporting guidance for other than going concern accounting in IFRSs and Conceptual Framework; and

Definitions

9. The following terms are used in this Standard with the meanings specified:

   Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

   Net realisable value is the estimated selling price less the estimated costs necessary to make the sale.

   Costs of disposal or Costs necessary to make sale are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

   Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

   (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and

   (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

10. For understanding and application of this Standard, the terms as defined in the IFRSs shall be used, unless those terms conflict with this Standard.

Non-going concern entity

[Refer: Basis of Conclusions paragraphs BC19 – BC35]

11. 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.

12. The Conceptual Framework states that financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation for the foreseeable future. it is assumed, accordingly, that the entity has neither the intention nor the need to enter liquidation or to cease business activities. However, if such an intention or need exists the entity becomes a non-going concern. The financial statements may have to be prepared on a different basis (other than going concern basis), and financial statements should describe the basis used.

13. Regarding going concern, IAS 1 requires that management shall, at each reporting date, assess entity's ability to continue as a going concern.

    IAS 1 in paragraph 26 explains that when assessing going concern management shall take into account all available information about the future which is at least twelve months from the end of the reporting period.

14. There could be events and conditions relating to an entity, and situations when management assesses that an entity is not a going concern. Minimal guidance in the financial reporting standards as applicable in Pakistan, including IFRSs, is available that addresses, how to prepare and present financial statements on non-going concern basis of accounting.

    IAS 1 specifies that a non-going concern entity shall prepare financial statements on an alternate basis of accounting (i.e. other than going concern basis of accounting), and disclose following information in the financial statements:

    i. fact that the financial statements have not been prepared on a going concern basis;

    ii. reasons why the entity is not regarded as a going concern; and

    iii. basis of accounting on which the financial statements have been prepared.

    IFRS for SMEs in paragraph 3.9 also states above-noted requirements for a non-going concern entity.

    IAS 10, *Events after the Reporting Period*, also discusses going concern.

    (a) IAS 10 in paragraphs 1 and 14 states that an entity shall not prepare its financial statements on a going concern basis if events after the reporting period and before the date of authorization of financial statements indicate that the going concern assumption is not appropriate.

    (b) IAS 10 in paragraph 15 notes that 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 the amounts recognised within the original basis of accounting.

    (c) IAS 10 in paragraph 16 specifies the disclosures, when financial statements are not prepared on going concern basis of accounting.

Entities under reorganization and startups

[Refer: Basis of Conclusions paragraphs BC36 – BC40]

Entities under reorganization and restructurings

15. An entity may be acquired by another entity or merged into another entity. When an entity is acquired or merged in its entirety with the expectation and intention that business activities of the acquired or merged entity will continue. Then the merger or acquisition would not make the entity as a non-going concern before its acquisition or merger.

Startups and development stage entities

16. A startup entity generally devotes substantial efforts to establish a new business for which planned principal operations have not commenced or have commenced but are not yet generating significant or sufficient revenue.

Loss-making operations and liquidity problems generally trigger going concern related issues. Management of a startup entity shall assess going concern based on the specific facts, conditions and events, including entity's ability to raise equity and arrange financing that are sufficient for continuing as a going concern.

Non-going concern basis of accounting

[Refer: Basis of Conclusions paragraphs BC41 – BC47]

Statement of compliance

17. A non-going concern entity shall state that financial statements have been prepared in accordance with the financial reporting standards as applicable in Pakistan, including this Standard.

A non-going concern entity is required to prepare its general-purpose statutory financial statements in accordance with the financial reporting standards to such entity under the Companies Act, 2017.

Financial statements prepared in accordance with the financial reporting standards as applicable in Pakistan shall present fairly the financial position, financial performance, and (where required) cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework.

Basis of preparation

18. A non-going concern entity shall state that the financial statements are prepared on the non-going concern basis of accounting. This statement shall be disclosed, even if the financial effect of non-going concern basis of accounting is not significant.

Disclosure about the basis of preparation is relevant because without such information users of financial statements will presume that entity is a going concern.

19. For the preparation of financial statements on a non-going concern basis of accounting, management should choose accounting policies that result in the most relevant and reliable financial information about the transactions, events and conditions, of and related to the entity.

Recognition

[Refer: Basis of Conclusions paragraphs BC48 – BC52]

Recognition in accordance with financial reporting standards as applicable in Pakistan

20. To qualify for recognition as part of applying the non-going concern basis of accounting, the assets acquired and liabilities must meet the definitions of assets and liabilities in the Framework for the Preparation of Financial Statements.

    A non-going concern entity shall recognize and derecognize equity, assets, liabilities, income and expenses in accordance with the relevant financial reporting standards applicable to those items, depending on their nature.

    For example, a non-going concern entity preparing financial statements in accordance with IFRSs, shall consider the recognition criteria for elements of financial statements as specified in the IFRS applicable to that item.

    Similarly, a non-going concern entity preparing financial statements in accordance with financial reporting standards other than IFRSs (for example, IFRS for SMEs, Revised AFRS for SSEs, Accounting Standard for NPOs) shall recognise equity, assets, liabilities, income and expenses in accordance with respective financial reporting standards applicable to those items, depending on their nature.

21. Few items relevant to non-going concern entities preparing financial statements in accordance with IFRSs are discussed below. However, this is not an exhaustive list.

    Recognition of liabilities and provisions

    A non-going concern entity shall:

    (a) recognise liabilities in accordance with the requirements of IFRSs that would apply to those liabilities.

        For example, employee benefits shall be recognized in accordance with IAS 19, *Employee Benefits*. Similarly, financial liabilities shall be recognized in accordance with IFRS 9, *Financial Instruments.*

    (b) recognise provisions in accordance with IAS 37, *Provisions, Contingent liabilities and Contingent Assets*.

        Due to non-going concern status of an entity, certain contracts may become onerous. For example, entity could be required to pay penalties for non-completion of sales orders or early termination of leases. The provision for onerous contracts shall be recorded in accordance with IAS 37.

        Provisions should not be made for the executory contracts (unless onerous) or restructuring costs that do not qualify as obligations under IAS 37.

        Provision shall not be recognised for future operating losses.

    (c) account for and disclose contingent liabilities in accordance with the recognition provisions of IAS 37. For this entity shall consider:

        i. contingent liabilities that have been disclosed in the last financial statements prepared under the going concern basis; and

        ii. potential liabilities, including claims, that are identified after the entity becomes a non-going concern.

Recognition of taxes and levies

A non-going concern entity shall recognize current and deferred income taxes, in accordance with IAS 12, *Income Taxes.*

Non-recognition of previously unrecognized assets

A non-going concern entity shall not recognize long-lived assets i.e. property, plant and equipment and intangible assets which have not been recognised and accounted for previously because those items did not meet recognition criteria of the Conceptual Framework and the IFRSs relevant to such items of assets and liabilities. For example, intangibles assets such as copyrights, trademarks, patents shall not be recognised.

A non-going concern entity shall account for the unrecognized items in the period when they are sold or adjusted, resulting in the acquisition of an asset (for example, cash or receivable obtained from the sale of the item) or settlement of a liability.

For the unrecognized items information about their nature along-with the amount of expected sale proceeds shall be disclosed in the notes to the financial statements.

