



June 3, 2009

Memorandum

To: Members of the Board

From: Ross Simms, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: AICPA Omnibus – **TAB D**¹

OBJECTIVES

The objectives are to review the attached draft exposure draft (ED) that incorporates certain American Institute of Certified Public Accountant's (AICPA) professional auditing standards into the FASAB accounting literature and provide staff with direction on issues identified for discussion. The draft exposure draft will provide guidance regarding related party transactions, subsequent events, and consideration of an entity's ability to continue as a going concern.

BRIEFING MATERIALS

This transmittal memorandum includes a discussion of issues and recommendations beginning at page 2. In addition, the following items are attached:

1. First draft of an ED with a placeholder for guidance on related party transactions.
2. SAS, AU Section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, showing changes made to adapt the guidance for preparers in the federal financial reporting environment.
3. SAS, AU Section 560, *Subsequent Events*, showing changes made to adapt the guidance for preparers in the federal financial reporting environment.

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

BACKGROUND

Representatives of the AICPA requested that the U.S. accounting standards-setters consider adopting certain guidance for accounting and financial reporting issues that now reside in the professional auditing literature. That guidance included: (1) the sources of accounting principles and the framework for selecting the principles used in the preparation of general purpose financial reports that are presented in conformity with generally accepted accounting principles (the GAAP hierarchy); (2) related party transactions; (3) subsequent events; and (4) consideration of going concern.

In July 2008, the FASAB joined the Governmental Accounting Standards Board (GASB) in responding to this request by acting to adopt the GAAP hierarchy guidance. The Board believed that the transition from the auditing literature to the accounting and financial reporting standards should not result in a change in practice. Accordingly, the Board decided to adopt the accounting and financial reporting requirements essentially as they existed in the AICPA's professional literature and proceeded to develop Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*. On April 28, 2009, the Statement was forwarded to the Principals for their 90-day review period, and absent an objection from the Office of Management and Budget (OMB) or the Government Accountability Office (GAO), the Statement will be issued on July 28, 2009. The GASB issued its guidance on the GAAP hierarchy for state and local governments on April 2, 2009.

With the completion of the GAAP hierarchy project, staff prepared a draft ED that proposes to incorporate the remaining three topics from the auditing literature – related party transactions, subsequent events, and consideration of an entity's ability to continue as a going concern. The GASB and the Financial Accounting Standards Board (FASB) have either issued standards or an ED regarding these topics.

Presently, the draft ED includes proposed guidance for subsequent events and consideration of an entity's ability to continue as a going concern. The audit literature for the third topic, related party transactions, considers the framework of existing private sector accounting and financial reporting requirements for related parties – primarily FAS 57, *Related Party Disclosures*. Staff is reviewing the examples and requirements in this pronouncement from a federal financial reporting entity perspective and reviewing current practices. Staff plans to propose guidance during the August 2009 Board meeting.

CONSIDERATION OF AN ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN

The objective of this segment of the AICPA omnibus project is to incorporate into the FASAB literature guidance on (1) a federal financial reporting entity's responsibility for evaluating its ability to continue as a going concern and (2) disclosure requirements

when there is substantial doubt regarding the entity's ability to continue as a going concern. Attachment 1 provides the draft ED incorporating SAS 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (see paragraphs 19 through 22), and Attachment 2 shows changes made to AU Section 341 to adapt the guidance for preparers in the federal financial reporting environment.

1. At this time, does the FASAB wish to incorporate guidance on evaluating an entity's ability to continue as a going concern? Discussed below are some brief, introductory issues to consider.

- a. Time Horizon

The existing going concern guidance involves providing information for a short-term horizon – basically a 12 month period. However, the federal government as a whole (federal reporting entity) has the power to tax, borrow, and through the Federal Reserve, create money to pay liabilities as they come due. Unlike a private sector business, this authority enables the federal reporting entity to operate with deficits over long periods. For example, the federal reporting entity's revenues have exceeded outlays in only 12 years since 1940.²

In addition, agencies and other components (component reporting entities) substantiate their funding needs during an annual appropriation process. While the process focuses on the upcoming fiscal year, the budget includes data for the recently completed year, the current year, and at least four years following the budget year to “reflect the effect of budget decisions over the longer term.”³

Also, Statement of Financial Accounting Concepts 6, *Distinguishing Basic Information, Required Supplementary Information, and Other Accompanying Information*, discusses factors to consider in distinguishing basic information from required supplementary information (RSI). Table 1: Factors to Consider in Distinguishing Basic Information from RSI presents the factor, “relevance to measuring financial condition or changes in financial condition.” Using this factor, information regarding the long-term may be more likely considered basic information than information regarding the short term. Consequently, a short term horizon may not be as useful when considering going concern reporting in the federal environment.

- b. The Appropriate Level for Assessing Ability to Continue as a Going Concern

² Cashell, Brian W., *The Federal Government Debt: Its Size and Economic Significance*, Congressional Research Service, RL 31590, March 4, 2009, p. 2

³ OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, par, 10.3.

In the existing federal financial reporting model, the federal reporting entity and component reporting entities prepare financial statements in conformity with GAAP and they are examined by independent auditors. However, the going concern guidance in the audit literature did not necessarily envision that the auditor would consider going concern for every unit that prepared financial statements. Particularly, in the state and local government environment, the Audit and Accounting Guide for State and Local Governments noted that the auditor should make a going concern evaluation for the entity as a whole, rather than for individual opinion units.⁴ Perhaps, this notion should be considered in the accounting guidance to preparers of financial statements in conformity with GAAP.

Although the federal reporting entity and component reporting entities prepare financial statements, the federal reporting entity is the only independent economic entity.⁵ Generally, components must obtain authority from Congress to make obligations and are subject to Congressional oversight. Also, Congress may eliminate a component entity for issues such as ineffectiveness.⁶ Although the federal reporting entity appears to be a level for beginning to consider going concern guidance, determining short term indicators that may raise doubt about going concern may be a challenge at this level.

c. Appropriate Indicators to Consider in Assessing Going Concern in the Federal Environment

The ED discusses indicators for assessing going concern. These indicators - negative trends, other indications of possible financial difficulties, internal matters, and external matters - were primarily based on the private sector environment which focuses on a short-term time horizon. However, the federal reporting entity has continued its operations for several years while encountering deficits and growing debt or what would appear to be “negative trends” and “other indicators of possible financial difficulties.” For example, the federal government borrowed substantially to finance its World War II initiatives and publicly held debt exceeded 100% of gross domestic product (GDP) at that time.⁷

However, some have raised concern about whether the federal reporting entity can continue to incur liabilities to provide services over a “long term”

⁴ AICPA Audit and Accounting Guide for State and Local Governments, par. 13.15.

⁵ SFFAC 2, *Entity and Display*, par. 38.

⁶ For example, in 2001 members of congress expressed concern about the effectiveness of the Immigration and Naturalization Service (INS). Rep. Tom Tancredo noted that the agency was “not doing the job they were empowered to do.” Later, Congress passed the Homeland Security Act of 2002 (Public Law No: 107–296) which transferred the INS’ functions to the newly created Department of Homeland Security and abolished the INS. See Lunney, Kellie, “Lawmaker Favors Scrapping INS, Creating New Border Security Agency,” *Government Executive.Com*, October 31, 2001.

⁷ Financial Report of the United States Government 2008, p.11

horizon. For instance, the Government Accountability Office expressed concern over the growing national debt and noted that the nation's long-range fiscal path is unsustainable.⁸ Also, some have noted that the federal reporting entity's borrowings could eventually impact the nation's debt ratings⁹ and the media has noted that the bond ratings for other countries such as Argentina have been downgraded because of concerns about the country's deteriorating economic environment.¹⁰

In addition, the external and internal matters do not seem to apply to a sovereign entity. The federal government has the power to exercise authority over various areas of the nation, while businesses and other organizations operate within the framework of the federal government's laws. Also, the public is concerned about issues such as the federal reporting entity's effectiveness in delivering services and the long-term sustainability of those services.

d. FASAB Technical Agenda

Currently, the FASAB has several ongoing projects that may require substantial deliberations and could help inform the going concern project if deferred. For instance, the federal entity project could help inform the level for considering going concern. Also, the financial reporting model project may provide insights on the indicators needed for assessing going concern.

e. Scope of the Project

As discussed earlier, the Board decided to adopt the accounting and financial reporting requirements essentially as they existed in the auditing literature. This transition to the accounting literature should not result in substantive changes that could result in a change in practice. The Board could continue with this view and incorporate the guidance, for the most part, "as is." However, preparers may have questions about its applicability to their agency and may request additional guidance.

Staff Analysis and Recommendation

Staff suggests excluding the going concern guidance from the standard at this time. The going concern guidance focuses on evaluating an entity's ability to continue as a going concern in the short run. However, considering the aging of the population and the challenges of pension and healthcare programs, citizens, the Congress, and others are interested in information regarding the longer term

⁸ GAO, *A Call for Stewardship: Enhancing the Federal Government's Ability to Address Key Fiscal and Other 21st Century Challenges*, GAO-08-93SP, December 17, 2007.

⁹ Forsyth, Randall, "Bailouts Threaten Nations' Debt Ratings," *Barrons*, January 26, 2009, p. M11.

¹⁰ Guerrero, Antonio, "Rating Slides as Default Looms," *Global Finance*, December 2008, p. 12.

horizon. Accordingly, the Board is addressing this demand by pursuing guidance for long-term fiscal sustainability reporting.

Long-term fiscal sustainability reporting will help provide users with information to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. Also, it may be helpful in assessing whether financial burdens without related benefits were passed on by current year taxpayers to future year taxpayers.

In addition, other financial reporting requirements exist for helping to inform readers about the sustainability of services. For instance, SFFAS 15, Management's Discussion and Analysis, provides the following requirements for the Management's Discussion and Analysis (MD&A):

MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known demands, risks, uncertainties, events, conditions and trends. MD&A may also include forward-looking information about the possible effects of anticipated future demands, events, conditions, and trends. [footnote omitted] Forward-looking information may comprise a separate section of MD&A or may be incorporated with the sections listed above. par. 3

MD&A should discuss important problems that need to be addressed, and actions that have been taken or planned. Actions needed, taken, and planned may be discussed within the sections listed above or in a separate section of MD&A. par. 4

Also, the OMB requires Inspectors General (IG) to report on the most serious management and performance challenges facing the agency and the agency's progress in addressing those challenges.¹¹ For example, the IG report for the Department of Transportation discussed the challenge of developing a plan for addressing highway and transit funding issues.¹² Consequently, proposed and existing FASAB guidance and other information currently help inform readers about the sustainability of services.

¹¹ OMB Circular A-136, Financial Reporting Requirements, paragraph II.5.5.

¹² Department of Transportation Performance and Accountability Report FY 2008, pp. 51-54.

OTHER ISSUES

2. Are there other issues the Board would like staff to address while developing the ED?

If you have questions or need additional information, please contact Ross at 202-512-2512 or email at simmsr@fasab.gov as soon as possible.

Attachments



Federal Accounting Standards Advisory Board

**Codification of Certain Accounting and Financial Reporting
Standards Contained in the AICPA Statements on Auditing
Standards**

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by [60 days after issuance]

Issuance Date

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the Federal Government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, Federal executives, Federal program managers, and other users of Federal financial information. The proposed standards are published in an Exposure Draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for Federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- “Memorandum of Understanding among the General Accounting Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- “Mission Statement: Federal Accounting Standards Advisory Board”, Exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: www.fasab.gov.

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Federal Accounting Standards Advisory Board

XX, 2009

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or the Board) is requesting comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled, *Codification of Certain Accounting and Financial Reporting Standards Contained in the AICPA Statements on Auditing Standards*. Specific questions for your consideration appear on page 6 but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response would be more helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by **[60 days after issuance]**.

