A FINANCIAL REPORTING FRAMEWORK FOR SOUTH AFRICAN LISTED COMPANIES UNDER BUSINESS RESCUE

by

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DECLARATION

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Christiaan Lamprecht

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Dedicated to my family

TABLE OF CONTENTS

Table of contents		**iv**
Acknowledgements		**xii**
Abstract		**xiii**
Opsomming		**xv**
List of tables		**xvii**
List of figures		**xxi**
List of abbreviations		**xxiv**
Definitions of terms		**xxviii**
CHAPTER 1 INTRODUCTION		**1**
1.1	INTRODUCTION	1
1.2	BACKGROUND	2
1.2.1	Objective of financial reporting	2
1.2.2	South African Companies Act	3
1.2.3	Audit requirements	5
1.2.4	Regulation of listed companies	5
1.2.5	Summative conclusion: The reporting dilemma	6
1.3	RESEARCH PROBLEM	9
1.4	RESEARCH AIM	18
1.5	RESEARCH QUESTIONS	19
1.6	RESEARCH OBJECTIVES	19
1.7	IMPORTANCE OF THE STUDY	23
1.8	SCOPE AND LIMITATIONS OF THE STUDY	26
1.8.1	Scope	27
1.8.2	Limitations	28
1.9	ASSUMPTIONS MADE IN THE STUDY	28
1.10	OUTLINE OF THE STUDY	29
1.11	HIGHLIGHTED AREAS	31
1.12	CONCLUSION	31

CHAPTER 2 UNDERLYING THEORIES OF ACCOUNTING **33**
2.1 INTRODUCTION 33
2.2 THE FORMULATION OF ACCOUNTING THEORY 33
2.2.1 Theory 34
2.2.2 The function of accounting 35
2.2.3 The definition and goal of accounting theory 39
2.2.4 Approaches to the formulation of accounting theory 40
2.3 THE STRUCTURE OF AN ACCOUNTING THEORY 42
2.3.1 The objectives of financial statements 45
2.3.2 Accounting postulates 45
2.3.3 Theoretical concepts 50
2.3.4 Accounting principles 54
2.3.5 Accounting techniques 58
2.4 CLASSIFICATIONS OF ACCOUNTING THEORY 60
2.4.1 Classical-descriptive theories of accounting 60
2.4.2 Decision-useful predictive accounting theories 61
2.4.3 Decision-useful prescriptive accounting theories 61
2.5 CONCEPTUAL FRAMEWORK (CF) 66
2.5.1 Overview of the 1989 CF 66
2.5.2 Comparison of the 1989 CF with the structure of an accounting theory 68
2.5.3 Improving the 1989 CF 75
2.5.4 The 2010 improvements to the 1989 CF 76
2.5.5 The 2015 proposed improvements and additions to the 2010 CF 78
2.6 SUMMARY: LINKING THE ACCOUNTING THEORY TO THE RESEARCH AIM 80
2.7 CONCLUSION 82

CHAPTER 3 INTERNATIONAL DEVELOPMENTS IN FINANCIAL REPORTING UNDER BUSINESS RESCUE **84**
3.1 INTRODUCTION 84
3.2 UNITED KINGDOM 87
3.2.1 Business rescue models 87

3.2.2 Financial reporting requirements during an administration order 90
3.2.3 Comparison between business rescue in the UK and SA 92
3.3 AUSTRALIA 93
3.3.1 Corporate rescue model 93
3.3.2 Financial reporting requirements during a voluntary arrangement 95
3.3.3 Comparison between corporate rescue in Australia and SA 96
3.4 CANADA 97
3.4.1 Business rescue model 97
3.4.2 Financial reporting requirements during the arrangement process with creditors 99
3.4.3 Comparison between corporate rescue in Canada and SA 99
3.5 UNITED STATES OF AMERICA 100
3.5.1 Business rescue model 101
3.5.2 Financial reporting during reorganisation proceedings 102
3.5.3 Comparison between business rescue in the USA and SA 110
3.6 COMPARISON OF INTERNATIONAL REORGANISATION PROCEEDINGS 111
3.7 CONCLUSION 114

CHAPTER 4 THE SOUTH AFRICAN LEGISLATIVE AND REGULATIVE ENVIRONMENT OF LISTED COMPANIES UNDER BUSINESS RESCUE 116
4.1 INTRODUCTION 116
4.2 FACTORS INFLUENCING THE FINANCIAL REPORTING ENVIRONMENT 116
4.3 COMPANIES ACT REQUIREMENTS 119
4.3.1 Companies Act, Act 61 of 1973 119
4.3.2 Companies Act, Act 71 of 2008 123
4.3.3 Summary of the Companies Act requirements 129
4.4 AUDIT REQUIREMENTS 131
4.4.1 The company is a going concern – financial reporting framework 133
4.4.2 Significant doubt about ability to continue as a going concern – financial reporting framework 135

4.4.3	Company not a going concern – financial reporting framework	138
4.4.4	Summary of the audit requirements	141
4.5	JSE LISTING REQUIREMENTS	142
4.5.1	Financial reporting framework	142
4.5.2	Reporting deadlines	142
4.5.3	Summary on the JSE listing requirements	145
4.6	CONCLUSION	148
CHAPTER 5 OBJECTIVES OF FINANCIAL REPORTING FOR LISTED COMPANIES UNDER BUSINESS RESCUE		**150**
5.1	INTRODUCTION	150
5.2	THE OBJECTIVE OF FINANCIAL REPORTING	153
5.3	THE USERS OF FINANCIAL STATEMENTS AND THEIR INFORMATION NEEDS	154
5.3.1	Equity investors	156
5.3.2	Lenders	159
5.3.3	Trade creditors	161
5.3.4	Conclusion on the users of financial statements and their information needs	162
5.4	THE CAPITAL MAINTENANCE CONCEPT	163
5.5	UNDERLYING FINANCIAL REPORTING ASSUMPTIONS	166
5.5.1	Going concern basis	167
5.5.2	Liquidation basis	171
5.5.3	The need for a different underlying financial reporting assumption	174
5.6	CONCLUSION	179
CHAPTER 6 MEASUREMENT OF ASSETS AND LIABILITIES OF LISTED COMPANIES UNDER BUSINESS RESCUE		**181**
6.1	INTRODUCTION	181
6.2	THE NEED FOR FINANCIAL INFORMATION	182
6.3	QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION	183
6.4	THE COST CONSTRAINT OF USEFUL FINANCIAL INFORMATION	184

6.5 OVERVIEW OF DEVELOPMENT OF MEASUREMENT BASES 184
6.5.1 1989: Original measurement bases 185
6.5.2 2007–2010: The IASB and FASB CF project 187
6.5.3 2011–2015: The IASB CF project 190
6.5.4 Summary of potential measurement bases 205
6.5.5 Measurement bases in a business rescue context 209
6.5.6 Conclusion on the measurement aspects 212
6.6 THE ROLE OF THE BUSINESS MODEL IN FINANCIAL REPORTING 213
6.6.1 The importance of the business model in a business rescue 213
6.6.2 The definition of a business model 215
6.6.3 The qualitative characteristics of the business model 217
6.6.4 Conclusion on the role of the business model in financial reporting 221
6.7 CONCLUSION 222

CHAPTER 7 RESEARCH METHODOLOGY 225
7.1 INTRODUCTION 225
7.2 RESEARCH CONTEXT 226
7.3 RESEARCH PROCESS 229
7.3.1 Problem statement 229
7.3.2 Research design 231
7.3.3 Research method 234
7.3.4 Summary of the research process 236
7.4 SELECTION OF THE RESPONDENTS 237
7.4.1 Identification of role-players in the financial reporting of a listed company under business rescue 237
7.4.2 Identification of respondents 241
7.5 DEVELOPMENT OF THE RESEARCH INSTRUMENT 245
7.5.1 Purpose of the research questionnaire 245
7.5.2 Structured online survey questionnaire 246
7.5.3 Types of question 247
7.5.4 Measurement scales 247

7.5.5	Ethical approval	248
7.5.6	Covering letter	248
7.5.7	Test to improve the quality of the questionnaire	248
7.6	MAIN SECTIONS OF THE QUESTIONNAIRE	250
7.6.1	Consent to participate in research	250
7.6.2	Background questions	251
7.6.3	Questions addressing the underlying financial reporting assumption for a South African listed company under business rescue	252
7.6.4	Questions addressing the decision-usefulness of financial statements and the measurement bases for assets and liabilities	266
7.7	DATA COLLECTION	290
7.7.1	Distribution of the questionnaire	290
7.7.2	Data transformation	291
7.7.3	Response rate	291
7.8	DATA ANALYSIS	293
7.8.1	Types of data	293
7.8.2	Qualitative: content analysis	294
7.8.3	Quantitative: statistical techniques used in analysing the data	294
7.8.4	Conclusion	296
7.9	SUMMARY	296

CHAPTER 8 EMPIRICAL RESULTS ON THE UNDERLYING FINANCIAL REPORTING ASSUMPTION FOR A SOUTH AFRICAN LISTED COMPANY UNDER BUSINESS RESCUE **298**

8.1	INTRODUCTION	298
8.2	PROFILE OF THE SURVEY RESPONDENTS	299
8.2.1	Evaluation of the background questions	299
8.2.2	Summary of the respondents' profile	307
8.3	ASSESSING QUESTIONS ON THE UNDERLYING FINANCIAL REPORTING ASSUMPTION FOR A SOUTH AFRICAN LISTED COMPANY UNDER BUSINESS RESCUE	308
8.3.1	The aims of business rescue	309

8.3.2 The perceived duration of business rescue and the likelihood of a reporting date occurring whilst under business rescue 311
8.3.3 Assessing financial distress and the realisation of assets and liabilities 315
8.3.4 The state of solvency 316
8.3.5 Assessing the actions to rescue the company 331
8.3.6 Assessing the foreseeable future of a listed company under business rescue 336
8.3.7 Assessing going concern as an underlying assumption under business rescue 343
8.3.8 Assessing the applicability of other underlying assumptions 352
8.3.9 Summary of findings on the going concern indicators 361
8.4 CONCLUSION 366

CHAPTER 9 EMPIRICAL RESULTS OF THE MEASUREMENT OF ASSETS AND LIABILITIES FOR A SOUTH AFRICAN LISTED COMPANY UNDER BUSINESS RESCUE 369
9.1 INTRODUCTION 369
9.2 ASSESSING QUESTIONS ON THE APPROPRIATE MEASUREMENT BASE(S) FOR ASSETS AND LIABILITIES 370
9.2.1 Assessing the usefulness and use of the latest annual and interim financial statements 370
9.2.2 Assessing the importance of the business model 373
9.2.3 Assessing the objective of financial reporting: the decision-usefulness vs the stewardship perspectives 380
9.2.4 Users of a listed company under business rescue and their information needs 384
9.2.5 Assessing the objective of measurement during financial distress 415
9.2.6 Assessing the applicability of asset and liability measurement bases to a listed company under business rescue 420
9.2.7 Assessing cost vs benefit 428
9.2.8 Assessing the preferred measurement bases for assets and liabilities 429

9.2.9 Assessing the timing of re-measurements, presentation and other useful disclosures 456
9.2.10 General suggestions 460
9.2.11 Summary of findings on the measurement of assets and liabilities for a South African listed company under business rescue 463
9.2.12 An accounting model for a South African listed company under business rescue 466
9.3 CONCLUSION 470

CHAPTER 10 CONCLUSION 472
10.1 INTRODUCTION 472
10.2 SYNTHESIS OF EMPIRICAL FINDINGS AND CONCLUSIONS ON RESEARCH OBJECTIVES 473
10.2.1 Synthesis of findings and conclusions on the primary research question 475
10.2.2 Synthesis of findings and conclusions on the secondary research question 479
10.3 RECOMMENDED FINANCIAL REPORTING FRAMEWORK FOR A SOUTH AFRICAN LISTED COMPANY UNDER BUSINESS RESCUE 485
10.4 RECOMMENDED ADJUSTMENTS TO THE THEORY OF ACCOUNTING POSTULATES 488
10.5 SUMMARY OF CONTRIBUTIONS 491
10.6 RECOMMENDED FUTURE RESEARCH 492
10.7 CONCLUSION 493

REFERENCES 494

APPENDIX A: IASB AND FASB – MEASUREMENT BASES INCLUDING VARIATIONS 509
APPENDIX B: IASB AND FASB – DEFINITION OF MEASUREMENT BASIS CONCEPTS 510
APPENDIX C: IASB AND FASB – MEASUREMENT BASE CONCEPT AND SYNONYMS 517
APPENDIX D: COVER LETTER 520
APPENDIX E: RESEARCH QUESTIONNAIRE 521

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ABSTRACT

Companies listed on the JSE are required to prepare annual financial statements in terms of IFRSs on the basis of a going concern assumption. This assumption implies that the company will continue to exist in the foreseeable future. In financial statements based on this assumption, assets and liabilities are measured using a mixture of measurement bases: some measurements are based on historical costs and some on current values. However, when liquidation is imminent or the company has no alternative but to liquidate, the IFRSs does not prescribe an alternative to the going concern assumption. Nevertheless, if there is an underlying assumption of liquidation it is presumed that certain elements in the financial statements will be measured at liquidation values.

The South African Companies Act allows a company in financial distress to apply for business rescue, the aims of which are to reorganise the company's affairs in order for it to continue to exist on a solvent basis or, if that is not possible, to render a better return for creditors and shareholders than under immediate liquidation. However, because financial distress indicates that technical or commercial insolvency is imminent, a company under business rescue is not necessarily a going concern but neither is it in liquidation. Thus, the appropriate underlying assumption to use when preparing its financial statements, as well as the supporting measurement bases for its assets and liabilities, is problematic. In such cases, neither the application of IFRS and assumed going concern status, nor the liquidation basis may provide the most decision-useful information to the users of financial statements.

The aim of this research was to develop a financial reporting framework for a South African listed company under business rescue, with specific reference to the underlying financial reporting assumption that should be used, and the measurement bases of assets and liabilities that would be preferable in a business rescue context. Owing to the exploratory nature of the research aim, the research design was a-theoretical using an inductive mode of reasoning. In this study, the discovery of theory relates to identifying an appropriate underlying assumption to use, supported by context-specific measurement bases for assets and liabilities. The research instrument was based on a comprehensive literature review of various aspects that influence the financial

reporting of a South African listed company under business rescue. Empirical primary data were collected by way of a structured research questionnaire and analysed using statistical and content analysis methods. The respondents consisted of senior business rescue practitioners, JSE-accredited auditors, heads of departments of accounting and auditing at various universities and other IFRS experts.

The empirical results in this study provide indicators for assessing the going concern status of a company under business rescue and point to the existence of a period of uncertainty during which a company may not be considered a going concern, but the alternative, namely, an underlying assumption of liquidation, is also not yet applicable. The results therefore revealed an uncertain period in the life of a company under business rescue that is not currently considered in the theory of accounting. An underlying assumption is accordingly suggested that fits in between going concern and liquidation. It is recommended that this underlying assumption be called 'company under business rescue'.

The empirical results further show that the needs of the users of a listed company's financial statements change when it enters business rescue. Users now prefer current values, specifically those based on exit prices, to measure the assets and liabilities. This indicates a preference for an exit-price-based, current-value accounting model. The empirical results of this study culminated in a financial reporting framework for a South African listed company under business rescue.

Keywords: accounting theory, business rescue, business model, decision-useful, financial statements, financial reporting framework, foreseeable future, going concern, IFRS, liquidation, measurement bases

OPSOMMING

JSE-genoteerde maatskappye is verplig om finansiële state op ’n lopende saak-aanname in terme van internasionale finansiële verslagdoeningstandaarde (IFVS) op te stel. Hierdie aanname dui daarop dat die maatskappy in die afsienbare toekoms sal bly voortbestaan. Die bates en laste in lopende saak-gebaseerde finansiële state word met behulp van 'n mengsel van metingsbasisse gemeet: sommige metings is op historiese koste en sommige op huidige waardes gebaseer. ’n Veronderstelde alternatief tot die lopende saak-aanname, dit wil sê wanneer likwidasie onafwendbaar is of die maatskappy geen ander keuse het as om te likwideer nie, word nie in IFVS voorgeskryf nie. Desnieteenstaande, onder ’n onderliggende aanname van likwidasie is die veronderstelling is dat sekere elemente in die finansiële state teen likwidasiewaardes gemeet sal word.

Die Suid-Afrikaanse Maatskappywet laat 'n maatskappy in finansiële nood toe om vir sakeredding aansoek te doen. Die doelwitte daarvan is om die maatskappy toe te laat om sy sake te herorganiseer ten einde op 'n solvente basis voort te bestaan of, as dit nie moontlik is nie, 'n beter opbrengs aan krediteure en aandeelhouers te lewer as wat onder onmiddellike likwidasie moontlik sou wees. Aangesien finansiële nood dui op dreigende tegniese of kommersiële insolvensie, is 'n maatskappy onder sakeredding nie noodwendig 'n lopende saak nie, maar ook nog nie in likwidasie nie. Dus, die toepaslike onderliggende aanname vir gebruik in die voorbereiding van sy finansiële state, asook die gepaartgaande metingsbasisse vir bates en laste is problematies. In sulke gevalle kan nóg die toepassing van IFVS, met sy veronderstelde lopendesaak-status, nóg die likwidasie basis die mees nuttige inligting vir besluitneming aan die gebruikers van finansiële state verskaf.

Die navorsingsdoel was om 'n finansiële verslagdoeningsraamwerk vir 'n Suid-Afrikaanse genoteerde maatskappy onder sakeredding te ontwikkel, met spesifieke verwysing na watter onderliggende finansiële verslagdoeningsaanname gebruik moet word, asook watter metingsbasisse vir bates en laste in ’n sakereddingskonteks verkies word. Aangesien die navorsingsdoel ondersoekend van aard is, was die navorsingsontwerp a-teoreties en die redenasie induktief. In hierdie studie verwys die ontdekking van teorie na die identifisering van 'n toepaslike onderliggende aanname

om te gebruik, ondersteun deur konteks-spesifieke metingsbasisse vir bates en laste. Die navorsingsinstrument was gebaseer op ’n omvattende literatuurstudie oor die verskillende aspekte wat die finansiële verslagdoening van 'n Suid-Afrikaanse genoteerde maatskappy onder sakeredding beïnvloed. Empiriese primêre data is deur middel van 'n gestruktureerde navorsingsvraelys ingesamel en met behulp van statistiese- en inhoudsanalisemetodes ontleed. Die respondente het uit senior sakeredding praktisyns, JSE-geakkrediteerde ouditeure, departementshoofde van rekeningkunde en ouditkunde aan verskeie universiteite en ander kundiges in IFVS bestaan.

Die empiriese resultate in hierdie studie verskaf aanwysers wat gebruik kan word om die lopendesaak-status van 'n maatskappy onder sakeredding te bepaal. Die resultate toon die bestaan van 'n tydperk van onsekerheid waarbinne 'n maatskappy nie as 'n lopende saak beskou kan word nie, maar die alternatief, naamlik ‘n likwidasie onderliggende aanname, ook nog nie van toepassing is nie. Die resultate wys dus op 'n tydperk van onsekerheid in die lewe van 'n maatskappy wat tans nie in die teorie van rekeningkunde aangespreek word nie. Gevolglik word 'n onderliggende aanname voorgestel wat tussen-in die lopende saak en likwidasie-aannames pas. Die aanbeveling is om so 'n onderliggende aanname 'n ‘maatskappy onder sakeredding’ te noem.

Die empiriese resultate toon verder dat die behoeftes van die gebruikers van finansiële state verander sodra 'n genoteerde maatskappy in sakeredding gaan. Gebruikers verkies nou huidige waardes, veral dié wat op uittreepryse gebaseer is, om die bates en laste te meet. Hierdie dui op 'n voorkeur vir 'n uittreeprys-gebaseerde huidige waarde rekeningkunde model. Die empiriese resultate in hierdie studie het gelei tot 'n finansiële verslagdoeningsraamwerk vir 'n Suid-Afrikaanse genoteerde maatskappy onder sakeredding.

Sleutelwoorde: afsienbare toekoms, finansiële state, finansiële verslagdoenings-raamwerk, IFVS, likwidasie, lopende saak, metingsbasisse, nuttig inligting, rekeningkundige teorie, sakemodel, sakereddingredding

LIST OF TABLES

Table 1.1:	Primary research question – linking the research objectives, research findings and research conclusions	21
Table 1.2:	Secondary research question – linking the research objectives, research findings and research conclusions	22
Table 1.3:	JSE-listed companies that have applied for business rescue protection	23
Table 2.1:	Definitions of accounting	35
Table 2.2:	Comparison between the accounting principles and the 1989 CF	69
Table 2.3:	Measurement bases of assets and liabilities	71
Table 3.1:	Proposed fresh-start reporting accounting entries	108
Table 3.2:	Comparison of international reorganisation procedures in terms of distress indicators, financial reporting framework used and auditing standards applied	112
Table 6.1:	Measurement bases of assets and liabilities in the 1989 CF	186
Table 6.2:	IASB and FASB – Measurement bases according to time-frame from a price or value perspective	188
Table 6.3:	Entry value cost-based measurement bases of assets and liabilities	197
Table 6.4:	Exit value measurement bases of assets and liabilities	202
Table 6.5:	Ranking of relevance of evidence to cash flow-oriented decisions and related measurement base	208
Table 6.6:	Standard setters supporting the EFRAG, ANC and FRC research paper	214
Table 7.1:	Possible research designs for an exploratory study with primary empirical data using an inductive mode of reasoning	232
Table 7.2:	Disadvantages of an online survey method and resulting mitigating actions employed	235
Table 7.3:	Identification of role-players in business rescue financial reporting	238
Table 7.4:	Summary of respondent groups	241
Table 7.5:	Summary of respondent population and sample sizes	244
Table 7.6:	Measurement scales used in the research questionnaire	247
Table 7.7:	Questions to establish the expertise and experience of respondents	251

Table 7.8: Questions to establish the aims of business rescue and whether or not the aims are ranked 253
Table 7.9: Questions to determine the state of commercial and technical solvency during business rescue proceedings 255
Table 7.10: Questions to determine the likely duration of business rescue proceedings 257
Table 7.11: Questions to determine the likelihood of having to submit financial statements whilst under business rescue proceedings 258
Table 7.12: Question on actions taken to rescue the company 259
Table 7.13: Questions on the foreseeable future of a listed company under business rescue 260
Table 7.14: Question on the realisation of assets and liabilities 262
Table 7.15: Questions to assess business rescue in relation to the going concern underlying assumption 263
Table 7.16: Questions to assess the applicability of other underlying assumptions 264
Table 7.17: Questions to assess the usefulness of current annual and interim financial statements 267
Table 7.18: Questions to assess the importance of considering the business model in business rescue 268
Table 7.19: Questions to assess the decision-usefulness vs stewardship perspectives: healthy vs business rescue 270
Table 7.20: Questions to assess the decision usefulness vs stewardship perspectives 272
Table 7.21: Questions to assess the different user groups' information needs 273
Table 7.22: Question on whether to take financial distress into account in the measurement of assets and liabilities 274
Table 7.23: Questions to assess reporting focus: financial evolution or available cash 276
Table 7.24: Questions to assess cash flow potential/need of an asset or liability 277
Table 7.25: Measurement bases for assets 278
Table 7.26: Measurement bases for liabilities 279
Table 7.27: Cost vs benefit 280
Table 7.28: Preferred measurement bases for assets 282

Table 7.29: Preferred measurement bases for liabilities 283
Table 7.30: Questions assessing the timing and presentation of re-measurements including other useful presentations and disclosures 285
Table 7.31: Question on the need for business-rescue contextualised financial statements 288
Table 7.32: Question on an alternative financial reporting framework 288
Table 7.33: Questions on general suggestions 289
Table 7.34: Summary of respondent population and sample sizes 292
Table 7.35: Quantitative analysis: measurement scale and statistical method applied 295
Table 8.1: Frequency table of the number of years a member of a particular group 301
Table 8.2: Frequency table of the respondent group by profession 303
Table 8.3: Frequency table of the highest academic level and education 304
Table 8.4: Frequency table of the respondent group by highest academic qualification 306
Table 8.5: Frequency table of the aims of business rescue and mutual exclusivity vs hierarchical view 310
Table 8.6: Frequency distribution on the duration of business rescue 312
Table 8.7: Frequency table of the reporting date and business rescue 314
Table 8.8: Frequency table of the state of commercial and technical solvency from filing for business rescue up to adoption or rejection of the business rescue plan 318
Table 8.9: Frequency table of the actions taken to rescue the company 332
Table 8.10: Respondent groups and assessment of going concern 344
Table 8.11: Summary of the themes emerging from the content analysis and comparison to indicators of going concern 352
Table 8.12: Frequency table of the applicability of the liquidations basis of accounting and required use of the going concern assumption 354
Table 8.13: Frequency table of the ‘decision usefulness’ of the going concern underlying assumption and material uncertainty disclosures 358
Table 9.1: Frequency table of the extent of agreement that the business model should be considered in establishing measurement bases for assets and liabilities 374

Table 9.2: Frequency table of the likelihood of a change in the company's business model during a business rescue 375
Table 9.3: Frequency table of the consideration of the business model in the business rescue plan and for financial reporting purposes 376
Table 9.4: Frequency table of the consideration of the business model to present relevant, faithfully represented, comparable and understandable financial information 377
Table 9.5: Frequency table of the consideration of the business model to lead to biased information 379
Table 9.6: McNemar chi-square p-values on the asset measurement bases 423
Table 9.7: McNemar chi-square p-values on the liability measurement bases 426
Table 9.8: Frequency table of the preferred measurement bases for assets – business rescue aim 1 (continue to exist – fire sale) 432
Table 9.9: Frequency table of the preferred measurement bases for assets – business rescue aim 1 (continue to exist – sold in normal course of business) 435
Table 9.10: Frequency table of the preferred measurement bases for assets – business rescue aim 1 (continue to exist – held for use) 437
Table 9.11: Summarised frequency table of the preferred measurement bases for assets – business rescue aim 1 (continue to exist) 440
Table 9.12: Frequency table of the preferred measurement bases for assets – business rescue aim 2 (better return to creditors – fire sale) 443
Table 9.13: Frequency table of the preferred measurement bases for assets – business rescue aim 2 (better return to creditors –sold in normal course of business) 445
Table 9.14: Frequency table of the preferred measurement bases for assets – business rescue aim 2 (better return to creditors –held for use) 447
Table 9.15: Summarised frequency table of the preferred measurement bases for assets – aim 2 (better return to creditors) 448
Table 9.16: Frequency table of the preferred measurement bases for liabilities – business rescue aim 1 (continue to exist) 450
Table 9.17: Frequency table of the preferred measurement bases for liabilities – business rescue aim 2 (better return to creditors) 453

LIST OF FIGURES

Figure 1.1:	Financial reporting aspects of a listed company under business rescue	8
Figure 1.2:	Underlying financial reporting assumption and measurement concepts supporting decision-useful financial statements	11
Figure 1.3:	Illustration of research problem	15
Figure 1.4:	Relationship between the research aim, the research questions and the research objectives	18
Figure 2.1:	The formulation of accounting theory	42
Figure 2.2:	Overview of the structure of an accounting theory	43
Figure 2.3:	Detailed structure of an accounting theory	59
Figure 2.4:	Relationship between accounting theory and the research aim	65
Figure 2.5:	The main features of the 1989 CF	67
Figure 2.6:	Alignment of the 1989 CF to the structure of accounting theory	74
Figure 2.7:	Improvements and additions to the CF	76
Figure 3.1:	Investigating the financial reporting requirements for listed companies under corporate rescue	86
Figure 3.2:	Financial reporting timeline under Chapter 11	105
Figure 4.1:	Financial reporting aspects of a listed company under business rescue (duplicate)	118
Figure 4.2:	The duration of business rescue	126
Figure 4.3:	Applicable financial reporting framework	141
Figure 4.4:	JSE listing requirements reporting timeframe	147
Figure 5.1:	Measurement aspects supporting decision-useful financial	152
Figure 5.2:	Maintenance of capital, accounting model and measurement bases	165
Figure 5.3:	Business rescue duration and stages of implementation	175
Figure 5.4:	Illustration of research problem (duplicate)	178
Figure 6.1:	Potential measurement bases for assets	206
Figure 6.2:	Potential measurement bases for liabilities	207
Figure 6.3:	Conceptual model depicting the aims of business rescue, underlying financial reporting assumption and measurement focus	224
Figure 7.1:	The three world’s framework (adapted)	227

Figure 7.2: Copy of the conceptual model depicting the aims of business rescue, underlying financial reporting assumption and measurement focus 287
Figure 8.1: Histogram on the number of years' experience 300
Figure 8.2: ANOVA on the years' experience per group of respondents 302
Figure 8.3: VEPAC on the state of commercial solvency under business rescue aim 1 (continue to exist) 321
Figure 8.4: VEPAC on the state of technical solvency under business rescue aim 1 (continue to exist) 322
Figure 8.5: VEPAC on the state of commercial solvency under business rescue aim 2 (better return to creditors) 325
Figure 8.6: VEPAC on the state of technical solvency under business rescue aim 2 (better return to creditors) 326
Figure 8.7: Summary on the state of solvency during business rescue proceedings 329
Figure 8.8: Summary on the actions necessary to rescue a company and consideration of going concern 335
Figure 8.9: VEPAC on the foreseeable future under business rescue aim 1 (continue to exist) 338
Figure 8.10: VEPAC on the foreseeable future per group under business rescue aim 2 (better return to creditors) 340
Figure 8.11: Summary of the foreseeable future and going concern consideration 343
Figure 8.12: Indicators of going concern and likelihood of going concern during business rescue proceedings 364
Figure 9.1: VEPAC on the decision-usefulness perspective for a healthy solvent company vs a company under business rescue 382
Figure 9.2: VEPAC on the stewardship perspective for a healthy solvent company vs a company under business rescue 383
Figure 9.3: VEPAC on the decision-usefulness role of financial information from the perspectives of an equity investor, lender and creditor 386
Figure 9.4: VEPAC on the stewardship role of financial information from the perspectives of an equity investor, lender and creditor 393
Figure 9.5: VEPAC on the ranking of the financial statements for an equity investor 401
Figure 9.6: VEPAC on the ranking of the financial statements for a lender 405

Figure 9.7: VEPAC on the ranking of the financial statements for a creditor 410
Figure 9.8: Histogram on applicable measurement bases for assets 422
Figure 9.9: Histogram on applicable measurement bases for liabilities 425
Figure 10.1: Relationship between the research aim, questions and objectives (duplicate) 474
Figure 10.2: Recommended financial reporting framework for a South African listed company under business rescue 487

LIST OF ABBREVIATIONS

AASB	Auditing and Assurance Standards Board
AC	Amortised cost
AFS	Annual financial statements
AHP	Amortised historical proceeds
AICPA	American Institute of Certified Public Accountants
ANOVA	Analysis of variance
AO	Administration order
APB	Accounting Practices Board
ASB	Accounting Standards Board
ASC	Accounting Standards Codification
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Market
AUASB	Australian Auditing and Assurance Standards Board
BEE	Black Economic Empowerment
BRP	Business rescue practitioner
BRPs	Business rescue practitioners
CAPM	Capital asset pricing model
CAs	Chartered Accountants
Cash	Cash and cash equivalents
CASs	Canadian auditing standards
CF	Conceptual framework
CGU	Cash generating unit
CIPC	Companies and Intellectual Property Commission
CRC	Current replacement cost
CSC	Centre for Statistical Consultation
Cth	Commonwealth of Australia, when citing legislation
CV	Current value
CV(D)	Current value (deemed – when considering a liability)
CVA	Company Voluntary Arrangement
DAHC	Depreciated/amortised historical cost
DTA	Deferred tax asset
DTI	Department of Trade and Industry

DTL	Deferred tax liability
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EBO	Employee benefit obligation
ED	Exposure draft
EFRAG	European Financial Reporting Advisory Group
EMH	Efficient Market Hypothesis
EU	European Union
FASB	Financial Accounting Standards Board
FFV	Fulfilment value
FI@AC	Financial instruments at amortised cost
FI@FV	Financial instruments at fair value
FRC	Financial Reporting Council
FRG	Financial Reporting Guide
FRSC	Financial Reporting Standards Council
FV	Fair value
GAAP	Generally accepted accounting principles
GW	Goodwill
HC	Historical cost
HP	Historical proceeds
IAASB	The International Auditing and Assurance Standards Board
IA(I)	Intangible assets – internally generated
IA(P)	Intangible assets – purchased
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAS	Institute of Chartered Accountants of Scotland
ICEAW	Institute of Chartered Accountants in England and Wales
IFRS	International Financial Reporting Standard
IFRS Foundation	International Financial Reporting Standards Foundation
IFRS Framework	International Financial Reporting Standards Framework
IFRSs	International Financial Reporting Standards
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities
Inv	Inventory

IRBA	Independent Regulatory Board for Auditors
ISA	International Standard on Auditing
ISAs	International Standards on Auditing
JSE	Johannesburg Stock Exchange
LV	Liquidation value
N/A	Not applicable
NRV	Net realisable value
OCI	Other comprehensive income
OCL	Other current liabilities
OSC	Ontario Securities Commission
P&L	Profit or loss
PAT	Positive accounting theories
PhD	Doctor of Philosophy
PPE	Property, plant and equipment
PROV	Provisions
ROI	Return on investment
RSA	Republic of South Africa
SA	South Africa
SAAPS	South African Auditing Practice Statement
SAICA	South Africa Institute of Chartered Accountants
SENS	Stock exchange news service
SCI	Statement of profit or loss and other comprehensive income
SCE	Statement of changes in equity
SCF	Statement of cash flows
SFP	Statement of financial position
SOP	AICPA Statement of position
SU	Stellenbosch University
SV	Settlement value
TMA	Turnaround Management Association
ToC	Trade and other creditors
ToR	Trade and other receivables
UK	United Kingdom
USA	United States of America
US GAAP	United States Generally Accepted Accounting Principles

VA	Voluntary administration
VEPAC	Variance estimation, precision and comparison
VIU	Value-in-use
WWW	World-wide web or Internet

DEFINITIONS OF TERMS

Concept	Definition/explanation	Source
Affected person	A shareholder, creditor, any registered trade union representing employees and any of the employees of the company that are not represented by a registered trade union.	RSA (2008:s 128(1)(a))
Bankruptcy	Bankruptcy is a legal process by which you may be discharged from most of your debts. The purpose is to permit an honest but unfortunate debtor to obtain a discharge from most debts, subject to reasonable conditions.	CRA (2012)
Bankruptcy Code	A federal statute, enacted on 1 October, 1979, as title 11 of the United States Code by the Bankruptcy Reform Act of 1978, which applies to all cases filed on or after its enactment and that provides the basis for the current federal bankruptcy system.	AICPA (1990:19,295)
Bankruptcy Court	The United States Bankruptcy Court is an adjunct of the United States District Courts. Under the jurisdiction of the District Court, the Bankruptcy Court is generally responsible for cases filed under Chapters 7, 11, 12, and 13 of the Bankruptcy Code.	AICPA (1990:19,295)
Conservative accounting	Conservative accounting refers to a statement of financial position with high verifiability thresholds (normally historical costs) and the timely recognition of losses, as well as deferring the recognition of gains in the statement of profit or loss and other comprehensive income.	Cascino, Clatworthy, Osma, Gassen, Imam and Jeanjean (2013:38-45); Armstrong, Guay and Weber (2010:212-213)
General purpose financial reports	Reports containing financial information about the reporting entity that existing and potential investors, lenders and other creditors need, but who cannot oblige reporting entities to provide information directly to them.	IASB (2015b:A19-20)
Reorganisation value	The value attributed to the reconstituted entity, as well as the expected net realisable value of those assets that will be disposed of before reconstitution occurs. Therefore, this value is viewed as the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the restructuring.	AICPA (1990:19, 295)

Concept	Definition/explanation	Source
Special-purpose financial reports	Reports containing financial information about the reporting entity, which a third party may request (e.g. management accounts requested by the bank), and which are prepared specifically for their purpose.	
US Chapter 7	Liquidation voluntarily or involuntarily initiated under the provisions of the Bankruptcy Code, which provides for the liquidation of the business or the debtor's estate	AICPA (1990:19,295)
US Chapter 11	A reorganisation action, either voluntarily or involuntarily initiated under the provisions of the Bankruptcy Code, which provides for a reorganisation of the debt and equity structure of the business and allows the business to continue operations. A debtor may also file a plan of liquidation under Chapter 11.	AICPA (1990:19,295)

CHAPTER 1
INTRODUCTION

1.1 INTRODUCTION

I believe that you, as both investor and manager, are best served by accounting standards that reflect economic reality as accurately and timely as possible. This allows you to nip problems in the bud, rather than allowing them to fester on. – Hans Hoogervorst.

