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IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

SOCPA Comments on Tentative Agenda Decision: Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10)

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision: Preparation of Financial Statements when an Entity is No Longer a Going Concern (IAS 10)*.

We would like to share with you the two views in our jurisdiction about question No 1

The first view confines the phrase "reporting period" in IAS 10 to the latest reporting period covered by the financial statements. Therefore, in case of going concern being determined inappropriate after the latest reporting period while there was no issue about going concern after the end of each of the relevant preceding reporting periods, it is believed that the company has to prepare only the financial statements for the latest year on other than going concern basis (for example, the liquidation basis) and to prepare the financial statements for the preceding years on a going concern basis. In other words, the financial statements are to be prepared according to the conditions that existed at the time when such financial statements would have been prepared (i.e., the normal time frame for the preparation of financial statements for each period runs from the end of the reporting period until the end of the next reporting period). This view is supported by the following arguments:

1. IAS 10 mentions "reporting period" to mean the latest reporting period covered by the financial statements. At the time of writing IAS 10, it might not have been envisaged the subject of late preparation of financial statements for earlier periods and the requirements of some jurisdictions that companies have to file financial statements for each year in a separate document (i.e., IAS 10 may assume the normal situation where entities issue their financial statements after the end of the reporting date but before the end of the next reporting period).
2. When going concern is determined to be inappropriate, IAS 10 does not require restatement of preceding years' comparative figures (that were prepared on the going concern basis) to be presented alongside with the latest financial statements' figures that are prepared on other than going concern basis. This can be understood that, despite the fact that financial statements for preceding years were not prepared on timely basis, they should be prepared according to the conditions that existed at the time when such financial statements would have been prepared (i.e., the time frame for preparation of financial statements for each period runs from the end of the reporting period until the end of the next reporting period).
3. According to IAS 8, hindsight "should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about *what management's intentions would have been in a prior period* [emphasis added] or estimating the amounts recognised, measured or disclosed in a prior period". This should be more prominent when there is a change in the accounting basis, regardless whether financial statements for preceding years were prepared on timely basis or not.

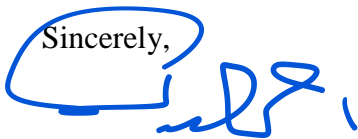
4. Preparing financial statements for preceding years on other than going concern basis (for example, the liquidation basis) although the going concern assumption was valid after the reporting date of each preceding year, will mislead users about the history of the company, especially when it fails to prepare financial statements for many preceding years on timely basis where the going concern assumption was valid at the end of those years.
5. According to the Conceptual Framework, paragraph 1.16, information about a reporting entity's past financial performance and how its management discharged its stewardship responsibilities is usually helpful in predicting the entity's future returns on its economic resources. Therefore, delaying the preparation of the financial statements until future periods should not relieve the management from providing such information on the basis that was suitable according to the assumptions and conditions that existed at the time when those financial statements would have been prepared. Specifically, late preparation of financial statements for preceding years (where going concern was valid) on the liquidation basis will deny the users' right to assess the entity's past financial performance and how its management discharged its stewardship responsibilities.

The second view states that the phrase "reporting period" in IAS 10 means all preceding periods as long as the company doesn't prepare financial statements for those preceding years (no matter how many). Accordingly, in this scenario, the company has to apply the liquidation basis to the financial statements for every single preceding year regardless of the fact that the company was a going concern after the end of each preceding year and the absence of the going concern assumption was only determined after the latest year. Going concern is a fundamental concept in setting IFRSs, including their measurement and presentation requirements. Therefore, preparation and authorization of financial statements on going concern basis after liquidation is inappropriate application of IFRSs since the assumption on which they are developed is no longer exist. It is noteworthy that financial statements for general purpose must prioritize the needs of users outside the entity over those of the management, which can be fulfilled internally. In addition, hindsight does not apply since IAS 10 clearly specifies the mere intention to liquidation prior to authorization of financial statements for issue, which is by itself a reason not to prepare its financial statements on a going concern basis.

For question No 2 in the tentative agenda decision, we are of the view that restatement is not appropriate when there is a change in the basis of preparation as it is not practical to do so without the use of hindsight. An entity, however, shall disclose the fact that the comparative figures are prepared according to different bases. Another alternative is to prohibit comparison since the numbers are prepared on different bases.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



Dr. Ahmad Almeghames
Secretary General