

Explainer: Guidance on the Going Concern Basis of Accounting and Related Reporting



On 25 February 2025, the FRC issued updated 'Guidance on the Going Concern Basis of Accounting and Related Reporting, including Solvency and Liquidity Risks', to help directors of UK companies demonstrate the assessments underlying their going concern conclusions and increase confidence from all stakeholders.

The Guidance is intended for all UK companies except small companies and micro-entities. It brings together the requirements or provisions of company law, accounting standards, auditing standards, listing rules, the UK Corporate Governance Code and other regulation relating to reporting on the going concern basis of accounting and solvency and liquidity risks.

The non-mandatory Guidance serves as a proportionate and practical guide to assist directors with the application of the applicable legal and regulatory requirements to:

- Encourage assessment and disclosures related to the going concern basis of accounting and any material uncertainties in their financial statements; and
- Disclose principal risks and uncertainties, which may include risks that might impact solvency and liquidity, within their strategic report.

What's changed?

- Its scope includes companies which apply the UK Corporate Governance Code.
- It reflects changes in accounting and auditing standards.
- It provides additional guidance on overarching disclosure requirements that may apply.

How will the Guidance enhance understanding of the underlying requirements?

The Guidance encourages directors to take a broader view, over a longer term, of the risks and uncertainties

- It acknowledges that companies have risk management processes in place which underpin the assessment, and that the level of analysis applied depends on the size, complexity, and particular circumstances of the company.

- It acknowledges that the amount of information disclosed should be proportionate to the uncertainties to which the company is exposed - and to its financial and liquidity position.

What are the areas of focus of the Guidance regarding the going concern assessment?

The Guidance outlines several key considerations for the effective reporting for the going concern assessment, including that directors should:

- Assess the appropriateness of adopting the going concern basis when preparing financial statements;
- Consider any material uncertainties to be disclosed in the financial statements (this assessment should consider all available information about the company's future);
- Consider whether additional disclosures may be necessary, including disclosures about any significant judgements made and to provide a true and fair view. All disclosures should be clear and company-specific.

How should companies handle disclosures related to solvency and liquidity risks?

Companies must identify and disclose principal risks and uncertainties in their strategic reports, which may include solvency and liquidity risks.

The Guidance encourages directors to consider both financial and non-financial factors that could impact the company's operations and financial health. When assessing these risks, directors should evaluate their likelihood and potential impact, ensuring that disclosures are tailored to the specific circumstances of the company.