The above statement was recently made at a conference in Edinburgh, Scotland (Hoogervorst, 2015:4). Hans Hoogervorst is the chairman of the International Accounting Standards Board (IASB), the independent standard-setting body of the International Financial Reporting Standards Foundation (IFRS Foundation). The primary mission of the IFRS Foundation is "to develop a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based upon clearly articulated principles" (IFRS Foundation, 2015b). The IASB uses its conceptual framework for financial reporting (CF) to guide the development of the financial reporting standards for use in preparing general purpose financial statements (IASB, 2015b:A17). As Hoogervorst stated, having a financial reporting framework that will assist in developing accounting standards that reflect economic reality is important, as this study investigates the financial reporting of a particular South African listed company, namely a company that is currently under business rescue.

Chapter 1 of the study begins with giving a brief description of the background to the topic by introducing the various aspects that should be considered in the financial reporting of a listed company under business rescue. This discussion is followed by an explanation of the research problem and the reasons leading to its existence. The specific research aim of the study is then explained in light of the research problem. In order to achieve the research aim, a number of research questions and related research objectives are formulated. The research objectives are followed by an argument for the possible contribution to science that the study intends to offer. Brief sections on the scope and limitations of the study, as well as the assumptions

underlying the study, follow the section in which the importance of the study is discussed, before the chapter concludes with a brief overview of the remaining chapters of the dissertation.

1.2 BACKGROUND

In the introduction to this chapter, the importance of Hoogervorst's comment was emphasised. The world economic environment is constantly changing and financial reporting is therefore being developed to provide relevant and faithfully represented financial information for making well-informed business and investment decisions. In this section, the background to the research problem and its context will be explained by discussing the various aspects that may have an effect on the financial reporting of a listed company under business rescue.

1.2.1 Objective of financial reporting

The first aspect to consider is the objective of financial reporting. The IASB's CF states that the objective of general purpose financial reporting is 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, 2015b:A19). This objective is also referred to as the 'decision-usefulness' objective. Ravenscroft (2011:1–2) describes 'decision-usefulness' as selecting accounting policies, from the alternatives, which produce the information that is most useful for economic decision-making by certain designated users.

In order to fulfil this objective, International Financial Reporting Standards (IFRSs) have been and are still being developed by the IASB as a global set of financial reporting standards for use by the preparers of financial statements. These financial reporting standards are developed or updated on the basis of the concepts established in the CF. South Africa (SA) adopted the IASB's set of IFRSs in 2005 (Sehoole, 2007).

Considering the CF for financial reporting, two features of the framework are of particular importance to the study, namely, the underlying financial reporting assumption of financial statements and the measurement of assets and liabilities. The

CF determines that financial statements are generally prepared under the financial reporting assumption that the entity is a going concern, which means that the entity is expected to continue in existence for the foreseeable future. It is therefore assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations (IASB, 2015b:A34). The reporting standard that deals with the presentation of financial statements, namely, International Accounting Standard (IAS) 1, reiterates the use of the going concern financial reporting assumption and explains that the assumption indicates that the company will continue to exist for the foreseeable future for a period of no less than 12 months from the reporting date (IASB, 2015d:A840). The intention or need to liquidate or curtail materially the scale of its operations would suggest the use of a liquidation basis for accounting, which is not described in the CF. With respect to the measurement of assets and liabilities, the CF allows various measurement bases. Accordingly, to measure the reporting entity's assets and liabilities, management may choose from historical cost, current cost, realisable value and present value (IASB, 2015b:A43). Another measurement option, namely 'fair value', is not specifically addressed in the CF, but has been described in a separate reporting standard, namely, IFRS 13 *Fair Value Measurement* (IASB, 2015j:A710).

1.2.2 South African Companies Act

The second aspect to consider regarding the topic of this study is the new South African Companies Act (No. 71 of 2008) (hereafter referred to as the "2008 Companies Act"), which came into effect on 1 May 2011. In considering the Act two sections of the legislation are of particular importance for this study.

Firstly, the 2008 Companies Act and its regulations makes it imperative for listed companies to comply with IFRSs (RSA, 2008:s 29(5)(b); RSA, 2011:s 27(4)). Secondly, the 2008 Companies Act also introduced a business rescue model that provides proceedings to facilitate the rehabilitation of a company that is in 'financial distress' (RSA, 2008:s 128–154).

The 2008 Companies Act defines '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)). Harvey (2011:164) states that the definition of financial distress implies that there is a likelihood of commercial or technical insolvency within six months. Commercial insolvency indicates that the company is unable to pay all of its debts as they become due and payable, and technical insolvency indicates that the company's liabilities exceed its assets, fairly valued. It is also important to note that the Act does not allow an exclusion from complying with IFRSs if the business is in financial distress. What is important here is the difference between the six months allowed for determining the prospects for financial distress and the 12 months used to determine the going concern status.

Chapter 6 of the 2008 Companies Act explains the business rescue proceedings. Business rescue proceedings have two aims: (1) to allow the company time to restructure its business and affairs in a manner that maximises the likelihood of the company continuing in existence on a solvent basis or, (2) if that is not possible, to provide a better return for the company's creditors or shareholders than would have resulted from the immediate liquidation of the company (RSA, 2008:s 128(1)(b)).

There is currently no certainty on whether the two aims are hierarchical or mutually exclusive. Bradstreet (2011:356) refers to a *primary* aim of preserving the business to offer creditors a better chance of fully recovering their debt, and a *secondary* aim of achieving a better return for creditors if the business cannot be preserved. Bradstreet therefore views the aims as hierarchical.

Personal communication with senior business rescue practitioners (BRPs) revealed a mutually exclusive view of the business rescue aims. These BRPs indicated that they would choose either aim 1 or aim 2 as their strategy from the outset (Flynn, 2014; Matuson, 2015). Mutual exclusivity is also implied by Pretorius (2015:21, 40). Pretorius refers to aim 2 as an *alternative* goal and indicates that many BRPs consider this option valuable and would pursue it immediately.

It is also important to note that the 2008 Companies Act determines that a BRP takes temporary control of the management of the company during the business rescue

proceedings (RSA, 2008:s 128(1)(b)). Therefore, as the current management the BRP will be responsible for preparing the financial statements if a reporting date is due during the business rescue period.

1.2.3 Audit requirements

The third aspect to consider regarding the financial reporting of a listed company under business rescue involves the audit of the company. The 2008 Companies Act determines that the financial records of a listed company shall be audited (RSA, 2008:s 30(2)(a)), and they shall be audited in terms of the Auditing Profession Act, 2005 (Act 26 of 2005) (RSA, 2008:s 1("audit")). The Auditing Profession Act established the Independent Regulatory Board for Auditors (IRBA) as the regulatory body for registered auditors in SA. In 2009, the IRBA adopted the International Auditing and Assurance Standards Board's (IAASB) International Standards on Auditing and Quality Control (IRBA, 2009). All audits on listed companies are therefore carried out in terms of these auditing standards.

With respect to the audit requirements, the following requirements are of importance to this study. The International Standards on Auditing (ISAs) require that the auditor, amongst other things, determine whether the financial reporting framework applied in the preparation of the financial statements is acceptable (IAASB, 2015a:109–116) and if the use of the going concern financial reporting assumption by management is appropriate in the preparation of the financial statements (IAASB, 2015c:558). The auditor's view is important as the auditing literature contains more guidance on the appropriateness of the going concern financial reporting assumption in the preparation of the financial statements than that currently available under the IFRSs. According to Chen and Church (1996:117), users of financial statements are particularly interested in the auditor's assessment of the appropriateness of the going concern financial reporting assumption.

1.2.4 Regulation of listed companies

The fourth aspect that may have an impact on the financial reporting of a listed company under business rescue is any requirements that the regulator of listed

companies in SA, that is, the Johannesburg Stock Exchange (JSE), has. The JSE, through its listing requirements, requires all listed companies to implement the IFRSs reporting framework (Johannesburg Stock Exchange (JSE), 2015:par. 8.3). The JSE further requires that every issuer should distribute audited annual financial statements for the relevant financial year to all holders of securities and submit same to the JSE within six months after the end of the financial year (Johannesburg Stock Exchange (JSE), 2015:par. 3.19). However, if the annual financial statements have not been distributed to all shareholders within three months of the issuer's financial year-end, it must distribute and publish provisional annual financial statements ("provisional reports") within the three months following the end of the financial year (Johannesburg Stock Exchange (JSE), 2015:par. 3.16(a), 3.20). The provisional reports may be unaudited but must still be prepared in accordance with the CF and the measurement and recognition requirements of IFRSs (Johannesburg Stock Exchange (JSE), 2015:par. 8.57(b)). Management are therefore still required to assess the appropriateness of the going concern financial reporting assumption when preparing the financial statements. Furthermore, this assessment has to be done within four months after the year-end. It is likely that a listed company with a reporting date while under business rescue will still be under business rescue four months after the year-end.

1.2.5 Summative conclusion: The reporting dilemma

In view of the above discussion, it is clear that a financially distressed listed company that has placed itself under business rescue in terms of the 2008 Companies Act has thus acknowledged that it may be commercially or technically insolvent. Accordingly, it may be unable to pay its debts as they fall due within the six months following filing for business rescue, or it may be insolvent within the six months following the filing for business rescue. Furthermore, the decision to apply for business rescue instead of provisional liquidation also seems to indicate that the company does not intend to liquidate immediately, but rather to seek protection under the 2008 Companies Act in order to rescue the business.

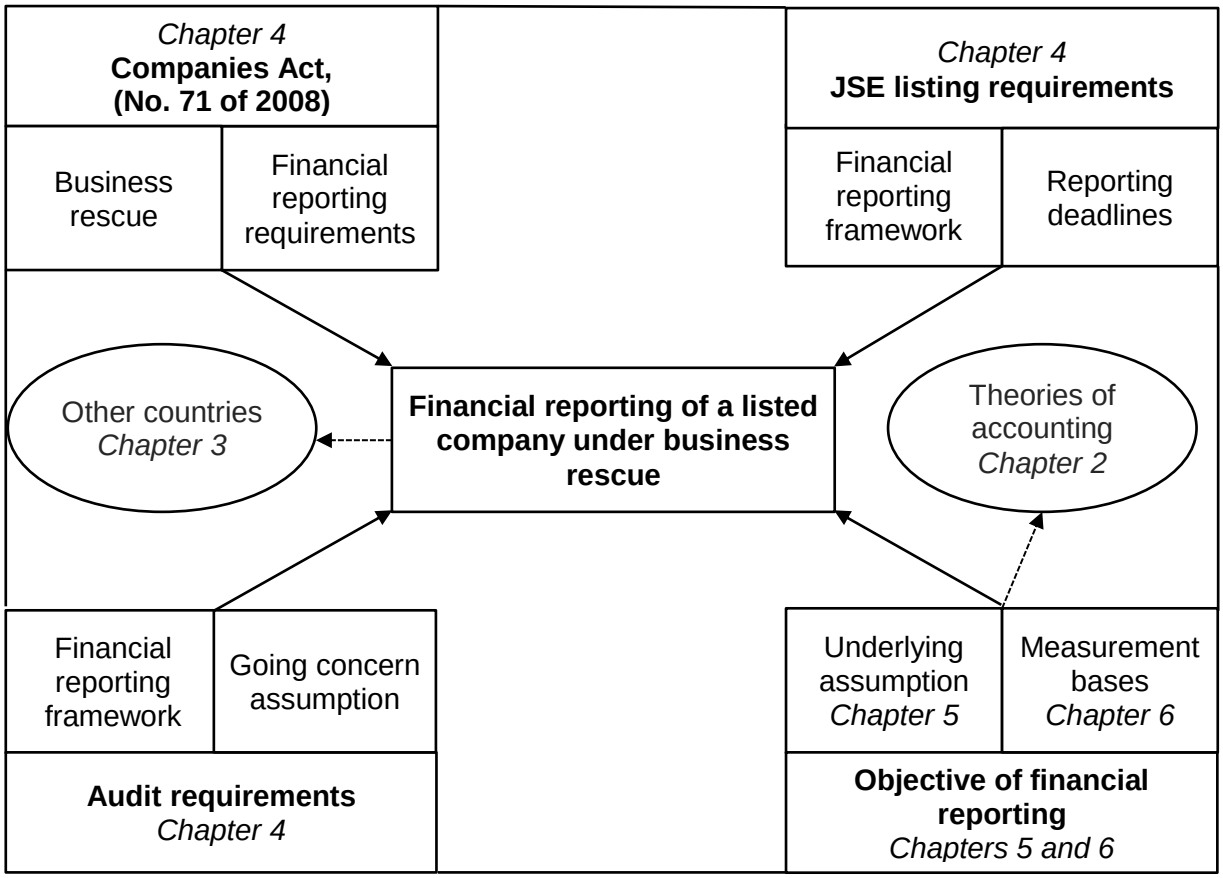
Should a reporting date occur after entering business rescue, the likely possibility of being commercially or technically insolvent within the six months that follow the

reporting date is in contrast to the going concern financial reporting assumption of continuing in existence for a foreseeable future of 12 months after the reporting date. In other words, there is the likelihood that the company is not a going concern in terms of the IFRSs framework's going concern financial reporting assumption. However, it is not yet in liquidation either. Furthermore, which one of the two business rescue aims the BRP pursues may also have an impact on the decision on which applicable underlying financial reporting assumption to use in preparing the financial statements.

The fact that a company is under business rescue will not relieve any reporting obligations as required by either the JSE listing requirements or the 2008 Companies Act and the annual financial reports will still need to be filed. When preparing the financial statements, the auditor will consider the financial reporting framework applied and will express an opinion on the appropriateness of using the going concern financial reporting assumption. The International Standard on Auditing (ISA) 570 *Going concern* states that when the going concern financial reporting assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business (IAASB, 2015c:558). Should there be any doubts in this regard, the auditor may allow the use of the going concern financial reporting assumption under the IFRSs reporting framework but will emphasise this matter in his/her audit report.

The four aspects that may have an impact on the financial reporting of a listed company under business rescue, as explained above, are summarised in Figure 1.1 below. Each of these aspects is indicated in one of the four quadrants in the figure.

Figure 1.1: Financial reporting aspects of a listed company under business rescue



Source: Own observation

The consequence of the four aspects is that a listed company with a reporting date that is due while under business rescue finds itself in a unique position:

- It has acknowledged financial distress and is under business rescue proceedings to achieve one of the business rescue aims.
- It is required to use IFRSs and therefore base the financial statements on the going concern financial reporting assumption because it is not in liquidation nor does it currently have no realistic alternative to liquidation.
- Under the going concern financial reporting assumption the assets and liabilities are measured on the basis that the entity will be able to realise these in the normal course of business.
- The financial statements it presents should be useful to the users for making economic decisions from.

- Financial reporting is not suspended by the listing regulator and an audit of the financial statements is still required, even if the company is under business rescue.

In view of the above position and the various things that affect the preparation of financial statements, management, led by the BRP, are presented with a challenge. Accordingly, management has to consider which underlying financial reporting assumption should be applied, as well as what the appropriate measurement bases for assets and liabilities should be when preparing the financial statements. These issues could present a problem in a scenario where business rescue proceedings may be underway but have an uncertain outcome. This problem is discussed in the next section.

1.3 RESEARCH PROBLEM

The previous section provided some background on some of the things that may have an impact on the financial reporting of a listed company under business rescue. As mentioned, such a company finds itself in a unique situation. In this section, the research problem to be investigated will be formulated and explained and its relevance argued as it relates to each of the issues discussed in the previous section.

As indicated earlier, general purpose financial statements have a decision-usefulness objective, namely, to provide information that is useful for existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity (IASB, 2015b:A19). In order to achieve this objective, the CF sets out the concepts underlying the preparation and presentation of financial statements. Two aspects in the CF, namely, the underlying financial reporting assumption and the measurement bases of assets and liabilities, are problematic with respect to a listed company under business rescue.

With respect to the underlying financial reporting assumption concept, the IAS that deals with the presentation of information in financial statements, IAS 1 par. 25, requires management to prepare financial statements on the going concern basis

unless management intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so (IASB, 2015d:A840). Considering this requirement, it seems that there are two mutually exclusive underlying financial reporting assumptions, namely, a going concern and a liquidation.

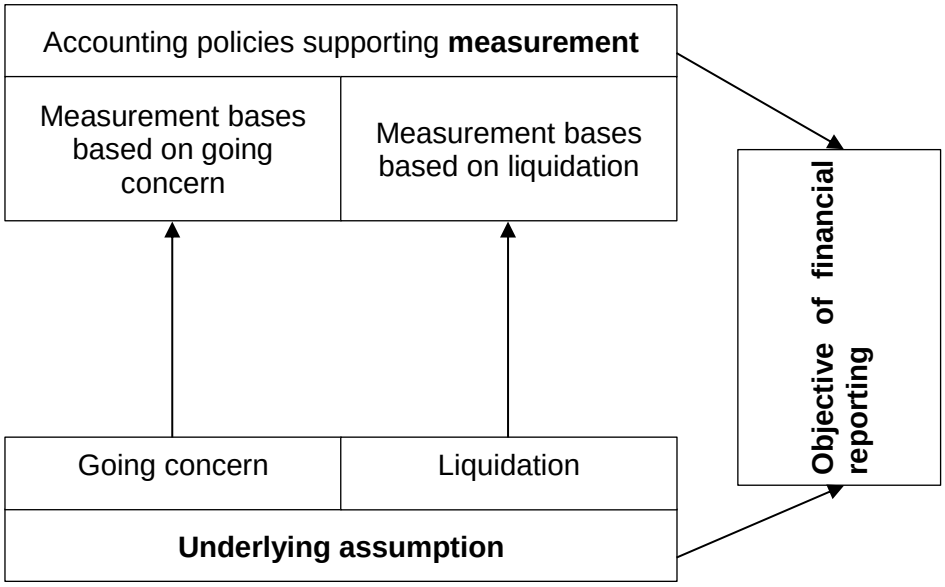
Regarding the use of the going concern financial reporting assumption alternative, IAS 1 par. 25 states that should there be material uncertainties related to events and conditions that could cast significant doubt on the entity's ability to continue as a going concern, those uncertainties, must be disclosed (IASB, 2015d:A840). In other words, the going concern financial reporting assumption will still be allowed even if management may have *significant* doubts about the entity's ability to continue as a going concern. Moreover, being a going concern means that the entity is expected to continue in existence for the foreseeable future, which means a period of no less than 12 months from the reporting date. As indicated in the previous section, a listed company that has filed for business rescue actually acknowledges that it may be commercially or technically insolvent within the ensuing six months after filing for business rescue. It therefore seems unlikely that a listed company, whilst under business rescue, will be a going concern as envisaged by IAS 1. However, management should still use the going concern financial reporting assumption even though significant doubt exists about the entity's ability to continue as a going concern.

On the other hand, if a company is liquidated or if it has ceased trading, the financial statements will be prepared using liquidation values (Koppeschaar et al. 2015:14), indicating an underlying financial reporting assumption of liquidation. However, in having applied for business rescue rather than provisional liquidation, management have indicated that they do not intend to liquidate the company or to cease trading, or that they have no realistic alternative but to do so. It can therefore be concluded that an underlying financial reporting assumption of liquidation is not necessarily applicable.

Concerning the measurement concept, Glautier, Underdown and Morris (2011:69) stress the importance of the going concern financial reporting assumption. They argue that the value of many assets are determined from the way those assets are employed in the business. Therefore, if a company ceases to operate, the values of those assets

will be determined on a closing down basis, which may be far less than their book value under the going concern financial reporting assumption. Moreover, auditing guidance on going concern states that the going concern financial reporting assumption reflects assets and liabilities as if they will be realised and settled in the normal course of business (IAASB, 2015c:538). The way assets and liabilities are reflected (i.e. the measurement bases) are explained in accounting policy notes, which will be in line with and applicable to a company that is considered a going concern. Figure 1.2 below summarises the relationship between the underlying financial reporting assumption, measurement bases and the financial statements' decision-usefulness objective in preparing a company's financial statements.

Figure 1.2: Underlying financial reporting assumption and measurement concepts supporting decision-useful financial statements



Source: Own observation

The above figure indicates the important relationship between the underlying financial reporting assumption, measurement bases and the decision-usefulness objective. The underlying financial reporting assumption employed directs the asset values and the asset values are derived using appropriate measurement bases, which are explained in accounting policy notes. The accounting policy notes, in turn, contribute to the

financial statements being decision-useful, or otherwise if poor accounting policies choices are employed.

The problem with a listed company under business rescue is that it is not necessarily a going concern, but it is not in liquidation either. If the underlying financial reporting assumption of going concern is chosen, the measurement bases employed for its assets and liabilities should line up with a company that will continue to exist for the foreseeable future. However, a company in financial distress clearly does not pass this implied requirement, and measuring assets and liabilities on this basis, whilst the company is not a going concern, presents a decision-usefulness problem. In a business rescue context, this practice will consequently lead to financial information that is not representative of the economic reality. The problem of determining the appropriate measurement of assets and liabilities still exists even if the assets and liabilities are measured on the liquidation basis, as the business is not yet in liquidation either.

As indicated earlier, a current reporting solution is to use the going concern underlying financial reporting assumption and then give reasons for why there is significant doubt as to whether this underlying financial reporting assumption may not be applicable. These should be supported by additional disclosures on those sources of estimation uncertainty that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within one year (IASB, 2015d:A866). However, it would seem that such a reporting solution aims to achieve decision-usefulness of a negative order. Such a reporting solution uses the underlying financial reporting assumption of a going concern and then gives reasons why there is actually significant doubt about its ability to be a going concern (i.e. to continue in existence for a period of no less than 12 months from the reporting date). This is then further supported by additional disclosures on a possible material adjustment to the presented measurement of assets and liabilities within one year. A different reporting solution would be to prepare financial statements under an underlying financial reporting assumption of liquidation. However, for a listed company under business rescue the implied criteria of intended liquidation/cessation of trading activities, or having no realistic alternative but to do so, is not achieved either. Furthermore, measuring all

assets at liquidation values may not reflect the economic reality, as some assets may be retained in order to sustain the company while under business rescue proceedings.

Neither of the above-mentioned reporting solutions is ideal. Moreover, the uncertainty regarding the underlying financial reporting assumption and appropriate measurement bases to be applied is further complicated by the two aims of the business rescue proceedings, as stipulated in the 2008 Companies Act. The two aims, as indicated in section 1.2.2, are:

(1) to allow the company time to restructure its business and affairs in a manner that maximises the likelihood of the company continuing in existence on a solvent basis, or

(2) if that is not possible, results in a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company.

Loubser (2015) indicates that pursuing aim 2 should lead to the company being dissolved as a legal entity, although this does not always happen in practice. Aim 2 may also be considered to be an 'orderly liquidation' (Bradstreet, 2014).

It is not clear whether these two business rescue aims are mutually exclusive or hierarchical. Accordingly, depending on whether or not the aims are mutually exclusive or hierarchical, several scenarios may emerge that may influence the determination of an appropriate financial reporting underlying assumption.

If the business rescue aims are considered mutually exclusive, the BRP may pursue either aim 1 or aim 2 from the outset and prepare a business rescue plan accordingly. If the BRP pursues aim 1, at some stage during the proceedings the company will recover from the financial distress. However, until the company recovers from the financial distress, there may be significant doubt about its ability to continue for the foreseeable future, that is, as a going concern. Under aim 2, the BRP aims to render a better return for creditors than under immediate liquidation, and thus not to return the company to solvency. Therefore, the 'orderly liquidation' and eventual dissolution of the company under aim 2 may indicate that the company cannot recover from the

financial distress, hence significant doubt continues to exist about the company's ability to continue for the foreseeable future throughout the whole proceedings.

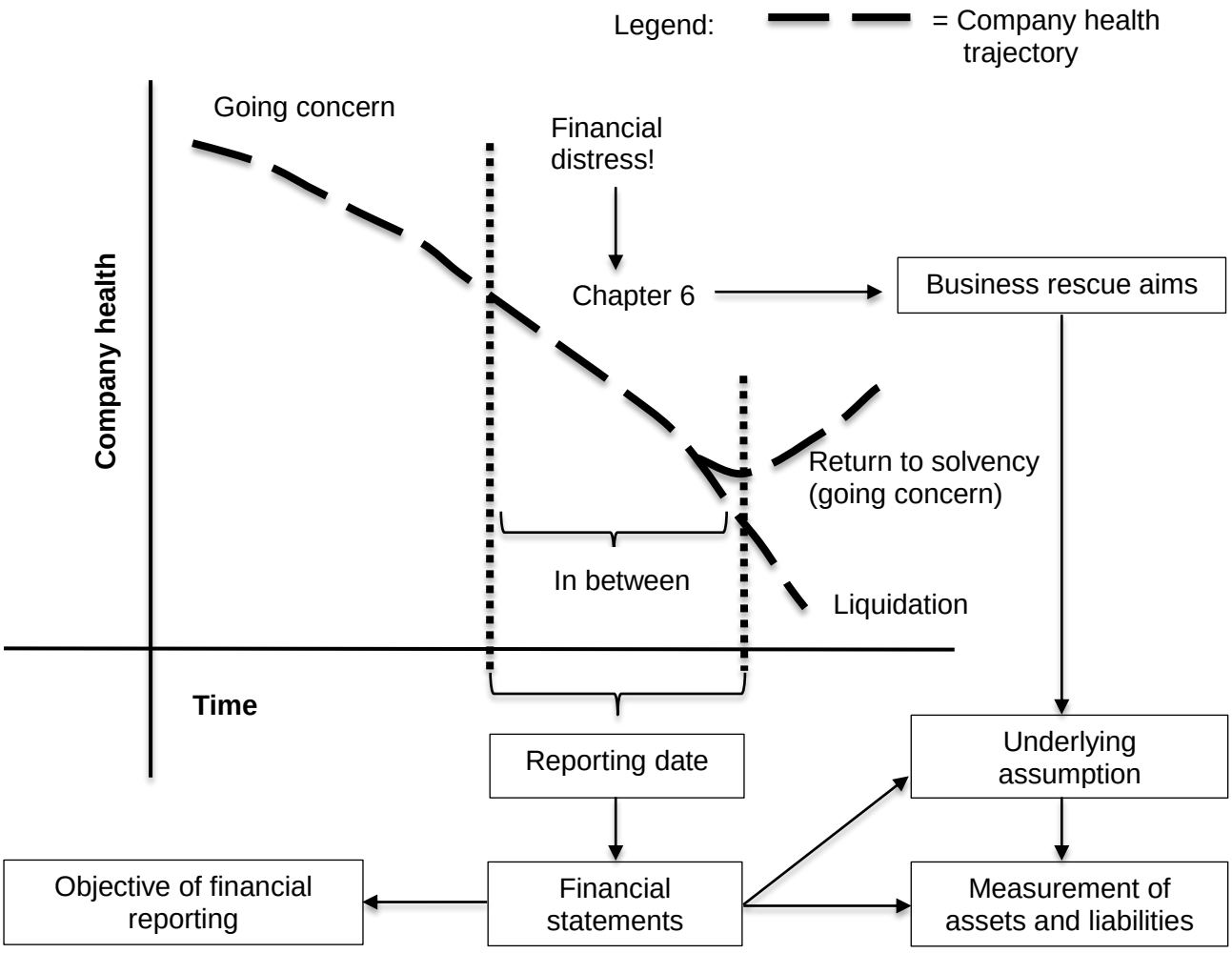
If the aims are considered hierarchical, the BRP would first aim to return the company to solvency and then, if that were not possible, aim to render a better return to creditors and shareholders than under immediate liquidation. Therefore, under aim 1 the scenario is similar to the scenario under the mutually exclusive aim 1 view above. If the BRP determines that aim 1 can no longer be achieved, he/she may pursue aim 2, most likely after obtaining permission from the creditors. From the point that the BRP pursues aim 2, significant doubt about the company's ability to continue for the foreseeable future will exist throughout the remainder of the proceedings. Under both the mutually exclusive and the hierarchical views, whenever the BRP determines that aim 2 will not be achieved, the company will go into immediate liquidation.

In the above scenarios, if a reporting date occurs during the business rescue proceedings the problem of which underlying financial reporting assumption to use becomes complicated. It is clear that the particular business rescue aim pursued and the stage of turnaround plan implementation will add to the uncertainty about the correct underlying financial reporting assumption to be used when preparing the financial statements.

The research problem illustrated above is a real-life problem that may very likely occur when a listed company is under business rescue. The Companies and Intellectual Property Commission (CIPC) has found that it takes about nine months for a company to conclude business rescue proceedings (Lotheringen, 2013:5), indicating a high likelihood that the company may need to prepare annual financial statements whilst under business rescue.

Figure 1.3 below summarises the setting of the research problem by way of a diagram. It illustrates the problem of achieving the aim of financial reporting whilst being under business rescue proceedings, and the resulting issues relating to the choice of an appropriate underlying financial reporting assumption and measurement bases for a company's assets and liabilities.

Figure 1.3: Illustration of research problem



Source: Own observation

From the above it is clear that the problem is that neither the going concern basis nor the liquidation basis is an appropriate underlying financial reporting assumption when preparing financial statements for listed companies under business rescue. It seems that something that fits in between the underlying financial reporting assumptions of going concern and liquidation is needed to represent the business rescue context and on which the measurement of assets and liabilities can be based. Such an underlying financial reporting assumption might lead to financial information that is more relevant and is a more faithful representation of the business rescue scenario.

