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An Analysis of the FASB's New Going-Concern Standard and Its Relation to Liquidation Basis Accounting Requirements

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Abstract

Whether a company expects to remain in existence for a reasonable time into the future is a fundamental consideration for investors and creditors when evaluating investment alternatives. Investors and creditors are understandably concerned about management's ability to enhance the capital-providers' investment, and any doubts about an entity's future demise or liquidation is decision-useful information for these capital-market participants. To provide investors and creditors with some assurance about a company's future survival, the accounting standards establish the *going-concern* assumption.

While the going-concern assumption is a foundational underpinning of the financial reporting process, until recently, an entity's management has had no formal responsibility for evaluating or disclosing conditions about an entity's ability to continue as a going concern. The burden of assessing the going-concern assumption has historically resided with the entity's independent auditor, and disclosure of going-concern issues was not required if management was able to satisfy the auditor that the conditions raising uncertainty would be alleviated.

This process changed significantly with a recent Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU). The accounting standards now charge an entity's management with the responsibility to evaluate the going-concern assumption, stipulate stricter requirements for disclosure of going-concern uncertainties, and address financial reporting requirements if an entity's liquidation becomes imminent.

Our manuscript discusses the major provisions of the new going-concern standard and how it relates to the liquidation basis of accounting standard.

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We provide important information for investors, creditors, managers, preparers, auditors, and other capital market participants about how this new standard may affect the interpretation of financial statements. Our manuscript also provides an analysis of the FASB exposure draft comment letters, poses unanswered questions about the new going-concern standard, and discusses the effects the standard has on auditors.

INTRODUCTION

Transparency in financial reporting significantly influences capital-market efficiency as decision makers use the information presented in financial statements to make investment decisions. Hence, the importance of reliable financial reports, that fairly reflect the financial condition of an entity, cannot be overstated. One of the most fundamental accounting assumptions underlying the preparation of financial statements is the *going-concern* assumption.

The going-concern assumption presumes that an entity will be able to realize its assets and meet its financial obligations when they become due for a reasonable time into the future. Accordingly, general-purpose financial statements are prepared using the going-concern basis of accounting (traditional accrual accounting). Investors, creditors, and analysts use this financial information to evaluate current performance and make predictions about the future performance of an entity.

If, however, an entity is not expected to continue operating as a going concern and its liquidation is imminent, use of the liquidation basis of accounting is required for the preparation of financial statements to provide relevant information to investors about the expected resources available after liquidation.

Given the critical importance of an entity's ability to continue as a going concern for capital-investment decisions, when and how should this information be communicated to interested parties to make it most decision useful? For example, even before an entity's liquidation is imminent, uncertainties may exist about the entity's ability to continue as a going concern that would be relevant to investors.

The question is, how much of this information should be publicly disclosed? In the past, if auditors expressed uncertainty about the validity of the going-concern assumption, but the entity's management implemented a plan to alleviate the problem, this information was not communicated to the investing public.

U.S. accounting standards have not, until recently, adequately addressed these important issues regarding the going-concern assumption. To close this gap in the standards, the FASB recently completed a two-phase project that resulted in the issuance of two Accounting Standards Updates: ASU No. 2014-15, *Presentation of Financial Statements (Topic 205): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, issued on August 27, 2014; and ASU No. 2013-07, *Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting,* issued on April 22, 2013.

The purpose of this paper is to analyze the major provisions of the going-concern standard update and its relationship to the liquidation basis of accounting. We also present results of an analysis of the feedback from various constituents who commented on the FASB Exposure Draft and present important unanswered questions related to the cost-benefit of the new standard, the effect on the capital markets of implementation of the amendments, and the impact of the new disclosure requirements on U.S. auditing standards.

GOING-CONCERN STANDARD UPDATE

Background

The issuance of financial statements prepared using the going-concern basis of accounting signals to users of the information that an entity expects to continue its operations into the foreseeable future. To assure investors that the going-concern assumption is valid, recent updates have been made to generally accepted accounting principles (GAAP).

The revised standard provides guidance on going-concern issues, including management's responsibility to assess going-concern uncertainties, when and how such uncertainties should be disclosed in the financial statement footnotes, and when to use the liquidation basis of accounting to prepare financial reports.

Prior to issuance of the standards update, responsibility for evaluating the going-concern assumption resided solely with an entity's independent auditor, in accordance with U.S. auditing standards and federal securities law, and was conducted as part of the annual financial statement audit. Independent auditors are also charged with responsibility for evaluating the adequacy of disclosures relative to going-concern uncertainties and for assessing the viability of management's plans to alleviate any substantial doubt about the entity's ability to continue as a going concern.

Varying interpretations of the substantial-doubt threshold on the part of independent auditors, combined with the considerable professional judgment involved in the going-concern assessment, and the absence of GAAP guidance, has resulted in considerable diversity in practice with respect to the timing, content, and overall extent of footnote disclosures related to going-concern conditions. ASU 2014-15 was issued to reduce this diversity in an effort to improve the timeliness and quality of footnote disclosures, thereby increasing the usefulness of financial statements.

Key Provisions of ASU 2014-15

Incorporating and expanding on certain principles that are currently in the U.S. auditing standards, the FASB amended GAAP with the issuance of ASU 2014-15. The new going-concern standard applies to all entities (SEC filers and non-filers) covered by FASB rules and became effective for the annual reporting period ending after December 15, 2016, and for annual and interim periods thereafter. Key provisions of the going-concern standard update include:

a. Management Responsibility: A provision has been added to GAAP that charges management with the responsibility to evaluate whether *substantial doubt* exists as to an entity's ability to continue as a going concern. In its evaluation, management must consider relevant conditions and events that are known and *reasonably knowable*[1] at the financial statement issuance date.

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[1]*Reasonably knowable* means that a company should make a reasonable effort to identify conditions that it may not readily know, but that could be identified without undue cost and effort (PwC, 2014, p. 3).

