

# Annual Financial Reporting: A Quantitative Analysis of the Temporal Going Concern Status during Business Rescue Proceedings

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## Abstract

**Purpose:** Financial reporting guidance such as the Conceptual Framework for the Presentation of Financial statements (CF), together with specific International Financial Reporting Standards (IFRS) such as International Accounting Standards no. 1 (IAS 1), require an assessment of whether a company can be considered a going concern at the time of preparing its annual financial statements. According to the Companies Act, no. 71 of 2008 (Companies Act), a company in financial distress may file for temporary business rescue protection in order to reorganise its affairs to continue to exist on a solvent basis (return to solvency [RTS]) or, if that is not possible, to offer a better settlement to creditors or shareholders, than under immediate liquidation (better settlement than under immediate liquidation [BSIL]). Building on prior qualitative research in this area, this paper quantitatively investigates the temporal going concern status in the context of a South African company listed on the Johannesburg Stock Exchange (JSE) while under business rescue.

**Design:** The paper follows a quantitative cross-sectional design using a purposive nonprobability sampling method. Empirical data were collected from accounting and business rescue experts using a structured self-administered questionnaire. The data were analysed using descriptive and inferential statistics to detect patterns of association between variables of interest.

**Findings:** The paper presents quantitative empirical evidence supporting prior qualitative research on business rescue context-specific indicators of going



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concern. In particular, if a South African listed company files for business rescue protection, the company may not be regarded as a going concern, for annual financial reporting purposes, up to the adoption or rejection of a business rescue plan. Furthermore, the evidence shows that when a business rescue plan is adopted that aims to offer a BSIL, the company cannot be considered to be a going concern during the business rescue proceedings. Moreover, should a business rescue practitioner aim for an RTS, the evidence shows that the company can only be likely regarded as a going concern when the business rescue plan is substantially implemented.

**Value:** Management and auditors should note that in the case of a BSIL, the evidence presented implies an underlying assumption other than the going concern assumption. This is also implied in the case of an RTS aim prior to the substantial implementation of the business rescue plan. In the absence of any other defined underlying assumption, the liquidation basis is the *de facto* alternative. Moreover, the underlying assumption in an RTS will also likewise be the liquidation basis in the absence of another defined underlying assumption. Standard-setters should take note of the need to provide more guidance on the matter.

**Keywords:** business rescue; Chapter 6; financial distress; financial reporting; going concern; liquidation; solvency

## Introduction

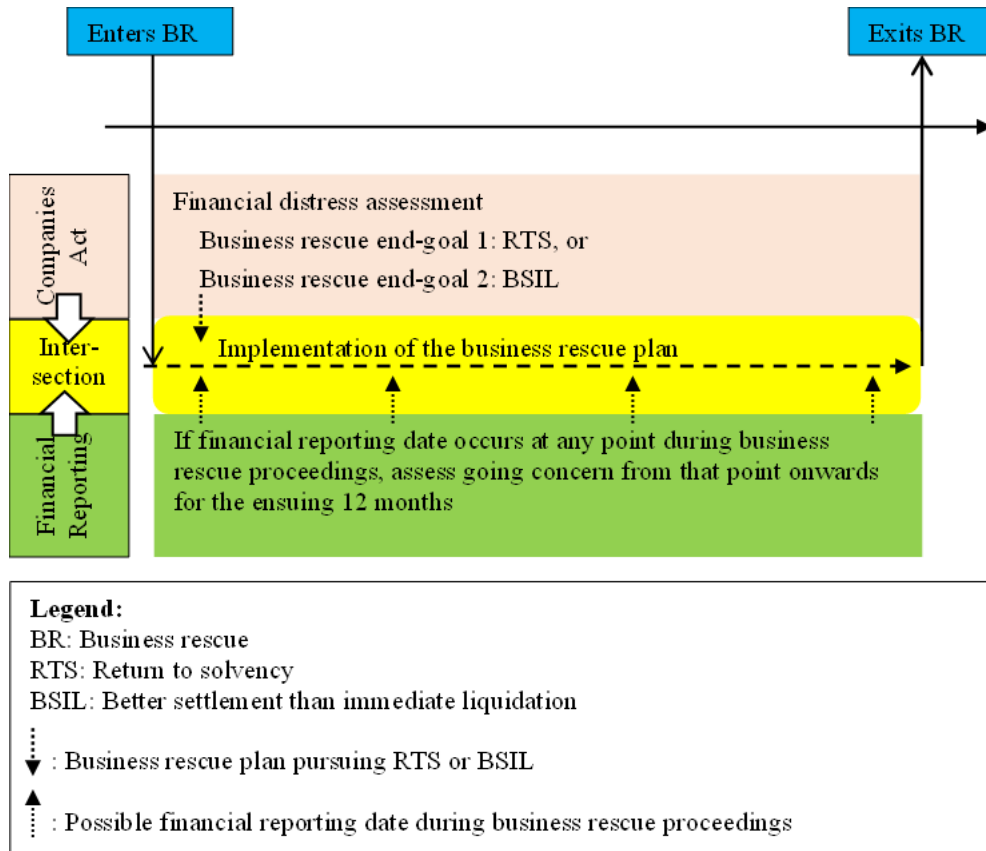
Almost a decade after Smits (1999, 81) called for new corporate rescue procedures, “business rescue” was officially introduced in Chapter 6 of the new South African Companies Act, no. 71 of 2008 (“the Act”), thereby creating the South African legislative framework for business rescue. The entry requirements for business rescue are that the company should be in “financial distress” and that there appears to be a reasonable prospect of rescuing the company (RSA 2008, s 129(2)(a)). “Financial distress” has a six-month forward temporal view. It is defined as “the inability of the company [at any point in time] to pay all of its debts as they become due and payable within the immediately ensuing six months or if it appears reasonably likely that the company will become insolvent within the immediately ensuing six months” (RSA 2008, s 128(1)(f)). Overall, the purpose of business rescue is to grant a company time to reorganise its affairs in order to continue to exist on a solvent basis (return to solvency [RTS]) or, if that is not possible, to render a better settlement for creditors or shareholders than under immediate liquidation (BSIL) (RSA 2008, s 128(1)(b)(iii)).

The Act not only creates the legislative framework for rescuing a business but also stipulates which accounting framework to use when preparing financial statements. In this regard, the Act requires that public companies should prepare annual financial statements based on International Financial Reporting Standards (IFRS) (RSA 2008, s 29(5)) within six months of the financial reporting date (RSA 2008, s 30(1)). The objective of financial reporting, such as annual financial statements, is to provide

decision-useful financial information to investors, lenders and other creditors (International Accounting Standards Board [IASB] 2021a, A22). It is important to note that annual financial statements are premised on the going concern assumption that the company will continue to exist in the foreseeable future and that it has neither the intention nor the need to enter liquidation or cease trading (IASB 2021a, A38). The foreseeable future is generally accepted to be at least 12 months following the date of the annual financial statements.

If a company enters business rescue and finds itself with an annual financial reporting date while it is under business rescue, the application of the legislative guidance on business rescue, and the financial reporting guidance on going concern, intersects. The intersection presents a conundrum for management and auditors of annual financial statements alike, specifically with respect to the going concern assessment. Firstly, on entering Chapter 6 business rescue proceedings, the company had to be financially distressed. Should an annual reporting date fall just after the company entered business rescue proceedings, the Act-stipulated six-month forward-looking financial distress test intersects with the 12-month financial reporting stipulated going concern assessment. Secondly, the Act aims to achieve one of two possible end-goals, namely a return to solvency (RTS) or a better settlement than under immediate liquidation (BSIL) if the first goal seems not possible (RSA 2008, s 128(1)(b)(iii)). These goals are quite different in their intended outcome. RTS foresees a solvent company (Bradstreet 2011, 356) exiting business rescue and, therefore, a going concern end-goal, whereas BSIL should lead to a dissolution of the company once business rescue proceedings have concluded (Loubser 2015). Thirdly, after entering business rescue, a business rescue practitioner (BRP) is appointed (RSA 2008, s 129(3)(b)) to oversee the preparation and implementation of a business rescue plan (RSA 2008, s 128(1)(b)(iii)). The Act envisaged that business rescue proceedings should be concluded after approximately three months but may be extended after court approval (RSA 2008, s 132(3)). The possibility of extending three months to conclude proceedings makes it very likely that a company may experience an annual financial reporting date during the business rescue proceedings. In fact, Klokow (2019) notes that it takes on average 16 months for most business rescue proceedings to conclude. Therefore, if the goal is RTS, the success of the plan in turning the financial distress around will only be known in months to come, creating going concern uncertainty during the implementation of the business rescue plan. If the goal is a BSIL, the BRP may achieve a BSIL through a sale of the business or a controlled wind-down (Harvey 2011, 182). Considering Klokow's statement, a company may be still trading for a significant period as the BRP implements the BSIL business rescue plan, again creating going concern uncertainty during the implementation of the plan.