A financial reporting framework for companies under business rescue which is based on an appropriate business rescue underlying financial reporting assumption, could

then specify the re-measurement (on entering business rescue and subsequently at year-end) of assets and liabilities at values that might be more decision-useful in a business rescue context. In fact, IAS 1 par. 25 mentions the preparation of financial statements on a "different basis" if not prepared on the going concern basis, although no further details on such a basis are provided (IASB, 2015d:A840). IAS 10: *Events after the Reporting Period* confirms the use of another basis if events that occur between the reporting period and the date the financial statements are authorised for issue provide evidence that the going concern financial reporting assumption is not appropriate for the reporting period. IAS 10 states quite clearly: "If the going concern financial reporting assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting" (IASB, 2015e:A936). Reading IAS 1 together with IAS 10, one can conclude that IFRSs already envisages another basis of accounting apart from the liquidation basis of accounting, although no further guidance is provided.

Support for another basis of accounting is found in the auditing literature. ISA 570 *Going concern*[1] allows the auditor to perform an audit of financial statements prepared on an "alternative basis"[2] where the going concern financial reporting assumption is not appropriate, provided that the alternative basis is an acceptable financial reporting framework in the circumstances (IAASB, 2015c:571). The auditing literature does not elaborate on what the "alternative basis" is, but gives the liquidation basis as an *example*. One can therefore conclude that the auditor may allow another basis of accounting, apart from the liquidation basis, if it is supported by an acceptable financial reporting framework.

Companies in the United States of America (USA) prepare financial statements under a different financial reporting framework. This framework, developed by the Financial

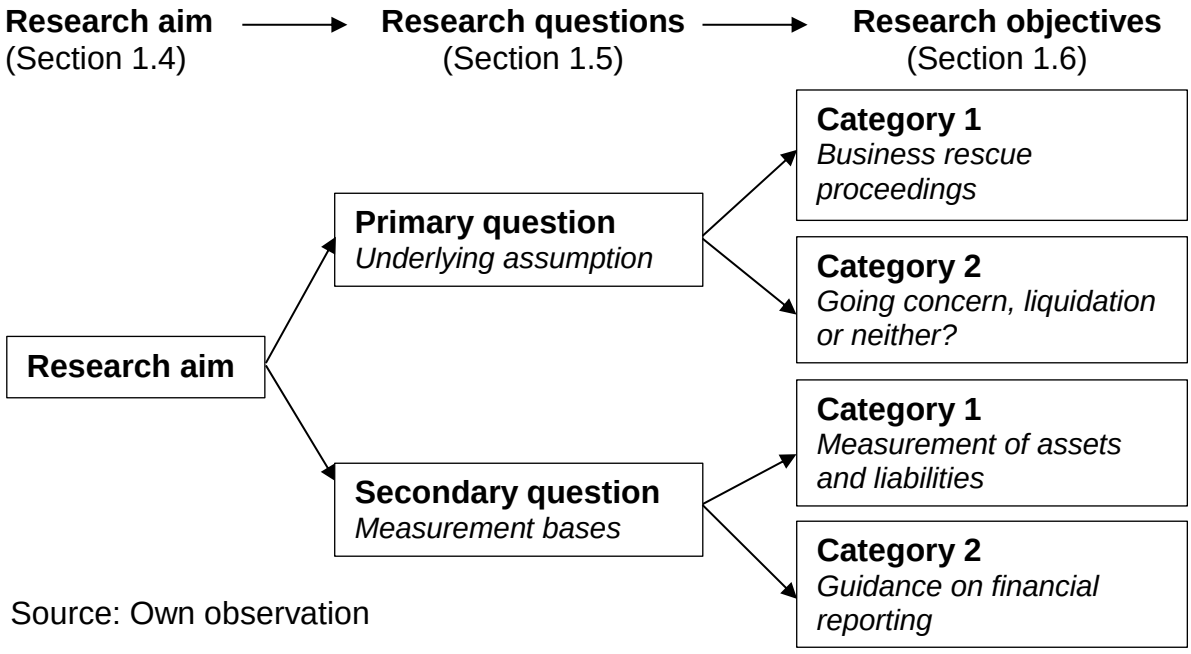
[1] ISA 570 *Going concern* was revised in January 2015. The revised standard is known as ISA 570 *Going concern* (revised) and is effective for audits of financial statements for periods ending on or after 15 December 2016. Reference is made to the current standard as this was the standard in use when the research questionnaire was developed and research data gathered. Except for limited changes to the wording, different paragraph numbers or a different location of the paragraphs in the standard, the matters and examples referred to in this study have not been revised. Attention will be drawn to differences in the wording when applicable to the study.

[2] ISA 570 *Going concern* (revised) now refers to 'other basis' instead of 'alternative basis'.

Accounting Standards Board (FASB), is also based on the underlying financial reporting assumption of going concern. The American Institute of Certified Public Accountants (AICPA) recognised that their current financial reporting standards provided no specific guidance for reporting by entities in reorganisation proceedings (proceedings similar to business rescue proceedings in SA). The AICPA further stated that entities were using the same financial reporting principles they applied before the reorganisation proceedings. The financial statements prepared while entities were in reorganisation were therefore not as useful to users as they should be (AICPA, 1990:s 10,460.14). In order to address this problem, the AICPA developed guidance for preparing financial statements whilst under the USA reorganisation proceedings. It would therefore be useful to investigate the AICPA guidance in addressing the problem of the usefulness of financial statements prepared on the going concern basis for companies under business rescue in a South African context. The AICPA guidance may provide insight into the development of an underlying financial reporting assumption that is more closely aligned to the South African business rescue context.

In conclusion, the seemingly compulsory use of the underlying financial reporting assumption of going concern in preparing annual financial statements for a South African listed company in financial distress presents a problem. The problem will be addressed by firstly stating the research aim, followed by the formulation of specific research questions and research objectives which, when achieved, would answer the research problems and achieve the study's research aim. Figure 1.4 below illustrates the relationship between the research aim, the research questions and the research objectives.

Figure 1.4: Relationship between the research aim, the research questions and the research objectives



Source: Own observation

Section 7.3.1 explains the research problem in the context of the empirical research. The next section addresses the research aim of the study.

1.4 RESEARCH AIM

With reference to the research problem in section 1.3 above, the overall research aim of the study is to develop a financial reporting framework for South African listed companies under business rescue. In particular, the financial reporting framework would deal specifically with which underlying financial reporting assumption to be used, further supported by context-relevant measurement bases for a company's assets and liabilities when preparing decision-useful financial statements.

In order to achieve this research aim and to address the research problem, a number of research questions have been identified. These questions are addressed in the next section.

1.5 RESEARCH QUESTIONS

In order to focus and address the research problem, this study intends to answer the following primary and secondary research questions. Answering these research questions will form the basis for achieving research aim of the study, which is discussed in section 1.4:

Primary research question: Which financial reporting underlying assumption should be used for a listed company under business rescue?

Secondary research question: What should be the measurement base(s) of assets and liabilities that will lead to more decision-useful information for the users of financial statements of listed companies in under business rescue?

When answered, these research questions will address the research problem. Taking the aims of business rescue into account will assist in addressing the primary research question in a business rescue context. In addition, answering the primary research question will help to answer the secondary research question by focusing on those measurement base(s) of assets and liabilities that will lead to more decision-useful information in a business rescue context.

In answering the research questions, the study's main research aim will be achieved. As a guide to attaining the research aim, a number of research objectives have been identified. These are discussed in the next section.

1.6 RESEARCH OBJECTIVES

In order to achieve the research aim as explained in section 1.4 above and to find the answers to the research questions mentioned in section 1.5, a number of research objectives have been identified. In this section, the research objectives are explained and linked to the particular research question they are intended to answer.

With reference to the primary research question, namely, *Which financial reporting underlying assumption should be used for a listed company under business rescue?*, the primary research objectives relate to the business rescue proceedings and the underlying financial reporting assumption that should be used when preparing financial statements.

The primary research objectives addressed in the study can be divided into two categories. Category 1 deals with the business rescue proceedings, while Category 2 deals with indicators that may assist in determining whether the company can be considered to be a going concern, or in liquidation, or neither a going concern nor in liquidation. Table 1.1 below summarises the research objectives of the primary research question and shows the link to the various sections of this study in which the research findings and conclusions are presented.

Table 1.1: Primary research question – linking the research objectives, research findings and research conclusions

Research objectives	Research findings (Chapter 8)	Research conclusions (Chapter 10)
Category 1: Business rescue proceedings		
To establish that there are two business rescue aims in terms of the legislation	Section 8.3.1	Section 10.2.1.1 (PRQ-C1-O1[3])
To determine whether the business rescue aims are considered hierarchical or mutually exclusive	Section 8.3.1	Section 10.2.1.1 (PRQ-C1-O2)
To determine the likely duration of the business rescue proceedings	Section 8.3.2	Section 10.2.1.1 (PRQ-C1-O3)
To establish the likelihood of a reporting date occurring during the business rescue proceedings	Section 8.3.2	Section 10.2.1.1 (PRQ-C1-O4)
Category 2: Going concern, liquidation or neither?		
To determine whether the existence of financial distress would indicate that a company may not be able to realise its assets and settle its liabilities in the normal course of business	Section 8.3.3	Section 10.2.1.2 (PRQ-C2-O1)
To establish the company's state of solvency, as an indicator of financial distress, at various stages during business rescue proceedings and for both business rescue aims	Section 8.3.4	Section 10.2.1.2 (PRQ-C2-O2)
To determine, for both business rescue aims, the likelihood of certain actions taken to rescue the company being indicators of the company not being a going concern	Section 8.3.5	Section 10.2.1.2 (PRQ-C2-O3)
To establish, for each of the business rescue aims, what the viable foreseeable future outlook is at various stages of the business rescue proceedings	Section 8.3.6	Section 10.2.1.2 (PRQ-C2-O4)
To determine if a company under business rescue is a going concern in terms of the IFRSs	Section 8.3.7	Section 10.2.1.2 (PRQ-C2-O5);
To assess the applicability of any other financial reporting underlying assumptions	Section 8.3.8	Section 10.2.1.2 (PRQ-C2-O6)

Source: Own observation

Table 1.1 addresses the research objectives for the primary research question. With respect to the secondary research question, namely, *What should be the measurement*

[3] Key to research objective reference number: PRQ = Primary research question; C1 = Category 1; O1 = Objective 1

base(s) of assets and liabilities that will lead to more decision-useful information for the users of financial statements of listed companies in under business rescue?, the secondary research objective relates mainly to the measurement of assets and liabilities. However, it also deals with general matters on presentation and possible guidance on financial reporting when under business rescue. Therefore, the secondary research objectives have also been divided into two categories: Category 1 deals with the measurement of assets and liabilities, and Category 2 addresses general matters relating to presentation and possible guidance on financial reporting when a company is under business rescue. A summary of the research objectives of the secondary research question and their link to the related research findings and conclusions is presented in Table 1.2 below.

Table 1.2: Secondary research question – linking the research objectives, research findings and research conclusions

Research objectives	**Research findings (Chapter 9)**	**Research conclusions (Chapter 10)**
Category 1: Measurement of assets and liabilities		
To assess the usefulness and use of the latest interim and annual financial statements in developing a business rescue plan	Section 9.2.1	Section 10.2.2.1 (SRQ-C1-O1[4])
To determine the importance of considering the business model when establishing measurement bases for assets and liabilities	Section 9.2.2	Section 10.2.2.1 (SRQ-C1-O2)
To assess whether the objective of financial reporting, as an indicator of the type of measurement bases that should be used, would change if the company is under business rescue	Section 9.2.3	Section 10.2.2.1 (SRQ-C1-O3)
To establish the information needs of users of a listed company that is under business rescue	Section 9.2.4	Section 10.2.2.1 (SRQ-C1-O4)
To determine what the objectives of measurement should be	Section 9.2.5	Section 10.2.2.1 (SRQ-C1-O5)
To establish the preferred measurement bases for assets and liabilities under each of the business rescue aims	Sections 9.2.6, 9.2.7 and 9.2.8	Section 10.2.2.1 (SRQ-C1-O6)

[4] Key to research objective reference number: SRQ = Secondary research question; C1 = Category 1; O1 = Objective 1

Research objectives	Research findings (Chapter 9)	Research conclusions (Chapter 10)
Category 2: Guidance on financial reporting		
To establish where in the financial statements the possible re-measurements, if any, for the assets and liabilities are to be presented	Section 9.2.9	Section 10.2.2.2 (SRQ-C2-O1)
To determine what other presentation and disclosure are preferable in respect of financial reporting for companies under business rescue, if any	Section 9.2.9	Section 10.2.2.2 (SRQ-C2-O2)
To establish what guidance on financial reporting for a company that is under business rescue is preferable, if any	Section 9.2.10	Section 10.2.2.2 (SRQ-C2-O3)

Source: Own observation

The above primary and secondary research objectives will, when achieved, form the basis for answering the research questions, thereby addressing the research problem. In the next section the importance of the study will be addressed.

1.7 IMPORTANCE OF THE STUDY

Decision-useful accounting information plays a critical role in the economy, both globally and locally. Solving the research problem and providing better information for decision-making purposes is particularly important in the South African business environment, as companies are making use of business rescue procedures (Crotty, 2012:22). Table 1.3 below summarises some of the JSE-listed companies that have recently applied for business rescue protection.

Table 1.3: JSE-listed companies that have applied for business rescue protection

No.	Name	JSE code	Business rescue application date
1.	RBA Holdings Limited	RBA	9 February 2016
2.	Masonite (Africa) Limited	MAS	22 December 2015
3.	African Bank Investments Limited	ABL	5 June 2015

No.	Name	JSE code	Business rescue application date
4.	Evraz Highveld Steel and Vanadium Limited	EHS	13 April 2015[5]
5.	Chemical Specialities Limited	CSP	11 March 2015
6.	Brikor Limited	BIK	20 November 2014
7.	Ububele Holdings Limited	UBU	6 August 2014
8.	Protech Khuthele Limited	PKH	30 May 2014
9.	Alert Steel Holdings Limited	AET	15 May 2014
10.	Zaptronix Limited	ZPT	16 September 2013
11.	Total Client Services Limited	TCS	22 November 2013
12.	1Time	1TM	21 August 2012
13.	Sanyati Holdings Limited	SAN	4 June 2012

Source: JSE stock exchange news service headlines as published by Sharenet (2016)

By addressing the primary and secondary research objectives (see § 1.6 above), the study intends to contribute new knowledge and insights to the existing body of knowledge on financial reporting. The research will also be useful to important role players in the business rescue and financial reporting industries, namely, BRPs, auditors, the Department of Trade and Industry (DTI) as custodian of the 2008 Companies Act, the IASB as standard-setter, and the JSE as the regulator of listed companies.

By addressing the primary research objectives the study aims to contribute to an understanding of the impact that going into business rescue has on the financial reporting of a listed company. Specifically, the study is therefore important in order to

- determine how the different role players view the aims of the business rescue proceedings, which may assist management (i.e. the BRP) in determining the appropriate underlying financial reporting assumption to use for a listed company under business rescue.

[5] The correct business rescue application date was obtained from the company's website (Evraz, 2016)

- provide evidence of the causal relationship between the business rescue aims and the underlying financial reporting assumption employed. This may assist auditors in forming their opinion on the financial statements.
- determine the likely duration of business rescue proceedings for a listed company, as opposed to the duration specified in the 2008 Companies Act. The likely duration would assist the DTI in reviewing the prescribed reporting timeframes during the proceedings.
- confirm that certain actions taken by a company in financial distress indicate that the company may not be a going concern. This understanding will assist standard setters in reviewing the threshold set for when a company may not be a seen as a going concern.
- clarify whether or not the current practice of applying the going concern underlying financial reporting assumption with accompanying disclosures where there is significant doubt about the company's ability to continue as a going concern, is useful to the users of financial statements. Such a clarification would assist standard setters in deciding whether to review the Framework and IAS 1 *Presentation of Financial Statements*.
- establish whether it would be preferable to prepare business-rescue contextualised general-purpose financial statements on an financial reporting assumption that fits in between the going concern financial reporting assumption and the liquidation financial reporting assumption.

In addressing the secondary research objective, this study aims to contribute new knowledge on the measurement of assets and liabilities for a listed company under business rescue. The study is therefore important in order to

- establish the importance of the business model in determining measurement bases for assets and liabilities.
- enhance our understanding of what the objectives of measurement should be for a listed company under business rescue.
- determine the importance of both the decision-usefulness and stewardship roles of accounting information for the users of financial statements within the ambit of a company under business rescue.

- establish whether financial distress should be taken into account in determining measurement bases for assets and liabilities.
- determine what measurement bases should be considered when reporting on a South African listed company under business rescue, taking the business rescue aims into account.
- determine where in the financial statements the possible re-measurements, if any, for the assets and liabilities are to be presented.
- establish what other presentations and disclosures are preferable.
- suggest what type of guidance on financial reporting for a listed company under business rescue is preferable.

In addition to the contribution to the existing body of knowledge on financial reporting, the study could also contribute to existing legislation if the current Companies Act or its Regulations were to be amended to prescribe the use of the proposed approach in a business rescue context. If an affected party were to approach the court for an order placing the company under business rescue, the court could require the application of this approach in preparing a set of financial statements. Such a set of financial statements may assist the court in determining the likelihood of a distressed but economically viable company continuing in existence as opposed to the result obtained from the immediate liquidation of the company.

This discussion has shown how the study contributes new knowledge and insights relating to the existing body of knowledge on financial reporting that are useful to important role players in the business rescue sphere. However, these benefits are set within a certain scope and have some limitations. The study's scope and limitations are explained in the next section.

1.8 SCOPE AND LIMITATIONS OF THE STUDY

This study makes a valuable contribution to the body of knowledge on financial reporting as it pertains to listed companies under business rescue. However, the study is set within a certain scope and is subject to some limitations. The scope and limitations are explained below.

1.8.1 Scope

The study is confined within a certain scope, as explained below:

- In presenting their general-purpose financial reports, companies in SA can choose between two main accounting frameworks; namely, the IFRSs and the International Financial Reporting Standard for Small and Medium-sized Entities (IFRSs for SMEs). This study only considers South African listed companies that are compelled by the Regulations of the 2008 Companies Act to use IFRSs as their financial reporting framework for preparing general-purpose financial statements.
- This study only considers general-purpose financial statements as opposed to special-purpose financial reports (see p. xxviii for the definition of special-purpose financial reports).
- Different interpretations of “going concern” exist, such as those found in the IFRSs, the auditing literature and legal case law. This study will use the IFRSs and auditing standards’ interpretation of the meaning of “going concern”, and therefore does not consider the legal meaning of “going concern” as found in tax case law.
- Although there are several cases of JSE-listed companies applying for business rescue, none of those listed companies was able to complete the full proceedings at the time of collecting the data because they were too distressed to be rescued. Therefore, when answering the various research questions posed to them, the respondents could only provide their opinions on what they would have done or might have considered.
- This study only considers the IFRSs and exposure drafts of IFRSs that were published up to 30 June 2016.
- As indicated in section 1.4, the research aim is to develop a financial reporting framework for a South African listed company under business rescue. The focus, however, is on the financial reporting underlying assumption to be used, as well as the context-relevant measurement base for assets and liabilities. The framework will therefore not address the definition of the elements of financial statements or the recognition and de-recognition criteria. For purposes of this study, the definition of elements and recognition and de-recognition criteria, as

explained in the CF, will also be applicable to the suggested financial reporting framework for a South African listed company under business rescue.

As indicated above, the study is also subject to some limitations. These limitations are explained in the next section.

1.8.2 Limitations

This study suffers from the following limitations:

- Some measurement bases of assets and liabilities, such as value-in-use (assets) and amortised cost (assets and liabilities), use an applicable discount rate in calculating the measurement value. The reported values of assets and liabilities that are based on these measurement bases may be significantly influenced by the particular discount rate used. It is not the purpose of this study to investigate what an applicable discount rate should be.
- In this study, the construct of decision usefulness (see § 7.3.2) is measured by assessing only the financial reporting underlying assumption and the measurement basis of assets and liabilities. There may be other ways to measure the decision usefulness of financial statements, for example positivist studies to assess the effect of financial statement disclosures on the entity's share price.

Apart from considering the potential effect of the scope and limitations of the study, the reader should also consider some assumptions that are made in the study. These assumptions are highlighted in the following section.

1.9 ASSUMPTIONS MADE IN THE STUDY

Apart from the scope and the limitations that were discussed in the previous section, the study is also based on some assumptions. These assumptions are as follows:

- The study assumes that there will be at least one financial year end during the business rescue proceedings for which the company will have to prepare financial statements.

- The study further concerns an individual listed company under business rescue. In other words, it concerns a particular reporting entity and the outlook of that particular entity in deciding which underlying financial reporting assumption and supporting measurement bases should be used in preparing the financial statements. Recent statistics have shown that the overall success rate of all companies (including close corporations) entering business rescue is about 9,4% (132 out of 1 398 filings), with success meaning the achievement of one of the two aims of business rescue (Pretorius, 2015:33). Public companies, which would include listed companies, represent 5% of the total filings (72 out of 1 398) (Pretorius, 2015:32). The success rate as it relates to the public companies only has not been published. Although the success rate indicates an overall one in ten chance of success, this study assumes that a listed company entering business rescue proceedings will have a fair chance of achieving one of the two aims once a corresponding business rescue plan has been accepted. In other words, it will stay in business rescue and not be liquidated immediately.

The previous sections of this chapter dealt with the research problem, the research aim, the research questions and the research objectives. The contribution that the research makes, as well as its scope, limitations and assumptions, has been highlighted. The next section provides a brief outline of the various chapters of the study.

1.10 OUTLINE OF THE STUDY

Chapter 1 served as an introduction to the study. It explained the background to the research problem and described the research problem. A research aim and two research questions were formulated to address the research problem. Various research objectives were then formulated to serve as milestones in achieving the research questions and research aim. The chapter also explained the importance of the study, as well as its scope, delineation and limitations and the assumptions made in the study.

Chapter 2 explains the theoretical support for the study. The formulation of accounting theory is discussed, followed by an examination of the structure of an accounting theory. Various broad classifications of accounting theories are discussed before focusing on the IASB's CF as a reference to an accepted theory of accounting.

Chapter 3 discusses various international corporate rescue regimes, similar to the business rescue model employed in South Africa, in order to gain insight into how the research problem may have been addressed globally. Specific attention is given to the financial reporting requirements that obtain during the period that a company is subject to the legal proceedings.

Chapter 4 addresses the changing business and financial reporting environment with specific reference to the legislative and regulative environment in which a South African listed company under business rescue finds itself. The chapter discusses the new business rescue regime as laid out in the 2008 Companies Act, focusing on aspects of financial reporting. The discussion is complemented with reference to the audit requirements, as well as the JSE listing requirements with respect to financial reporting.

Chapter 5 discusses the objective of financial reporting, including who the users of the financial reports are and their information needs in terms of decision-usefulness and/or stewardship-related information. Following on the information needs of users, the chapter assesses the possible underlying assumptions to be used when preparing the financial statements of a South African listed company under business rescue.

Chapter 6 addresses the need for financial information, the qualitative characteristics of useful financial information and the possible measurement bases that could be used in a business rescue context. The chapter also includes a discussion on the role of the business model in financial reporting, with specific reference to a company under business rescue.

Chapter 7 explains the research approach and methodology employed to address the research questions and research objectives, including the data collection and data analysis techniques used.

Chapter 8 presents the empirical results of the primary research question dealing with which financial reporting underlying assumption should be used for a listed company under business rescue.

Chapter 9 presents the empirical results of the secondary research question dealing with the appropriate measurement bases for assets and liabilities that should be used and which will provide decision-useful information for the users of the financial statements of a listed company under business rescue.

Chapter 10 summarises the key findings of the study and presents the conclusions reached. The chapter also argues the theoretical implications and states the contributions that the study has made to the general body of knowledge in accounting. The chapter concludes with recommendations for future research.

1.11 HIGHLIGHTED AREAS

Sections 1.3 to 1.6 addressed the research problem, the research aim, the research questions and the research objectives. In order to draw the reader's attention to the relevance of the specific aspect under consideration to the research problem, aim, questions and objectives, the narrative is placed in a highlighted grey block as illustrated here.

Furthermore, references to both the specific questions in the research questionnaire dealing with those areas and the research results are also highlighted in the same manner when applicable.

1.12 CONCLUSION

Section 1.2 indicated that standard setters aim to achieve the objective of providing decision-useful financial information for the users of financial statements through the application of a global set of IFRSs. Furthermore, the 2008 South African Companies Act requires the use of IFRSs for public companies, which include JSE listed companies. Moreover, the JSE requires the use of IFRSs when preparing financial statements and reports. The 2008 Companies Act also allows South African

companies in financial distress to enter business rescue proceedings in order to restructure their business or, alternatively, to provide a better return for the company's creditors or shareholders than would be the case in the event of the immediate liquidation of the company.

Against this background of the use of IFRSs and the aims of the business rescue proceedings, the research problem has been identified and explained, and its relevance argued. In conclusion, this section explained the study's research focus and assumptions, as well as the delineations and limitations of the study. A potential contribution to the body of knowledge has also been explained and motivated. In the next chapter, the research problem, the research aim and the research objectives will be embedded in and explained in terms of accounting theory.

CHAPTER 2
UNDERLYING THEORIES OF ACCOUNTING

2.1 INTRODUCTION

In Chapter 1 the research problem was explained and a research aim was formulated. Research questions were subsequently identified which would, when achieved, answer the research problem.

In order to address the research aim, namely, to suggest a financial reporting framework for a South African listed company under business rescue, it is important to review the accounting theory underpinning financial reporting.

In this chapter, the underlying theory of accounting is considered as it relates to the research aim. The chapter will proceed with a general introduction to theory, a discussion on the role and function of accounting and the unification of theory and accounting in accounting theory. Different approaches to accounting theory will be briefly discussed as they relate to the objective of financial reporting. The chapter will then discuss the structure of accounting theory from a deductive point of view, indicating the accounting postulates and principles derived from the objective of financial reporting. The chapter concludes with the discussion of a link between the accounting theory postulates and principles, through the current *Conceptual Framework for Financial Reporting* (2010 CF[6]), and the research aim in order to provide theoretical support for the research aim.

2.2 THE FORMULATION OF ACCOUNTING THEORY

The purpose of a theory is to inform both the practitioner and the uninformed person of the rules applicable in a particular area of science, as well as to provide guidelines on how to act when strange circumstances are encountered (Vorster, 1986:7). In this section, theory as it relates to the financial accounting discipline will be discussed.

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[6] In this chapter, the abbreviation 'CF' is used when referring to the conceptual framework in general. If a specific issue of the conceptual framework is important, the year of issue will be included in the reference, e.g. 1989 CF and 2010 CF.

The first part of the section discusses theory in general. The second part briefly addresses the function of accounting. In the third part of the section, the term 'theory' and the function of accounting are considered together as the theory of accounting. The last part of the section discusses various approaches to the formulation of accounting theory.

2.2.1 Theory

The *American Heritage dictionary* defines theory as "a set of statements or principles devised to explain a group of facts or phenomena, especially one that has been repeatedly tested or is widely accepted and can be used to make predictions about natural phenomena" (*American Heritage Dictionary*, 2015). According to Kerlinger, as cited by Riahi-Belkaoui (2004:83), theory can be defined as "a set of interrelated constructs (concepts), definitions and propositions that present a systematic view of the phenomenon by specifying relationships among variables with the purpose of explaining and predicting the phenomena". Bacharach (1989:498) defines theory as a statement of relationships between units observed (variables) or units approximated (constructs) in the empirical world. In more detail, the constructs are related to each other by propositions and the variables are related to each other by hypotheses, all bounded by the theorist's assumptions about values, time and space (Bacharach, 1989:498).

Considering theory from a scientific viewpoint, Wolk, Francis and Tearney (1992:28-29) argue that a theory is nothing more than sentences containing a basic set of "premises" (also referred to as "assumptions" or "postulates", or as Salmonson (1969:47) suggested, "concepts") and a set of conclusions derived from these premises. The conclusions can be derived either by deductive or inductive reasoning. These premises may be self-evident or constructed to be scientifically testable, in which case they are referred to as hypotheses (Wolk et al., 1992:29).

From the above definitions it is apparent that there is a range of definitions of theory available. It can thus be deduced that, in general, theory aims to explain and predict phenomena by providing a set of constructs (concepts) and variables, interrelated by propositions and hypotheses, and limited by the theorist's assumptions about values,

time and space. Both deductive and inductive reasoning can be applied on a continuum between a basic set of premises and the conclusions derived from it.

2.2.2 The function of accounting

In order to relate general theory to accounting is it necessary to first delineate the field of study by considering the function of accounting. The function and objective of accounting has been the subject of investigation and analysis for many years and consequently definitions of what accounting entails have evolved. These definitions developed over many years represent the function and objective of accounting.

Table 2.1 below sets out some of the prominent definitions used since the 1950s, highlighting the important components that can be identified in those definitions. The table is followed by a discussion of the various definitions used and a summary of the common components found in the various definitions of accounting.

Table 2.1: Definitions of accounting

Year	Definition	Components of the definition
1953	Accounting is the art of recording, classifying, and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof (AICPA, 1953:9).	• Financial performance
1961	The function of accounting is (1) to measure the resources held by specific entities; (2) to reflect the claims against and the interests in those entities; (3) to measure the changes in those resources, claims, and interests; (4) to assign the changes to specifiable periods of time; and (5) to express the foregoing in terms of money as a common denominator (AICPA, 1961:23).	• Financial position • Financial performance • Accounting period • Unit-of-measurement
1970	The basic purpose of financial accounting and financial statements is to provide quantitative financial information about a business enterprise that is useful to statement users, particularly owners and creditors, in making economic decisions. This purpose includes providing information that can be used in evaluating management's effectiveness in fulfilling its stewardship and other managerial responsibilities (AICPA, 1970:par. 40).	• Quantitative financial information • Business enterprise (reporting entity) • Users of financial statements • Decision usefulness • Stewardship
1986	The basic purpose of financial accounting and financial statements is to provide quantitative and qualitative financial information about a business enterprise that is useful to statement users, particularly owners and	• Financial information (qualitative and qualitative) • Business enterprise (reporting entity)

Year	Definition	Components of the definition
	creditors, in making economic decisions. This purpose includes providing information that can be used in evaluating management's effectiveness in fulfilling its stewardship and other managerial responsibilities (AICPA definition as adapted by Vorster) (AICPA, 1970:par. 40; Vorster, 1986:106).	• Users of financial statements • Decision usefulness • Stewardship
1989	The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions (IASC, 1990:32).	• Information • Financial position • Financial performance • Users of financial statements • Decision usefulness
1999	The objective of financial statements is to provide information about the reporting entity's financial performance and financial position that is useful to a wide range of users for assessing the stewardship of the entity's management and for making economic decisions (ASB (UK), 1999:19).	• Information • Reporting entity • Financial position • Financial performance • Users of financial statements • Decision usefulness • Stewardship
2010	The objective of general purpose financial reporting is 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, 2015b:A19). Stewardship is implied as a secondary objective.	• Financial information • Reporting entity • Decision usefulness • Specific users of financial statements
2015 (Exposure Draft)	The 2010 objective was retained verbatim (IASB, 2015c:22). Stewardship is still implied as a secondary objective, but it is clarified that information needed to meet the above objective includes information on management's stewardship of the entity's resources entrusted to it (IASB, 2015c:7).	Same as for 2010

Source: Own observation

The 1953 definition of accounting focused on accounting as an art of which the result is an income statement, nowadays known as the statement of profit or loss (excluding other comprehensive income). This approach, known as the 'income statement approach' to accounting omitted any reference to the measurements of assets and liabilities. This shortcoming was rectified in the 1961 definition of accounting, where specific emphasis was placed to the measurement of assets (resources held by the entity) and liabilities (claims against the entity), as well as the measurement of profit or loss, as reflected by the changes in those resources and claims. Both the 1953 and 1961 definitions of accounting focused on what the financial statements are used for

and not on why these statements are prepared, in other words, what the purpose of financial accounting is.

The purpose or objective of financial accounting is important in creating an accounting theory that would be able to explain and predict the phenomenon that financial statements purport to represent. The phenomenon investigated in this study is a South African listed company under business rescue that is required to prepare financial statements while under business rescue proceedings.

The 1970 definition of accounting introduced the purpose of financial accounting; namely, to provide decision-useful quantitative information to the users thereof, as well as information for evaluating management's effectiveness in fulfilling its stewardship responsibilities. This definition also identified the reporting entity (business enterprise), as well as who the users of financial statements are. Since financial statements not only provide quantitative financial information but also qualitative financial information, Vorster (1986:106) suggested a small adaptation to the 1970 definition by including a reference to “qualitative” financial information.