The new FASB guidance includes indicators to be considered in management's evaluation of the entity's ability to meet its obligations, such as financial conditions, liquidity sources, financial obligations, and cash flow.

b. Look-Forward Period: Auditors have historically assessed the going-concern assumption based on a timeframe of one year after the balance sheet date (as required by auditing standards). The revised accounting standard extends the look-forward period to one year after the date financial statements are issued (or available to be issued for non-SEC filers). See Figure 1.

By extending the look-forward period to begin at issuance date, the going-concern assessment must consider all relevant subsequent events[2] after the balance sheet date. This provision will benefit financial statement users by providing more current and relevant information, potentially earlier disclosures about going-concern uncertainties, and a look-forward period that is still one year, even if issuance of financial statements is delayed (Deloitte, 2014).

c. Frequency of Assessment: The frequency of going-concern evaluations has been increased to include each annual and interim[3] reporting period, whereas past practice was limited to an annual evaluation. This change results in the most current information being made available to users of the financial statements.

d. *Substantial Doubt* Defined: A definition of *substantial doubt* is now provided in the going-concern standard, using a likelihood threshold of *probable* ("likely to occur"). A *more-likely-than-not* threshold was initially proposed in the exposure draft; however, the higher-likelihood "probable" threshold was ultimately selected. Auditing standards do not specifically define "substantial doubt."

e. Plans to Alleviate Substantial Doubt: When it is probable that an entity will be unable to meet its current obligations, management must determine whether or not its plans will mitigate the conditions that create substantial doubt. The FASB guidance has been expanded to include examples of plans to mitigate going-concern uncertainties, information to consider in evaluating the feasibility of each plan, and principles for considering the mitigating effect of management's plans.

f. Footnote Disclosures: In the past, footnote disclosures were not required if the auditors determined that management's plans would alleviate going-concern uncertainties. The revised standard, however, requires disclosure if substantial doubt was identified from management's going-concern assessment, even if management's plans are expected to alleviate the doubt.

Specific requirements are provided in the standard for the timing of initial footnote disclosures, how long subsequent disclosures should continue, and what information must be provided in the footnotes. The nature

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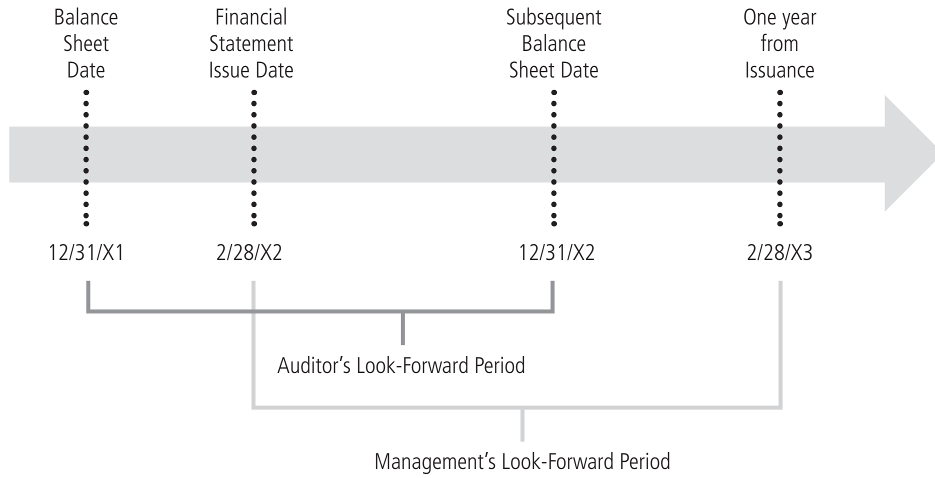
[2]Subsequent events are events that occur between the balance sheet date and the financial statement issuance date that have a material effect on the financial statements and therefore require adjustment or disclosure in the financial statements.

[3]SEC registrants meeting certain size criteria have interim reporting requirements that require the issuance of quarterly financial statements. However, interim financial statements are not generally audited.

FIGURE 1. Look-Forward Periods



Assessment Date: The date financial statements are issued. Management must assess conditions known, or reasonably knowable, at this date.

Management's Look-Forward Period: The period of time, extending one year from the assessment date, in which management must "look-forward" to assess the ability of the entity to continue as a going concern.

Auditor's Look-Forward Period: The period of time under the auditing standards, in which auditors evaluate an entity's ability to continue as a going concern.

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of the disclosures will differ depending on whether or not management's plans are expected to alleviate substantial doubt. Disclosures are discussed in more detail below.

It is interesting to note that even if significant going-concern uncertainties exist, financial statements would continue to be prepared using the going-concern basis of accounting (PwC, 2014). Imminent liquidation is the trigger for using the liquidation basis of accounting. The FASB provides a flowchart to support the decision-making process relative to going-concern issues, a copy of which is provided in Appendix A.

Required Disclosures

The revised standard specifies requirements for when going-concern disclosures must be reported, what information must be disclosed, and when it is acceptable to consider the mitigating effect of management's plans on going-concern uncertainties. The emergence of substantial doubt about a company's ability to continue as a going-concern is the trigger for providing footnote disclosure (PwC, 2014).

If substantial doubt exists, the entity must disclose the relevant information about the conditions that are causing substantial doubt, along with management's plans to alleviate that doubt. Prior to the update, GAAP provided minimal guidance as to the timing and content of going-concern disclosures, and the auditing standards indicate only that the adequacy of disclosures be considered, but put forth no specific disclosure requirements (PwC, 2014).

If management's plans *will* alleviate substantial doubt, disclosures must address the principal conditions that raised substantial doubt *before* consideration of management's plans, management's evaluation of the significance of those conditions in relation to the entity's ability to meet its obligations, and management's plans that alleviate substantial doubt.

If management's plans will *not* alleviate substantial doubt, the footnotes must include an explicit statement that there is substantial doubt about the entity's ability to continue as a going concern, in addition to disclosing information about the principal conditions that raised substantial doubt, management's evaluation of the significance of those conditions in relation to the entity's ability to meet its obligations, and management's plans that are intended to mitigate the conditions that raise substantial doubt.

