



LETTER OF COMMENT NO.

December 07, 2008

Mr. Russell G. Golden Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: File Reference No. 1650-100

Dear Mr. Golden:

The Accounting Standards Executive Committee (AcSEC) and the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants are pleased to offer comments on the FASB's Exposure Draft of a proposed statement, *Going Concern*. AcSEC and ASB fully support the FASB's efforts to incorporate the going concern guidance, originally covered in the AICPA's auditing literature, into accounting literature.

The remainder of this letter discusses AcSEC's and ASB's specific comments.

## Definition of a "Going Concern"

The proposed statement does not include a definition of a "going concern" and we are concerned that lack of a definition will place a difficult burden on preparers and their auditors as they grapple with an unknown target.

While AU section 341 did not contain a definition of a going concern, in paragraph .01 it did explain what the opposite of a going concern was:

"Ordinarily, information that significantly contradicts the going concern assumption relates to the entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations, or similar actions."

We believe that based on the above guidance, an entity was generally viewed as a going concern if it had the ability to meet its obligations as they became due without having to dispose of assets outside the ordinary course of business, restructure its debt, revise its operations, or perform similar actions. We recommend that this or similar definition be included in the proposed statement.



## Time Horizon over Which an Entity Should Evaluate Its Ability to Continue as a Going Concern

While we support convergence of U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS) and agree with not using bright-line time horizons, we do have a concern about the wording used to describe the time horizon in paragraph 4 of the proposed statement (that is, "at least, but is not limited to, 12 months from the end of the reporting period.") Our concern is that preparers and their auditors could be held responsible for unreasonably long future time periods, which could result in inconsistent application and expose them to greater risks. In paragraph A6 of the proposed statement, the following explanation is provided for the new time horizon:

"The Board decided to use the time horizon in IAS 1 because it avoids the inherent problems that a bright-line time horizon would create for events or conditions occurring just beyond the one-year time horizon that are significant and most likely would have to be disclosed."

However, this explanation would not be included in the FASB Codification. Therefore, we recommend that the "just beyond" language be included in paragraph 4 of the proposed statement (which would be codified) to help avoid implications of indefinitely longer periods. We suggest wording similar to "...time horizon that is generally considered limited to a 12 month period. However, management should consider events or conditions occurring just beyond the one-year time horizon that are significant and most likely would need disclosure."

## Level of Detail at Which the Assessment Should be Made

Paragraph 4 of the proposed statement provides that "[i]n assessing whether the going concern assumption is appropriate, management shall take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period." We are concerned that the proposed statement is not clear that if management did go beyond 12 months in its assessment, it would still need to demonstrate and document its ability to continue as a going concern for 12 months from the date of the financial statements and provide sufficient level of detail in its analysis to support 12 months of existence. Of course given the inherent imprecision in making such forecasts, management should consider events or conditions occurring just beyond the one-year time horizon in making its analysis for the next 12 months period. We are concerned about a situation in which an entity could justify continuance as a going concern by using a longer than 12-month period without specifically addressing the immediate twelve month time horizon. An example would be a company which decides to assess going concern over some longer period because management believes the likelihood of increased sales volume increases with time. In this example, management may prepare a cash flow analysis for a period longer than 12 months which does not specifically contemplate the ability to continue for the next year. We believe that the statement needs to make clear that management's assessment should be focused on a 12-month period from the date of the financial statements and provide sufficient detail to show how they can survive for 12 months and beyond considering events or conditions occurring just beyond the one-year time horizon. This recommendation is not intended to suggest that a bright line is necessary that results in ignoring known information just beyond one-year that would raise substantial doubt about the entities ability to continue as a going concern.



## Disclosures When Substantial Doubt Does Exist, But Was Alleviated

We noted that AU section 341.11 was not carried forward into the proposed statement. As a result, we believe it is unclear whether the proposed statement would require disclosures when substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time is alleviated. Such requirement was formerly included in AU Section 341.11 which provided the following:

"When, primarily because of the auditor's consideration of management's plans, he concludes that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time is alleviated, he should consider the need for disclosure of the principal conditions and events that initially caused him to believe there was substantial doubt. The auditor's consideration of the disclosure should include the possible effects of such conditions and events, and any mitigating factors, including management's plans."

Section 205-30-50-1 of the proposed statement provides that "when management is aware, in making its assessment, of material uncertainties about events or conditions that may cast substantial doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties." However, Section 205-30-05-1 of the proposed statement states that it "requires disclosures when either of the following conditions exists:

- a. Financial statements are not prepared on a going concern basis.
- b. There is substantial doubt as to an entity's ability to continue as a going concern."

This latter guidance could be interpreted to mean that no disclosures are required when substantial doubt was alleviated.

We believe that the disclosure requirement in AU Section 341.11 was appropriate and beneficial to the users of financial statements. Therefore, we recommend that the proposed statement explicitly provide guidance that the phrase "material uncertainties about events or conditions that may cast substantial doubt" is inclusive of circumstances in which substantial doubt as to an entity's ability to continue as a going concern for at least a year has been alleviated as well as those in which substantial doubt as to an entity's ability to continue as a going concern for at least a year remains. Accordingly, management should be required to make appropriate disclosure in both circumstances.

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We appreciate the opportunity to comment on the proposed statement. We are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Jay Hanson Chairman AcSEC Harold Monk, Jr. Chairman ASB

American Institute of Certified Public Accountants
1211 Avenue of the Americas, New York, NY 10036-8775 • (212) 596–6200 • fax (212) 596–6213 • www.aicpa.org

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