



# THE STANDARD STANCE

## Liquidation Accounting - When Going Concern Is No Longer The Answer

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## EXECUTIVE SUMMARY

The going concern assumption is the bedrock of financial reporting. When an entity reaches what regulators and standard-setters describe as the 'point of no return,' financial statements must be prepared on a fundamentally different basis. Yet, the Indian accounting framework provides extremely limited guidance on what that alternate basis should look like.

This edition of The Standard Stance carefully analyses global standards (IFRS, US GAAP) with the Indian legal framework under the Insolvency and Bankruptcy Code, 2016 (IBC), as described in the Research Paper on Liquidation Accounting, as issued by the Institute of Chartered Accountants of India (ICAI), to offer preparers, auditors, and advisors a clear framework for action. As India's insolvency ecosystem continues to mature, and as global standard-setters move toward greater prescriptiveness, ICAI's Research Paper on Liquidation Accounting leads the way in establishing robust, consistent practice in this critically important area.

Key findings of the Research Paper are:

- The decision to abandon going concern is binary and irreversible within a reporting period – once the 'point of no return' is reached, alternate basis accounting applies immediately and prospectively.
- Out of many, three possible approaches for alternate basis preparation were discussed; only two – the Ind AS-consistent liquidation basis and the net realisable value basis – may be acceptable under the Indian accounting framework.
- Transition adjustments can be material and far-reaching, spanning asset impairments, deferred tax write-offs, and reclassification of borrowings.
- Global standard-setters – including the IASB – are actively working to reduce the current diversity in practice, signalling that more prescriptive requirements are forthcoming.

### Why This Matters Now

India's insolvency ecosystem has matured rapidly since the IBC's enactment in 2016. With over 7,000 CIRPs admitted and a rising proportion resulting in liquidation orders, the accounting implications of non-going concern are no longer a theoretical concern – they are an everyday professional challenge.

## THE GOING CONCERN SPECTRUM: WHEN DOES IT BREAK?

Most entities exist comfortably within the going concern assumption – the expectation that they will continue operations for the foreseeable future, typically interpreted as at least 12 months from the balance sheet date. Financial statements prepared on this basis assume the entity can realise its assets and discharge its liabilities in the normal course of business.

However, financial distress introduces a spectrum of scenarios, from manageable uncertainty to inevitable cessation. Understanding where an entity sits on this spectrum determines the accounting basis – and the disclosure obligations – that apply.

## INDICATORS OF DETERIORATING GOING CONCERN

There is a range of financial and operational signals that should prompt a heightened going concern assessment:

Signals of deteriorating	Other pressures
Declining revenue and shrinking margins	Rising leverage and worsening debt ratios
Reduction in capital expenditure and headcount	Increased risk of debt covenant defaults
Credit rating downgrades	Regulatory embargo
Negative operating cash flows	Intensifying stakeholder and creditor pressure

## THE 'POINT OF NO RETURN'

The critical threshold is reached when management determines that the entity will liquidate or cease trading. The management's intent to liquidate the entity or to cease trading (or has no realistic alternative but to do so) indicates a 'point of no return' in which the entity shifts its goal from attempting to return to resume operations (i.e. a going concern) to ending the business (i.e. no longer a going concern).

This is not a matter of degree: it is a binary inflection point.

Importantly, several activities can occur in the vicinity of this threshold without necessarily crossing it. Restructuring, asset sales, or operational curtailments undertaken to avoid liquidation do not, in themselves, indicate that a going concern is inappropriate. The critical question is whether there exists any realistic alternative to cessation.

### Critical Distinction: Solvency vs. Going Concern

An entity can be solvent – capable of meeting its financial obligations as they fall due – yet still not be a going concern. If the management has decided, or has no alternative but, to wind up operations, the going concern basis is inappropriate regardless of current liquidity. A fund with adequate resources to pay all creditors but a firm intention to dissolve upon conclusion of litigation is not a going concern.

## GLOBAL STANDARDS: A PATCHWORK OF GUIDANCE

The international accounting community has long acknowledged the inadequacy of guidance on non-going concern financial reporting. The result is a diversity of practice that makes comparability difficult and user understanding challenging.

### IFRS: LIMITED GUIDANCE

IAS 1 (Presentation of Financial Statements) requires management to make a going concern assessment, and IAS 10 (Events after the Reporting Period) clarifies that a post-balance-sheet determination to liquidate, triggers a fundamental change in basis – not merely an adjustment. However, IFRS provides no specification of what the alternate basis should entail.

The International Accounting Standards Board (IASB) has acknowledged that this gap leads to 'boilerplate' disclosures and has suggested the matter is better handled by local regulators. In practice, entities applying IFRS typically describe their basis as 'liquidation basis' without a consistent definition of what that means.

