

Going Concern and Liquidity Risk

What you need to know (Updated January 2021)

What's the issue?

1. Most companies, unless they are an essential service, are likely in a situation where they've had a significant drop in their operations or are closed, which may call into question their long-term viability or ability to continue as a going concern.
2. Broadly speaking, "going concern" is an accounting term that means a company has the resources it needs to continue operating. These resources may include sufficient cash flows from operations or access to financing to help fund operations.
3. As we move forward, Canadian public companies will need to file financial statements. When preparing interim and annual financial statements in accordance with IFRS® Standards, management will need to assess whether there is material uncertainty about the company's ability to continue as a going concern. ([IAS 1.25](#)).
4. Assessing a company's ability to continue as a going concern includes various factors, some of which will be subject to significant estimate during these uncertain times. These estimates may include the degree of support management expects the company to receive from the government and management's best estimate of the duration and magnitude of the pandemic. As a result, management may need to:
 - (a) prepare updated financial forecasts and sensitivities using recent information;
 - (b) consider the company's expected profitability and how the company will finance its operations;

- (c) review the company's debt repayment schedules and potential sources of replacement financing; and
- (d) consider any other information from after the reporting period up until the statements are authorized for issuance that suggests the company will not continue to operate as a going concern.

[\(IAS 1.25-26\)](#)

How will this impact my financial statements?

5. It depends on specific facts and circumstances. Management may determine that there are uncertainties that cast significant doubt about the company's ability to continue as a going concern. In these situations, management is required to disclose the following in the company's interim or annual financial statements:
 - (a) information about these uncertainties [\(IAS 1.25-.26\)](#);
 - (b) information about the assumptions management used to conclude that the company will continue as a going concern; [\(IAS 1.125\)](#) and
 - (c) other major sources of estimation uncertainty that could result in material adjustment to the carrying amounts of assets and liabilities within the next financial year. [\(IAS 1.125\)](#)
6. In other situations, management's current assumptions may result in the expectation that the company will continue as a going concern. However, small changes to these assumptions may give rise to the determination that there are material uncertainties that cast significant doubt about the company's ability to continue as a going concern. In these close-call situations, the IFRS Interpretations Committee noted in a [July 2014 agenda decision](#) that the disclosure requirements of paragraph 122 of IAS 1 would apply to judgments made in concluding that there remain no material uncertainties related to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern. [\(IAS 1.122\)](#)
7. Occasionally, management may intend to liquidate the company or to cease trading or have no realistic alternative but to do so. In these situations, it may not be appropriate to prepare the company's financial statements on a going concern basis. In this case, we encourage you to consult with your assurance professional to discuss alternative bases of presentation. [\(IAS 1.25-26\)](#)

What if I identify an issue after the reporting date?

8. You may, after the reporting date but before the financial statements are issued, determine that the company may not continue as a going concern. Or you may become aware of material uncertainties that cast significant doubt about the company's ability to continue as a going concern. In this case, you'll need to consider the accounting or disclosure impact on your current financial statements. [\(IAS 10.14-16\)](#)

9. Do you have more questions about what events need to be accounted for and disclosed after the reporting period? If yes, you may find the following paper helpful "[Events after the Reporting Period](#)" publication.

Is it just going concern that I need to be thinking about?

10. No. You should consider how COVID-19 may affect your company's liquidity risk. For example, some companies may violate debt covenants during the pandemic, resulting in a change to their debt maturity analysis, or expect challenges renegotiating their debts as they mature. These risks will need to be disclosed in the company's annual and interim financial statements. ([IFRS 7.18-19](#), [33](#), [39](#) and [B11](#))

Has the IFRS® Discussion Group talked about this topic?

11. The Group has had several conversations about going concern. The discussions listed below may be helpful as you think about how COVID-19 affects your going concern assessments:

Meeting Date	Topic	Meeting Report
May 31, 2016	Disclosure about an Assessment of Going Concern	View Document
October 18, 2012	Going Concern Assessment for Development Stage Entities	View Document
March 4, 2010	Going Concern	View Document

What other resources are available?

12. Do you need more information? The following publication may provide more insight:

Gabriela Kegalj, "[What are the relevant going concern considerations?](#)" KPMG, March 20, 2020.

[IFRIC Update](#), July 2014.

Extracts from relevant IFRS[®] Standards

Standard	IFRS Guidance
IAS 1	<p>25 When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern.</p>
	<p>26 In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.</p>
	<p>65 Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. IFRS 7 <i>Financial Disclosures</i> requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery of non-monetary assets such as inventories and expected date of settlement for liabilities such as provisions is also useful, whether assets and liabilities are classified as current or as non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the reporting period.</p>
	<p>122 An entity shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 125), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.</p>
	<p>125 An entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:</p> <ul style="list-style-type: none"> (a) their nature, and (b) their carrying amount as at the end of the reporting period.

IAS 10	<p>14 An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.</p> <p>15 Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.</p> <p>16 IAS 1 specifies required disclosures if:</p> <ul style="list-style-type: none"> (a) the financial statements are not prepared on a going concern basis; or (b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.
IAS 34	<p>The objective of this Standard is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. Timely and reliable interim financial reporting improves the ability of investors, creditors, and others to understand an entity's capacity to generate earnings and cash flows and its financial condition and liquidity.</p> <p>15 An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.</p> <p>15A A user of an entity's interim financial report will have access to the most recent annual financial report of that entity. Therefore, it is unnecessary for the notes to an interim financial report to provide relatively insignificant updates to the information that was reported in the notes in the most recent annual financial report.</p> <p>15B The following is a list of events and transactions for which disclosures would be required if they are significant: the list is not exhaustive.</p> <p>...</p> <ul style="list-style-type: none"> (h) changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost; (i) any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period;
IFRS 7	<p>18 For <i>loans payable</i> recognised at the end of the reporting period, an entity shall disclose:</p>

	<ul style="list-style-type: none"> (a) details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable; (b) the carrying amount of the loans payable in default at the end of the reporting period; and (c) whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.
19	If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period).
33	For each type of risk arising from financial instruments, an entity shall disclose: <ul style="list-style-type: none"> (a) the exposures to risk and how they arise; (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and (c) any changes in (a) or (b) from the previous period.
39	An entity shall disclose: <ul style="list-style-type: none"> (a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities. (b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B). (c) a description of how it manages the liquidity risk inherent in (a) and (b).
B11E	Paragraph 39(c) requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative disclosures required in paragraph 39(a) and (b). An entity shall disclose a maturity analysis of financial assets it holds for managing liquidity risk (eg financial assets that are readily saleable or expected to generate cash inflows to meet cash outflows on financial liabilities), if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.
B11F	Other factors that an entity might consider in providing the disclosure required in paragraph 39(c) include, but are not limited to, whether the entity: <ul style="list-style-type: none"> (a) has committed borrowing facilities (eg commercial paper facilities) or other lines of credit (eg stand-by credit facilities) that it can access to meet liquidity needs; (b) holds deposits at central banks to meet liquidity needs;

	<ul style="list-style-type: none">(c) has very diverse funding sources;(d) has significant concentrations of liquidity risk in either its assets or its funding sources;(e) has internal control processes and contingency plans for managing liquidity risk;(f) has instruments that include accelerated repayment terms (eg on the downgrade of the entity's credit rating);(g) has instruments that could require the posting of collateral (eg margin calls for derivatives);(h) has instruments that allow the entity to choose whether it settles its financial liabilities by delivering cash (or another financial asset) or by delivering its own shares; or(i) has instruments that are subject to master netting agreements.
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