Measurement

[Refer: Basis of Conclusions paragraphs BC53 – BC56]

22. Prior to adopting the non-going concern basis of accounting the entity should consider whether any adjustments to its assets and liabilities are necessary. In the period(s) prior to adoption of the non-going concern basis of accounting, financial and non-financial assets, including property, plant and equipment, intangible assets, goodwill and financial assets should be evaluated for impairment and adjusted under relevant IFRSs.

Measurement of assets and liabilities by a non-going concern entity

[Refer: Basis of Conclusions paragraphs BC57 – BC66]

23. The measurement of elements of financial statements items shall represent the economic phenomena that the asset intends to represent.

A non-going concern entity shall measure assets and liabilities in accordance with the financial reporting standards applicable to those items, amended to the fact that going concern is no longer appropriate. It shall apply following principles for measurement of assets and liabilities at the reporting date.

Measurement of assets

24. The future economic benefits embodied in an asset are consumed or derived by an entity principally through its use. A non-going concern entity is likely to obtain economic benefits from the disposal of assets, rather than through the use of the assets. For example, property, plant and equipment of an entity that has ceased trading or has entered into liquidation are not likely to be used for the sale of goods or rendering of services in the entity's ordinary course of business.

25. For a non-going concern entity it is therefore often necessary to measure assets at their realizable value.

The measurement of asset shall reflect the estimated amount of cash or other consideration that the entity expects to collect in disposing of that asset less costs of disposals, under the entity's non-going concern status.

The disposal costs shall be estimated and measured on an undiscounted basis.

Due to non-going concern nature of entity, the estimated costs of the completion of the asset would not be relevant. The calculation of realizable value of assets, generally, shall not include the estimated costs of the completion.

In accordance with the principle set out in the financial reporting standards as applicable in Pakistan, the value of an asset measured in accordance with paragraph 22 shall not exceed carrying value of the asset as reported, immediately before the use of non-going concern basis of accounting. In other words, a non-going concern entity shall not account for any upside while applying the requirements of paragraph 22.

26. Assets measured at their recoverable or realizable amounts in accordance with paragraph 22, shall not be depreciated, amortized or revalued. These assets shall be re-measured at every reporting date at their realizable value in accordance with paragraph 22 and 23 above, and any change in the value shall be recorded in the period.

27. A non-going concern entity shall also assess the recoverability of other non-financial assets (such as prepaid expenses, deferred tax assets, tax refunds) that may not be recovered in cash or otherwise. The non-financial assets that are not expected to be recovered in cash or utilized for setting-off a liability shall be written off.

Measurement of liabilities and provisions

28. A non-going concern entity shall measure liabilities and provisions, at the reporting date, using the principles of financial reporting standards as applicable to the respective liabilities and provisions, except for discounting/determination of the present value. Liabilities and provisions shall not be discounted.

Few examples that could be relevant to non-going concern entities preparing financial statements are provided below. However, this is not an exhaustive list and entities need to apply judgment when measuring liabilities.

(a) Liabilities for the employee benefits shall be calculated as per the principles of the relevant applicable financial reporting standard (for example IAS 19 when preparing financial statements under IFRSs, however, these liabilities and related plan assets shall not be discounted.

(b) Liabilities of specified contractual amounts shall not be decreased to their anticipated and expected settlement amounts until the liabilities are legally settled. Thus, liabilities shall not be reduced to their expected settlement amounts prior to settlement.

(c) Liabilities that are determined by the Court or result from a compromise with the creditors shall be adjusted based on the nature of the changes to the arrangements.

(d) Liabilities without contractually specified amounts and timing shall be adjusted to incorporate all changes to assumptions which are impacted by the entity being a non-going concern.

Other considerations for all non-going concern entities

Cumulative adjustment in statement of profit or loss

29. All entities preparing financial statements under basis of accounting other than going concern shall present a cumulative adjustment in its statement of profit or loss, showing differences between:

(a) the carrying amounts of entity's assets and liabilities at the last date on which it was assessed as going concern; and

(b) the re-measured amounts of assets and re-measured and newly recognised liabilities (including measurement changes resulting from changes in assumptions) due to the non-going basis of accounting, at the reporting date.

The measurement of asset at its realizable value may result in a difference (negative) from the carrying value of the asset (i.e. amount under going concern and prior to such estimation). Similarly, measurement of a liability may result in a difference (positive or negative) from the amount of the liability measured under the going concern basis.

Subsequent measurement

30. At each reporting date, a non-going concern entity shall re-measure its assets and liabilities in accordance with this Standard.

Going concern consideration for group and consolidated financial statements

[Refer: Basis of Conclusions paragraphs BC67 – BC68]

31. Every reporting entity while preparing general purpose financial statements is required to have an assessment of going concern.

When preparing consolidated financial statements, the parent shall make an assessment of going concern in respect of the group as a whole. The non-going concern subsidiaries do not imply that the group is also non-going concern. Similarly, if the parent and group are going concern it does not imply that the subsidiaries are also going concern.

While preparing consolidated financial statements any potential adjustment to the assets and liabilities of a subsidiary would need to be considered. This may result in recognition and measurement differences between the consolidated financial statements and the subsidiary's individual financial statements.

Comparative information

[Refer: Basis of Conclusions paragraphs BC69 – BC70]

32. Financial Reporting Standards as applicable in Pakistan require presentation of comparative information in the financial statements. An entity shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements.

33. An entity preparing financial statements on a non-going concern basis:

(a) would not be required to restate its comparative financial information, if financial statements for the previous year has been authorised for issue.

(b) would be required to restate its comparative information, if financial statements for the previous year have not been authorised for issue.

Entity shall consider the guidance provided in the financial reporting standards to determine the authorization date of financial statements.

Presentation

[Refer: Basis of Conclusions paragraphs BC71 – BC74]

Classification of assets and liabilities

34. A non-going concern entity shall present and classify its assets and liabilities in accordance with financial reporting standards applicable to such entity.

Financial reporting standards as applicable in Pakistan contain requirements for the classification of assets and liabilities. For example, in IFRSs, IAS 1 provides criteria for the classification of current and non-current, and IFRS 5 outlines the requirements for non-current assets held for sale. IFRS for SMEs and AFRS for SSEs also contain guidance regarding distinction between current and non-current.

35. A non-going concern entity shall not classify assets and liabilities as current merely on becoming a non-going concern. It should rather consider the specific facts and circumstances, including the contractual terms for classification of assets and liabilities as current and non-current.

A non-going concern entity shall classify:

- a non-current liability as a current liability only if such liability meets the criteria of a current liability set out in the financial reporting standards applicable to such entity.
- a non-current asset shall as a current asset if such asset meets the criteria set out in the financial reporting standards applicable to such entity.

36. The objective of presenting discontinued operations as a separate item of income or loss is to segregate the results that have been discontinued from the results of continuing operations. Therefore, where the operations of the entity as a whole have been decided to be discontinued and the financial statements are being prepared on a non-going concern basis, it would rather be meaningless to present non going concern entity's operations as discontinued operations.

Disclosure

37. The objective of disclosure requirements is for a non-going concern entity to disclose sufficient information to enable users of financial statements to understand the nature and financial impact of entity being a non-going.