Although the nature of going-concern disclosures will differ depending on whether management's plans will or will not alleviate substantial doubt, the new requirement for disclosure—even if management's plans will alleviate substantial doubt—is a significant change from past practice. The authors believe that this amendment may cause confusion as a result of differing interpretations of the disclosures by capital-market participants.

Disclosures must be updated to reflect current and relevant information, and are required to continue in subsequent annual or interim reports for as long as conditions continue to raise substantial doubt. For the period in which substantial doubt no longer exists, information about how the relevant conditions that raised substantial doubt were resolved must be disclosed.

Alignment with Auditing Standards

In light of the revised accounting standards, the auditing standards board (ASB) of the American Institute of Certified Public Accountants (AICPA) responded with the issuance of interpretations to Statement on Auditing Standards (SAS) No. 126, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern,* followed by the issuance of SAS 132, which carries the same title, to supersede SAS 126.

In January 2015, the ASB issued four auditing interpretations to SAS 126 as a short-term initiative to address some of the effects of ASU 2014-15. The interpretations clarify the independent auditor's role in light of the provisions relative to:

1. The definition of substantial doubt
2. The definition of reasonable period of time
3. Interim financial information
4. Consideration of financial statement effects

The interpretations essentially emphasize that since auditors are required to form an opinion on whether an entity's financial statements are presented fairly, in accordance with the applicable financial reporting framework, and the applicable financial reporting framework defines substantial doubt, then this definition must be used by the auditor.

Similarly, if the applicable financial reporting framework specifies that management's going-concern assessment extends beyond one year from the date of the financial statements, the auditor's assessment of management's going-concern evaluation would be for the same period of time as required by the applicable financial reporting framework (AICPA AU-C Section 9570). This provision seems to add to the confusion as it does not clarify the time period for the auditors' required separate conclusion (explained below) regarding the existence of substantial doubt.

The new going-concern disclosure requirements promulgated by ASU 2014-15 result in the need for independent auditors to perform interim review procedures related to both management's going-concern assessment and the adequacy of the related disclosures (AICPA AU-C Section 9570).

On February 22, 2017, the FASB issued SAS 132 to further address the provisions in FASB ASU 2014-15. SAS 132 is effective for audits of financial statements for periods ending on or after December 15, 2017, and reviews of interim financial information for interim periods beginning after fiscal years ending on or after December 15, 2017.

The new auditing guidance clarifies the auditor's objectives to render separate conclusions regarding the existence of substantial doubt about an entity's ability to continue as a going concern, and the use of the going-concern basis of accounting to prepare financial statements. Requiring both auditors and management to separately evaluate the going-concern assumption may cause confusion in the early stages of implementation as each group works to understand its role and responsibilities.

The new auditing standard also addresses the use of *emphasis of matter paragraphs* to highlight liquidity issues related to management disclosures when the auditor concludes that substantial doubt has been alleviated by management's plans.

Alignment with International Financial Reporting Standards (IFRS)

Revision of the going-concern standard aligns U.S. GAAP with International Financial Reporting Standards (IFRS) in that both sets of standards emphasize management's responsibility for evaluating and disclosing going-concern uncertainties. However, differences between GAAP and IFRS still remain and are summarized in Table 1.

TABLE 1. IFRS Versus GAAP Going-Concern Standards

Going-Concern Standard	IFRS	U.S. GAAP
Assessment period	At least one year from balance sheet date with no upper limit provided.	Within one year after the date financial statements are issued.
Basis of accounting used to prepare financial statements	Use going-concern basis unless management either intends to liquidate or cease trading (operations) or has no realistic alternative but to do so. If going-concern basis is not used to prepare financial statements, entity must disclose basis used. No guidance provided on liquidation basis of accounting.	Use going-concern basis of accounting unless and until liquidation becomes imminent at which time apply liquidation basis of accounting.
Disclosures	Required when management is aware of material uncertainties that cast significant doubt about entity's ability to continue as a going concern.	Required when there is substantial doubt about entity's ability to continue as a going concern or when substantial doubt is alleviated as a result of consideration of management's plans.

Liquidation Basis of Accounting

With the issuance of ASU 2013-07, FASB updated its guidance by establishing criteria for when to apply the liquidation basis of accounting, how to measure assets, liabilities, and other items under the liquidation basis, and what information to disclose in the footnotes. The purpose of the updates is to enable users to understand how much will be available for distribution to investors after liquidation is complete. The expectation is that the revised guidance will improve consistency and comparability in financial reporting by reducing diversity in practice.

As mentioned in an earlier footnote, *liquidation* is the process by which an entity converts its assets to cash or other assets and settles its obligations with creditors in anticipation of the entity ceasing all of its activities. Liquidation is imminent when the likelihood is *remote* that an entity will return from liquidation and either: (a) a plan for liquidation is approved by the appropriate authorities and not likely to be blocked by other parties; or (b) a plan for liquidation is being imposed by other forces (such as involuntary bankruptcy).

GAAP requires that financial statements be prepared using the going-concern basis of accounting unless and until a determination is made that the entity's liquidation becomes imminent, at which time financial statements must be prepared using the liquidation basis of accounting.

Preparation of financial statements using the liquidation basis of accounting requires the presentation of relevant information about an entity's expected resources in liquidation. Assets are measured and presented at the amount of expected cash proceeds from liquidation, and liabilities are measured and presented using the amount of the obligations.

Footnote disclosures must include a statement that the financial statements are presented using the liquidation basis of accounting, along with relevant facts and circumstances surrounding adoption of liquidation basis accounting and the entity's determination that liquidation is imminent.

Also required is a description of the entity's plan of liquidation that includes information regarding the manner in which assets will be disposed and liabilities settled, expected date that the liquidation will be completed, and methods and significant assumptions used to measure assets and liabilities.