Figure 1 illustrates the intersection mentioned above between a company entering business rescue proceedings as a financially distressed company until exiting business rescue and a possible annual financial reporting date during the business rescue proceedings for which a going concern assessment should be performed.



**Figure 1:** Intersection between business rescue (Companies Act) and going concern assessment (Financial Reporting)

As can be deduced from the above, an annual financial reporting date can occur at any point during the business rescue proceedings, making the going concern assessment a temporal appraisal on a continuum between entering and exiting business rescue. Our paper focuses on the going concern assessment debate that has already started. In prior research, Lamprecht and Van Wyk (2020, 9) employed a qualitative systematic interpretive literature review to develop a conceptual model of business rescue contextualised indicators of going concern for a company such as described above. This paper answers the call of Lamprecht and Van Wyk (2020, 10) to test their indicators of going concern, initially developed using insights from a different financial reporting framework than IFRS, in a South African context. To this extent, our paper quantitatively investigates the temporal going concern status, for annual financial reporting purposes, in the context of a South African company listed on the Johannesburg Stock Exchange (JSE) while it is under business rescue. We test the theory of decision-usefulness, which relates the indicators of going concern when a company is under business rescue to its going concern status on its annual financial reporting date, controlling for the business rescue aim and duration of proceedings. The

necessary research data were obtained from important role players with an interest in the financial reporting of a listed company under business rescue.

The paper contributes to the growing literature on the underlying going concern financial reporting assumption. In particular, the evidence presents empirical support for some of the business rescue contextualised indicators of going concern suggested in the Lamprecht and Van Wyk (2020) conceptual model. Management and auditors can benefit from these insights when considering the going concern status of a South African listed company under business rescue. Standard-setters, particularly the International Accounting Standards Board, may benefit from the evidence pointing to the need for further guidance on the matter.

The following section discusses the theoretical basis, followed by the literature review. The theoretical basis and literature review form the basis of the section on the research objective and questions. This is followed by an explanation of the research design, after which the results are presented and discussed. The paper concludes with final thoughts, recommendations, and further research areas.

## Theoretical Basis

This paper is set against the theory of decision-usefulness, a normative accounting theory concerned with the objectives of financial statements, the users for whom these statements are prepared, and their information needs (Deegan 2014, 12; Ryan, Scapens, and Theobald 2002, 102). The Conceptual Framework for Financial Reporting (CF) draws from the theory of decision-usefulness (Deegan 2014, 13) in stating its objective of general-purpose financial reporting “to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity” (IASB 2021a, A22). The CF prescribes the use of the going concern financial reporting assumption unless liquidation is intended or unavoidable (IASB 2021a, A38). As applied to this study, the theory holds that the independent variables, namely the indicators of going concern, will influence the dependent variable, namely the going concern status of the company on the reporting date, and provide an answer to the users of financial statements that is useful for decision-making purposes

The research problem addressed in this paper is concerned with the functioning of accounting, namely to assess, for annual financial reporting purposes, whether a listed company under business rescue can be considered a going concern at that particular time during business rescue proceedings. The researchers, therefore, applied a post-positivist worldview. Ontologically, a single reality exists that is observed and measured. Epistemologically, knowledge is objective facts obtained impartially and from a distance and deductively explained using statistical analysis to offer generalisations from the sample to the population. The researchers’ values play no role. Accounting theory is used to formulate research questions regarding the existing application of the going concern concept (Creswell 2009, 7, 57; Ryan et al. 2002, 41,

146), and empirical data are collected and analysed to offer generalisations. The following section provides an overview of the literature informing the research questions.

## Literature Review

The importance of the going concern concept has long been established. A 1968 publication by Sterling noted that: “The ‘going concern’ is the accountant’s ‘firm model.’ It seems to be universally accepted, is believed to be a necessary axiom, and thought to have a direct connection to historical cost valuation” (Sterling 1968, 481). In the same year, Fremgen critically appraised the going concern assumption. He observed that most discussions on the concept of going concern assumed the entity to continue indefinitely and that it will, therefore, not be liquidated in the foreseeable future (Fremgen 1968, 650). Although generally accepted as an underlying assumption or postulate, it was only formally recognised in 1989 as an underlying assumption with the publication of the first Framework for the Preparation and Presentation of Financial Statements (International Accounting Standards Committee [IASC] 1990). The IASC’s successor, the IASB, retained the going concern concept as an underlying assumption of financial statements in the 2010 and 2018 revisions of the CF.

Considering that the legislator created a legal framework for a company in financial distress, having an uncertain future at that stage and applying for business rescue protection seem to be in contrast with the financial reporting view of an entity that is assumed to continue in existence in the foreseeable future, that is, a going concern. The two contrasting positions intersect when a reporting date occurs whilst still under business rescue.

As Lamprecht and Van Wyk (2020, 10) called for, this paper tests the indicators of going concern in a South African context. The reader is directed to the Lamprecht and Van Wyk (2020) paper for the full qualitative systematic review leading to their conceptual model of business rescue contextualised indicators of going concern. A brief discussion of the indicators is presented below for the reader’s benefit.

### **Financial Distress, Realisation of Assets/Liabilities and the Going Concern Status**

As indicated earlier, the legislative entry requirement to business rescue is that of “financial distress,” the legislative definition being the inability of the company to pay all of its debts as they become due and payable within the immediately ensuing six months or, alternatively, if it appears reasonably likely that the company will become insolvent within the immediately ensuing six months (RSA 2008, s 128(1)(f)). However, “financial distress” is not defined in IFRS, which is problematic, as financial distress affects a company’s going concern status assessment from an annual financial reporting point of view. The problem can be addressed in one of two ways. Firstly, the relation between financial distress and the ability of the company to realise its assets and liabilities in the normal course of business can be investigated as a precursor to a

financial reporting going concern assessment. This would be helpful as auditing guidance reveals that the going concern basis is appropriate when a company can realise its assets and settle its liabilities in the normal course of business (International Auditing and Assurance Standards Board [IAASB] 2018, 583). Venuti (2004) directly relates going concern (that is, the ability to continue in business) with the expectation that assets are realised at their recorded amounts and liabilities are extinguished in the normal course of business.

Therefore, in the context of a company that has filed for business rescue, investigating the relationship between financial distress and the realisation of assets and liabilities may provide valuable insight regarding its going concern status. The relationship could indicate whether a company under business rescue and in financial distress, a state of affairs that seems to contradict “normal business,” can still realise its assets and settle its liabilities in the normal course of business. The existence or not of such a relationship could provide clear guidance on the company’s going concern status whilst under business rescue. The second way to address the problem of “financial distress” not being defined in IFRS is to relate financial distress to the going concern status, as explained in the following sub-section.

### **State of Solvency and the Going Concern Status**

Legislatively, the Act defines a scenario of financial distress as the inability of the company to pay all of its debts as they become due and payable within the immediately ensuing six months or, alternatively, if it appears reasonably likely that the company will become insolvent within the immediately ensuing six months (RSA 2008, s 128(1)(f)). Two elements of the definition are essential.

