

**Louvain School of Management**

**Going concern: general comments  
and alternative to the going concern  
under IFRS**

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**Abstract :**

This thesis examines the application of International Financial Reporting Standards (IFRS) to entities no longer operating under the "going concern" assumption. It highlights the limitations posed by existing standards, primarily designed for continuity, and explores alternative accounting approaches when entities face discontinuity or liquidation. Using IAS 8 as a framework, the study evaluates modifications through other accounting standards (BGAAP, LuxGAAP, USGAAP) and audit practices, emphasizing the importance of asset revaluation, liability adjustments, and transparent disclosures. A case study of FNG will be used to demonstrate practical adaptations under IFRS during financial distress. The findings reveal significant gaps in IFRS guidance for entities in discontinuity. This underscores the need to have more flexible and comprehensive standards to ensure transparent, reliable financial reporting. This research contributes to the discourse on enhancing IFRS to better address the complexities of financial reporting for distressed entities, while acknowledging limitations such as its focus on a single case study and specific accounting standards.

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## **Declaration on AI Utilization**

During the preparation of this master's thesis, the authors utilized [Chat GPT 3.5 & Scribbr] for the following purpose:

1 Create the thesis structure | Play the Devil's advocate |

Proofreading:

I'd like to make it clear that AI has been a “plus” for me. I now recognize the importance of deepening our knowledge of this new tool, which is free and accessible to all. In the early stages of developing our thesis, I encountered considerable difficulties in finding a solid idea and a clear direction. To overcome this obstacle, I used artificial intelligence to critically evaluate our initial concept and stimulate the generation of new ideas. This enabled me to explore potential topics in greater depth, refocus our attention and align my research with emerging trends and relevant academic discussions.

2 Identify the structure of our thesis:

Effective, defining the framework needed to establish a coherent and logical sequence of ideas. This initial structuring was crucial in ensuring that my thesis maintained a clear and coherent narrative thread throughout the process. AI's ability to synthesize information and provide organizational insights played a key role at this stage, helping me to develop a well-structured and focused research plan.

3 Challenge our ideas and hypotheses.

Playing the role of devil's advocate, the AI asked critical questions and pointed out possible weaknesses in my arguments. This evaluation process prompted me to re-examine my writing, strengthen my arguments and ensure the solidity of my conclusions. By integrating AI into this critical revision stage, I was able to improve the overall rigor and credibility of my research.

Finally, I used Scribbr at the end of my thesis as a proofreading tool to correct errors and improve several sentences. After using “Chat GPT 3.5”, I carefully reviewed and edited the content produced by this tool. I take full responsibility for the final content presented in this thesis. By signing this declaration, I affirm that the content of this master thesis reflects my original work, enriched by the responsible use of AI.

Signature:

Louis Delebois

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## 1.Introduction

For entities no longer operating under the going concern assumption, the application of IAS/IFRS accounting standards presents a significant challenge for the management, as these frameworks are primarily designed with continuity in mind, creating limitations when preparing financial statements on an alternative basis that truly captures the economic distress and uncertainty facing the entity.

In this thesis, we will see how a company's financial statement could be changed when a company is not under the going concern assumption.

In order to reflect those modifications, we will see that the accounting principles used by the company cannot strictly follow the IAS/IFRS principle due to the fact that no standard of the IAS/IFRS entirely covers this scenario. Nevertheless, a company can still try to follow the IFRS by using an alternative basis to prepare its financial statement while reflecting the difficulty in continuing its activity.

As for the methodology, we will start this thesis by explaining the IFRS accounting standard and what are the goals of this standard. This is important to see what are the key points which will be reflected in the financial statement.

Afterwards, we will focus ourselves on the definition of the going concern assumption given by the conceptual framework as well as its importance.

On this basis, we will talk about the ambiguous concept of the assessment period of the going concern. In order to cover it fully, this part we be split-up in three. Firstly, we will determine which period of time the term "foreseeable future" refers to. Secondly, we will see how events occurring after the reporting period are being referred to in IAS 10. Thirdly, we will focus on the current debate between audit firms concerning the reporting period for which an entity should prepare her financial statements.

Afterwards, we will see how the management determines whether the entity is still under the going concern assumption. To do so, we will use the guidance given by the IAASB which describes the fourth scenario going from no going concern problem to being in discontinuity. This helps the management to know what they should disclose in each scenario and if they must prepare their financial statement on an alternative basis to reflect the discontinuity problem. The IAASB does not give accounting principle for this alternative basis. We will also take a look at what the audit firms expect from the management to do and what they need to provide to auditors while doing this assessment.

In the following point, we will then see how IAS 8 allows changes in accounting principles. This rule enables the management to change the accounting standards they use to reflect the fact that the entity is no longer under the going concern assumption. This is very important for companies which try to comply with the IAS/IFRS but must prepare their account on an alternative basis.

Continuing, we will investigate what accounting principles the company needs to use when preparing its financial statement and is not under the going concern assumption. This part will be broken down into two parts. In the first one we will see how the audit firm precognized the account to be prepared. Secondly, we will use US GAAP as they have a similar conceptual framework to the IFRS. This accounting standard has a whole section concerned for the preparation of financial statement when the entity is not under the going concern assumption. We will try to take out the best of those GAAP to complete the lack of guidance given by the IAASB. All those parts will be split in two with each time the rules linked to assets and liabilities and another one on the specific rules or disclosure.

Following, we will analyze the accounts of a company which is preparing its financial statement using IFRS and which has published an account prepared on an alternative basis. This company is FNG. We will look at her evaluation rules and see how her assets and liabilities are evaluated. We will then compare those with what we would have previously seen concerning the accounting standards the company is expected to use and see if they apply them.

Finally, we will look at two other alternatives basis from different accounting standards (BE GAAP and LUX GAAP) and see how other standards deal with the discontinuity of companies.

## 2.1 Goals/Objective of IAS/IFRS

My thesis aims to examine the objectives of International Financial Reporting Standards (IFRS) as outlined by the International Accounting Standards Board (IASB), while drawing insights from the introductory accounting textbook (Cerrada et al., 2019).

The IASB, as established by the IFRS Foundation, strives to develop a single set of high-quality, understandable, and globally accepted financial reporting standards (Preface to IFRS Standards [IAS Plus]). These standards aim to achieve the following objectives:

### 1. Transparency and User-Centered Approach:

Primacy of Third-Party Users: The core objective is to meet the needs of external stakeholders, particularly those in the financial markets. Clear and consistent financial information is essential to enable informed decision-making by investors, creditors, and other external users.

Comprehensibility and Global Applicability: IASB emphasizes the intelligibility of their standards (the IFRS) as they are setting an international accounting standard which aims at being used by large companies. Consequently, the IFRS should be universally applicable by using a common language for financial reporting across different countries with different jurisdictions.

## 2. Promoting Rigorous Application:

Standardization and Consistency: The IASB seeks to harmonize accounting practices at a global level by establishing a single set of standards, eliminating inconsistencies arising from diverse national Generally Accepted Accounting Principles (GAAP). For example, global standardization could be useful for companies which have an international operating playing field as they would focus on one set of standards instead of multiple GAAPs.

## 3. Flexibility and Adaptability:

Accommodation of Special Needs: Besides promoting a standardized approach, the IASB also recognizes the need for flexibility in certain cases. Indeed, the standards should adapt themselves to specific circumstances within small entities and emerging economies, potentially through tailored interpretations or simplified versions.

## 4. Convergence Towards a Single Global Accounting System:

Unifying Diverse GAAP: Ultimately, the IASB aspires to create a universal accounting system, replacing the fragmented landscape of national GAAPs. This fosters cross-border comparability of financial statements, facilitating international investment and economic growth.

The introductory accounting textbook (Cerrada et al., 2019), concludes:

By prioritizing transparent communication of high-quality financial information, IFRS empowers stakeholders to make informed decisions. In addition, by emphasizing on the use of universal standards, IFRS aims to underscore the importance of providing a clear financial report of a corporation's financial health in view of the understandability of users.

The previous points mention the importance for the IFRS to be transparent and have a user-centered approach. IFRS thus aims at being an intelligible accounting standard. We will in the following part focus on this user-centered approach.

The Purpose of Financial Statements According to IAS 1 is to have a User-Centered Approach:

In the following point, we will discuss the primary objectives of financial statements using a user-centered approach as outlined in (IASB [International Accounting Standards Board, 2020a]) IAS 1.9: "Financial statements are a structured representation of the financial position and the financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is valuable to a wide range of users in making economic decisions. Financial statements

also show the results of the management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:

- a) assets;
- b) liabilities;
- c) equity;
- d) income and expenses, including gains and losses;
- e) contributions by and distributions to owners in their capacity as owners; and
- f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty."

Consequently, as emphasized above, financial statements should be a structured representation of an entity's financial health which, as a core objective, should provide information about:

1. Financial position (assets & liabilities)
2. Financial performance (income & expenses)
3. Cash flows

All of which aims to enable users assessing an entity's:

1. Future Cash Flow Potential: Users should be able to predict the timing and certainty of an entity's future cash flows, crucial for informed economic decisions.
2. Stakeholders need a Stewardship evaluation. To assess the future links, they have with the entity. Which is only currently available through the results of the company and the management report you can find in the financial statements.

To sum up, financial statements serve two key purposes:

1. **Informing Stakeholders:** Stakeholders, as defined by Investopedia (Fernando, 2024): "A stakeholder is a party that has an interest in a company and can either affect or be affected by the business. The primary stakeholders in a typical corporation are its [investors](#), employees, customers, and suppliers. Financial statements should thus provide them essential information about the company's financial well-being.
2. **Management Stewardship Assessment:** Shareholders can assess the management's effectiveness in utilizing entrusted resources by analyzing financial statements.

## 2.2 The Going Concern Assumption and its Importance

Concerning the assumption of the going concern, it is defined as the fact that the entity will continue its activities for the following period and prepare its accounts on a continuity basis.

When not under this assumption an alternative basis is used. As explained in the conceptual framework article 9 (IASB [International Accounting Standards Board], 2018):

“Financial statements are normally prepared on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease trading. If such an intention or need exists, the financial statements may have to be prepared on a different basis. If so, the financial statements describe the basis used.”.

We now know the importance of the going concern in the financial statement as describing whether the entity should prepare its financial statement following the IAS/IFRS or on another basis.

## 2.3 Assessment period of going concern

### 2.3.1 Ambiguity of foreseeable future

When preparing a financial report under the assumption we just described, an entity should evaluate if it will continue operating in the foreseeable future is crucial. This is what we call the "going concern" assumption. However, if after assessing the company's financial health, she is not considered “going concern”, different evaluation methods and liabilities will be required.

But, before discussing these possible alternatives, let's establish their importance. To do so, we will use the definition from (IASB [International Accounting Standards Board, 2020]) IAS 1.25-26, which states the following:

“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.

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.”

Yet, this definition is ambiguous when it comes to its usage of the term “foreseeable future” as they do not give a proper period of time during which the assessment must be covered. The only information is the period during which the management should collect the information as at least 12 months. Consequently, if we had to follow this definition, it would be difficult for the management to know for which period the entity planned to continue its activity. Another important piece of information is that depending on the profitability or activity of the entity, the report should be less or more precise concerning its analysis. Lastly, we can see that in IAS 1 we mention the fact that if the entity is not under the going concern assumption, the financial statement of the company should be prepared on an alternative basis. Nevertheless, there is no mention of any rules concerning this alternative basis. We will see that this also applies to IAS 10.

A similar definition is provided by (IFAC [International Federation of Accountants], 2016) ISA 570:

“Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.”