CONTENT ANALYSIS

Data for the content analysis consists of publicly available comment letters provided to the FASB in response to its exposure draft on the proposed going-concern standard. The standard-setting model adopted by the FASB is a transparent and deliberative process that seeks to solicit broad participation from a variety of stakeholders.

The process begins with the identification of topics, conducting pre-agenda research, deciding whether to place the matter on FASB's agenda, deliberation at public meetings, and then the issuance of a document for public comment.

These "exposure drafts" provide interested stakeholders with details of the proposed accounting standards update and solicit the response to pertinent and specific questions regarding the proposed accounting standard. Respondents generally have a specific window of time to respond to the FASB.

The exposure draft for the proposed going-concern standards update was issued on June 26, 2013 with comments due by September 24, 2013. FASB solicited the response to 19 questions related to the exposure draft. These 19 questions are reproduced in Appendix C. Forty-seven comment letters were received.

Not all comment letters addressed all questions, since respondents may have specific comments or suggestions and are not required to address FASB's questions. We obtained all of the comment letters and analyzed them by source, coded closed-ended questions as to whether the respondent agreed or disagreed with elements of the exposure draft, and analyzed the final standard with respect to the comments received by the FASB.

FINDINGS

Not surprisingly, the accounting community, accounting firms, and boards of accountancy, comprise the majority (64%) of comment letters. Industry professionals engage in the process, but most academics do not.

The 47 comment letters received by the FASB comprise approximately 293 pages of comments written in response to FASB's exposure draft on the going-concern presumption. The average number of pages for each comment letter was approximately 6 pages, with a range of responses between 1 and 17 pages.

The longest response of 17 pages was written by the Center for Audit Quality, a non-profit public policy advocacy organization based in Washington, DC, which is affiliated with the American Institute of Certified Public Accountants (AICPA). The average length of the responses is not unexpected, given the fact that the FASB asked responders to answer 19 questions about the proposed accounting standard.

During 2013, the responses to 11 exposure documents were due to the FASB, of which a total of 224 responses were received. The responses to the going-concern exposure draft represent 21% of all responses received by the FASB for 2013, and the going-concern exposure draft received the most responses of any proposed accounting standards change, except for the exposure draft on accounting for goodwill, which received 52 comment letters. The average number of responses per exposure draft is approximately 20, which suggests that the going-concern standard was one of the most important issues FASB considered in 2013.

Appendix B provides a list of the 47 responses received by the FASB, listed in order by the date the response was received. The first comment letter, sent by Simon Hu, was dated July 1, 2013, and the final comment letter, sent by the AICPA, was dated November 10, 2013.

The official due date for comment letters was September 24, 2013 and, as such, responses 43 through 47 were submitted after the official due date. Approximately 60% of respondents (28) dated their response as of September 24, 2013, the last date of the comment period.

Table 2 summarizes the industry affiliation of the respondents to the going-concern exposure draft as well as the summary of affiliations provided by the Yen, Hirst, and Hopkins (2007) examination of responses to the exposure draft on changes to the comprehensive income accounting standards.

The latter exposure draft solicited significantly more responses—278 as compared to 47 for the going-concern exposure draft. This fact is not surprising

TABLE 2. Reponses to *Going Concerns Disclosures Exposure Draft* in Order of Comments Received

	Frequency (%)	
	Going Concern Exposure Draft	Comprehensive Income Exposure Draft[a]
Academics	1 (2)	6 (2)
Financial Institutions	1 (2)	117 (42)
Industry (Non-financial)	10 (21)	114 (41)
Public Accountants	30 (64)	29 (11)
Other	5 (11)	12 (4)
Total	47 (100)	278 (100)

[a] Yen, Hirst, and Hopkins (2007)

given the nature of the proposed changes. Items that are included or disregarded in the determination of net income and comprehensive income have significant implications for various types of entities, especially financial institutions.

Overall, respondents agreed that the guidance provided in the *Going Concern Exposure Draft* should be included in U.S. GAAP, and there was widespread agreement that management should be primarily responsible for assessing its entity's ability to continue as a going concern. Appendix C, Panel A provides a list of questions posed in the *Exposure Draft*; Appendix C, Panel B provides a summary of responses to the *Exposure Draft* questions.

The main areas of concern expressed by respondents relate to:

a. The 24-month assessment period to consider going-concern assumption
b. Exempting non-SEC filers from the requirements
c. Probability thresholds (i.e., more-likely-than-not or probable)
d. Distinguishing management plans between ordinary-course of business plans versus other plans

The 24-month assessment period suggested by the FASB was particularly concerning to respondents. Practitioners noted the 24-month period assessment period would not be operable, auditable, or cost-effective (FASB, 2013).

Exempting non-SEC filers from the disclosure requirements as suggested by FASB also resulted in much disagreement from the respondents, with approximately 87 percent disagreeing with the statement that non-SEC filer should be exempt from the reporting requirements.

Most respondents agreed with using the *more-likely-than-not* threshold to trigger disclosure of information about going-concern uncertainties in the financial statement footnotes. However, many respondents expressed concern about applying such a quantitative measure in this setting, fearing that the guidance would be interpreted at 50.1% and would become a bright line.

Finally, one of the most challenging aspects of the proposed standard, as cited by respondents, is the distinction between management's plan *within* and *outside* the ordinary course of business. Table 3 provides selected qualitative responses to the main areas where commenters expressed concern or objections to FASB's proposal.

