

Going Concern

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Disclaimer

- The views expressed by each of the presenters are their own personal views and not necessarily those of the PCAOB, members of the Board, or the PCAOB staff.

FASB Accounting Standards Update

- ❑ In May 2014, FASB directed the FASB staff to draft a final Accounting Standards Update on going concern ("FASB-ASU").
- ❑ All entities will apply the new requirements prospectively for annual periods beginning after December 15, 2015, and in interim periods thereafter. Early adoption is permitted.

FASB Accounting Standards Update

- ❑ Management's assessment of an entity's ability to continue as a going concern should be based on relevant conditions or events known or reasonably knowable at the date the financial statements are issued (for public entities).
- ❑ The look-forward period (that is, the period over which the entity's ability to meet its obligations is assessed) should be one year from the date the financial statements are issued (for public entities).
- ❑ FASB's project update on going concern is available at http://www.fasb.org/cs/ContentServer?c=FASBContent_C&pagename=FASB%2FFASBContent_C%2FProjectUpdatePage&cid=1176160506645

FASB Accounting Standards Update

- ❑ Definition of substantial doubt would incorporate a likelihood component using the term probable.
- ❑ Disclosures required when either (1) substantial doubt exists or (2) substantial doubt has been alleviated by management's plans.

Comparison of Key Provisions of AU Sec. 341 to FASB-ASU and IAS 1

	AU sec. 341	FASB-ASU	IAS 1
Look-forward period	Period not to exceed one year beyond the date of the financial statements being audited	One year from the date the financial statements are issued	Period at least, but not limited to, twelve months from the end of the reporting period
Disclosure trigger A	In auditor's report: Substantial doubt (undefined)	In financial statements: Substantial doubt, which would incorporate a likelihood component defined using the term <i>probable</i> , as used in Topic 450 on contingencies.	In financial statements: Material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern (undefined)
Disclosure trigger B	None	Substantial doubt has been alleviated primarily by management's plans.	None

Auditor Reporting Considerations^{1/}

- ❑ The substantial doubt definition (probable) in FASB-ASU may be more restrictive than current practice.
- ❑ Some SAG members and IAG members have said that they would like earlier warning about going concern uncertainties than current practice.
- ❑ Other SAG members have said that is important for the auditing standard on going concern to be aligned with the applicable accounting standards.

^{1/} Today's SAG discussion will focus on auditor reporting considerations. As part of its standard-setting project on going concern, the PCAOB also may consider changes to auditor performance requirements.

Auditor Reporting Considerations

- Potential auditor reporting alternatives include:
 - a. Maintain the current requirements
 - b. Adopt auditor reporting requirements that parallel US GAAP or IFRS disclosure requirements
 - c. Adopt a new auditor reporting threshold
 - d. Adopt one of the preceding alternatives, and require emphasis paragraphs under certain conditions

Discussion Questions

1. What principles should guide the decision about the approach to auditor reporting on going concern?
2. Which of the preceding alternatives seems most promising? Why?
3. Are there other changes to the auditor reporting on going concern that should be considered?