

# FASB In Focus

## Accounting Standards Update—*Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*

### Background

Under Generally Accepted Accounting Principles (GAAP), financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities.

A reporting organization may face certain adverse conditions or events that raise substantial doubt about its ability to continue as a going concern. Prior to the issuance of this Update, there was no guidance in GAAP about management's responsibility in evaluating or disclosing in the footnotes such conditions and events even though such footnote disclosures have been commonly provided by organizations.

U.S. auditing standards and federal securities law, as applicable, require that an auditor evaluate whether there is substantial doubt about an organization's ability to continue as a going concern for a

reasonable period of time and require an auditor to consider the financial statement effects including footnote disclosures.

### Why Is the FASB Issuing This Update?

The FASB issued this Update in response to stakeholder concerns about the lack of guidance in GAAP regarding when and how management should disclose conditions and events that raise substantial doubt about an organization's ability to continue as a going concern. The Update provides the benefit of clarifying that management is responsible for evaluating and disclosing those conditions and events.

Additionally, the Update provides the benefit of increasing consistency in the timing and content of footnote disclosures that, prior to the issuance of this Update, have been subject to diversity because of the lack of guidance in GAAP and differing views in practice about when substantial doubt exists.

### What Are the Requirements in This New Update?

The Update provides GAAP guidance on management's responsibility in evaluating whether there is substantial

doubt about an organization's ability to continue as a going concern and about related footnote disclosures.

### Evaluating Whether There Is Substantial Doubt

Under the new standard, an organization's management will be required to evaluate whether there are conditions or events that raise substantial doubt about the organization's ability to continue as a going concern for a period of one year from the date the financial statements are issued. The guidance will provide management with principles for evaluating whether there is substantial doubt by:

1. Providing a definition of the term *substantial doubt* and related guidance
2. Requiring an evaluation every reporting period, including interim periods
3. Providing principles for considering the mitigating effect of management's plans.

### Disclosures

Once the organization identifies conditions or events that raise substantial doubt, it then will be able to consider whether management's plans can alleviate substantial doubt by mitigating

the underlying conditions and events.

If substantial doubt is identified, and is not alleviated by management's plans, the organization will include a statement in the footnotes indicating that there is substantial doubt about its ability to continue as a going concern for a period of one year after the date the financial statements are issued. Organizations also will need to disclose in the footnotes information that enables users of the financial statements to understand the following:

1. Principal conditions or events that raise substantial doubt
2. Management's evaluation of the significance of those conditions or events in relation to the organization's ability to meet its obligations

3. Management's plans that are intended to mitigate the conditions or events that raise substantial doubt.

If substantial doubt is identified, but is alleviated by management's plans, the organization will need to disclose in the footnotes information that enables users of the financial statements to understand the following:

1. Principal conditions or events that raise substantial doubt, before consideration of management's plans
2. Management's evaluation of the significance of those conditions or events in relation to the organization's ability to meet its obligations
3. Management's plans that alleviated substantial doubt.

### When Will the Update Be Effective?

The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. ■

**For more information about the project, please visit the FASB's website at [www.fasb.org](http://www.fasb.org).**

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