

Will I Still Be Helping Others in the Future (or Do I Have a Going Concern)?

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Many people view going concern disclosures as a death sentence and last resort for their organization's annual financial statements. These disclosures are daunting and appear extreme but are relevant and potentially necessary given the recent COVID-19 stay-at-home orders and economic contraction. The going concern topic is much more than simply a paragraph in a report. Going concern disclosure decisions are the result of thorough analysis and assessments as required under Generally Accepted Accounting Principles (GAAP).

[Subtopic 205-40 of the Accounting Standards Codification \(ASC\)](#) maintained by Financial Accounting Standards Board (FASB) addresses the concept of a going concern. The inherent assumption within a set of financial statements is that the organization in question will continue in business for at least one year after the date that the financial statements are able to be issued, also referred to as a going concern. While this is the commonly accepted definition, ASC-205 is a bit more nuanced in the definition of a going concern as being an entity that is able to meet its obligations over the coming year. When substantial doubt exists about an entity's ability to continue as a going concern, disclosure is necessary in the financial statements. It should be noted that the date the financial statements are able to be issued typically refers to the date on the audit report, or the date at which your auditor has obtained sufficient, appropriate evidence to support the audit opinion.

ASC 205-40 identifies certain events and circumstances that could indicate substantial doubt about an entity's ability to continue as a going concern. The standard recommends considering these events and circumstances in the aggregate, and that simply one event or circumstance existing does not justify substantial doubt. Let's review these considerations in the context of COVID-19:

- Current financial condition – Does your organization have existing cash or other receivables that could easily be liquidated as of the date that the financial statements are available to be issued? Has your organization depleted cash or other liquid assets as a result of the COVID-19 crisis? Lack of liquid assets as of this date indicates a likelihood of not being able to meet basic operational needs in the near future.
- Obligations – Will your organization be able to meet conditional or unconditional obligations within the next year regardless of whether those obligations are already presented in the financial statements? Can the organization make debt or loan payments that are coming due in the next year after accounting for the shutdown?
- Funds required to maintain current operations – Does your organization have the anticipated inflows to continue to pay employees or provide services to the community? Does your organization have a line of credit that could be utilized? Was your organization provided relief under any of the COVID-19 spending bills passed at the federal level?
- Overall negative financial trends – Has your organization been struggling to provide services or meet obligations before the COVID-19 shutdowns occurred? Has your organization had difficulty obtaining credit or financing before or during the COVID-19 crisis?

If you answered negatively to several of the questions above related to your organization, a going concern disclosure in your organization's financial statements might be necessary. However, a going concern disclosure does not have to be a self-fulfilling prophecy. The disclosure adheres to the accounting principle of conservatism and provides users of the financial statements with the realistic assessment of the current state of your organization. The readers of your financial statements would likely appreciate the transparency, including whether or not a substantial doubt exists about the ability of your organization to continue as a going concern. But hopefully conditions, especially related to COVID-19, will improve and the viability of your organization will return to normal.

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