TABLE 3. Selected Qualitative Responses

Matter	Qualitative Comments
Measurement of substantial doubt	Deloitte strongly encouraged the Board to provide meaningful examples of distinguishing between the varying thresholds established in the proposal to ensure consistency of application.
	BDO believed the term *known* should be deleted from the phrase "it is known or probable that the entity will be unable to meet its obligations within 24 months after the financial statement date without taking actions outside the ordinary course of business," since this term is subsumed within the term *probable*.
	The Ohio Society of CPA's state that the assessment of the overall entity will include contradicting assessment of specific transactions. Accordingly, more guidance is necessary to determine how to evaluate these subjective contradictions.
	Cohn Reznick was concerned that the current "more-likely-than-not" threshold for the 12-month period could be interpreted by preparers as a point estimate, which would require precise measurement. Due to the inherent uncertainties in developing estimates around future events, they suggest placing additional emphasis in the exposure draft on qualitative factors such that preparers are not solely focused on the quantitative aspects of the thresholds.
Frequency of evaluation	Deloitte does not believe that the same level of effort should be used each interim period as it is for the annual assessment, and suggested that the Board consider requiring the going-concern assessment to be performed as of each fiscal year end and between the year-end assessments only as warranted.
	KPMG agreed with a going-concern evaluation necessary for each reporting period. However, they disagreed with the proposal that would require entities to adopt the ASU for the first time in the interim period in the year of adoption.
	Cohn Reznick suggests that although performing an interim assessment will create additional effort and work on behalf of preparers, this additional interim work will be beneficial not only to investors and other stakeholders in providing timely information, but also to management in preparing the annual year-end assessment.
24-month assessment period/ early warning disclosures	The AICPA's Technical Issues Committee recommended requiring an assessment period of 12 months from the date the financial statements are available to be issued. Under such a proposal, most nonpublic entities would have an assessment period of 15 to 18 months from the financial statement date, instead of 24 months, for a reasonable compromise.
	The American Accounting Association found that management's disclosure of uncertainty about going-concern is informative in predicting bankruptcy two and three years out, which supports the 24-month consideration period. They believe the proposed guidance will represent a reasonable approach because it focuses on both the 12-month and 24-month period, with varying probability thresholds triggering disclosure in the two periods.
	Cohen Resnick believed that the 24 months would be appropriate as long as the definitions are modified to prevent unnecessary quantitative projections. The firm stated that the considerations which should be made in connection with the first 12 months and the second 12 months should not be differentiated.
	KPMG added that the proposed 24-month assessment period will improve the timeliness and usefulness of disclosures. However, additional guidance will be needed on when and how management should consider its mitigation.
	McGladrey expressed that the "known and probable" threshold should be revised to consider only whether it is probable that an entity will be unable to meet its obligations within 24 months after the financial statement date.
Ordinary business plans versus other plans	The majority answered yes to this question, as it would be appropriate for management to use actions in and outside the ordinary course of business as distinguishing factors when evaluating whether going-concern disclosures are needed.
	Calloway, along with a few others, did not agree that this distinction is relevant to determine if and when disclosures should be made. Calloway expressed that disclosure should be required when there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.
	Marcum suggested the proposed amendments present an unworkable standard, as "in the ordinary course of business" and "outside the ordinary course of business" is inherently too subjective. Attempts to make a distinction between the two add unnecessary complexity to what should be a broad principles-based approach to an entity's determination of its ability to continue as a going concern. The degree of certainty with which these plans can be accomplished should be disclosed to provide the reader of the financial statements with all relevant information.
	The Louisiana Society of CPA's stated that the distinction is relevant, as the mitigating effects of plans inside the ordinary course of business may be viewed by financial statement users as more likely to occur, as opposed to plans outside the course of business which may be read as a last-ditch effort by management to stave off bankruptcy.

(continued)

TABLE 3. Selected Qualitative Responses *(continued)*

Matter	Qualitative Comments
Public versus non-public entities	The majority did not agree with the provision that a non-SEC filer should be exempted from the requirements to evaluate and disclose substantial doubt about its ability to continue as a going concern. Management should have the responsibility to make a substantial doubt assessment and to disclose, if necessary, that condition in the financial statements. This should not be any different/more difficult for management of a private entity.
	McGladrey was one of the respondents that did not agree with the decision to exclude non-SEC filers from the requirement to evaluate whether or not to provide disclosure when there is substantial doubt about an entity's going-concern presumption. They do not agree that the auditor should be the source of original information in the auditing standards to assess whether there is substantial doubt.
	PwC also disagreed with the FASB proposal to exempt non-SEC filers from disclosure of substantial doubt about a company's going-concern presumption, since this assumption is of fundamental interest to users of all financial statements and not just those of an SEC filer.
	The Louisiana Society of CPAs did not agree with the Board's decision. They believed investors in private entities would benefit from having an assessment of the entity's ability to continue as a going concern to be included within the financial statements.
	Marcum believed there ought to be no distinction in the development of U.S. GAAP between a privately held entity and a publicly held registrant with respect to the going-concern assessment, as there is a consistent need to provide meaningful disclosure to financial statement users.

Table 4 summarizes the major components of the exposure draft that were ultimately changed by the FASB after feedback from the comment letters. For example, in the original exposure draft, the FASB considered expanding the consideration period for evaluating the going-concern assumption up to 24 months after the financial statement issue date. This extended period was commonly referred to as the "early warning" disclosures.

Due to concerns about implementation, FASB limited the assessment period to one-year forward from financial statement issue date. Likewise, FASB's original proposal considered evaluating management's plans that arise in the ordinary course of business versus other plans to alleviate substantial doubt.

Due to concerns expressed by respondents over the difficulties in preparers' ability to determine which plans were in the ordinary course of business versus other plans, FASB's final standard eliminated the distinction between these two categories of plans.

The FASB also asked respondents to address the applicability of the standard to both publicly-traded as well as non-public entities, suggesting that the standard should apply primarily to entities regulated by the SEC. Respondents

TABLE 4. Issues Identified in the Comment Letters and FASB Issued Standard

Matter	Resolution
Definition of substantial doubt	Board added the word probable to the definition
Frequency of evaluation	FASB decided on evaluation each reporting period
24-month assessment period (early warning disclosures)	FASB limited assessment to 1-year forward from the issue date of the financial statements
Ordinary business plans versus other plans	FASB eliminated need to make a distinction between ordinary business plans and other plans to mitigate going-concern issues
Public versus non-public entities	FASB decided to make the standard applicable to all entities

overwhelming suggested that the standard be applied to all entities and FASB's final standard applies to all firms.

