



# **NIF A-2, *GOING CONCERN UNCERTAINTIES***

**Mexican Financial and Sustainability Reporting Standards Board  
(CINIF – Mexico)**

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## Consistent with IFRS Accounting Standards:

- Financial statements are prepared on the assumption that the reporting entity is a going concern, **except** when the entity has the intention to enter on liquidation or to cease trading or has no realistic alternative to continue as a going concern (\*).

### ***Entity should disclose:***

- Material uncertainties.
- Mitigation plans.
- If the financial statements are not prepared on a going-concern basis.

(\* ) *Will be modified: unless liquidation is imminent*



## Scenarios

1

### Going concern (GC)

- No material uncertainties about going concern (GC)

2

### GC with uncertainties

- There are significant uncertainties about GC
- There are mitigation actions, and it is concluded that the entity is a GC

3

### GC in the process of legal reorganization

- There are significant uncertainties about GC
- There are mitigation actions (legal reorganization)
- Agreement with creditors

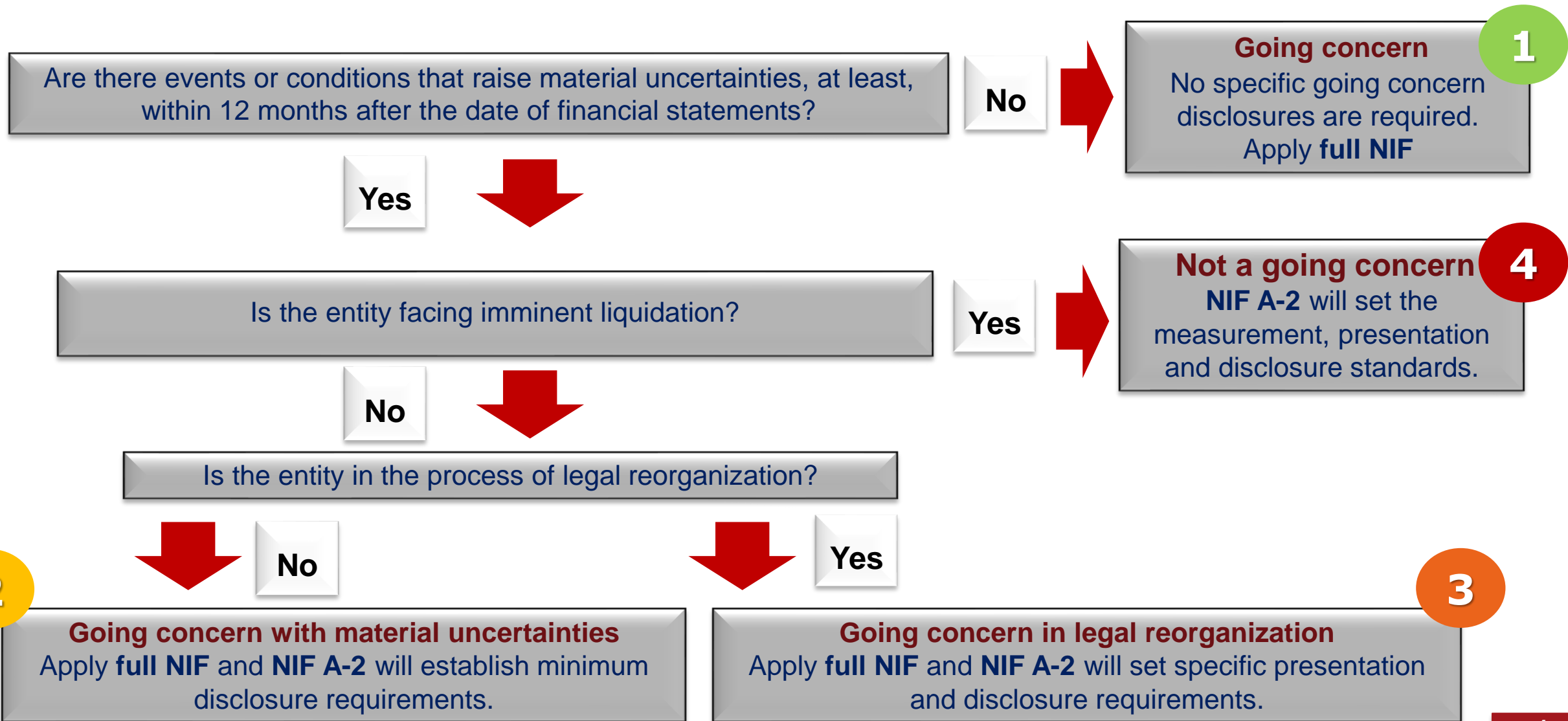
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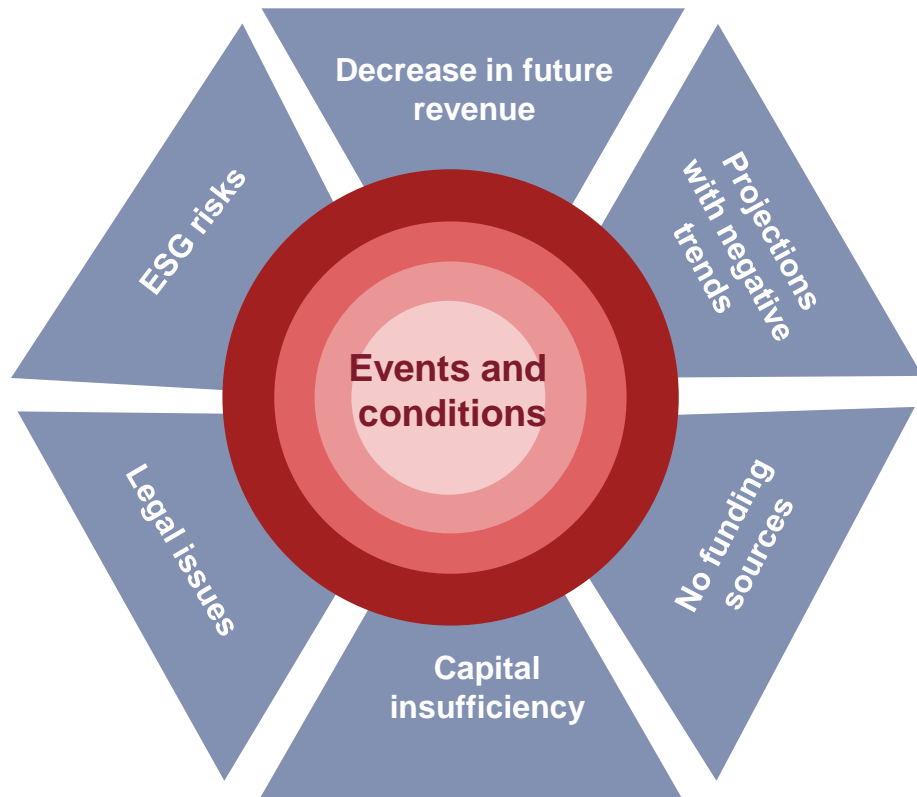
### Not a Going Concern

- Imminent liquidation - plan of liquidation:
  - a) has been approved (voluntary); or
  - b) is imposed by other forces (mandatory).



# GOING CONCERN DECISION TREE





## 1. EVENTS AND CONDITIONS

Analysis of events and conditions that could raise substantial uncertainties about an entity's ability to continue as a going concern

## 2. MITIGATION ACTIONS

Management's plans to mitigate the risk, evaluating feasibility and effectiveness

## 3. MATERIAL UNCERTAINTIES

Despite the plans, there are still doubts about the company's ability to continue, and it is concluded whether the entity:

- Is a going concern (3 scenarios), or
- Is not a going concern

# BASIS OF FINANCIAL STATEMENT PREPARATION

	1	2	3	4
<b>Scenarios</b>	<p><b>Going concern (GC)</b></p> <ul style="list-style-type: none"> <li>No material uncertainties about going concern (GC)</li> </ul>	<p><b>GC with uncertainties</b></p> <ul style="list-style-type: none"> <li>There are significant uncertainties about GC</li> <li>There are mitigation actions, and it is concluded that the entity is a GC</li> </ul>	<p><b>GC in the process of legal reorganization</b></p> <ul style="list-style-type: none"> <li>There are significant uncertainties about GC</li> <li>There are mitigation actions (legal reorganization)</li> <li>Agreement with creditors</li> </ul>	<p><b>Not a Going Concern</b></p> <ul style="list-style-type: none"> <li>Imminent Liquidation, plan of liquidation:                             <ul style="list-style-type: none"> <li>a) has been approved (voluntary); or</li> <li>b) Has been imposed (mandatory).</li> </ul> </li> </ul>
<b>Basis of financial statement preparation</b>	<p><b>Going concern</b> Apply full NIF</p>			
<b>Presentation</b>	<ul style="list-style-type: none"> <li>4 basic financial statements, without changes</li> </ul>		<ul style="list-style-type: none"> <li>4 basic financial statements, separating:                             <ul style="list-style-type: none"> <li>Liabilities subject to the Agreement (SFP); and</li> <li>Effects of legal reorganization (P/L and SCF)</li> </ul> </li> </ul>	<p><b>Not a going concern</b></p> <ul style="list-style-type: none"> <li>Use <i>net liquidation value</i> for assets and liabilities</li> <li>2 basic financial statements:                             <ul style="list-style-type: none"> <li>Statement of Net Assets in Liquidation</li> <li>Statement of Changes in Net Assets in Liquidation</li> </ul> </li> </ul>
<b>Disclosures</b>	<ul style="list-style-type: none"> <li>No specific disclosure requirements</li> </ul>	<ul style="list-style-type: none"> <li>Judgments about GC</li> <li>Entity's plans for risk mitigation</li> <li>Material uncertainties</li> </ul>	<p>Disclosures for 2, plus:</p> <ul style="list-style-type: none"> <li>Claims subject to the Agreement</li> <li>Non-estimable claims</li> <li>Interest claims</li> </ul>	<ul style="list-style-type: none"> <li>Judgments about GC</li> <li>Entity's plans</li> <li>Measurement assumptions</li> <li>Sources and uses of cash</li> </ul>

## ■ Example:

### Statement of Financial Position

#### LIABILITIES

Current liabilities not subject to Agreement	
Short-term borrowing	200
Accounts payable	35
	<u>235</u>
<b>Current liabilities subject to Agreement</b>	
Secured debt	480
Priority tax claims	200
Loans	120
	<u>800</u>
<b>Total current liabilities</b>	1,035
Non-current liabilities not subject to Agreement	10
<b>Non-current liabilities subject to Agreement</b>	522
<b>Total non-current liabilities</b>	<u>532</u>
<b>TOTAL LIABILITIES</b>	<u><u>1,567</u></u>

### Statement of Profit or Loss

Revenues	1200
Costs and expenses	<u>600</u>
<b>Earnings before reorganization items and income tax benefits</b>	<u>600</u>
<b>Legal reorganization effects</b>	
Loss on disposal	320
Professional fees	78
Provisions	280
Interest	58
	<u>736</u>
<b>Loss before income tax benefits</b>	(136)
<b>Income tax benefits</b>	<u>30</u>
<b>Net loss</b>	<u><u>(106)</u></u>

## FROM LEGAL REORGANIZATION TO FRESH-START REPORTING?

REQUIREMENTS

1

Reorganization  
Value

<

Total liabilities  
(subsequent  
and allowed claims)

2

Holders of existing voting shares  
immediately before confirmation  
receive less than 50% of the voting  
shares of the emerging entity

NO

Recognize only effects of the  
reorganization (adjusted liabilities -  
agreed value or forgiveness)

YES

Apply the fresh-start reporting as a  
business combination



# BASIS OF FINANCIAL STATEMENT PREPARATION

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4

## Not a Going Concern

- Imminent Liquidation - plan of liquidation:
  - has been approved (voluntary); or
  - has been imposed (mandatory).