Again, the same ambiguous term "foreseeable future" appears.

Consequently, we could ask ourselves the following question: How could we achieve a more sufficient definition which would address this issue?

First, what constitutes the "foreseeable future" in the context of going concern assessment? In Europe, companies typically assess going concern for a minimum period of 12 months from the end of the reporting period. This aligns with interpretations provided by professional bodies such as Mazars which states the following 'Foreseeable future' is defined in IAS 1: 'Presentation of Financial Statements' as at least 12 months from the end of the reporting

period." Similar guidance can be found in KPMG's documentation. You can refer to annex 1 which shows a table the calendar date a company should consider when determining the reporting period and the events after the reporting period the entity must take into account. In the United States, the duration is also set at 12 months. In fact, a KPMG article comparing IAS/IFRS with US GAAP on going concern states the following (KPMG, 2020 December): "Assessment is performed for a period of 12 months from the date the financial statements are issued (or available to be issued)". In addition, IAS 1.26 considers that the management should consider all relevant information for a period of at least 12 months to assess the going concern of the entity.

Therefore, we can conclude that the foreseeable future for going concern assessment is a period of one year.

Building on the above, we could redefine the going concern within IAS by replacing "foreseeable future" or rewriting it as: "The financial statements are prepared on a going concern basis, assuming the company will continue operations for a period of at least 12 months from the end of the reporting period."

Now that we know what is the going concern, we will focus on its functions in the financial report. For the organization of accounting in Europe, 'Going concern: recommendations to strengthen the financial reporting ecosystem', they are talking about the 2 functions of going concern which are (Accountancy Europe, 2021b):

- “• prevention: it helps companies identify, realise and address any going concern risks and issues
- transparency or disclosure: it provides useful information on a company's going concern matters to its investors and other stakeholders. It influences their economic decision-making as it aims to provide them with confidence for entering into a business relationship with the company which is key for the smooth functioning of the economy".

According to this statement, the going concern serves thus two purposes: prevention and transparency/disclosure. Firstly, going concern can be used as a preventative tool. Indeed, by identifying and addressing potential threats to companies' viability, this principle helps them maintain their going concern status. A function which is becoming even more critical nowadays as our current economy is more and more uncertain. Secondly, the going concern principle could also be used as a tool for transparency and disclosure. The knowledge of a company's continuity is truly crucial for investors and other stakeholders to make an informed decisions regarding future relationships. As a matter of fact, a company not considered a going concern typically faces cessation of operations, making it an unattractive prospect for stakeholders seeking long-term partnerships. On the contrary, having access to

the going concern disclosure in financial statements could help stakeholders make up their mind since not being on going concern generally means a stop of the activity.

### 2.3.2 Events After the Reporting Period and Going Concern:

Since we know what is considered a foreseeable future, we will now see how its extension by IAS 10 is relevant to the going concern assessment. The International Accounting Standard (IAS) 10.3 defines two types of events that could occur during this extended period: (IASB [International Accounting Standards Board], 2017):

"The following terms are used in this Standard with the meanings specified:

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. Two types of events can be identified:

- a. those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period); and
- b. those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period)."

The application of the going concern assumption in IAS 10.14-16 can be significantly impacted by events occurring after the reporting period. As the standard states (International Accounting Standards Board [IASB], 2017), " 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.

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.

IAS 1 specifies required disclosures if:

- (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. "

In simpler terms, if events subsequent to the reporting period cast doubts on the company's ability to continue operating, management must reassess the validity of the going concern assumption. On the other hand, if the assumption no longer holds true, the financial statements will need to be prepared on an alternative basis, requiring a revaluation of assets to their fair market value in a forced sale scenario. As already mentioned in IAS 1, there are no

norms in IAS which explains what this alternative basis is. We will see with IAS 8, how companies can prepare their accounts on an alternative basis while still following the IFRS.

### 2.3.3 The Debate on Extending the Assessment Period

In a recent paper Accountancy Europe answer about the assessment period mentioned in ISA570 (Accountancy Europe, 2023): “Do you support the change in the commencement date of the twelve-month period of management’s assessment of going concern, from the date of the financial statements (in extant ISA 570 (Revised)) to the date of approval of the financial statements (as proposed in paragraph 21 of ED-570)? When responding consider the flexibility provided in paragraphs 22 and A43–A44 of ED-570 in circumstances where management is unwilling to make or extend its assessment. If you are not supportive of the proposal(s), what alternative(s) would you suggest (please describe why you believe such alternative(s) would be more appropriate and practicable)? It is generally in the public interest that management’s going concern assessment period covers 12 months after the approval of the financial statements. However, public interest for the stakeholders of the reporting ecosystem cannot be achieved if this is addressed only in auditing standards. Hence, we encourage the IAASB, with support from the Monitoring Groups members, to engage with reporting standard-setters at global and local level to explain the issues created by the lack of clarity or consistency about the going concern assessment period in financial reporting frameworks. In accordance with extant ISA 570, auditors already challenge management where necessary and ask them to extend their assessment when they deem it necessary based on their professional judgment and depending on the engagement circumstances. Revisions to ISA 570 should keep this conditional requirement and further elaborate in application material on the factors upon which such necessity may be warranted.”

When looking at the answer given by Accountancy Europe, we see that clarification is needed concerning the reporting period. The main problem is that the IASB does not give clear guidance about the starting point of the 12-month reporting period or when it needs to be extended. There are no rules and thus no harmonization between the different companies on the subject. This can be troublesome and give a double reading from the global (different stakeholders) and local (management) level. At the moment, the management has no guidance discuss on what reporting period they should assess. This leaves place for professional judgement.

The International Auditing and Assurance Standards Board (IAASB) discussed revising ISA 570 in June 2022. In their many points, they took into consideration whether the assessment period should be extended beyond 12 months. The response from companies’ boards of management was clear (IAASB [International Auditing and Assurance Standards Board], 2022): “The majority of respondents who commented about the timeline for management’s assessment of going concern were not supportive of extending the minimum time period beyond twelve months. Respondents commented that as the assessing period of going concern increases, the assessment becomes less meaningful due to the higher level of uncertainty and

difficulty for the auditor to obtain sufficient appropriate audit evidence. However, respondents were supportive of exploring a change in the commencement date of the period of the auditor's evaluation of the twelve months period to be the date the financial statements are approved by management and TCWG or the date the auditor's report is signed, instead of the financial reporting date."

As we can see, the majority are opposed to extending the minimum timeframe. Their reasoning is that a longer assessment period would decrease the meaningfulness of the assessment due to increased uncertainty and difficulty in obtaining sufficient audit evidence. However, respondents would be open to explore a change in the starting point of the assessment period. Currently, the auditor's evaluation of the 12-month period begins on the financial reporting date. The suggestion would be to shift the starting point to the date on which financial statements are approved by management and the Technical Consultative Working Group (TCWG) or the date on which the auditor's report is signed.

## 2.4 IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Nowadays, due to the generality of the IAS/IFRS's norms, the current accounting standards can't possibly cover every specific event that might occur for every company and industrial sector. However, to prevent the companies from having no guidance in such cases, IFRS 8 has allowed companies to "create" their own accounting standards when the IFRS has no response to the problem. Yet, the goal needs to remain the same, providing a high-quality standard.

Following this, a change in the methodology of evaluation by the company should always be disclosed in order for the stakeholders to understand how the change has been calculated and the reason it has been made. To start with, the management must be sure that there is no guidance relevant to their problem in the IFRS accounting policies. Only afterwards, the company can "create" their policy by, for example, looking at other accounting standards and to see how they respond to the problem or how different companies have dealt with it before. The policy can't go against another principle from the IFRS. It must provide a reliable image of the situation of the company. A company must inform the stakeholders on how the changes will impact the financial statements. Furthermore, the explanations are necessary to allow a good comparison with last year's financial statements. This has also to be a reliable image of the company and give a good understanding of the reason the changes are made. Then a possibility which is allowed by the norm IAS8.10 to 8.12 which states when and how should companies change the accounting policies that they are using (IFRS [International Financial Reporting Standards], 2019): "In the absence of an IFRS that specifically applies to a

transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:

- (a) relevant to the economic decision-making needs of users; and
- (b) reliable, in that the financial statements:
  - (i) represent faithfully the financial position, financial performance and cash flows of the entity;
  - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
  - (iii) are neutral, ie free from bias;
  - (iv) are prudent; and
  - (v) are complete in all material respects

In making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order:

- (a) the requirements in IFRSs dealing with similar and related issues; and
- (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Conceptual Framework for Financial Reporting (Conceptual Framework).

In making the judgement described in paragraph 10, management may also consider the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards, other accounting literature and accepted industry practices, to the extent that these do not conflict with the sources in paragraph 11.”.

Those articles are a fundamental concept under the IFRS. It highlights how management should make decisions when there is no specific IFRS standard which applies to a particular transaction or event. This is further explained by how the management should develop in the absence of a specific IFRS standard, the accounting policy is required to meet the following qualitative criteria:

1. **Relevance:** The financial information must aid users in making economic decisions.
2. **Reliability:** The financial information must faithfully represent the entity’s financial position, performance, and cash flows.

When faced with transactions where no IFRS directly applies, IAS 8 provides a hierarchy to guide management in developing appropriate accounting policies.

#### 1. **Reference Similar IFRS Standards:**

Management should first identify if there exists any other IFRS that addresses similar or related issues.

## 2. Refer to the Conceptual Framework:

If no similar IFRS exists, the next step is to refer to the **Conceptual Framework for Financial Reporting** where you can find definitions, recognition criteria, and measurement principles. This framework offers principles for recognizing assets, liabilities, income, and expenses.

## 3. Consider Additional Resources:

Management may consult the pronouncements of other standard-setting bodies, accounting literature, or widely accepted industry practices, provided these have a similar conceptual framework and that they do not conflict with IFRS standards.

(IFRS [International Financial Reporting Standards], 2019) IAS 8.14: “An entity shall change an accounting policy only if the change:

- (a) is required by an IFRS; or
- (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows.

An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact”.

Lastly, it must provide a reliable image of the situation of the company. As mentioned by the norm IAS 8.39 is the disclosure of these changes (IFRS [International Financial Reporting Standards], 2019):

“An entity shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect. If the amount of the effect in future periods is not disclosed because estimating it is impracticable, an entity shall disclose that fact.”

To put it briefly, according to IAS 8, all the changes made by the company should be disclosed as they give relevant information to the stakeholders. Indeed, they will allow the users to prospect the possible impacts of these changes on the financial statement, but it will also allow them to compare it with the financial statements of previous years. All of which will give a reliable image of the company and a general understanding of the adaptations to the users.

To sum up, the IAS/IFRS can’t possibly cover every specific event that might occur in every company and industrial sector. Consequently, to prevent companies from having no guidance in such cases, the IFRS allow companies to “create” their own accounting standards. This

applies only when the IFRS has response to the problem as a back-up solution. Yet, the goal must remain the same, providing a high-quality standard. Following this, a change in the methodology of evaluation by the company should always be disclosed in order for the stakeholders to understand how the change has been calculated and the reason it has been made.

## 2.5 The going concern assessment

Before providing an alternative to the current existing going concern assessment, we must first delve into the guidelines of IAASB which aim to give us a theoretical structure surrounding the presentation of the financial statement and the going concern assessment. To begin with, what is the going concern assessment? To answer this question, we will rely on the working paper “Going concern – a focus on disclosure” made by IAASB (IAASB [The International Auditing and Assurance Standards Board], 2021). According to which, the going concern assessment is a management’s matter which must determine, on the basis of the financial statements, whether a company is still under going concern or not. However, with the covid crisis, many entities had to go through a significant downturn in income, profitability and hence liquidity while preparing their financial statement. Consequently, the company would have to faced a difficult situation where the going concern was still appropriate, but some material uncertainties might disrupt it. To address this problem, IAASB wrote this article to provide the procedure that the management should follow in this case scenario.

