MOSS ADAMS LLP

Going Concern Evaluation Checklist

This five-step checklist is intended to provide an example of questions for management to consider when performing its evaluation of an entity's ability to continue as a going concern.

Step 1: Document conditions and events

Have you documented all conditions and events, both positive and negative, that are relevant to the entity's ability to continue as a going concern?

☐ YES
☐ NO
☐ N/A

Discussion Points

Relevant conditions and events should include all such items that are known and reasonably knowable. Example conditions and events include:

- Current financial condition
- Liquidity sources
- Conditional and unconditional obligations
- Expected cash flows
- Legal proceedings
- Relationships with key vendors and customers

Relevant Accounting Standard Codification

ASC 205-40-50-5

When evaluating an entity's ability to meet its obligations, management shall consider quantitative and qualitative information about the following conditions and events, among other relevant conditions and events known and reasonably knowable at the date that the financial statements are issued:

a. The entity's current financial condition, including its liquidity sources at the date that the financial statements are issued (for example, available liquid funds and available access to credit)

b. The entity's conditional and unconditional obligations due or anticipated within one year after the date that the financial statements are issued (regardless of whether those obligations are recognized in the entity's financial statements)

c. The funds necessary to maintain the entity's operations considering its current financial condition, obligations, and other expected cash flows within one year after the date that the financial statements are issued

d. The other conditions and events, when considered in conjunction with (a), (b), and (c) above, that may adversely affect the entity's ability to meet its obligations within one year after the date that the financial statements are issued. See paragraph 205-40-55-2 for examples of those conditions and events.

ASC 205-40-55-2

The following are examples of adverse conditions and events that may raise substantial doubt about an entity's ability to continue as a going concern. The examples are not all-inclusive. The existence of one or more of these conditions or events does not determine that there is substantial doubt about an entity's ability to continue as a going concern. Similarly, the absence of those conditions or events does not determine that there is no substantial doubt about an entity's ability to continue as a going concern. Determining whether there is substantial doubt depends on an assessment of relevant conditions and events, in the aggregate, that are known and reasonably knowable at the date that the financial statements are issued (or at the date the financial statements are available to be issued when applicable). An entity should weigh the likelihood and magnitude of the potential effects of the relevant conditions and events, and consider their anticipated timing.

a. Negative financial trends, for example, recurring operating losses, working capital deficiencies, negative cash flows from operating activities, and other adverse key financial ratios

b. Other indications of possible financial difficulties, for example, default on loans or similar agreements, arrearages in dividends, denial of usual trade credit from suppliers, a need to restructure debt to avoid default, noncompliance with statutory capital requirements, and a 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, uneconomic long-term commitments, and a need to significantly revise operations

d. External matters, for example, legal proceedings, legislation, or similar matters that might jeopardize the entity's ability to operate; loss of a key franchise, license, or patent; loss of a principal customer or supplier; and an uninsured or underinsured catastrophe such as a hurricane, tornado, earthquake, or flood.

Step 2: Evaluate conditions and events

Have you evaluated whether conditions or events, considered in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern?	☐ YES ☐ NO ☐ N/A
Have you concluded that conditions or events, considered in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern? *	☐ YES ☐ NO ☐ N/A

Discussion Points

- The evaluation should occur in connection with preparing financial statements for each annual and interim reporting period and be based on relevant conditions and events that are known or reasonably knowable at the date the financial statements are issued or available to be issued.
- The evaluation initially shouldn't consider the potential mitigating effect of management's plans that haven't been fully implemented.

* *If the answer is yes, proceed to step three. If the answer is no, then stop. No disclosures are required that are specific to going concern uncertainties. Consider the need for other disclosures about risks, uncertainties, and contingencies, as applicable and required by ASC Topics 275 and 450.*

Relevant Accounting Standard Codification

ASC 205-40-20

Substantial doubt about an entity's ability to continue as a going concern exists when conditions and events, considered in the aggregate, indicate that it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The term probable is used consistently with its use in Topic 450 on contingencies.