The first essential element is that the definition of financial distress does not explicitly refer to the terms “liquidity” or “solvency” but describes such a state of affairs. However, according to Braatvedt (2018), financial distress tests for liquidity, namely the inability to pay debts as they become due, and solvency, namely when the liabilities exceed assets. Furthermore, South African law recognises that commercial insolvency refers to a state of illiquidity where the entity is unable to pay debts as it becomes due, and factual insolvency when the liabilities exceed the entity’s assets (South African Institute of Chartered Accountants [SAICA] 1999, 1). In fact, section 4 of the Act provides for a “solvency and liquidity test” in certain instances, such as when dividends are paid or when financial assistance is provided. The definition of the “solvency and liquidity test” is relevant to this paper, namely that solvency relates to the assets of the company, fairly valued, being equal to or exceeding the liabilities of the company, and that liquidity relates to the company being able to pay its debts as they become due in the ordinary course of business for 12 months following the test (RSA 2008, s 4(1)).

Not everyone agrees that the definition of financial distress refers to both commercial (liquidity) and factual (also referred to as “technical”) insolvency. Erasmus (2014) argues that some believe that the definition of financial distress must be considered in

conjunction with the definition of business rescue and the objectives of the Act. Using this approach, the reference to insolvency within the immediately ensuing six months “should consider the complete financial position of the company rather than merely pure technical insolvency.” Moreover, Erasmus (2014) states that:

... in order to adhere to the purpose of the Act, and in light of the definition of business rescue, one must consider the complete financial position of the company when determining whether there is a “reasonable” likelihood that the company will be insolvent within six months. In terms of this approach, a company will only be regarded as in “financial distress” where it is insolvent even after all other circumstances were considered, including considering alternative fair values of the assets and liabilities, factoring in reasonably foreseeable assets and liabilities, as per the solvency and liquidity test in section 4 [of the Act], as well as considering any other proposed measures taken by management such as subordination agreements, recapitalisation or letters of support pertaining to business rescue. (Erasmus 2014)

However, Erasmus (2014) also acknowledges an alternative view, namely that “... because part (i) clearly deals with commercial insolvency, part (ii) must deal with factual insolvency (i.e., a balance sheet test). In terms of this approach, a company is regarded as technically insolvent (and thus financially distressed) if the liabilities of the company exceed the assets.” This paper employs the alternative view as discussed by Erasmus (2014).

The second important element in the definition of financial distress is the reference to the forward-looking window period of six months for commercial or technical insolvency. This period appears to be very stringent and stands in stark contrast to the 12 months allowed for the normal liquidity and solvency test according to section 4 of the Act, and is also different to the standard presentation of financial statements in a financial reporting context. In terms of financial reporting, financial statements prepared according to IFRS are structured to aid decision-making by dividing assets and liabilities into “current” and “non-current” subsections. In this structure, “current assets” reflect those assets that will be realised within the next 12 months after the reporting date, and “current liabilities” those that will be settled within the next 12 months following the reporting date. All other assets and liabilities are presented as “non-current” (IASB 2021b, A1177–A1178). By having the information presented in this manner, users of financial statements can analyse the liquidity and solvency situation of the company by studying relevant supporting notes to the financial statements as well as calculating a wide range of financial ratios about commercial and technical solvency, albeit based on a 12-month future outlook. Despite the difference in the legislative financial distress future outlook of six months and the financial reporting structure according to a 12-month future outlook, the financial statements should have enough information to enable a user to determine commercial and technical solvency for a shorter period, such as the six months noted in the definition of financial distress.



Sharman highlights that one of the purposes of the going concern assessment is to provide information about the economic and financial viability of the entity (FRC 2012). According to ASL (2018), commercial insolvency indicates a going concern problem, but technical insolvency does not necessarily indicate a going concern problem. In the context of a South African listed company under business rescue, it is essential to use the state of solvency, both commercial and technical, and relate it to the going concern status. The answer may present a clear indication for management and users of financial statements to determine whether the company can be considered a going concern or not at any point during the proceedings.

Before considering the next indicator of going concern, the issue of solvency and reckless trading warrants a brief discussion in the context of this paper. Outside the realm of Chapter 6 on business rescue, directors of companies should heed other important sections of the Act, namely the prohibition of reckless trading (RSA 2008, s 22) and directors' liability for any loss, damages or costs sustained (RSA 2008, s 77(3)) by the company as a consequence of carrying on reckless trading. According to section 22 of the Act, reckless trading is the carrying on of business, with gross negligence, with intent to defraud any person or for any fraudulent purpose (RSA 2008, s 22(1)), or trading when the company is unable to pay its debts as they become due and payable in the normal course of business (RSA 2008, s 22(2)). The Companies and Intellectual Property Commission (CIPC 2015) clarifies that section 22(2) refers to commercial insolvency and not balance sheet insolvency (that is, technical insolvency). Therefore, we acknowledge the fact that trading under technical insolvency is possible in the context of section 22 on reckless trading (CIPC 2022). However, this paper focuses on the period under business rescue and the issue of the state of solvency (both commercial and technical as derived from the definition of financial distress) as indicators to assist with the going concern assessment given an annual reporting date whilst under business rescue.

### **Foreseeable Future and the Going Concern Status**

According to the CF, “financial statements are normally prepared on the assumption that the reporting entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to enter liquidation or to cease trading.” (IASB 2021a, A38). The going concern postulate assumes that the entity will continue to operate for an indefinite period or that the entity is not expected to be liquidated in the foreseeable future (Hendriksen and Van Breda 1992, 146; Riahi-Belkaoui 2004, 213). Therefore, a “foreseeable future” on the reporting date indicates a forward view where liquidation or trading cessation is neither intended nor needed.

Salmonson (1969, 51) states that the going concern postulate has a corollary, namely, that when an entity has a limited life, it should not be viewed as a going concern. Salmonson's comment is essential to this paper since a company under business rescue experiences much more uncertainty and may very well have a limited life. However,

current accounting guidance still fails to define the “foreseeable future” period. Some commentators argue that it refers to a period of at least, but not limited to, 12 months after the end of the reporting period (Hahn 2011, 31), and others suggest 12 months from the date of approval of the financial statements (FRC 2012, 27). This paper supports the former period (12 months from the reporting date), aligning with the next financial year and reporting period.

It is noteworthy that a 2010 version of South African Auditing Practice Statements (SAAPS) no 3, dealing with the layout and wording of assurance reports, gives the following definition of the going concern assumption: “An entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention, nor the necessity of liquidation, ceasing trading, *or seeking protection from creditors pursuant to law or regulations*. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and settle its liabilities in the normal course of business” (authors’ emphasis) (Independent Regulatory Board for Auditors [IRBA] 2010, 114). The emphasised section was removed in a subsequent revision. In suggested disclosure about the going concern status in the directors’ report, the Australian Institute of Company Directors (AICD) and the Auditing and Assurance Standards Board (AUASB) (2009, 62) go further and recommend that directors state that they have a reasonable expectation that the company has *adequate resources to continue in operational existence for the foreseeable future* (authors’ emphasis).

Considering the above-mentioned accounting and auditing guidance, it is clear that the preparer of the financial statements is looking for evidence of going concern. The evidence is in the form of an opinion on the foreseeable future of the entity, namely that there should be a reasonable expectation that the company has adequate resources to continue in operational existence and that the foreseeable future holds neither the intention nor the need to enter liquidation or to cease trading.

