

Technical factsheet

Going concern for SMEs

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Introduction

The concept of going concern is fundamental in financial reporting and all entities, regardless of size, are required to carry out an assessment of the entity's ability to continue as a going concern.

In most cases, an entity will prepare its financial statements on a going concern basis. The Financial Reporting Council (FRC) has issued [guidance on going concern](#) for companies, which replaces its guidance issued in 2016. However, this guidance does not cater for small and micro-entities.

The purpose of this technical factsheet is to enable ACCA members and member firms to understand the requirements in accounting standards and company law in respect of going concern. The FRC's periodic review of FRS 102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland* gave rise to additional disclosures being required in the financial statements of small entities for accounting periods commencing on or after 1 January 2026. These additional disclosure requirements apply even if the small entity is applying the presentation and disclosure requirements of FRS 102, Section 1A *Small Entities*.

The going concern basis of accounting

FRS 102 defines 'going concern' as follows:

*'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.'*¹

All companies are required to carry out an assessment of their ability to continue in operational existence for the foreseeable future. The term 'foreseeable future' is not defined in accounting standards but is taken to mean at least (but not limited to) 12 months from the date of approval of the financial statements.

The definition above confirms that there are only two circumstances in which an entity does **not** prepare financial statements on a going concern basis:

Management intends to liquidate the entity or to cease trading, or

Management has no realistic alternative but to do so

¹ FRS 102, Glossary: **going concern**

Example: Adoption of the going concern basis of accounting

Ratchford Enterprises Ltd is preparing its financial statements for the year ended 31 March 20X7. The company is experiencing significant cash-flow difficulties due to the loss of a major customer. The directors have applied for a short-term loan to provide working capital from its bank to overcome before it will make its lending decision.

In this scenario, the financial statements are still prepared on a going concern basis. However, there are circumstances that call the going concern basis into question. Hence, the company must disclose these uncertainties.

In the example above, management does not intend to liquidate the entity or to cease trading or has no realistic alternative but to do so. Therefore, the entity continues to adopt the going concern basis of accounting but must adequately disclose the material uncertainties that call into question the ability of the company to continue as a going concern.

Assessing going concern

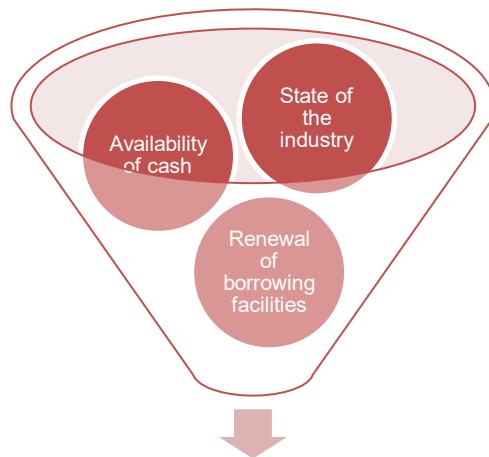
It is the responsibility of management to assess the company's ability to continue as a going concern. This responsibility is not delegated to a professional accountancy firm – and certainly not to the auditor.

FRS 102, paragraph 3.8 states:

*'When preparing financial statements, the management of an entity using 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 not limited to, 12 months from the date when the financial statements are authorised for issue.'*²

When carrying out its assessment of going concern, management is required to take into account all relevant facts and circumstances at the date of approval of the financial statements. 'Relevant facts and circumstances' may need careful thought, for example:

² FRS 102, paragraph 3.8



Examples of relevant facts and circumstances

The assessment of going concern will usually involve the directors applying significant judgements. These judgements will need to be disclosed in the financial statements to comply with FRS 102, paragraph 3.8A, which states:

*'When an entity prepares financial statements on a going concern basis, it shall disclose that fact, together with confirmation that management has considered information about the future as set out in paragraph 3.8. It shall also disclose, in accordance with paragraph 8.6, any significant judgements made in assessing the entity's ability to continue as a going concern.'*³

The going concern assessment should be sufficiently robust and documented to explain the basis of the directors' conclusion at the date the financial statements are prepared.

In carrying out their assessment of the entity's ability to continue as a going concern, the directors may use several sources of information, such as:

- budgets and forecasts
- interim management information (eg management accounts)
- likelihood of borrowing facilities (eg overdrafts) being renewed
- current headroom with borrowing facilities
- overall state of the market in which the company operates
- potential impact of any ongoing litigation claims or potential outcome of contingent liabilities
- support available from a group (eg a parent entity).

Note: the list above is not exhaustive.

³ FRS 102, para 3.8A.

Period of assessment

FRS 102, paragraph 3.8 requires management to carry out its assessment for a period of **at least** but **not limited to** 12 months from the date on which the financial statements are authorised for issue (ie approved).