According to the procedure described in the paper, before disclosing the material uncertainties, the management has to make an assessment which must provide conclusion on the company’s continuity. To determine the basis that they will use, the management needs to know whether an entity is under the assumption of the going concern or not. In the case the entity is, they will have to use a standard basis. On the contrary, they will not do so if the company intended to liquidate or cease trading because they had no other alternative. In addition to that first criterion, as written in paragraph 26 of IAS1, the management must also consider every information that could impact the material uncertainty to be able to determine whether an entity is still on going concern (IASB [International Accounting Standards Board], 2020a): “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.”

Consequently, while doing the assessment, the management need to take into account some factors such as the expected profitability, the timing of repayment, or the potential source of financing. For instance, a company which is evolving in a stressed economy will be considered differently by the management as its environment has a direct impact on multiple factors that must be looked into during the assessment. Indeed, in this type of economy, the management will have to pay attention to the possible effects of any temporary shut-down or curtailment of their activities. Furthermore, they will have to look out for any other changes in the market, for example, a new law made by the government which will impact the entity's activities.

As for the period of assessment, it should normally take at least twelve months after the end of the accounting period. During this timeframe, the management will have to carry out dynamic work due the following characteristics of the going concern assessment:

- The ability for the company to continue may change rapidly.
- The management work needs to reflect the events which happened after the reporting period until the financial statement is authorized.

On the grounds of the criterion written above, the assessment must undergo dynamic work since it requires continuous updates on the assessed company. For this part, we have identified two types of changes that the management will have to take into account in order for the assessment to be dynamic:

- The events after the reporting period: If an event occurs after the end of the company accounting period, it will be considered when doing the assessment and it will have an impact on it.
- The scenarios: changes linked to the scenario that the company has planned and that might be affected by the context of our current stressed economy. The economy is changing quickly due to the multiple crisis (COVID, Ukrainian war, climate change...). Those might have an impact on the supply and the activity of the entity. In instance the temporary shut-down which happened due to COVID impacted the company business

As an illustration, in the case of events happening before financial statements are authorized, the going concern assumption will be impacted in a way that the company cannot continue its activities. Therefore, the management will have to go through dynamic work to find an alternative basis for the financial statement.

This kind of work will eventually lead to a binary conclusion concerning the continuity of the company. However, the decision is not that binary as it is, in fact, based on the judgements and assumptions of the management while preparing the financial statement. As a result, key

disclosures will be released within the financial statement saying whether the entity is still profitable or not.

Yet, with the current stressed economy, materials uncertainties might occur which could have an impact on an entity's continuity. Therefore, their disclosures are now required by paragraph 25 of IAS 1 (IASB [International Accounting Standards Board], 2020a): "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." A requirement which leads to more attention on behalf of the users to the disclosures linked to going concern.

As for the final conclusion of the assessment, the educational guidance divides the going concern into four scenarios (refer to appendix 2) going from the no problem of continuity to the liquidation of the company.

Scenario 1: If there are no liquidity concern, the disclosure only has to describe the basis of preparation of the financial statement. In this scenario, it is less likely to have a significant judgement involving an impact on going concern.

Scenario 3: In this situation, the entity is close to cease its activities. This could be caused by a loss making, a decrease in demands for their goods or, funding facilities ending in the next twelve months. Under these circumstances, the management has to conclude with the going concern assumption after including all relevant information such as feasibility and effectiveness. Afterwards, the management will have to make significant judgements based on the information at their disposal. As a consequence, this scenario is likely to have significant judgements that may lead to material uncertainties causing a major doubt in which case, the management will have to disclose events as well as their responses to them. (example: turn-around strategy).

Scenario 2: This one is very similar to scenario 3 except that in this case, the significant judgement made by the management after receiving all the relevant information such as feasibility and effectiveness. Those are mitigating all uncertainties which leads to the non-disclosure of the uncertainty (Management turn around) – IAS 1, Requires entity to disclose assumption and major sources of information used for risk which have a high risk of resulting in an adjustment of assets or liabilities within the next year.

Scenario 4: The entity is no longer under the on-going concern which means that the basis of preparation for the financial statement under the assumption of going concern isn't appropriate anymore. The company has no other realistic alternative due to a cease of trading or liquidate their activities. The management must then disclose the reason why they aren't in going concern anymore and on which basis the financial statement is being prepared.

However, these scenarios only concern current material uncertainties but what about material uncertainties that remain after this assessment? Concerning this situation, IAS 1 states in paragraph 125 that the management has to disclose assumptions about the future, the sources of information and the material uncertainties that she may encounter as described in the following (International Accounting Standards Board, 2020a):

“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:

- (a) their nature, and
- (b) their carrying amount as at the end of the reporting period...

An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are: (a) the nature of the assumption or other estimation uncertainty; (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved..

This Standard does not require an entity to disclose budget information or forecasts in making the disclosures in paragraph 125.”

After having plunged into the theoretical framework of IAASB concerning the going concern assessment, we are now going to see what, according to the procedures of major auditing firms (BDO, EY, PWC, KPMG and Deloitte), the assessment should contain.

In their view, the going concern assessment must cover a period of at least 12 months during which it will be regularly updated. This dynamic side of the assessment is due to a wide range of factors linked to the current stressed economy which could initiate two types of changes:

- Events occurring after the reporting period and that could impact management conclusion on going concern assumption (Deloitte, 2021) : “It is important to note that developments after the reporting date but before the financial statements are authorized for issue should be factored into the assessment of going concern even if they are not themselves adjusting events under the general requirements of IAS 10.”
- The scenario the company has planned

Consequently, while doing the assessment, the management should consider every possible scenario with at least one “severe”.

As for the conclusion, the management will have to take different criterions into account such as the following:

- Sufficient cash and credit available to meet the short-term liabilities of the company (needs in general) but also to calculate the timing of repayment of their liabilities
- Negotiation with lenders to see if credit and source of liability are possible for the company
- See if a restructuring of the operating costs is still possible
- Measure the expected profitability of their activities
- Current and expected profitability of the company
- All potential source of financing

Finally, in the view of auditing firms, the disclosures made by the company should be precise enough to meet the “users” and “regulators” expectations. But, as for how detailed it should be, that generally varies from one company to another. For instance, with regards to material uncertainty scenario, they must disclose:

- Detail of events or conditions that may cast significant doubt on the going concern
- How the management plan to mitigate the effects of those on the activity of the company
- The significant judgements made by the management. With the conclusion of whether those events/conditions are material uncertainties
- An explicit statement that there is/are uncertainty(-ies) that made the company unable to meet her expectation. This means that the company can’t get her assets as she would do in the normal course of her business and can’t reimburse the liabilities that she has contracted towards a third party as she should do.

For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.”

## 2.6 Accounting standard when in discontinuity

After a brief view on how different audit firms could evaluate the assets and liabilities of an entity which is not under the going concern principle anymore. We will focus on US GAAP that could be used by these companies thanks to IAS 8. Considering what we have already said on IAS 8, companies could use pronouncements from other standard-setters (e.g., US GAAP) if aligned with IFRS principles and have a similar conceptual framework.

### 2.6.1 Audit firms

We will in this first part of accounting standard an entity should prepare her financial statement when not under the going concern assumption. We look at papers written by five audit firms (KPMG, Deloitte, EY, PWC and Grant Thornton). Based on the working paper they have written, we took all the rules that entities should apply in the view of those audit firms.

Firstly, we will see how according to KPMG (KPMG [Klynveld Peat Marwick Goerdeler], 2020) the entity should prepare its financial statements when not under the going concern assumption. The IFRS can be applied but in a manner with adaptation to reflect the attributes which have changed. Nevertheless, the alternative basis of preparation does not dispense them from the measurement, recognition and disclosure requirement. Concerning the assets they should be reported as in IFRS (held for sale) and not considered abandoned. While trying to follow the accounting standard how should the company evaluate her assets. But, to start with it is important to define the IFRS 5.1 and 5.6 as they give the definition of when an asset is kept as held for sale in the accounting of the companies (IASB [International Accounting Standards Board], 2004): “The objective of this IFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, the IFRS requires:

- (a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; and
- (b) assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of comprehensive income.

Those are revaluated by the company when they meet the criteria of held for sale which we can find in IFRS 5.6. The criteria's say (IASB [International Accounting Standards Board], 2004):

"An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. At the lower value between its carrying amount and fair value.”.

To sum up, in this scenario, the recoverable amount of the assets should be revised and even reclassified towards current as the entity intend on selling them. Therefore, on this basis, assets should be evaluated at their sales value even if this value is different from the market value as described by IAS 36.20 to 21 which says (IASB [International Accounting Standards Board], 2013): “It may be possible to measure fair value less costs of disposal, even if there is not a quoted price in an active market for an identical asset. However, sometimes it will not be possible to measure fair value less costs of disposal because there is no basis for making a reliable estimate of the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. In this case, the entity may use the asset’s value in use as its recoverable amount.

If there is no reason to believe that an asset’s value in use materially exceeds its fair value less costs of disposal, the asset’s fair value less costs of disposal may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.”. Since the entity intends to sell the assets, no future cash flow will be created by this asset. Therefore, the entity may choose the fair value less cost of disposal or the recoverable amount since there is no material difference.

For the liabilities, they need to be recognized as explained by IAS 32 and 37 even if the entity is in liquidation. It is only when the obligations to reimburse are discharged that the entity may take it out its financial statements. Regarding the liabilities, as mentioned by IAS 37, liabilities might need to be increased due to some contracts becoming more onerous with the decision to cease trading. In such a matter, it is acceptable to provisioned those as mentioned in IAS 37.66-67 (IASB [International Accounting Standards Board], 2020b): “If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

Many contracts (for example, some routine purchase orders) can be cancelled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard and a liability exists which is recognised. Executory contracts that are not onerous fall outside the scope of this Standard.”. Furthermore, to remain consistent with IAS 37, no provision for future losses or new liabilities can be made as the company doesn’t intend to continue her activity:

“Provisions shall not be recognised for future operating losses.”. The writing down of liabilities is not appropriate. The company might want to reduce due to the lack of resources she possesses but according to IFRS 13, we can't have a value under the amount payable on demand. Yet, no rules actually prevent the management from writing them down as a similar rule is applicable for the write-up of assets. Concerning reclassification of liabilities, the non-current ones may need to be reclassified in current liabilities because of the breaches which the company might have faced while reimbursing all her creditors but, only when meeting the criteria of IAS 1.69 current liabilities: “An entity shall classify a liability as current when:

- (a) it expects to settle the liability in its normal operating cycle;
- (b) it holds the liability primarily for the purpose of trading;
- (c) the liability is due to be settled within twelve months after the reporting period; or
- (d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.

An entity shall classify all other liabilities as non-current.”. Concerning the liabilities created by restructuring, the following can only be considered when a clear plan is established as explained in IAS 37.72 (IASB [International Accounting Standards Board], 2020b): “A constructive obligation to restructure arises only when an entity:

- (a) has a detailed formal plan for the restructuring identifying at least:
  - (i) the business or part of a business concerned;
  - (ii) the principal locations affected;
  - (iii) the location, function, and approximate number of employees who will be compensated for terminating their services;
  - (iv) the expenditures that will be undertaken; and
  - (v) when the plan will be implemented; and
- (b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.”. They are recorded when we know how much, when and how this plan will be implemented.