Contrary to current accounting and auditing guidance, current business rescue legislation does not address the “foreseeable future” in the same way. It was earlier mentioned that a company may enter business rescue proceedings if, apart from being financially distressed, a reasonable prospect of rescuing the company also exists (RSA 2008, s 129(2)(a)). Whether “foreseeable future” and “reasonable prospect” are similar is essential. In terms of the Act (RSA 2008, s 141(2)), the business practitioner should consider whether there is a reasonable prospect for the company to be rescued throughout the business rescue proceedings. If there is no such prospect, the practitioner should inform all affected persons and apply to the court for an order discontinuing the business rescue proceedings and placing the company into liquidation (RSA 2008, s 141(2)(a)). In this sense, both “foreseeable future” and “reasonable prospect” share an end goal of possible liquidation if the views on “foreseeable future” and “reasonable prospect” do not hold. Although the accounting and legislative terms show similar outcomes, this paper will investigate the accounting term “foreseeable future” in the

context of a South African listed company under business rescue to determine its going concern status on a reporting date that falls during the business rescue proceedings.

### **Actions Taken to Rescue the Company and Going Concern Status**

In order to rescue a financially distressed company, the business rescue practitioner (BRP) will develop and implement a business rescue plan for acceptance by the creditors and other affected persons (RSA 2008, s 150(1)). Although the Act prescribes minimum requirements for the plan (RSA 2008, s 150(2)), the BRP has some freedom to include those transactions and events that he/she sees fit. These transactions may or may not significantly impact the company's affairs, business, property, debt, and other liabilities. The question is whether the implementation or envisaged implementation of some of the significant transactions/events can indicate whether the company can be considered a going concern.

It is understandable that, due to the difference between companies, a checklist of transactions/events cannot be submitted to give a binary answer on the going concern status of a listed company under business rescue. Therefore, it is also noted that research in this area is scant, and one must judge each case on its merit. However, earlier auditing guidance did attempt to do just that. The 2015 version of the International Auditing Standard AU-C Section 570 on the Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, noted that "Continuation of an entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary" (AICPA 2015, .02). The standard then noted that contradicting information relates to the entity's inability "to continue to meet its obligations as they become due without the substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations or similar actions" (AICPA 2015, .02).

It is interesting to note that the possible inability to meet obligations as they become due is shared by the auditing guidance and the definition of financial distress. Furthermore, the possible actions/transactions noted that would contradict a going concern assessment could likely be included in the BRPs business rescue plan. Another prominent transaction/event that may contradict a going concern assessment, namely to "curtail materially the scale of its operations," was noted in the description of going concern in the conceptual framework for financial reporting up to the 2018 revision, where the phrase was replaced with "cease trading" (IASB 2021c, C49).

Since the above-mentioned transactions/events were noted, at least at some stage, as authoritative guidance contradicting the going concern assumption, it was decided to investigate those transactions/events in the context of a South African listed company under business rescue as complementary evidence for or against a going concern conclusion.

Table 1 below summarises the points mentioned earlier in the discussion. The table shows the indicator of going concern and contrasting legislative and accounting/auditing views.

**Table 1:** Summary of leading going concern status indicators

<b>Indicator</b>	<b>Guidance</b>	
	<b>Legislative</b>	<b>Accounting/auditing</b>
Financial distress	Defines “financial distress.”	It is not defined. Can assist with going concern assessment if “financial distress” is moderated by the concept of realisation of assets and liabilities.
Solvency (commercial and technical)	It is not defined but implied in the definition of “financial distress.”	Not defined, but the structure of financial statements allows for easy determination of solvency to assist with going concern assessment.
Foreseeable future	Not defined, but closely related to “reasonable prospect.”	Not defined but concept clear and can be used to assess going concern status.
Actions to rescue	None specifically noted.	Earlier guidance noted that some specific examples might contradict a going concern conclusion.

**Source:** Own compilation

### **Duration of Business Rescue Proceedings**

It was earlier indicated that evidence from the Companies Intellectual and Property Commission (CIPC) suggests that it takes an average of 16 months for proceedings to conclude (Klokow 2019). This period is crucial as it is longer than a standard financial year, making it very likely (on average) that a company will have to prepare annual financial statements while under business rescue proceedings. Since the reporting date may occur at any point during the business rescue proceedings, it would be important to consider the effect of the above-mentioned leading indicators of the going concern status at different points during the business rescue proceedings (Lamprecht and Van Wyk 2020, 7). Significant events, such as the following, can be used: 1) Filing for business rescue and the immediate period following filing, as this is the most uncertain stage of the proceedings for the company; 2) Adoption of a business rescue plan; and 3) Substantial implementation of the business rescue plan (an administrative filing to confirm that business rescue proceedings have concluded). Since the period between 2) and 3) may last several months, it would also be prudent to consider the various indicators halfway through the business rescue proceedings.

### **Business Rescue Goals**

The business rescue goals, namely RTS and BSIL, may also yield different going concern status assessments since the intended outcomes differ substantially. Therefore, as Lamprecht and Van Wyk (2020) note, it is important to consider the leading indicators of going concern status and per business rescue goal. The following section explains how the theory and literature review lead to several research questions that will be used as a guide to address the research problem.

## Research Objective and Questions

As indicated before, this paper's research problem is concerned with applying the going concern financial reporting underlying assumption when preparing the annual financial statements. Through the lens of decision-usefulness, and in order to offer management and auditors concrete guidance on when a listed company under business rescue can be considered a going concern, the following research objective and questions guide the development of a research instrument to empirically test the relationships identified between the independent variables and the dependent variable.

- **Research objective:** To establish the going concern status for annual financial reporting purposes of a South African listed company under business rescue.
- **Research question 1 (RQ 1):** How does financial distress relate to the realisation of assets and liabilities in the normal course of business as an indicator of going concern status?
- **Research question 2 (RQ 2):** How does the state of solvency relate to the going concern status when controlling for the business rescue aim and duration of proceedings?
- **Research question 3 (RQ 3):** How does the foreseeable future relate to the going concern status when controlling for the business rescue aim and duration of proceedings?
- **Research question 4 (RQ 4):** How do certain actions taken under business rescue relate to the going concern status?

The following section details the research design employed in building the research instrument and the data collection and analysis procedures.

## Research Design

The paper follows a quantitative cross-sectional design approach to answer the research questions and achieve the research objective. A structured self-administered questionnaire was employed to determine the opinions and attitudes of respondents considered to be knowledgeable (Hofstee 2006, 122) in or related to the business rescue field. Therefore, the unit of analysis was the individual respondents who were asked to provide their views on particular scenarios.

In selecting the sample of possible respondents, the overarching consideration was to identify role-players that may have a financial background and, in some way or other, an influence on or an interest in the financial reporting of South African listed companies under business rescue. Considering the research problem, a non-probability sampling strategy was used to identify the respondents from the legislative and accounting environments, identified to have an influence on the financial reporting of a listed company under business rescue. Appendix 1 summarises the population and sample sizes, commencing with the perspective and role-player and concluding with an

explanation of the sample sizes of the different groups of individuals that could fulfil that role.

The research instrument, a structured questionnaire, was developed using the high-level indicators of going concern identified by Lamprecht and Van Wyk (2020) and briefly discussed in the literature section. Bias was minimised, and the analysis potential of the questionnaire was maximised through straightforward questionnaire design, having the questionnaire cleared by the institutional ethics committee, thorough pilot testing and implementing measures to ensure variable measure reliability (Hoque 2006, 431), and minimising the threat of incorrect inferences by such as asking more than one question related to the dependant variable on a construct (Creswell 2009, 162; Hoque 2006, 431). Since the respondents are all experienced and knowledgeable members of the business community, it was decided that a “do not know” descriptor would not be included in the ordinal scales. A four-scale Likert type response scale with no midpoint was used to force the respondent to choose to agree or disagree with a statement (Hoque 2006, 432). Appendix 2 shows how the leading indicators of going concern have been used to build the quantitative instrument submitted to the respondents.

The survey was distributed and conducted online because the respondents were geographically dispersed. Furthermore, the online survey is cheaper than face-to-face interviews and allows direct data entry. Moreover, the leading researcher’s institution supported the survey software used. Coverage bias was mitigated by striving for an even response rate between the different respondent groups. Also, the problem of survey overload was addressed by contacting as many individuals in the population as possible before distributing the research questionnaire (Sue and Ritter 2012, 5).