Disclosures for all non-going concern entities

38. All entities preparing financial statements on a non-going concern basis of accounting shall disclose:

(a) that it is a non-going concern entity, along with the information about the events, circumstances and reasons that have made the entity a non-going concern.

(b) financial statements have been prepared:

i. in accordance with the financial reporting standards as applicable in Pakistan; and

ii. using the non-going concern basis of accounting.

(c) management judgment, including future plans and actions on the basis of which assets will be realized and liabilities will be settled;

(d) the basis and significant assumptions used to measure assets and liabilities, including any subsequent changes to those basis and assumptions.

(e) contingencies and claims that are not subject to reasonable estimation under IAS 37.

Entities may receive claims from creditors that are not valid. In this situation, the amounts of the total claims submitted, the process for considering those claims, and the amount of these claims that are expected to be rejected should be disclosed. If the entity has not finished its assessment of valid claims, it should clearly disclose this fact as well as the amount of claims which have not yet been assessed.

(f) the nature of items (such as trademarks, patents) which are not recognized in the statement of financial position along-with their expected sale proceeds.

(g) the realizable value of the assets, showing separately the estimated costs necessary to make the sale.

(h) break-up of the cumulative adjustment presented in the statement of profit or loss in accordance with paragraph 29.

(i) a description of key events that have occurred during the reporting period and prior to the issuance of the financial statements.

These might include key hearings before the Court, details about agreements (such as agreements allowing the non-going concern entity to pay certain creditors), decisions made by management, or other events that would be of interest to the user of the financial statements.

(j) an analysis of the upside to the realizable value of assets not recognised during the period. Separately, disclose an analysis of any down-side recognized in the profit or loss on assets during the period.

Entity under liquidation

39. An entity that is a non-going concern and is under the process of liquidation or winding up, in addition to disclosures under paragraph 36, shall also disclose:

(a) a description of the events leading up to and during liquidation and a summary of the impacts and timeline of the liquidation/winding up proceedings.

(b) an expected timeline of completion of liquidation/winding up of the entity.

Additional disclosures

40. An entity may disclose whatever additional information is necessary to provide relevant and useful information to the users of financial statements.

Disclosures and presentation in subsequent reporting periods

41. If an entity continues to be a non-going concern in subsequent annual or interim reporting period(s), the entity shall continue to provide the disclosures that are relevant to the specific entity based on the assessment of events and conditions.

Disclosures should become more extensive as additional information becomes available about the relevant conditions or events and about management's plans. An entity shall provide appropriate context and continuity in explaining how plans, conditions or events have changed between reporting periods.

For the period in which entity's probability of becoming a going concern in future changes, an entity shall disclose how the management plans and judgment, and relevant conditions or events changed the previous assessment about the entity.

Effective Date

42. An entity shall apply this Standard for annual reporting periods beginning on or after January 01, 2024.

Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact.

Transition

43. The Standard shall be applied prospectively from the date entity is assessed as a non-going concern.

44. As a practical expedient entity may apply this Standard as from the beginning of the reporting period during which the entity was assessed as a non-going concern.

45. Where an entity is reporting on the non-going concern basis of accounting as of the effective date of this Standard and is using other guidance on when and how to apply the non-going concern basis of accounting, such non-going concern entity shall apply this Standard retrospectively with the cumulative effect adjustment as of the date of adoption for differences resulting from applying this Accounting Standard.

46. This Standard shall cease to apply as from the beginning of the financial year during which the entity is reassessed to be a going-concern.

CONTENTS

Basis for Conclusions

Accounting Standard
Non-going Concern Basis of Accounting

This 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.

Introduction

BC1 The Accounting Standard sets out requirements for the preparation of financial statements of an entity on a non-going concern basis of accounting.

It responds to the need for the provision of financial reporting requirements for an area where financial reporting standards as applicable in Pakistan including IFRSs provide no or limited guidance.

BC2 The Basis for Conclusions is organized as follows:

(a) Need for this Accounting Standard

(b) Objective and scope of the Accounting Standard

(c) The requirements in the Accounting Standard

Need for this Accounting Standard

BC3 The main objective of general-purpose financial reporting is to provide information that is useful to the primary users of the financial statements.

Paragraph 1.2 of the *Conceptual Framework for Financial Reporting* (the Conceptual Framework) explains that the objective of general-purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity.

Those decisions of users of financial statements involve about:

(a) buying, selling, or holding equity and debt instruments;

(b) providing or settling loans and other forms of credit; or

(c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.

BC4 In Pakistan, statutory financial statements are prepared in accordance with the financial reporting requirements specified in the Companies Act, 2017.

Companies Act, 2017 specifies a differential financial reporting framework. Different financial reporting standards are specified for different classes of companies. These financial reporting standards include:

(a) International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB);

(b) IFRSs issued by the IASB and notified by the Securities and Exchange Commission of Pakistan'

(c) International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs); or

(d) Revised Accounting and Financial Reporting Standard for Small-Sized Entities (Revised AFRS for SSEs).

The Accounting Standard for Not-for-Profit Organizations is also a part of the financial reporting standards as applicable in Pakistan and it is relevant to certain entities. Other entities which are not within the scope of the Companies Act, 2017, such as regulatory bodies, not-for-profit organizations, trusts, and societies also prepare annual financial statements in accordance with the above-noted financial reporting standards. In certain cases, an entity may be preparing its financial statements in accordance with the Accounting and Financial Reporting Standard for Small-Sized Entities (AFRS).

BC5 Going concern is a fundamental assumption. The financial reporting standards outline that normally financial statements are prepared on a going concern basis. Regarding this management of an entity, at each reporting date, is required to a make assessment about entity's going concern.

The financial reporting standards also acknowledge that owing to certain circumstances, events and conditions:

- the going concern assumption about an entity could be affected by material uncertainties; or

- the going concern assumption about an entity may not be appropriate.

For a going concern entity, IFRSs require the entity to disclose material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern. IFRS for SMEs also contains the same requirement.

For a non-going concern entity, IFRSs require the preparation of general-purpose financial statements on an alternate basis i.e. basis other than going concerned. IFRS for SMEs also requires a non-going concern entity to prepare financial statements on an alternate basis, similar to the approach prescribed in the IFRSs.

BC6 IFRSs and IFRS for SMEs do not contain further discussion and guidance on the nature of disclosures relating to material uncertainties or the basis of preparation of financial statements on a non-going concern basis of accounting.

In relation to the adequacy of existing accounting enforceable guidance on the non-going concern basis of accounting, there are issues involving inconsistency and inappropriate interpretation of the current requirements which require clarity and standard-setting.

In the last few years, the economic impacts of the Covid-19 pandemic have further highlighted these issues. However, these issues existed before the pandemic and will continue to impact the consistency of financial statements in the future.

BC7 Clear financial reporting requirements are needed as there is a lack of understanding and resultantly lack of comparability between entities when preparing financial statements on a non-going concern basis. Clear and robust going concern reporting requirements are critical to ensure users of financial statements have sufficient information to make informed economic decisions.

BC8 Regarding going concern disclosures and non-going concern basis of accounting, various other national standard-setters have issued guidance and/or amendments to the existing IFRS requirements.

In the United States, the Financial Accounting Standards Board (FASB) develops and issues Generally Accepted Accounting Principles (GAAP).

Under U.S GAAP, Accounting Standards Codification, *Presentation of Financial Statements (ASC 205)* provides the basis for the preparation of financial statements.

