

## Going, Going, Gone: Going Concern Assessments in the Midst of COVID-19

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The novel coronavirus (COVID-19) pandemic has adversely affected the global economy. Companies of all sizes in all industries are faced with closures of specific locations or complete shutdowns; employee layoffs, furloughs or restrictions on work; liquidity issues; and disruptions to their supply chains and customers. These negative impacts have brought the “going concern” issue to the forefront.

### One-Year Look-Forward Period

Financial statements are generally prepared under the assumption that the entity will remain a going concern. That is, it's expected to continue to generate a positive return on its assets and meet its obligations in the ordinary course of business.

Under Accounting Standards Codification Topic 205, *Presentation of Financial Statements - Going Concern*, the continuation of an entity as a going concern is presumed as the basis for reporting unless liquidation becomes imminent. Even if liquidation isn't imminent, conditions and events may exist that, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern.

Management is responsible for evaluating the going concern assumption. Going concern issues arise when it's probable that the entity won't be able to meet its obligations as they become due within one year after the date the financial statements are issued - or available to be issued. (The alternate date prevents financial statements from being held for several months after year end to see if the company survives.)

### Making the Call

The going concern assumption is evaluated when preparing annual and interim financial statements under U.S. Generally Accepted Accounting Principles (GAAP). The evaluation is based on qualitative and quantitative information about relevant conditions and events that are known (or reasonably knowable) at the time the evaluation is made.

Examples of warning signs that an entity's long-term viability may be questionable include:

- A reduction in sales due to store closures,
- A shortage of products and supplies used in manufacturing operations,

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## Making the Call (continued)

- A decline in value of assets held by the company,
- Recurring operating losses or working capital deficiencies,
- Loan defaults and debt restructuring,
- Denial of credit from suppliers,
- Disposals of substantial assets,
- Work stoppages and other labor difficulties,
- Legal proceedings or legislation that jeopardizes ongoing operations,
- Loss of a key franchise, license or patent,
- Loss of a principal customer or supplier, and
- An uninsured or underinsured catastrophe.

If management concludes that there's substantial doubt about the entity's ability to continue as a going concern, it must consider whether mitigation plans can be effectively implemented within the one-year look-forward period to alleviate the going concern issues.

## Reporting Going Concern Issues

Few businesses will escape negative repercussions of the COVID-19 crisis. If your business is struggling, contact us to discuss the going concern assessment. Our auditors can help you understand how the evaluation will affect your balance sheet and disclosures. [Contact us](#) if you have any questions.