Secondly, we will see how PWC (PWC [PriceWaterhouseCoopers], 2018) addresses discontinuity. For them, when entering discontinuity, the entity should disclose this fact in its financial statements as well as the reason the company is in this situation. It is important to

mention that the financial statements might be prepared on a liquidation or a breakup basis but those might sometimes be inappropriate. Therefore, if the legislation allows it, the financial statements can be prepared with another accounting framework. When preparing its financial statements on an alternative basis, the value of the assets and liabilities are affected by a change in judgement as the entity will estimate the recoverable amounts of the assets. This estimate might result in an impairment of the carrying amount of the assets. When the assets are sold it is inappropriate to recognize profits made on the disposal or, either a decrease in impairment/provision or, an increase in the carrying value of the assets. As for the liabilities, the price which will be paid for cancelling the onerous contract should require the record of a provision. For the other contract and restructuring costs, no provision should be considered as they do not meet the obligations criteria in the balance sheet.

Thirdly, we will see how Deloitte (Deloitte, 2019) records the assets and liabilities of an entity on another basis. But before that, it is important to consider whether financial statements will be required from the entity. This depends of the legal and regulatory requirements in the relevant jurisdictions. Preparing its financial statements on another basis doesn't prevent the entity from staying compliant with the IFRS. Nevertheless, there will be some amendments made to reflect that the going concern assumption is not appropriate. For example, the writing down of assets to their recoverable amounts is one of these amendments. This will require a comparison between the carrying amount with the higher of its value in use and fair value less cost of disposal. Since the assets are going to be sold the value in use (as no future cash flow will be gained from the assets) is not materially different from the fair value less cost of disposals for the assets. Furthermore, the assets which are classified as non-current in accordance with IAS 1, should be reclassified in current only when they enter the held for sale criteria from IFRS 5. Another amendment would be to recognize liabilities for contracts which will become onerous due to the decision to cease trading. In addition, the long-term liabilities should be reclassified as current liabilities when meeting the criteria from IAS 1.69. It is important to note that the criteria (c) do no longer hold true as the entity prepare its account on an undefined period (IASB [International Accounting Standards Board, 2020a]): "An entity shall classify a liability as current when:

- (a) it expects to settle the liability in its normal operating cycle;
  - (b) it holds the liability primarily for the purpose of trading;
  - (c) the liability is due to be settled within twelve months after the reporting period; or
  - (d) it does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period".
- When using other accounting frameworks, the financial statements objective goes from measuring if the assets will be enough to reimburse the liabilities towards, quantifying the amount of any surplus the shareholders might get. Considering this, the liabilities will be recognized as losses arising

from the costs of stopping the activity. While the assets would be evaluated to their sales value even if it is different from their market value. Under this basis, the financial statements become a forecast of future realization. This basis of preparation is not compliant with the IFRS nevertheless, it can be use in very rare cases. In IFRS, the financial statements should reflect the transactions and other events that have occurred with the circumstances in which the entity is evolving. For example, it will be difficult to imagine securities which are evaluated at another value than the one from the market. Even if a gain or loss of disposal happening in a future period will reflect the decision to hold the securities rather than sell them in the first period. For similar reasons, it will not be appropriate to recognize provisions for future losses as there are no legal or constructive obligations binding them at the end of the reporting period.

Fourthly, we will see Grant Thornton (Grant Thornton, 2017) alternative basis. Starting with the objectives, preparing its financial statements on an alternative basis does not dispense the entity from the measurement, recognition and disclosure criteria. Therefore, the entity should follow the criteria from IFRS as a starting point. Furthermore, each situation needs to be assessed on a particular basis which comes from the different facts and circumstances related to the entity situation. One example is for entities which are in the process of imminent liquidation, those could use the “break-up” or “liquidation basis”. Under this approach, the goal is to know if the assets are sufficient to reimburse the creditors and to quantify the surplus that the shareholders might get. Under this approach, the liabilities will be increased by provisions for losses in a subsequent period and the cost of stopping the activity. While the assets will be written down to their resale price even if it differs from the fair value at the end of the reporting period. For Grant Thornton, such a basis is not appropriate even if the entity is in imminent liquidation. The reasons are the same as explained concerning the provision for future loss with working paper Deloitte here above. How should assets be evaluated? For Grant Thornton, it is always appropriate to write down assets as they will not give future cash flow. Therefore, the entity could use the fair value less cost of disposal. On the contrary the write up of assets will generally be inappropriate as there are no dispensation of measurement and recognition criteria. Nevertheless, due to the lack of guidance from IAS 1 and 10 we cannot rule it out when the entity prepares its financial statements on another basis. We will now see how the liabilities should be evaluated when the entity is not in continuity. For onerous contracts, it is accepted and in line with IAS 37 to make provision for the cancellation of those contracts. We will assume it is inappropriate to make provision for future losses as explained previously due to the measurement and recognition criteria. While for the other liabilities, how those should be evaluated? The amount should not be less than the amount payable on demand even if the company knows that she is not going to reimburse everything due to a lack of resources in order to align with IFRS 13 as the entity still have the

obligation to reimburse (IASB [International Accounting Standards Board], 2021) : “A fair value measurement assumes that a financial or non-financial liability or an entity’s own equity instrument (eg equity interests issued as consideration in a business combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity’s own equity instrument assumes the following:

(a) A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.

(b) An entity’s own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.”.

Nevertheless, the entity is preparing its financial statements on another basis. Thus, it’s not possible to rule out the write-down of liabilities as no clear information is given by IAS 1 and 10. For the presentation of the financial statements, the entity must reclass her assets from non-current to current if they meet the “held for sale” criteria from IFRS 5 but this reclassification can be applied on all the non-current assets. Concerning the long-term liabilities, they may have to be reclassified as current due to breaches of borrowing. In addition, some equities might as well be reclassified in liabilities if they require the entity to settle the obligations. If the entity tries to comply with the IFRS when preparing its financial statements on another basis, there is no reason to consider that it is not compliant since no guidance is given by the IASB.

Lastly, we will look at the information given by PWC (PWC [PriceWaterhouseCoopers], 2018) on how the financial statements should be prepared. The financial statements are made on a going concern assumption. As explained previously, this assumption should be assessed annually by the management. Uncertainties found by the management should be disclosed. There is no further information given by the IFRS on what we should find in the disclosure. More guidance was created by the Interpretation committee. But they avoid giving prescriptive requirements. This is because prescriptive guidance may result in “boiler plate” disclosure which can obscure the more relevant information and would overload the disclosure. Even though they might give final users useful information. In addition, the requirement in disclosure is better managed by local regulator or audit guidance. For entity in discontinuity, they should disclose it as well as the reason they are in this situation. The IAS/IFRS giving no guidance for preparing the account when in discontinuity the entity should also disclose the basis of preparation of its financial statements.

In summary, when an entity is no longer under the going concern assumption, financial statements should be prepared using an alternative basis while being compliant to IFRS

principles for recognition, measurement, and disclosure. Assets classified as "held for sale" under IFRS 5 must be revalued at the lower of their carrying amount and fair value less costs to sell. This ensures that the recoverable amount reflects the entity's intention to dispose of the asset rather than generate future cash flows. For liabilities, provisions may be made for onerous contracts as outlined in IAS 37, and non-current liabilities may need to be reclassified as current if settlement becomes imminent. However, provisions for future operating losses are not permissible. Overall, preparing financial statements under discontinuity requires clear disclosure of the accounting basis of preparation, and the reasons for discontinuity. In addition, the entity should provide a detail evaluations of assets and liabilities to align with IFRS principles or other applicable frameworks.

## 2.6.2 US GAAP (United States Generally Accepted Accounting Principle)

We will know see how the US GAAP companies should assess their financial statements when in bankruptcy.

### 2.6.2.1 *Assets and Liabilities general feature*

As mentioned in the ASC 852, when entering bankruptcy, a petition listing all the liabilities is signed by the Court. The financial statement of the entity should distinguish prepetition liabilities that can be compromised from the post-petition liabilities. On one hand, the prepetition is defined by the FASB (Financial Accounting Standards Board) which is the US authority for the preparation of accounting standard. The FASB says (PWC [PricewaterhouseCoopers], 2024a): "Liabilities that were incurred by an entity before its filing of a petition for protection under the Bankruptcy Code including those considered by the Bankruptcy Court to be prepetition claims, such as a rejection of a lease for real property.". On the other hand, the post-petition liabilities are the ones the companies contracted after the petition was signed. Those liabilities should be reevaluated to their expected refund rate. This applies even if the liabilities may be settled for an inferior amount. If a secured claim has an uncertain character while determining her certainty. The secured claim is defined by the FASB as (PWC [PricewaterhouseCoopers], 2024a): "A liability that is secured by collateral. A fully secured claim is one in which the value of the collateral is greater than the amount of the claim.". The amount from the secured claim which is greater than the one originated from the claim (is the right to the payment). This increase should be included in the petition. This do not Apply for claims which are not subject to compromise. Concerning the prepetition liabilities as well as for the claims which have been contracted by the company, they should be evaluated to the expected of allowed claims. The allowed claims are defined by the FASB as (PWC [PricewaterhouseCoopers], 2024a): "The amount allowed by the Bankruptcy Court as a claim against the estate. This amount may differ from the actual

settlement amount.". The diverse differences that the company might face are accounted for as provision. Once accrued provisions are made, the liabilities should be recorded in the financial statement. If no reasonable estimation is possible, this should be disclosed.

While for the other debt that the company may contract, those need to be readjusted. If a premium or a discount has an impact and changes the allowed claim value. The gain or loss which comes from this movement should be classified as a reorganization item. Those are not subject to compromise as the compromise shall not be readjusted because it has been approved by the Bankruptcy court. The liabilities which are not compromised should be further classified between current and non-current ones.

On one hand we saw how the liabilities are evaluated and classify. The general feature is written as follows (PWC [PricewaterhouseCoopers], 2024a): "205-30-30-2An entity shall measure liabilities in accordance with the measurement provisions of other Topics that otherwise would apply to those liabilities (excluding the accrual of estimated disposal costs as described in paragraph 205-30-25-6 and expected income and expenses as described in paragraph 205-30-25-7). In applying those other Topics, an entity shall adjust its liabilities to reflect changes in assumptions that are a result of the entity's decision to liquidate (for example, timing of payments). However, an entity shall not anticipate being legally released from being the primary obligor under a liability, either judicially or by the creditor."

Another rules for liability is that, an entity should recognize liabilities and can only unrecognize them when they have been extinguished.

On the other hand, for the assets which are going to be sold, the cost initiated by those disposals should be estimated and present the aggregate amount in a separate account from the assets or items. The measurement of the assets should be as followed (PWC [PricewaterhouseCoopers], 2024a): "205-30-30-1An entity shall measure assets to reflect the estimated amount of cash or other consideration that it expects to collect in settling or disposing of those assets in carrying out its plan for liquidation. In some cases, fair value may approximate the amount that an entity expects to collect. However, an entity shall not presume this to be true for all assets."

The assets cost of disposal needs to be considered by the entity. Nevertheless, discount on the provision for those cost is not allowed (PWC [PricewaterhouseCoopers], 2024a): "205-30-30-3An entity shall not apply discounting provisions in measuring the accruals for estimated disposal costs in accordance with paragraph 205-30-25-6 and expected income and expenses in accordance with paragraph 205-30-25-7."

While making their expectations on how much the assets are going to be sold and the value of the liabilities, they should also consider costs and income expected to happen during the phase of liquidation and accrue them. Those Following the ASC 205-30-30-3 shall not be discounted (PWC [PricewaterhouseCoopers], 2024a): "205-30-30-3An entity shall not apply

discounting provisions in measuring the accruals for estimated disposal costs in accordance with paragraph 205-30-25-6 and expected income and expenses in accordance with paragraph 205-30-25-7."