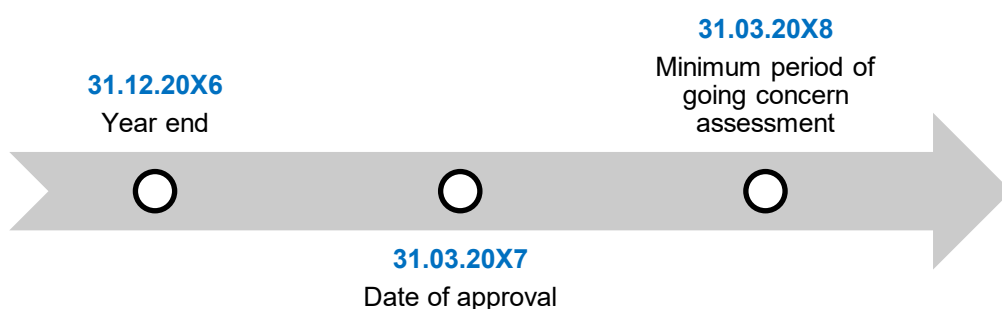
ACCA comment

The wording 'not limited to' means that even if the directors do not intend to cease trading until, say, 18 months after the date that the financial statements are authorised for issue, the financial statements should not be prepared on a going concern basis. This is because going concern is a forward-looking concept and there is no cap on how long management looks forward in assessing going concern.

In this case, management should describe the basis on which the financial statements have been prepared as well as the reason why the company is not a going concern.

Some financial reporting frameworks have a different time condition than UK and Ireland GAAP. For example, IFRS Accounting Standards require management to take into account all available information about the future, which is at least, but not limited to, 12 months from the balance sheet date⁴.

However, it should be noted that financial reporting frameworks such as IFRS Accounting Standards are not necessarily inconsistent with UK and Ireland GAAP. The minimum periods established in such frameworks are a minimum period rather than a cap.



⁴ IAS 1, *Presentation of Financial Statements* (and, following the issuance of IFRS 18, *Presentation and Disclosure in Financial Statements*, the going concern requirements in IAS 8, *Basis of Preparation of Financial Statements*, paragraph 6L)

Material uncertainties

As part of the directors' assessment of going concern, they are required to ascertain whether there are any material uncertainties relating to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern. To that end, the directors should:

- Identify any events or conditions through a review of an appropriate assessment period.
- Realistically consider the outcome of these events, magnitude of potential impacts and the likelihood of their occurrence.
- Consider the availability and likely effectiveness of any mitigating actions.
- Consider whether the uncertain future events or changes in conditions are unusual.

The table below provides some non-exhaustive examples of material uncertainties related to going concern:

Issue	Reason why it is a going concern
The balance sheet shows a net current liabilities (or net liabilities) position	This indicates the entity may be unable to meet debts as they fall due
The bank does not renew borrowing facilities	A lack of cash makes it difficult for a company to pay suppliers, employees and other liabilities as they fall due
The company has breached a loan agreement	Breaches of a loan agreement may trigger immediate repayment, hence placing additional pressure on the cash flow of the business
Staff are not paid on time	This indicates a lack of working capital and potential loss of employee goodwill
Legal claims have been brought against the entity	If successful, these may result in significant cash outflows, thus placing additional pressure on working capital
Loss of key staff	This may make it difficult for the entity to trade
Changes in laws and regulations	Such changes may make it costlier for the business to comply, and the costs of compliance may be more than the company can realistically afford
Failure to obtain credit from suppliers	This indicates a bad credit rating, which usually arises from a failure to pay liabilities
Missing payments to HMRC or an equivalent taxation authority	Payments to HMRC or an alternative tax authority should be prioritised, and any missed payments may indicate the company has a lack of working capital
Negative cash flows	This indicates overtrading

Significant bad debts	These will place pressure on the company's cash flow, resulting in an inability to meet its liabilities
Successful competitors	These will have a detrimental impact on revenue if customers decide to buy from the competitor
Uninsured catastrophies	A fire or flood means that the company may not have enough cash to survive
Major technological changes	An inability to keep up with major technological changes may result in a loss of customers and inventory obsolescence
Inability to pay dividends	This usually indicates depleting cash and/or availability of working capital

When management is aware of uncertainties related to events or conditions that cast significant doubt on the entity's ability to continue as a going concern, adequate disclosure of such must be made in the financial statements.

Example: Material uncertainty related to going concern

Sunnie Enterprises Ltd operates from four branches in the UK. The company's year end is 31 March 20X7 and the industry in which it operates is in decline due to high supplier costs, lower margins and increased taxation.

The company's overdraft is nearing its limit and the balance sheet as at 31 March 20X7 is showing a large level of net current liabilities.

An example disclosure is as follows:

Note 20: going concern

The company has been materially and adversely affected by the effects of high supplier costs, which have resulted in lower margins. Increased taxation has also had an adverse impact on the company.