In the US, stakeholders also requested guidance on when and how to prepare financial statements using the liquidation basis of accounting. FASB addressed their concerns and helped in reducing the diversity in practice by issuing a specific subtopic *Liquidation Basis of Accounting* in ASC 205. This subtopic discusses and addresses when it is appropriate to apply, or how to apply, the liquidation basis of accounting to a non-going concern company. It also provides guidance provides for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting

The above-noted requirements apply to all reporting organizations, including public companies, private companies, and nonpublic not-for-profit organizations that prepare financial statements under U.S GAAP.

In Saudi Arabia, the Saudi Organization for Chartered and Professional Organizations (SOCPA) has issued the Accounting Standard when the going concern basis becomes invalid due to an entity entering into liquidation.

In New Zealand, XRB has prescribed the more specific disclosure requirements about going concern assessments to help preparers of financial statements to provide relevant and transparent information to users of those financial statements about the matters considered when making such assessments.

BC9 IASB is also cognizant to the need for working on the going concern related project. IASB sets its work plan to determine and prioritize its projects. In 2021 it initiated the process and discussions on its next five (05) year work plan. In this regard, in 2021, the IASB carried out third agenda consultation with the stakeholders and noted going concern as one of the potential projects.

In response to the IASB's 20220-2026 agenda consultation (i.e. Third agenda consultation), various international accounting standard-setters have suggested the IASB to perform a fundamental review of the requirements related to the going concern basis of accounting where the going concern assumption is no longer appropriate.

The Board also shared its views on the importance and priority of going concern project in response to the IASB request for information for Work Plan 2022-2026.

The Board identified 'going concern' as an important and significant project for IASB's action and inclusion in the Work Plan 2022-2026, and in its submission to the IASB noted that

"We observe that the current requirements of IFRS Standards, on how management should assess the going concern basis of preparation, need more clarity and implementation guidance. Further, we also agree that the IFRS Standards should contain specific accounting requirements about the basis on which entities should prepare financial statements when the going-concern assumption is inappropriate."

It was also noted by the Board that internationally various standard-setters have raised the concern that the current IFRSs requirements about going-concern related disclosures and where an entity is no longer a going concern do not specify how the basis of preparation should be adjusted or what the revised basis should be.

For example, the Australian Accounting Standards Board (AASB) has noted that the feedback it has received indicates that the IASB needs to revisit the existing going concern reporting requirements contained in IAS 1 as they may not be sufficient in their current form.

BC10 The Board is also cognizant of the fact that the IASB is more focused on the enhancing going concern disclosures (narrowly scoped to focus on clarifying existing disclosure requirements. The present IASB discussion on its Work plan 2021-2025 is not conclusive, however, the available IASB work papers suggests that going concern is a less priority project. Further, any development of an accounting standard or improvement in existing IFRSs by the IASB would be a large-term or a medium-term project. This indicates that if a project on 'going concern' becomes part of the IASB work plan, it would possibly require a significant time for the development of IFRS requirements.

BC11 The Board also observed that Institute issued an Accounting Guidance titled 'Guideline on the Basis of Preparation of Financial Statements for Companies that are not Considered Going Concern', in 2017. However, this guidance is not mandatorily applicable to the entities, and it is not a part of the financial reporting framework applicable to companies under the Companies Act, 2017. This situation also provides an opportunity to the entities to apply varied accounting practices and basis for preparing non-going concern accounting, leading to divergent application and non-comparable financial information.

BC12 The Board in view of the above considered that there is a need for the development of an accounting standard on a non-going concern basis of accounting. To summarise, the Board's consideration included that:

- Non-going scenarios or material uncertainties about going concern are prevalent in Pakistan. Different classes and types of companies in Pakistan can be affected and could be required to prepare financial statements on a non-going concern basis.

- Financial reporting standards as applicable in Pakistan (IFRSs, IFRS for SMEs, and AFRS for SSEs) require a non-going concern entity to prepare its financial statements on an alternate basis of accounting (i.e. other than going concern basis).

- However, financial reporting standards contain minimal or limited guidance about the financial reporting of a non-going concern entity.

- Lack of guidance under the financial reporting standards, results in the diversity of understanding and accounting practices in accounting for non-going concern basis in Pakistan.

- The issue of 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.

- Another global standard-setter, i.e. the US has developed requirements in the GAAP for the non-going concern basis of accounting.

The Board also analyzed the complexity and feasibility of the development of an Accounting Standard, including the capacity of the Board and its stakeholders to make timely progress on the project.

BC13 The Board considered it needful to develop and prescribe accounting requirements for non-going concern so that diversity of accounting practices could be eliminated and users of financial statements are provided with the relevant, comparable and faithful presentation of financial information.

The Accounting Standard would be useful to ensure consistency and comparability of financial statements when the entity is disclosing material uncertainties and judgments about the going concern or an entity that is no longer a going concern.

The preparers would benefit from there being clear and enforceable guidance, users would have access to more comparable information, and auditors would have a clear basis of accounting to provide an opinion against.

BC14 The objective of the Accounting Standard is to improve how entities prepare and present the general-purpose financial statements under the non-going concern basis of accounting.

The Accounting Standard sets out the principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the non-going concern basis of accounting.

The Accounting Standard also sets out the disclosures for the entities that prepare their financial statements in accordance with the non-going concern basis of accounting.

Scope of the Accounting Standard

BC15 The Accounting Standard scopes in all entities that are preparing financial statements on a non going concern basis of accounting, and in accordance with the financial reporting standards as applicable in Pakistan.

BC16 Entities are required to prepare statutory financial statements in accordance with the financial reporting requirements specified in the Companies Act, 2017. The financial reporting standards include:

(a) IFRSs issued by the IASB

(b) IFRSs issued by the IASB and notified by the SECP

(c) IFRS for SMEs issued by the IASB and notified by the SECP

(d) Revised AFRS for SSEs issued by the Institute and notified by the SECP

The specialized and specific Accounting Standards such as Islamic Financial Accounting Standards, Accounting Standard for Common Control Transactions and Accounting Standard for Not for Profit Organizations are also part of the financial reporting standards as applicable in Pakistan.

BC17 The entities preparing their general-purpose financial statements may be assessed as a non-going concern in accordance with the above noted financial reporting standards. As discussed earlier the financial reporting standards do not provide guidance for the preparation of financial statements on a non-going concern basis of accounting.

BC18 The requirements of the Accounting Standard become applicable once the entity has been assessed as a non-going concern.

This Accounting Standard does aim to provide requirements relating to management's assessment of going concern (or non-going concern) at the reporting date.

BC19 Although, the Board's discussions and rationale provided in this Basis for Conclusion are based mostly in context of the IFRSs, however, entities preparing their financial statements in accordance with IFRS for SMEs or AFRS for SSEs, should also apply this Accounting Standard.

The principles provided in this Accounting Standard shall also be considered by entities that are preparing financial statements in accordance with the IFRS for SMEs or AFRS for SMEs. When applying the recognition and measurement principles for the assets, liabilities, equity, income, and expense, the requirements of IFRS for SMEs or AFRS for SMEs (as the case may be) shall be applied in place of IFRSs guidance discussed in the Accounting Standard and this Basis for Conclusions.