A response rate of 36% (49 out of 136) was achieved. The response rate compares well with a response rate of between 17% for long internet-based surveys and 19% for web-based surveys without response incentives (Deutskens et al. 2004, 33; Sax, Gilmartin, and Bryant 2003, 417). To further ensure external validity, a statistician verified the data for probability distribution assumptions to perform parametric tests with high statistical powers (Kwak and Kim 2017). With the support of the statistician, the survey data were analysed using descriptive statistics (e.g., frequency distributions) and inferential statistics (e.g., McNemar’s chi-square test for independence, analysis of variance (ANOVA) and variance estimation, precision and comparison (VEPAC)). The following section presents the results of the research and a discussion thereof.

## Results and Discussion

The results are analysed according to the research questions (RQs) and related quantitative constructs as indicated in appendix 2 to achieve the research aim, namely to establish the going concern status for annual financial reporting purposes of a South African listed company under business rescue.

### **RQ 1: Relationship between Financial Distress and Realisation of Assets and Liabilities in the Normal Course of Business, as an Indicator of Going Concern Status**

Considering the relationship between financial distress, a moderating variable, and the realisation of assets and settlement of liabilities in the normal course of business, the descriptive results indicated that 42 of the 49 (86%) of the respondents agreed or completely agreed with that statement. Therefore, the results indicate that the respondents were generally of the opinion that the existence of financial distress in a listed company under business rescue indicates that the company's assets and liabilities may not be realised or settled in the normal course of business. The results not only support the literature (IAASB 2018, 583; Lamprecht and Van Wyk 2020) that financial distress can be considered an indicator that a company may not be a going concern, but in the context of the post-filing implementation of the business rescue plan, the existence of financial distress will still indicate that the company may not be a going concern as the company's assets and liabilities may still not be realised or settled in the normal course of business.

### **RQ 2: Relationship between the State of Solvency and the Going Concern Status, Controlling for the Business Rescue Aim and Duration of Proceedings**

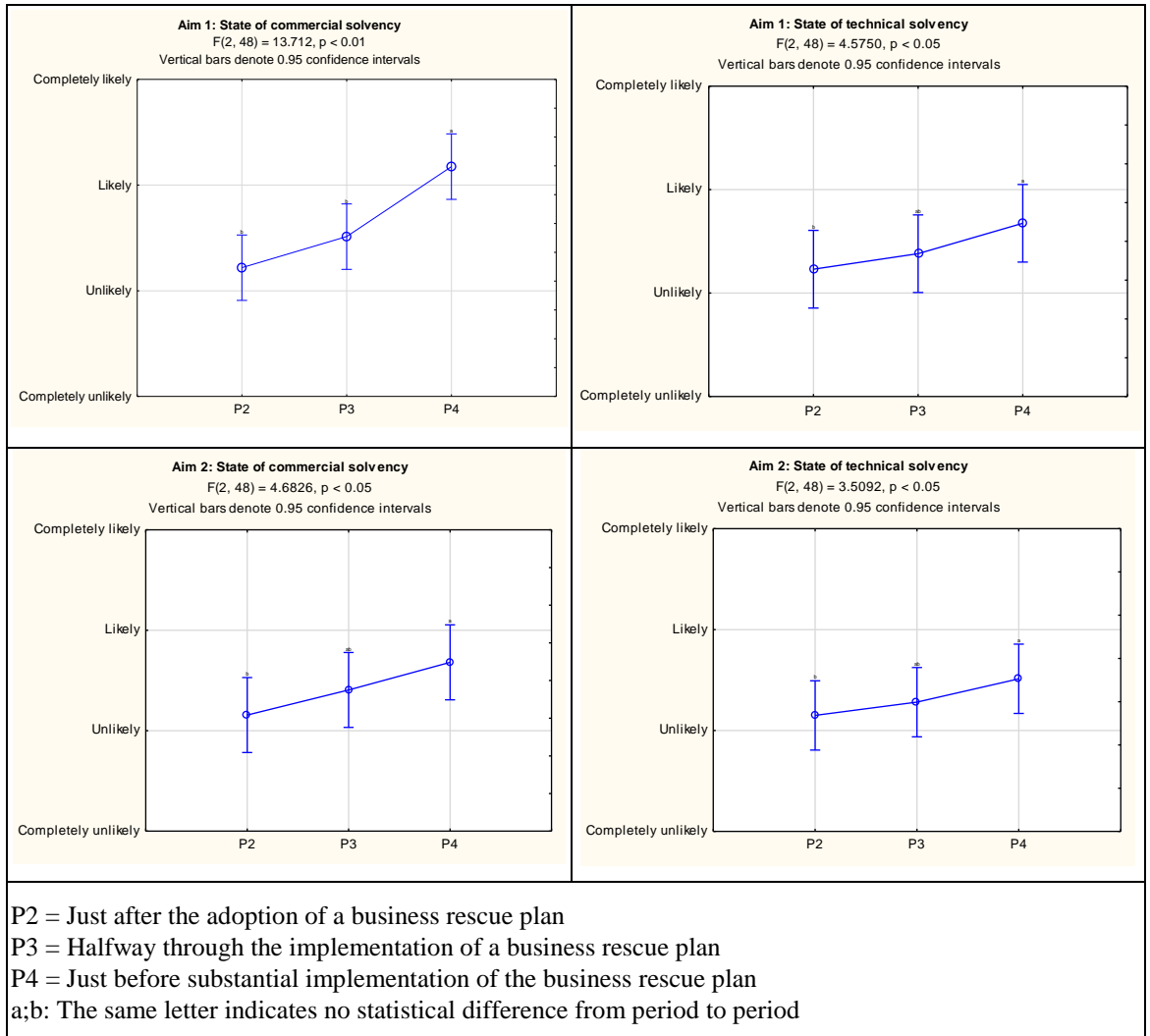
As an indicator of the going concern status, the state of solvency has been considered for both business rescue aims at various stages of the business rescue proceedings after the adoption or rejection of a business rescue plan. The questions were only directed to BRP/RS and auditor groups, as it was considered that these groups are better acquainted to consider commercial and technical solvency due to their practical experience.

Concerning the period up to adoption or rejection of a business rescue plan (P1), McNemar's chi-square test of independence for commercial solvency ( $p = 0.54$ ) and technical solvency ( $p = 0.95$ ) indicated no statistical differences between the groups and the answers provided. In assessing the state of commercial solvency, 22 of 26 (85%) of the total respondents indicated that the company would be commercially insolvent, and 18 of 26 (69%) indicated that the company would be technically insolvent.

The results show strong support for the fact that a listed company would still be under financial distress, due to commercial and technical insolvency, in the period up to the adoption or rejection of a business rescue plan. Therefore, the research finds support that in the period up to the adoption or rejection of a business rescue plan, the company is still financially distressed, further indicating that its status is not that of a going concern.

Regarding the three periods up to substantial implementation, the respondents separately considered the commercial and technical solvency under both aims of business rescue. Figure 2 shows the results on the state of commercial and technical

solvency under aim 1 (RTS) and aim 2 (BSIL). The results are interpreted for both commercial and technical solvency for each aim (RTS and BSIL), following figure 2.



**Figure 2:** VEPAC on the state of commercial and technical solvency for aim 1 (RTS) and aim 2 (BSIL)

**Source:** Own observation

*Regarding Aim 1 (RTS)*

The VEPAC interaction effect F-test indicated no statistical difference between the groups and the likelihood of commercial solvency ( $p=0.73$ ) and technical solvency ( $p=0.24$ ). The results further showed significant statistical differences *between* the periods for both commercial solvency ( $p < 0.01$ ) and technical solvency ( $p < 0.05$ ).



Concerning the likelihood of *commercial solvency* under aim 1, the respondents considered it slightly more unlikely than likely that the company would be commercially solvent from the period just after the adoption of the business rescue plan (P2) up to halfway through implementing the business rescue plan (P3). However, the statistical difference between P3 and P4 indicates that the respondents considered it more than likely that the company would be commercially solvent just before substantial implementation of the plan (P4).