The evaluation should be renewed every year as explained (PWC [PricewaterhouseCoopers], 2024a): "205-30-35-1 At each reporting date, an entity shall remeasure its assets and other items it expects to sell that it had not previously recognized (for example, trademarks), liabilities (if required under the relevant Topic for those liabilities), and the accruals of disposal or other costs or income to reflect the actual or estimated change in carrying value since the previous reporting date in accordance with paragraphs 205-30-30-1 through 30-3 ." Finally, some items that were unrecognized previously can be evaluated by the company if and only if they plan to sell it or to use it to reimburse liability.

#### *2.6.2.2 Specific adaptations*

We will now see the specific adaptation of the US GAAP when preparing her financial statement under the liquidation basis. In the US GAAP, the entity should prepare the following (PWC [PricewaterhouseCoopers], 2024a): "205-30-45-1 At a minimum, an entity that applies the liquidation basis of accounting shall prepare the following:

- a. A statement of net assets in liquidation
- b. A statement of changes in net assets in liquidation."

Those aims are to give more information and should be found in addition to the financial statements and not as a replacement for.

The liquidation basis should be put in place by the management as soon as the day the liquidation becomes effective (PWC [PricewaterhouseCoopers], 2024a): "205-30-45-2 The liquidation basis of accounting shall be applied prospectively from the day that liquidation becomes imminent. The initial statement of changes in net assets in liquidation shall present only changes in net assets that occurred during the period since liquidation became imminent."

The company should report all relevant information which might help the stakeholders to understand the value of the assets and liabilities used in the financial statement. But also, the information uses to obtain those results (PWC [PricewaterhouseCoopers], 2024a): "205-30-50-1 An entity shall make all disclosures required by other Topics that are relevant to understanding the entity's statement of net assets in liquidation and statement of changes in net assets in liquidation. The disclosures shall convey information about the amount of cash or other consideration that an entity expects to collect and the amount that the entity is obligated or expects to be obligated (in the case of the accruals described in paragraphs 205-30-25-6 through 25-7 ) to pay during the course of liquidation."

The disclosure we found in the financial statements should also reflect the fact that the entity is using the liquidation basis, the reason which led to it, the plan of liquidation with the

assumption for the assets and liabilities. And finally, the costs and incomes generated by the liquidation (PWC [PricewaterhouseCoopers], 2024a): “205-30-50-2 At a minimum, an entity shall disclose all of the following when it prepares financial statements using the liquidation basis of accounting:

- a. That the financial statements are prepared using the liquidation basis of accounting, including the facts and circumstances surrounding the adoption of the liquidation basis of accounting and the entity's determination that liquidation is imminent.
- b. A description of the entity's plan for liquidation, including a description of each of the following:
  1. The manner by which it expects to dispose of its assets and other items it expects to sell that it had not previously recognized as assets (for example, trademarks)
  2. The manner by which it expects to settle its liabilities
  3. The expected date by which the entity expects to complete its liquidation.
- c. The methods and significant assumptions used to measure assets and liabilities, including any subsequent changes to those methods and assumptions.
- d. The type and amount of costs and income accrued in the statement of net assets in liquidation and the period over which those costs are expected to be paid or income earned.”

### 3. Analysis of financial statement in discontinuity

In this part, we are going to look at the financial statement of FNG (refer to appendix 4) which was in discontinuity and therefore prepared her financial statement on an alternative basis while still following the IAS/IFRS accounting standard.

We previously saw that when the entity is not under the going concern assumption, they could either be in discontinuity or in liquidation. The two scenarios will lead to different accounting standards as it is expected in liquidation that the company might not be able to pay back all its liabilities and intends to sell its assets in the future to reimburse its creditors. Therefore, they should write down their assets at their fair value less cost of disposal and make provision for cancellation of contracts, which become onerous due to the cease of trading. Yet, in our case, FNG is not in liquidation and thus has no specific rules covering it. The company is in discontinuity because the holding above her FNG International Holding NV has been moved out the consolidation perimeter as they are no longer under the going concern assumption. This directly has a direct impact on FNG as an underlying is also left out of the consolidation perimeter. Consequently, the company can still assume that they will reimburse all their assets and liabilities as they do not intend to cease trading. FNG must sell their assets and pay their

liabilities back to the group as they have no more the right to use them. This explains the huge decrease in the assets and liabilities of the company (refer to appendix 4). The assets which have been sold must have been reevaluated at their realizable value. Concerning the assets, there are different rules applied depending on the type of assets which have a strong compliance with the different rules proposed by the IAS/IFRS accounting standard.

We will now analyze the accounting evaluation rules of the entity and see if the alternative basis of accounting preparation is compliant with the IFRS. Indeed, we have firstly a compliance with IAS 16 for the tangible assets which must be found in the detailed treatment of acquisition costs and annual reassessment of useful lives and residual values. This application of straight-line depreciation aligns consistently with IFRS requirements.

Moreover, as stipulated by IAS 36, annual impairment testing ensures the carrying amounts do not exceed recoverable amounts. However, the document lacks detailed disclosures about the residual values and component accounting, which are critical for full compliance.

Secondly, for the intangible assets, we see an alignment with IAS 38 by the clear separation that is being done between the intangible assets which are acquired and the ones that are internally generated. Besides that, we also have the amortization of the assets over their useful lives. Furthermore, the capitalization of development costs appears compliant with IFRS requirements, as costs must be reliably measurable and likely to generate economic benefits. We can therefore see that even though the entity is in discontinuity the rules that are being applied as described in the evaluation accounting rule are compliant even similar with the ones from the accounting standard.

Concerning the disclosure, they are also very compliant as they are trying to give a fair view of the financial statement and a presentation of the results. Nevertheless, the compliance could be even stronger by giving more detailed information about the computation of the residual value of the tangible assets.

Yet, what differs between the two isn't about the evaluation rules but about the amount found in the balance sheet of the company. Indeed, we can see that the total value of the assets went from 834 thousand euros to 380 thousand euros. All of which means that a lot of assets have been sold to pay back the different liabilities of the company. Looking at the details from the accounts (refer to appendix 4) we see that the decrease in assets and liabilities comes from the deconsolidation.

To sum up, we see that the company is complying with the IAS/IFRS regarding the evaluation rules. However, a lot of changes are being made regarding the restructuring of the financial statement. In case which, a lot of assets are being sold to reimburse the liabilities due to the deconsolidation. FNG is not in a scenario of imminent liquidation and therefore is trying to stay compliant with the IAS/IFRS as proof that even though the holding is not in continuity, FNG will continue its activities in the future. We can see in its financial statement

from the following reporting period that no assets are being sold to reimburse its liabilities (refer to appendix 5).

## 4. Alternative basis of other accounting standards

We will in this part see how other accounting standards such as BE GAAP and LUX GAAP, prepare their accounts on an alternative basis. Those cannot be used under IAS 8.10 to 12 because of the conceptual framework which is different compared to the IFRS. The financial statements are prepared with the assumption that the activity will continue during the following year. This is present in a European directive 2013/34 saying (European Union, 2013): "Article 6: General financial reporting principles  
1. Items presented in the annual and consolidated financial statements shall be recognised and measured in accordance with the following general principles:  
(a) the undertaking shall be presumed to be carrying on its business as a going concern". This directive applies to LUX GAAP and BE GAAP. We will see that it is retranscript in both legal frameworks.

### 4.1 BE GAAP (Belgian Generally Accepted Accounting Principle)

We will start with the regulatory framework in Belgium. ART 3.5 from the law of the 23rd of March 2019 introducing the company and partnership code and miscellaneous provisions. (Etaamb.Openjustice.Be, 2019):

"The Board of Directors draws up a report in which it gives an account of its management."

In this report that the board need to draft we should find what is explained in art 3.6

(Etaamb.Openjustice.Be, 2019):

"If the balance sheet shows a loss carried forward or the income statement shows a loss for the year for two successive years, a justification for the application of the continuity accounting rules".

This means that if there are discontinuities problems the board should explain the change in accounting rules which will be applied by the company. Otherwise, it is assumed that the financial statements are prepared on the basis that the business will continue. But how exactly should an entity adapt its accounting standards to reflect in her financial statements that there are in discontinuity?

We will see how the Belgian GAAP evaluate her assets and liabilities when not in continuity.

In BE GAAP, there is no clear definition of going concern. Yet, it contains accounting policies that could be used by the management when an entity decides to stop its activities, a brand of the company or, that the company can't maintain it. In this case, the adaptations made by the management should be changed for the liabilities as follow (CNC CBN, 2018):

-all expenses linked to the creation of the entity must be depreciated

-provisions are made to cover the costs linked to the liquidation of the company.

While for the assets, they should be evaluated as describe here below:

-the value of current and non-current assets should be reevaluated through different reduction or depreciation until they are equal to their realizable value.

After those adjustment we can therefore see whether the company with the value of her assets will be able to reimburse their creditors as mentioned in the notice of the CNC (*CNC CBN*, 2018): “The company's assets are thus presented in the discontinuity situation in which they find themselves. These stakeholders to check whether the company will be able to meet its short-term commitments (debt repayment payments in lieu of notice, etc.).”.

The IRE (Institut Reviseur d'Entreprise), which is the institute of auditors in Belgium, refer to the notice from the CNC we previously mention concerning the alternative accounting basis the management should use when preparing its financial statement and not under the going concern assumption anymore. In addition, the IRE also mention the norm ISA 570 when referring to the going concern (*ICCI*, 2024): “For completeness, the ICCI (Centre d'information du révisorat d'entreprise) also refers to ISA 570 (Revised), Going Concern.”

## 4.2 LUX GAAP (Luxembourg Generally Accepted Accounting Standard)

### 4.2.1 Assets and Liabilities general feature

We will start by seeing how the Luxemburgish legal framework expects the accounting evaluation rules to be prepared on the basis that the company will continue its activity. This is mentioned in the law of the 19th of December 2002 (CNC Luxembourg [Commission des Normes Comptables Luxembourg], 2016): “Art. 51 (1) The following general principles are applied to the valuation of items in the annual financial statements

the following general principles:

a) the company is presumed to be continuing in business;”.

This presumed continuity in business, is emphasized by the CNC with the management obligation to evaluate the entity's ability to continue her activity. This evaluation should be done over a period of 12 months. When discontinuity is determined, the liquidation basis must be adopted within the year it has been determined as explained by the CNC (CNC Luxembourg [Commission des Normes Comptables Luxembourg], 2021): “Despite the absence of a legal mandate, the CNC (Commission des Normes Comptables) believes that the administrative or management body of a company is obligated to assess the company’s ability to continue as a going concern. Far from being just one principle among others, the going concern assumption is the central convention underpinning the preparation of annual financial statements under LUX GAAP and LUX GAAP-JV. It is therefore necessary to ensure the appropriateness of this assumption.

In line with international practice, the CNC considers that this assessment should cover, at a minimum but not exclusively, a period of twelve months from the closing date of the financial

year. In this context, the administrative or management body may rely on financial, operational, or other indicators, which, individually or collectively, lead to a conclusion about the appropriateness of the going concern assumption.

If, following the analysis, it is concluded that the company is unable to continue its operations in the foreseeable future, the going concern assumption must be abandoned, and the adoption of a liquidation-based accounting approach becomes inevitable. For prudence, the CNC notes that it is preferable to implement liquidation-based accounting as soon as discontinuity is established, regardless of whether the events or conditions leading to this conclusion arose during the financial year or after its close but prior to the approval of the financial statements.”.