The requirements in the Accounting Standard

Non-going concern entity

BC20 Businesses are generally formed and managed with the intent of operating as ongoing entities.

BC21 The financial reporting standards as applicable in Pakistan do not define going concern. These standards note that the continuation of an entity is assumed unless the entity has an intention or the need to enter liquidation or cease trading.

The Conceptual Framework, IFRSs, IFRS for SMEs, and AFRS for SSEs state that financial statements shall be prepared on a going concern basis, unless, entity's management:

(a) intends to liquidate;

(b) intends to cease trading; or

(c) has no realistic alternative but to liquidate or cease trading.

The going concern is based on both entity's ability and intention by management to continue operating.

The U.S GAAP also does not define going concern. Instead, it notes that the continuation of an entity is presumed in preparing financial statements unless liquidation is imminent.

BC22 The Conceptual Framework discusses going concern assumption. Paragraph 3.9 of the Conceptual Framework states that financial statements are normally prepared on the assumption that the reporting 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 enter liquidation or to cease trading. If such an intention or need exists, the financial statements may have to be prepared on a different basis. If so, the financial statements describe the basis used.

Even though the Conceptual Framework does not require an entity to assess whether it is a going concern or provide disclosures about going concern, identifying the going concern assumption as an underlying assumption in the Conceptual Framework provides a basis for including such requirements in other IFRSs.

BC23 For financial reporting purposes, IFRSs and IFRS for SMEs contain three distinct requirements relating to going concern:

(a) assessment and use of going concern assumption for the preparation of financial statements;

(b) disclosure of material uncertainties about an entity's ability to continue as a going concern; and

(c) preparation of financial statements of a non-going concern company on an alternate basis of accounting

Going concern related discussion is available in IFRSs, IFRS for SMEs, and AFRS for SSEs is as under:

<u>IFRSs</u>

IAS 1, *Presentation of Financial Statements,* in paragraphs 25 and 26 states that

"When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements 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, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on 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."

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate."

IAS 10, *Events after the Reporting Date*, also discusses going concern. While explaining the objective, IAS 10 states that *"the Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.*

IAS 10, in paragraphs 14-16 further discusses going concern and states that:

- *An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.*

- *Deterioration in operating results and financial position after the reporting period may 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 requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognized within the original basis of accounting.*

- *IAS 1 specifies required disclosures if:*

  (a) the financial statements are not prepared on a going concern basis; or

(b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.

<u>IFRS for SMEs</u>

IFRS for SMEs, in paragraph 3.8 states that when preparing financial statements, the management of an entity using this Standard shall make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless management either intends to liquidate the entity or cease operations or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least but is not limited to, twelve months from the reporting date.

Paragraph 3.9 of IFRS for SMEs states that when management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on 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.

<u>AFRS for SSEs</u>

Paragraph 1.4 of AFRS for SSEs states that financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or cease trading within the next twelve months or has no realistic alternative but to do so.

Liquidation and cease trading

BC24 Non-going concern of an entity is linked to the liquidation or ceasing trading. Various IFRSs use the term 'liquidation' and 'cease trading'. However, IFRSs do not contain a definition or explanation of these terms.

USGAAP in Subtopic *Liquidation Basis of Accounting* defines liquidation as "*the process by which an entity converts its assets to cash or other assets and settles its obligations with creditors in anticipation of the entity ceasing all activities. Upon cessation of the entity's activities, any remaining cash or other assets are distributed to the entity's investors or other claimants (albeit sometimes indirectly). Liquidation may be compulsory or voluntary. Dissolution of an entity as a result of that entity being acquired by another entity or merged into another entity in its entirety and with the expectation of continuing its business does not qualify as liquidation."*

BC25 Entities are incorporated and established to carry out specific businesses and to achieve specific objectives. The term trading is used for considering the going concern of an entity, and this term is not restricted to any specific entity. Trading would refer to the business operations and activities of any entity, and ceasing trading would mean ceasing the business operations and activities.

IASB has not explained the term cease trading. The previous version of the Conceptual Framework issued by the IASB while explaining the going concern used the term 'curtail materially the scale of its operations'. The IASB while revising the Conceptual Framework substituted the phrase 'curtail materially the scale of its operations' with the phrase 'cease trading'. In the Basis for Conclusions accompanying the Conceptual Framework, the IASB explained that this change is made to align the description more closely with that used in IAS 1 and IAS 10.

BC26 The Board noted that the threshold for departing from the going concern basis of accounting is very high, as generally realistic alternatives to liquidation or ceasing trading/operations exist. Management while making an assessment about going concern is required to consider the realistic alternatives to liquidation or ceasing trading/operations, and accordingly conclude on the going concern status of an entity.

Assessment of going concern

BC27 As noted earlier, financial reporting standards require an entity to assess whether it is a going concern. For example, IAS 1, establishes the requirement that when preparing financial statements management shall make an assessment of an entity's ability to continue as a going concern. This assessment shall be carried out at each reporting date.

BC28 Management shall carry out the assessment proportionate to the size, complexity, and particular circumstances of the entity.

IAS 1 in paragraph 26 states that the degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules, and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Some entities tend to be less complex as they could be dependent upon fewer providers of finance, have fewer business activities, and have a more limited number of creditors. As a result, the process and procedures for those entities are likely to be simpler and less extensive than those for more complex companies.

BC29 Management's assessment is based on relevant conditions and events that are known and reasonably knowable at the assessment date. For this management should consider and take into account the relevant facts and circumstances at the date of approval of the financial statements.

In performing this assessment, management should consider all reasonably available information about the future, the realistically possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to the management.

BC30 For the public sector companies, there may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern.

For example

(a) a public utility company may have the power or regulatory right to levy rates. This may enable such entities to be considered as a going concern even though they may operate for extended periods with negative equity;

(b) an assessment of an entity's statement of financial position at the end of the reporting period may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the entity.

BC31 For individual entities, in assessing whether the going concern basis is appropriate, management may need to consider a wide range of factors surrounding current and expected performance, potential and announced restructurings of organizational units, estimates of revenue or the likelihood of continued funding from bodies such as the government, and potential sources of replacement financing.

BC32 The International Standard on Auditing 570, *Going Concern*, (ISA 570) also discusses the management responsibility for assessment of the entity's ability to continue as a going concern.

ISA 570 in paragraph 5 states that management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:

- The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.
- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Minimum look-forward period and foreseeable period

BC33 The Conceptual Framework while explaining going concern uses the term 'foreseeable future. Various IFRSs also use the term foreseeable future. For example:

- IAS 12, *Income Taxes,* uses the term in the context of recognition of deferred taxes.
- IAS 21, Effects of Changes in Foreign Exchange Rates, uses the term in relation to the net investment in a foreign operation.
- IAS 38, Intangible Assets, uses this term while discussing the useful life of intangible assets.

However, the term 'foreseeable' is not explained in the Conceptual Framework or IFRSs. IASB while revising the Conceptual Framework decided not to explain this term further. IASB considered that the term 'foreseeable' is used and discussed in different IFRSs. Confiding the term to a certain time period (for example 12 months) could result in unintended consequences in the IFRSs.

BC34 Financial reporting standards set the minimum look-forward period for the assessment of going concern.