The company has incurred operating losses of (£X) in the year to 31 March 20X7 (20X6: operating profit £X). In addition, the company has reported net current liabilities for the year ended 31 March 20X7 of (£X) (20X6: net current assets £X).

Due to the ongoing problems within the industry, the directors are uncertain when, and if, the company will return to profitability. This uncertainty casts significant doubt on the company's ability to continue as a going concern for the foreseeable future. The company has applied for additional borrowing facilities to provide working capital, but the outcome of this application is as yet unknown.

For micro-entities preparing financial statements under FRS 105, *The Financial Reporting Standard applicable to the Micro-entities Regime*, there is no requirement to make any disclosures about material uncertainties related to going concern. However, management may deem such disclosures appropriate in the circumstances.

Periodic review amendments

As part of its periodic review amendments, the FRC has included additional mandatory disclosure requirements for small entities in the UK. Prior to the periodic review, the disclosure of material uncertainties related to going concern was an encouraged disclosure for small entities in the UK. However, since Brexit, the FRC is no longer constrained by the requirements of the EU Accounting Directive, hence for accounting periods commencing on or after 1 January 2026, any material uncertainty related to going concern must be disclosed in the financial statements.

ACCA comment

Mandating disclosures about material uncertainties related to going concern for small entities clears up an issue that was addressed by ACCA during the Covid-19 period. While material uncertainties related to going concern were an encouraged disclosure under FRS 102 (January 2022), Section 1A, the fact that they are **material** uncertainties means that their omission would lead to the financial statements being materially misstated. For an audit client, this would mean a modification of the audit opinion. However, for a non-audit client, there are ethical considerations that also come into question.

ACCA members are not permitted to have their names associated with financial statements that are misleading. Hence, mandating such disclosures will reduce the number of ethical issues that may open up as a result of inadequate or non-disclosure. If the matter cannot be resolved satisfactorily, the ACCA member firm may need to consider terminating the engagement with the client.

ACCA member firms in the Republic of Ireland are reminded that material uncertainties related to going concern are still an encouraged disclosure as the Republic of Ireland is still in the EU, hence is still subject to the EU Accounting Directive. Irish ACCA member firms will therefore need to exercise caution in ensuring that material uncertainties related to going concern are disclosed in the financial statements, to enable a true and fair view to be presented.

The financial statements must clearly disclose the existence and nature of the material uncertainty, including:

- a description of the principal events or conditions that may cast significant doubt; and
- the directors' plans to deal with these events or conditions.

ACCA comment

Disclosures in respect of material uncertainties related to going concern must be entity-specific. They should identify the specific issue and how it may affect the entity's financial position and liquidity.

Going concern basis is inappropriate

When the going concern basis of accounting is deemed to be inappropriate, UK and Ireland GAAP does not specify on which basis the financial statements should be prepared. Both FRS 102 and FRS 105 require a basis other than the going concern basis to be applied when management intends to liquidate, cease trading or has no realistic alternative but to do so.

Many preparers are nonetheless familiar with the concept of the 'break-up basis' of accounting. Under this basis, assets are restated to recoverable amount and long-term liabilities are restated as current, with provisions being recognised for unavoidable costs under onerous contracts and the expected costs of winding the business down. Hence, the accruals concept becomes secondary because under the break-up basis, the financial statements reflect a forecast of future realisation, rather than how the business has performed up to, and its financial position as at, the balance sheet date.

In addition, property, plant and equipment (tangible fixed assets) are not restated to current assets if their role within the ongoing business remains unchanged.

ACCA comment

It must be borne in mind that there is no 'held for sale' classification under UK and Ireland GAAP as there is under IFRS Accounting Standards (IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*).

The break-up basis will only ever be used in very rare situations, as it is not compliant with the normal recognition and measurement principles of UK and Ireland accounting standards.

Example: Adoption of the going concern basis is inappropriate

Patton Industries Ltd is preparing its financial statements for the year ended 31 March 20X7. Due to the loss of a number of significant contracts and an inability to secure additional funding, the directors have decided to cease trading on 30 April 20X7. The following note illustrates the wording that may be used in the 'Basis of Preparation of the Financial Statements' section within the accounting policies note:

As explained in Note 28 to the financial statements, the company will cease trading on 30 April 20X7 and the financial statements have been prepared on a basis other than that of the going concern basis. This basis includes, where applicable, writing the company's assets down to net realisable value. Provisions have also been made in respect of contracts which have become onerous at the balance sheet date. No provision has been made for the future costs of terminating the business unless such costs were committed at the balance sheet date.

Going concern basis deemed inappropriate after the reporting date

Both FRS 102 and FRS 105 require the financial statements to reflect all transactions, events and conditions that have arisen up to, and exist as at, the reporting date. However, if an entity determines **after** the reporting date that it intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so, it must not prepare its financial statements on a going concern basis (FRS 102, paragraph 32.7).