### US GAAP (ASC 205-30): THE MOST DEVELOPED FRAMEWORK

The Financial Accounting Standards Board (FASB) offers the most prescriptive guidance available. ASC 205-30 establishes a clear trigger – liquidation is 'imminent' – and specifies both recognition/measurement requirements and minimum financial statement presentation.

Element	ASC 205-30 Requirement	Practical Implication
Trigger	Liquidation is imminent (plan approved; reversal remote)	High but clear threshold; involuntary bankruptcy qualifies
Asset Measurement	Expected cash to be collected from disposal	May be above or below GAAP carrying value
Liability Measurement	Per applicable standards; adjust for liquidation assumptions	Covenant breaches and timing changes reflected
New Asset Recognition	Recognise previously unrecognised assets (e.g., trademarks), if sale is expected	Internally generated intangibles may appear on balance sheet
Cost Accruals	Accrue all expected disposal costs and income through liquidation end	Undiscounted; prospective accrual of winding-up costs
Financial Statements	Statement of Net Assets in Liquidation + Statement of Changes	Replaces traditional balance sheet and P&L

## SAUDI ARABIA: NOTABLE JURISDICTIONAL PRACTICE

The Kingdom of Saudi Arabia has taken a more prescriptive path, enacting a standalone Liquidation Basis Financial Reporting Standard. Key features include measurement of assets at expected disposal proceeds, recognition of estimated costs from disposal, and detailed minimum disclosure requirements, including a liquidation plan and expected completion date. This represents the most comprehensive domestic standard globally and provides a useful benchmark for Indian standard-setters.

## THE INDIAN CONTEXT: IBC AND THE ACCOUNTING GAP

India's Insolvency and Bankruptcy Code, 2016 provides a sophisticated legal framework for insolvency resolution and liquidation – but the accounting framework has not kept pace. Ind AS 1 and Ind AS 10 align with their IFRS counterparts in requiring non-going concern financial statements where appropriate, but are equally silent on what those statements should contain.

## THE IBC LIFECYCLE AND ITS ACCOUNTING INFLECTION POINTS

The IBC process creates several distinct moments at which accounting judgements are required. Understanding the legal stages is essential to determining when the alternate basis should be adopted.

IBC Stage	Key Accounting Consideration
CIRP Admission	Assess going concern; moratorium begins. Financial statements still on going concern basis if resolution is plausible.
Committee of Creditors votes to liquidate	Strong indicator that a going concern is no longer appropriate. If the 'point of no return' has been reached, an alternate basis of accounting should be followed.
Liquidation Order passed	Liquidator takes control; deconsolidation by the parent may be triggered.
Asset realisation and distribution	Alternate basis in full effect. Financial statements focus on net assets available and expected distributions.
Dissolution order	Final accounts prepared; entity ceases to exist as a reporting entity.

### Timing is Everything

A common misconception is that the alternate basis of accounting should be adopted only when the liquidation order is passed. In fact, the obligation arises when management determines – or has no realistic alternative to determining – that liquidation will occur. Events after the balance sheet date that confirm pre-existing conditions (such as a liquidation order passed post year-end) may require the financial statements to be restated on an alternate basis even for the prior period.

## ACCEPTABLE APPROACHES TO NON-GOING CONCERN ACCOUNTING

In the absence of specific guidance, preparers have adopted a range of bases for non-going concern financial statements. The lack of guidance has resulted in proliferation of various alternate basis of preparation of financial statements for a non-going concern entity. Some entities prepare financial statements on a realisation basis, liquidation basis, an orderly realisation basis, cessation basis, or a break-up basis - though these concepts have neither been defined nor mentioned. Depending on the facts and circumstances, there may be other ways of preparing non-going-concern based financial statements. These can be distilled into three broad approaches, of which only two may be acceptable.

### APPROACH I: IND AS-CONSISTENT LIQUIDATION BASIS (RECOMMENDED)

This approach retains the recognition and measurement requirements of Ind AS but modifies them to reflect the absence of a going concern. This approach is further supported by the fact that there is no general dispensation from the Ind AS when a liquidation basis of preparation is followed. Ind AS or the Conceptual Framework do not specifically state that the recognition, measurement, and disclosure requirements do not apply when a liquidation basis of accounting is followed. Under this approach, the entity continues to apply Ind AS 36 (Impairment), Ind AS 2 (Inventories), Ind AS 109 (Financial Instruments) and other standards, but through the lens of anticipated disposal and cessation.

- Assets are measured at recoverable amount, reflecting that cash-generating units will be sold or abandoned rather than operated.
- Fair values are assessed critically – Ind AS 113 presupposes orderly transactions, which may not reflect forced-sale realities, requiring significant judgement.
- Liabilities remain on the balance sheet until extinguished, cancelled, or expired – anticipated forgiveness cannot be anticipated.
- An explicit and unreserved statement of compliance with Ind AS is permissible under this approach.

