



GRAP 1 PRESENTATION OF FINANCIAL STATEMENTS – FACT SHEET #2 PREPARING FINANCIAL STATEMENTS ON A BASIS OTHER THAN GOING CONCERN

GOING CONCERN BASIS IS NOT APPROPRIATE		
When should an entity prepare its financial statements using a basis other than going concern?	Financial statements cannot be prepared on the going concern basis if there is an intention, or no realistic alternative but to liquidate the entity, or cease the entity's operations after the reporting date. An entity will have no realistic alternative but to liquidate or to cease its operations if legislation to that effect has been passed, or a decision has been taken by the appropriate authority. A decision to liquidate or cease the operations of the entity is subject to the applicable legislative requirements.	GRAP 1.27
	Liquidation is the process by which an entity converts its assets into cash, or other assets, and settles its liabilities with creditors in anticipation of ceasing all its operating activities. Assets that are not used to settle liabilities are distributed as specified in the liquidation resolution.	GRAP 14.15
	Ceasing an entity's operations is the cessation of all the functions and operations undertaken by the entity. Based on a resolution to cease the operations of an entity, all its functions and operations will be terminated. Ceasing the operations of the entity may lead to a liquidation.	
PREPARING THE FINANCIAL STATEMENTS ON A BASIS OTHER THAN GOING CONCERN		
What should an entity consider when preparing its financial statements on a basis other than going concern?	The Standards of GRAP do not prescribe the basis (for example, a liquidation basis of accounting) that should be applied when the financial statements can no longer be prepared on a going concern basis. An entity develops its own accounting policies to explain the specific principles, bases, conventions, rules and practices that are applied to prepare the financial statements. The accounting policies should result in relevant and reliable information about the transactions, other events or conditions that reflect the decision to liquidate or cease the operations of the entity. When the financial statements are prepared using a basis other than going concern, an entity may still apply the recognition, measurement presentation and disclosure requirements in the Standards of GRAP to prepare its financial statements, even though it cannot assert compliance with Standards of GRAP. If the financial statements are not prepared on a going concern basis, the entity applies judgement to determine if a change in the carrying values of assets and liabilities is required.	GRAP 14.19

This Fact Sheet explains the Secretariat's views on preparing financial statements on a basis other than going concern. This Fact Sheet accompanies the principles on going concern and material uncertainties in GRAP 1 Presentation of Financial Statements and GRAP 14 Events After the Reporting Date, and should be read with these Standards. This Fact Sheet has not been reviewed, approved or otherwise acted on by the ASB.



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What are the recognition and measurement considerations when the financial statements are prepared on a basis other than going concern?

When management concludes that the financial statements should be prepared on a basis other than going concern because of a decision to cease the entity's operations or to liquidate the entity (hereafter referred to as "the decision"), the entity may consider the following in preparing its financial statements:

Component	Consideration
Assets	Consider if any asset should be impaired. If the entity intends to dispose of assets, the asset may be re-measured to reflect the estimated amount of cash or other consideration the entity expects to collect from the disposal of the asset.
Liabilities	Adjust liabilities to reflect changes in assumptions. Recognise additional liabilities and onerous contracts. Consider the classification of non-current liabilities as current, for example, consider if clauses in debt covenants trigger the reclassification of certain debt as current liabilities.
Revenue	Accrue for revenue expected to be received, for example pre-existing orders.
Expenditure	Accrue for expenses that the entity expects to incur, for example employee costs. Accrue for expenses to dispose of assets, and/or to settle liabilities.

GRAP 14.20

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What disclosures are provided when the financial statements are not prepared on a going concern basis?	The entity should disclose: - the fact that the financial statements are not prepared on the going concern basis; - the basis on which the financial statements are prepared, the accounting policies applied, if the accounting policies were based on Standards of GRAP, and if not, where the entity departed from the principles in the Standard of GRAP; and - the reason why the entity is not considered to be a going concern. In addition, the entity could consider disclosing: - details of the decision to liquidate or cease operations, including details of the person(s) authorising the decision and/or the legislation that effected the decision to liquidate or cease operations; - a description of the entity's plan to execute the decision, including the manner in which the entity expects to dispose of its assets and settle its liabilities or obligations (where applicable); - the period over which the entity expects to pay its remaining outstanding expenses and earn the revenue from the disposal of its assets; - the facts and circumstances surrounding the adoption of the basis on which the financial statements are prepared; - the date by which the entity expects to execute the decision; and - the methods and significant assumptions used to measure assets and liabilities, including subsequent changes to these assumptions and methods (if applicable).	GRAP 1.27 GRAP 14.19 and .21(a)
Should comparative information be restated to reflect that the current year's financial statements have been prepared	If an entity's current financial statements are prepared on a basis other than going concern, comparative information does not need be restated to reflect the basis of accounting used in preparing the current period's financial statements, if: (a) the previous year's financial statements have been issued; and	

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on a basis other than going concern?	(b) at the time of issuing the previous year's financial statements, management had considered all the relevant facts and circumstances about the future that could have cast significant doubt on the entity's ability to continue as a going concern, and concluded that the going concern basis remained appropriate. An entity's going concern is assessed based on its ability to continue as a going concern up until the point that the previous year's financial statements were authorised for issue. Because going concern is assessed based on information available at a point in time and because the financial statements were already authorised for issue, any subsequent change is treated in the same way as a change in an accounting estimate. This change is accounted for prospectively in accordance with the Standard of GRAP on <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.
If the prior year's financial statements have not yet been authorised for issue, can it be prepared on a going concern basis if it is concluded that the current year's financial statements should be prepared on a basis other than going concern?	If for the current reporting period, an entity concludes that its financial statements should be prepared using a basis other than going concern, neither the current year's financial statements, nor the previous year's financial statements that have not yet been authorised for issue, can be prepared on the going concern basis. Prior to the financial statements being authorised for issue, the entity needs to consider all relevant facts and circumstances, including its ability to continue as a going concern. Therefore, if the previous year's financial statements have not yet been authorised for issue, the entity's ability to no longer continue as a going concern will impact the basis on which those financial statements (its previous year's financial statements) are prepared. GRAP 1.27 GRAP 14.15
PREPARING FINANCIAL STATEMENTS ON THE GOING CONCERN BASIS For guidance on the preparation of financial statements on the going concern basis refer to GRAP 1 <i>Presentation of Financial Statements</i> – Fact Sheet #1 Assessing Going Concern [add link]	

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