

Accounting Latest Developments: Part 3

Rounding out the opening section on current accounting developments, these two chapters complete the picture before the course moves into more focused subject areas. If you need comprehensive coverage of where the profession stands today — without sorting through outdated or irrelevant material — this wrap-up delivers exactly that. It's a practical resource for busy professionals who want confidence they've captured every important development before turning their attention to specific standards and reporting challenges.

CREDIT HOURS 2 | FIELD OF STUDY ACCOUNTING | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall the general GAAP rule for management's evaluation of going concern.
- Review the SEC's rule for ESG disclosures.
- Recognize one of the two approaches that are used to record revenue under the revenue standard.
- Recall how LIFO inventories should be valued under GAAP.
- Identify a reason why a company may wish to hold sales prices when there is an increase in the cost of purchases due to tariffs.
- Identify a method that can be used to record variable consideration under the revenue standard.
- Identify a loan covenant most directly impacted by an increase in the interest rate.
- Recognize a threat that exists with certain banks.

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Section 1.4

Chapter Objective

After completing this section, you should be able to:

- Recall the general GAAP rule for management's evaluation of going concern.
- Review the SEC's rule for ESG disclosures.

O. GOING-CONCERN ASSESSMENT BY MANAGEMENT

General

In this section, the author addresses ASU 2014-15, *Presentation of Financial Statements- Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 amends ASC 205-40, Presentation of Financial Statements- Going Concern, to require management to perform a going-concern evaluation of an entity.

With the introduction of amendments made by ASU 2014-15, now both management and the auditor must perform their own separate going-concern assessments of the same entity. This section addresses the interrelation of the new GAAP rules in ASC 205-40 (as amended by ASU 2014-15) with the auditing standards found in AU-C 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern and the review engagement rules for going concern found in AR-C 90 of SSARS No. 21, as amended by SSARS No. 24.

Background- going concern

For years, auditing standards have required an auditor to consider going concern in a financial statement audit. Prior to 2012, SAS No. 59, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, provided an auditor guidance in considering going concern. Effective in 2012, the Auditing Standards Board (ASB) issued SAS No. 126 as part of its Clarity Project, with SAS No. 126 superseding SAS No. 59.

At the time SAS No. 126 was issued, the FASB standards had not issued GAAP requirements for management to perform its own evaluation of an entity's ability to continue as a going concern. Similarly, the International Auditing and Assurance Standards Board's (IAASB) International Standard on Auditing (ISA) had no new guidance for international auditors.

In 2017, the Auditing Standards Board issued SAS No. 132, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, which superseded SAS No. 126 and offers additional going-concern guidance for auditors.

With respect to review engagements, AR-C 90 of SSARS No. 21, *Statements on Standards for Accounting and Review Services: Clarification and Recodification, as amended by SSARS No. 24, Omnibus Statement on Standards for Accounting and Review Services- 2018*, provides guidance on an accountant's responsibility to evaluate going concern in a review engagement.

Going concern- GAAP – FASB's ASC 205-40- one-year going-concern window

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements- Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which amends ASC 205-40.

ASC 205-40, *Presentation of Financial Statements-Going Concern*, (as amended by ASU 2014-15) provides guidance about management's responsibility to evaluate an entity's ability to continue as a going concern and to provide related disclosures. Previously, no such guidance existed in GAAP.

The objective of ASC 205-40 is to provide guidance for management in evaluating whether there is substantial doubt about an entity's ability to continue as a going concern and about related footnote disclosures.

ASC 205-40 does the following:

1. Requires management to make an evaluation of going concern every reporting period, including interim periods.
 - a) Management's evaluation period is one year after the date that the financial statements are available to be issued (for nonpublic entities).
2. Defines the term substantial doubt about an entity's ability to continue as a going concern (substantial doubt) as follows:

“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).”

Note: The term “probable” is used consistently with its use in ASC 450, *Contingencies*.
3. Provides that management should consider the mitigating effect of management's plans only to the extent it is probable the plans will be effectively implemented and mitigate the conditions or events giving rise to substantial doubt.
4. Requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans.
5. Requires an explicit statement in the notes that there is substantial doubt and other disclosures when substantial doubt is not alleviated, and

6. Requires an evaluation for a period of one year after the date that the financial statements are issued (or available to be issued if a nonpublic entity).

Prior to ASU 2014-15's amendments to ASC 205-40, management was not required to perform a going-concern assessment on a company. Thus, the guidance on going concern was found within auditing literature as part of the auditor's responsibility to consider an entity's ability to continue as a going concern.

Auditing Standards Board clarifies its going-concern rules

After the amendments to ASC 205-40, there were certain inconsistencies between the GAAP and auditing rules for dealing with going concern.

In particular, the one-year period of time for evaluating going concern was different as follows:

1. AU-C 570 required an auditor to perform its going-concern assessment for a one-year period after the balance sheet date.
2. GAAP's ASC 205-40 uses a one-year period from the date the financial statements are available to be issued for nonpublic entities (the issued date for SEC companies).

Thus, after the FASB issued the amendments to ASC 205-40, the GAAP going-concern period was not aligned with the auditor's one-year period under AU-C 570.

The Auditing Standards Board issued SAS No. 132, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, to offer auditors permanent guidance on going concern, making the new audit guidance consistent with the GAAP requirements found in ASC 205-40 (as amended by ASU 2014-15) with respect to management's responsibility to evaluate an entity for going concern.

SAS No. 132 changes the auditor's going-concern assessment period to a "reasonable period of time" which is defined as:

1. For GAAP statements: Within one year after the date that the financial statements are available to be issued, which is the same period used by management's evaluation in ASU 2014-15.⁴
2. For other frameworks, such as tax basis: Within one year after the date that the financial statements are available to be issued.