All comments received by the FASAB are considered public information. Those comments may be posted to the FASAB's website and will be included in the project's public record.

We have experienced delays in mail delivery due to increased screening procedures. Therefore, please provide your comments in electronic form. Responses in electronic form should be sent by e-mail to fasab@fasab.gov. If you are unable to provide electronic delivery, we urge you to fax the comments to (202) 512-7366. Please follow up by mailing your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

The Board's rules of procedure provide that it may hold one or more public hearings on any exposure draft. **No hearing has yet been scheduled for this exposure draft.** Notice of the date and location of any public hearing on this document will be published in the *Federal Register* and in the FASAB's newsletter.

Tom L. Allen
Chairman

1 **Executive Summary**

2 **What is the Board proposing?**

3

4 The objective of this proposed Statement is to incorporate into the authoritative
5 literature of the FASAB certain accounting and financial reporting guidance that is
6 included in American Institute of Certified Public Accountants' (AICPA) Statements on
7 Auditing Standards (SAS). This proposed Statement addresses three issues not
8 included in the authoritative literature that establishes accounting principles— related
9 party transactions, subsequent events, and going concern. The presentation of
10 principles used in the preparation of financial statements would be more appropriately
11 included in accounting and financial reporting standards than in the auditing literature.
12

13 This proposed Statement does not establish new accounting standards but rather
14 incorporates the existing guidance (to the extent appropriate in the federal government
15 environment) into the FASAB standards.

16 **How would this proposal improve federal financial reporting and contribute to**
17 **meeting the federal financial reporting objectives?**

18

19 The requirements in this proposed Statement would improve financial reporting by
20 bringing the authoritative accounting and financial reporting literature together so that
21 they derive from a single source. The guidance would be modified as necessary to
22 recognize the unique requirements of the federal government environment and federal
23 financial report users.
24
25

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Questions for Respondents

The FASAB encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also would welcome your comments on other aspects of the proposed Statement.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

Because the proposals may be modified before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Your responses should be sent by e-mail to fasab@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by **[60 days after issuance]**.

- Q1. The Board proposes to incorporate accounting principles regarding related party transactions, subsequent events, and going concern that currently reside in the professional auditing literature into the FASAB's authoritative literature. Do you agree or disagree with the Board's proposal? Please explain the reasons for your position in as much detail as possible.
- Q2. This Exposure Draft (ED) proposes guidance for reporting subsequent events (see paragraphs 12 - 18). Do you agree or disagree with the ED's proposal? Please explain the reasons for your position in as much detail as possible.

-
- Q3. The ED proposes indicators that there may be substantial doubt about an entity's ability to continue as a going concern (see paragraph 20). Do you agree or disagree with the ED's proposal? Please explain the reasons for your position in as much detail as possible?
- Q4. The ED proposes disclosures if it is determined that there is substantial doubt about an entity's ability to continue as a going concern (see paragraph 22). Do you agree or disagree with the ED's proposal? Please explain the reasons for your position in as much detail as possible?

Introduction

Purpose

1. Certain accounting and financial reporting guidance has been included in SASs of the AICPA. The objective of this Statement is to incorporate that guidance into the financial accounting and reporting standards of the FASAB.

Materiality

2. The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

Effective Date

3. The requirements in this standard are effective upon its issuance.

Proposed Standard**Scope**

4. This Statement establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern. Regarding subsequent events, this statement applies to the accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles (GAAP).
5. Other applicable GAAP may address the accounting treatment of events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. If an event or transaction is within the scope of other applicable GAAP, then an entity should follow the guidance in that applicable GAAP, rather than the guidance in this standard. The following are examples of other applicable GAAP that prescribes the accounting and disclosures for specific subsequent events. Note this is not meant to be an exhaustive list.
 - a. Statement of Federal Financial Standards (SFFAS) 27: Identifying and Reporting Earmarked Funds
 - b. SFFAS XX, Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government
6. This statement applies to the financial statements of all federal reporting entities.

Definitions

7. Related Party:
8. Subsequent Events: Events or transactions that affect the financial statements that occur subsequent to the balance sheet date but before financial statements are issued.
9. Recognized events: Events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and affect the estimates inherent in the process of preparing financial statements.

-
10. **Nonrecognized events:** Events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

Related Party Transactions

11. Placeholder for related party discussion.

Subsequent Events

12. Events or transactions that affect the financial statements sometimes occur subsequent to the balance sheet date but before financial statements are issued. Some of those transactions and events (referred to as **recognized events**) require adjustments to the financial statements while others (referred to as **nonrecognized events**) may require disclosure in the notes to the financial statements.
13. Recognized events consist of those events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and affect the estimates inherent in the process of preparing financial statements. All information that becomes available prior to the issuance of the financial statements should be used in evaluating the conditions on which the estimates were based. The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence.
14. Nonrecognized events consist of those events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date. These events should not result in adjustment of the financial statements. Some of these events, however, may be of such a nature that their disclosure in the notes to the financial statements is important to facilitating a user's understanding of the financial statements.
15. Identifying recognized events that require adjustment of the financial statements calls for the exercise of professional judgment and knowledge of the facts and circumstances. For example, a loss from an uncollectible account receivable as a result of a major customer's deteriorating financial condition leading to the bankruptcy of that customer subsequent to the balance sheet date may be indicative of conditions existing at the balance sheet date, thereby calling for adjustment of the financial statements before their issuance. However, a similar loss resulting from that customer's major casualty, such as a fire or flood, subsequent to the balance sheet date would not be indicative of conditions existing at the balance sheet date, and adjustment of the financial statements would not be appropriate. The

settlement of litigation for an amount different from the liability recorded in the accounts would require adjustment of the financial statements if the event that gave rise to the litigation, such as a personal injury occurring on government property, had taken place prior to the balance sheet date.

16. Subsequent events affecting the realization of assets such as receivables and inventories or the settlement of estimated liabilities will ordinarily require adjustment of the financial statements because such events typically represent the culmination of conditions that existed over a relatively long period of time. Subsequent events such as changes in the quoted market prices of securities ordinarily should not result in adjustment of the financial statements because such changes typically reflect a concurrent evaluation of new conditions.
17. Other examples of nonrecognized events that require disclosure in the notes to the financial statements, but should not result in adjustment, include the issuance of bonds, the creation of a new component unit, or the loss of a government facility as a result of fire or flood.
18. When financial statements are reissued, certain events may have occurred subsequent to the original issuance that requires disclosure. Events requiring disclosure are those that are considered important to a user's understanding of the reissued financial statements. These events, occurring between the time of original issuance and reissuance of financial statements, should not result in adjustment of the financial statements unless the adjustment meets the criteria for the correction of an error or the criteria for prior-period adjustments. That also is the case for events occurring subsequent to the original issuance when financial statements are reissued in comparative form with financial statements of subsequent periods.

Going Concern

19. Continuation of an entity as a going concern is assumed in federal financial reporting in the absence of significant information to the contrary. Information that may significantly contradict the going concern assumption would relate to the entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of operations, restructuring of debt, submission to the oversight of a separate body, or similar actions. Financial statement preparers have a responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for 12 months beyond the financial statement date. Moreover, if there is information that is currently known to the entity

that may raise substantial doubt shortly thereafter (for example, within an additional three months), it also should be considered.

20. Indicators that there may be substantial doubt about a federal financial reporting entity's ability to continue as a going concern include:
- a. Negative trends—for example, recurring periods in which net costs significantly exceed revenues, consistent working capital deficiencies, continuing negative cash flows from operating activities, or adverse key financial ratios.
 - b. Other indications of possible financial difficulties—for example, default on bonds, loans or similar agreements, proximity to debt limitations, denial of usual trade credit from suppliers, restructuring of debt, noncompliance with statutory capital or reserve requirements, or the need to seek new sources or methods of financing or to dispose of substantial assets.
 - c. Internal matters—for example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project or program, uneconomic long-term commitments, or the need to significantly revise operations.
 - d. External matters—for example, legal proceedings, legislation, or similar matters that might jeopardize an entity's ability to sustain public services; loss of a principal customer, taxpayer, or supplier; or catastrophe such as a drought, earthquake, or flood.
21. In all cases, the effect of the federal environment should be considered when evaluating the indicators. For example, the taxing power and borrowing capabilities of the federal government together with the constant demand for the provision of public services are factors that may diminish the possibility that an entity would be unable to continue as a going concern.
22. If it is determined that there is substantial doubt about a federal reporting entity's ability to continue as a going concern, the notes to the financial statements should include disclosure of the following, as appropriate:
- a. Pertinent conditions and events giving rise to the assessment of substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, as discussed in paragraph 20.
 - b. The possible effects of such conditions and events

-
- c. Management's evaluation of the significance of those conditions and events and any mitigating factors
 - d. Possible discontinuance of operations
 - e. Management's plans (including relevant prospective financial information)
 - f. Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities.

Effective Date

23. The requirements in this standard are effective upon its issuance.

The provisions of this Statement need not be applied to immaterial items.

Appendix A: Basis for Conclusions

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

Project History

- A1. Representatives of the American Institute of Certified Public Accountants (AICPA) requested that the U.S. accounting standards-setters consider adopting certain guidance for accounting and financial reporting issues that now reside in the professional auditing literature. In July 2008, the FASAB joined the Governmental Accounting Standards Board in responding to this request.
- A2. The AICPA Statements on Auditing Standards address certain accounting and financial reporting issues not included in the FASAB's authoritative literature that establishes accounting principles. Those issues concern related party transactions, subsequent events, and going concern. The Board believes that incorporating the accounting and financial reporting guidance essentially as it exists in the AICPA literature would only change the source of the guidance and not significantly affect practice.

Board Approval

- A3. [Placeholder for Board approval]

Appendix B: Abbreviations

AICPA	American Institute of Certified Public Accountants
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAAP	Generally Accepted Accounting Principles
OMB	Office of Management and Budget
SAS	Statement on Auditing Standards

Appendix C: Glossary

Subsequent Events: Events or transactions that affect the financial statements that occur subsequent to the balance sheet date but before financial statements are issued.

Recognized events: Events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and affect the estimates inherent in the process of preparing financial statements.

Nonrecognized events: Events that provide evidence with respect to conditions that did not exist at the date of the balance sheet but arose subsequent to that date.

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 AU Section 341—The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern

AU Section 341

The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern

For the PCAOB Interim Standard, please click here

(Supersedes section 340)

Source: SAS No. 59; SAS No. 64; SAS No. 77; SAS No. 96; SAS No. 113; SAS No. 114.
 [Click here for the Original Pronouncements for:

[SAS No. 59: The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern](#)

[SAS No. 64: Omnibus Statement on Auditing Standards—1990](#)

[SAS No. 77: Amendments to Statements on Auditing Standards No. 22, Planning and Supervision, No. 59, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, and No. 62, Special Reports](#)

[SAS No. 96: Audit Documentation](#)

[SAS No. 113: Omnibus—2006](#)

[SAS No. 114: The Auditor's Communication With Those Charged With Governance \]](#)

~~See section 9341 for interpretations of this section:~~

~~Effective for audits of financial statements for periods beginning on or after January 1, 1989, unless otherwise indicated:~~

~~.01—This section provides guidance to the auditor in conducting an audit of financial statements in accordance with generally accepted auditing standards with respect to evaluating whether there is substantial doubt about the entity's ability to continue as a going concern.^{1,2} Continuation of an entity as a going concern is assumed in federal financial reporting in the absence of significant information to the contrary. Ordinarily, information that may significantly contradicts the going concern assumption would relates to the entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business operations, restructuring of debt, externally forced revisions of its operations, submission to the oversight of separate body or similar actions.~~

¹ This section does not apply to an audit of financial statements based on the assumption of liquidation (for example, when [a] an entity is in the process of liquidation, [b] the owners have decided to commence dissolution or liquidation, or [c] legal proceedings, including bankruptcy, have reached a point at which dissolution or liquidation is probable). See Auditing Interpretation, "Reporting on Financial Statements Prepared on a Liquidation Basis of Accounting" (section

9508.33-.38).