In 1989, the IASB published its first version of the *Conceptual framework for the preparation and presentation of financial statements*. It used a definition similar to the one used by AICPA in the 1970s, except for the exclusion of the stewardship role of financial information. Reference was made only to information, which can be assumed to include both quantitative and qualitative financial information. The framework indicated that financial statements implicitly show the results of management’s stewardship (IASC, 1990:32).

The decision-usefulness and stewardship roles of financial reporting will be discussed in more detail in Chapter 3 of this study. Suffice it to say here that many commentators argue that the stewardship role played second fiddle to the decision-usefulness role in the IASB’s CF.

In 1999, the Accounting Standards Board (ASB) of the United Kingdom (UK) published a statement of principles for financial reporting, setting out the principles that they believed should underlie the preparation and presentation of financial statements. The statement made specific reference to the “objective of financial statements”. It also

made reference to information on the financial performance and financial position of the entity. The users of financial statements were not restricted to a few groups, but rather referred to as a "wide range of users". The decision-usefulness and stewardship roles of financial statements were retained, as was the introduction of and the reference to a "reporting entity".

In 2010, the IASB's CF for financial reporting was partially overhauled (hereafter referred to the '2010 CF'). A similar objective to the 1999 ASB definition was retained with small but noticeable differences: The first was a specific reference to "general purpose" financial "reporting". Furthermore, the users were limited to potential investors, lenders and other creditors. Stewardship was again relegated to a secondary position after the decision-usefulness purpose. Despite many objections from commentators to the 2014 CF discussion paper, specific reference to stewardship was not retained in the proposed 2015 update to the 2010 CF, apart from a clarifying note indicating that information needed to meet the decision-usefulness objective includes information on management's stewardship of the entity's resources entrusted to it (IASB, 2015b:7).

From the above it is clear that a few common components can be identified in the various definitions of accounting/financial reporting/financial statements that delineate the field of study. In summarising the common components, the objective of financial reporting can be defined as the

- provision of information (both quantitative and qualitative)
- to the *users* of financial statements
- on the financial position
- and financial performance
- for a reporting entity
- that is useful for making decisions (*decision-usefulness*), as well as to
- assess *stewardship* of management.

The above components form an important part of the structure of accounting theory, which will be further addressed in section 2.3. In this study, particular emphasis is placed on the users of financial statements, the decision-usefulness of financial

information and the stewardship components of the definition of accounting in the context of a listed company under business rescue.

Accounting plays an important role in our economy, and therefore the development of a general theory of accounting is important (Schroeder, Clark & Cathey, 2011:1). A general theory of accounting that would serve the needs of the accounting society should be based on and incorporate the above-mentioned components of the definition of accounting. The definition and goal of an accounting theory will be discussed in the next section.

2.2.3 The definition and goal of accounting theory

The previous paragraphs in this section highlighted the elements of what a general theory should contain (see § 2.2.1), as well as the reporting role of accounting (see § 2.2.2). Bearing in mind the elements of a theory and the function of accounting, Wolk, Dodd and Tearney (2004:2) define accounting theory as "the basic assumptions, definitions, principles and concepts – and how we derive them – that underlie accounting rule-making by a legislative body – and the reporting of accounting and financial information".

The goal of accounting theory is therefore to provide a set of logic principles that may provide a general frame of reference for the evaluation of current accounting practices, as well as the development of new accounting practices and procedures (Hendriksen & Van Breda, 1992:22). Many commentators agreed that a single comprehensive theory of accounting does not exist (Deegan, 2009:7; Riahi-Belkaoui, 2004:83; Vorster, 2007:31), only a range of different theories based on different assumptions and using different approaches to formulate them. Furthermore, formulating an accounting theory should incorporate a process to justify or refute existing theory (Riahi-Belkaoui, 2004:ix). Theory verification happens when an accounting phenomenon occurs that could be explained and predicted by accounting theory. If the accounting theory is unable to explain and predict the accounting phenomenon, it should be replaced by a "better" theory – hence further accounting theory formulation (Riahi-Belkaoui, 2004:107; Schroeder et al., 2011:1).

The author supports Wolk et al.'s (2004) definition of an accounting theory. In fact, this study specifically addresses some of the assumptions and principles in accounting theory. These will be elaborated on in more detail in the section on the structure of an accounting theory (§ 2.3).

Before the structure of an accounting theory can be considered, it is important to consider the approaches to formulating an accounting theory. This will be discussed in the following section.

2.2.4 Approaches to the formulation of accounting theory

In any discipline, including accounting, an approach or classification (or "methodology" as it is referred to by Riahi-Belkaoui) is required for the formulation of theory (Riahi-Belkaoui, 2004:109). Hendriksen and Van Breda (1992:17) state that all formal testable and verifiable theories will include elements of both deductive and inductive reasoning. An deductive process requires logical reasoning to go from determining the general usefulness or function of the theory (formulating an objective) to conclusions detailing specific methods and rules. On the other hand, an inductive theory formulation process follows the reverse order: it starts with making detailed observations and measurements, and ends with drawing generalised conclusions from the observations and measurements in support of a premise or hypothesis (Hendriksen & Van Breda, 1992:15-16; Vorster, 2007:31; Wolk et al., 1992:30-31). The data selected for observing an inductive theory formulation are selected on the basis of deductive reasoning (Riahi-Belkaoui, 2004:93; Vorster, 2007:31). According to Vorster (2007:31), inductive theory formulation is therefore an iterative process.

Deegan (2009:7) states that researchers hold different perspectives on the role of accounting theory and/or the central objective, role and scope of financial accounting. These differences contribute to the absence of a universally agreed standpoint on how accounting theories should be developed. The result is that many theories of accounting have been developed (Deegan, 2009:7), some using a process of deductive reasoning and others a process of inductive reasoning (Vorster, 2007:31).

These theories can be classified according to the approach followed to develop the accounting theory.

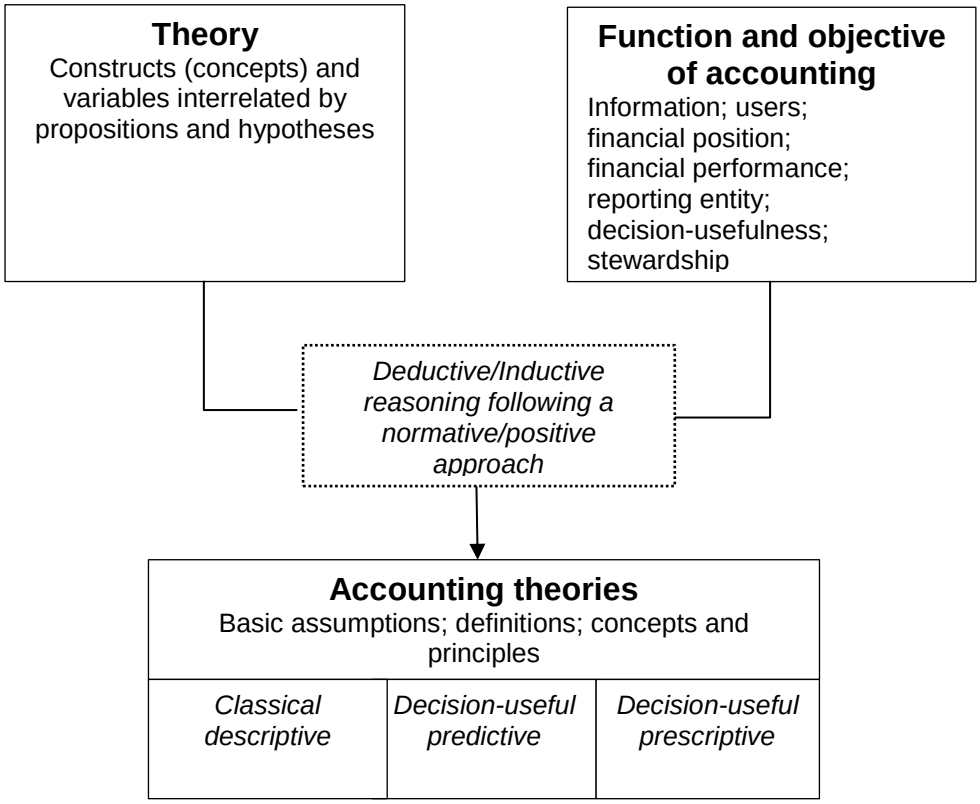
Refer to section 7.3.2 for an explanation of the particular reasoning applied in the research design of this study.

Riahi-Belkaoui (2004:109) identifies a descriptive and a normative approach to the formulation of accounting theory. A descriptive approach results in theories that explain (*describe*) what accountants do, and enables *predictions* to be made about their behaviour. These are also known as 'positive' theories of accounting. Normative theories of accounting *prescribe* what should be done in particular circumstances, as opposed to explaining or predicting what is done in those circumstances (Deegan, 2009:4).

Deegan (2009:5) identifies classical (*descriptive*) and *decision-usefulness* theories. Included in the decision-usefulness classification are a decision-maker (empirically based and *predictive*) sub-classification and a decision-model (normative, in other words *prescriptive*) sub-classification. Contrary to Riahi-Belkaoui (2004), Deegan (2009) does not classify the *predictive* theory of accounting as a descriptive approach. Schroeder et al. (2011:42-43) follow Deegan's classification, namely, approaches to theory formulation that lead to *descriptive* (classical)*, predictive* (positive) and *prescriptive* (normative) accounting theories. Glautier et al*.* (2011:42-44) also specify the same *descriptive* (classical) and decision-usefulness (both empirical (*predictive*) and normative (*prescriptive*)) theories as Deegan and Schroeder et al., but add a third classification, namely, welfare theory. Welfare theory considers the effects of decision-making on social welfare and is an extension of decision-usefulness theory.

From the above terminology (indicated in italics), and disregarding welfare theory, it is clear that accounting theories can be classified into three broad categories, namely, *classical-descriptive* accounting theories, *decision-useful predictive* accounting theories and *decision-useful prescriptive* accounting theories. In summary, Figure 2.1 presents a diagrammatical illustration of the approaches to formulating accounting theory.

Figure 2.1: The formulation of accounting theory



Source: Own observation

From the above it is clear that accounting theories are formulated on the basis of general theory principles to address the purpose of accounting. Accounting theories are therefore based on interrelated basic assumptions, definitions, concepts and principles. Depending on the method of reasoning followed and the approach used, theories of accounting can be grouped into three broad classifications.

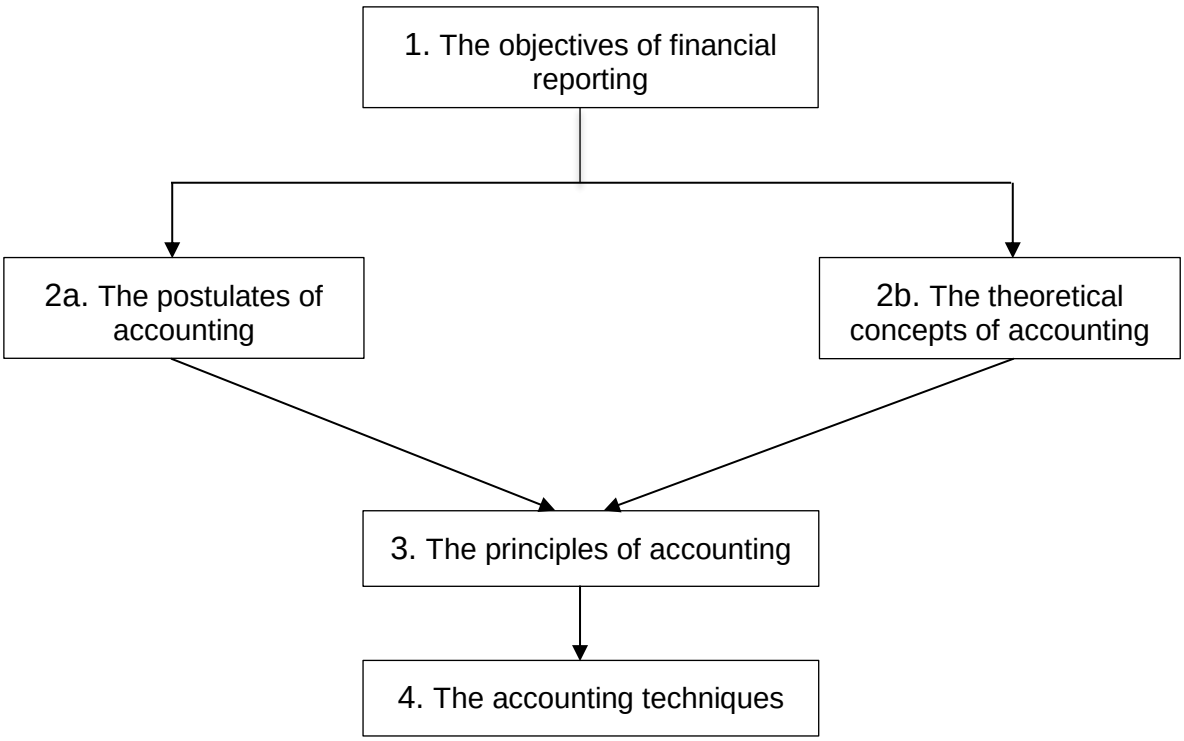
The three theories of accounting share a basic structure. The following section will discuss the structure of an accounting theory.

2.3 THE STRUCTURE OF AN ACCOUNTING THEORY

Irrespective of the reasoning process applied (deductive or inductive), or the approach used in the formulation of an accounting theory (normative or descriptive), the structure of an accounting theory is based on a set of elements and relationships that govern the development of accounting techniques (Riahi-Belkaoui, 2004:210). Figure 2.2

below illustrates the elements that are contained in the structure of an accounting theory.

Figure 2.2: Overview of the structure of an accounting theory



Source: Adapted from Riahi-Belkaoui (2004:210)

Since the research objectives refer to some of the elements of the above accounting theory structure, and since the CF can be viewed as a normative accounting theory based on deductive reasoning, the formulation of accounting theory will be briefly discussed from a deductive point of view. Using the elements of an accounting theory structure, as illustrated in Figure 2.2, the formulation of the theory from a deductive point of view includes the following steps (Riahi-Belkaoui, 2004:211; Vorster, 1986:13-14):

Step 1: Formulate the objective of financial reporting.

Step 2: Derive postulates (acceptable assumptions/premises) and theoretical concepts from the stated objectives of financial statements.

Step 3: Determine the principles of financial accounting, which will flow from the postulates and theoretical concepts.

Step 4: Formulate procedures and rules (accounting techniques) that are derived from the principles.

A deductive theory formulation process applies the above steps from top to bottom, that is, it moves from the general to the specific or, as Vorster (1986:13) explains, it moves from the theory to the practice. With regard to the practice that results from the theory constructed by a deductive process, Deegan (2009:227) argues that such a practice is acceptable if we agree with the objectives and assumptions from which the theory was derived. Conversely, if we disagree with the basic objectives and assumptions of the theory, we would dismiss the practice it prescribes (Deegan, 2009:227).

The same reasoning pertains when judging the practice prescribed by the CF and the accounting standards. In other words, if we agree with the underlying financial reporting assumptions and concepts in the CF, we would agree with the practices prescribed by the CF, as effected by the pronouncements of various accounting standards. On the other hand, if we disagree with (some of) the underlying financial reporting assumptions, we would dismiss (some of) the practices prescribed by the CF.

The possible dismissal of some of the practices prescribed by the CF is important because the study addresses, among other things, the underlying financial reporting assumption used to prepare the financial statements of companies under business rescue.

The various elements of an accounting theory structure, as indicated in Figure 2.2 above, will be discussed in chronological order in the following sections. The discussion commences with the objectives of financial statements, followed by the different postulates, concepts or principles, and techniques.

2.3.1 The objectives of financial statements

The first element of the structure, namely the statement of the objectives of financial statements, has already been discussed in section 2.2.2 above, which deals with the function of accounting. From the various definitions of accounting discussed, it was determined that financial statements should provide their users with financial information that is useful for making economic decisions. These statements should also provide information on management's stewardship of the resources entrusted to them.

This study investigates the objective of financial reporting in the context of a listed company under business rescue.

2.3.2 Accounting postulates

Accounting postulates are "self-evident statements or axioms, generally accepted by virtue of the conformity to the objectives of financial statements, that portray the economic, political, sociological and legal environments in which accounting must operate" (Riahi-Belkaoui, 2004:211). Accounting postulates are based on observation and are accepted as true, to such an extent that no further reasoning is needed for accepting their validity (Evans, 2003:50). Furthermore, the postulates of accounting used to formulate the theory of accounting may be of either a descriptive or a normative nature (Vorster, 1986:151).

Riahi-Belkaoui (2004:211) and Wolk et al. (2004:132) list four accounting postulates that have appeared in the accounting literature over the past few decades. Each of these postulates will be addressed below. These postulates include the entity postulate, the unit-of-measure postulate, accounting period postulate and the going concern postulate.

- *Entity postulate*

  The entity postulate holds that a separate entity exists, distinct from its owners and other entities, for which accounts are to be maintained and reports rendered (Riahi-Belkaoui, 2004:212; Salmonson, 1969:49). Owner's equity accounts are the point of interface between the entity and the owners and a number of deductive theories attempt to describe this relationship (Wolk et al., 2004:133). Consequently, focusing on equity would highlight the way an entity's capital is maintained, further leading to the question of how profit is to be measured. The theoretical accounting concepts relating to how equity is viewed and profit determined will be further addressed in section 2.3.3 below.

  Vorster (1986) also addresses the accounting postulates in his thesis on a structure for accounting theory. In his analysis of the structure of accounting, Vorster included a *financial position postulate* and *financial performance postulate* and explains that the financial position postulate is derived from the *accounting entity postulate* (Vorster, 1986:184, 209). Vorster further describes that the entity postulate determines the boundaries of the entity, whereas the financial position postulate indicates the way in which the financial ability or position of the entity is measured, namely, through the equation assets less liabilities (Vorster, 1986:184-188).

  Vorster indicates that on a practical level, there are two different approaches to accounting theory. The two approaches are the asset/liability approach and the income/cost approach (Vorster, 1986:209).

  The asset/liability approach records the assets as the economic sources of the entity, because they represent the future economic benefits (Vorster, 1986:209). The liabilities are claims against these economic resources, represented as future economic outflows.

  The income/cost approach focuses on the process of income determination. This approach considers the assets as defined by the asset/liability approach, as well as those items that are not considered economic resources but which are needed

for matching in the process of income determination. Therefore, the asset/liability approach refers to the financial position postulate, whereas the income/cost approach represents the financial performance postulate. Vorster argues that it may seem that, depending on the approach, either the asset/liability approach or the income/cost approach should be applied. However, he maintains that the two postulates do not have to be mutually exclusive as increases in equity can be considered “comprehensive net income”. Comprehensive net income would consist of “profit”, “losses” and “net income”. Net income is derived from the financial performance postulate (Vorster, 1986:210).

Since the financial performance postulate is derived from the financial position postulate, and the financial position postulate is derived from the entity postulate, this study will regard both the financial position and the financial performance postulates as sub-postulates of the entity postulate. Using the equation ‘assets less liabilities’ to measure the financial position of an entity, by implication requires that an asset and a liability should be defined. Moreover, arriving at a ‘net income’ means that, in a comprehensive accounting theory, both ‘income’ and ‘expense’ should be defined.

- *Unit-of-measurement postulate*

  The unit-of-measurement postulate, also known as the monetary unit postulate, holds that accounting is a measurement and communication process in which an entity's activities are measured in monetary terms (Hendriksen & Van Breda, 1992:149; Riahi-Belkaoui, 2004:213). The mainstay of accounting principles and methods is a stable monetary unit. A stable monetary unit, in turn, supports the historical cost principle (Wolk et al., 2004:133). However, inflation has a significant influence on prices in most countries. This caused accounting theorists to consider and advocate current value accounting. Some resulting current value accounting theories are addressed in section 2.4 of this chapter.

- *Accounting period postulate*

  The accounting period postulate holds that periodic, short-term financial reports should be disclosed with information about the financial position and performance

of the entity in order for the users to make short-term decisions. By requiring these reports, the accounting period postulate imposes accruals and deferrals, also referred to as accrual accounting (Riahi-Belkaoui, 2004:214). Wolk et al. (2004:133) support Riahi-Belkaoui in holding that the accounting period postulate led to accrual accounting, but add that it also led to the principles of recognition and matching under historical cost accounting. Glautier et al. (2011:76) argue that accounting income is merely the result of completed transactions during the accounting period. In other words, the revenue principle is also derived from the accounting period postulate.

- *Going concern postulate*

  The fourth accounting postulate is of particular importance to this study. The going concern postulate, also known as the continuity postulate, holds that the entity will continue to operate for the foreseeable future in order to realise its projects, commitments and ongoing activities. The postulate assumes that the entity will continue to operate for an indefinite period of time, or that the entity is not expected to be liquidated in the foreseeable future (Hendriksen & Van Breda, 1992:146; Riahi-Belkaoui, 2004:213). 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.

  The effect of adopting the going concern postulate is that the liquidation basis for valuing assets, as well as the inclusion of non-legally recognised accruals, is avoided. Hendriksen (cited in Salmonson, 1969) argued that asset values are affected by assumptions about the future, and since not every entity can be expected to have an indefinite life, the users of financial statements are entitled to know whether their financial statements have been prepared under the going concern or near-term liquidation financial reporting assumption (Salmonson, 1969:53).

  According to Salmonson (1969:53), “financial statements are validly based on an expectation of continuity because the accountant has no alternative, except where termination is known and planned”. Salmonson therefore states that the

accountant cannot let his personal beliefs about an entity's ability to survive serious financial difficulty cause him to discard the going concern financial reporting assumption, no matter how strongly he believes that the entity is not a going concern. The reason given is that such a representation would only ensure the demise of the entity by inducing adverse actions against it, for example denials of additional credit (Salmonson, 1969:53).

The author of this work disregards Salmonson's view on the basis that withholding such knowledge would be contrary to the aim of financial statements, namely, to provide decision-useful financial information for the users of such statements. If a company is experiencing financial distress and has applied for business rescue, the financial statements should present and disclose this information as clearly as possible.

Fremgren and Sterling (cited by Wolk et al., 2004:132) heavily criticised the going concern postulate. Sterling argued that the period of continuity is long enough for an entity to conclude its present contractual arrangements. Wolk et al. therefore argues that continuity (i.e. going concern) is more in the nature of a prediction than an underlying assumption. They conclude that, aside from ordinarily excluding liquidation values, going concern has little to add to accounting theory. In his study, Vorster (1986:178) argues that "going concern" should rather be considered as a variation of the entity postulate, and not a separate postulate.

The advent of corporate rescue mechanisms to provide businesses in financial distress with a period of relief indicates that going concern is not a given. If a listed company files for business rescue, the mere action of filing for business rescue protection indicates that there is significant uncertainty about the future of the company. The business rescue outcome can go either way; that is, the company may return to being a true going concern, or it may be liquidated.

It was earlier indicated that asset values are affected by assumptions about the outlook of the entity. The different measurement bases for assets and liabilities are discussed in Chapter 6 of this study. Since asset values are

affected by assumptions about the future of the entity, the specific meaning of 'continuity' will be investigated in this study as an underlying basis for the chosen asset values in Chapters 8 and 10 of this study. For the purposes of this study, the going concern postulate will be retained and used in the remainder of this chapter.

Like the accounting postulates, the theoretical concepts are also derived from the objectives of financial statements. The theoretical concepts section of the structure of accounting theory will be discussed next.

2.3.3 Theoretical concepts

Similar to the accounting postulates, theoretical concepts of accounting are self-evident statements or axioms. Theoretical concepts are generally accepted by virtue of their conformity to the objectives of financial statements, which portray the nature of accounting entities operating in a free economy and are characterised by private ownership of property (Riahi-Belkaoui, 2004:211).

In section 2.3.2 above, it was indicated that equity represents the point of interface between the entity and the owners. It was also stated that the way equity is viewed highlights the way an entity's capital is maintained, further indicating how profit is measured.

Riahi-Belkaoui (2004) identifies three theoretical concepts of accounting, namely, the propriety, entity and fund concepts. Wolk et al. (2004:146-147) also identify the residual equity and commander concepts. Therefore, the five theoretical concepts discussed here are the proprietary concept, the entity concept, the residual equity concept, the fund concept and the commander concept.

- *Proprietary concept*

  The proprietary concept views the proprietor group as the centre of interest, with the primary objective of determining and analysing the proprietor's net worth

(Hendriksen & Van Breda, 1992:769). According to this concept, the proprietors (owners) and the entity are almost identical. It is therefore assumed that the assets belong to the entity's owners, the liabilities are the owners' obligations and the equity accrues to the owners (Wolk et al., 2004:143). Hendriksen and Van Breda (1992:769), Riahi-Belkaoui (2004:215) and Wolk et al. (2004:143) illustrate the concept using the following accounting equation:

$$\sum Assets - \sum Liabilities = \sum Proprietor's\ equity$$

Dividends (preference and ordinary) are not seen as expenses. Therefore, according to Wolk et al. (2004:143): "Income represents the owners' increase in both net assets (assets minus liabilities) and owners' equities arising from operations during the period." Wolk et al. (2004:143) further state that the propriety approach coincides with the current components of income measurement under historical cost-based systems.

However, some theorists regard wealth, as indicated by the statement of financial position, as more important than the income available to both the preference and ordinary shareholders. Therefore, these theorists consider either price-level adjustments or the use of current values as integral to the propriety concept. Accounting theories that consider price-level adjustments or current values will be discussed further in section 2.4.3.

- *Entity concept*

With regard to the entity concept, Riahi-Belkaoui (2004:215) and Hendriksen and Van Breda (1992:771) describe the entity as something separate and distinct from the proprietor. In this case, the entity is the centre of accounting interest. It owns the assets and is liable to both claims against the assets and claims of the owners. In other words, both the liability and equity holders are investors in those assets (Wolk et al., 2004:144). Hendriksen and Van Breda (1992:771), Riahi-Belkaoui (2004:215) and Wolk et al. (2004:144) illustrate the concept according to the following accounting equation:

$$\sum Assets = \sum Providers\ of\ capital,\ thus$$

$$\sum Assets = \sum Liabilities + \sum Shareholder's\ equity$$

In terms of this concept, both interest (on liabilities) and dividends (to shareholders) represent *distributions* of income to the providers of the capital. Therefore, interest and dividends are *not deducted* from income (Hendriksen & Van Breda, 1992:769). Furthermore, income only belongs to capital providers when interest is due and/or dividends are declared. The entity concept has been employed by theorists who advocate historical cost accounting and those who advocate general price level adjustment accounting; that is, those using current values (Hendriksen & Van Breda, 1992:772-773; Wolk et al., 2004:145).

- *Residual equity concept*

Hendriksen and Van Breda (1992:773) and Wolk et al. (2004:146) describe the residual equity concept as a variant of both the proprietary and the entity concepts. The residual equity holders are at the centre of accounting interest. These are the ordinary shareholders and their rights to the equity are superseded by all other claimants. Their equity interest therefore serves as a buffer for all other groups with prior claims on the entity, such as the providers of debt and preference shareholders (Wolk et al., 2004:146). This concept can be illustrated in terms of the following accounting equation:

$$\sum Assets - \sum Specific\ equities\ (including\ liabilities\ and\ preference\ shares) = \sum Residual\ equity$$

The residual equity concept holds that residual equity holders should be supplied with decision-useful information. Decision-useful information would be information that assists in predicting future cash flows. In terms of this concept, income accrues to residual equity holders after all claims have been met, therefore income is determined after deducting interest on debt and the dividends paid out to preference shareholders (not dividends to ordinary shareholders) (Hendriksen & Van Breda, 1992:773). Modern finance theory considers preference share capital to be a form of debt. The residual equity concept is therefore aligned to modern finance theory and is a relatively recent development (Wolk et al., 2004:146).

- *Fund concept*

The fund concept views the business unit as consisting of funds (economic resources) and related obligations, as well as restrictions on the use of these economic resources for specific purposes. The restrictions on the assets stem from both the liabilities and the invested capital, as the latter must be maintained intact. This concept is more applicable to government and non-profit organisations and can be illustrated by the following accounting equation (Hendriksen & Van Breda, 1992:776; Riahi-Belkaoui, 2004:216; Wolk et al., 2004:147):

∑Assets = ∑Restrictions to assets (i.e. liabilities and invested capital)

- *Commander concept*

The commander concept arises from management's need for information to carry out its control and planning functions on behalf of the owners. The word 'commander' is a synonym for 'management', therefore, the commander concept is more applicable to management accounting than financial accounting. In view of the fact that management plays a fiduciary role on behalf of the owners, agency theory is an example of the use of the commander concept. Section 2.4.1 addresses agency theory as one of the various accounting theories.

When considering the different theoretical concepts in accounting, it is clear that the CF is best aligned to the *proprietary concept* approach. Owners' equity consists of the increase in net assets (i.e. after deducting liabilities) and net income from operations (i.e. net profit) during the year. However, developments over the past few years in accounting for financial instruments, and in particular preferences shares, have also seen the incorporation of elements of the *residual equity concept*. In terms of par. AG25 of IAS 32 *Financial Instruments: Presentation*, under certain circumstances preference shares may be considered in full or partly as liabilities (IASB, 2015g:A1264). Income that accrues to residual equity holders is therefore determined after deducting interest on debt and dividends to preference shareholders. The *residual equity concept* also holds that when predicting future cash flows decision-useful information should be supplied to the residual equity holders. This is one of the aspects investigated in the context of a listed company under business rescue because such a company is required to prepare financial statements while under business rescue.

Flowing from the accounting postulates and the theoretical principles are the accounting principles. These principles are discussed next.

2.3.4 Accounting principles

Accounting principles are general decision rules derived from both the accounting postulates and the theoretical concepts of accounting, which govern the development of accounting techniques (Riahi-Belkaoui, 2004:211). Several accounting principles are derived in this way, each of which will be briefly introduced below:

- The *cost principle*

The cost principle determines that historical cost or acquisition cost (or an amortised portion of that value) is the appropriate measurement base for the measurement of assets, liabilities, capital transactions and expenses. The cost principle can be justified by the *going concern postulate* (Glautier et al., 2011:70), which assumes indefinite continuation, thereby eliminating the need for using current values or liquidation values when measuring assets. Furthermore, the cost principle may be justified in terms of the objectivity principle (see below) since historical cost can be considered objective and verifiable information (Riahi-Belkaoui, 2004:218).

This study intends to establish what the appropriate measurement bases are for the assets and liabilities of a South African listed company under business rescue.

It is interesting to note that the *unit-of-measure postulate*, which assumes that the purchase power of a particular currency is stable, presents a major limitation to the use of the cost principle if the values of assets change over time (Riahi-Belkaoui, 2004:218). Although South Africa does not experience hyperinflation, the inflation we do have does have an effect on asset values over time. However, the effect of normal inflation on asset values is not relevant to this study, although a preference for current values measurement bases would naturally take the effect of normal inflation into account.

- The *revenue principle*

The revenue principle specifies what should be considered as revenue, how revenue should be measured and when (timing) revenue should be recognised (Riahi-Belkaoui, 2004:218). The revenue principle has its roots in the historical cost approach as the asset reflects the amount of revenue to be received from the performance of the revenue function (Wolk et al., 2004:135).

The timing of revenue is also referred to as the 'realisation' principle (Glautier et al., 2011:74; Riahi-Belkaoui, 2004:219). Schroeder et al. (2011:141) describe realisation in this sense as the recognition of income when the earnings process is (virtually) complete and an exchange transaction has taken place. Since the realisation principle deals with a specific aspect of the revenue principle, this study will consider it to be a sub-principle of the revenue principle. According to Glautier et al. (2011:72) the realisation principle has been strongly criticised by economists, who argue that if the value of an asset increases, it is irrelevant that it has not been sold (Glautier et al., 2011:72). This view is supported by the 2010 CF in that income, consisting of revenue and gains, is represented by an increase in assets or a decrease in liabilities which result in increases in equity, other than those relating to contributions from equity participants (IASB, 2015b:A38).

The above-mentioned economists' view is important for this study, since the study intends to establish what the appropriate measurement bases are for the assets and liabilities of a South African listed company under business rescue. The appropriate measurement base may be non-historical and a re-measurement to reflect the preferred non-historical measurement base may be in conflict to the realisation sub-principle.

- The *matching principle*

The matching principle determines that expenses should be recognised in the same accounting period as the associated revenues, and underscores the use of accrual accounting (Hendriksen & Van Breda, 1992:376; Riahi-Belkaoui, 2004:221). Accrual accounting, in turn, is derived from the accounting period postulate. Wolk et al. (2004:136) and Evans (2003:200) argue that the matching principle is also concerned with historical costs owing to matching being the primacy of income

measurement. The matching principle is not applied much in modern accounting, with the increase in assets/decrease in liabilities, as explained under the revenue principle, being more popular.

- *The objectivity principle*

The usefulness of financial information depends on the reliability of the measurement procedures. Because it is difficult to ensure maximum reliability, the objectivity principle is used to justify the choice of a particular measurement procedure. The reliability of a measurement then depends on how faithfully the phenomenon can be represented, as well as the degree of verifiability of the measurement (Riahi-Belkaoui, 2004:223).