Concerning the likelihood of *technical solvency* under aim 1, the results indicated a statistical difference between P2 and P4. Considering P2 and P3, the respondents considered it more unlikely than likely that the company would be technically solvent. However, the respondents did indicate that it is slightly more likely than unlikely that the company would be technically solvent just before substantial implementation of the plan (P4). Since no statistical difference exists between P2 and P3, as well as between P3 and P4, one may conclude that the respondents as a group were ambivalent on whether the company could be considered technically solvent at period P3, that is, halfway through the business rescue proceedings.

As an indicator of going concern status, the above results on the state of commercial and technical solvency—considered together for aim 1—indicate that the company would be likely to become commercially and technically solvent in the period just before the substantial implementation of the business rescue plan. If one further considers that continuing to exist on a solvent basis is the purpose of aim 1, the results support the intended outcome: that the company will return to solvency upon substantial implementation of the plan. Notably, the research also finds that it is likely that the company pursuing aim 1 will remain in financial distress (indicated by commercial and technical insolvency) in the preceding periods, further indicating that its status may not be considered that of a going concern during P2 to P3.

#### *Regarding Aim 2 (BSIL)*

The VEPAC interaction effect F-test indicates no statistical difference between the groups and the respective likelihood of commercial or technical solvency ( $p = 0.22$  in both instances). The results further showed significant statistical differences *between* the periods for both commercial solvency ( $p < 0.05$ ) and technical solvency ( $p < 0.05$ ) under aim 2.

Concerning the state of *commercial solvency* under aim 2, the VEPAC in figure 1 indicated statistical differences ( $p < 0.05$ ) between periods P2 and P4. The results show that for the period P2 up to P3, the respondents considered it more unlikely than likely that the company would be commercially solvent. However, the results also indicate no statistical difference between P3 and P4, indicating that it could also be more likely than unlikely that the company would be commercially solvent later on in the business rescue proceedings. Since the only statistical difference exists between periods P2 and P4, one may conclude that the respondents were ambivalent in their view of period P3.

However, they considered it slightly more likely than not that the company may be considered commercially solvent at period P4, in other words, just before the conclusion of the proceedings.

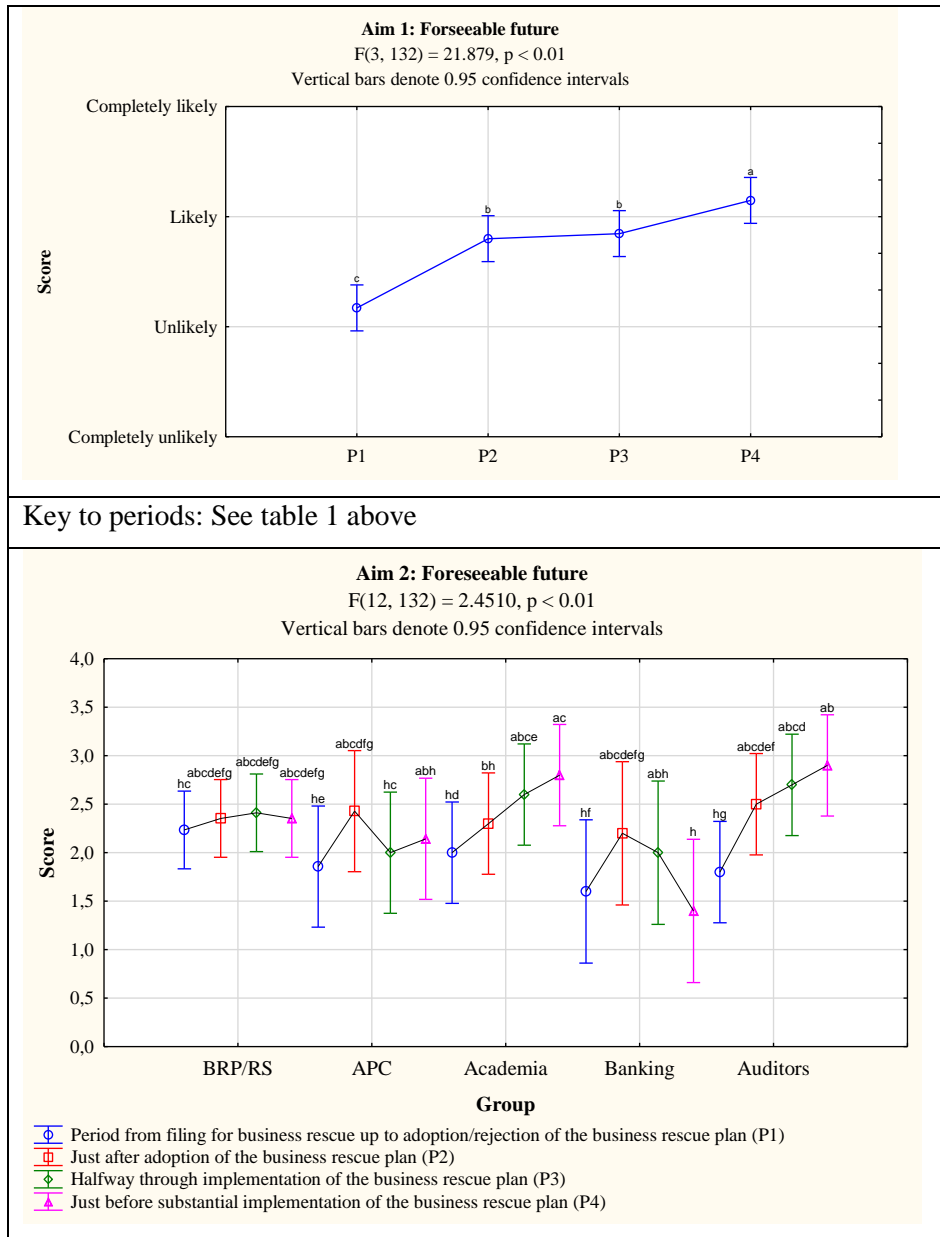
Considering the state of *technical* solvency under aim 2, the results show that just after the adoption of the business rescue plan (P2) up to halfway through the implementation of the business rescue plan (P3), the respondents considered it more unlikely than likely that the company would be technically solvent. This trend remains, as there is no statistical difference between P3 and P4. The only statistical difference exists between P2 and P4. Considering the scores and the statistical indifferences together, it seems more unlikely than likely that the company would be considered technically solvent during the periods P2 to P4.

As an indicator of going concern status, the results on the commercial and technical state of solvency considered together under aim 2 indicate that the respondents assessed a company unlikely to be commercially or technically solvent just after adopting a business rescue plan (P2). Halfway through the proceedings (P3), the company would still be considered technically insolvent, but the respondents were undecided on the state of commercial solvency. Just before the substantial implementation of the business rescue plan (P4), the respondents assessed the company to be technically insolvent, although there was a slight likelihood that the company might be considered commercially solvent.

Considering that the purpose of business rescue aim 2 is to use and realise the assets in order to render a better settlement than under immediate liquidation, the slight likelihood of commercial solvency may be due to the winding down of the assets to pay renegotiated, lower amounts of debt and not because the company is trading successfully again. Once again, the results find that it is likely that the company will remain in financial distress (indicated by commercial and technical insolvency) throughout the proceedings, albeit due to the orderly winding down of the company. Consequently, through the state of solvency as an indicator, the research supports that a listed company under business rescue where the BRP pursues aim 2 may not be considered a going concern.

### **RQ 3: Relationship between the Foreseeable Future and Going Concern Status, Controlling for the Business Rescue Aim and Duration of Proceedings**

Figure 3 presents the results of the foreseeable future assessment as a possible indicator of whether a listed company under business rescue can be considered a going concern for each of the two business rescue aims during the four periods of the proceedings.