² The guidance provided in this section applies to audits of financial statements prepared either in accordance with generally accepted accounting principles or in accordance with a comprehensive basis of accounting other than generally accepted accounting principles. References in this section to generally accepted accounting principles are intended to include a comprehensive basis of accounting other than generally accepted accounting principles (excluding liquidation basis).

~~The Auditor's Responsibility~~

~~.02 The financial statement auditor preparers have a responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable 12 months beyond the financial statement date. period of time, not to exceed one year beyond the date of the financial statements being audited (hereinafter referred to as a reasonable period of time). The auditor's evaluation is based on his or her knowledge of relevant conditions and events that exist at or have occurred prior to the date of the auditor's report. Information about such conditions or events is obtained from the application of auditing procedures planned and performed to achieve audit objectives that are related to management's assertions embodied in the financial statements being audited, as described in section 326, *Audit Evidence*. [Revised, March 2006, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 106. As amended, effective for audits of financial statements for periods ending on or after December 15, 2006, by Statement on Auditing Standards No. 113.] Moreover, if there is information that is currently known to the entity that may raise substantial doubt shortly thereafter (for example, within an additional three months), it also should be considered. |~~

~~.03 The auditor should evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in the following manner:~~

~~a. The auditor considers whether the results of his procedures performed in planning, gathering audit evidence relative to the various audit objectives, and completing the audit identify conditions and events that, when considered in the aggregate, indicate there could be substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. It may be necessary to obtain additional information about such conditions and events, as well as the appropriate audit evidence to support information that mitigates the auditor's doubt.~~

~~b. If the auditor believes there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, he should (1) obtain information about management's plans that are intended to mitigate the effect of such conditions or events, and (2) assess the likelihood that such plans can be effectively implemented.~~

~~c. After the auditor has evaluated management's plans, he concludes whether he has substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. If the auditor concludes there is substantial doubt, he should (1) consider the adequacy of disclosure about the entity's possible inability to continue as a going concern for a reasonable period of time, and (2) include an explanatory paragraph (following the opinion paragraph) in his audit report to reflect his conclusion. If the auditor concludes that substantial doubt does not exist, he should consider the need for disclosure.~~

~~[Revised, March 2006, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 105.]~~

~~.04—The auditor is not responsible for predicting future conditions or events. The fact that the entity may cease to exist as a going concern subsequent to receiving a report from the auditor that does not refer to substantial doubt, even within one year following the date of the financial statements, does not, in itself, indicate inadequate performance by the auditor. Accordingly, the absence of reference to substantial doubt in an auditor's report should not be viewed as providing assurance as to an entity's ability to continue as a going concern.~~

~~Audit Procedures~~

~~.05—It is not necessary to design audit procedures solely to identify conditions and events that, when considered in the aggregate, indicate there could be substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. The results of auditing procedures designed and performed to achieve other audit objectives should be sufficient for that purpose. The following are examples of procedures that may identify such conditions and events:~~

- ~~• Analytical procedures~~
- ~~• Review of subsequent events~~
- ~~• Review of compliance with the terms of debt and loan agreements~~
- ~~• Reading of minutes of meetings of stockholders, board of directors, and important committees of the board~~
- ~~• Inquiry of an entity's legal counsel about litigation, claims, and assessments~~
- ~~• Confirmation with related and third parties of the details of arrangements to provide or maintain financial support~~

~~Consideration of Conditions and Events~~

~~.06—In performing audit procedures such as those presented in paragraph .05, the auditor may identify information about certain conditions or events that, when considered in the aggregate, indicate there could be substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. The significance of such conditions and events will depend on the circumstances, and some may have significance only when viewed in conjunction with others. Indicators that there may be substantial doubt about an entity's ability to continue as a going concern include:The following are examples of such conditions and events:~~

- ~~☐ *Negative trends*—for example, recurring periods in which net costs significantly exceed revenues operating losses, consistent working capital deficiencies, continuing negative cash flows from operating activities, adverse key financial ratios~~
- ~~• *Other indications of possible financial difficulties*—for example, default on bonds, loans or similar agreements, arrearages in dividends, proximity to debt limitations, denial of usual trade credit from suppliers, restructuring of debt, noncompliance with statutory capital or reserve requirements, need to seek new sources or methods of financing or to dispose of substantial assets~~
- ~~• *Internal matters*—for example, work stoppages or other labor difficulties, substantial dependence on the success of a particular project or program, uneconomic long-term commitments, need to significantly revise operations~~
- ~~• *External matters that have occurred*—for example, legal proceedings, legislation, or similar matters that might jeopardize an entity's ability to operatesustain public services; loss of a key franchise, license, or patent; loss of a principal customer,~~

taxpayer, or supplier; ~~uninsured or underinsured~~ or catastrophe such as a drought, earthquake, or flood

In all cases, the effect of the federal environment should be considered when evaluating the indicators. For example, the taxing power and borrowing capabilities of the federal government together with the constant demand for the provision of public services are factors that may diminish the possibility that an entity would be unable to continue as a going concern. Consideration of Management's Plans

~~.07—If, after considering the identified conditions and events in the aggregate, the auditor believes there is substantial doubt about the ability of the entity to continue as a going concern for a reasonable period of time, he should consider management's plans for dealing with the adverse effects of the conditions and events. The auditor should obtain information about the plans and consider whether it is likely the adverse effects will be mitigated for a reasonable period of time and that such plans can be effectively implemented. The auditor's considerations relating to management plans may include the following:~~

- ~~• Plans to dispose of assets

 - ~~— Restrictions on disposal of assets, such as covenants limiting such transactions in loan or similar agreements or encumbrances against assets~~
 - ~~— Apparent marketability of assets that management plans to sell~~
 - ~~— Possible direct or indirect effects of disposal of assets~~~~
- ~~• Plans to borrow money or restructure debt