Before looking at how liabilities and assets are evaluated in the LUX GAAP, it is important to mention that the main goal when a company enters discontinued operations, according to their standards, is to estimate the future potential losses for the creditors and the shareholders. In this case, the management will have to consider all the costs linked or that might originate from the liquidation process. A decision tree has been created to help the management to determine whether they should apply the basic basis, the alternative basis of preparation “liquidation basis” or even the simplified version of the alternative basis (refer to appendix 3). Consequently, in these standards, it seems that the "liquidation" basis focuses on the financial estimate of the company by considering primarily all the liabilities due by the company even if they are related to another reporting period. Therefore, any other information such as profit and loss will be seen as secondary by the management. All of this is because no comparison is possible between the different reporting periods. As the basis of preparation will be different. In "liquidation" basis, the prudence principle is still applicable. The prudence principle is explain by finance strategist (Tamplin, 2023): “The **prudence principle of accounting**, also known as the conservatism principle, states that a business should exercise a good degree of caution when booking incomes and expenses.

In particular, is considered wise to book an income only when it is realized. Alongside this, expenses should be booked as soon as a reasonable likelihood of their becoming payable is reached.”.

We will start by explaining the alternative accounting basis which is “the liquidation basis”. This happens when an entity is in liquidation and might result in a loss for the creditors or the shareholders. We can see that the liabilities have a big importance as the liquidation basis aim at estimating them. But, if they consider the liabilities as primary information, what about the assets? For the liquidation process, LUX GAAP considers two types of assets. On the one

hand, we have assets that have already been evaluated in the financial statement, but which have no realizable value. For those, they must immediately be removed from the account. On the other hand, we have assets which were not recognized previously in the balance sheet because the prudence principle does not allow them to be considered something which has no real value such as the brand name. Among these assets, only the ones that are highly likely to extinguish a liability and that have thus a realizable value could be evaluated. As for the remaining ones, we could also evaluate them but in this scenario, the reporting entity will have to abandon the historical cost and to replace it with the realizable value of the assets which were already recognized but at their historical value to clean the liabilities. With all this information on hand, the liquidator can now, have a fair view of the amount of liabilities that will be reimbursed by the sale of the assets. This is what we call the net realization value, and it is defined as the following by IAS 2.6 (IASB [International Accounting Standards Board], 2003): "Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale". While evaluating the realization value, the liquidator must also consider the urgency of the sale to determine whether an overvaluation has been made. In addition, amortization plan for fixed assets should be put to an end. Since they are going to be sold and not used by the entity anymore. They cannot be amortized over several years as an asset which will be used by the company to generate profit. Those assets will then be transferred into the current assets section to reflect the operation discontinuity and that the entity will no longer use them. For the company preparing its account on a liquidation basis, it's the liquidator choice to determine whether estimated future income and unrealized income should be considered. As for the evaluation of the liabilities, normally only the one related to the reporting period and the prior one should be considered in the balance sheet. Despite that, since it is made on a liquidation basis, liabilities occurring after the end of the reporting period should also be registered as all the liabilities contracted by the companies will need to be reimbursed. Nonetheless, it is important to note that forcing a company to estimate future liabilities goes against two key principles: the annuity of product and charges, the separation of the reporting period. Consequently, the liquidator will have to separate those future charges from the debts which come from prior or from the reporting period by including them in the provision section. Those future charges being fiscally deductible, they create differed tax account. The second scenario is for companies which are continuing their activities but for which, serious doubt emerged concerning the ability for the company to continue its activity. For those, a reclassification of assets and liabilities can be replaced by disclosures. As for the recognition of estimated future income and unrealized income, it is prohibited for companies which are not yet being liquidated. Furthermore, they can't distribute products which have not been made yet. All of which is due to the prudence principle as those are not certain.

Concerning the assets valuation for companies trying to follow the accounting standard. It can be difficult to stop the amortization plan and reclassify their assets as those cannot emancipate themselves from the account scheme. For those, a disclosure is needed on the matter.

Furthermore, it is to be mentioned when entities are using realization value of an assets, and that the assets value cannot be determined with exactitude. In this regard the use of a net accounting value is thus possible.

In the case of the evaluation of liabilities, not all of them are considered in the financial statement. Only the one related to prior reporting period can be recorded as the entity continues its activity. The management can't book liabilities which are related to a future period because it goes against the annuity of the financial statement. In addition, the liabilities are recorded at their reimbursement value, amount needed to honor them or the best evaluation of the amounts of payables needed to be paid.

A reclassification of the following liabilities can be made, the long-term liabilities can be reclassified as short-term but, for some estimated future liabilities can be more complicated. In this situation, the company will prefer to classify those estimated future liabilities in a provision account.

Concerning the liabilities, a general feature can be applied to the two scenarios. But only if the entity in discontinuity of operation and not liquidation decides to go against the annuity principle of her accounting standard. In this case and for the liquidation basis, the entity must also consider the future payables needed to end the contract linked with the ceasing of activity. In the evaluation of the liabilities, the entity can consider the negotiation she had with her creditors Under the condition that the value recorded is highly probable to be correct. When an entity is in the process of liquidation, all the liabilities should be reclassified as current liabilities.

For the two first scenarios, the liquidation basis is applied during the fiscal year or are part of the events that the entity needs to report after the year end. Comparative figures from prior periods remain based on the going concern assumption, requiring disclosure in the financial statement notes about the lack of comparability, the change in accounting basis, and its justification as explained in (CNC Luxembourg [Commission des Normes Comptables Luxembourg], 2021): "The change in accounting basis from 'going concern accounting' to 'liquidation basis accounting' is carried out prospectively. Liquidation basis accounting is applied for the first time during the preparation of the annual financial statements for the fiscal year in which the events and conditions leading to the determination of discontinuity have arisen. By extension (cf. point 3.1), liquidation basis accounting is applied for the first time to the annual financial statements of the ongoing fiscal year when the events and conditions leading to the determination of discontinuity arose after the end of the fiscal year but before the financial statements were finalized.

The comparative figures presented in the first annual financial statements prepared on a liquidation basis remain unchanged compared to the annual financial statements of the previous fiscal year as approved by the relevant governing bodies. These comparative figures are therefore based on the going concern assumption. The lack of comparability must accordingly be disclosed and explained in the notes to the financial statements, along with the change in accounting basis and the underlying reasons.“.

The third scenario is when an entity enters liquidation but not motivated by economic factors or by the company's business failure. Therefore, no losses for creditors or shareholders are likely to happen. For those called the simplified liquidation basis, the CNC considers (CNC Luxembourg [Commission des Normes Comptables Luxembourg], 2021): “the CNC considers that the application of proportionate “liquidation accounting” principles and methods principles and methods, incorporating simplification measures, is sometimes appropriate or even opportune.”. While on the liquidation basis, the assets are evaluated at their realizable value, on the simplified liquidation, the assets are recorded at their net accounting value. Nevertheless, this value needs to have a high likelihood. Concerning the liabilities, only the ones which have been contracted should be present and estimated at their reimbursement rate. The entity can still follow the assumption of annuity and separation of her financial statements and should consider only charges which are related to the actual reporting period. Nevertheless, estimate of cost created by the liquidation such as contractual penalties or indemnities, severance pay, or specific liquidation costs needs to be recorded in the financial statements even if they are related to another reporting period.

The two other scenarios are for entities which are still under the “going concern” principle and are preparing their accounts on a regular accounting basis. The only difference is in the disclosure, when the entity faces risks or uncertainties, they must disclose it. But what would happen if an entity previously in a scenario of discontinuity comes back under the going concern assumption? This change requires detailed disclosures in the notes of the financial statements. They must be applied prospectively without altering prior financial statements. Asset valuation must revert to original purchase or production costs, reversing any prior revaluations made under the liquidation approach as explained in (CNC Luxembourg [Commission des Normes Comptables Luxembourg], 2021): “In cases where a company – previously determined to be in a situation of discontinuity – experiences a recovery before liquidation, a change in accounting basis becomes necessary. In this context, the CNC (Commission des Normes Comptables) believes that the information provided in the notes to the financial statements is crucial. In this respect, the company must notably mention the return to “going concern accounting” by providing explanatory information and specifying the implementation procedures for this change in accounting basis. Furthermore, the CNC considers that the reverse transition, from “liquidation-based accounting” to “going concern

accounting," should follow similar rules to those outlined in point 3.2., namely, a prospective application of the new accounting basis without modifying the annual accounts or comparative figures for previous financial years. Regarding asset valuation, the CNC states that a return to original values, generally based on purchase cost or production cost, is required. Any revaluations carried out during previous financial years to present the assets based on their probable realization value must therefore be reversed during the current financial year.”

In synthesis when an entity enters in discontinuity of operation or liquidation, it is important to avoid the undervaluation of the liabilities. An undervaluation will lead to a false appreciation of the potential losses suffered by the third-party creditor and the shareholders. On the contrary, an overvaluation of the liabilities will have less impact even though it is to be avoided. While for the assets, it appears important to avoid over evaluation of assets to be realized. Because an overevaluation could give a wrong interpretation of the reimbursing capacity of a company's liabilities. While undervaluation is also to avoid the risk link to it are less important.

#### 4.2.2 Specific adaptations

We will see the specific adaptations of the LUX GAAP concerning the disclosure. Those are an important part of the financial statement and should related the information even if the entity is not under the going concern principle as stated in (CNC Luxembourg [Commission des Normes Comptables Luxembourg], 2021): “Among the note disclosures required to achieve the objective of a true and fair view, the CNC considers it important to at least specific mention of the following items:

the occurrence of a definitive challenge to the going concern principle;

a change in the basis of accounting and/or the preparation of annual financial statements using a liquidation basis of accounting;

the accounting principles and methods used by the company in application of the basis of accounting;

the main assumptions used in valuing assets and liabilities, as well as any significant changes valuation methods and assumptions.”. The CNC (Commission des Normes Comptables) from the Luxembourg explains that the entity in liquidation cannot follow the common accounting law was not applicable on the company. Therefore, special law were applicable in this case the CNC expect the following from the company (CNC Luxembourg [Commission des Normes Comptables Luxembourg], 2021): “In this respect, it is common practice for annual / interim liquidation financial statements to include not only a balance sheet and a profit and loss account presenting the results of the liquidation, but also a statement of cash flows include not only a balance sheet and profit and loss account presenting the results of the liquidation, but also explanatory notes”. The disclosure should also take into account what has

been mentioned previously. This is applicable for both the liquidation basis and the simplify liquidation basis.

## 5. Conclusion

To sum up, with this thesis, we tried to contribute to the lack of the current IAS/IFRS accounting standard concerning the preparation of financial statement when the entity is in discontinuity.

To do so, we first looked at the goals of the IFRS to determine how it would impact on the preparation of the financial statement. The standard aims the following: “international accounting standard, which is easy to use (user-centered), flexible, promotes rigorous application and transparent”.

Then, we discussed the current norms surrounding the going concern principle (IAS1 the definition and IAS 10 events after the reporting period). In this point, we saw that the going concern principle was the ability for a company to pursue her activity for at least a period of 12 months (this period is called foreseeable future in the definition from IAS 1). In addition to this period, if an event occurring after this reporting period has an impact on the company's ability to continue it should also be considered.

Next, we saw how the going concern assessment was done by the management. According to the guidance given by the IAASB on the matter shows that the entity can face four scenarios when speaking about going concern assessment but only the fourth one is for company in discontinuity. This does not only apply to companies in liquidation but request for the one in this scenario to prepare their accounts on an alternative basis. The management when assessing their continuity must consider all the information they have at their disposal. For the audit entities, the management should also prepare different scenarios to see the impact of some variables and see whether a small change in this variable a big impact on the entity ability could have to continue or not. This assessment is dynamic as it is always keeping track of modifications which can impact the continuity.