From the above it is clear that from the objectivity principle flows the 'reliability' and the 'faithful representation' characteristics of useful information that are found in the 2010 CF. Vorster (1986:250) explains that the application of the objectivity principle will indicate that the net realisable value would be the recommended valuation base for the assets of a segment that cannot be considered a going concern.

Vorster's observation is important because this study investigates whether or not the underlying financial reporting assumption of going concern is appropriate for a listed company under business rescue. If this assumption is not appropriate, then the net realisable value measurement base may be an appropriate valuation base for company assets.

- *The consistency principle*

The consistency principle holds that similar transactions and events should be recorded and reported in a consistent manner from accounting period to accounting period. This principle also supports the comparable principle (see below), thereby enhancing the usefulness of the financial statements (Glautier et al., 2011:77; Riahi-Belkaoui, 2004:225).

- *The full disclosure principle*

The full disclosure principle requires that the transactions and events that had an effect on the entity during the accounting period should be accurately portrayed and contain sufficient information to make the financial statements useful, and not

misleading, to their users (Riahi-Belkaoui, 2004:225). The full disclosure principle is similar to the faithful representation principle found in the 2010 CF.

This study aims to present a financial reporting framework for a South African listed company under business rescue. This framework will therefore address the phenomenon of a company under business rescue and will also suggest appropriate disclosures in this regard.

- *The conservatism principle*

The conservatism principle, also known as the prudence principle, acts as a constraint on the presentation of relevant and faithfully represented information. This principle holds that when a choice needs to be made between two or more acceptable accounting techniques, the option leading to the more unfavourable impact on equity should be selected (Glautier et al., 2011:77-78; Riahi-Belkaoui, 2004:227). This results in bias, errors and misleading statements and, according to Riahi-Belkaoui (2004:227), as an accounting principle it is bound to disappear.

The IASB did in fact decide to remove the prudence principle from the 2010 CF. However, initial indications are that this principle will be included again in the qualitative characteristics in the proposed amendments to the 2010 CF.

- *The materiality principle*

The materiality principle determines that insignificant transactions and events may be excluded from disclosure in the financial statements without effecting the relevance and faithful representation of the financial statements as a whole (Riahi-Belkaoui, 2004:227; Schroeder et al., 2011:153).

- *The uniformity and comparability principles*

To achieve the objective of comparability between different entities, the uniformity principle should be applied; in other words the same procedures should be used by different entities. If this principle can be achieved the user of the financial statements will be presented with meaningful data (Riahi-Belkaoui, 2004:228).

- *Timeliness of accounting earnings principle*

  The timeliness of accounting earnings may be defined as the extent to which accounting income in the current period incorporates the economic income in the same period. The recognition principle of accounting income has the effect of incorporating economic income in accounting income in a lagged and 'smoothed' manner over time. Timeliness therefore measures the degree to which economic income is incorporated in accounting income (Riahi-Belkaoui, 2004:229).

The above accounting principles form part of the structure of an accounting theory and are derived from the accounting postulates and the theoretical concepts.

The intended framework for a South African listed company under business rescue that is the focus of this study will specifically address the cost, objectivity and full disclosure principles.

The accounting principles, together with the accounting postulates and theoretical concepts, are the building blocks used to develop the specific accounting techniques that are used in the preparation of financial statements. These accounting techniques are the final element of accounting theory structure and will be discussed in the next section.

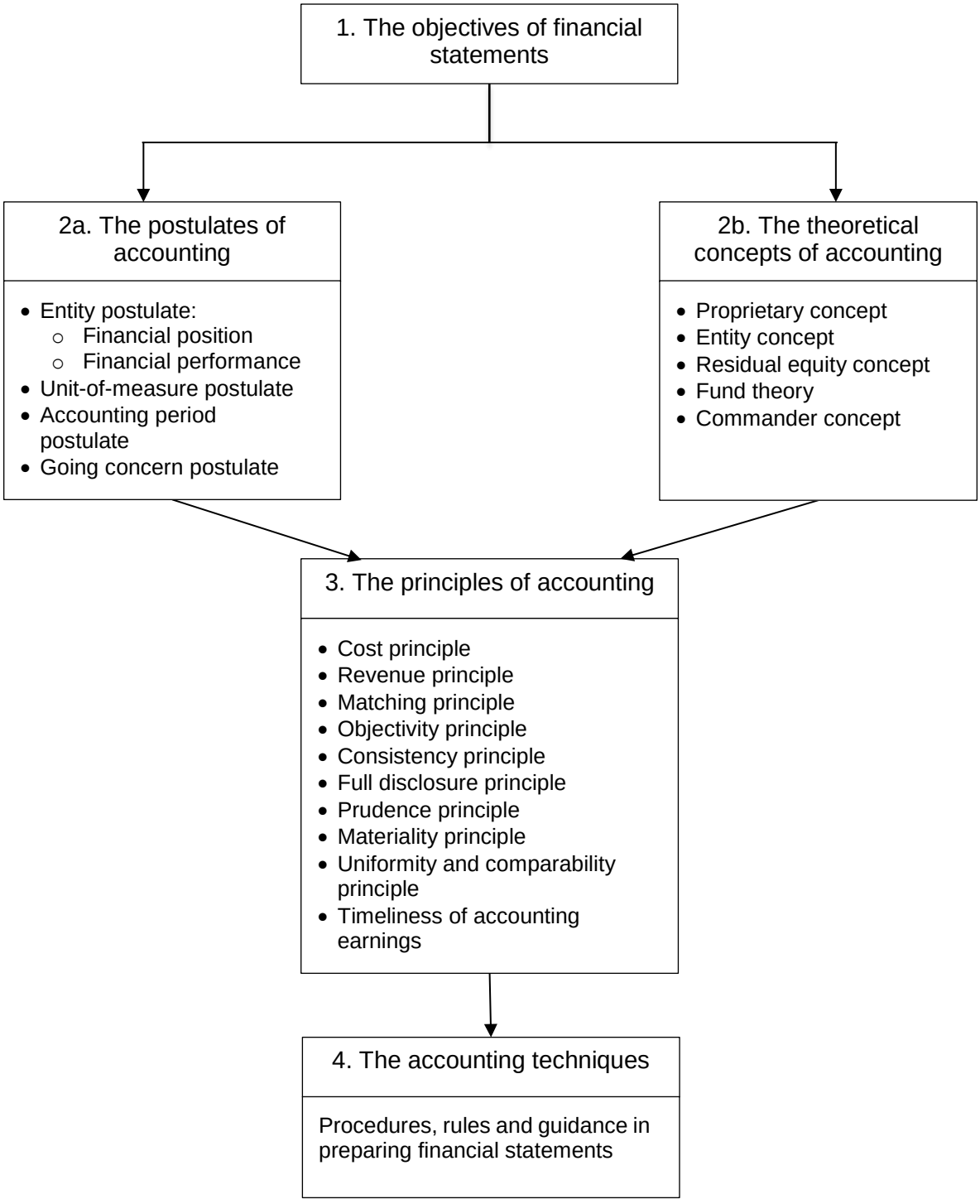
2.3.5 Accounting techniques

Accounting techniques are specific rules derived from the accounting principles that account for specific transactions and events faced by the accounting entity (Riahi-Belkaoui, 2004:211). These techniques include the recognition and de-recognition criteria, providing a choice of possible measurement bases and, on a financial accounting standards level, further guidance and disclosure requirements to give effect of the accounting principles discussed above. In fact, this is exactly the purpose of the IASB's set of IFRSs.

Figure 2.3 on the next page summarises the foundation of an accounting theory, indicating each of the accounting postulates, theoretical concepts and principles of

accounting that are applied in a deductive and successive process to enable the specification of the techniques and rules used to prepare financial statements.

Figure 2.3: Detailed structure of an accounting theory



Source: Adapted from Riahi-Belkaoui (2004:210)

In the next section each of the classifications of accounting theory, as indicated in section 2.2.4, will be briefly explained. The section will also indicate whether a deductive or an inductive reasoning process was mainly followed in formulating the theory. Some examples of the resulting theories are also provided as background information on the particular area in which the application of the accounting theory is most suitable.

2.4 CLASSIFICATIONS OF ACCOUNTING THEORY

In section 2.2.4, three broad classifications of theories of accounting were identified, namely, *classical-descriptive* accounting theories, *decision-useful predictive* accounting theories and *decision-useful prescriptive* accounting theories.

The next subsections briefly explain the broad classifications of accounting theory (*classical-descriptive*, *decision-useful predictive* and *decision-useful prescriptive*), indicating the main method of reasoning applied in formulating the theory (deductive or inductive). Some examples of the types of theory and the resulting accounting models are also provided, before the relationship of the accounting theory to the research aim of this study is shown.

2.4.1 Classical-descriptive theories of accounting

Classical-descriptive theories of accounting were formulated from the 1920s to the 1960s based on practical observation of what accountants actually did. Therefore, using inductive reasoning, the generally accepted accounting principles of the time were observed, codified in the form of the doctrines or conventions of accounting and documented as accounting theory (Deegan, 2009:8-9; Glautier et al., 2011:42).

It is interesting to note that this approach considers stewardship (accountability) as a theory of accounting, in particular the disclosure of financial information aimed at protecting the interests of the shareholders from possible fraudulent management practices (Glautier et al., 2011:43). Another example is the agency theory. Proponents of the classical descriptive theories of accounting tend to employ income smoothing and earnings management models in their research (Riahi-Belkaoui, 2004:337-339).

The research problem illustrated in section 1.3 has become more apparent since the introduction of the Chapter 6 business rescue legislation in 2011. There is, to date, insufficient observable data from which to construct a descriptive theory. The focus of this study is therefore on *prescribing*, rather than *describing,* a financial reporting framework for a listed company under business rescue.

2.4.2 Decision-useful predictive accounting theories

Decision-useful predictive accounting theories, also known as positive accounting theories, are also formulated using inductive reasoning and are empirically based on observations made. These theories seek to explain and predict particular accounting practice and have arisen because existing theory has failed to fully explain accounting practice.

Examples of these theories include the efficient market hypothesis theory, capital asset pricing theory and Watts and Zimmerman's Positive Accounting Theories (PAT). Various models have been developed, for example models to predict an economic event and models to predict market reaction. One example of a model predicting an economic event, such as financial distress, is Altman's Z-score. Models predicting market reaction include Fama's efficient market hypothesis (EMH) model and Sharpe, Lintner and Mossin's capital asset pricing model (CAPM) (Riahi-Belkaoui, 2004:343-345, 398-433).

Although decision-useful *predictive* accounting theories include models to predict economic events such as financial distress, the aim of this study is to *prescribe,* in the form of a financial reporting framework, what information would be useful to users of financial statements for a listed company under business rescue.

2.4.3 Decision-useful prescriptive accounting theories

Decision-useful prescriptive (normative) accounting theories are constructed using deductive reasoning and prescribe what should be done in particular circumstances, as opposed to describing or predicting what is done (Deegan, 2009:4). Owing to the fact that normative theories of accounting are not necessarily based on observation, Deegan (2009:12) states that these theories cannot and should not be evaluated on

the basis of whether the theories reflect actual accounting practice. Normative theories of accounting may in fact suggest radical changes to current practice. To illustrate this point, Deegan refers to R.J. Chambers, who advocated that assets should be valued on a basis related to their net market values at a time when historical cost accounting was widely used (Deegan, 2009:12). At that stage, this was seen as a radical change that would never happen. The current practice of revaluation of non-current assets is now history!

Staubus (2000:333) investigated decision-usefulness theory for a particular class of users, namely investors. He considered 'investors' as shareholders and creditors (Staubus, 2000:5), which is important as both of these users of financial statements are also affected stakeholders in a business rescue scenario (refer to § 4.3.2, as well as the Definitions of terms p. xxviii).

Riahi-Belkaoui (2004:339-343) explains that researchers using a normative-deductive approach to the formulation of accounting theory are in complete agreement that current price information is more useful to users in making economic decisions than the conventional historical-cost information. According to these theorists, each of the theories presents alternative methods of asset valuation and income determination that overcome the weaknesses of historical-cost accounting. The theories that emerge from this normative-deductive approach are formulated by proceeding from objectives and postulates about the environment to specific methods, and include the following:

- Price level adjusted theory (also referred to as current-purchasing power accounting)
- Replacement cost theory
- Deprival-value theory
- Net realisable value theory (also referred to as continuously contemporary accounting)
- Present value theory.

Riahi-Belkaoui (2004:341-343) notes that also included in the decision-usefulness/decision-model paradigm is a theory dealing with different economic events that may affect a going concern, such as bankruptcy, takeovers and mergers. He then

makes the point that theories that link accounting information to these events are still lacking.

It is the purpose of this study to address this need and propose a financial reporting framework, within a decision-prescriptive theory of accounting, to address the prescriptives for the financial reporting of a listed company under business rescue.

The IASB's CF can be viewed as a normative theory of accounting (Deegan, 2009:210; Vorster, 2007:32), in other words a *decision-useful prescriptive* theory of accounting. The CF was developed because professional accounting bodies did not support any particular accounting theory. The International Accounting Standards Committee (IASC), together with professional accounting bodies from the USA, the UK, Ireland, Canada, Australia and New Zealand all undertook to develop a CF (Deegan, 2009:215). Efforts started in the 1960s, but only gained collective momentum in the 1980s.

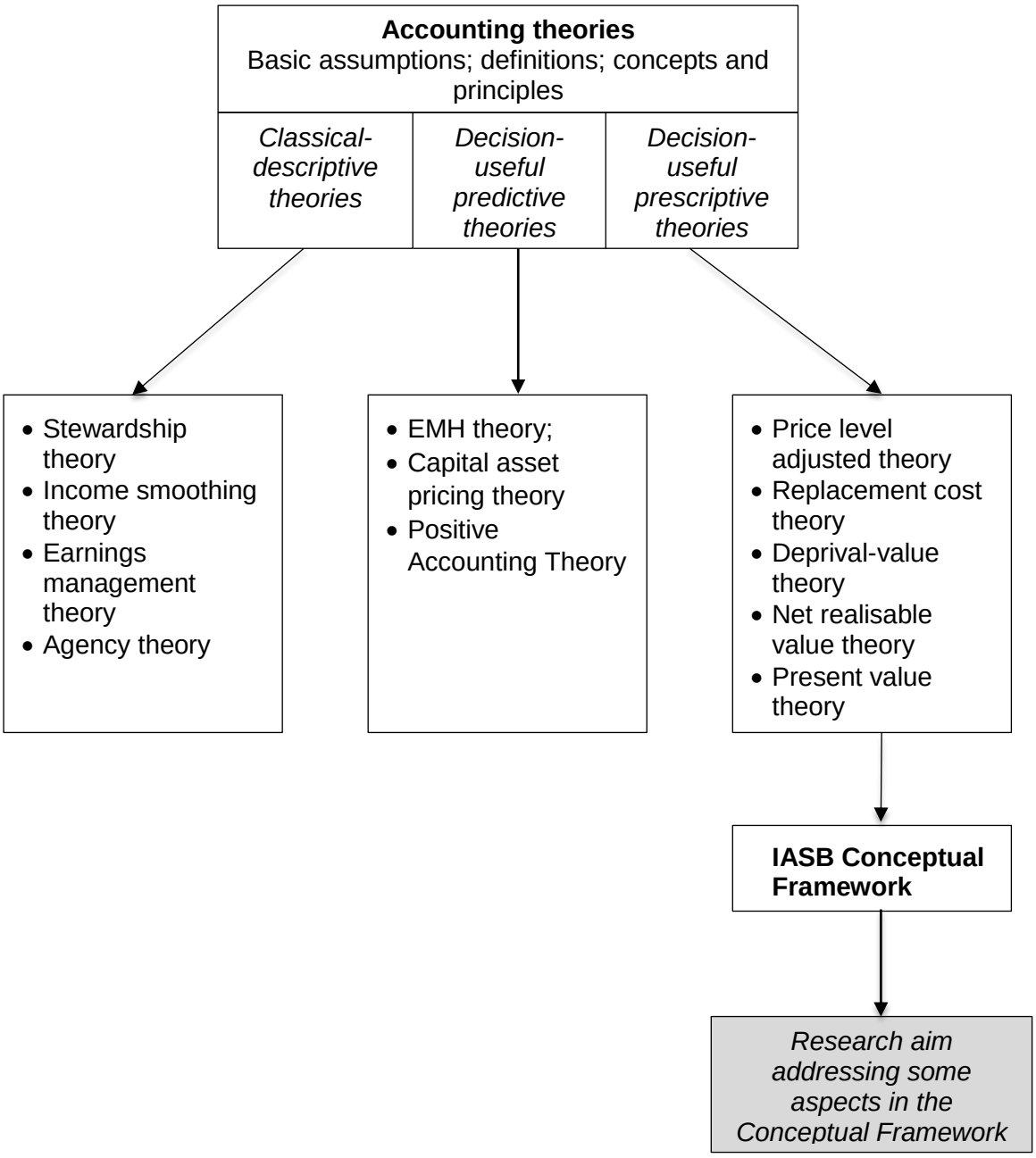
In the early 1960s, the USA's AICPA took the lead and commissioned a number of studies. This organisation accepted a descriptive-inductive theory of accounting, which described the existing practice at the time. This led to the release of Accounting Principles Board (APB) No. 4, *Basic Concepts and Accounting Principles Underlying the Financial Statements of Business Enterprises* in 1970. In response to certain criticisms, *The Trueblood Report* was released in 1973, listing 12 objectives of accounting and seven qualitative characteristics that financial information should possess. The Financial Accounting Standards Board (FASB) replaced the APB in 1974 and embarked on its own CF project. Since 1978 and 2000 several Statements of Financial Accounting Concepts (SFAC) have been published, dealing with the objectives of financial reporting and using cash flow information and present values in accounting measurement, as well as recognition and measurement in financial statements (Deegan, 2009:215-218).

Simultaneous developments towards the formulation of a CF took place in other countries. In the UK, *The Corporate Report* was released in 1975 which addressed, in particular, the wider user group; that is, the rights of the community to have access to financial information about the entities operating in the community. However, this view

was not accepted by the accounting profession. In Canada, *The Stamp Report* was released in 1980, relying heavily on *The Corporate Report,* but the accounting profession did not accept this report either. In Australia and New Zealand, conceptual frameworks were being developed which had similarities with the FASB project. The first version of the IASB's CF was published in 1989 by the IASC, entitled *Framework for the Preparation and Presentation of Financial Statements* (Deegan, 2009:218-219). As indicated earlier, this framework was partly overhauled in 2010, with a new CF expected to be published in 2017.

The research aim of this study addresses some elements of the 2010 CF. The relationship between the accounting theory and the research aim can be summarised as indicated in Figure 2.4 below.

Figure 2.4: Relationship between accounting theory and the research aim



Source: Own observation

Figure 2.4 illustrates the relationship between the accounting theories, through the decision-useful prescriptive theory of accounting classification and the IASB Conceptual Framework, and the research aim. In considering the normative-deductive theories illustrated above, as well as the classical descriptive theories, it is clear that the CF and the resulting IFRS accounting pronouncements are based mainly on

traditional historical-cost accounting, but include some elements of the other normative-deductive theories to address the deficiencies of historical cost accounting.

The research questions, indicated in section 1.5, address specific aspects of the CF.

In the next section the components of the 1989 CF, as well as its improvements, will be examined and compared to the structure of an accounting theory. This comparison is done to fully embed the research aim in the theory of accounting.

2.5 CONCEPTUAL FRAMEWORK (CF)

Section 2.4 indicated that the current CF is considered a decision-useful prescriptive theory of accounting. It was also indicated that this study addresses some of the aspects of the CF, as a particular theory of accounting that may have an impact on the financial reporting of a listed company under business rescue.

As mentioned earlier, the CF was first developed in 1989. A major revision was completed in 2010, and some additional improvements are scheduled for completion in 2017. Because of the effect that of some of these revisions and improvements have on the research aim, the development of the CF will be examined chronologically before its link between the structure of accounting and the research aim is shown. Therefore, linking the structure of accounting to the 1989 CF, as well as any improvements made since, will assist in embedding the research aim firmly in the theory of accounting.

2.5.1 Overview of the 1989 CF

The 1989 CF commences by stating the objective of financial statements. This is followed by the underlying assumptions of the preparation of financial statements. The third section deals with the qualitative characteristics of the information provided in the financial statements that render it useful to its users. The fourth section deals with the elements that portray the financial position and the financial performance of the entity in the financial statements. The fifth section presents the recognition criteria for the elements, while the measurement options that the preparer of the financial statements may choose from are discussed in the sixth section of the framework. The final section

deals with aspects of capital maintenance. Figure 2.5 below illustrates this structure diagrammatically.

Figure 2.5: The main features of the 1989 CF

Objective
The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.
Underlying assumptions
• Accrual basis • Going concern
Qualitative characteristics

• Understandability
• Relevance
  ○ Materiality
• Reliability
  ○ Faithful representation
  ○ Substance over form
  ○ Neutrality
  ○ Prudence
  ○ Completeness
• Comparability
• Constraints
  ○ Timeliness
  ○ Cost/benefit balance
• Fair presentation (true view)

Elements

• Financial position defined
  ○ Assets
  ○ Liabilities
  ○ Equity
• Performance defined
  ○ Income
  ○ Expenses
• Capital maintenance adjustments

Recognition
Recognition criteria
Measurement
Various measurement bases
Capital maintenance
• Financial • Physical

Source: Own observation

The 1989 CF will be compared to the structure of an accounting theory before any improvements to the 1989 CF will be addressed. The next section discusses this comparison.

2.5.2 Comparison of the 1989 CF with the structure of an accounting theory

In the 1989 CF, the IASC states that the objective of financial statements is to "provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions" (IASC, 1990:32). As indicated above and also described in section 2.2.2, the objectives of financial statements as described in the 1989 CF are similar to the objectives of financial statements as described in the accounting theory structure. The 1989 CF therefore fulfils the first requirement of an accounting theory, namely, the formulation of the objective of financial reporting.

The second element of an accounting structure is to derive postulates and theoretical concepts from the stated objectives of financial statements (see § 2.3 on p. 42). The 1989 CF employs the accrual basis and going concern as the underlying financial reporting assumptions (IASC, 1990:35). It also refers to the determination of the "**monetary** amounts at which the elements of the financial statements are to be recognised and carried in the balance sheet and income statement" (author's emphasis) (IASC, 1990:53). The 1989 CF is therefore aligned to the accounting period (accrual basis) postulate, the going concern postulate and the unit-of-measure (monetary unit) postulate.

In developing a financial reporting framework for a South African listed company under business rescue, the study will focus specifically on the going concern postulate.

However, the 1989 CF does not *specifically* address the entity postulate. It is therefore not surprising that none of the theoretical concepts that focus on equity and profit determination are specifically addressed. That said, the 1989 CF does address the financial position and the financial performance sub-postulates by defining the elements: asset, liability, equity, income and expense. Furhermore, an examination of

the section on capital maintenance (IASC, 1990:55-57) shows that the 1989 CF favours the propriety concept. This is clear from the fact that profit is determined as either the increase in net assets (financial capital) or operating capability (physical capital), both after excluding distributions to, and contributions from, owners during the period. Moreover, under the financial capital maintenance concept, the 1989 CF allows for a stable monetary unit view or a constant purchasing power adjustment view (IASC, 1990:56). The latter is found in the price level adjustment theory of accounting (see § 2.4.3 above).

Given the 1989 CF's guidance on the definition of the elements, as well its guidance on capital maintenance, it is indirectly aligned to the entity postulate and the proprietary theoretical concept. Early indications are that the 2017 revision of the CF will include a separate section on a reporting entity.

The third element of an accounting structure is to determine the principles of financial accounting. Section 2.3.4 specifies that, according to Riahi-Belkaoui (2004:211), accounting principles are general decision rules derived from both the accounting postulates and the theoretical concepts of accounting. These principles will then govern the development of accounting techniques. Table 2.2 below shows how the accounting principles, as defined in the structure of an accounting theory, are addressed in the 1989 CF.

Table 2.2: Comparison between the accounting principles and the 1989 CF

Accounting principle	**1989 CF**
Cost principle (use of historical cost or amortised historical cost)	Recognition: recognition criteria for elements Measurement: measure at historical cost
Revenue principle (i.e. measurement of revenue and when to recognise it)	Elements: Definition of income Recognition: Recognition of income Measurement: Measurement of related asset
Matching principle (revenue and expenses in the same period)	Underlying assumption: Accrual accounting Recognition: Recognition of expenses

Accounting principle	**1989 CF**
Objectivity principle (justification of a particular measurement choice to achieve reliable and faithfully represented information)	Measurement: Appropriate choice between alternatives
Consistency principle (consistent treatment of similar transactions and events from year to year)	Qualitative characteristic: Comparability
Full disclosure principle (portray financial information in order to make financial statements useful and not misleading)	Qualitative characteristic: Reliability (all aspects thereof) Qualitative characteristic: Fair presentation
Prudence principle (be more conservative when choosing between acceptable techniques)	Qualitative characteristic: Reliability (prudence)
Materiality principle (exclude insignificant transactions from disclosure)	Qualitative characteristic: Relevance (materiality)
Uniformity and comparability principle (use same procedures to achieve comparability)	Qualitative characteristic: Comparability
Timeliness of accounting earnings principle (degree of incorporating economic income into accounting income)	Not addressed. The timeliness constraint addressed in the CF deals with undue delay in the reporting of information.

Source: Own observation

In this comparison between the accounting principles and the 1989 CF, one can see that the latter addresses most of the accounting principles in its description of the qualitative characteristics of useful financial information, in its recognition criteria and, to some extent, in the measurement guidance. One can therefore conclude that the 1989 CF is aligned to the structure of the third element of accounting theory, namely, the determination of accounting principles to govern the development of accounting techniques.

The last element of an accounting theory structure is to derive procedural methods and rules, or accounting techniques, from the principles. The IASB has developed many IASs and IFRSs over the past decades; however, some accounting standards were developed before the 1989 CF came into being. Nevertheless, to date, most of these standards have been aligned to the 1989 CF or subsequently to the 2010 CF. Those

standards that have not been aligned, such as the standard on government grants, will in all likelihood be aligned to the expected 2017 CF in the next couple of years.

On a standards level, if the particular standard deals with an asset or liability, the procedural methods and rules would incorporate the particular element (definition of an asset, liability, equity, income or expense), the recognition criteria (initial and subsequent), de-recognition and measurement aspects. In addition, the standard would specify appropriate disclosure requirements to give effect to the qualitative characteristics of the item under consideration. In many cases, additional guidance on the implementation of the standard will also be provided.

As indicated in Chapter 1, the aspect of measurement is of importance to this study. This will be considered in more depth later in this study, but for the moment it is important to note briefly the guidance given by the 1989 CF as it pertains to the measurement options available.

The 1989 CF defines measurement as the process of determining the monetary amounts at which the elements (assets, liabilities, income and expenses) of the financial statements are to be recognised and presented in the financial statements (IASC, 1990:53). This process involves the selection of the particular basis of measurement, of which a number of different bases are employed to different degrees in the financial statements. Table 2.3 below lists the choices of applicable bases as follows:

Table 2.3: Measurement bases of assets and liabilities

Measurement base	Definition of base: assets	Definition of base: liabilities
Historical cost	Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition.	Liabilities are recorded at the amount of the proceeds received in exchange for the obligation, or in some circumstances (e.g. income taxes) at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.
Current cost	Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset were acquired	Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

	currently.	
Realisable (settlement) value	Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal.	Liabilities are carried at their settlement values; that is, the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.
Present value	Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business.	Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

Source: IASC (1990:53)

The 1989 CF states that the measurement basis most commonly adopted by entities in preparing their financial statements is historical cost, which is usually combined with other measurement bases. The 1989 CF also explains that entities use a current cost basis in response to the inability of the historical cost accounting model to deal with the effects of changing prices of non-monetary assets (IASC, 1990:54).

Despite the availability of current cost accounting (also known as current-purchasing power accounting), preparers of financial statements prefers to employ historical cost accounting. A possible reason for this is provided by Deegan (2009:225), who explains that the traditional objective of financial reporting was to enable outsiders to assess the stewardship of management and that it is generally accepted that historical cost accounting enables management to report effectively on the stewardship of the entity's resources (Deegan, 2009:225; IASC, 1990:32). In fact, stewardship is specifically mentioned in the discussion in the 1989 CF on the objective of financial statements: "Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it" (IASC, 1990:54). The inclusion of a stewardship objective and the resulting use of historical costs indicate that the 1989 CF also includes some elements of a classical-descriptive theory of accounting as described in section 2.4.1 above.

Lefebvre, Simonova and Scarlet (2009:18) confirm the relationship between the going concern postulate and historical cost accounting. They state that the use of historical cost accounting assumes a going concern. Furthermore, they specifically indicate that

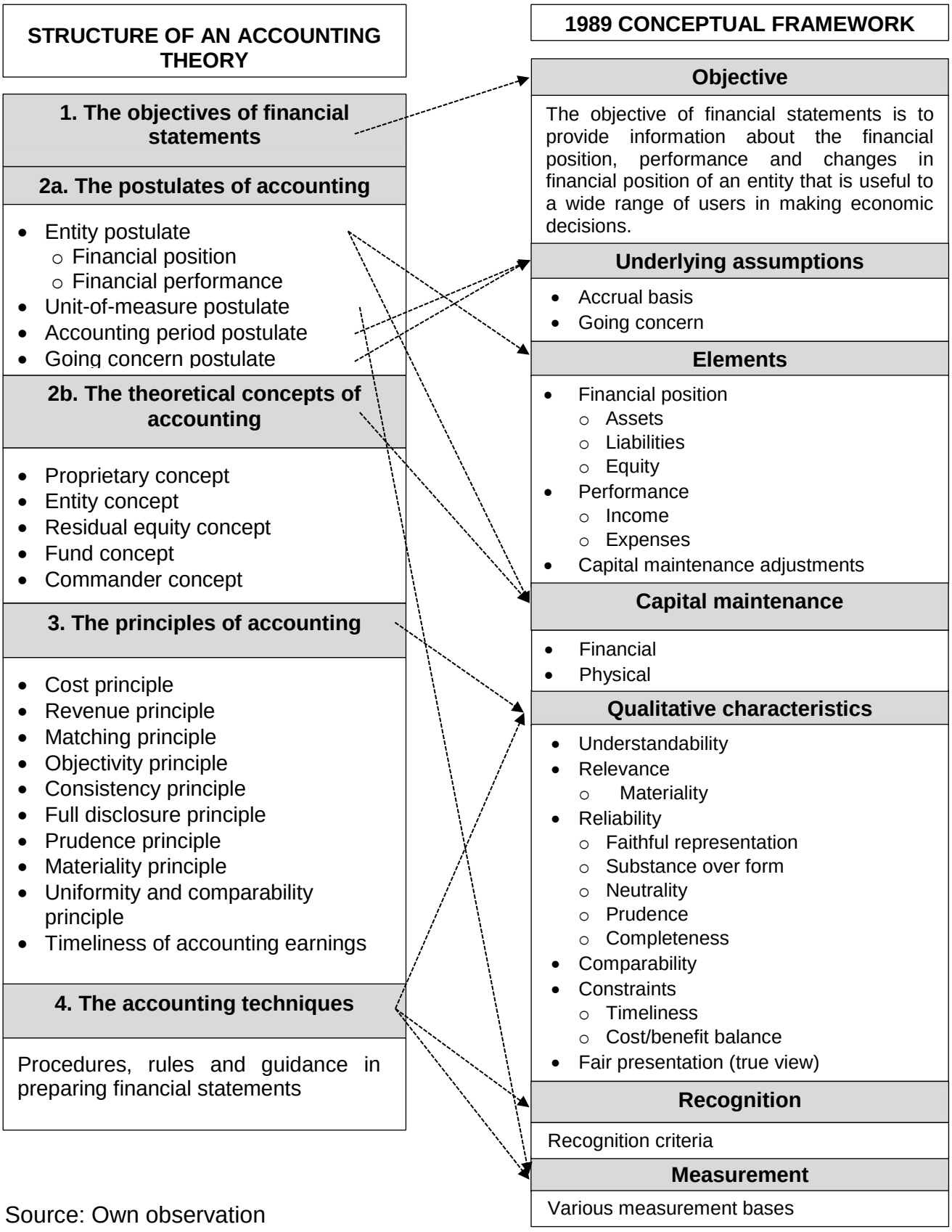
many companies may fall into the grey area between going concern and exit (liquidation) values (Levebvre at al., 2009:18).

It is this grey area, namely, when a company is in business rescue, which is addressed in this study.

From the above it is clear that the 1989 CF was used to derive accounting techniques in the form of accounting standards. One can therefore conclude that the 1989 CF is also aligned to the fourth and final element of the structure of an accounting theory.

Since the 1989 CF is aligned to all four elements of an accounting theory structure, one may conclude that the 1989 CF is in totality aligned to the structure of an accounting theory. Figure 2.6 below summarises the alignment of the 1989 CF to the structure of an accounting theory. The sections in the 1989 CF have been re-arranged for ease of comparison.

