



October 2020

Amendments to FRS 104 *Interim Financial Reporting*

Going concern

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Financial Reporting Council

October 2020

Amendments to FRS 104 *Interim Financial Reporting*

Going concern

Amendments to FRS 104 Interim Financial Reporting – Going concern amends the FRC's pronouncement on interim reporting that UK and Irish issuers not using EU-adopted IFRS may apply under the Disclosure and Transparency Rules and the Transparency (Directive 2004/109/EC) Regulations 2007 (as amended) respectively.

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Overview

- (i) The FRC's overriding objective in setting financial reporting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

Amendments to FRS 104

- (ii) The FRC was made aware of an unintentional difference between the requirements for assessing and reporting on the going concern basis of accounting when preparing interim financial reports in accordance with EU-adopted IFRS and FRS 104 *Interim Financial Reporting*.
- (iii) IAS 1 *Presentation of Financial Statements* requires management to assess an entity's ability to continue as a going concern and disclose any related material uncertainties when preparing interim financial statements. Although these requirements are not contained within IAS 34 *Interim Financial Reporting*, they apply to condensed interim financial statements prepared in accordance with IAS 34.
- (iv) FRS 104 is based on the requirements of IAS 34, but did not previously contain any requirements that explicitly covered the assessment and reporting on the going concern basis of accounting. However, FRS 104 requires an entity to include a statement that the same accounting policies are applied in the interim financial statements as compared with the most recent annual financial statements, which would include any statement about the going concern basis of accounting.
- (v) These amendments to FRS 104 introduce requirements covering going concern in a similar way to EU-adopted IFRS. This will help to ensure consistency between the information available to the users of interim financial reports prepared in accordance with IAS 34 and FRS 104.
- (vi) The effective date for these amendments is interim periods beginning on or after 1 January 2021, with early application permitted.

Amendments to FRS 104 *Interim Financial Reporting*

Amendments to FRS 104 *Interim Financial Reporting*

- 1 The following paragraphs set out the amendments to FRS 104 *Interim Financial Reporting* (inserted text is underlined, deleted text is struck through).
- 2 The subheading (underlined) and paragraphs 4A and 4B are inserted as follows:

Going concern

- 4A When preparing interim financial statements, the management of an entity applying this FRS shall make an assessment of the entity's ability to continue as a **going concern**. An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the date when the interim financial statements are authorised for issue.
 - 4B When management is aware, in making its assessment, of **material** uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare the interim financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the interim financial statements and the reason why the entity is not regarded as a going concern.
- 3 Paragraph 16A(a) is amended as follows:
 - 16A (a) A statement that the same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements or, if those policies or methods have been changed, a description of the nature and effect of the change.³
 - 4 Paragraphs 16A(aA) and 16A(aB) are inserted and footnote 3 is moved and amended as follows:
 - 16A (aA) Any material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, as required by paragraph 4B.³
 - (aB) If an entity does not prepare its interim financial statements on a going concern basis, it shall disclose that fact, the basis on which the interim financial statements are prepared, and the reason why the entity is not regarded as a going concern, as required by paragraph 4B.
 - ³ It should be noted that wWhen a company is subject to the UK Corporate Governance Code, it requires the board to state, in the annual and half-yearly financial statements, whether they consider it appropriate to adopt the going concern basis of accounting and to identify any material uncertainties to the company's ability to do so for a period of at least twelve months from the date of approval of the financial statements.
- 5 In paragraph 16A(g)(iv), the term 'material' is no longer shown in bold type.
 - 6 Paragraph 56B is inserted as follows:
 - 56B In October 2020 amendments were made to this FRS to insert paragraphs 4A, 4B, 16(aA), and 16(aB) and make other minor consequential amendments. These amendments are effective for interim periods beginning on or after 1 January 2021. Early application is permitted. If an entity applies these amendments to an interim period beginning before 1 January 2021 it shall disclose that fact.

Amendments to Appendix I *Glossary*

- 7 The following paragraph sets out the amendments to Appendix I *Glossary* (inserted text is underlined).
- 8 The following glossary term is inserted in alphabetical order:

<u>going concern</u>	<u>An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.</u>
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Approval by the FRC

Amendments to FRS 104 Interim Financial Reporting – Going concern were approved for issue by the Financial Reporting Council on 29 September 2020.

Amendments to Basis for Conclusions FRS 104 *Interim Financial Reporting*

- 1 The following amendments are made to the Basis for Conclusions FRS 104 *Interim Financial Reporting* (inserted text is underlined).
- 2 Paragraphs 17 to 19 and the sub-heading before them are inserted as follows:

Amendments to FRS 104 *Interim Financial Reporting* – Going concern

- 17 In October 2020 amendments were made to this FRS to clarify the requirement for management to assess an entity’s ability to continue as a going concern and disclose any related material uncertainties when preparing interim financial reports.
- 18 The FRC was made aware of an unintentional difference between the requirements for assessing and reporting on the going concern basis of accounting when preparing interim financial reports in accordance with EU-adopted IFRS and FRS 104. EU-adopted IFRS requires management to assess an entity’s ability to continue as a going concern and disclose any related material uncertainties when preparing interim financial statements.
- 19 FRS 104 did not previously contain any requirements that explicitly covered the assessment and reporting on the going concern basis of accounting. However, an entity was required to state that the same accounting policies are applied as compared with the most recent annual financial statements, which would include any statement about the going concern basis of accounting.

- 3 Table 1 *Exposure drafts and consultation documents* is amended as follows (new exposure drafts are inserted in numerical order):

Exposure draft		Date of issue	Finalised as	Date of issue
FRED 75	<u>Draft amendments to FRS 104 <i>Interim Financial Reporting</i> – <i>Going concern</i></u>	<u>Jul 2020</u>	<u>Amendments to FRS 104 <i>Interim Financial Reporting</i> – <i>Going concern</i></u>	<u>Oct 2020</u>

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