Afterwards, we saw with the accounting policy IAS 8 that an entity could use other accounting standards which have a similar conceptual framework or what other companies have done before. to make modifications as to reflect the current situation of one's company. In the next section, we examined how audit firms (KPMG, Deloitte, EY, PwC, and Grant Thornton) and US GAAP principles address the preparation of financial statements when the going concern assumption no longer applies. These frameworks emphasize reclassifying and revaluing assets. For the liabilities the reclassification might be needed In addition, they should recognize provisions for onerous contracts, and ensuring transparent disclosure. Next, we focused on US GAAP guidelines under the liquidation basis. The liquidation basis mandates the preparation of a statement of net assets in

liquidation and detailed disclosures regarding the liquidation process, including methods, assumptions, and plans. Both IFRS and US GAAP aim to provide accurate and relevant information to stakeholders during financial distress or liquidation.

Lastly, we saw the financial statement of FNG which wasn't prepared under the going concern principle anymore due to the deconsolidation of its holding. Nevertheless, the entity in its financial statement says she prepared her accounts using the IFRS accounting standard. To do it she had to explain which evaluation rules she was going to use to evaluate her assets and liabilities to reflect a fair view of its financial statement. Since the entity wasn't in the liquidation phase no specific rule was made on the liabilities. While for the assets specific rules were applied as soon as they meet the criteria held for sale on how they will evaluate and reflect the impact on their profit.

Lastly, we use two other accounting standards (BE and LUX GAAP). Both frameworks adhere to the European Directive 2013/34, which presumes going concern as a standard principle but allow alternative bases when continuity is no longer viable. Under **BE GAAP**, assets must be revalued at realizable value, while provisions for liquidation costs are mandatory. Disclosures are essential to justify any deviations from the going concern assumption. For **LUX GAAP**, assets are evaluated at their net realizable value, and liabilities include all present and foreseeable obligations. Disclosures must detail the reasons for discontinuity, the assumptions used, and any changes to accounting methods. The prudence principle remains central, emphasizing caution in valuing assets and liabilities. Both frameworks prioritize transparency. In addition, they ensure that the liabilities are not undervalued and assets are realistically appraised to provide a true and fair view of the company's financial position.

In conclusion, the application of IAS/IFRS accounting standards to entities that are no longer considered a going concern reveals significant limitations, as these standards are primarily designed with the assumption of continuity in mind. Even though guidance has been created by the IAASB, we see that those still do not reflect the economic reality in which an entity may face two different scenarios when not under the going concern anymore: discontinuity or liquidation. When a company faces financial distress, the need to prepare financial statements on an alternative basis exposes the gaps and challenges within the current framework, which struggles to adequately reflect the true economic reality of the entity's situation. While IFRS provides a structured approach to accounting under the going concern assumption, it falls short in addressing the complexities of financial reporting when an entity must deviate from this premise. Only having IAS 8, which allows the company to "create" her own accounting policies while this complexity is addressed in other accounting standards. This research highlights the need for greater flexibility and enhanced guidelines in the IFRS framework to

better accommodate entities in financial distress, ensuring that their financial statements provide a more accurate and transparent representation of their financial position.

## 6. Limitations of the Study:

1. **Single Financial Statement Analysis:** One key limitation of this study is that it relied on a single financial statement of a company applying an alternative basis under IFRS. While this provides an example of how a company in such a situation can prepare its financial statements, a broader sample would have enhanced the generalizability of the findings. Including multiple case studies or examples could have provided a more comprehensive view of how companies in similar situations prepare their financial statements, allowing for better insights into the practical challenges and variations in approach.
2. **Limited Scope of Accounting Standards:** This research examined only three accounting standards, which, while informative, may not have provided a complete solution. A wider range of accounting standards could have been analyzed to offer a more well-rounded perspective on financial statement preparation under alternative bases. Incorporating more standards would have enriched the analysis and potentially provided different solutions for preparing financial statements under such circumstances.
3. **Focus on Accounting Treatment Rather Than Going Concern Assessment:** The thesis focuses primarily on the accounting treatment for entities that do not operate under the going concern principle. However, it does not delve into the preparation and analysis of the going concern assessment itself. A more comprehensive investigation into the going concern assessment process could have been valuable in helping companies determine when they are no longer a going concern, thus enabling more accurate financial reporting that reflects the true financial position of the company.
4. **Lack of Internal Process Analysis:** The study did not consider the internal processes involved in the preparation of financial statements. Instead, it focused solely on the analysis of the financial statements themselves. By not exploring the internal mechanisms behind the preparation of these financial statements, the research misses an important dimension of how such accounts are constructed, potentially limiting the understanding of how management makes the key decisions involved in this process.

## 7. Appendix

### **Appendix 1 : Time Horizon**

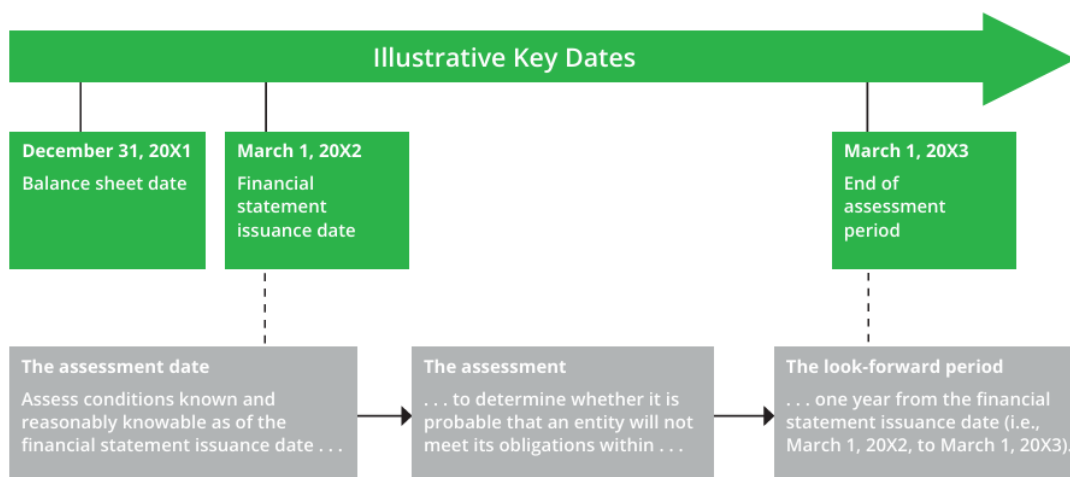
*Accounting Spotlight — Going concern — Key considerations related to performing a comprehensive Assessment (July 8, 2020) | DART – Deloitte Accounting Research Tool.* (n.d.-b).

<https://dart.deloitte.com/USDART/home/publications/deloitte/accounting-spotlight/2020/going-concern-assessment>

substantial doubt about the entity's ability to continue as a going concern.

#### **Time Horizon**

The following diagram summarizes the critical dates a calendar-year-end entity with an expected financial statement issuance date of March 1 considers in performing an annual going-concern assessment:



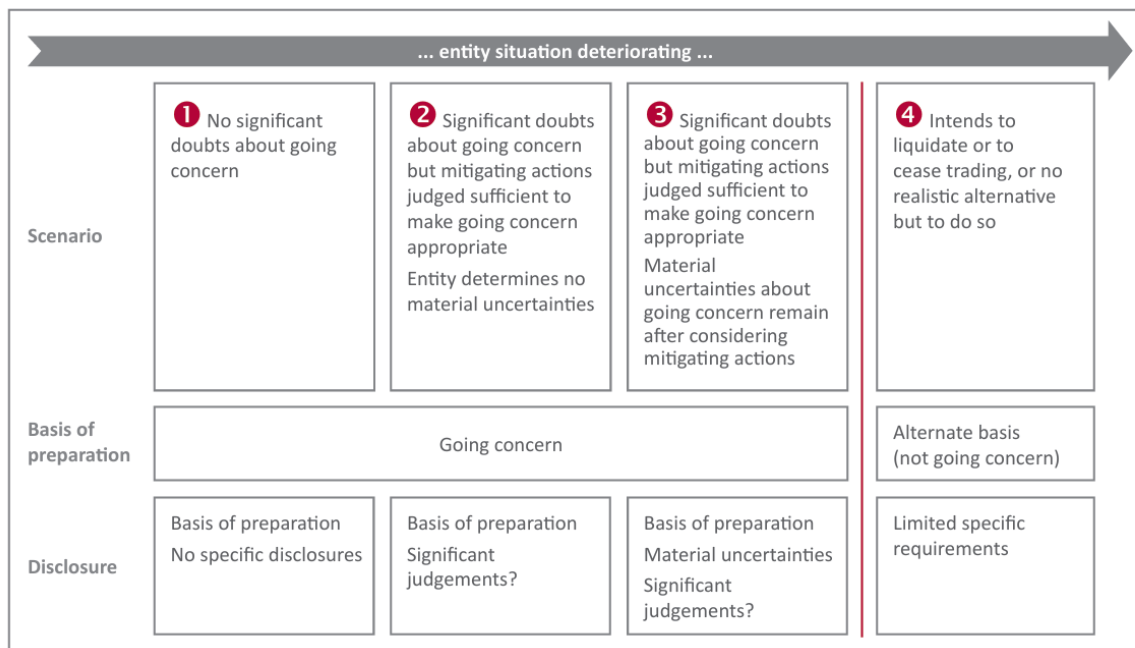
<sup>3</sup> Throughout this publication, the "date financial statements are issued" or "financial statement issuance date" also refers to the date financial statements are available to be issued.

## **Appendix 2 : Applying IAS 1**

IFRS - IFRS Foundation publishes educational material to support companies in applying going concern requirements. (n.d). <https://www.ifrs.org/news-and-events/news/2021/01/ifrs-foundation-publishes-edu-material-to-support-companies-in-applying-going-concern-requirements/>

### **Applying the requirements in IAS 1**

The requirements in IAS 1 can be depicted as set out in the diagram below:



## Appendix 3 : Decision Tree Lux GAAP

CNC Luxembourg [Commission des Normes Comptables Luxembourg]. (2016). Loi du 19 décembre 2002 concernant le registre de commerce et des sociétés ainsi que la comptabilité et les comptes annuels des entreprises et modifiant certaines autres dispositions légales.

