Subject: Application of paragraph 14 of IAS 10 on prior periods

We appreciate your consideration of the following inquiries:

First inquiry: The [relevant legislation] requires companies to issue financial statements for each year independently (i.e., as a separate document) even if such financial statements were prepared much later after the end of the reporting period to which financial statements belong (such delay happens sometimes due to extraordinary circumstances). A company is behind the deadline for preparing financial statements for the last three years (e.g. 2017, 2018 & 2019). The company had no issue with going concern for the first two years (i.e., 2017 & 2018). However, the management decided voluntarily to liquidate the company after the end of the third year and to prepare financial statements for each preceding years (first, second and third, each in a separate document). IAS 10 prohibits preparation of "financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so". However, it is not clear, in a situation like the one described above, whether the preparation of the financial statements on other than going concern basis is confined to the latest reporting period (latest FS, i.e., 2019) or it covers all preceding periods (all 3 years FS), given the fact that every set of financial statements for each year would be published separately.

Considering the above scenario, our question is whether the company is prohibited from preparing independent financial statements for each of the preceding years (2017 & 2018), other than the latest one (2019), on a going concern basis? We hope the IFRS Interpretation Committee consider the situation as we believe that at the time of writing IAS 10, it might not have been envisaged the subject of late preparation of financial statements for earlier periods and the requirements of some jurisdictions that companies have to file financial statements for each year in a separate document (i.e., IAS 10 may assume the normal situation where entities issue their financial statements after the end of the reporting date but before the end of the next reporting period).

There are two views about tackling this issue:

The first view confines the phrase "reporting period" in IAS 10 to the latest reporting period covered by the financial statements (i.e., 2019 in this scenario). Therefore, in case of going concern being determined inappropriate after the latest reporting period while there was no issue about going concern after the end of each of the relevant preceding reporting periods (i.e., 2017 and 2018), it is believed that the company has to prepare only the financial statements for the latest year (2019) on other than going concern basis (for example, the liquidation basis) and to prepare the financial statements for the preceding years (2017 and 2018) on a going concern basis. In other words, the financial statements are to be prepared according to the conditions that existed at the time when such financial statements would have been prepared (i.e., the normal time frame for preparation of financial statements for each period runs from the end of the reporting period until the end of the next reporting period). This view is supported by the following arguments:

1. IAS 10 mentions "reporting period' to mean the latest reporting period covered by the financial statements. When financial statements are to be prepared annually, the phrase "after the reporting period" in IAS 1 and IAS 10 means the "last reporting period" for which financial statements are to be prepared. This is supported by the requirement of IAS 1 that
an entity has to present a complete set of financial statements (including comparative information) at least annually. Therefore, the preparation and authorization of financial statements is supposed to take place during the period running from the end of the period to which financial statements belong to the end of next reporting period. Whether an entity publishes its financial statements or not, it is reasonable to believe that events after reporting periods should be limited to those events that may take place during the normal time frame for preparation of financial statements for each period, which runs from the end of the reporting period until the end of the next reporting period. We believe this is the rationale behind prescribing specific requirements for events after reporting period, i.e., events that are related to the latest reporting period to catch up on information that usually would not be available until the next set of financial statements are prepared. Otherwise, and in case of late preparation of financial statements, such events would belong to several reporting periods, for each of which financial statements are to be prepared.

2. When going concern is determined to be inappropriate, IAS 10 does not require restatement of preceding years' comparative figures (that were prepared on the going concern basis) presented alongside with the latest financial statements' figures that are prepared on other than going concern basis. This can be understood that, despite the fact that financial statements for preceding years were not prepared on timely basis, they should be prepared according to the conditions that existed at the time when such financial statements would have been prepared (i.e., the time frame for preparation of financial statements for each period runs from the end of the reporting period until the end of the next reporting period).

3. According to IAS 8, hindsight "should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period [emphasis added] or estimating the amounts recognised, measured or disclosed in a prior period". This should be more prominent when there is a change in the accounting basis, regardless whether financial statements for preceding years were prepared on timely basis or not.

4. Preparing financial statements for preceding years on other than going concern basis (for example, the liquidation basis) although the going concern assumption was valid after the reporting date of each preceding year, will mislead users about the history of the company, especially when it fails to prepare financial statements for many preceding years on timely basis where the going concern assumption was valid at the end of those years.

5. According to the Conceptual Framework, paragraph 1.16, information about a reporting entity’s past financial performance and how its management discharged its stewardship responsibilities is usually helpful in predicting the entity’s future returns on its economic resources. Therefore, delaying the preparation of the financial statements until future periods should not relief the management from providing such information on the basis that was suitable according to the assumptions and conditions that have been outstanding at the time when those financial statements would have been prepared. Specifically, late preparation of financial statements for preceding years (where going concern was valid) on the liquidation basis will deny the users' right to assess the entity’s past financial performance and how its management discharged its stewardship responsibilities.
**The second view** states that the phrase “reporting period” in IAS 10 means all preceding periods as long as the company doesn't publish financial statements for those preceding years (no matter how many). Accordingly, in this scenario, the company has to apply the liquidation basis to the financial statements for every single preceding year (2017, 2018 & 2019) regardless of the fact that the company was a going concern after the end of each preceding year (2017 & 2018) and the absence of the going concern assumption was only determined after the latest year. Going concern is a fundamental concept in setting IFRSs, including their measurement and presentation requirements. Therefore, preparation and authorization of financial statements on going concern basis after liquidation is inappropriate application of IFRSs since the assumption on which they are developed is no longer exist. It is noteworthy that financial statements for general purpose must prioritize the needs of users outside the entity over those of the management, which can be fulfilled internally. In addition, hindsight does not apply since IAS 10 clearly specifies the mere intention to liquidation prior to authorization of financial statements for issue, which is by itself a reason not to prepare its financial statements on a going concern basis.

**Second inquiry:** Assuming the company has already prepared and published (as usual) the financial statements for the first two preceding years on going concern basis. It prepared the financial statements for the latest year on liquidation basis. Is the company required to restate the comparative figures in these latest financial statements to be also on liquidation basis? IAS 10 is silent about the comparative figures for the preceding years in the case where preceding periods financial statements were prepared and published on going concern basis, i.e., whether the comparative figures shall be restated according to a basis other than going concern? We are in favor of not restating such comparative figures as it is not practical to do so without the use of hindsight. An entity, however, shall disclose the fact that the comparative figures are prepared according to different bases. Another alternative is to prohibit comparison since the numbers are prepared on different bases.

We would appreciate it if the Committee could consider the above inquiries…

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