### APPROACH II: NET REALISABLE VALUE BASIS (ASC 205-30 ALIGNED)

Where the primary objective shifts to informing users, financial statements in their assessment of the amount of the cash/ other assets reasonably expected to be realised on completion of liquidation, an entity may consider drawing on ASC 205-30 as a permitted reference under Ind AS 8 (Accounting Policies).

- Assets – including previously unrecognised intangibles such as trademarks – are recognised if they are expected to be sold.
- Assets may be written up above their Ind AS carrying value (e.g., a building at INR 100 crore carrying value may be restated to INR 120 crore based on estimated sale proceeds).
- Depreciation and amortisation may cease; impairment methodologies become irrelevant.
- Liabilities are measured at the amounts required by Ind AS applicable to entities that are going concerns.
- All expected winding-up costs and income through the end of liquidation are accrued on an undiscounted basis.
- Compliance with Ind AS should be carefully described; specific departures must be disclosed.

### APPROACH III: BREAK-UP BASIS (MAY NOT BE ACCEPTABLE)

The break-up basis – which treats financial statements as a forecast of future realisations rather than a record of transactions – departs fundamentally from the accrual principle and the requirement to reflect conditions at the reporting date. While used in some jurisdictions, it is not consistent with Ind AS and an explicit statement on compliance with Ind AS cannot be made.

#### Our View

Approach I is preferable where the entity's auditors and preparers believe that compliance with Ind AS continues to be critical. Though Approach II is permissible, this approach is not followed in practice.

### KEY TRANSITION ADJUSTMENTS: WHAT CHANGES?

The shift to alternate basis accounting is not merely a disclosure change – it triggers a cascade of recognition, measurement, and classification adjustments across the financial statements. The following table summarises the most significant treatments and impacts.

Area	Going Concern Treatment	Possible alternate basis Impact
Property, Plant & Equipment	Depreciated cost; VIU-based impairment	Written down to fair value less costs of disposal; likely significant impairments
Inventories	Lower of cost and NRV	NRV reassessed for distressed-sale conditions; discounts and disposal costs factored in
Deferred Tax Assets	Recognised if future taxable profit probable	Written off – future profitability no longer expected
Trade Receivables	Expected credit loss model	Higher loss allowances; counterparty reluctance to settle increases default risk
Borrowings Classification	Current/non-current per contractual terms	Covenant breaches typically require reclassification to current; cross-default clauses scrutinised
Leases	Right-of-use asset; lease liability	Lease modifications and terminations trigger remeasurement; onerous provisions may be required
Provisions	Only present obligations at reporting date	Termination benefits, onerous contracts, and winding-up costs accrue when the obligation crystallises
Subsidiaries (Consolidation)	Consolidate if control exists	Deconsolidation likely when a subsidiary enters liquidation, and control passes to the liquidator

## DISCLOSURE: THE CRITICAL DIFFERENTIATOR

When a going concern is abandoned, disclosure quality becomes the primary mechanism through which users understand the financial statements. Ind AS itself provides limited specific requirements; preparers must exercise significant judgement to provide disclosures that are complete, clear, and internally consistent.

The following minimum disclosures should be considered:

- A clear statement that the financial statements are not prepared on a going concern basis, with the facts and circumstances that led to this determination.
- The basis actually used – liquidation basis, net realisable value basis, or another described approach – including policies for recognition and measurement of each class of assets and liabilities.
- The entity's plan for liquidation, including how assets will be disposed of, how liabilities will be settled, and the expected completion date.
- Key judgements and estimates, including significant assumptions underlying asset valuations and liability measurements.
- Confirmation that comparative information has not been restated (the alternate basis applies prospectively from the point it becomes appropriate).
- A review of other disclosures – capital commitments, long-term loan balances, deferred tax disclosures, going concern language in the Board's report – to ensure consistency with the alternate basis.

### A Common Pitfall

Entities transitioning to alternate basis accounting often update the primary financial statements but fail to revise other notes and accompanying information. References to future investment plans, multi-year operating lease commitments, or growth projections in the Directors' Report become inconsistent with – and potentially misleading alongside – financial statements prepared on a liquidation basis. A holistic review of all user-facing documents is essential.

## LOOKING AHEAD: THE REGULATORY HORIZON

The current diversity in practice is unlikely to persist. The IASB's Financial Instruments with Characteristics of Equity project – for which an Exposure Draft was published in November 2023 – includes proposals that directly touch on liquidation accounting, including a formal definition of 'liquidation' as the process that begins after an entity has permanently ceased operations. This would provide the conceptual grounding currently absent from IAS 32 and, by extension, Ind AS 32.

Additional IFRS 7 disclosure requirements proposed in the same Exposure Draft would require entities to provide granular information about priority on liquidation for instruments with both debt and equity characteristics. While focused on financial instruments, these proposals signal the IASB's recognition that liquidation-specific information is material to users.



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