In this way, what would normally be a non-adjusting event, because it occurs after the balance sheet date, becomes an adjusting event if it means the entity is no longer a going concern. This is a necessary exception because going concern is a forward-looking concept.

Auditing issues

Under ISA (UK) 570 and ISA (Ireland) 570, *Going Concern*, the auditor's objectives are:

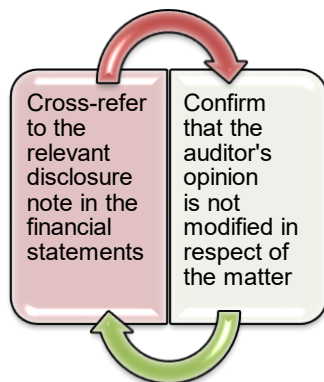
- to obtain sufficient appropriate audit evidence that the going concern basis is appropriate
- to conclude, based on the audit evidence obtained, whether a material uncertainty exists
- to determine the implications for the auditor's report.

If the auditor identifies a material uncertainty related to going concern, they are required under ISA (UK) 570 and ISA (Ireland) 570 to assess the adequacy of the disclosure of the material uncertainty.

Disclosure is adequate

If the auditor concludes that the entity has adequately disclosed the material uncertainty related to going concern, they must include a separate section in the auditor's report headed up 'Material uncertainty related to going concern' (MURGC paragraph).

The MURGC paragraph must:



Example: MURGC paragraph in an auditor's report

Material uncertainty related to going concern

We draw your attention to note 23 in the financial statements, which indicates that the company incurred a net loss of £1.2m during the year ended 31 December 20X6 and, as of that date, the company's current liabilities exceeded its total assets by £2.3m. As stated in note 23, these events or conditions, along with other matters as set forth in note 23, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

It is noticeable that the MURGC paragraph works in a similar manner to that of an emphasis of matter (EoM) paragraph – ie it cross-refers to the note number where the issue is presented in the financial statements and confirms that the auditor’s opinion is not modified in respect of the matter. However, it is technically incorrect to use an EoM paragraph when highlighting material uncertainties related to going concern. As going concern is such a fundamental concept, it merits its own section within the auditor’s report. In addition, the requirement for a MURGC paragraph is found in ISA (UK) 570, paragraph 22, as opposed to ISA (UK) 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*.

Disclosure is inadequate

If the auditor concludes that a material uncertainty related to going concern has been inadequately disclosed or not disclosed at all, the auditor must discuss the issue with management with a view to them resolving the issue and avoiding a modified audit opinion. If management refuses to remedy the disclosures, the auditor must modify their opinion accordingly. The audit opinion will either be qualified or adverse.

Determining whether the audit opinion should be qualified or adverse will depend on the pervasiveness of the non-disclosure. For example, where there is a disclosure note, but it is considered inadequate because it fails to explain the impact or availability of finance and does not characterise the situation as a material uncertainty, the auditor will express a qualified opinion. This is because the inadequate disclosure is a material misstatement which is not pervasive.

On the other hand, if the issue is more serious and the company is considering bankruptcy, any non-disclosure would be deemed pervasive. In that situation, the auditor would express an adverse audit opinion because the effects on the financial statements of such an omission are both material and pervasive.

ACCA comment

It is not the auditor’s responsibility to conclude on whether the entity is a going concern. If the auditor concludes that management’s use of the going concern basis is inappropriate, the auditor must express an adverse opinion (see below).

Where a qualified or adverse opinion is expressed due to inadequate or absent disclosures of material uncertainties related to going concern, there is a consequential impact on the ‘Basis for opinion’ paragraph. This paragraph must be amended for the impact of the qualified or adverse opinion, as shown in the following examples:

Example: qualified audit opinion for inadequate disclosure

Qualified opinion

We have audited the financial statements of...

In our opinion, except for the incomplete disclosure of the information referred to in the basis for qualified opinion section of our report, the accompanying financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 20X7 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for qualified opinion

As discussed in Note 29, the company's borrowing facilities expire and the amounts outstanding are repayable on 28 June 20X7. The company has been unable to renew borrowing facilities or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

We conducted our audit in accordance with International Standards on Auditing (UK) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Example: adverse audit opinion for omitted disclosures

Adverse opinion

We have audited the financial statements of...

In our opinion, because of the significance of the matter described in the Basis for adverse opinion section of our report, the financial statements:

- do not give a true and fair view of the state of the company's affairs as at 31 March 20X7 and of the loss for the year then ended;
- have not been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have not been prepared in accordance with the requirements of the Companies Act 2006.

Basis for adverse opinion

The company's financing arrangements expired and the amount outstanding was payable on 30 March 20X7. The company has been unable to renew its borrowing facilities or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion on the financial statements.

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