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**Financial
Management
Conference**

***An Entity's Ability to Continue as a Going
Concern & Impairment Considerations***

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Continuing Professional Education (CPEs) Requirements for CPAs

- Please be sure you **SIGN IN at the beginning and SIGN OUT at the end of every session.** We use the sign-in sheets to verify your participation for CPE credits.
- Please **submit all conference evaluations.** Evaluation links are emailed to registrants daily. Please see the session host (the person monitoring the sign-in sheets) if you prefer a paper evaluation.
- For more information on CPE credits, contact Lindsay Wells at consult.lwells@gmail.com.

Questions

- We will pause during the presentation and again at the end for Q&A.

IMPORTANT NOTE

- The views expressed in this presentation are those of the presenter at this time and not necessarily those of CohnReznick, nor reflect the view of the PCAOB Board or PCAOB staff.
- This presentation does **not** constitute accounting or legal advice.
- Before proceeding regarding any accounting or attest matter please be sure to consult the appropriate guidance. This presentation does not contain all US GAAP, US GAAS, SSARS, PCAOB Standards, other financial reporting frameworks, other auditing standards, or other information that may be applicable and there may be circumstances which may result in different treatment than what is presented in this presentation.

LEARNING OBJECTIVES

- Going concern has emerged in recent years, particularly amid the COVID-19 pandemic, as a focal point of increased consideration. When conditions or events raise substantial doubt, effectively addressing these issues is of noticeable importance. Gain insight into the techniques and thought processes necessary to appropriately address going concern.
- Learn the background of and how to apply FASB going concern standards
- Learn the background of and how to address going concern from an audit perspective

GOING CONCERN

- Going concern is not an anecdotal exercise
- There is a well-organized set of considerations and defined terms
- Responsibility under AICPA: Conclude, based on the audit evidence obtained, whether substantial doubt exists about an entity's ability to continue as a going concern for 1 year beyond the date of issuance
- Literature:
 - US GAAP - FASB ASC 205-40 (only 21 paragraphs long)
 - AICPA audits - AU-C 570 (only 31 paragraphs long)
 - PCAOB audits - AS 2415 (only 17 paragraphs long)

Management's responsibility

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's responsibility

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time

NEW GOING CONCERN SECTION (no longer an EOM)

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note X to the financial statements, the Company has suffered recurring losses from operations, has a net capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note X. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

GOING CONCERN – OVERALL

- **Consider if there are conditions or events which indicate it is probable that the entity will not continue as a going concern for 1 year beyond the date of issuance**
- If such exists, evaluate management's plans to alleviate substantial doubt. Obtain sufficient appropriate evidence that it is probable that management's plans:
 - can be effectively implemented, and
 - would mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time
- Conclude on:
 - Whether there is substantial doubt the entity will be able to continue as a going concern for a reasonable period of time
 - The appropriateness of using the going concern basis of accounting

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Possible high-level considerations – Working capital

- Current Assets less Current Liabilities – does the entity have enough assets available in the next year to meet its obligations that come due in the next year.

Possible high-level considerations – Negative Cash Flows from Operations

- Is the entity losing cash from its operations?
- Note that cash flows from operations may be different from net income due to various noncash items such as depreciation, amortization, etc.

GOING CONCERN – GAAP Requirements

Extracted from ASC 205-40-50 (emphasis added)

- Management shall evaluate whether relevant conditions and events, considered in the aggregate, indicate that it is **probable** that an entity will be unable to meet its obligations as they become due within one year after the date **that the financial statements are issued.**
- The evaluation initially **shall not take into consideration the potential mitigating effect of management's plans that have not been fully implemented as of the date that the financial statements are issued** (for example, plans to raise capital, borrow money, restructure debt, or dispose of an asset that have been approved but that have not been fully implemented as of the date that the financial statements are issued).

CONDITIONS OR EVENTS

- **Conditions or events which raise substantial doubt:**
 - Factors may include, but are not limited to:
 - declines in revenue/ increasing accounts receivable
 - declines in cash inflows
 - unexpected cash outflow
 - GP/sponsor funding
 - uncertainty as to access of needed financing
 - maturing debt
 - The various factors in US GAAP (ASC 205-40) and US GAAS (AU-C 570) or PCAOB (AS 2415) may also be considered, as well as other relevant factors.

GOING CONCERN – OVERALL

- Consider if there are conditions or events which indicate it is probable that the entity will not continue as a going concern for 1 year beyond the date of issuance
- **If such exists, evaluate management's plans to alleviate substantial doubt. Obtain sufficient appropriate evidence that it is probable that management's plans:**
 - **can be effectively implemented, and**
 - **would mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time**
- Conclude on:
 - Whether there is substantial doubt the entity will be able to continue as a going concern for a reasonable period of time
 - The appropriateness of using the going concern basis of accounting

MANAGEMENT'S PLANS

Evaluation of management's plans in relation to going concern and whether management's plans are probable of (1) being implemented and (2) mitigating the conditions or events that raise substantial doubt

- What are management's plans? (there may not be any)
- Is it probable they will be implemented?
- Is it probable they will be effective if implemented?
- Do we have sufficient appropriate audit evidence? Ask “how do we know?”
- Management's projections may no longer be valid

WHEN THIRD PARTY SUPPORT IS NECESSARY

When management's plans include financial support by third parties or the entity's owner-manager and such support is **necessary in supporting management's assertions** about the entity's ability to continue as a going concern, AU-C 570 indicates the auditor should obtain sufficient appropriate audit evidence about the following:

- The **intent** of such supporting parties to provide the necessary financial support, *including written evidence of such intent*, and
- The **ability** of such supporting parties to provide the necessary financial support

THIRD PARTY SUPPORT - ABILITY

- Audit evidence of past support obtained from the supporting party when such support was needed.
- The solvency of the supporting party and the sufficiency of the evidence supporting the solvency assertion.
- Supporting evidence may include:
 - Financial statements of the supporting party audited by a reputable auditor.
 - If the financial statements have not been audited, the auditor may perform other procedures, such as obtaining bank statements and evidence regarding the valuation of assets held by the supporting party that may be used to provide the needed support.
 - However, these procedures might not provide evidence regarding other claims on the pledged assets that would limit the ability of the supporting party to use the assets to provide the support to the reporting entity.

THIRD PARTY SUPPORT - ABILITY

- Given the nature of the continuing disruption surrounding COVID-19, the supporting party may not be able to provide sufficient appropriate evidence
(e.g., evidence that the supporting party has the ability to provide the necessary support in a timely manner for the reporting entity to meet the reporting entity's obligations as they come due. *See AU-C 570.A38.*)
- In such a circumstance, it may be determined that substantial doubt exists about the entity's ability to continue as a going concern

SUFFICIENT APPROPRIATE AUDIT EVIDENCE

When considering projections or analysis of the upcoming year, the following are examples of what may be considered:

- Revenues (how determined, how affected, how do we know)
- Third party industry estimates of the effects of the pandemic on specific industries
- Sensitivity on expenses (insurance, utilities, etc.)
- Results to date

GOING CONCERN – OVERALL

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- If such exists, evaluate management's plans to alleviate substantial doubt. Obtain sufficient appropriate evidence that it is probable that management's plans:
 - can be effectively implemented, and
 - would mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time
- **Conclude on:**
 - **Whether there is substantial doubt the entity will be able to continue as a going concern for a reasonable period of time**
 - **The appropriateness of using the going concern basis of accounting**

AUDIT DOCUMENTATION REQUIREMENTS

- Documentation that is both corroborating and contradictory evidence may include:
 - Memos that address the 1 year assessment period
 - Management's position
 - Auditor's documentation of auditing and accounting considerations
 - Projections with sensitivity analysis and audit evidence regarding inputs, as appropriate
 - Revenue contracts
 - Contracts of commitments (leases, etc.)
 - Debt agreements
 - Debt renewal agreements
 - Third party support
 - Evidence as to intent (such as a support letter or a contract, etc.)
 - Evidence as to ability of the third party to provide said support

OTHER FAQs

1. Does the consideration of going concern still apply for a compilation or review?

Yes. The nature of procedures should be consistent with what is required for the level of service.

2. What if an entity says they want to have financials presented on a special purpose framework (SPF, f/k/a OCBOA), for example the cash or tax basis, does the consideration of going concern still apply?

Yes. Even if the SPF itself does not discuss going concern (cash basis, tax basis, etc.), the literature for all three levels of service requires consideration of going concern:

- audits (AU-C 570.03),
- reviews (AR-C 90.66), and
- compilations (AR-C 80.A20).

Presenting financials under SPF does not remove consideration of going concern.

TIPS

- Address going concern situations early on.
- Often, businesses have a plan, written or unwritten, to stay afloat.
- Test projections, figuratively ask “how do we know?”
- Note that it may be appropriate to have expanded disclosure in the financial statements to describe why there is, or is not, substantial doubt about an entity’s ability to continue as a going concern.

GOING CONCERN

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IMPAIRMENT CONSIDERATIONS

- Triggers
 - I. Negative NOI
 - II. Environmental
 - III. Natural disasters
- Valuations
- Permanent write down

Evaluation Reminder

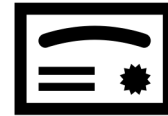
- Please submit all conference evaluations. Use the electronic evaluation link in your email.
- Contact consult.lwells@gmail.com if you do not receive the link.

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