**Figure 3:** VEPAC on the foreseeable future as an indicator of going concern status for both aim 1 (RTS) and aim 2 (BSIL)

**Source:** Own compilation

### *Regarding Aim 1 (RTS)*

The interaction effect F-test of the VEPAC indicates no statistical difference ( $p = 0.42$ ) between the groups, and the likelihood of a foreseeable future as an indicator of its going concern status. The graph indicates significant statistical differences ( $p < 0.01$ ) between the different periods in the business rescue proceedings. The results show a statistical difference between P1 and all the other periods. The graph further reveals no difference in the respondents' views between periods P2 and P3. However, there is a statistical difference between P2 and P3 compared to P4.

The above results indicate that the respondents considered it unlikely that a company under business rescue would have a viable foreseeable future if a reporting date were to occur in period P1. By contrast, the respondents considered it more likely than unlikely that the company would have a viable foreseeable future for the periods P2 to P3. Furthermore, the respondents considered it more than likely that the company would have a viable foreseeable future if a reporting date occurred just before the substantial conclusion of the business rescue plan (P4).

Considering the above, it appears that when a BRP pursues aim 1 (RTS), a company may more than likely be considered a going concern from just after adopting a business rescue plan. It seems that the intention to return the company to solvency and having a plan to do so drives the going concern status when considering only the foreseeable future as a possible indicator of the going concern status.

### *Regarding Aim 2 (BSIL)*

Regarding the foreseeable future for a listed company under business rescue where the BRP is pursuing aim 2, the VEPAC interaction effect F-test indicates a statistical difference ( $p < 0.01$ ) between the groups and the likelihood of a viable foreseeable future, and the groups were therefore evaluated separately.

Within the groups, the F-test shows statistical differences ( $p < 0.01$ ) concerning the likelihood of the company having a viable foreseeable future during the different periods of the proceedings. One should note that a score of less than 2.5 indicates that it is more unlikely than likely for the company to have a viable foreseeable future during that period of the proceedings.

It can be seen from the graph in figure 3 that the BRP/RS, APC and banking groups all considered it more unlikely than likely that a company would have a viable foreseeable future during all of the different stages of the business rescue proceedings. However, the academia and auditor groups both tended to consider that it would be more likely than not that the company would have a viable foreseeable future halfway through the proceedings (P3) up to just before substantial implementation of the business rescue proceedings (P4).

The above results for aim 2 (BSIL) are interesting. The BRP/RS, APC, and banking groups all considered that it would be unlikely that the company would have a viable foreseeable future at any time during the business rescue proceedings. On the other hand, the academia and auditor groups indicated that the company might have a viable foreseeable future, commencing in period P3. Their view seems contradictory to the aim of BSIL, namely to render a better settlement to creditors than under immediate liquidation and not to return the company to solvency. One would, therefore, expect that aim 2 would be achieved by having more time available to utilise and realise the assets. In light of the above, the view expressed by the academia and auditor groups does not support the rationale behind aim 2. The authors agree with the BRP/RS, APC, and banking groups that the company would not have a viable foreseeable future at any time during the business rescue proceedings. Despite the difference of opinion noted, the research supports Lamprecht and Van Wyk's (2020, 9) finding that the foreseeable future is an essential indicator of going concern status, even more so when considered per business rescue aim.

#### **RQ 4: Relationship between certain Actions Taken under Business Rescue, and the Going Concern Status**

When a company is unable to meet its obligations as they become due, management should take action to meet the obligations. These actions could effectively be taken at any stage during the business rescue proceedings and may provide strong indications of the going concern status. Because of the freedom of choice as to when these actions may be implemented, the research questionnaire focused on the likelihood of these actions instead of when they will be taken. Table 2 below shows the descriptive results regarding the likelihood of these actions being implemented to meet the obligations and rescue a listed company under business rescue.

**Table 2:** Frequency table of actions necessary to meet obligations

Action taken to rescue the company (n = 48)	Likelihood				Total
	Completely unlikely	Unlikely	Likely	Completely likely	
Substantial disposition of assets outside the ordinary course of business (Action 1) (Row percentage)	0 (0%)	9 (19%)	31 (64%)	8 (17%)	<b>48</b> <b>(100%)</b>
Restructuring of debt (Action 2) (Row percentage)	1 (2%)	0 (0%)	11 (23%)	36 (75%)	<b>48</b> <b>(100%)</b>
Substantial revision of its operations (Action 3) (Row percentage)	1 (2%)	6 (13%)	29 (60%)	12 (25%)	<b>48</b> <b>(100%)</b>
Materially scaling down its operations (Action 4) (Row percentage)	0 (0%)	13 (27%)	30 (63%)	5 (10%)	<b>48</b> <b>(100%)</b>

If one considers the combined view of the likely and completely likely responses, the respondents clearly indicated that those actions were considered very likely to be implemented for a company to meet its obligations. Most of the respondents, namely 81% (64% + 17%), considered it likely that the substantial disposition of assets outside the ordinary course of business would occur. The need for a restructuring of debt was considered likely/completely likely by 98% (23% + 75%) of the respondents. The substantial revision of a company's operations under business rescue was also considered a necessary action. A total of 85% (60% + 25%) considered the action necessary to meet obligations. Concerning the need to materially scale down the company's operations, 73% (63% + 10%) of the respondents considered it necessary to scale down the company's operations materially.

The above descriptive analysis indicates that all of the listed actions were considered either likely or completely likely in rescuing a company under business rescue. In other words, the actions would be needed to enable the company to pay its debts as they become due. The results, therefore, indicate that should these actions be included in the business rescue plan, which is very likely considering the results, their inclusion would significantly contradict the potential assessment of the company as a going concern, at that point in time. The results support auditing guidance indicating that these actions would significantly contradict the going concern assumption (AICPA, 2015, AU-C 570.02).

## Summary of Key Findings

As conceptually anticipated by Lamprecht and Van Wyk (2020), the findings confirm that the various indicators of going concern status are bound by time (duration of proceedings) and the particular business rescue aim pursued. It is also clear that these indicators of the going concern status are most valuable when considered in combination, in particular, against the duration of the proceedings and the business rescue aim pursued. Figure 4 summarises the conclusions made on the various possible indicators of going concern status, considering the duration of proceedings and the pursued business rescue aim.

Going concern indicator					
		P1	P2	P3	P4
1.	Financial distress	While in financial distress, assets and liabilities may not be realised or settled in the normal course of business, indicating that the company may not be a going concern			
2.	State of solvency • Aim 1 • Aim 2	U U	U U	U/? U	L U
3.	Foreseeable future • Aim 1 • Aim 2	U U	L U	L U	L U
4.	Actions to rescue the company	Specific actions, when executed, would significantly contradict a going concern assessment			
All together	Business rescue aims • Aim 1 • Aim 2				L U
<b>Legend:</b> P1 = Period from filing for business rescue to adoption/rejection of the plan P2 = Just after the adoption of a business rescue plan P3 = Halfway through the implementation of a business rescue plan P4 = Just before substantial implementation of the business rescue plan U = Unlikely to be considered a going concern at period P above ? = Undecided whether it can be considered a going concern at period P above L = Likely to be considered a going concern at period P above					

**Figure 4:** Indicators of going concern during business rescue proceedings

**Source:** Own observation

Concerning the research objective, namely, to establish the going concern status for annual financial reporting purposes of a South African listed company under business rescue, this paper offers empirically supported findings as follows.

Firstly, in the context of the implementation of the business rescue plan after filing for business rescue, the existence of financial distress will indicate that the company may still not be a going concern as the company's assets and liabilities may still not be realised or settled in the normal course of business.

Secondly, regarding the state of solvency, if the business rescue practitioner (BRP) pursues aim 1 (RTS), the company is unlikely to be considered a going concern from filing for business rescue up to halfway during the business rescue proceedings. The company is only likely to be considered a going concern just before substantial implementation of the business rescue plan. Moreover, the authors posit that when the BRP pursues aim 2 (BSIL), it is unlikely to be considered a going concern at any point during the business rescue proceedings when the state of solvency is considered.