SAS No. 132 finally brings the auditor's going-concern assessment period in parity with the GAAP rules found in ASC 205-40.

Going concern in a review engagement- SSARS No. 21, 24 and 25

As part of its Clarity Project, in 2014, the Accounting and Review Services Committee (ARSC) issued SSARS No. 21, Statements on Standards for Accounting and Review Services: Clarification and Recodification, to replace most of the compilation and review standards previously in effect. AR-C

90 of SSARS No. 21 modifies some of the previous guidance as it related to going concern in a review engagement.

In connection with a review engagement, Paragraph .65 of AR-C 90, SSARS No. 21 states:

“The accountant should consider whether, during the performance of review procedures, evidence or information came to the accountant’s attention indicating that there could be an uncertainty about an entity’s ability to continue as going concern for a reasonable period of time.”

SSARS No. 21 defines a reasonable period of time to be:

“the same period of time required of management to assess going concern when specified by the applicable financial reporting framework.”

What this means is that if an accountant assesses going concern in a review engagement, the accountant’s going-concern assessment period is the same assessment period required by the applicable framework used to prepare the financial statements as follows:

1. For a GAAP framework, assessment period is one year from the date the financial statements are available to be issued, which is generally one year from the review report date.
2. For a non-GAAP framework (such as tax basis), if that non-GAAP framework does not specify a period of time for management’s assessment, a reasonable period of time is one year from the date of the financial statements being reviewed.

The result of the previous analysis is that commencing with calendar year 2017, for GAAP financial statements, the one-year going-concern assessment period is now the same among GAAP, audit and review engagements. That one-year period is one year from the date the financial statements are available to be issued for nonpublic entities.

In May 2018, the Accounting and Review Services Committee (ARSC) issued SSARS No. 24, Omnibus Statement on Standards for Accounting and Review Services- 2018.

SSARS No. 24 makes miscellaneous changes to SSARS No. 21 including changes to an accountant’s responsibilities for going concern in a review engagement.

In general, those review engagement changes include the following:

1. The term “substantial doubt” replaces the term “uncertainty” in considering going concern in a review engagement.
2. Add a definition of a “reasonable period of time” to be the same as the one found in auditing standards as follows:

“The period of time required by the applicable financial reporting framework or, if no such requirement exists, 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).”

3. Require an emphasis-of-matter paragraph in a review report if there is “substantial doubt” of an entity’s going concern
4. Require adequate disclosure if there is substantial doubt
5. Add new specific written representation that an accountant must obtain from management in the management letter, and
6. Add new inquiries that an accountant must make of management about going concern.

Effective in 2021, the ARSC issued SSARS No. 25, which adds new report requirements in a review engagement when there is substantial doubt of an entity’s ability to continue as a going concern.

Impact of inflation and higher interest rates on the going-concern evaluation in 2025 and 2026

For the period 2022 through 2025, the U.S. economy has experienced inflation ranging from 4 to 8%, and higher for many products and commodities. Although the U.S. Government has reported core inflation coming down to about 3% as of early 2026, it does not reflect the true inflation in the everyday lives of Americans.

That fact has led to the Federal Reserve not making significant decreases in interest rates thereby placing financial pressure on businesses.

Higher product costs means:

- Companies must carry larger inventories and receivables, resulting in greater borrowing needs.
- Larger loan balances incur higher debt service costs along with increased interest rates.

The combination of inflation and higher interest rates can jeopardize an entity’s ability to continue as a going concern.

In evaluating an entity’s ability to continue as a going concern during 2026 and 2025 engagements, accountants must consider the impact that inflation, higher product prices and interest rates have on that entity’s ability to continue as a going concern for one year from the available to be issued date.

P. THE DEATH OF ESG DISCLOSURES

Are ESG disclosures going to be eliminated by the new White House administration?

General For purposes of this section, the author uses the terms “environmental, social, and corporate governance (ESG),” “climate change,” and “sustainability” interchangeably.

Environmental, social, and corporate governance (ESG) has been a hot-button issue not only with the SEC, but with Congress and the business sector. Over the past two decades, there has been a

shift in investor focus toward analysis of SEC company environmental, social, and corporate governance (ESG) risks as part of investment decision-making.

Until the past few years, there was an ongoing clash between SEC companies and environmental groups who sought to assert their influence on companies including sustainability/ESG (climate change) disclosures. On one side, the environmental groups alleged that SEC companies were required to include sustainability/ESG (climate change) disclosures in their financial statements under existing SEC regulations, regardless of whether GAAP requires such disclosures. On the other side, SEC companies considered sustainability disclosures as a costly nuisance not required by SEC regulations or GAAP standards.

Most recently, these adverse points of view have converged into a more cooperative spirit for a few reasons:

1. Environmental groups have become better organized and funded with the advent of the Sustainability Accounting Standards Board (SASB)
2. Companies now realized that “green” can be profitable in terms of attracting new customers and possibility savings costs, and
3. Certain investment groups now consider sustainability risks as part of their investment decision making process.

What has become obvious is that some SEC companies are embracing sustainability to attract an ever-growing customer base that purchases goods and services only from environmentally conscious companies. Now, many companies seek to appear to promote “green” products and services even if they do not believe in it. Thus, the term “fake green” is *commonly* used by marketers who specialize in creating a sustainable brand for companies. Simply put, regardless of politics and belief, appearing to

The evolution of green terminology

The terminology used as part of the “green” movement has evolved over time.

Previously, the term “climate change” was used, and before that, “global warming.”

Then, climate change was replaced by the term “sustainability” which is defined as:

“environmental, social and governance (ESG) dimensions of a company’s operation and performance.”₅

Now, the term “environmental, social and governance (ESG)” is being used instead of the term sustainability.

ESG is defined as: