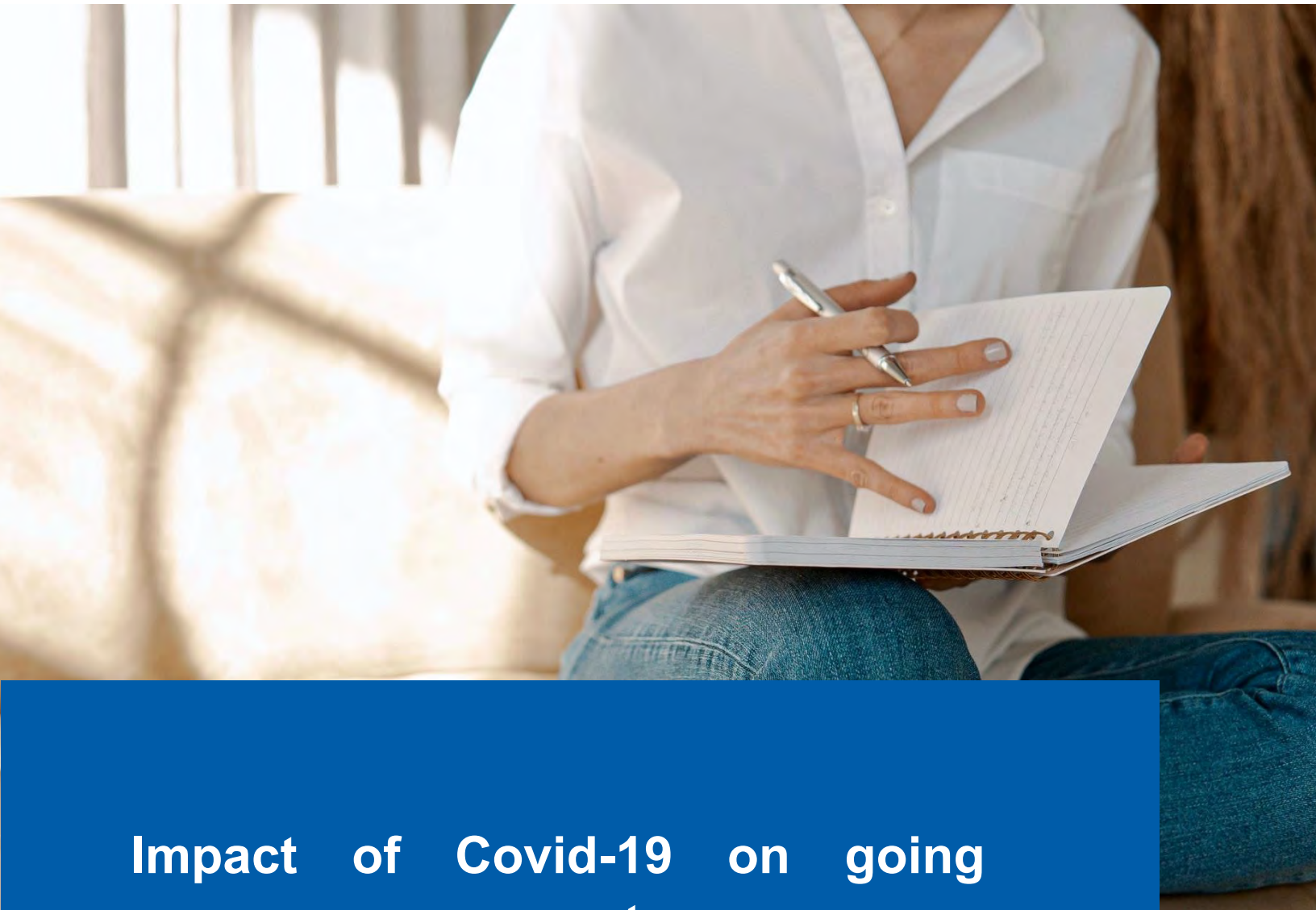


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News Flash

February 9, 2021



**Impact of Covid-19 on going
concern assessment**

Impact of Covid-19 on going concern assessment

IFRS Foundation published educational material to support companies in applying going concern requirements. In current pandemic, many entities face falling revenues and decline in their profitability and liquidity which raise the question about their ability to continue as going concern. Therefore, management needs to involve a greater deal of judgement as in preceding period that should be disclosed. Those disclosures are likely to be more relevant for users of financial statements, too.

Assessment and requirements

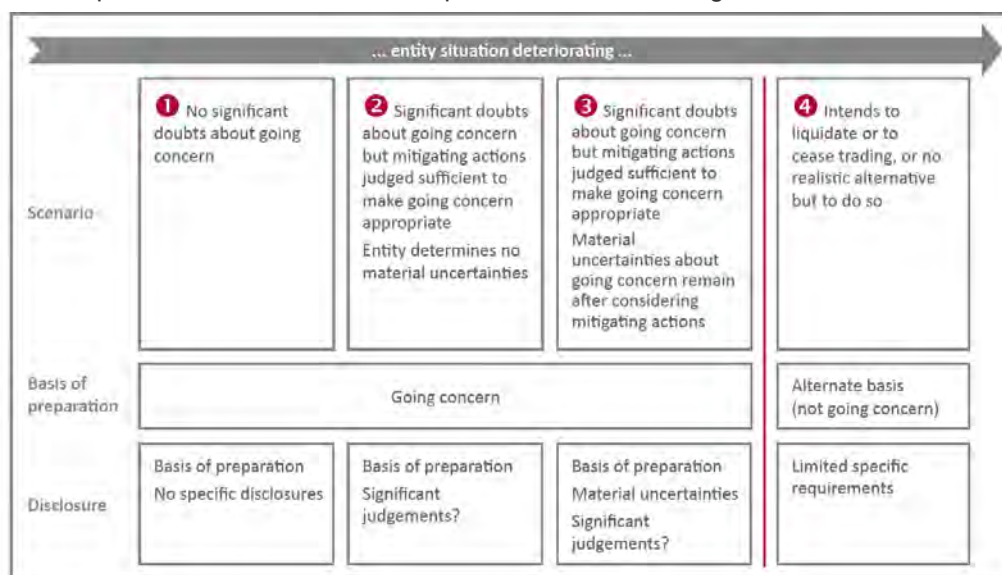
IAS 1 stands that “An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.” Assessment is made for 12 months at least and includes:

- Factors related to the entity’s current and expected profitability
- Timing and repayment of financial facilities
- Source of potential replacement financing
- Temporary shut-down or curtailment of entity’s activities
- Possible restriction of entity’s activities
- Availability of the government support
- Effect of long-term changes in the market
- Customer behaviour

Entity should also disclose any change in ability to continue as going concern in accordance with *IAS 10 Events after the Reporting Period*. If, before the financial statements are authorised for issue, circumstances were to deteriorate so that management no longer has any realistic alternative but to cease trading, the financial statements must not be prepared on a going concern basis.

Possible situations when applying the requirements

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



¹ IFRS Foundation – Going concern – a focus on disclosures, January 2021

Contact

Radka Hubčíková

Accounting Supervisor & IFRS Consultant

Tel: +421 2 325 53 000

E-mail: Radka.Hubcikova@accace.com

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