

# McGladrey & Pullen

Certified Public Accountants



LETTER OF COMMENT NO. / A

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December 5, 2008

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

## **File Reference No. 1650-100**

Dear Mr. Golden:

We are pleased to comment on the Exposure Draft of the Proposed Statement of Financial Accounting Standards, *Going Concern* (the "proposed Statement"). We support the FASB's proposal to require management to evaluate a reporting entity's ability to continue as a going concern, to require that the financial statements be presented on a going concern basis unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so and, when the financial statements are not presented on a going concern basis, to disclose the basis upon which it prepared the financial statements and the reasons why the entity is not regarded as a going concern. We also support the FASB's proposal to require disclosure whenever events or conditions indicate that there could be substantial doubt about the entity's ability to continue as a going concern.

The following is our response to the specific issue for which the FASB requested comment.

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

We support the FASB's efforts on convergence of U.S. generally accepted accounting principles and International Financial Reporting Standards. We also agree with the FASB's decision to not use a bright line of one year as the time horizon over which an entity should evaluate its ability to continue as a going concern. However, we are concerned that the reference to "the future" in paragraph 4 of the proposed standard (i.e., ". . . which is at least, but not limited to, 12 months from the end of the reporting period.") establishes a minimum limit to the term "future" without establishing any maximum limit. We suggest that adding a modifier such as "reasonably foreseeable" to "future" would appropriately convey that the "future" is not an indefinite period.

Our comments on other issues follow:

### *Information Required to Be Considered in the Assessments*

Paragraph 4 of the proposed Statement states that “in assessing whether the going concern assumption is appropriate, management shall take into account all available information about the future. . .”. We realize that this language is being proposed so as to converge to the language in IAS 1. We suggest, however, that some parameters be placed around the words “all available.” While we acknowledge that an entity, in making its assessment, should consider all readily available information, we believe guidance should be provided on how much effort and cost an entity would be expected to expend to obtain information necessary to make the assessment. We suggest that the proposed Statement include a notion similar to that included in paragraph 30 of FASB Statement No. 157, *Fair Value Measurements*, and that the requirement be modified to require the entity to take into account all information that is reasonably available to it without undue cost and effort.

### *Required Disclosures in Situations in Which Substantial Doubt was Alleviated*

Paragraph 7 of the proposed Statement appears to require disclosures about material uncertainties about the entity’s ability to continue as a going concern (those that may cast substantial doubt) even if substantial doubt was alleviated (paragraph 7.e.). We concur with that requirement, but note that paragraph 1 indicates that disclosures are only required when there is substantial doubt about an entity’s ability to continue as a going concern (implying that the doubt has not been alleviated). We suggest that paragraph 1 be revised to be consistent with paragraph 7.

### *Disclosures when an Entity does not Prepare Financial Statements on a Going Concern Basis*

We believe that Paragraph 8 represents a “main principle” in the standard and, as such, should appear in bold font.

### *Liquidation Basis of Accounting*

We believe that the removal of the “one-year bright line” has the potential to result in an acceleration of the adoption of the liquidation basis of accounting by entities, as compared to the auditing interpretation on liquidation basis. We don’t believe the Board intended this to change practice regarding when an entity adopts the liquidation basis of accounting, we suggest a comment in the final standard to clarify the intention.

### *Other*

Paragraph 5 of the proposed Statement reads, in part, “Management may identify information about certain conditions or events that, if considered in the aggregate, indicate there could be substantial doubt about the reporting entity’s ability to continue as a going concern.” We believe that considering the conditions or events in the aggregate is a necessary step and therefore suggest that “if” should be changed to “when,” so as to eliminate any potential misunderstanding as to whether performance of that step is conditional.

Paragraph 6 of the proposed Statement lists items that might be included in management's considerations of its plans to deal with the adverse effects of conditions and events that might lead to substantial doubt as to the reporting entity's ability to continue as a going concern. We believe the word "Apparent", while an appropriate modifier in an auditing standard, is inappropriate in an accounting standard and recommend they be deleted from subparagraphs a(2), c(1) and d(1).

We would be pleased to respond to any questions the Board or its staff may have about any of the preceding comments. Please direct any questions to either Jay D. Hanson (952-921-7785) or Richard Stuart (203-905-5027).

Sincerely,

*McGladrey & Pullen, LLP*

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