Figure 2.6: Alignment of the 1989 CF to the structure of accounting theory



Source: Own observation

From the above it is evident that the 1989 CF is to a large extent aligned to the structure of an accounting theory. It is also clear that it has a clear objective and subscribes to the going concern postulate, leading to mainly to the use of a historical cost accounting model.

The measurement bases include measurements with current value attributes, such as net realisable value or present value. The accounting model is therefore a mixed-measurement based accounting model. The model has both cost-based and current value measurements, but the emphasis tends towards historical cost measurements. Furthermore, the 1989 CF provides limited guidance on when to use the alternative measurement choices.

The next section discusses the improvements that have been made to the 1989 CF. Both the 2010 improvements and the proposed improvements in the 2015 exposure draft (ED) are addressed.

2.5.3 Improving the 1989 CF

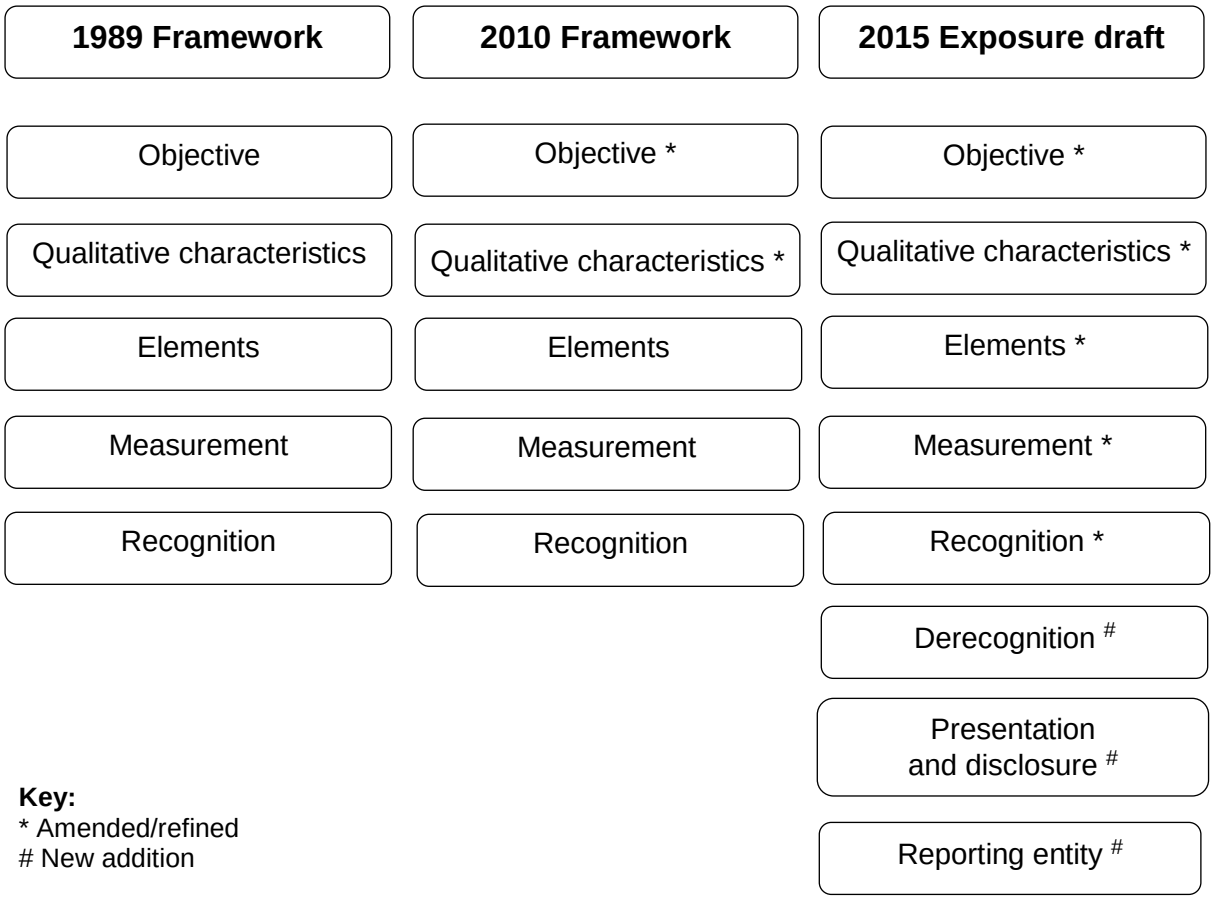
In the last two decades various commentators, as well as the IASB itself, have pointed out deficiencies in the original CF. Deliberation on improving the CF started in 2004 as part of the FASB convergence.

The previous section indicated that the 1989 CF is aligned to the structure of an accounting theory. The following sections will discuss the improvements made to the original CF. However, those revisions that are not considered important in the context of the research aim will only be addressed briefly, while a more thorough discussion will be conducted on those revisions that have a direct bearing on it.

In this study the objective of financial reporting, the going concern postulate (continuity) and the measurement bases are of particular importance.

Figure 2.7 below indicates the sections of the 1989 CF that were improved or added in subsequent revisions. The sections that follow will then address these improvements and additions.

Figure 2.7: Improvements and additions to the CF



Source: IASB (2015l:3) (adapted)

2.5.4 The 2010 improvements to the 1989 CF

The 2010 *Conceptual Framework for Financial Reporting* was jointly developed by the IASB and FASB. The 2010 CF included improvements only to the *objective* of financial statements and the *qualitative characteristics*. The rest of the 1989 CF was retained *verbatim*.

In section 2.2.2 the role and function of accounting was discussed. Table 2.1 in this section lists the objectives of the financial statements as formulated in the definitions of accounting. It was shown that the 2010 CF rephrased the objective to refer to “general purpose financial reporting” instead of “financial statements”. The 1989 CF indicated a diverse user group, including the customers, the government and the public. In contrast, the objective of the 2010 CF focused on the provision of decision-

useful information for existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity (IASB, 2015b:A19). The user group was therefore limited to investors, lenders and other creditors.

With respect to a listed company under business rescue, it is important to note that the investors, lenders and other creditors are all affected parties that have a say in the future of the business.

The information needs of these users, as the affected parties in a business rescue, are therefore of importance and will be further discussed in Chapter 5.

In the 2010 CF, the characteristics of useful financial information are divided into two groups, namely, fundamental characteristics and enhancing characteristics. For information to be useful, it must comply with the fundamental characteristics at least. The 2010 CF then describes the two fundamental qualitative characteristics, namely, relevance and faithful representation, and the four enhancing qualitative characteristics, namely, comparability, verifiability, timeliness and understandability (IASB, 2015b:A26).

As indicated earlier, the 1989 CF included reliability, substance over form and prudence as qualitative characteristics. Reliability was subsequently replaced in the 2010 CF with faithful representation as a characteristic. However, faithful representation excludes substance over form and prudence. The IASB considered substance over form as redundant and excluded prudence because it was considered to be in conflict with neutrality. Consequently, verifiability was added as a new enhancing characteristic (KPMG, 2010:3). Apart from the above changes, the remaining characteristics have been retained.

As indicated above, the rest of the 1989 CF was retained verbatim in the 2010 CF. In other words, the going concern financial reporting underlying assumption and measurement bases, which are the study's focus areas in the suggested financial reporting framework for a South African listed company under business rescue, remained the same.

The improvements made to the above two aspects of the 2010 CF do not prevent it from still being aligned to the structure of accounting theory. The 2015 ED CF suggests revisions that are even more comprehensive and these will be discussed below.

2.5.5 The 2015 proposed improvements and additions to the 2010 CF

In the 2015 ED CF, the objective of financial reporting once again received attention. More emphasis is now placed on providing the information needed to assess management's *stewardship* of the entity's resources. This is important because the information provided for stewardship assessment tends to be historical in nature, and may therefore have an effect on the measurement base chosen for assets and liabilities.

In the qualitative characteristics section, prudence has been reintroduced. The IASB now argues that prudence is important to achieve neutrality and, thus, a faithful representation. Furthermore, it argues that faithful representation also includes the *substance over form* reporting of a transaction (IASB, 2015l:4).

With respect to the elements section of the 2010 CF, the IASB decided to refine the definition of the elements. The definitions of an asset, liability, income and expense have therefore been refined but the existing definition of equity has been retained (IASB, 2015l:5).

Improvements to the measurement section of the 2015 ED CF are aimed at filling the existing gaps. The ED introduces guidance on measurement and describes the measurement bases by way of a distinction between two bases, namely, historical cost measurements and current value measurements (IASB, 2015l:6).

The particular measurement base that should be employed for a listed company under business rescue is a very important part of this study. Chapter 5 addresses the measurement issue in more depth.

The section on the recognition of an asset or liability has been revised and new section on when assets and liabilities should be derecognised has been added (IASB, 2015l:7).

The 2015 ED CF introduces proposals for presentation and disclosure. These include conceptual guidance on how to present financial performance, that is, whether to present income and expenses in profit or loss or in other comprehensive income (IASB, 2015l:8-9).

Lastly, the 2015 ED CF addresses the reporting entity. This is a new section, which determines the boundary of a reporting entity with subsidiaries on the basis of control. The IASB admits that the distinction between liabilities and equity is problematic and thus intends to explore the matter further in a separate research project (IASB, 2015l:10,12). The entity postulate described in section 2.3.2 has therefore been partially addressed.

From the discussion above it is clear that the 2015 ED CF, if it is accepted without significant amendments, will still be aligned to the structure of an accounting theory. It is also clear that the 2015 ED CF still allows preparers to choose between different accounting measurement bases. The result is that the statement of financial position is still prepared on different bases, for example some assets are measured at historical costs and some at current values. In fact, the IASB admits that it has received suggestions that it should consider only a single measurement base. Subsequently, the IASB considered this matter and concluded that a single measurement base might not always provide the users of the financial statements with the most relevant information (IASB, 2015a:73).

On the above issue, Fox, Grinyer and Russel (2003:169) criticised the IASs for requiring entries in the statement of comprehensive income that are sometimes based on a matching approach and at other times on a valuation approach. This is because the two approaches are fundamentally different and produce different profit figures that have different meanings. They further argue that financial reports have little justification unless they present interpretable information under identifiable assumptions. This

implies that each published statement should be prepared by referring to consistent principles that will lead to the presentation of meaningful information (Fox et al., 2003:169-170). Fox et al. (2003:182) conclude that standard setters should ensure "that each statement required in published financial reports contains only information that is consistent with a single measurement concept (matching or valuation) and a single valuation concept (for example, historical cost, replacement cost or net realisable value)".

Fox et al.'s recommendation is specifically suitable for companies that fall into the grey area between going concern and exit (liquidation) values. It demonstrates the need for an underlying financial reporting assumption (accounting postulate) that will reflect the specific economic circumstances and timeframe involved in a business rescue. Furthermore, specific measurement bases with time-frame attributes that are based on such an *entity continuity postulate* would render decision-useful financial information to the users of the financial statements.

From the above examination of the original and amended conceptual frameworks, it is clear that the accounting model currently employed, and still proposed, is a mixed-measurement model based on the financial reporting underlying assumption of going concern. This accounting model intends to provide decision-useful information, as well as information to assess management's stewardship of the resources entrusted to it.

The accounting theory and its structure was discussed in order to embed the research aim in the theory. The next section will show the link between the accounting theory and the research aim.

2.6 SUMMARY: LINKING THE ACCOUNTING THEORY TO THE RESEARCH AIM

In order to embed the research aim in the theory of accounting, the formulation of an accounting theory was firstly discussed. This was followed by a discussion on the structure of accounting, indicating various classifications of accounting theory. The CF was contextualised as a decision-useful prescriptive theory of accounting and was

evaluated against the structure of an accounting theory. It was found that the CF is indeed aligned to the structure of an accounting theory.

IFRSs were developed in line with the CF and are employed when preparing the financial statements for listed companies in South Africa. The resulting accounting model has, amongst others, the following important features, namely that

- the aim is to provide decision-useful financial information, as well as information to assess management's stewardship of the assets entrusted to it.
- it is in terms of the going concern financial reporting underlying assumption, and
- it uses a mixture of measurement bases for assets and liabilities in the financial statements.

The particular accounting model employed is important for the study. In section 1.4, it was stated that the research aim of the study is to suggest a financial reporting framework for a South African listed company under business rescue. The guiding research questions, as indicated in section 1.5, are to determine what underlying financial reporting assumption should be used in preparing decision-useful financial statements, as well as which context-relevant measurement bases to use for its assets and liabilities. A South African listed company under business rescue may require a different accounting model if the going concern financial reporting underlying assumption is not appropriate, or if only specific measurement bases are preferred.

Wolk et al. (1992:29) state that if the reasoning followed in a deductive process is valid, then the deductive theory can only be challenged by questioning the premises or the conclusions empirically. An important premise in the CF is the going concern financial reporting underlying assumption. As indicated in Chapter 1 section 1.3, a listed company under business rescue is not necessarily a going concern. The premise (accounting postulate) that a company is considered a going concern unless liquidation is imminent can therefore be challenged by questioning the premise empirically.

The above premise is also important to this study as it indicates that a specific accounting postulate may be challenged in the context of a South African listed company under business rescue. The empirical results of the investigation into which underlying financial reporting assumption should be used for a listed company

under business rescue are presented and discussed in Chapter 8 of this study. Chapter 9 presents the empirical results of the investigation into the appropriate measurement bases for assets and liabilities, linked to an appropriate underlying assumption (premise) for a South African listed company under business rescue.

This section explained the link between the research aim and the theory of accounting to which this study wishes to contribute. The next section will draw an overall conclusion on the underlying theory of accounting.

2.7 CONCLUSION

In Chapter 1, it was stated that the overall research aim is to develop a financial reporting framework for a South African listed company under business rescue. This framework would deal specifically with the appropriate financial reporting underlying assumption that should be used when preparing decision-useful financial statements, supported by context-relevant measurement bases for its assets and liabilities. In this chapter, the theoretical support for the research aim was argued and stated.

This chapter also discussed the way in which various accounting theories were formulated using different approaches. Using the structure of accounting theory and depending on the method of reasoning used, the resulting theories may be classified into broad categories, one of which is the decision-useful prescriptive theory of accounting. The way in which the CF could be classified as a decision-useful prescriptive theory of accounting was also discussed.

The chapter further argued that the CF is aligned to the structure of an accounting theory. It concluded with an indication on how the current accounting model used for listed companies is structured in terms of the underlying financial reporting assumption of going concern by employing a range of measurement bases for measuring assets and liabilities in the statement of financial position.

The above forms the basis for this study with respect to a South African listed company under business rescue; namely, to investigate whether the financial

reporting underlying assumption of going concern is appropriate, and to suggest a context-relevant measurement base for its assets and liabilities. The suggested financial reporting framework would also have to be in line with the theory of accounting as discussed in this chapter, and the supported evidence may also suggest changes to the some of the aspects of the theory of accounting.

The next chapter will investigate the financial reporting requirements for listed companies under similar corporate rescue regimes in other countries. An investigation of the financial reporting requirements under similar rescue regimes may provide valuable guidance for addressing the research problem and achieving the research aim in a South African context.

CHAPTER 3
INTERNATIONAL DEVELOPMENTS IN FINANCIAL REPORTING UNDER BUSINESS RESCUE

3.1 INTRODUCTION

Chapter 2 considered the theoretical support for the study. It was indicated that the CF for financial reporting and the supporting set of IFRSs together represent one of the decision-useful prescriptive theories of accounting. This theory has been formulated by the IASB, a standard-setter, over the past few decades and it supports the going concern postulate.

The IFRSs financial reporting framework is applied in many countries all over the world, including Australia, Canada and the UK (IFRS Foundation, 2015c). On the other hand, the USA-based FASB has developed its own reporting framework, namely, the United States generally accepted accounting standards (US GAAP).

According to Harvey (2011:85), the new South African business rescue model is in line with the rescue regimes of foreign jurisdictions such as the UK, Australia and the USA. The South African DTI has referenced Australia and Canada as examples of countries that have introduced new systems for business rescue over the past decade (RSA, 2004:45).

Since the above countries' corporate rescue regimes are similar to the South African business rescue model and the fact that some of those countries apply the same financial reporting framework, the financial reporting requirements for listed companies in those countries that are under business rescue proceedings are of interest.

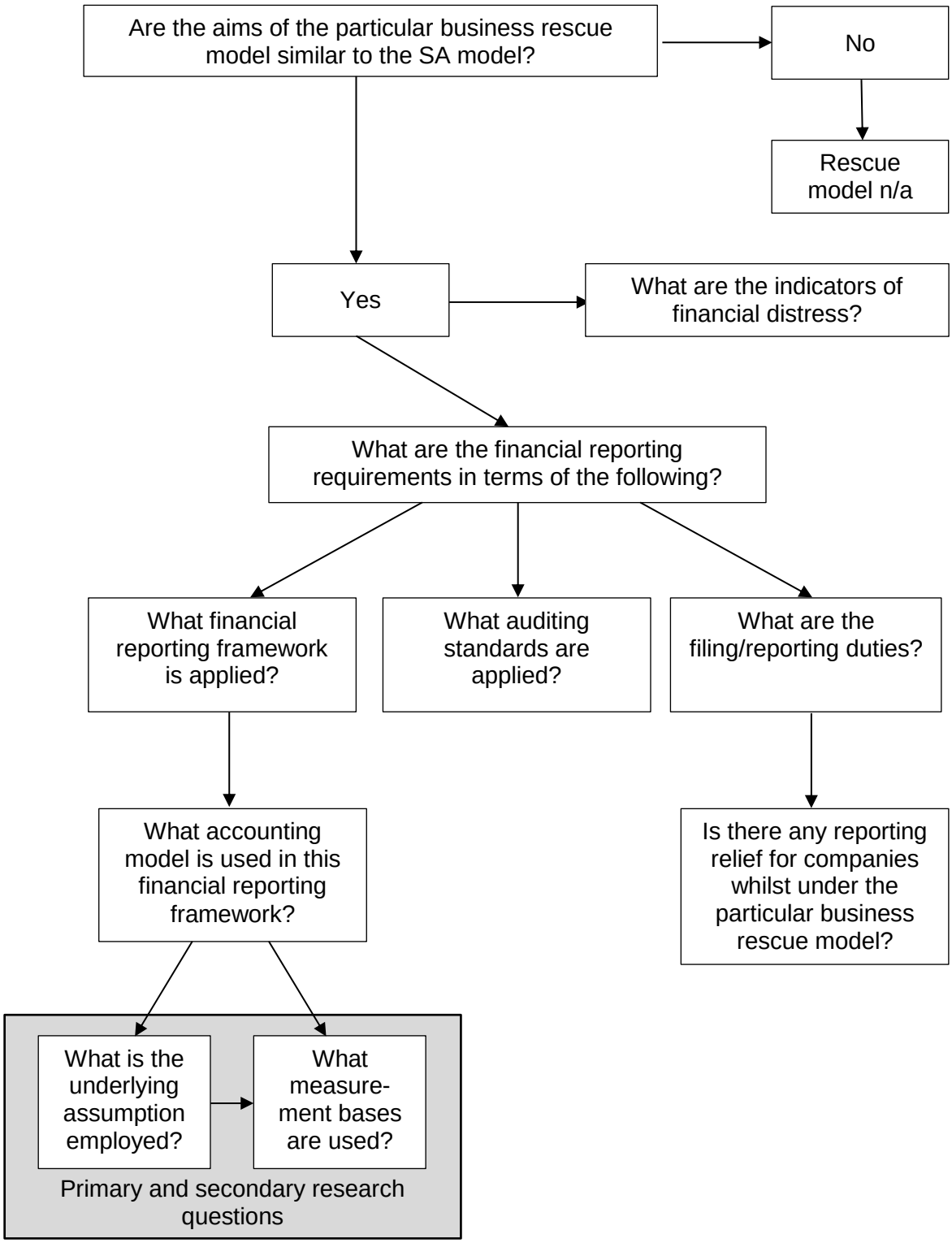
In order to gain insight into how the research problem has been addressed in other countries, this chapter considers the financial reporting requirements for a listed company under business rescue (or a similar regime) in each of the above-mentioned countries.

For each of the countries under review, the aims of the particular regime are considered to establish whether they are indeed similar to those of the South African business rescue model, as discussed in Chapter 1. This will also highlight what indicators of financial distress are applied in the particular regime. Once the similarity of the aims has been established, the financial reporting requirements for a listed company under business rescue (or similar) will be considered. Particular focus will be placed on the financial reporting framework applied and the financial reporting duties whilst under business rescue. This consideration of the financial reporting framework will also indicate the particular accounting model used.

As discussed in Chapter 2, the accounting model used will also indicate the particular underlying financial reporting assumption employed, as well as the measurement bases used to measure assets and liabilities in the statement of financial position of such a company. Figure 3.1 below summarises the structure that will be used to investigate the business rescue regime and financial reporting requirements in each of the above-mentioned countries.

The chapter will conclude by summarising the results of the comparisons made in the form of a table. In addition, the results will be discussed to determine the effect they may have on achieving the research aim.

Figure 3.1: Investigating the financial reporting requirements for listed companies under corporate rescue



Source: Own observation

This structure will be applied to the business rescue regime and financial reporting requirements of a number of countries. The countries were chosen because they have introduced business rescue regimes in the past few years and for the similarity of these regimes to the South African business rescue model. These countries are the UK, Australia, Canada and the USA. The business rescue model applied in the UK will be discussed next.

3.2 UNITED KINGDOM

In this section the available business rescue models that may be applied in the UK are discussed. The discussion will address the applicability of each model before addressing the financial reporting requirements for a company employing the model. The section will conclude with a comparison of the models applied in the UK and SA.

3.2.1 Business rescue models

Financially troubled companies in the UK are allowed to restructure their affairs under the Insolvency Act of 1986 (Loubser, 2010:164). The act provides for two rescue procedures, namely, the 'company voluntary arrangement' (CVA) and 'administration'. The philosophy behind the Insolvency Act of 1986 is the rehabilitation and preservation of viable businesses, as well as to offer enterprises in difficulties a better chance of survival by allowing them time to reassess their future rather than facing liquidation or administrative receivership (Broc & Parry, 2004:177; Jones Day, 2007:6).

The South African business rescue model was developed with the same philosophy in mind. As indicated in section 1.2.2, the South African business rescue model allows for proceedings to facilitate the rehabilitation of a company that is in financial distress. The two rescue procedures in the UK Insolvency Act of 1986, and their applicability to listed companies, will be discussed below.

3.2.1.1 Reorganisation proceedings – Company Voluntary Arrangement (CVA)

The CVA was introduced as a company-friendly approach and stresses the importance of *voluntariness* in rescuing businesses (Broc & Parry, 2004:177). Accordingly, the

CVA procedures are voluntary and the Insolvency Act of 1986 does therefore not define ‘financial distress’ or a similar situation as a prerequisite for entering into an arrangement with creditors.

Loubser (2010:167) states that the process has hardly been used owing to the absence of a moratorium on actions by creditors. The Act was subsequently amended to include this moratorium but only for eligible companies. An eligible company is defined as one that satisfies at least two of the three requirements for being a small company in terms of the Companies Act 2006. The three requirements for a small company are that its annual turnover may not exceed £5.6 million, its balance sheet (statement of financial position) total may not be more than £2.8 million and the number of employees may not exceed 50 (UK, 2006:s 382(3)).

In assessing these criteria for a CVA eligible company, it becomes clear that it is unlikely that a listed company would apply for rescue procedures under a CVA. Such a company would rather apply for an administration order (AO), which is discussed next.

3.2.1.2 Reorganisation proceedings – administration order (AO)

The AO was initially introduced as a formal procedure whereby the court or the holder of a floating charge (a type of secured creditor not found in South African law) may appoint an administrator for the company (Loubser, 2010:172). The Act was later amended to allow an out-of-court procedure in terms of which both a company and the directors of a company may appoint an administrator without having to obtain a court order (Loubser, 2010:173). A moratorium against actions by creditors takes effect from the date on which the court application is made, or a notice of the appointment of an administrator is filed in the out-of-court procedure (Jones Day, 2007:11). The administrator will draft and present his proposals for achieving the purposes of the administration to a meeting of the creditors. Once accepted, the administrator must manage the company’s affairs in terms of the proposals (Jones Day, 2007:15, 20).

The court may allow an application to be placed under administration if it is satisfied that the company concerned is, or is likely to become, unable to pay its debts (UK,

1986:s 8(1)(a)). A company is also deemed unable to pay its debts if the value of the company's assets is less than the amount of its liabilities, taking into account its contingent and prospective liabilities (UK, 1986:s 123(2)). There are therefore two indicators of financial distress, albeit it not defined as such; namely, the inability of the company to pay its debts and the value of the liabilities being more than the assets. These indicators of financial distress form the basis for a UK company to be placed under administration.

There are some similarities as well as important differences between the UK and the South African distress indicators. The indicators themselves are similar to those found in the South African 2008 Companies Act's definition of financial distress, namely, the company's inability to pay its debts and the value of the company's assets being less than its liabilities (refer § 1.2.2).

On the other hand, one of the differences is that the South African 2008 Companies Act sets the financial distress indicators within a defined period, namely, the "ensuing six months". The AO proceedings, however, allow for companies that are already unable to pay their debts, which may explain the lack of a defined period as required by the South African business rescue model. Another difference is that the AO rescue mechanism is legislated outside of the UK Companies Act, that is, in separate insolvency legislation. The effect of these differences is considered in section 3.2.2 below.

The aims of the AO are, among others, for the company (or any part of it) to survive as a going concern and to achieve a more advantageous realisation of the company's assets than would be effected if the company were to be wound up (UK, 1986:s 8(3)(a), (d)). The aims of the AO are similar to the aims of the South African business rescue model, as explained in section 1.2.2. Since the AO aims and the aims of the South African business rescue model are similar, the financial reporting requirements of listed companies under administration will be considered next.

3.2.2 Financial reporting requirements during an administration order

The UK Companies Act of 2006 requires a listed group to prepare consolidated financial statements in terms of IFRSs (UK, 2006:s 403(1)). Almost all other companies may choose to apply either IFRSs or UK GAAP (Deloitte, 2015). By applying IFRSs, listed companies in the UK use a mixed-measurement based accounting model, as described in Chapter 2. The reason for referring to it as a mixed-measurement based accounting model is that it uses a mixture of historical cost-based and non-historical cost-based measurement bases. Furthermore, the use of IFRSs indicates that the underlying financial reporting assumption of going concern is also employed.

Subsequent to the 2008 financial crisis, the Financial Reporting Council (FRC) published revised guidance for directors of UK companies on going concern and liquidity risk. The guidance combines the requirements of company law, accounting standards and the listing rules on going concern and liquidity risk for UK companies. It also serves to provide further assistance on the application of going concern and liquidity risk assessment (FRC, 2009b:1). In this guidance, the FRC advises directors to evaluate which one of three potential conclusions would be appropriate for a company's specific circumstances. The conclusions could be one of the following:

- There were no material uncertainties that might cast significant doubt on the company's ability to continue as a going concern.
- There were material uncertainties related to events or conditions that might cast significant doubt on the company's ability to continue as a going concern, but the going concern basis remained appropriate.
- The use of the going concern basis was not appropriate; in other words, the company had no realistic alternative but to cease trading or go into liquidation, or the directors intend to cease trading or place the company in liquidation (FRC, 2009b:3). In this case, the directors should abandon the going concern basis of accounting and explain what basis of accounting was used in preparing the financial statements (FRC, 2009b:12).

Considering the above guidance, one can deduce that even if a company is in financial distress, departure from the underlying financial reporting assumption of going concern

is unlikely. Departure will only happen if the company has no realistic alternative but to cease trading or go into liquidation or the directors intend to do so.

Going concern issues remained topical in the UK and, in 2011, the FRC announced the launch of an inquiry, led by Lord Sharman of Redlynch, to identify lessons for companies and auditors addressing going concern and liquidity risks (FRC, 2012). The panel determined that in order to depart from the going concern basis of accounting and to adopt the liquidation basis of accounting, the threshold of distress required (by the UK GAAP and IFRSs frameworks) would be a level of distress both very high and imminent (FRC, 2012:2,25). Once again, the report therefore re-affirmed that the underlying financial reporting assumption of going concern would be used unless the company has no realistic alternative cease trading or go into liquidation or the directors intend to do so. In other words, although a company may be in severe financial distress, the underlying financial reporting assumption of going concern used will not change unless the company finds itself in the process of liquidation.

The consequence is that where there are material uncertainties related to events or circumstances that might cast significant doubt on the company's ability to continue as a going concern, a company under an AO would still be required to prepare financial statements on the going concern basis. Furthermore, the company would prepare the financial statements using the normal mixed-measurement based accounting model. This study addresses the usefulness of using the going concern assumption and a mixed-measurement based accounting model.

With reference to the audit requirements, the Companies Act requires that listed companies be audited (UK, 2006:s 275(1)). Furthermore, the UK's audit regulator, the FRC, adopted the IAASB's audit standards (for periods ending on or after 15 December 2010) but with supplementary requirements to address specific UK and Irish legal and regulatory requirements. The supplementary requirements also included additional guidance that was appropriate for UK and Irish national legislative, cultural and business contexts (FRC, 2009a). The FRC supplementary requirements did not include any amendments that should be considered pertaining to the use of the going concern assumption in preparing financial statements. It can therefore be concluded

that the situation will not differ if the company has applied for an AO. Furthermore, the auditors will audit the financial statements in line with the particular financial reporting framework used, which in this case is the IFRSs. Chapter 4 section 4.4 discusses the auditors' responsibilities with respect to the audit of a company in terms of international audit standards.

With reference to reporting responsibilities, the Companies Act requires the directors of a listed company to submit the annual financial statements to the registrar of companies within six months after its reporting date (UK, 2006:s 441, 442, 446 & 447). The Companies Act makes no reference to any relief available for a listed company under administration in terms of its reporting and filing obligations.

3.2.3 Comparison between business rescue in the UK and SA

The UK rescue mechanism is legislated in a separate Insolvency Act as opposed to having the corporate rescue mechanism included in the same act, as is the case in SA. Despite this difference, no evidence was found that this may have contributed to the use of the going concern assumption for companies under administration.

The sustained attention given to going concern and insolvency issues in the UK over the past few years is a clear indication of the general importance of the matter and the fact that there may be more questions than answers. However, having no defined period for considering the financial distress indicators in the insolvency legislation is an important difference between the SA and UK models. In the SA model a specific six-month future outlook is used.

It is further clear that even if a UK listed company has applied for an AO under the Insolvency Act of 1986, the IFRS framework is still applicable, resulting in a mixed-measurement based accounting model being used, which is based on the going concern assumption. A departure from the going concern assumption requires a very high level of distress, such as when the company has no realistic alternative but to cease trading or go into liquidation, or the directors intend to cease trading or place the company in liquidation. Moreover, the auditing requirements are similar to those

required in SA, that is, the use of international auditing standards. Furthermore, neither the UK nor the SA companies acts provide companies under corporate rescue with any relief from their filing and reporting obligations.

The above-mentioned comparison indicates that the financial reporting requirements of the UK (AO) and South African business rescue model are similar. The UK treatment does not answer the research problem and thus the question still remains as to how useful the going concern-based mixed-measurement accounting model is for a listed company under business rescue. This study addresses just that, namely, the usefulness of using the going concern assumption and a mixed-measurement based accounting model for such a listed company under business rescue.

The next section will discuss the business rescue model applied in Australia. It will also highlight the financial reporting requirements of their equivalent business rescue model in order to determine whether it provides a different treatment that could address the research problem.

3.3 AUSTRALIA

This section addresses the business rescue model available in Australia. Accordingly, the applicability of the model and the financial reporting requirements of a company under their business rescue equivalent model will be explored. The section will conclude with a comparison between the South African and the Australian business rescue models.

3.3.1 Corporate rescue model

Australian companies in financial difficulties may be rescued in terms of the procedures set out in Part 5.3A of the Australian Corporations Act of 2001 (Cth), entitled “Administration of a company’s affairs with a view to executing a deed of company arrangement” (Blazic, 2010:2). This is also known as voluntary administration (VA).

The Corporations Act does not define the circumstances in which financial distress occurs, but determines that the directors of a company may resolve to appoint an administrator if the company is insolvent, or is likely to become insolvent at some future time (Australia, 2001:s 436A). Insolvency or likely insolvency is therefore considered to be the indicator for financial distress. Similar to the UK, the fact that companies may already be insolvent may explain why there is no defined period for considering the financial distress, as is the case in the South African business rescue model.

As discussed in section 1.2.2, insolvency may be considered in terms of commercial or technical insolvency. A commercially insolvent company is unable to pay all of its debts as they become due and payable, and the company is technically insolvent when the company's liabilities exceed its assets. One can therefore deduce that the Australian Corporations Act (Cth) considers both commercial insolvency and technical insolvency. It is notable that the Corporations Act (Cth) does not require the insolvency indicators to be judged within a specified timeframe as the South African model does.