For example, IAS 1 in paragraph 26 states that *"in assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period."*

BC35 When assessing whether to prepare financial statements on a going concern basis, IAS 1 requires management to look out at least 12 months from the end of the reporting period.

IAS 1 in paragraph 26 states that in assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least but is not limited to, twelve months from the end of the reporting period.

The outlook period, however, is not limited to 12 months. Consideration of time periods longer than 12 months will not be inconsistent with the requirements in IAS 1.

For example, an entity while preparing financial statements for the year ended 20x2 assesses that it will cease operations after two years (24 months). The entity based on this decision (i.e. intention to cease operations in next 24 months) would be a non-going concern for 20x2 year ended financial statements.

Impact of events after the reporting date on the going concern assessment

BC36 IAS 10 applies to account and disclose of events that happen between the reporting date and the date when financial statements are authorized for issue.

Regarding going concern assessment IAS 10 explains that management's assessment of the use of a going concern basis of preparation should reflect the effect of events occurring after the end of the reporting period up to the date that the financial statements are authorized for issue.

This means that events after the reporting date are considered in the going concern assessment. An adverse event or condition that occurs after the reporting date may raise substantial doubt about an entity's going concern. Similarly, an adverse event or condition that after the reporting date becomes expected to occur during the foreseeable period may also raise substantial doubt about an entity's going concern. This might require management to update assessments of the going concern basis of preparation and decisions about which disclosures are necessary.

If, before the financial statements are authorized for the issue, in accordance with IAS 10:

(a) circumstances were to deteriorate so that management no longer has any realistic alternative but to cease trading or liquidate, the financial statements shall not be prepared on a going concern basis.

For example, the management of an entity while preparing financial statements for a reporting period noted that events and conditions that took place after the reporting date are expected to result in the entity ceasing business within the coming two years. In this scenario, the entity's financial statements for the reporting period shall not be prepared on a going concern basis. This is because the events after the reporting date have made the entity a non-going concern i.e. it is expected to cease operations.

(b) material uncertainties cast substantial doubt on the entity's ability to continue as a going concern arises because of post balance sheet events, however, management has mitigating plans and assesses that entity is a going concern, in such a scenario financial statements shall provide disclosure of the material uncertainties.

Going concern of entities under restructuring and reorganization

BC37 The going concern requires an assessment of the entity's ability to continue without the need or intention to cease trading or liquidating.

The restructuring and reorganization transactions may involve the merger or acquisition of business or assets.

In a merger, two separate legal entities become one surviving entity. All of the assets and liabilities of each are owned by the new surviving legal entity. In an acquisition transaction, the entity is acquired by another entity. The merger or acquisition of an entity with another entity does not in itself indicate that the entity is a non-going concern at a date prior to the merger or acquisition.

When an entity is acquired by another entity or merged into another entity in its entirety and management assesses that trading (i.e. business activities of the merged or acquired entity will continue) then such an entity does not qualify as a non-going concern, and merger or acquisition transaction in itself does not make the entity a non-going concern at the date prior to the merger or acquisition.

The events after the merger or acquisition would require an assessment of the entity's going concern in accordance with the financial reporting standards applicable to such entity.

Going concern assessment of startups

BC38 An entity is generally considered to be in a development stage when it devotes substantially all of its efforts to establishing a new business for which planned principal operations have not commenced or have commenced but are not yet generating significant revenue.

Startups ordinarily have unique challenges due to the nature of their different nature of businesses. However, all startups might have some common challenges, including financial challenges. Typically, the entity does not have a stable source of revenue. Often, the entity has no material current or non-current liabilities and limited contractual commitments requiring cash outflows in the next twelve months. While the entity has significant levels of planned future spending, the existing funding is typically not sufficient to carry out such activity. Instead, the entity is reliant on future funding to achieve its business objectives and to meet its near-to medium-term capital expenditure budget. This entity could defer planned future expenditures necessary to achieve its business objectives until such funding is available, and typically does not face the risk of ceasing trading, nor does it have the intent to liquidate in the foreseeable future.

BC39 The challenges faced by the startup and development stage activities require consideration during the financial reporting. Given most start-ups have to continue to raise equity and debt funding as they grow, management shall at the reporting date assess whether the entity is a going concern. The assessment shall be based on the specific facts, conditions, and events, including the entity's ability to raise equity and arrange financing that is sufficient for continuing as a going concern. For this management will need proper support for the analysis including cash flow forecasts. and disclosure of any material uncertainties may need to be made in the financial statements.

BC40 The outcome of management assessment about the entity's going concern may require:

(a) disclosure of sufficient detail for a user to have a proper understanding of the nature of the business and the stage of the business cycle.

(b) disclosure of material uncertainties relating to going concern in accordance with financial reporting standards as applicable in Pakistan; or

(c) Preparation of financial statements on a non-going concern basis;

Preparation of financial statements under non-going concern basis of accounting

BC41 Assessment of an entity as a non-going concern is a significant event. The non-going concern entity based on the applicable statutory requirements may be required to prepare financial statements in accordance with the applicable financial reporting framework.

When preparing these financial statements, the entity is required to comply with the statutory requirements for the preparation of financial statements. However, the non-going status does not ordinarily affect or change the application of the financial reporting standards followed by the entity in the preparation of its financial statements.

BC42 The non-going concern does not necessarily affect the accounting for most items on the statement of financial position and in the statement of profit and loss. In most cases, financial reporting standards as applicable to the items of assets, liabilities, income, expense, and equity would continue to apply in the recognition and measurement of assets and liabilities as if a reporting entity is a going concern. For example, income tax considerations would still apply after an entity becomes a non-going concern.

BC43 The entity shall continue to prepare financial statements in accordance with the financial reporting standards applicable to the entity. However, the needs of financial statement users may change, and thus changes in the reporting practices previously followed by the entity are necessary.

A non-going concern entity is clearly in circumstances different from those of a going concern entity, some changes in the financial statements are needed to reflect the unique aspects of the on-going concern.

Statement of compliance with financial reporting standards as applicable in Pakistan

BC44 All entities in Pakistan ordinarily prepare their financial statements in accordance with the financial reporting standards as applicable in Pakistan.

A non-going concern entity shall prepare its general-purpose financial statements in accordance with the financial reporting standards as applicable in Pakistan.

The statement of compliance of a non-going concern entity shall state that the financial statements have been prepared in accordance with the financial reporting standards as applicable in Pakistan.

Non-going concern basis of preparation

BC45 Each situation needs to be assessed on its own facts and circumstances as some entities in a non-going concern situation could be closer to liquidation or ceasing trading than others. The accounting will typically reflect this.

BC46 In some situations, the effect of an entity's non-going concern status may be insignificant on the entity's financial position, performance, or cash flows. Nevertheless, the financial statements shall disclose that entity is no longer a going concern and financial statements have been prepared in accordance with an alternate basis of accounting.

BC47 Prior to adopting the non-going concern basis of accounting, a reporting entity should consider whether any adjustments to its assets and liabilities are necessary while preparing going concern financial statements. In the periods prior to the adoption of the non-going basis of accounting, assets, including goodwill, intangible assets, and long-lived assets, should be evaluated for impairment under the applicable standards.

Recognition principle under non-going concern basis of accounting

BC48 The recognition is the process of capturing for inclusion in the statement of financial position or the statement of financial performance an item that meets the definition of an asset, a liability, equity, income, or expenses.