Thirdly, the paper finds that the difference between the business rescue aims and the foreseeable future assessment is critical for different periods during the proceedings. If the BRP pursues aim 1, the research finds that it would be more likely than unlikely that

the company would have a viable foreseeable future in the period following the adoption or rejection of the business rescue plan. Nearing the substantial implementation of the business rescue plan, the likelihood of the company having a viable foreseeable future would change to “more than likely.” By having a viable foreseeable future from the period following the adoption of the business rescue plan, the implication is that the company may be considered a going concern directly following the commencement of the implementation of the business rescue plan. However, if the BRP pursues aim 2, the findings are mixed. The authors posit that considering the ultimate purpose of aim 2, namely to render a better settlement than under immediate liquidation, the company would not be considered to have a viable foreseeable future at any point during the business rescue proceedings.

Finally, if one considers all the indicators of going concern together on a temporal continuum (duration of proceedings) and the particular business rescue aim pursued, the evidence suggests that when the BRP pursues aim 1 (RTS), a company would only be considered a going concern for annual financial reporting purposes just before the implementation of a successful return to solvency business rescue plan. On the other hand, should the BRP pursue a BSIL outcome, the evidence suggests that it is unlikely that the company can be considered a going concern during the business rescue proceedings.

## Limitations and Future Research

Considering the research objective, the authors used several indicators of going concern from a previous study without an attempt to expand the number of indicators. A further qualitative and/or quantitative analysis for any additional indicators of going concern could be explored in future research. Another limitation is that business rescue is still relatively new, without many actual examples of listed companies that successfully exited business rescue proceedings. We, therefore, had to survey the perceptions and opinions of respondents assumed to have the field knowledge. Future research may use a case study approach on successful business rescues to further explore when a listed company could be considered a going concern. Moreover, future research may also focus in theory and pragmatically on whether another basis of accounting (not going concern or liquidation bases), specifically for a company under business rescue, is necessary.

## Conclusion

The theory of decision-usefulness holds that users of financial statements need useful information for decision-making purposes. As annual financial statements are premised on the going concern assumption, an accurate assessment of the company’s going concern status is paramount. Therefore, the purpose of the research was to determine (using some known indicators of going concern) the going concern status for annual financial reporting purposes of a South African listed company under business rescue.



The findings have important implications for management, auditors and users of financial statements:

- If a South African listed company files for business rescue protection, the company may not be regarded as a going concern, for annual financial reporting purposes, up to the adoption or rejection of a business rescue plan.
- When a business rescue plan is adopted that aims for a better settlement than under immediate liquidation (BSIL), the company may not be considered to be a going concern, irrespective of when the reporting date occurs during the proceedings.
- Should the BRP aim to return the company to solvency (RTS), the company may only be likely regarded as a going concern when the business rescue plan is substantially implemented. This means that the going concern assumption could be appropriate only if an annual financial reporting date occurs close to the conclusion of business rescue proceedings.

The findings further imply that in the case of a BSIL, an underlying assumption other than the going concern assumption is required. This is also implied in the case of an RTS aim prior to the substantial implementation of the business rescue plan. In the absence of any other defined underlying assumption, the liquidation basis is currently the *de facto* alternative. It is recommended that the IASB, as a standard-setter, take note of the difficulties when a company is in corporate recovery/business rescue and provide further guidance to the accounting fraternity on the matter.

This paper presented evidence to highlight the temporal period of going concern uncertainty when a company seeks legislative protection under Chapter 6 of the Companies Act. An assessment of the going concern status remains a judgement call. However, it is hoped that the findings presented in this paper may help management and auditors prepare and audit decision-useful annual financial statements and assist users of financial statements in making more consistent and better-informed investment and lending decisions.

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## Appendix 1: Summary of the respondent population and sample sizes

Perspective and role-player	
Legislative	Accounting
<ul style="list-style-type: none"> <li>• Management of the company</li> <li>• Business rescue practitioner</li> <li>• Affected parties</li> <li>• JSE-accredited registered auditors</li> </ul>	<ul style="list-style-type: none"> <li>• Management of the company</li> <li>• JSE-accredited registered auditors</li> <li>• Users of financial statements</li> <li>• Accounting standard-setter / Academia</li> </ul>

Groups representing different perspectives and role-players		
Group	Population size	Sample size
BRPs (senior)	Senior business rescue practitioners (BRPs) with a financial background are identified from a list provided by the Companies and Intellectual Property Commission (CIPC). BRPs also represent the management of the company.	40
Restructuring division	The largest four professional accounting firms in South Africa all had restructuring divisions involved in business rescue proceedings as BRPs at data collection. The population of all the members in all the restructuring divisions is unknown. However, the sample size included members from all four of these firms.	7
Banking institutions	Banking institutions often have restructuring/credit divisions. The population of all the members in all the restructuring/credit divisions is unknown, but the sample included three of the largest banks in South Africa and the Development Bank of South Africa and the Industrial Development Corporation. This group represents the views of affected parties and users of financial statements.	9
APC	Members of the Accounting Practices Committee of the South African Institute of Chartered Accountants (SAICA) as experts in accounting. This group represents the views of the standard-setter and the users of financial statements.	21
Academia	The population consisted of the 29 heads of Financial Accounting and Auditing at the 15 SAICA accredited universities. This group served as experts in the fields of accounting and auditing. This group represents the views of the users of financial statements and that of an auditor.	29
JSE-accredited auditors (including IFRSs advisers)	The population of all JSE-registered individual auditors and IFRSs advisers is unknown. However, the sample size included individuals from all the JSE-registered audit firms and one of the two IFRSs adviser firms. The other IFRSs adviser firm was already included as a member of the APC.	30
<b>Total</b>		<b>136</b>

Source: Own compilation

## Appendix 2: Research instrument: construct development, questionnaire questions, variables and respondent analysis

High-level indicators of going concern	Research question (RQ) and construct	Questionnaire question	Independent variable scale	Respondent group	Respondents per category
Financial distress and realisation of assets and liabilities	RQ 1: Relationship between financial distress and realisation of assets and liabilities in the normal course of business, as an indicator of going concern status	To what extent do you agree/disagree that the existence of financial distress in a listed company under business rescue indicates that the company's assets and liabilities may not be realised or settled in the normal course of business?	Completely agree Agree Disagree Completely disagree	All groups	49
State of solvency	RQ 2: Relationship between the state of solvency and the going concern status, controlling for the business rescue aim and duration of proceedings	[For both business rescue aims and for both commercial and technical solvency]: Will the company be [commercially] [technically] solvent in period* 1?: For each of the periods* 1 to 4, what is the likelihood that the listed company is [commercially][technically] solvent in that period?	Completely likely Likely Unlikely Completely unlikely	Business rescue practitioners (BRP), Restructuring service (RS) members, Auditors	26
Foreseeable future	RQ 3: Relationship between foreseeable future and going concern status, controlling for the business rescue aim and duration of proceedings	[For both business rescue aims]: For each of the periods* 1 to 4, what is the likelihood that the company will continue to operate in the foreseeable future if the financial reporting date falls in that period?	Completely likely Likely Unlikely Completely unlikely	All groups	49
Actions taken to rescue the company	RQ 4: Relationship between certain actions taken under business rescue, and the going concern status	What is the likelihood that the following actions will be necessary in order to rescue a listed company that has filed for business rescue? Substantial disposition of assets outside the ordinary course of business Restructuring of debt Substantial revision of its operations Materially scaling down its operations	Completely likely Likely Unlikely Completely unlikely	All groups	48 (One respondent did not answer the question)

**\*Key:**

Period 1 = Period from filing for business rescue up to the adoption/rejection

Period 2 = Just after the adoption of the business rescue plan

Period 3 = Halfway through the implementation of the business rescue plan of the business rescue plan

Period 4 = Just before the conclusion of the business rescue plan