The VA regime seeks to facilitate a stay on creditor claims, thus providing an opportunity for a company to restructure its affairs for the benefit of creditors and other stakeholders (Blazic, 2010:2). Blazic (2010:2) further summarises the fundamental objective of VA as preventing viable companies that are threatened by insolvency from being wound up. The South African business rescue model shares the same philosophy as the Australian VA model.

Anderson (2008:26) compared the Australian business rescue procedures to the South African business rescue procedures and concluded that the objectives were almost identical and that the two regimes covered many similar areas. In fact, the Corporations Act (Cth) states that the aims of VA are to allow the business, property and affairs of an insolvent company to be administered in a way that: (1) maximises the chances of the company (or its business) continuing in existence; or (2) if (1) is not possible, results in a better return for the company's creditors and members than if the company were to be wound up immediately (Australia, 2001:s 435A).

As has already been discussed (see § 1.2.2), the aims of the South African business rescue proceedings are: (1) to allow the company time to restructure its business and affairs in a manner that maximises the likelihood of the company continuing in existence on a solvent basis; or (2) if that is not possible, results in a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company. It is therefore clear that the South African business rescue model and the Australian VA rescue model have similar aims.

The appointed administrator, which is the equivalent of the South African business rescue practitioner, takes control of the company's business and investigates whether it would be in the creditors' interests to execute a deed of company arrangement, to end administration, or to wind up the company (Australia, 2001:s 437A, 438A). The deed of arrangement is similar to the business rescue plan in the South African business rescue model. The possible outcomes are therefore a successful deed of arrangement or, if unsuccessful, liquidation of the company. Once again, these outcomes are similar to the outcomes of the South African business rescue model.

Since the Australian VA regime has similar aims to the South African model, the financial reporting requirements of a listed company under VA in Australia are important here. The next section deals with the financial reporting requirements of such a company.

3.3.2 Financial reporting requirements during a voluntary arrangement

The Australian Securities Market (ASX) is Australia's primary exchange (Neidermeyer & Lacasse, 2011:37). The Corporations Act (Cth), section (s 296) stipulates that financial reports must comply with accounting standards. Australia's corporate, markets and financial services regulator, the Australian Securities and Investment Commission (ASIC) AUASB, states that Australian accounting standards meet the requirements of the IFRSs, as Australia adopted the IFRSs in 2005 (ASIC, 2012). Similar to the situation in the UK, by applying IFRSs for listed companies in Australia, a mixed-measurement based accounting model, as described in Chapter 2, is used. Furthermore, going concern is once again employed as the underlying financial reporting assumption.

Since April 2006, the Australian Auditing and Assurance Standards Board (AUASB) has released Australian Auditing Standards based on the ISAs issued by the IAASB (AUASB, 2012). These audit standards are therefore similar to those used in the UK and SA. The auditing requirements pertaining to the financial reporting framework used will thus be the same in all three of the countries mentioned.

With reference to the filing obligations, it was found that the ASIC provides relief for externally administered companies from financial reporting obligations under the Corporations Act (Cth) (ASIC, 2003:1). Such companies include companies under administration and companies subject to a deed of company arrangement (ASIC, 2003:2). The reporting relief is, however, limited only to the *deferral* of the lodging of financial reports, and not a relief from the lodging duty.

3.3.3 Comparison between corporate rescue in Australia and SA

Like SA, the Australian rescue mechanism is legislated in its Companies (Corporations) Act. However, like the UK model, the Australian rescue model does not prescribe a defined period for considering the insolvency/likely insolvency financial distress indicators.

It is further clear that the financial statements of listed companies in Australia have to comply with the IFRSs, in other words they use an accounting model with a mixed-measurement basis that is based on an underlying financial reporting assumption of going concern, even if the company is under VA. The result is that, once again, the liquidation basis of accounting will only be applied if the company has decided to liquidate or cease trading, or has no realistic alternative but to do so. The company's financial statements are also audited in terms of IAASB-based auditing standards. Like the situation in both SA and the UK, the Australian Corporations Act (Cth) does not provide relief from the company's filing and reporting obligations whilst under corporate rescue. The only relief is a deferral of the required reports.

From the above comparison, it is clear that the financial reporting requirements of the Australian and the South African business rescue models are similar. The

manner in which a listed company under administration in Australia should prepare its financial statements is similar to that in SA and thus does not give any answers to the research problem addressed by this study. Accordingly, the problem of using a going concern-based mixed-measurement accounting model is still not addressed. This study aims to address this problem by answering the research questions indicated in section 1.5.

In the next section, the business rescue model applied in Canada is considered. The section will also address the financial reporting requirements prescribed by the appropriate Canadian business rescue model, once again in order to determine whether the Canadian reporting treatment may help to address the research problem.

3.4 CANADA

In this section the Canadian business rescue models is evaluated. The evaluation will address the applicability of each model before considering the financial reporting requirements for a company employing the chosen model. The section will conclude with a comparison between the South African and the Canadian models.

3.4.1 Business rescue model

Financially troubled companies in Canada are allowed to restructure their affairs under the protection of two separate federal laws, namely, the Bankruptcy and Insolvency Act (BIA) and the Companies Creditors' Arrangement Act (CCAA) (Haskin & Haskin, 2012:190). Restructuring in terms of the CCAA is restricted to larger companies (companies owing amounts to creditors in excess of C$5 million) (Canada, 1985:s 3(1)). Companies that fall below the C$ 5 million threshold may make use of the BIA (PwC Canada, 2015b). Similar to the situation in the UK, the Canadian rescue proceedings are legislated in separate acts, whereas the South African business rescue proceedings are included in the South African Companies Act of 2008.

This discussion will focus on the CCAA, which is the restructuring alternative for larger companies such as publicly accountable enterprises (PAEs). A PAE includes a listed company, namely, an entity (other than a not-for-profit organisation, or a government

or other entity in the public sector) that has issued debt or equity instruments that are traded in a public market (Canada, 2015a).

The CCAA is available to insolvent or bankrupt companies (Canada, 1985:s 2 ("debtor company")). Similar to the VA regime in Australia, the implied financial distress indicator for protection under the CCAA is ‘insolvency’, which will include commercial and technical insolvency. ‘Financial distress’ is therefore not specifically defined, as is the case under the South African business rescue model. However, since the CCAA refers to already insolvent or bankrupt companies, it is understandable that no specific period for considering the insolvency/likely insolvency is required.

A company files for protection under the CCAA in order to develop a plan, while it continues to operate, to avoid going into receivership or bankruptcy (PwC Canada, 2015a). The aim of the CCAA is therefore to allow a company to restructure its affairs in order to continue as a going concern and to allow creditors to receive some form of payment for amounts owing to them (Canada, 2015b; 2015a; Rotem, 2008:16). This aim is similar to the aim of the South African business rescue model.

The CCAA restructuring proceedings begin with a court application for protection under the CCAA. The court will then issue an order giving the company 30 days of protection from its creditors. During this (extendable) period, the company is allowed to prepare and file a formal ‘plan of arrangement’. This plan is similar to the plan that should be developed and implemented to rescue a company under Chapter 6 of the 2008 South African Companies Act. The plan of arrangement serves as the company’s proposal to its creditors on how it intends to deal with the debt it owes to the creditors at the time of initial filing with the court. The creditors are called to vote on the plan, and if approved, the court approves the plan as a final step. The court may also set out conditions that the company may continue to operate under, as well as set restrictions on the actions of creditors (PwC Canada, 2015a; 2015b).

Since the financial distress indicators and the aims of the CCAA are similar to the South African business rescue model, the financial reporting requirements of listed companies under the CCAA are important. The next section deals with the financial

reporting requirements of a company whilst dealing with an arrangement with creditors under the CCAA.

3.4.2 Financial reporting requirements during the arrangement process with creditors

Canada adopted IFRSs as the Canadian Generally Accepted Accounting Principles (Canadian GAAP) for PAEs (IFRS Foundation, 2015a). Accordingly, the Ontario Securities Commission (OSC), the regulator of listed companies in Canada, requires listed companies to comply with IFRSs for financial years beginning on or after 1 January 2011 (OSC, 2015:s 3.1-3.2). Similar to the situation in the UK and Australia, the application of IFRSs for listed companies in Canada results in a mixed-measurement based accounting model (refer Chapter 2) employing the going concern assumption.

The Canadian Auditing and Assurance Standards Board (AASB) has adopted ISAs as the Canadian auditing standards (CASs) (CPA Canada, 2015). Consequently, listed companies are audited in terms of CASs (OSC, 2015:s 3.3). Furthermore, the audit report should specifically refer to IFRSs as the applicable fair presentation framework if the financial statements are prepared in accordance with the CAS applicable to PAEs (OSC, 2015:s 3.3(1)(a)(iv)).

In a matter brought before the Ontario Superior Court of Justice, the court found that companies under CCAA protection were still required to file audited financial statements with the OSC (OSC, 2005). Against this background, it is clear that listed companies under CCAA protection are still required to file financial statements based on IFRSs that have been audited in terms of ISAs.

3.4.3 Comparison between corporate rescue in Canada and SA

Like the UK model, the Canadian corporate rescue mechanism is legislated in a separate act, namely the CCAA, whereas the Australian and South African models incorporate the corporate rescue proceedings in their Corporations/Companies Acts. The UK and Australian rescue models both consider insolvency or the likelihood of

insolvency, as opposed to the Canadian model which allows a company to make an arrangement in terms of the CCAA if the company is *already* insolvent or bankrupt. Once again, the CCAA does not specify a future outlook period for assessing insolvency, which differs from the defined six-month period specified in the South African 'financial distress' definition.

Under the CCAA, Canadian companies may apply to a court for an arrangement to that will allow them to restructure their affairs in order to continue as a going concern and for creditors to receive some form of payment for amounts owing to them. Even if a listed, insolvent company applies for an arrangement under the CCAA, the IFRS financial reporting framework is still applicable, resulting in a mixed-measurement based accounting model on the going concern assumption. Similar to the other countries where IFRSs are also required, the liquidation basis of accounting will only be applied if the company has decided to liquidate or cease trading, or has no realistic alternative but to do so. Furthermore, ISAs are also applied in auditing the financial statements and, once again, the companies are required to continue fulfilling their financial reporting duties even if an arrangement is implemented under the CCAA.

The above-mentioned comparison of the Canadian and South African business rescue models indicates the similarities between them. An evaluation of the financial reporting requirements once again does not answer the research problem addressed in this study. Consequently, the problem of using a going concern-based mixed-measurement accounting model for a South African listed company under business rescue remains.

The next section will discuss the business rescue model applied in the USA. The section will also evaluate the particular accounting model used by companies in terms of the equivalent US business rescue model.

3.5 UNITED STATES OF AMERICA

This section considers the business rescue model used in the USA. Accordingly, the financial reporting requirements and particular accounting model employed are

evaluated and conclusions drawn on their potential applicability to a South African listed company under business rescue.

3.5.1 Business rescue model

Companies in the USA are allowed to file a petition with the Bankruptcy[7] Court under the Bankruptcy Code. Such filings may be for either a reorganisation action under US Chapter 11 (reorganisation) or Chapter 7 (liquidation) (AICPA, 1990:19,295).

The goal of the Chapter 11 reorganisation proceedings is to maximise the return to creditors and shareholders by preserving the company as a viable entity with a going concern value (AICPA, 1990:19,271; Barry, 1992:48). Therefore, both the US Chapter 11 reorganisation proceedings and the South African business rescue proceedings share the goal of preserving the entity as a going concern for the benefit of stakeholders that might be negatively affected by immediate liquidation. However, Chapter 11 does not have the second aim found in the South African business rescue model, namely, to enable a better return to creditors and shareholders than under immediate liquidation.

Jones Day (2007:8) states that there is technically no requirement for 'insolvency' to apply for protection under Chapter 11. Companies may have a number of reasons, other than insolvency, to file for bankruptcy relief. According to Jones Day (2007:8), companies may for example be facing huge tort liabilities. Once again, this differs from the clearly set financial distress indicators found in the South African business rescue model.

The aim of Chapter 11 is to keep the business alive and pay creditors over time. A Chapter 11 debtor therefore usually proposes a plan of reorganisation, which is the heart of the reorganisation process. The reorganisation plan is similar to the business rescue plan in the South African business rescue model. The plan specifies the treatment of all creditors and equity holders, and shapes the financial structure of the

[7] Refer to the **Definitions of terms** on page xxviii for a definition of 'Bankruptcy', 'Bankruptcy Code', 'Bankruptcy Court', 'US Chapter 7' and 'US Chapter 11'.

entity that will emerge from the proceedings. The details of the plan are provided in a ‘disclosure statement’. The disclosure statement should contain sufficient information to allow the creditors to make an informed decision about the reorganisation plan (Bulkat, 2015). The Chapter 11 proceedings end when the court issues a final decree when convinced that the estate has been fully administered (United States Courts, 2015).

From the above it is clear that the aim of the Chapter 11 reorganisation proceedings is similar to one of the aims of the South African business rescue model. Although there are no formal financial distress indicators specified, a company may still apply for Chapter 11 protection and therefore the financial reporting requirements for companies under Chapter 11 reorganisation are of interest to this study. The next section deals with the financial reporting requirements of a company under Chapter 11 reorganisation.

3.5.2 Financial reporting during reorganisation proceedings

The AICPA acknowledges that current financial reporting literature lacks specific guidance for financial reporting by an entity in reorganisation proceedings. Entities usually continue to apply the reporting principles that they applied before filing for Chapter 11 protection (AICPA, 1990:19,274). These reporting principles (US GAAP) generally use historical costs for assets and prohibit revaluations except for certain categories of financial instruments. Financial instruments are carried at fair value in the statement of financial position (PwC USA, 2015:6-6). In other words, the company still mainly applies the historical cost accounting model.

However, applying the same principles does not adequately reflect all the changes in the entity’s financial position caused by the reorganisation proceedings. The result is that the normal financial statements prepared while entities are under reorganisation proceedings are not as useful to the users of the financial statements as they should be. Because the needs of the financial statement users have changed, changes to the reporting practices previously followed are necessary (AICPA, 1990:19,274-19,275).

AICPA's observation on the usefulness of the financial statements and the changing needs of the users is important to this study. This observation confirms the need for a different accounting model, one where the corporate rescue context is better reflected in the financial reporting of the entity.

3.5.2.1 A different accounting model for companies under reorganisation

To accommodate the changing needs of the financial statement users, the AICPA prepared Statement of Position (SOP) no. 90-7, later known as the Accounting Standards Codification (ASC) 852 under the new FASB codification. The purpose of SOP 90-7 is to provide guidance on financial reporting by entities that have filed petitions with the Bankruptcy Court, that expect to reorganise as going concerns under Chapter 11 and that comply with certain conditions (AICPA, 1990:19,271).

SOP 90-7 states that the objective of financial statements issued by an entity under Chapter 11 should be to reflect its financial evolution during the proceedings (AICPA, 1990:19,275). SOP 90-7 further suggests that entities that comply with the conditions for fresh-start reporting, and whose reorganisation plans have been confirmed by the court, should apply the principles of fresh-start reporting as of the confirmation date or as of a later date when all material conditions precedent to the plan's becoming binding have been resolved (AICPA, 1990:19,277). These conditions are discussed in section 3.5.2.2 below.

Since fresh-start reporting will be applied from the date the company qualifies to apply it, the proceedings can for financial reporting purposes be divided into two distinct periods: the period from filing for Chapter 11 protection up to the date fresh-start reporting is applied, and the period following the fresh-start reporting date where a new entity emerges from Chapter 11.

During the first period under Chapter 11 proceedings, the company will still apply normal US GAAP. The statements will therefore be mainly historical cost-based. However, they will be clearly labelled as 'Debtor-in-possession' to indicate that the company is under Chapter 11. The divide between the two distinct periods under

Chapter 11 is indicated in Figure 3.2 in the next section. The next section also includes a discussion of the application of fresh-start reporting.

3.5.2.2 The 'fresh-start reporting' accounting model

As mentioned earlier, a reorganisation plan is the heart of the reorganisation. An important part of the plan development is to determine a 'reorganisation value'. The reorganisation value[8] is a value that approximates a *fair value* of the entity's assets before considering liabilities and which also approximates an amount that a willing buyer would pay for the assets immediately after the restructuring (AICPA, 1990:19,273). The fresh-start reporting model therefore uses fair values as opposed to the mainly historical cost measurements found in the historical cost accounting model.

In determining the reorganisation value, the AICPA (1990:19,273) states that several methods are used to determine the reorganisation value, but that this is generally determined by discounting future cash flows for the reconstituted business (that will emerge from Chapter 11) and from expected proceeds or collections from assets not required in the reconstituted business. The discounting will be done at rates reflecting the business and financial risks involved.

Drawing the parallel to known IFRSs measurements, the similarities in the way in which the reorganisation value is determined and the way in which 'value-in-use' (IAS 36 *Impairment of Assets*), fair value (IFRS 13 *Fair value*), 'fair value less costs of disposal' (IAS 36 *Impairment of Assets*) and 'net realisable value' (IAS 2 *Inventories*) are determined, are notable.

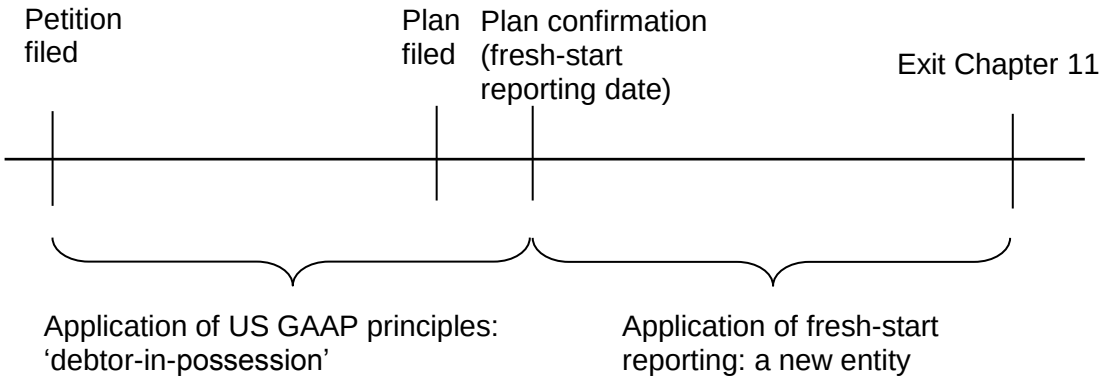
It is also important to note that a company may only apply fresh-start reporting when two conditions have been met. The first condition is that the 'reorganisation value' (as determined above) of the entity's assets is less that the total of all claims and post-petition (post-filing) liabilities (AICPA, 1990:19,274). In other words, the company should be insolvent to qualify for fresh-start reporting (Barry, 1992:48). The second

[8] Refer to the **Definitions of terms** on page xxviii for a full definition of 'Reorganisation value'.

condition is that the holders of the preconfirmation voting shares will receive less than 50% of the voting shares when the company exits from the Chapter 11 proceedings (AICPA, 1990:19,274). Bonora (2009:2) explains that the purpose of these conditions is to prevent solvent companies from using fresh-start reporting and thereby writing up the carrying values of their assets. As indicated earlier, insolvency is not a requirement for entering Chapter 11, hence these strict conditions for applying fresh-start reporting.

Figure 3.2 below shows the financial reporting timeline under Chapter 11. The fresh-start reporting date is the confirmation date or a later date if material conditions exist that should be resolved before the reorganisation plan becomes binding (AICPA, 1990:19,277). Figure 3.2 below assumes the former, but Bonora (2009:3) warns that determining the fresh-start reporting date could be a challenge if material conditions have to be resolved before the plan becomes binding. The application of the fresh-start reporting model in relation to the normal US GAAP principles is also indicated and elaborated on below.

Figure 3.2: Financial reporting timeline under Chapter 11



Source: Bonora (2009:3) (adapted)

The financial information supplied to the affected parties under fresh-start reporting indicates a particular accounting model. Barry (1992:64) refers to it as a quasi-GAAP/economic model. However, if one compares the model to the various theories of accounting and resulting accounting models as discussed in section 2.4.3, it can be compared to present value theory with components of net realisable theory. One can deduce the above accounting model from the goal of Chapter 11 and the manner in which the reorganisation value is determined, as explained below.

The goal of Chapter 11 is to preserve the company as a viable entity with a going concern value. However, the SOP 90-7 does not specifically indicate that 'going concern' should be used as an underlying financial reporting assumption. In their review of the bankruptcy process and reporting considerations, Doyk, DeSmith, Das and Stieg (2014:5) list various other accounting and reporting implications triggered by a bankruptcy. One of the considerations that should be evaluated on an ongoing basis is the company's ability to continue as a going concern. One can therefore deduce that the fresh-start reporting model supports the financial reporting underlying assumption of going concern.

It was earlier indicated that the measurement of reorganisation value relies on values based on discounting future cash flows to the present value, plus possible proceeds from assets not required by the reorganised entity. These values, namely, the present value and net realisable value, are both classified as current values and are examples of exit values (as opposed to entry values), indicating an accounting model employing mainly current values. Chapter 6 (in § 6.5.3) of this study discusses the different measurement bases in terms of their current value or cost attributes, as well as their classification as entry or exit values.

In summary, the underlying financial reporting assumption and measurement bases employed therefore indicates that the fresh-start accounting model is in line with present value theory, as well as having components of net realisable theory. This stands in contrast to the mixed-measurement based accounting model employed when preparing financial statements during reorganisation proceedings in the UK, Australia and Canada.

The fresh-start accounting model presents some interesting principles that may be useful for addressing the research problem when considering the financial reporting of a listed company under business rescue in South Africa.

Before the possibility of applying fresh-start reporting principles in South Africa is discussed, the next section will briefly address the financial accounting practices under

fresh-start reporting in order to understand how the migration from the historical cost to the fresh-start accounting model is achieved.

3.5.2.3 Financial accounting practices and presentation under 'fresh-start reporting'

Applying fresh-start accounting principles results in a new entity being formed. Following compliance with the two fresh-start conditions and commencing fresh-start reporting, the economic reality is that the new reorganised company is being treated as an acquisition by its creditors, that is, the creditors have exchanged their debt (claims) for equity in the new company (AICPA, 1990:19,283; Barry, 1992:64). The new entity starts off with assets that have been recorded at their fair value and retained earnings (deficit) that have been reset to nil. Once fresh-start reporting is adopted, the entity will henceforth apply the accounting standards in effect at the date fresh-start reporting was adopted, including those standards which the entity elected to early adopt (Henry & Holzmann, 2008:73).

In Figure 3.2 above, the two distinct financial reporting periods are indicated with brackets. During the first period, the company will enter into negotiations or litigation with affected parties in order to prepare a reorganisation plan that includes the reorganisation value. The second period commences with the implementation of the reorganisation plan.

Once determined, the reorganisation value is disclosed in the disclosure statement together with other financial information in order for the disclosure statement to be accepted by the court. Examples of such other information include a summary of the reorganisation plan, historical and prospective financial information and a pro forma statement of financial position reporting the reorganisation value and the capital structure of the emerging entity.

Once the Bankruptcy Court has accepted the disclosure statement, it is sent to those parties entitled to vote on the plan (AICPA, 1990:19,273). Once the plan has been voted on and accepted, the entries mentioned below will be recorded in the financial

records of the 'old' company and the books will be closed off. A new emerged entity will therefore be created, commencing with the values as explained below in Table 3.1.

The pro forma statement of financial position will therefore include the effect of the *proposed* accounting entries necessary to reorganise the company, as envisaged. Table 3.1 below summarises the accounting entries needed to prepare the pro forma statement of financial position:

Table 3.1: Proposed fresh-start reporting accounting entries

Presentation category	Explanatory notes
Assets ***(Non-current and current)***	Re-measure the assets to their fair value, which may require fixed assets (Property, Plant and Equipment) to be written up or down.
	Some intangibles such as intellectual property and favourable leases may have to be evaluated and new assets created according to FASB Statement No. 141 *Business combinations*, which is similar to IFRS 3 *Business combinations.*
	Re-measure the debtors and inventory to their fair value, which may require these assets to be written up or down.
	Goodwill should be recorded for the difference between the total reorganisation value of assets over the new recorded amounts of assets in conformity with the procedures specified by the standard on business combinations.
	Deferred taxes should be reported in conformity with US GAAP at the undiscounted amount thereof. If there are any tax benefits realised from pre-confirmation net operating loss carry forwards, these should first reduce goodwill (see above) and, if goodwill is reduced to nil, be reported as a direct addition to paid-in capital.[9]
Liabilities ***(Non-current and current)***	Measure the liabilities at their fair value.[10]
Equity	Elimination of the retained earnings (deficit) and recording the changes to equity for the debt to equity swops, with the resulting cancellation of old shares and issuance of new shares. In other

[9] The guidance therefore assumes that a deferred tax asset cannot be initially recognised for a potential operating loss carry-forward benefit. Therefore, when the subsequent tax benefit actually realises, it would be accounted for as indicated.

[10] According to SOP 90-7 the measurement would be at the present value of amounts to be paid discounted at a fair interest rate (AICPA, 1990:19,278-19,279).

Presentation category	Explanatory notes
	words, the new reporting entity will have no beginning retained earnings or deficit.

Source: Bonora (2009:2-3); Sasso and Blair (2008:30); DeSmith et al. (2014:4-7)

With respect to the presentation of the statement of financial position, SOP 90-7 recommends that pre-commencement liabilities subject to compromise be distinguished from those that are not subject to compromise (such as fully secured liabilities that are expected not to be compromised), as well as from post commencement liabilities.

Regarding the statement of operations (statement of profit or loss and other comprehensive income), SOP 90-7 recommends that this should portray the results of operations of the new reporting entity while it is in Chapter 11. The contra entries to any adjustments to the carrying amount of the assets, namely, to re-measure the assets to fair value, create any new assets if applicable and recognition of goodwill will be recorded as fresh-start adjustments in the previous company's statement of operations (DeSmith et al., 2014:4-9). The guidance does not indicate whether the adjustments should be accounted for in profit or loss, or in other comprehensive income. Since the adjustments are recorded in the 'old' company and the books will be closed off, one can assume that the adjustments would be recorded in profit or loss since recording the adjustments in other comprehensive income will serve no further purpose.

Revenues, expenses (including professional fees), realised gains and losses, and provisions for losses resulting from the reorganisation and restructuring of the business should be reported separately as reorganisation items, except for those required to be reported as discontinued operations and extraordinary items. Extraordinary items are not allowed under IFRSs (IASB, 2015d:A858). The financial period from the beginning of the financial year to the date of fresh-start reporting will be disclosed separately. The result is that the 'predecessor' and 'successor' reporting periods will not be comparable (Sasso & Blair, 2008:30).

Fresh-start reporting presents some interesting accounting principles for companies under corporate rescue. The question is whether fresh-start reporting can be applied in a South African business rescue context where IFRSs is the financial reporting framework in use.

The possibility of applying fresh-start reporting is considered in the next section.

3.5.3 Comparison between business rescue in the USA and SA

Since the first goal of the South African business rescue model is similar to Chapter 11, namely to enable a reorganisation, fresh-start reporting presents viable principles that should be considered in the South African business rescue context and within the IFRSs environment. Fresh-start reporting aims to reflect the company's financial evolution during the proceedings and the resulting change in financial reporting model addresses the change in the needs of financial statement users.

For a South African listed company under business rescue proceedings one could therefore determine the following:

- Is the company a going concern?
- What are the needs of the users of financial statements of such a company?
- Is it necessary to reflect the financial evolution of the company during the proceedings?
- Is a change from the current mixed-measurement based accounting model to a current value only measurement model preferable?
- If a change in accounting model is preferable, when should the change be recorded and where should the re-measurements be reflected?
- With respect to the above, what presentations would be useful to the users of financial statements?

Determining the above aspects for a South African listed company under business rescue would indicate to what extent a different accounting model, similar to the fresh-start reporting model, is needed to provide decision-useful financial information.

The above aspects are evaluated in the research questionnaire and reported on in the research findings in the following sections:

Research questionnaire		Research findings
Going concern	Questions 17 and 18 Section 7.6.3.7	Section 8.3.7
User needs	Questions 29 to 48. Section 7.6.4.4	Section 9.2.4
Financial evolution	Question 50 Section 7.6.4.5	Section 9.2.5
Change in accounting model	Questions 52 to 53 and 55 to 63. Sections 7.6.4.6 and 7.6.4.8	Sections 9.2.6 and 9.2.8
Re-measurement	Questions 63 and 64 Section 7.6.4.9	Section 9.2.9
Useful presentation	Question 65.Section 7.6.4.9	Section 9.2.9

All the questions are also included in APPENDIX E.

The previous sections investigated the financial reporting requirements of corporate rescue procedures in countries with similar rescue regimes to South Africa. A summary of the investigation is provided in the next section.

3.6 COMPARISON OF INTERNATIONAL REORGANISATION PROCEEDINGS

While there are some similarities between South African and other countries' corporate rescue procedures and financial reporting requirements, there are also noticeable differences. Table 3.2 below summarises the international reorganisation procedures in terms of distress indicators, the financial reporting framework used and the auditing standards applied for SA, the UK, Australia, Canada and the USA.

Table 3.2: Comparison of international reorganisation procedures in terms of distress indicators, financial reporting framework used and auditing standards applied

Country	Reorganisation procedures	Definition of financial distress?	Distress indicators	Financial reporting framework used	Accounting model employed		Audit standards applied
					Underlying assumption	Measurement bases used for assets and liabilities	
South Africa	Companies Act (Chapter 6)	Yes	Within next six months unable to pay debts or liabilities > assets	IFRSs	Going concern	Mixed (historical costs and current values)	ISA
UK	Insolvency Act (Administration)	No	Current/future inability to pay debts (including liabilities > assets)	IFRSs	Going concern	Mixed (historical costs and current values)	ISA
Australia	Corporations Act (Cth) (Voluntary Administration)	No	Insolvency, or likely insolvency	IFRSs	Going concern	Mixed (historical costs and current values)	ISA
Canada	Companies Creditors Arrangement Act	No	Insolvency or bankruptcy	IFRSs	Going concern	Mixed (historical costs and current values)	ISA
USA	United States Code (Chapter 11)	No	None	US GAAP	Going concern	Initially mixed model, then current values	ISA

Source: Own observation

When comparing the different countries' rescue procedures, it is worth noting that the South African business rescue model is the only one in which the state of financial distress is defined. Moreover, the period included in this definition seems to create a unique accounting problem when evaluated against the going concern financial reporting assumption. None of the countries investigated define the state of financial distress as the 2008 Companies Act has done. Consequently, no direct conflict exists with the IFRSs going concern financial reporting assumption as a basis for preparing the financial statements. All of the countries investigated use the underlying financial reporting assumption of going concern. In addition, all the countries apply a mixed-measurement base accounting model with the exception of the USA, which applies a different current value accounting model for qualifying companies under Chapter 11.

In a recent paper published by Haskin and Haskin (2012:189), the authors assert that in the move to convergence between the US GAAP and IFRSs, bankruptcy accounting was not addressed. They therefore investigated whether companies in countries that used IFRSs were influenced by the guidance of ASC 852 (SOP 90-7) when confronted with the accounting treatment of companies undergoing reorganisation under bankruptcy laws similar to US Chapter 11.

Haskin and Haskin (2012:193) conclude that accounting for reorganisations under bankruptcy was somewhat of an unknown and that the IASB had not issued any guidance with respect to accounting situations that were controlled by ASC 852 (SOP 90-7). The reported findings in the above sections pertaining to the UK, Australia and Canada are in agreement with Haskin and Haskin's conclusion.

Furthermore, Haskin and Haskin (2012:193) point out that in terms of the hierarchy of IFRSs (IASB, 2015i:A918), the preparer should turn to national standards if the other levels of hierarchy do not address the issue. One could therefore argue that the preparers of financial statements using IFRSs should consider fresh-start reporting. However, without legislative or regulative direction, supported by proper IFRSs contextualised guidance, preparers would continue to apply IFRSs as they have been doing before.

Chapters 7 and 8 of this study present the empirical analysis of an investigation into a possible financial reporting framework for a South African listed company under business rescue. This reporting framework will serve the needs of financial statements users in South Africa as fresh-start reporting does for financial statements users in the USA.

3.7 CONCLUSION

The research aim of the study is to determine what underlying financial reporting assumption should be used for a South African listed company under business rescue, supported by context-relevant measurement bases for its assets and liabilities. In this chapter, the financial reporting requirements for companies under corporate rescue in countries with similar rescue regimes to the business rescue model used in South Africa were investigated.

The investigation found that based on the application of law and regulation, companies in SA, the UK, Australia and Canada are obligated to prepare financial statements using IFRSs, even if the company is not a going concern. The financial statements of such companies are therefore based on a mixed-measurement base accounting model. However, companies in the USA are allowed to apply a bankruptcy accounting basis, that is, fresh-start reporting, under certain circumstances. Fresh-start reporting applies a current value accounting model, which is an example of decision-useful prescriptive theory of accounting as discussed in Chapter 2 section 2.4.3.