The amount at which an asset, a liability, or equity is recognized in the statement of financial position is referred to as its carrying amount.

BC49 A non-going concern entity shall prepare financial statements in accordance with the requirements of the financial reporting standards as applicable in Pakistan.

BC50 A non-going concern entity, in earlier periods, might not have recognized and recorded certain items such as trademarks, internally generated goodwill etc.

These items would not have been recognized as they did not meet recognition principles of financial reporting standards as applicable to such entities and items.

However, the entity may now expect to generate sales proceeds from the previously unrecognized assets. In this regard guidance about contingent assets also explains that these are possible assets whose existence will be confirmed by the occurrence or non-occurrence of uncertain future events that are not wholly within the control of the entity. Contingent assets are not recognized, but they are disclosed when it is more likely than not that an inflow of benefits will occur.

In view of the above, previously unrecognized assets should not be recognized on the basis of future expectations. Rather, the recognition principles of financial reporting standards as applicable in Pakistan shall be followed and such assets should be recorded at the time of their actual sale.

BC51 A non-going concern entity should carefully evaluate whether any significant events have occurred that would require recognition or remeasurement of the obligations. For instance, restructuring activities, such as those previously described, could result in a planned curtailment, settlement, or significant benefit plan amendment that will typically have accounting consequences.

BC52 A non-going concern entity should recognize income and expenses in accordance with the financial reporting standards applicable to such items of income or expenses.

It shall accrue future income that it expects to earn. Similarly, costs it reasonably expects to incur, also shall not be recognized, unless the cost relates to the disposal of an asset measured at net realizable value.

For example, on the date it adopts the non-going concern basis, a reporting entity may expect to continue to employ three employees to assist with closure and liquidation activities. Its liquidation is expected to last two years. The entity should not accrue two years of payroll and related costs for the three employees, though it has a reasonable basis to estimate the anticipated costs.

The financial statements may contain disclosures of the anticipated costs and expected income of the future period.

Measurement: Factors to consider in setting the measurement basis

BC53 The assets, liabilities, equity, income, and expenses recognized in the financial statements require quantification in monetary terms. This requires the selection and application of a measurement basis, which in turn creates a measure of the asset or liability and related income and expense.

The Conceptual Framework discusses the historical cost and current value.

BC54 The Conceptual Framework in paragraph 6.43 states that in selecting a measurement basis for an asset or liability and for the related income and expenses, it is necessary to consider the nature of the information that the measurement basis will produce in the statement of financial position and statement of financial performance, as well as other factors.

The Conceptual Framework in paragraph 6.45 explains that the information provided by a measurement basis must be useful to users of financial statements. To achieve this, the information must be relevant and it must faithfully represent what it purports to present. In addition, the information provided should be, as far as possible, comparable, verifiable, timely, and understandable.

BC55 The relevance of the information provided by a measurement basis for an asset or liability and for the related income and expenses is affected by the characteristics of the asset or liability and how the asset or liability contributes to the future cash flows.

BC56 IFRSs are developed on the basis of the Conceptual Framework, and IFRSs use the historical cost and current value (which includes fair value and current cost) as the measurement basis for the asset and liabilities. IFRSs also specify the accounting requirements, including those for the measurement of assets and liabilities on the presumption that the entity will continue as a going concern entity.

A going-concern entity could be in financial or operational distress, and IFRSs require such entities to consider the implications of adverse financial or operational circumstances and events on the measurement of assets and liabilities. These adverse impacts are recorded in the form of impairment, write-down or write-off of assets, and up-ward revision of liabilities, including provisions.

A non-going concern entity will ordinarily be in financial or operational distress, however, the financial information needs of users of its financial statements would be an important factor in determining the measurement basis.

Measurement basis for non-going concern entities

BC57 For a non-going concern entity, the emphasis shifts from reporting about the reporting entity's economic performance and position to reporting that focuses on the amount of cash or other consideration that an investor might reasonably expect to receive upon liquidation/winding-up.

BC58 For such an entity, the measurement basis used to prepare going concern financial statements may not always be appropriate. Specific measurement requirements would give more relevant and useful information to the users of financial statements. Accordingly, the carrying amounts as reported under the going-concern basis of accounting in the previous period, or fair value measurement or value in use measurement (for non-financial assets) would not be the measurement basis that would provide relevant and faithful information about the reported assets and liabilities.

Fair value measurements require the use of market participant assumptions and the consideration of the most advantageous market when estimating fair value. However, for a non-going concern entity under liquidation or winding up the appropriate for a reporting entity in liquidation is because the process of liquidation can involve distressed or forced sales of assets without a sufficient period to market the assets or wait for an illiquid or depressed market to recover.

The value in use requires estimation of the future cash inflows and outflows to be derived from continuing to use the asset and from its ultimate disposal. However, as noted above for a non-going concern entity under liquidation or winding up the continuing use of the asset would be less relevant, rather the focus would be on disposing of the asset.

BC59 The above-noted measurement basis and methods do not provide the most relevant information to the users of financial statements of a non-going concern that is under liquidation or has no realistic chance of revival. On the other hand, the Conceptual Framework does not specify the liquidation basis of accounting for the measurement of assets and liabilities.

BC60 Assets of the reporting entity are measured at the estimated amounts of cash or other consideration it expects to collect, which could be different from the fair value of those assets.

BC61 The Board in view of the above considered that the net realizable value is the most suitable measurement basis for the assets of a non-going concern entity. Net realizable value is defined in IAS 2, *Inventories,* as the estimated selling price in the ordinary course of business less the estimated costs of the completion and the estimated costs necessary to make the sale.

The net realizable value of assets would be the estimated amounts of cash or other consideration the entity expects to collect or obtain from the sale of the asset in its present condition (without incurring further completion costs).

Due to non-going concern nature of entity, the estimated costs of the completion of the asset would not be relevant. The net realizable value of assets, generally, would not include the estimated costs of the completion.

BC62 For the assets measured at net realizable value, the costs to make the sale shall also be estimated and recognized separately.

The estimated costs to make the sale should be reported in the aggregate separately from the carrying amounts of the related assets. The measurement of estimated costs to make the sales should be made on an undiscounted basis.

BC63 Assets presented under the net-realizable value basis are not depreciated, and accumulated depreciation is not presented. An asset may be in the use of the entity, however, impacts of its wear and tear would now be accounted for through the realizable value. Impairment and other methodologies for adjusting asset values are not relevant under the net-realizable value basis. In theory, since assets are measured at the amount of cash the reporting entity expects to collect upon sale, expenses, gains, or losses on asset use or disposition would be reflected in the net-realizable amount.

BC64 The deferred charges and other assets that will not be converted to cash or other considerations (e.g., deferred financing costs, prepaid expenses) should be written off at the date of adoption of the net-realizable basis of measurement unless the entity expects to utilize those deferred charges and other assets in future.

BC65 The liabilities, including provisions shall be recognized liabilities in accordance with the recognition provisions of financial reporting standards that would otherwise apply to those liabilities.

Certain events that may occur in connection with a non-going concern status, such as a covenant violation or a troubled debt restructuring, have specific accounting guidance that a reporting entity should consider even when applying the non-going basis of accounting.