The final vote of the FASB was five members in favor and two against adoption of ASU 2014-15. One reason for the negative votes relates to the future-oriented nature of the required going-concern disclosures. The dissenting member suggested that such forward-looking information is not appropriate for footnote disclosures but rather should be part of the management discussion and analysis (MD&A) in the SEC filing, which are subject to a safe harbor for forward-looking information.

Another issue relates to use of the "probable" threshold regarding substantial doubt disclosures. The dissenting member believes that the trigger of disclosure based on a probable threshold is too late to be of significant benefit to users because little or no predictive value is provided by the financial statements and suggests that a *more-likely-than-not* or earlier threshold would be more helpful to users.

SUMMARY AND CONCLUSION

Results of the content analysis suggest that feedback from the comment letter process influenced key elements of the final going-concern standard adopted by the FASB and that stakeholder feedback can have significant influence on the accounting standard-setting process.

FASB made significant changes from the original exposure draft to the final standard on areas such as the assessment period, application of the accounting standard to public and non-public entities, and the frequency of management's assessments.

While the revised standards may succeed in achieving some increased level of consistency in financial reporting across companies, many questions remain unanswered. For example:

- How will management and auditors reconcile their individual responsibilities relative to the going-concern assessment, and how will this affect their relationships?
- Will auditing standards evolve such that auditors will assess management's going-concern assessment, similar to internal controls, or will auditors continue to have a responsibility to perform their own separate going-concern assessment?

Other concerns raised by stakeholders in the comment letters include possible economic consequences of implementation:

- What will be the true cost-benefit of the new standard?
- Are there legal ramifications and consequences for going-concern disclosures?
- Will the revised standard, with more timely and detailed disclosures even when substantial doubt is alleviated, create confusion in the market as firms implement the new guidance?
- How will analysts' forecasts be affected by early-warning disclosures?

How companies will implement the new standard remains to be seen. Although the revised standard does not require modifications to internal control systems in relation to management's newly defined responsibility for going-concern assessment, companies will likely need to modify and document processes and controls to assess risk, determine the level of analysis necessary, and perform the going-concern assessment (PwC, 2014).

Our research provides the background for future research in areas such as the effectiveness of the new standard to provide improved consistency and comparability between firms, the frequency of going-concern disclosures in light of the new standards, and whether going-concern disclosures will more accurately predict the eventual liquidation of entities.

And finally, will the changes to the going-concern responsibilities for management result in greater frequency of reporting financial information using the liquidation basis of accounting?