 - ~~— Availability of debt financing, including existing or committed credit arrangements, such as lines of credit or arrangements for factoring receivables or sale-leaseback of assets~~
 - ~~— Existing or committed arrangements to restructure or subordinate debt or to guarantee loans to the entity~~
 - ~~— Possible effects on management's borrowing plans of existing restrictions on additional borrowing or the sufficiency of available collateral~~~~
- ~~• Plans to reduce or delay expenditures

 - ~~— Apparent feasibility of plans to reduce overhead or administrative expenditures, to postpone maintenance or research and development projects, or to lease rather than purchase assets~~
 - ~~— Possible direct or indirect effects of reduced or delayed expenditures~~~~
- ~~• Plans to increase ownership equity

 - ~~— Apparent feasibility of plans to increase ownership equity, including existing or committed arrangements to raise additional capital~~
 - ~~— Existing or committed arrangements to reduce current dividend requirements or to accelerate cash distributions from affiliates or other investors~~~~

~~.08—When evaluating management's plans, the auditor should identify those elements that are particularly significant to overcoming the adverse effects of the conditions and events and should plan and perform auditing procedures to obtain audit evidence about~~

~~them. For example, the auditor should consider the adequacy of support regarding the ability to obtain additional financing or the planned disposal of assets. [Revised, March 2006, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 105.]~~

~~.09—When prospective financial information is particularly significant to management's plans, the auditor should request management to provide that information and should consider the adequacy of support for significant assumptions underlying that information. The auditor should give particular attention to assumptions that are—~~

- ~~• Material to the prospective financial information.~~
- ~~• Especially sensitive or susceptible to change.~~
- ~~• Inconsistent with historical trends.~~

~~The auditor's consideration should be based on knowledge of the entity, its business, and its management and should include (a) reading of the prospective financial information and the underlying assumptions and (b) comparing prospective financial information in prior periods with actual results and comparing prospective information for the current period with results achieved to date. If the auditor becomes aware of factors, the effects of which are not reflected in such prospective financial information, he should discuss those factors with management and, if necessary, request revision of the prospective financial information.~~

~~Consideration of Financial Statement Effects~~

~~.10—When, after considering management's plans, the auditor concludes there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, the auditor should consider the possible effects on the financial statements and the adequacy of the related disclosure. If it is determined that there is substantial doubt about a governmental entity's ability to continue as a going concern, the notes to the financial statements should include disclosure of the following, as appropriate: Some of the information that might be disclosed includes—~~

- Pertinent conditions and events giving rise to the assessment of substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time as discussed above.
- The possible effects of such conditions and events.
- Management's evaluation of the significance of those conditions and events and any mitigating factors.
- Possible discontinuance of operations.
- Management's plans (including relevant prospective financial information).³
- Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities.

³ It is not intended that such prospective financial information constitute prospective financial statements meeting the minimum presentation guidelines set forth in AT section 301, *Financial Forecasts and Projections*, nor that the inclusion of such information require any consideration beyond that normally required by generally accepted auditing standards. [Footnote revised, January 2001, to reflect conforming changes necessary due to the issuance of Statement on Standards for Attestation Engagements No. 10.]

~~.11 When, primarily because of the auditor's consideration of management's plans, he concludes that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time is alleviated, he should consider the need for disclosure of~~

the principal conditions and events that initially caused him to believe there was substantial doubt. The auditor's consideration of disclosure should include the possible effects of such conditions and events, and any mitigating factors, including management's plans.

Consideration of the Effects on the Auditor's Report

~~.12~~ If, after considering identified conditions and events and management's plans, the auditor concludes that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains, the audit report should include an explanatory paragraph (following the opinion paragraph) to reflect that conclusion.⁴ The auditor's conclusion about the entity's ability to continue as a going concern should be expressed through the use of the phrase "substantial doubt about its (the entity's) ability to continue as a going concern" [or similar wording that includes the terms substantial doubt *and* going concern] as illustrated in paragraph .13. [As amended, effective for reports issued after December 31, 1990, by Statement on Auditing Standards No. 64.]

⁴—The inclusion of an explanatory paragraph (following the opinion paragraph) in the auditor's report contemplated by this section should serve adequately to inform the users of the financial statements. Nothing in this section, however, is intended to preclude an auditor from declining to express an opinion in cases involving uncertainties. If he disclaims an opinion, the uncertainties and their possible effects on the financial statements should be disclosed in an appropriate manner (see paragraph .10), and the auditor's report should give all the substantive reasons for his disclaimer of opinion (see section 508, *Reports on Audited Financial Statements*).

~~.13~~ An example follows of an explanatory paragraph (following the opinion paragraph) in the auditor's report describing an uncertainty about the entity's ability to continue as a going concern for a reasonable period of time.⁵

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note X to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note X. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

[As amended, effective for reports issued after December 31, 1990, by Statement on Auditing Standards No. 64.]

⁵—In a going concern explanatory paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. Examples of inappropriate wording in the explanatory paragraph would be, "If the Company continues to suffer recurring losses from operations and continues to have a net capital deficiency, there may be substantial doubt about its ability to continue as a going concern" or "The Company has been unable to renegotiate its expiring credit agreements. Unless the Company is able to obtain financial support, there is substantial doubt about its ability to continue as a going concern." [Footnote added, effective for reports issued after December 15, 1995, by Statement on Auditing Standards No. 77.]

~~.14~~ If the auditor concludes that the entity's disclosures with respect to the entity's ability to continue as a going concern for a reasonable period of time are inadequate, a departure from generally accepted accounting principles exists. This may result in either a qualified (except for) or an adverse opinion. Reporting guidance for such situations is provided in section 508, *Reports on Audited Financial Statements*.

