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FASB Proposes Change to Going Concern Assumption October 2008

The Financial Accounting Standards Board (the "Board") recently issued an Exposure Draft that would, if adopted, change U.S. Generally Accepted Accounting Principles associated with the *going concern assumption*. In general, the change would require

- management to consider all available information about the future when assessing whether the going concern assumption is appropriate and
- certain disclosures when either financial statements are not prepared on a going concern basis or when there is substantial doubt as to an entity's ability to continue as a going concern.

The Board believes that accounting guidance about the going concern assumption should be directed specifically to management of a reporting entity because management is responsible for preparing the entity's financial statements and evaluating its ability to continue as a going concern. Accordingly, the Board concluded that guidance about the going concern assumption should reside in the accounting literature.

The Exposure Draft would also align existing guidance with International Financial Reporting Standards.

If adopted, business entities and nonprofit entities would be required to apply the new requirement to interim and annual financial statements.

According to the Exposure Draft, if an entity has a history of profitable operations and ready access to financial resources, management may conclude that the going concern basis of accounting is appropriate without detailed analysis. In other cases management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules, and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

The Exposure Draft provides examples of conditions or events that, if considered in the aggregate, may indicate substantial doubt about the entity's ability to continue as a going concern. The examples include but are not limited to the following:

- Negative trends, such as recurring operating losses, negative cash flows, and adverse financial ratios
- Specific events, such as loan defaults, denial of credit from suppliers, a need to seek new sources of financing, labor difficulties, legal problems, adverse legislation, loss of a license or key customer and an uninsured or underinsured catastrophe

If, after considering the information, management believes that there is substantial doubt about the reporting entity's ability to continue as a going concern, the Exposure Draft indicates that management must consider its plans for dealing with the adverse effects of the conditions and events.

It goes on to indicate that management should consider whether those plans will mitigate the adverse effects and whether those plans can be effectively implemented. The Exposure Draft provides the following examples of plans that management might consider:

- Plans to dispose of assets
- Plans to borrow money or restructure debt
- Plans to reduce or delay expenditures
- Plans to increase ownership equity by raising capital or reducing dividends

With regard to disclosure, the Exposure Draft requires the entity to disclose information that enables users of the financial statements to understand

- Pertinent conditions and events giving rise to the assessment of substantial doubt about the entity's ability to continue as a going concern
- The possible effects of those conditions and events
- Management's evaluation of the significance of those conditions and events and any mitigating factors
- Possible discontinuance of operations
- Management's plans to mitigate the effect of the uncertainties and whether management's plans alleviate the substantial doubt about its ability to continue as a going concern
- Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities

The Board will receive comments on the Exposure Draft until December 8, 2008, and expects that the new standard be applied prospectively. The Exposure Draft did not provide a date certain upon which the new standard would be applied.

Copies of the Exposure Draft are available on the FASB's website at www.fasb.org.

Questions may be directed to Vincent Ruocco, LLC, CPA at 203.932.2931. Mr. Ruocco is prepared to assess your situation and provide guidance on how this change might influence your financial statements.

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