Retrieved the 30th December 2024, from

[https://www.cnc.lu/fileadmin/user\\_upload/legislation/nationale/Loi\\_mod.\\_du\\_19.12.2002\\_Titre\\_II.pdf](https://www.cnc.lu/fileadmin/user_upload/legislation/nationale/Loi_mod._du_19.12.2002_Titre_II.pdf)

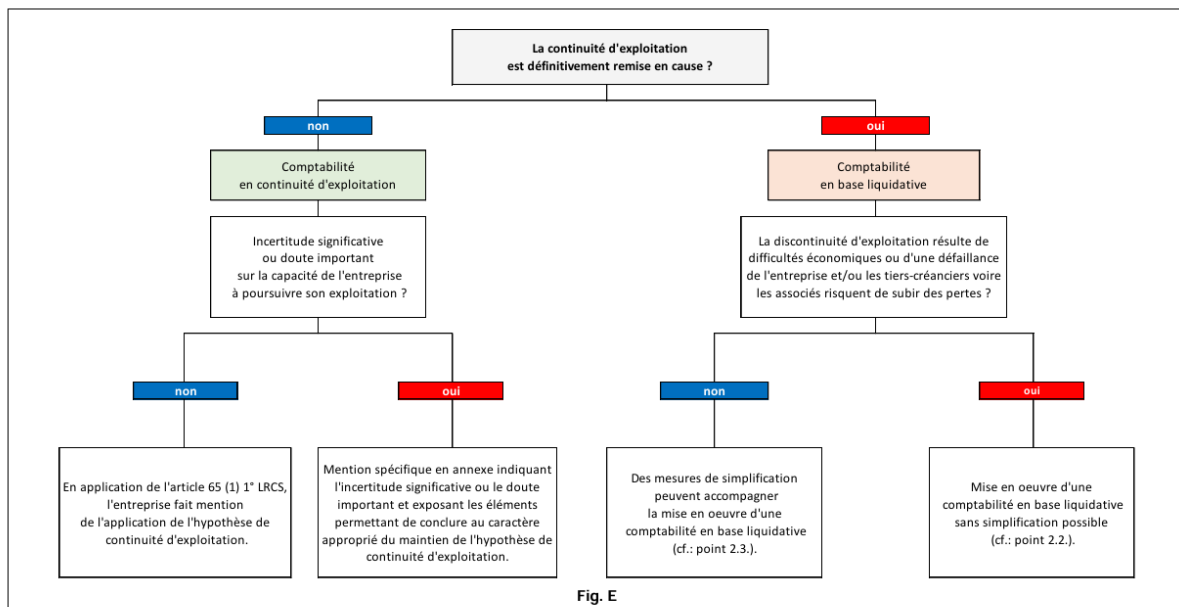


Fig. E

## **Appendix 4 : FNG financial statement**

BNB [Banque Nationale de Belgique]. (2021). Geconsolideerde jaarrekening en andere

overeenkomstig het wetboek van vennootschappen neer te leggen documenten. Dans

FNG, *Banque Nationale de Belgique*. Retrieved le 1 janvier 2025, from

<https://consult.cbso.nbb.be/consult-enterprise>

<b>GECONSOLIDEERDE BALANS</b>			
<b>ACTIVA</b>			
<b>(in duizenden euro's)</b>	<b>Toelichting</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
<b>Vaste activa</b>			
Goodwill	6.1.	101.179	86.158
Immateriële activa	6.2.	115.926	333.102
Materiële vaste activa	6.3.	10.291	76.173
Recht-op-gebruik activa	6.4.	57.551	0
Overige financiële activa		297	0
Uitgestelde belastingvorderingen	6.10.	3.035	18.636
		<b>92.164</b>	<b>320.832</b>
<b>Wloftende activa</b>			
Voorraden	6.5.	50.678	108.082
Handels- en overige vorderingen	6.7.	9.142	72.173
Actuele belastingvorderingen		1.704	131
Overige financiële activa	6.8.	1.627	18.718
Overige wloftende activa	6.8.	2.933	3.585
Geldmiddelen en kasequivalenten	6.9.	26.079	118.143
<b>TOTAAL ACTIVA</b>		<b>380.442</b>	<b>834.902</b>
<b>EIGEN VERMOGEN EN VERPLICHTINGEN</b>			
<b>(in duizenden euro's)</b>	<b>Toelichting</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
<b>Eigen vermogen toerekenbaar aan eigenaars van de Onderneming</b>			
Geplaatst kapitaal	6.11.	60.679	60.679
Uitgiftepremie		264.408	264.408
Overgedragen resultaten en overige reserves		(289.555)	17.646
<b>Totaal eigen vermogen</b>		<b>35.532</b>	<b>342.733</b>
<b>Langlopende verplichtingen</b>			
Voorzieningen	6.12.	0	0
Voorzieningen voor personeelsbeloningen	6.13.	16.274	101
Rentedragende schulden	6.14.	193.224	273.763
Overige financiële verplichtingen	6.15.	51.340	17.147
Uitgestelde belastingsschulden	6.10.	21.912	56.793
		<b>62.159</b>	<b>144.365</b>
<b>Kortlopende verplichtingen</b>			
Voorzieningen	6.12.	0	1.949
Rentedragende schulden	6.14.	0	11.605
Handels- en overige schulden	6.16.	52.038	113.826
Actuele belastingverplichtingen		1.922	4.336
Overige financiële verplichtingen	6.15.	7.984	5.839
Overige kortlopende verplichtingen	6.17.	215	6.810
<b>Totaal verplichtingen</b>		<b>344.909</b>	<b>492.168</b>
<b>TOTAAL EIGEN VERMOGEN EN VERPLICHTINGEN</b>		<b>380.442</b>	<b>834.902</b>

6

Overige mutaties

31/12/2019 <i>in duizenden euro's</i>	Deconsolidatie FNG		Kasstromen	Bedrijfs- combinatie	Wisselkoers- verschillen	Herclassifi- caties	Overige	Eindsaldo
	Opening- saldo	International Holding NV						
Langlopende schulden								
Obligaties	73.758	(73.758)	135.978	20.258	2.205			158.441
Bankschulden	190.005	(190.005)						0
Overige schulden	10.000	(10.000)		34.782				34.782
Kortlopende schulden								0
Obligaties	0							0
Bankschulden	11.605	(11.605)						0
Overige schulden	0							0
<b>Totaal schulden in financieringsactiviteiten</b>	<b>285.368</b>	<b>(285.368)</b>	<b>135.978</b>	<b>55.041</b>	<b>2.205</b>	<b>0</b>	<b>0</b>	<b>193.224</b>

Overige mutaties

31/12/2018 <i>in duizenden euro's</i>	Opening- saldo			Bedrijfs- combinatie	Wisselkoers- verschillen	Herclassifi- caties	Overige	Eindsaldo
		Kasstromen						
Langlopende schulden								
Obligaties	93.305		(19.547)	0		0	0	73.758
Bankschulden	75.308		114.002	0		(52)	747	190.005
Overige schulden	10.138		(225)	0		87	0	10.000
Kortlopende schulden								
Obligaties	0		0	0	0	0	0	0
Bankschulden	56.596		(52.709)	7.474		(35)	279	11.605
Overige schulden	0		0	0		0	0	0
<b>Totaal schulden in financieringsactiviteiten</b>	<b>235.346</b>		<b>41.521</b>	<b>7.474</b>	<b>0</b>	<b>0</b>	<b>1.025</b>	<b>285.368</b>

	Gebouwen	Verbeteringen aan gehuurde gebouwen	Machines en installaties	Activa in aanbouw	Totaal
<i>(in duizenden euro's)</i>					
<b>Saldo per 31 december 2017</b>	<b>20.304</b>	<b>34.703</b>	<b>13.011</b>	<b>2.157</b>	<b>70.175</b>
Aanschaffingen	6.332	14.654	1.822	366	23.175
Aanschaffingen via bedrijfscombinaties	4.978	214	386	0	5.578
Verkopen	(219)	(1.430)	(45)	(1.402)	(3.097)
Afschrijvingskost	(2.736)	(13.377)	(3.541)	0	(19.654)
Wisselkoersverschillen	0	0	1	0	1
Overige	258	(6)	247	(506)	(6)
<b>Saldo per 31 december 2018</b>	<b>28.916</b>	<b>34.760</b>	<b>11.881</b>	<b>616</b>	<b>76.173</b>
Deconsolidatie FNG International Holding NV	(28.916)	(34.760)	(11.881)	(616)	(76.173)
Aanschaffingen	459	0	1.168	(1.445)	182
Aanschaffingen via bedrijfscombinaties	6.952	0	1.601	1.498	10.051
Afschrijvingskost	(38)	0	(67)	0	(105)
Wisselkoersverschillen	113	0	26	24	163
<b>Saldo per 31 december 2019</b>	<b>7.486</b>	<b>0</b>	<b>2.728</b>	<b>77</b>	<b>10.291</b>

	Gebouwen	Verbeteringen aan gehuurde gebouwen	Machines en installaties	Activa in aanbouw	Totaal
<i>(in duizenden euro's)</i>					
Kostprijs per 31 december 2018	35.788	62.833	25.610	616	124.848
Gecumuleerde afschrijvingen en bijzondere waardeverminderingen	(6.872)	(28.073)	(13.729)	0	(48.675)
<b>Boekwaarde per 31 december 2018</b>	<b>28.916</b>	<b>34.760</b>	<b>11.881</b>	<b>616</b>	<b>76.173</b>

## **Appendix 5 : FNG financial statement**

BNB [Banque Nationale de Belgique]. (2022). Geconsolideerde jaarrekening en andere

overeenkomstig het wetboek van vennootschappen neer te leggen documenten. Dans

FNG, *Banque Nationale de Belgique*. Retrieved le 1 janvier 2025, from

<https://consult.cbso.nbb.be/consult-enterprise>

### **GECONSOLIDEERDE BALANS**

<b>ACTIVA</b> (in duizenden EUR)	<b>Toe- lichting</b>	<b>31/12/2020</b>	<b>31/12/2019</b>
<b>Vaste activa</b>		<b>287.163</b>	<b>288.279</b>
Goodwill	6.1.	104.177	101.179
Immateriële activa	6.2.	111.281	115.926
Materiële vaste activa	6.3.	10.864	10.291
Recht-op-gebruik activa	6.4.	54.805	57.551
Overige financiële activa		335	297
Uitgestelde belastingvorderingen	6.10.	5.701	3.035
Overige vaste activa			
<b>Vlottende activa</b>		<b>110.334</b>	<b>92.164</b>
Voorraden	6.5.	54.937	50.678
Handels- en overige vorderingen	6.7.	6.806	9.142
Actuele belastingvorderingen		8.922	1.704
Afgeleide financiële instrumenten		2.718	1.627
Over te dragen kosten	6.8.	4.643	2.613
Overige vlottende activa		320	320
Geldmiddelen en kasequivalenten	6.9.	31.988	26.079
<b>TOTAAL ACTIVA</b>		<b>397.497</b>	<b>380.442</b>
<b>EIGEN VERMOGEN EN VERPLICHTINGEN</b> (in duizenden EUR)	<b>Toelichting</b>	<b>31/12/2020</b>	<b>31/12/2019</b>
<b>Eigen vermogen toerekenbaar aan eigenaars van de Onderneming</b>		<b>(41.493)</b>	<b>35.532</b>
Geplaatst kapitaal	6.11.	60.679	60.679
Uitgiftepremie		264.408	264.408
Overgedragen resultaten en overige reserves		(366.580)	(289.555)
<b>Totaal eigen vermogen</b>		<b>(41.493)</b>	<b>35.532</b>
<b>Langlopende verplichtingen</b>		<b>234.107</b>	<b>282.750</b>
Voorzieningen voor vergoedingen na uitdiensttreding	6.13.	16.467	16.274
Rentedragende schulden	6.14.	144.949	193.224
Leasingschulden	6.15.	48.126	50.311
Uitgestelde belastingenschulden	6.10.	20.807	21.912
Overige langlopende verplichtingen		3.758	1.029
<b>Kortlopende verplichtingen</b>		<b>204.883</b>	<b>62.159</b>
Voorzieningen	6.12.	40.000	0
Rentedragende schulden	6.14.	80.560	0
Leasingschulden	6.15.	6.321	6.247
Handels- en overige schulden	6.16.	43.679	32.711
Afgeleide financiële instrumenten		6.487	1.737
Actuele belastingverplichtingen		7.790	1.922
Toe te rekenen kosten	6.17.	20.046	19.542
<b>Totaal verplichtingen</b>		<b>438.990</b>	<b>344.909</b>
<b>TOTAAL EIGEN VERMOGEN EN VERPLICHTINGEN</b>		<b>397.497</b>	<b>380.442</b>

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