ASC 205-40-50-4

Management shall evaluate whether relevant conditions and events, considered in the aggregate, indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. The evaluation initially shall not take into consideration the potential mitigating effect of management's plans that have not been fully implemented as of the date that the financial statements are issued (for example, plans to raise capital, borrow money, restructure debt, or dispose of an asset that have been approved but that have not been fully implemented as of the date that the financial statements are issued).

Step 3: Document management's plans

If substantial doubt is raised about the entity's ability to continue as a going concern, have you documented your consideration of management's plans to mitigate the relevant conditions and events?

☐ YES
☐ NO
☐ N/A

Discussion Points

Plans should consider all information available as of the date the financial statements are issued. Example plans include:

- Plans to dispose of an asset or business
- Plans to borrow money or restructure debt
- Plans to reduce or delay expenditures
- Plans to raise capital or reduce dividend requirements

Relevant Accounting Standard Codification

ASC 205-40-50-6

When relevant conditions or events, considered in the aggregate, initially indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (and therefore they raise substantial doubt about the entity's ability to continue as a going concern), management shall evaluate whether its plans that are intended to mitigate those conditions and events, when implemented, will alleviate substantial doubt about the entity's ability to continue as a going concern.

ASC 205-40-55-3

The following are examples of plans that management may implement to mitigate conditions or events that raise substantial doubt about an entity's ability to continue as a going concern. The examples are not all-inclusive. Below each example is a list of the types of information that management should consider at the date that the financial statements are issued in evaluating the feasibility of the plans to determine whether it is probable that the plan will be effectively implemented within one year after the date that the financial statements are issued.

a. Plans to dispose of an asset or business:
   1. Restrictions on disposal of an asset or business, such as covenants that limit those transactions in loan or similar agreements, or encumbrances against the asset or business
   2. Marketability of the asset or business that management plans to sell
   3. Possible direct or indirect effects of disposal of the asset or business
b. Plans to borrow money or restructure debt:
   1. Availability and terms of new debt financing, or availability and terms of existing debt refinancing, such as term debt, lines of credit, or arrangements for factoring receivables or sale-leaseback of assets
   2. Existing or committed arrangements to restructure or subordinate debt or to guarantee loans to the entity
   3. Possible effects on management's borrowing plans of existing restrictions on additional borrowing or the sufficiency of available collateral
c. Plans to reduce or delay expenditures:
   1. Feasibility of plans to reduce overhead or administrative expenditures, to postpone maintenance or research and development projects, or to lease rather than purchase assets
   2. Possible direct or indirect effects on the entity and its cash flows of reduced or delayed expenditures
d. Plans to increase ownership equity:
   1. Feasibility of plans to increase ownership equity, including existing or committed arrangements to raise additional capital
   2. Existing or committed arrangements to reduce current dividend requirements or to accelerate cash infusions from affiliates or other investors.

Step 4: Evaluate management's plans

Have you evaluated whether it's probable that management's plans will both:

- **Be effectively implemented within one year after the date that the financial statements issued***

  ☐ YES ☐ NO ☐ N/A

- **Mitigate the relevant conditions or events that raised substantial doubt about the entity's ability to continue as a going concern? ***

  ☐ YES ☐ NO ☐ N/A

Have you concluded, after consideration of management's plans, that substantial doubt is alleviated?**

☐ YES ☐ NO ☐ N/A

Discussion Points

- Management should evaluate the feasibility of the plans in light of the entity's specific facts and circumstances.
- For management's plans to be considered probable of being effectively implemented they must be approved by management or others with the appropriate authority.
- The expected magnitude and timing of the mitigating effect of the plans should be considered in relation to the magnitude and timing of the relevant conditions and events.

** Substantial doubt is alleviated only if both points are probable.*
*** Required disclosures are dependent upon this answer. Proceed to step five.*

Relevant Accounting Standard Codification

ASC 205-40-50-8

The evaluation of whether it is probable that management's plans will be effectively implemented within one year after the date that the financial statements are issued shall be based on the feasibility of implementation of management's plans in light of an entity's specific facts and circumstances. Generally, to be considered probable of being effectively implemented, management (or others with the appropriate authority) must have approved the plan before the date that the financial statements are issued. Paragraph 205-40-55-3 provides examples of plans that management may implement and information that management should consider for each plan in evaluating the feasibility of the plans.