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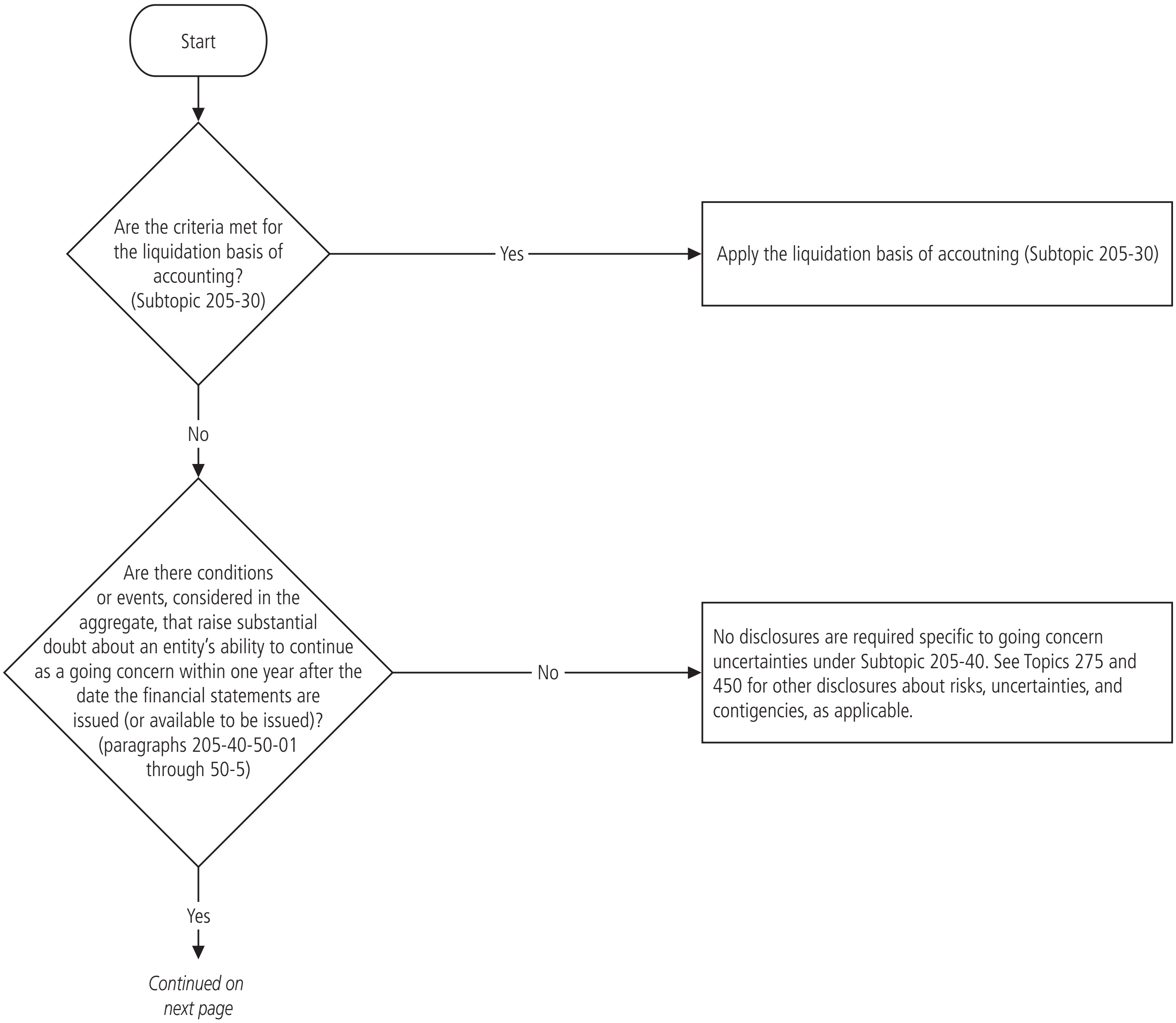
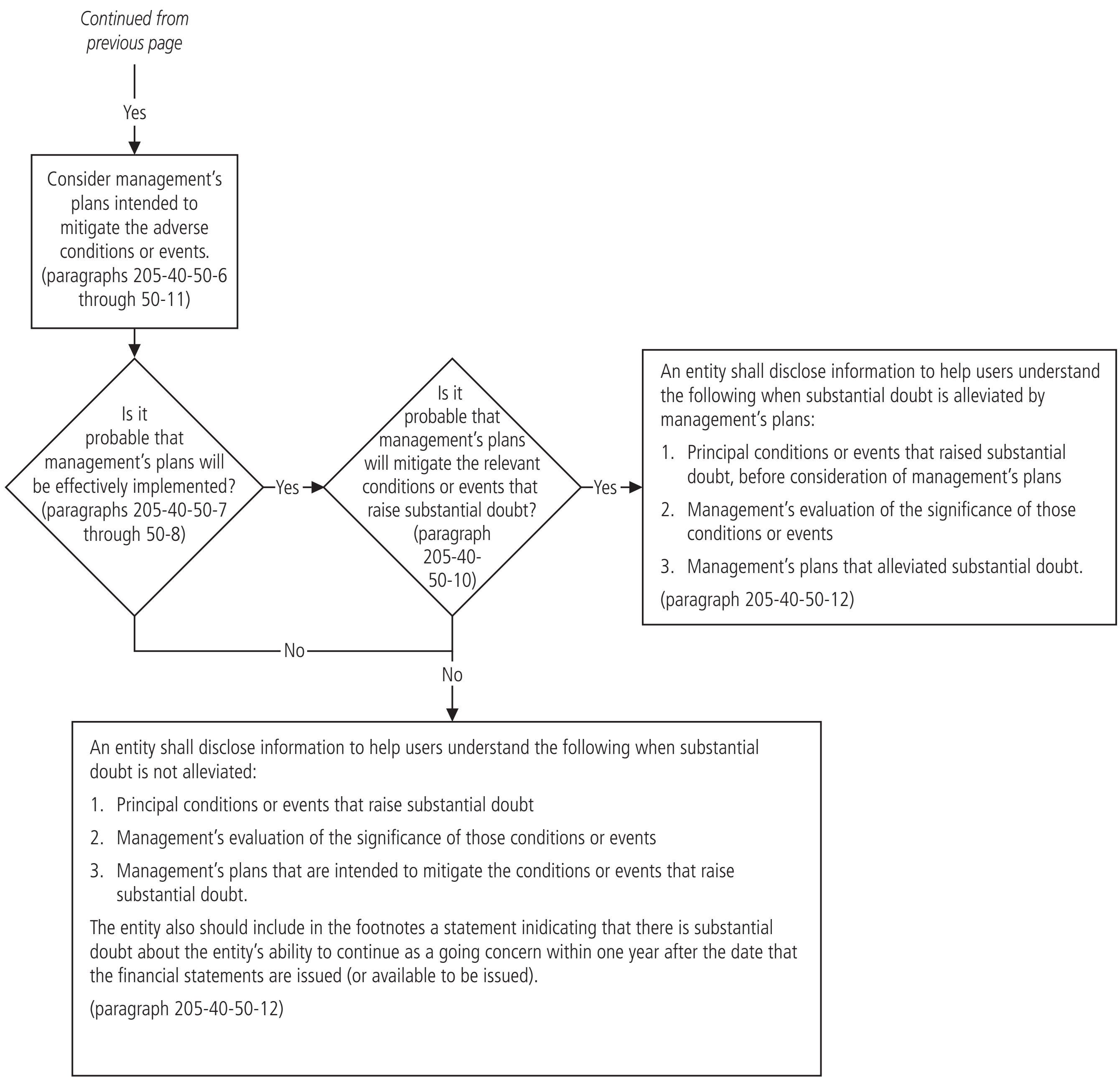
Appendix A *FASB Flow Chart*




Continued from previous page
Yes
Consider management's plans intended to mitigate the adverse conditions or events. (paragraphs 205-40-50-6 through 50-11)
Is it probable that management's plans will be effectively implemented? (paragraphs 205-40-50-7 through 50-8)
Yes
Is it probable that management's plans will mitigate the relevant conditions or events that raise substantial doubt? (paragraph 205-40-50-10)
Yes
An entity shall disclose information to help users understand the following when substantial doubt is alleviated by management's plans:
1. Principal conditions or events that raised substantial doubt, before consideration of management's plans
2. Management's evaluation of the significance of those conditions or events
3. Management's plans that alleviated substantial doubt.
(paragraph 205-40-50-12)
No
No
An entity shall disclose information to help users understand the following when substantial doubt is not alleviated:
1. Principal conditions or events that raise substantial doubt
2. Management's evaluation of the significance of those conditions or events
3. Management's plans that are intended to mitigate the conditions or events that raise substantial doubt.
The entity also should include in the footnotes a statement inidicating that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued).
(paragraph 205-40-50-12)

Appendix B Reponses to Going-Concerns Disclosures Exposure Draft

(In Order of Date Received by the FASB)