Further, liabilities of specified, contractual amounts should not be written down to their estimated settlement amounts until the liabilities are legally settled. However, liabilities without contractually specified amounts that are measured based on estimates of settlement amounts and timing should be adjusted to incorporate all changes to assumptions that are impacted by the reporting entity's decision to cease trading or liquidate.

For example, a non-going concern entity may have a product warranty obligation for which, prior to applying the non-going basis of accounting and assessing the probability of becoming a going concern in the future, it estimated would be settled in three years. Upon adopting the liquidation non-going concern basis of accounting, the entity now expects the product warranty obligation will be settled within one year. The entity should re-measure the obligation on the date it adopts the non-going concern basis of accounting to incorporate its updated estimate of the settlement date of the liability. However, it should not reduce the estimated cash flows inherent in the warranty estimate for any anticipated lapse/forgiveness until such liability is contractually lapsed/forgiven.

BC66 The measurement of liabilities under the financial reporting standards may require discounting and consideration of the time value of money.

The Board considered that for a non-going concern entity, discounting of liabilities may not provide the relevant information to the users of financial statements, including the court or other authority involved in the liquidation or winding-up. Further, such a non-going concern entity will have limited human resources. The discounting would involve significant efforts and cost, which for a non-going concern entity could be a constraint.

The Board in consideration of the above factors decided that a non-going concern shall measure its liabilities without discounting the same.

Going concern consideration at the subsidiary/parent level

BC67 Every reporting entity when preparing general purpose financial statements is required to assess going concern.

In a group structure, the reporting entities involve the parent and its subsidiaries. In the group structure:

(a) a parent would be required to prepare its separate financial statements as well consolidated financial statements.

(b) a subsidiary would be required to prepare separate or standalone financial statements.

Each entity of the group is required to assess and consider the going concern implications on their respective financial statements.

As a reporting entity, the parent would be assessing going concern when preparing its separate and consolidated financial statements. The consolidated financial statements are financial statements in which the assets, liabilities, equity, income and expenses, and cash flows of the parent and its subsidiaries are presented as those of a single economic activity, and going concern would be assessed for these financial statements separately, regardless of the going concern or non-going concern status of parent and subsidiaries.

As reporting entity, each subsidiary would be required to assess going concern only in the context of their separate or standalone financial statements.

BC68 In a group structure there could be a situation where the going concern basis of accounting may not be considered appropriate for a subsidiary. However, going concern basis may remain appropriate for the subsidiary's parent and for the group as a whole.

Irrespective of the basis of accounting used by a subsidiary, the principle of going concern accounting shall be applied in the group's consolidated financial statements if the group itself is a going concern.

While preparing consolidated financial statements any potential adjustment to the assets and liabilities of a subsidiary would need to be considered. This might result in recognition and measurement differences between the consolidated financial statements and the subsidiary's financial statements.

Comparative information

BC69 The financial reporting standards require the presentation of comparative information in the financial statements. An entity, accordingly, discloses comparative information in respect of the previous period for all amounts reported in the current period's financial statements.

In IFRSs, IAS 1 in paragraph 38 specifies the requirements for the presentation and disclosure of comparative information in respect of the preceding period.

IFRS for SMEs in paragraph 3.14 specifies the requirement for disclosing comparative information in respect of the previous comparable period for all amounts presented in the current period’s financial statements.

AFRS for SSEs in paragraph 1.19 states that the entity shall disclose comparative information in respect of the previous comparable period for all amounts presented in the current period’s financial statements.

BC70 The impact of non-going concern accounting on comparative information would depend on whether the entity has issued its financial statements for the previous period.

(a) An entity may become a non-going concern in a particular period, necessitating the preparation of its financial statements on a non-going concern basis. Such a company would not be required to restate its comparative financial information if financial statements for the previous year have been authorized for issue.

This could be a situation when, an entity at the reporting assesses that it can no longer be considered to be a going concern, requiring preparation of financial statements on a non-going concern basis of accounting. The entity's financial statements for the previous year have been issued. The entity would be required to prepare financial statements for the year ended 2022 on a non-going concern basis, however, the comparative information in those financial statements shall not be restated to reflect any impact of going concern assessment.

(b) On the other hand, if the entity's financial statements for the previous year(s) have not been authorized for the issue then in accordance with IAS 10, then the entity would be required to consider all available information till the issuance of financial statements. Moreover, such a company, in accordance with IAS 1 and IAS 10 shall not prepare financial statements for previous years (which have not been authorized for the issue) in accordance with the going concern basis of accounting.

This could be a situation when, an entity at the reporting date assesses that it is a non-going concern, requiring preparation of financial statements on a non-going concern basis of accounting. The entity's financial statements for the previous year(s) have not been issued. Due to non-going assessment at the reporting date and non-issuance of financial statements for the previous year(s), the entity cannot prepare financial statements for the current and previous year(s) for which its financial statements have not been issued on a going concern basis. This would be in accordance with the requirements of IAS 1 (paragraph 25) and IAS 10 (paragraph 14).

Classification of assets and liabilities as current and non-current

BC71 A non-going concern entity is required to prepare its general-purpose financial statements in accordance with the financial reporting standards as applicable in Pakistan. Those financial reporting standards contain guidance regarding the classification of current assets and current liabilities. An asset or liability that does not meet the criteria of current, is classified as non-current.

The guidance regarding the classification of assets and liabilities, contained in financial reporting standards as applicable in Pakistan is similar.

Under IFRSs, IAS 1 in paragraph 60 requires an entity to present current and non-current assets, and current and non-current liabilities, as separate classifications on the face statement of financial position. Further, IAS 1 in paragraphs 66 and 69 contains the criteria for the classification of current assets and current liabilities. It also states that assets and liabilities that do not meet the criteria are non-current assets and liabilities. Non-current assets held for sale shall be classified in accordance with IFRS 5.

IFRS for SMEs in paragraphs 4.1 - 4.7 specifies the requirements for the classification of current assets and non-current assets, and current liabilities and non-current liabilities.

AFRS for SSEs in paragraphs 1.14 and 1.15 specifies the requirements for the classification of current assets and non-current assets, and current liabilities and non-current liabilities.

BC72 An entity that is preparing its financial statements on a non-going concern basis shall classify its assets and liabilities in accordance with the financial reporting standards applicable to such entity.

BC73 A non-going concern entity shall, accordingly, reclassify its long-term liabilities as current liabilities, only if they meet the criteria of applicable financial reporting standards, to be presented as current liabilities.

Due to the deteriorating financial conditions usually associated with the non-going concern entity, such entity might violate covenants (financial and nonfinancial) in existing debt agreements. When a covenant violation is triggered, the debt may become due on demand, or callable, by the lender. Under the guidance of IAS 1, the debt may need to be classified as current unless the lender has waived or subsequently lost the right to demand repayment for more than a year (or operating cycle) from the reporting date.

The non-going concern status of the entity would not in itself lead automatically to the conclusion that the non-current liabilities and assets should be reclassified as current. Rather the non-going concern status of an entity would be an indicator for reclassification. Management should consider the specific facts, including contractual terms for the reclassification of non-current liabilities as current liabilities.

BC74 A non-going concern entity shall not classify its non-current assets as current assets unless and until they meet the criteria of IAS 1 or ‘held for sale’ criteria in accordance with the IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.