ASC 205-40-50-9

The mitigating effect of management's plans that are not probable of being effectively implemented within one year after the date that the financial statements are issued shall not be considered in evaluating whether substantial doubt about an entity's ability to continue as a going concern is alleviated.

ASC 205-40-50-10

As required in paragraph 205-40-50-7, management shall further assess its plans that are probable of being effectively implemented to determine whether it is probable that those plans will mitigate the conditions or events that raise substantial doubt about an entity's ability to continue as a going concern. In this assessment, management shall consider the expected magnitude and timing of the mitigating effect of its plans in relation to the magnitude and timing of the relevant conditions or events that those plans intend to mitigate.

ASC 205-40-50-11

A plan to meet an entity's obligations as they become due through liquidation (as defined in Subtopic 205-30 on the liquidation basis of accounting) shall not be considered as part of management's plans in evaluating whether substantial doubt is alleviated even if liquidation is probable of occurring.

Step 5: Provide required disclosures

Have you provided the required disclosures in the financial statements based on the conclusions reached?

☐ YES
☐ NO
☐ N/A

Discussion Points

- Disclosures are required when conditions or events raise substantial doubt about the entity's ability to continue as a going concern, including when management's plans will alleviate substantial doubt.
- Disclosures should become more extensive in subsequent reporting periods as additional information becomes available and should explain how conditions or events have changed.
- When substantial doubt was determined to exist in a prior period but no longer exists in the current period, the entity should disclose how the relevant conditions or events that previously raised substantial doubt were resolved.
- The following disclosures are required depending on whether or not the substantial doubt is alleviated by management's plans.

When substantial doubt is alleviated, disclose:

- Principal conditions or events that raised substantial doubt, before consideration of management's plans
- Management's evaluation of the significance of those conditions or events
- Management's plans that alleviated substantial doubt

When Substantial doubt isn't alleviated, disclose:

- Principal conditions or events that raised substantial doubt
- Management's evaluation of the significance of those conditions or events
- Management's plans that are intended to mitigate the conditions or events that raise substantial doubt
- Statement indicating there's substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued

Relevant Accounting Standard Codification

ASC 205-40-50-12

If, after considering management's plans, substantial doubt about an entity's ability to continue as a going concern is alleviated as a result of consideration of management's plans, an entity shall disclose in the notes to financial statements information that enables users of the financial statements to understand all of the following (or refer to similar information disclosed elsewhere in the notes):

a. Principal conditions or events that raised substantial doubt about the entity's ability to continue as a going concern (before consideration of management's plans)

b. Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations

c. Management's plans that alleviated substantial doubt about the entity's ability to continue as a going concern.

ASC 205-40-50-13

If, after considering management's plans, substantial doubt about an entity's ability to continue as a going concern is not alleviated, the entity shall include a statement in the notes to financial statements indicating that there is substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Additionally, the entity shall disclose information that enables users of the financial statements to understand all of the following:

a. Principal conditions or events that raise substantial doubt about the entity's ability to continue as a going concern

b. Management's evaluation of the significance of those conditions or events in relation to the entity's ability to meet its obligations

c. Management's plans that are intended to mitigate the conditions or events that raise substantial doubt about the entity's ability to continue as a going concern.

ASC 205-40-50-14

If conditions or events continue to raise substantial doubt about an entity's ability to continue as a going concern in subsequent annual or interim reporting periods, the entity shall continue to provide the required disclosures in paragraphs 205-40-50-12 through 50-13 in those subsequent periods. Disclosures should become more extensive as additional information becomes available about the relevant conditions or events and about management's plans. An entity shall provide appropriate context and continuity in explaining how conditions or events have changed between reporting periods. For the period in which substantial doubt no longer exists (before or after consideration of management's plans), an entity shall disclose how the relevant conditions or events that raised substantial doubt were resolved.

Contact Us

If you have questions about how this new standard could impact your financial reporting, contact your Moss Adams professional.