Appendix C *Panel A: ASU 2014-15 Going-Concern Questions for Respondents*

1. The proposed amendments would define going-concern presumption as the inherent presumption in preparing financial statements under U.S. GAAP that an entity will continue to operate such that it will be able to realize its assets and meet its obligations in the ordinary course of business. Do you agree with this definition? If not, what definition should be used and why?
2. Currently, auditors are responsible under the auditing standards for assessing going-concern uncertainties and for assessing the adequacy of related disclosures. However, there is no guidance in the United States. GAAP for preparers as it relates to management's responsibilities. Should management be responsible for assessing and providing footnote disclosures about going-concern uncertainties for SEC registrants and other entities? Why or why not?
3. Would the proposed amendments reduce diversity in the timing, nature, and extent of footnote disclosures and provide relevant information to financial statement users? If so, would the proposed disclosures for SEC registrants provide users with incremental benefits relative to the information currently provided under other sections of U.S. GAAP and under the SEC's disclosure requirements?
4. The proposed amendments would require management to evaluate going-concern uncertainties and additionally, for SEC filers, to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern. An alternative view is that such evaluations should not be required because management would inherently be biased, and thus the resulting disclosures would provide little incremental benefit to investors.

   Do you believe that an entity's management has the objectivity to assess and provide disclosures of uncertainties about the entity's ability to continue as a going concern? Why or why not? If not, please also explain how this assessment differs from other assessments that management is required to make in the preparation of an entity's financial statements.
5. At each reporting period, including interim periods, the proposed amendments would require management to evaluate an entity's going-concern uncertainties. Do you agree with the proposed frequency of the assessment? If not, how often should the assessment be performed?
6. For SEC registrants, the proposed footnote disclosures would include aspects of reporting that overlap with certain SEC disclosure requirements (including those related to risk factors and MD&A, among others). The Board believes that the proposed footnote disclosures would have a narrower focus on going-concern uncertainties compared with the SEC's disclosure requirements.

   Do you agree? Why or why not? What differences, if any, will exist between the information provided in the proposed footnote disclosures and the disclosures required by the SEC? Is the redundancy that would result from this proposal appropriate? Why or why not?

7. For SEC registrants, would the proposed footnote disclosure requirements about going-concern uncertainties have an effect on the timing, content, or communicative value of related disclosures about matters affecting an entity's going-concern assessment in other parts of its public filings with the SEC (such as risk factors and MD&A)?
8. The proposed footnote disclosures about going-concern uncertainties would result in disclosure of some forward-looking information in the footnotes. What challenges or consequences, if any, including changes in legal liability for management and its auditors, do you anticipate entities may encounter in complying with the proposed disclosure guidance? Do you foresee any limitations on the type of information that preparers would disclose in the footnotes about going-concern uncertainties? Would a higher threshold for disclosures address those concerns?
9. What challenges, if any, could auditors face if the proposed amendments are adopted?
10. Do the expected benefits of the proposed amendments outweigh the incremental costs of applying them?
11. Under the proposed amendments, disclosures would start at the more-likely-than-not or at the known or probable threshold as described in paragraph 205-40-50-3.
12. The proposed amendments would require an entity to assess its potential inability to meet its obligations as they become due for a period of 24 months after the financial statement date. Is this consideration period appropriate? Is it appropriate to distinguish the first 12 months from the second 12 months as proposed in the amendments? Why or why not?
13. Under the proposed amendments, management would be required to distinguish between the mitigating effect of management's plans in and outside the ordinary course of business when evaluating the need for disclosures. Is this distinction relevant to determining if and when disclosures should be made? If so, explain how management's plans should be considered when defining the two different disclosure thresholds.
14. Do you agree with the definition of management's plans that are outside the ordinary course of business as outlined in paragraph 205-40-50-5 and the related implementation guidance?
15. Do you agree with the nature and extent of disclosures outlined in paragraph 205-40-50-7?
16. The proposed amendments define substantial doubt as existing when information about existing conditions and events after considering the mitigating effect of management's plans (including those outside the ordinary course of business), indicates that it is known or probable that an entity will be unable to meet its obligations within a period of 24 months after the financial statement date.

    Do you agree with this likelihood-based definition for substantial doubt? Do you agree with the 24-month consideration period? Why or why not? Do you anticipate any challenges with this assessment? If so, what are those challenges?

17. Do you agree that an SEC filer's management, in addition to disclosing going-concern uncertainties, should be required to evaluate and determine whether there is substantial doubt about an entity's ability to continue as a going concern (going-concern presumption) and, if there is substantial doubt, disclose that determination in the footnotes?
18. Do you agree with the Board's decision not to require an entity that is not an SEC filer to evaluate or disclose when there is substantial doubt about its going-concern presumption? If not, explain how users of non-SEC filers' financial statements would benefit from a requirement for management to evaluate and disclose substantial doubt.
19. The Board notes, in paragraph BC36, that its definition of substantial doubt most closely approximates the upper range in the present interpretation of substantial doubt by auditors. Do you agree? Why or why not?

    Assuming it does represent the upper end of the range of current practice, how many fewer substantial doubt determinations would result from the proposed amendments?

    If the proposed amendments were finalized by the Board and similar changes were made to auditing standards, would the occurrence of audit opinions with an emphasis-of-matter paragraph discussing going-concern uncertainties likewise decrease and be different from what is currently observed? If so, by how much? Is such a decrease an improvement over current practice? Why or why not?

Appendix C *Panel B: Summary of Responses to Questions Asked by FASB*

Response	Q #1	Q #2	Q #3	Q #4	Q #5	Q #6	Q #7	Q #8	Q #9	Q #10	Q #11	Q #12	Q #13	Q #14	Q #15	Q #16	Q #17	Q #18	Q #19
Support	24	28	21	22	23	20	10	1	0	17	23	20	18	13	24	18	22	6	13
Oppose	5	0	3	6	2	1	8	3	1	5	1	7	4	5	1	4	3	19	7
Unsure/unclear	3	5	7	3	4	5	4	1	5	6	6	5	5	8	2	3	1	2	6
No response	15	14	16	16	18	21	25	40	39	19	17	15	20	21	20	22	21	20	21