

Section 6910, *Investment Companies*



.41 Separation of Final-Period Financial Statements Between Going Concern and Liquidation Periods for Certain Investment Companies¹ That Liquidate Over a Short Period of Time

Inquiry—Some investment companies liquidate over a short period of time because their investments are easily traded. Financial statements for the investment company’s last fiscal period may be required to be issued under various regulatory or contractual requirements.² In this circumstance, would an investment company be required to apply liquidation basis of accounting and separate the financial information for the liquidation period from the going concern period?

Reply—FASB ASC 205-30-45-2 states that the liquidation basis of accounting shall be applied prospectively from the day that liquidation becomes imminent. Regardless of the amount of time it takes to liquidate, separation of final-period financial information between going concern and liquidation periods is required unless it is determined that the effects of adopting the liquidation basis of accounting are immaterial to the financial statements taken as a whole (under the premise that GAAP requirements need not be applied to immaterial items). Any materiality determination should be made based on the specific facts and circumstances of the entity and its liquidation. Because the final-period financial statements will indicate that the investment company is in liquidation or has liquidated, if management has concluded that the effects of adopting the liquidation basis of accounting were not material, the notes to the financial statements generally should include an affirmative statement to that effect.

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