~~.15~~ Substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time that arose in the current period does not imply that a basis for

~~such doubt existed in the prior period and, therefore, should not affect the auditor's report on the financial statements of the prior period that are presented on a comparative basis. When financial statements of one or more prior periods are presented on a comparative basis with financial statements of the current period, reporting guidance is provided in section 508.~~

~~.16—If substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time existed at the date of prior period financial statements that are presented on a comparative basis, and that doubt has been removed in the current period, the explanatory paragraph included in the auditor's report (following the opinion paragraph) on the financial statements of the prior period should not be repeated.~~

Communication With Those Charged With Governance

~~.17—If, after considering identified conditions and events in the aggregate and after considering management's plans, the auditor concludes that substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains, the auditor should communicate with those charged with governance:~~

- ~~a.—The nature of the events or conditions identified.~~
- ~~b.—The possible effect on the financial statements and the adequacy of related disclosures in the financial statements.~~
- ~~c.—The effects on the auditor's report.~~

~~[Paragraph added, effective for audits of financial statements for periods beginning on or after December 15, 2006, by Statement on Auditing Standards No. 114.]~~

Documentation

~~.18—As stated in paragraph .03 of this section, the auditor considers whether the results of the auditing procedures performed in planning, gathering audit evidence relative to the various audit objectives, and completing the audit identify conditions and events that, when considered in the aggregate, indicate there could be substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time. If, after considering the identified conditions and events in the aggregate, the auditor believes there is substantial doubt about the ability of the entity to continue as a going concern for a reasonable period of time, he or she follows the guidance in paragraphs .07 through .16. In connection with that guidance, the auditor should document all of the following:~~

- ~~a.—The conditions or events that led him or her to believe that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time.~~
- ~~b.—The elements of management's plans that the auditor considered to be particularly significant to overcoming the adverse effects of the conditions or events.~~
- ~~c.—The auditing procedures performed and evidence obtained to evaluate the significant elements of management's plans.~~
- ~~d.—The auditor's conclusion as to whether substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time remains or is alleviated. If substantial doubt remains, the auditor also should document the possible effects of the conditions or events on the financial statements and the adequacy of the related disclosures. If substantial doubt is alleviated, the auditor~~

~~also should document the conclusion as to the need for disclosure of the principal conditions and events that initially caused him or her to believe there was substantial doubt.~~

~~e.—The auditor's conclusion as to whether he or she should include an explanatory paragraph in the audit report. If disclosures with respect to an entity's ability to continue as a going concern are inadequate, the auditor also should document the conclusion as to whether to express a qualified or adverse opinion for the resultant departure from generally accepted accounting principles.~~

~~[Paragraph added, effective for audits of financial statements for periods beginning on or after May 15, 2002, by Statement on Auditing Standards No. 96. Revised, March 2006, to reflect conforming changes necessary due to the issuance of Statement on Auditing Standards No. 105. Paragraph renumbered by the issuance of Statement on Auditing Standards No. 114, December 2006.]~~

Effective Date

~~.19—This section is effective for audits of financial statements for periods beginning on or after January 1, 1989. Early application of the provisions of this section is permissible. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 96, January 2002. Paragraph subsequently renumbered by the issuance of Statement on Auditing Standards No. 114, December 2006.] Effective upon issuance.~~

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Subsequent Events

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[SAS No. 12: Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments](#)

[SAS No. 98: Omnibus Statement on Auditing Standards—2002](#)

[SAS No. 113: Omnibus—2006](#)]

Issue date, unless otherwise indicated: November, 1972.

~~.01 An independent auditor's report ordinarily is issued in connection with historical financial statements that purport to present financial position at a stated date and results of operations and cash flows for a period ended on that date. However, events or transactions that affect the financial statements sometimes occur subsequent to the balance sheet date, but before prior to the issuance of the financial statements are issued. Some of those transactions and events (referred to as recognized events), that have a material effect on the financial statements and therefore require adjustments to the financial statements while others (referred to as nonrecognized events) may require or disclosure in the notes to the financial statements. These occurrences hereinafter are referred to as "subsequent events." [As amended, effective September 2002, by Statement on Auditing Standards No. 98.]~~

~~.02 Two types of subsequent events require consideration by management and evaluation by the independent auditor.~~

~~.03 The first type consists of those Recognized events consist of those that provide additional evidence with respect to conditions that existed at the date of the balance sheet and affect the estimates inherent in the process of preparing financial statements. All information that becomes available prior to the issuance of the financial statements should be used by management in its evaluation of the conditions on which the estimates were based. The financial statements should be adjusted for any changes in estimates resulting from the use of such evidence.~~

~~.04 Identifying recognized events that require adjustment of the financial statements under the criteria stated above calls for the exercise of judgment and knowledge of the facts and circumstances. For example, a loss on an uncollectible trade account receivable as a result of a major customer's deteriorating financial condition leading to bankruptcy~~

subsequent to the balance-sheet date would be indicative of conditions existing at the balance-sheet date, thereby calling for adjustment of the financial statements before their issuance. ~~On the other hand~~ However, a similar loss resulting from ~~a that~~ customer's major casualty, such as a fire or flood, subsequent to the balance-sheet date would not be indicative of conditions existing at the balance-sheet date, and adjustment of the financial statements would not be appropriate. The settlement of litigation for an amount different from the liability recorded in the accounts would require adjustment of the financial statements if the event that gave rise to the litigations, such as personal injury occurring on government property or patent infringement, ~~that gave rise to the litigation~~ had taken place prior to the balance-sheet date.

.05 ~~The second type~~ Nonrecognized events consists of those events that provide evidence with respect to conditions that did not exist at the date of the balance sheet ~~being reported on~~ but arose subsequent to that date. These events should not result in adjustment of the financial statements.¹ Some of these events, however, may be of such a nature that ~~disclosure of them~~ their disclosure in the notes to the financial statements is important to facilitating a user's understanding of the financial statements. required to keep the financial statements from being misleading. Occasionally such an event may be so significant that disclosure can best be made by supplementing the historical financial statements with pro forma financial data giving effect to the event as if it had occurred on the date of the balance sheet. It may be desirable to present pro forma statements, usually a balance sheet only, in columnar form on the face of the historical statements.

