

Statement on Auditing Standards No. 126, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (Redrafted)

Issue Date: July 2012

Effective Date: This Statement on Auditing Standards is effective for audits of financial statements for periods ending on or after December 15, 2012.

Product Number: [ASASST126P](#) (Or, go to www.cpa2biz.com and search for this product number.)

Executive Summary

As a result of its [Clarity Project](#), the Auditing Standards Board (ASB) has issued Statement on Auditing Standards (SAS) No. 126, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (Redrafted), to supersede SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, as amended (AICPA, *Professional Standards*, AU sec. 341 and AU-C sec. 570). SAS No. 126 does not change or expand SAS No. 59, as amended, in any significant respect.

The ASB has moved forward with the clarity redraft of SAS No. 59, as amended, so that it is consistent with the format of the other clarified SASs that were recently issued as SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*; No. 124, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*; and No. 125, *Alert That Restricts the Use of the Auditor's Written Communication*.

However, the ASB decided to delay convergence with International Standard on Auditing 570, *Going Concern*, pending the Financial Accounting Standards Board's (FASB) anticipated development of accounting guidance addressing going concern. FASB issued an exposure draft, *Going Concern*, in October 2008 but, based on recent decisions, FASB has divided the project into two separate and distinct phases. The FASB issued an [exposure draft](#) that addresses Phase 1, "The Liquidation Basis of Accounting," on July 2, 2012, and the FASB's [Current Technical Plan and Project Updates](#) web page projects reissuance of an exposure draft that addresses Phase II, "Going Concern," in the fourth quarter of 2012.

SAS No. 126 addresses the auditor's responsibilities in an audit of financial statements with respect to evaluating whether there is substantial doubt about the entity's ability to continue as a going concern. This SAS applies to all audits of financial statements regardless of whether the financial statements are prepared in accordance with a general purpose or a special purpose framework.¹ This SAS does not apply to an audit of financial statements based on the assumption of liquidation (for example, when [a] an entity is in the process of liquidation, [b] the owners have decided to commence dissolution or liquidation, or [c] legal proceedings, including bankruptcy, have reached a point at which dissolution or liquidation is probable).²

¹ *General purpose* and *special purpose frameworks* are defined in AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*) and AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (AICPA, *Professional Standards*), respectively.

² See Interpretation No. 1, "Reporting on Financial Statements Prepared on a Liquidation Basis of Accounting," of AU-C section 700 (AICPA, *Professional Standards*, AU-C sec. 9700 par. .01-.05).