## Scenarios

## Basis of financial statement preparation

## Presentation

## Disclosures

## Going concern

Apply full NIF

## Not a going concern

- Use *net liquidation value* for assets and liabilities
- 2 basic financial statements:
  - Statement of Net Assets in Liquidation
  - Statement of Changes in Net Assets in Liquidation

- 4 basic financial statements, without changes

- 4 basic financial statements, separating:
  - Liabilities subject to the Agreement (SFP); and
  - Effects of legal reorganization (P/L and SCF)

- No specific disclosure requirements

- Judgments about GC
- Entity's plans for risk mitigation
- Material uncertainties

Disclosures for 2, plus:

- Claims subject to the Agreement
- Non-estimable claims
- Interest claims

- Judgments about GC
- Entity's plans
- Measurement assumptions
- Sources and uses of cash

## ■ Example:

### Statement of Net Assets in Liquidation

	20X2
<b><u>ASSETS</u></b>	
Cash and equivalents	300
Accounts receivable	220
Property plant and equipment	795
Intangibles	230
<b>Total assets</b>	<b>1,545</b>
<b><u>LIABILITIES</u></b>	
Accounts payable	1,150
Income taxes	650
<b>Total liabilities</b>	<b>1,800</b>
<b>NET LIABILITIES IN LIQUIDATION</b>	<b><u>(255)</u></b>

### Statement of Changes in Net Assets in Liquidation

	20X2
<b>Net assets in liquidation as of January 1, 20X2</b>	<b>(70)</b>
Intangible assets not previously recognized	230
Measurement of property, plant and equipment	15
Operating expenses	(80)
Provisions	(350)
<b>Changes in net assets in liquidation</b>	<b>(185)</b>
<b>Net assets in liquidation as of December 31, 20X2</b>	<b><u>(255)</u></b>

**CINIF – NIF A-1, *Conceptual Framework & RT 50 Going concern***

**IASB – *Conceptual framework, IAS 1 Presentation of Financial Statements and Going concern - a focus on disclosure***

## **USGAAP**

205-30 *Liquidation Basis of Accounting*

205-40 *Going concern*

852 *Reorganizations*

## **COLOMBIA**

*Appendix 5 Financial Reporting Standards for Entities That Do Not Meet the Going Concern Assumption*

## **SAUDI ARABIA (SOCPA)**

*Liquidation Basis Financial Reporting Standard:  
Principles and Requirements for Recognition, Measurement,  
Presentation and Disclosure*

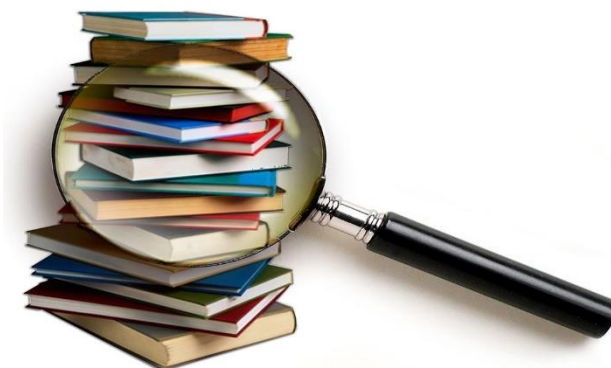
## Other standards reviewed but not considered:

### **AUSTRALIA (AASB)**

*Going concern, AASB Staff paper*

### **NEW ZEALAND (NZASB)**

*NZ1 IAS 1 Presentation of financial statements  
XRB Alert 2020-2 Spotlight on Going Concern  
Disclosures – for profit entities*



# CONTACTO CINIF

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