¹ This paragraph is not intended to preclude giving effect in the balance sheet, with appropriate disclosure, to stock dividends or stock splits or reverse splits consummated after the balance-sheet date but before issuance of the financial statements.

.06 Examples of nonrecognized events of the second type that require disclosure ~~to in~~ the notes to the financial statements, ~~(but should not result in adjustment,)~~ are:

- a. ~~Sale of~~ issuance of a bonds or capital stock issue.
- b. ~~Purchase of a business~~ creation of a new component unit.
- c. ~~Settlement of litigation when the event giving rise to the claim took place subsequent to the balance sheet date.~~
- d. Loss of ~~plant or inventories~~ a government facility as a result of fire or flood.
- e. ~~Losses on receivables resulting from conditions (such as a customer's major casualty) arising subsequent to the balance sheet date.~~

.07 Subsequent events affecting the realization of assets such as receivables and inventories or the settlement of estimated liabilities ordinarily will require adjustment of the financial statements ~~(see paragraph .03)~~ because such events typically represent the culmination of conditions that existed over a relatively long period of time. Subsequent events such as changes in the quoted market prices of securities ordinarily should not result in adjustment of the financial statements ~~(see paragraph .05)~~ because such changes typically reflect a concurrent evaluation of new conditions.

.08 When financial statements are reissued, ~~for example, in reports filed with the Securities and Exchange Commission or other regulatory agencies,~~ certain events may have occurred subsequent to the original issuance that that require disclosure. Events requiring disclosure are those that are considered important to a user's understanding of ~~in the reissued financial statements, to keep them from being misleading may have occurred subsequent to the original issuance of the financial statements. These events,~~ occurring between the time of original issuance and reissuance of financial statements, should not result in adjustment of the financial statements² unless the adjustment meets

~~the criteria for the correction of an error or the criteria for prior period adjustments set forth in Opinions of the Accounting Principles Board.² That also is the case for events occurring subsequent to the original issuance when financial statements are reissued in comparative form with financial statements of subsequent periods. Similarly, financial statements reissued in comparative form with financial statements of subsequent periods should not be adjusted for events occurring subsequent to the original issuance unless the adjustment meets the criteria stated above.~~

² However, see paragraph .05 as to the desirability of presenting pro forma financial statements to supplement the historical financial statements in certain circumstances.

^{*} See also Statement of Financial Accounting Standards No. 16, *Prior Period Adjustments* (AC section A35).

~~.09 Occasionally, a subsequent event of the second type has such a material impact on the entity that the auditor may wish to include in his report an explanatory paragraph directing the reader's attention to the event and its effects. (See section 508.19.)~~

~~**Auditing Procedures in the Subsequent Period**~~

~~.10 There is a period after the balance sheet date with which the auditor must be concerned in completing various phases of his audit. This period is known as the "subsequent period" and is considered to extend to the date of the auditor's report. Its duration will depend upon the practical requirements of each audit and may vary from a relatively short period to one of several months. Also, all auditing procedures are not carried out at the same time and some phases of an audit will be performed during the subsequent period, whereas other phases will be substantially completed on or before the balance sheet date. As an audit approaches completion, the auditor will be concentrating on the unresolved auditing and reporting matters and he is not expected to be conducting a continuing review of those matters to which he has previously applied auditing procedures and reached satisfaction.~~

~~.11 Certain specific procedures are applied to transactions occurring after the balance sheet date such as (a) the examination of data to assure that proper cutoffs have been made and (b) the examination of data which provide information to aid the auditor in his evaluation of the assets and liabilities as of the balance sheet date.~~

~~.12 In addition, the independent auditor should perform other auditing procedures with respect to the period after the balance sheet date for the purpose of ascertaining the occurrence of subsequent events that may require adjustment or disclosure essential to a fair presentation of the financial statements in conformity with generally accepted accounting principles. These procedures should be performed at or near the date of the auditor's report. The auditor generally should:~~

~~a. Read the latest available interim financial statements; compare them with the financial statements being reported upon; and make any other comparisons considered appropriate in the circumstances. In order to make these procedures as meaningful as possible for the purpose expressed above, the auditor should inquire of officers and other executives having responsibility for financial and accounting matters as to whether the interim statements have been prepared on the same basis as that used for the statements under audit.~~

~~b. Inquire of and discuss with officers and other executives having responsibility for financial and accounting matters (limited where appropriate to major locations) as to:~~

~~(i) Whether any substantial contingent liabilities or commitments existed at the date of the balance sheet being reported on or at the date of inquiry.~~

- ~~(ii) — Whether there was any significant change in the capital stock, long-term debt, or working capital to the date of inquiry.~~
- ~~(iii) — The current status of items, in the financial statements being reported on, that were accounted for on the basis of tentative, preliminary, or inconclusive data.~~
- ~~(iv) — Whether any unusual adjustments had been made during the period from the balance-sheet date to the date of inquiry.~~
- ~~c. — Read the available minutes of meetings of stockholders, directors, and appropriate committees; as to meetings for which minutes are not available, inquire about matters dealt with at such meetings.~~
- ~~d. — Inquire of client's legal counsel concerning litigation, claims, and assessments. [As amended, January 1976, by Statement on Auditing Standards No. 12.] (See section 337.)~~
- ~~e. — Obtain a letter of representations, dated as of the date of the auditor's report, from appropriate officials, generally the chief executive officer, chief financial officer, or others with equivalent positions in the entity, as to whether any events have occurred subsequent to the date of the financial statements being reported on by the independent auditor that in the officer's opinion would require adjustment or disclosure in these statements. The auditor may elect to have the client include representations as to significant matters disclosed to the auditor in his or her performance of the procedures in subparagraphs (a) to (d) above and (f) below. (See section 333, *Management Representations*.)~~
- ~~f. — Make such additional inquiries or perform such procedures as he considers necessary and appropriate to dispose of questions that arise in carrying out the foregoing procedures, inquiries, and discussions.~~

[As amended, effective for audits of financial statements for periods ending on or after December 15, 2006, by Statement on Auditing Standards No. 113.]

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