A similar approach to fresh-start reporting may be appropriate in a South African business rescue context, as the needs of the users of the financial statements of a listed company under business rescue in South Africa may also have changed. It might therefore be possible to achieve the research aim if it can be determined whether or not the going concern financial reporting underlying assumption is appropriate, as well as the need for more current value measurements of assets and liabilities.

The fact that a South African listed company files for business rescue could indicate that a change in financial reporting may be needed to supply the users of the financial statements with decision-useful financial information.

The next chapter investigates the factors influencing the financial reporting environment, as well as some legislative and regulative areas that have an impact on the financial reporting of a listed company under business rescue.

CHAPTER 4
THE SOUTH AFRICAN LEGISLATIVE AND REGULATIVE ENVIRONMENT OF LISTED COMPANIES UNDER BUSINESS RESCUE

4.1 INTRODUCTION

Chapter 3 of the study investigated the different financial reporting requirements in countries with corporate rescue regimes similar to the business rescue model used in South Africa. The financial reporting requirements were considered against the backdrop of the particular country's legislative and regulative environment.

The aim of the study is to develop a financial reporting framework for a South African listed company under business rescue. However, various factors may have an impact on the financial reporting environment in which a South African listed company under business rescue operates, including particular legislative and regulative aspects.

In this chapter, some of the aspects that influence the financial reporting of a South African listed company whilst under business rescue are further explored. The chapter commences with a brief discussion on the changing business and financial reporting environment, before addressing the legislative and regulative aspects that influence the financial reporting of a listed company under business rescue.

4.2 FACTORS INFLUENCING THE FINANCIAL REPORTING ENVIRONMENT

The business environment is constantly changing. These changes have a bearing on the form and content of financial reporting. Koppeschaar (2009:34) cites Lee, who defines various factors that may influence the form and content of modern financial reporting.

These factors, including some examples, are listed below:

- Legal influences, such as the South African Companies Act.

- Professional influences, such as accounting standards issued by international standard setters and new developments on the horizon, for example fresh-start reporting (as discussed in Chapter 3) and the emerging importance of the business model in financial reporting.
- Voluntary influences, such as providing information additional to that which is required by accounting professions. An example is additional information on the entity's impact on the environment.
- The influence of stock exchanges, such as listing requirements for companies listed on the JSE that lead to particular South African accounting pronouncements. The guidance on headline earnings is an example of a JSE listing requirement that is not required by IFRSs.
- Political influences, such as specific requirements with regard to black economic empowerment, that led to a particular South African accounting pronouncement on the matter.
- Indirect influences, such as the particular taxation regime and its influence on the calculation of taxation in the financial statements.

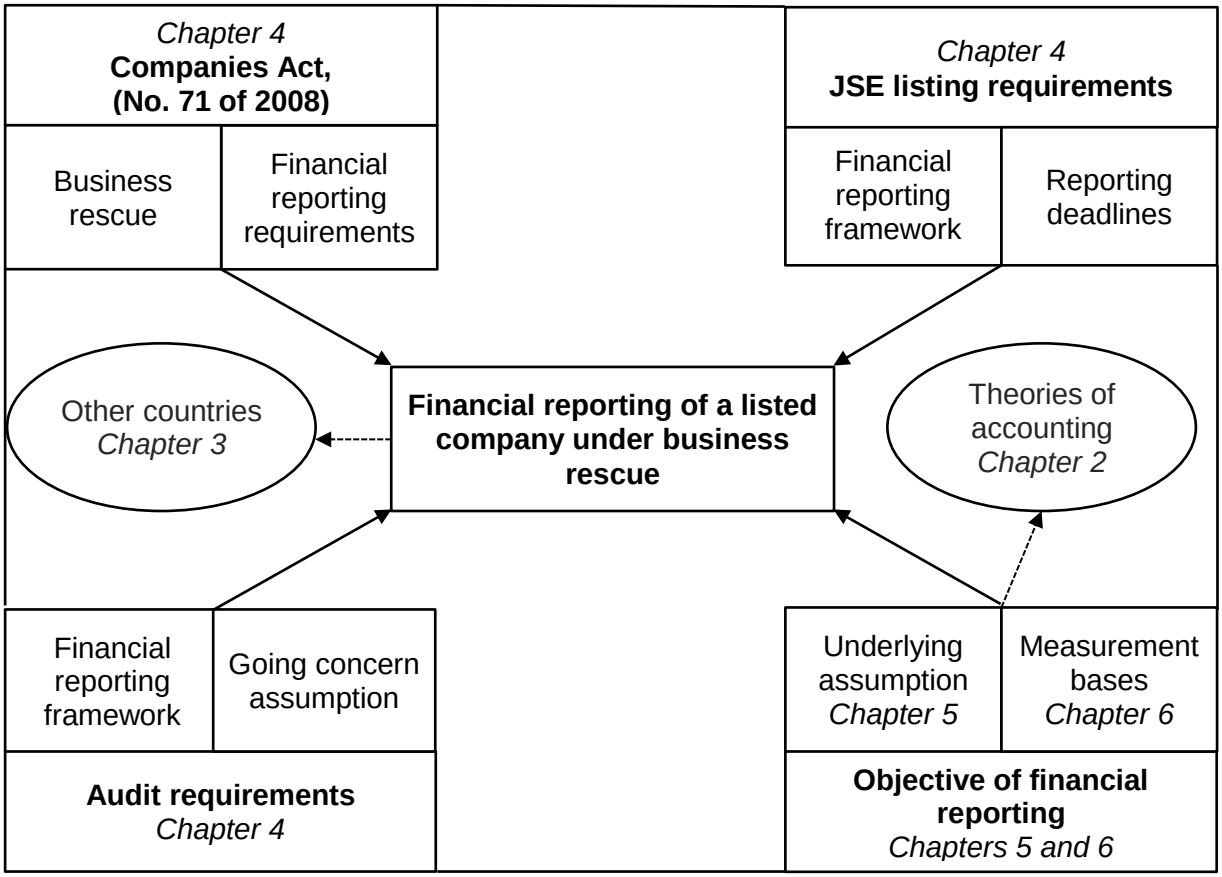
Of these factors that may influence current financial reporting, the legal, professional and stock exchange influences are particularly relevant to this study. The effect of these on the financial reporting of a South African listed company under business rescue has been illustrated in Chapter 1, Figure 1.1. For ease of reference, the figure has been duplicated and labelled below as *Figure 4.1: Financial reporting aspects of a listed company under business rescue (duplicate)*.

In the figure below the following four areas are shown to have an influence on the financial reporting of a listed company under business rescue:

- The objective of financial reporting, with specific reference to the financial reporting underlying assumption and measurement basis.
- The South African Companies Act, no. 71 of 2008, specifically the financial reporting requirements and the chapter on business rescue.
- The auditing requirements, with reference to the financial reporting framework to be used and the financial reporting underlying assumption employed in the financial statements.

- The JSE listing requirements, specifically the use of the IFRSs financial reporting framework and reporting deadlines.

Figure 4.1: Financial reporting aspects of a listed company under business rescue (duplicate)



Source: Duplicate of Figure 1.1 on p. 8

The remainder of the chapter will focus on the effect of the three legislative and regulative aspects on the financial reporting of a listed company under business rescue, namely, the Companies Act, auditing requirements and the JSE listing requirements. Once the legislative and regulative aspects have been considered, the objective of financial reporting and its related aspects will be considered in Chapter 5.

The next section will highlight the first of the three legislative and regulative aspects, namely the Companies Act. The discussion will include both the 1973 and the 2008 Companies Acts.

4.3 COMPANIES ACT REQUIREMENTS

The previous section highlighted the factors influencing the financial reporting environment. Four broad areas affecting the financial reporting of a listed company under business rescue were illustrated.

This section will address the first three areas affecting the financial reporting of a listed company under business rescue. As indicated above, the discussion will address both the 1973 and 2008 Companies Acts.

4.3.1 Companies Act, Act 61 of 1973

The Companies Act, Act 61 of 1973 (hereafter referred to as the '1973 Companies Act') deals with various matters related to conducting a business through a company as a legal entity. The Act includes proceedings with respect to a system for corporate rescue, known as judicial management, as well as general financial reporting requirements.

The 1973 Companies Act is considered here in order to establish the basis on which the financial statements of a company under judicial management would have been prepared. In other words, whether the problem of preparing financial statements on a going concern basis, when the company may not be a going concern, also existed. Furthermore, if the problem existed, the manner in which it was addressed.

4.3.1.1 Corporate rescue procedures: judicial management

In SA, corporate rescue procedures, labelled as "judicial management", were first introduced in the Companies Act 46 of 1926. The 1973 Companies Act, which replaced the 1926 Companies Act, retained the notion of judicial management. The problem was that the judicial management mechanism failed to assist businesses in cases

where it was better to continue operations (Mongalo, 2010:xviii). This failure led to the immediate liquidation of many businesses in financial distress without any rescue attempt. It was subsequently perceived that liquidation without a proper rescue attempt was not in the interests of either investors or creditors.

Research published over the two decades following the promulgation of the 1973 Companies Act highlighted various problems and deficiencies and called for a reform of corporate rescue legislation (Kloppers, 1999:417; 2001:359; Loubser, 2004:137; Olver, 1986:89; Rajak & Henning, 1999:262). Lamprecht (2008:187-194) summarises the main problems and deficiencies that caused judicial management to fail. These can be summarised as follows (Lamprecht, 2008:187-194):

- Judicial management was historically viewed as an adjunct to liquidation within a broader South African culture of liquidating a company rather than attempting to rescue it by way of judicial management.
- Professional liquidators were allowed to act as judicial managers, creating a conflict of interest.
- Judicial management was available only to a company registered under the 1973 Companies Act, despite the diverse range of entities through which business is conducted.
- Judicial management did not allow the rescue of the business or a viable part of it.
- Under judicial management a company must already be commercially insolvent or unable to pay its debts at the time of applying for judicial management.
- The court regarded judicial management as an extraordinary measure, and in the light of case law, it was difficult for the court to treat it as an equally appropriate alternative to liquidation.
- Judicial management was too expensive, especially for smaller businesses, owing to the heavy reliance on court procedures.
- The 1973 Companies Act determined that the judicial management order “may” contain directions that all actions, proceedings, execution of writs, summonses and other processes against a company be stayed and that they may not be proceeded with except by leave of the court. However, a successful rescue

attempt should be supported by an automatic stay of action against the company.

- No provision was made in the 1973 Companies Act for the removal of an incompetent or dishonest judicial manager.
- The beneficiaries of judicial management were limited to shareholders (who risked their venture capital) and creditors (who were expected to take commercial risks and who might have incorrectly provided the company with credit).
- Judicial management did not require a detailed rescue plan, which is a key part of a successful business rescue attempt.

From the above it can be seen why judicial management failed as a corporate rescue procedure. Loubser (2010:23) also argues that an applicant for judicial management faces a very heavy burden of proof because the court must be satisfied that a reasonable probability (and not merely a possibility) exists that the company will be enabled to pay its debts or meet its obligations and become a successful concern. In 2004, in a policy document on reforming corporate law, the Department of Trade and Industry (DTI) confirmed the failure of judicial management. One of the areas reviewed focused on the system of judicial management at the time. The DTI acknowledged that it appeared that judicial management was rarely used, that it even more rarely led to a successful conclusion and that it had gone almost unchanged since 1926 (RSA DTI, 2004:45).

This discussion shows that for a company to be allowed to enter judicial management proceedings, a high threshold of becoming a successful concern was necessary. The next section considers the financial reporting requirements for a company under judicial management proceedings.

4.3.1.2 Financial reporting requirements: 1973 Companies Act

Section 286(3) of the 1973 Companies Act required that the annual financial statements of a company should be prepared in conformity with generally accepted accounting practice (GAAP), as well as additional disclosures set out in Schedule 4 of

the Act (RSA, 1973:s 286(3)). GAAP was the South African financial reporting framework in use at the time. SA GAAP was harmonised with IFRSs from 2003 and formally adopted in 2005. The new 2008 Companies Act became effective in May 2011 and SA GAAP was formally withdrawn in December 2012 (APB & FRSC, 2012).

Like IFRSs, SA GAAP also employed the financial reporting underlying assumption of going concern. Companies would therefore continue to use this assumption unless the company had the need to liquidate or curtail materially the scale of its operations, or had no realistic alternative but to do so.

SA GAAP was also based mainly on historical cost measurements, with some fair value measurements allowed for financial instruments (Coetsee, 1997:1). Therefore, like IFRSs, SA GAAP also employed a mixed-measurements based accounting model.

Although the DTI indicated that judicial management was rarely used and even more rarely led to a successful rescue, one may conclude that a company under judicial management would have had to base their financial statements on the going concern assumption. The reason for this is that the company would have been placed under judicial management only if the court were satisfied that there was a reasonable probability that the company would be able to pay its debts, or meet its obligations, and become a successful concern again. There would then have clearly been no intention or need to liquidate the company, hence no need to apply a liquidation underlying assumption. Moreover, the disclosure requirements in Schedule 4 of the 1973 Companies Act did not exclude a company under a judicial management order. Therefore, all companies, including companies under judicial management, had to comply with the Schedule 4 of the 1973 Companies Act.

The above-mentioned evaluation of judicial management proceedings and the financial reporting requirements in the 1973 Companies Act point to the fact that a company would be placed under judicial management under a high burden of proof of becoming a going concern. As a result of the high burden of proof, the company would most probably be considered a going concern, with the going concern assumption forming the basis of presentation. However, the high burden of proof together with several

deficiencies also led to judicial management proceedings seldom being used as a corporate rescue mechanism.

The high burden of proof, implicating the going concern basis of presentation, and the fact that these proceedings were seldom used indicates that the research problem addressed by this study would not have been evident or exposed through accounting practice in cases of doubt about the appropriate underlying assumption of financial reporting to use in preparing the financial statements.

The next section addresses the 2008 Companies Act which replaced the 1973 Companies Act. The financial reporting requirements under the 2008 Companies Act are also considered to further address the research problem and guide formulation of questions in the research questionnaire.

4.3.2 Companies Act, Act 71 of 2008

The Companies Act, Act 71 of 2008 replaced the 1973 Companies Act. The 2008 Companies Act introduced a new corporate rescue regime, termed “business rescue”, which replaced the unsuccessful judicial management regime. Chapter 6 of the Companies Act deals specifically with business rescue, whereas Chapter 2 and the regulations to the 2008 Companies Act determine under which financial reporting framework the financial statements of a company should be prepared.

Chapter 6 (business rescue) and Chapter 2 (financial reporting requirements) of the 2008 Companies Act, supported by the Companies Act regulations, together set the legal boundaries within which the financially distressed company must operate and report its financial information. Business rescue as a corporate rescue regime, as well as the financial reporting requirements for a listed company under business rescue, will be addressed in the next two sections.

4.3.2.1 Business rescue procedures

As indicated earlier, the DTI realised that the judicial management regime was ineffective and out-dated and noted the development of new business rescue regimes

in a number of other countries around the world (RSA. DTI, 2004:45). New international business rescue practices recognised that business rescue is a necessary alternative to liquidation. This business rescue alternative operated on the basis that the value of the company is greater if it, or its business, is preserved as a going concern, as opposed to the assets being sold off on a piecemeal basis in liquidation (Broc & Parry, 2004:2). The worldwide tendency to preserve value by providing formal corporate rescue procedures for businesses in distress, together with the fact that the judicial management regime has failed as a corporate rescue regime, laid the foundation for South Africa's new business rescue model which was incorporated in the 2008 Companies Act.

The business rescue model crystallised in February 2007 when the DTI published its first draft of the Companies Bill, detailing the new business rescue provisions in Chapter 6. The chapter saw various versions as consultation with stakeholders and the public took place. The final Companies Bill was issued late in 2008 and assented to by the President on 8 April 2009 as the Companies Act, Act 71 of 2008. Following an amendment, the Act was introduced into Parliament on 9 November 2010 and came into effect on 1 May 2011.

The South African business rescue model was developed with input from many international experts in corporate law (Mongalo, 2010:xvi) and brought South Africa in line with foreign jurisdictions such as the UK, USA and Australia (Harvey, 2011:85). The model was formally introduced in Chapter 6 of the 2008 Companies Act.

The South African business rescue model defines the legally defined state of 'business rescue' as proceedings to facilitate the rehabilitation of a company that is *financially distressed* (RSA, 2008:s 128(1)(b)). A company is financially distressed when it appears to be reasonably unlikely that the company will be able to pay all of its debts as they become due and payable within the immediately ensuing six months, or it appears to be reasonably likely that the company will become insolvent within the immediately ensuing six months (RSA, 2008:s 128(1)(f)).

As mentioned earlier, Harvey (2011:164) maintains that the definition of financial

distress implies that there is a likelihood of commercial or technical insolvency within six months. Commercial insolvency indicates that the company is unable to pay all of its debts as they become due and payable, and technical insolvency indicates that the company's liabilities exceed its fairly valued assets.

It is important to note that if the board of a company has reasonable grounds to believe that the company is in financial distress, the board is compelled to place the company under business rescue or to inform all the affected parties (see below) why it has not adopted a resolution to place the company under business rescue (RSA, 2008:s 129(7)). An "affected person" could be a shareholder, creditor, registered trade union or individual employee not represented by a registered trade union. It is also possible for an affected person to apply to a court to place the company under business rescue (RSA, 2008:s 128(1)(a), 131).

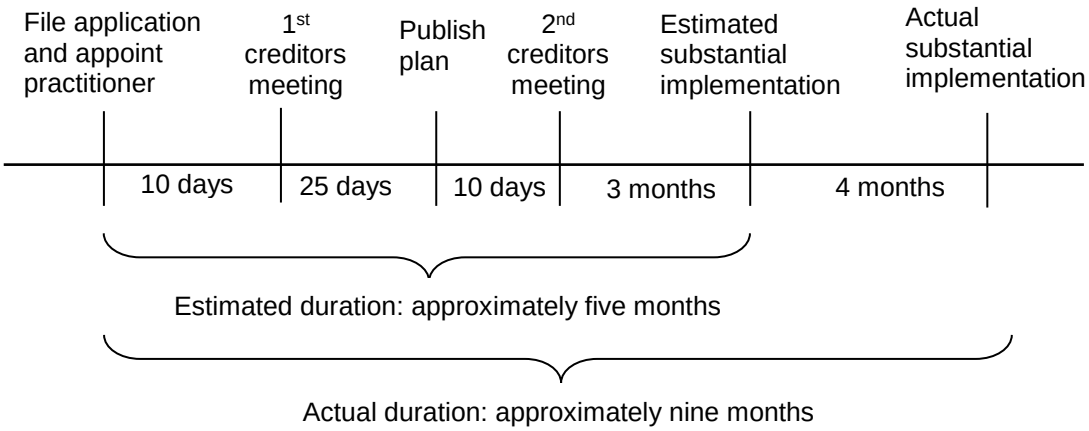
It is also important to consider the duration of business rescue proceedings. Chapter 6 of the 2008 Companies Act prescribes various timeframes for guiding and expediting the business rescue proceedings. As indicated, the proceedings commence when a resolution to file for business rescue and the necessary documentation is submitted to the CIPC. The documentation pertaining to the filing for business rescue will include a nomination for a BRP. The CIPC will consider the nomination of the BRP on an urgent basis, after which it will grant a conditional licence to the BRP (Voller, 2015:12-13).

The first meeting of creditors should be held within 10 business days from the date the BRP was appointed. A further 25 business days will then be allowed for the preparation and publication of the plan. The second creditors meeting to consider and vote on the plan should be held within 10 business days of publishing the plan (RSA, 2008:s 147, 148, 150, 151). The period from filing for business rescue up to the adoption or rejection of the plan should therefore take about 45 business days, which equates to just over two calendar months.

Section 132(3) of the 2008 Companies Act determines that the business rescue proceedings should end within three months after the start of those proceedings, but may be extended on application by the BRP (RSA, 2008:s 132(3)). In section 1.3, it

was also pointed out that it takes about nine months for a company to conclude business rescue proceedings (Lotheringen, 2013:5), indicating that the period envisaged by the 2008 Companies Act is too short. Figure 4.2 below illustrates the proposed business rescue duration, as opposed to the actual duration.

Figure 4.2: The duration of business rescue



Source: Own observation

Once placed under business rescue, rehabilitation of the company is facilitated by providing for the following (RSA, 2008:s 128(1)(b)):

- The temporary supervision and management of the company.
- A temporary moratorium on the rights of claimants against the company or property in its possession.
- The development and implementation (if approved) of a plan to:
    - rescue the company by restructuring its affairs, business, property, debt, other liabilities and equity in a manner that maximises the likelihood of the company continuing in existence on a solvent basis, or
    - if the above is not possible, provides a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company.

When examining the provisions of the Act, one may conclude that one of three possible scenarios for a company in financial distress can emerge:

- If business rescue is successful, then either:
    - the company will continue in existence on a solvent basis (referred to as

aim 1 of business rescue – see § 1.2.2), or

- the realisation of assets under business rescue will result in a better return for the company's creditors and shareholders than the possible return under immediate liquidation (referred to as aim 2 of business rescue – see § 1.2.2);

- If business rescue is unsuccessful, liquidation will still follow.

Section 1.2.2 further showed that there is currently no agreement on whether the aims of business rescue are hierarchical or mutually exclusive. If the aims are considered mutually exclusive, aim 2 may be pursued from the outset. Aim 2, which can also be considered an 'orderly liquidation' (Bradstreet, 2014), should lead to the dissolving of the company once business rescue proceedings have been concluded (Loubser, 2015). If the BRP pursues aim 1, the company will at some stage during the proceedings recover from the financial distress and from then on be considered a going concern by virtue of having a viable foreseeable future. However, the BRP may realise that aim 1 cannot be achieved and continue to pursue aim 2[11]. A change to pursuing aim 2 will most likely indicate that the company does not have a viable foreseeable future, hence the company may likely not be considered a going concern.

The first aim of business rescue and the definition of 'financial distress' makes it clear that business rescue provides procedures to save financially distressed but economically viable companies (Van der Walt, 2009:17). Indications are that that the overall success rate of all companies (including close corporations) entering business rescue is about 9.4% (Pretorius, 2015:33). Success in this case means achieving at least one of the two aims of business rescue, namely, returning the company to solvency.

In comparison to the lack of success shown by judicial management, the above-mentioned success rate for business rescue, although still low, is not surprising. Lamprecht (2008:195) concluded that the business rescue model addressed most of the deficiencies inherent in the judicial management regime. In addition, some of the

[11] BRPs normally include this possibility in the proposed business rescue plan.

unaddressed problems and deficiencies were also addressed in the final version of the Act that was later introduced into parliament.

If a listed company under business rescue has a reporting date (interim or year-end), the users of its financial statements will need decision-useful financial information on which to base their economic decisions. The next section explores the financial reporting requirements of a listed company under business rescue in terms of the 2008 Companies Act.

4.3.2.2 Financial reporting requirements: 2008 Companies Act

Chapter 2 of the 2008 Companies Act stipulates that public companies should comply with the IFRSs framework (RSA, 2008:s 29(5)). A public company is defined as a "profit company that is not a state-owned company, a private company or a personal liability company" (RSA, 2008:s 29(1)). The regulations for the 2008 Companies Act clarify that a public company, listed on an exchange, should use the IFRSs financial reporting framework (RSA, 2011:s 27(4)).

The 2008 Companies Act further requires that the financial statements should be prepared within six months after its reporting date, or a shorter period as may be appropriate to provide the required notice of an annual general meeting (RSA, 2008:s 30(1)). The financial statements of a public company must also be audited (RSA, 2008:s 30(2)). The above requirements mean that should a listed company have a reporting date whilst under business rescue, it should prepare audited financial statements within six months after that reporting date as there are no exceptions. The IFRSs reporting framework should be used for this, which supports the financial reporting underlying assumption of going concern.

Considering the above reporting duties, a business rescue period of nine months, as opposed to the three months envisaged by the 2008 Companies Act, points to the high likelihood that the company may need to prepare the annual audited financial statements whilst under business rescue.

The next section summarises the business rescue proceedings and financial reporting requirements. The summary will also indicate which of these is considered in the research questionnaire.

4.3.3 Summary of the Companies Act requirements

The 2008 Companies Act introduced a new corporate rescue regime, namely business rescue, to replace the out-dated and unsuccessful judicial management regime. It is clear from the above that, to date, the business rescue regime has been more successful than the judicial management regime found in the 1973 Companies Act.

In Chapter 2 it was also mentioned that the use of the IFRSs framework to prepare a company's financial statements results in a specific accounting model. The aim of this accounting model is to provide decision-useful financial information, as well as information on which an assessment of management's stewardship of the assets entrusted to it may be made. This accounting model uses going concern as its underlying assumption and a number of different measurements for the assets and liabilities. It can therefore be considered a mixed-measurement based accounting model.

It is further clear that both the 1973 and the 2008 Companies Acts prescribe the use of the IFRSs when preparing financial statements for a listed company, even if the company was under judicial management (before 1 May 2011), or under business rescue (since 1 May 2011). Unless the company is under liquidation, or has no realistic alternative to liquidation, the financial statements of a listed company will have to be prepared using IFRSs.

The two aims of business rescue will lead to different outcomes, albeit both considered a success if achieved. If the first aim were achieved, the company would have recovered from financial distress at some stage during the business rescue proceedings. If the second aim were successful, the creditors would have received a better return than under immediate liquidation, with the company supposedly dissolved as a legal entity. The success rate of 9.4%, although far better that under judicial management, still indicates that most companies entering business rescue

proceedings are not successfully rescued (aim 1) nor is a better return to creditors achieved (aim 2).

Therefore, the mutually exclusive versus the hierarchical view of the business rescue aims should be considered when addressing the study's research aim, namely, to determine what underlying financial reporting assumption should be used for a South African listed company under business rescue, supported by context-relevant measurement bases for its assets and liabilities.

The mutually exclusive versus the hierarchical view of the business rescue aims is evaluated in the research questionnaire, Questions 5 to 7. Refer to section 7.6.3.1 and APPENDIX E. The results are presented in section 8.3.1.

Implicit in the definition of financial distress is the likelihood of commercial or technical insolvency within six months. Considering the two aims of business rescue, it would be interesting to determine when the company's state of commercial or technical solvency changes during the business rescue proceedings. A change in the company's state of commercial or technical solvency would help to determine a viable foreseeable future, that is, the going concern status of the company at that point in time.

The state of commercial or technical solvency during the business rescue proceedings is evaluated in the research questionnaire, Questions 8 to 10. Refer to section 7.6.3.2 and APPENDIX E. The results are presented in section 8.3.4.

In view of the fact that it takes about nine months for a business rescue to be concluded, it is likely that the company will have a reporting date come due whilst under business rescue. In order to support the research aim, it is necessary to establish what the estimated duration of business rescue is, as well as the likelihood of a reporting period occurring whilst under business rescue.

The duration of business rescue and the likelihood of a reporting period occurring whilst under business rescue are evaluated in the research questionnaire, Questions 11 and 12. Refer to section 7.6.3.3 and APPENDIX E. The results are presented in section 8.3.2.

Questions were also included to determine the respondents' views on the applicability of the going concern assumption when a South African company is under business rescue.

The the applicability of the going concern assumption is evaluated in the research questionnaire, Questions 21 (part 3) to 24. Refer to section 7.6.3.8 and APPENDIX E. The results are presented in section 8.3.8.

As indicated above, the financial statements of a public listed company have to be audited. The audit requirements pertaining to a listed company under business rescue will be discussed in the following section.

4.4 AUDIT REQUIREMENTS

In Figure 4.1, the four broad areas influencing the financial reporting of a listed company under business rescue were illustrated. The previous section considered the Companies Act requirements as the first of the three legislative and regulative areas influencing such a company.

In this section, the second of the three areas, namely, the audit requirements pertaining to a listed company under business rescue, will be considered. This will include the applicable financial reporting framework that the auditor should use as well as the auditor's duty with respect to the use of the going concern assumption.

In section 1.2.3, it was argued that the auditing literature contains more guidance on the appropriateness of the going concern financial reporting assumption when preparing the financial statements than that currently available under IFRSs. Chen and Church (1996:117) state that the users of financial statements are particularly interested in the auditor's assessment of the appropriateness of the going concern financial reporting assumption. Auditors are experts on the matter and their views are therefore important to this study as they express an opinion on the fairness of the financial statements presented.

As indicated in section 4.3.2.2, the 2008 Companies Act requires that the financial statements of a public listed company be audited (RSA, 2008:s 30(2)). The 2008 Companies Act refers to the Auditing Profession Act, Act no. 26 of 2005 (hereafter referred to as the 'Auditing Profession Act') for the meaning of an 'audit'. The Auditing Profession Act defines an 'audit' as

> the examination of, in accordance with prescribed or applicable auditing standards, the financial statements with the objective of expressing an opinion as to their fairness or compliance with an identified financial reporting framework and any applicable statutory requirement (RSA, 2005:s 1).

Further to the above and as indicated in section 1.2.3, the IRBA[12] of South Africa adopted the IAASB's International Standards on Auditing and Quality Control in 2009 (IRBA, 2009). Therefore, the current set of ISAs represents the prescribed auditing standards to use when performing an audit of any company.

ISA 700 *Forming an opinion and reporting on financial statements* refers to general purpose financial statements such as those prepared in terms of a general purpose framework (IAASB, 2015d:687). According to ISA 700, a general purpose framework is a financial reporting framework that meets the needs of a wide range of users, and can be regarded as a 'fair presentation framework' or a 'compliance framework' (IAASB, 2015d:687). A fair presentation framework acknowledges that it may be required to provide disclosures beyond what is required in the framework in order to achieve fair presentation (IAASB, 2015d:687). On the other hand, a compliance framework does not require additional disclosures, merely compliance with the requirements of that framework (IAASB, 2015d:687).

The aim of this study, namely, to develop a financial reporting framework for a South African listed company under business rescue, is an example of a 'fair presentation framework'.

[12] IRBA is the regulatory body for registered auditors in South Africa

In order to develop such a financial reporting framework, it is necessary to examine the one that is currently used in preparing financial statements for South African listed companies. The next section will address the financial reporting framework.

4.4.1 The company is a going concern – financial reporting framework

With respect to the use of an applicable financial reporting framework for a listed company under business rescue, ISA 210 *Agreeing the terms of audit engagements* provides the necessary guidance. It states that one of the preconditions of an audit is that the auditor shall determine whether the financial reporting framework applied in the preparation of the general purpose financial statements is acceptable. With regard to ISAs, the applicable financial reporting framework provides the criteria that the auditor uses to audit the financial statements, including where relevant, their *fair presentation*. It further states that without an appropriate financial reporting framework or guide, management does not have a formal basis for preparing the financial statements and the auditor does not have suitable criteria for auditing them (IAASB, 2015a:109-116).

ISA 210 par. A8 addresses the acceptability of the particular financial reporting framework for general purpose financial statements. It states that the financial reporting standards established by organisations that are authorised or recognised to promulgate standards to be used by certain types of entity, are presumed to be acceptable provided that the views of a wide range of stakeholders be considered. It gives the IASB's IFRSs, amongst others, as an example and states that those financial reporting standards are often identified as the applicable financial reporting framework, in law or regulation, that governs the preparation of general purpose financial statements (IAASB, 2015a:115-116). The general purpose financial statements of a South African listed company will therefore be audited in terms of IFRSs as a fair presentation general purpose framework.

In Chapter 2 section 2.7, it was concluded that the IASB's IFRSs accounting model is based on the going concern financial reporting underlying assumption. IAS 1 par. 25 requires management to prepare financial statements on the going concern basis, unless management intends to liquidate the entity or to cease trading, or has no

realistic alternative but to do so (IASB, 2015d:A840). It is clear that the responsibility for preparing financial statements and evaluating the company's ability to continue as a going concern lies with management.

ISA 570 *Going concern* provides detailed guidance for the auditor. It deals with the auditor's responsibility when auditing financial statements on the basis of the going concern financial reporting assumption. The ISA repeats the explanation of the going concern assumption when it states:

> Under the going concern assumption,[13] an entity is viewed as continuing in business for the foreseeable future. General purpose financial statements are prepared on a going concern basis, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so (IAASB, 2015c:558).

ISA 570 further states that when the going concern financial reporting assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business (IAASB, 2015c:558). Based on the above, it is clear that the auditor will audit the financial statements in terms of the IFRSs financial reporting framework, and will assess management's use of the going concern assumption. Subsequently, if the use of the going concern assumption is appropriate and all disclosures are adequate, the auditor will probably issue an unqualified audit opinion. Chapter 5 will summarise the discussion on the use of the going concern assumption.

Because IAS 1 par. 25 seems to require a listed company under business rescue to apply the going concern assumption, unless management intends to liquidate or has no alternative but to do so, the research questionnaire included questions that were intended to ascertain whether or not the respondents agreed with this. Refer to section 7.6.3.8 and Question 21 of the research questionnaire in APPENDIX E. The results are presented in section 8.3.8.

[13] ISA 570 *Going concern* (revised) now refers to the 'going concern basis of accounting' instead of the 'going concern assumption'.

The research questionnaire also included a question to determine the extent to which financial distress would lead to the inability of a listed company under business rescue to realise its assets and discharge its liabilities in the normal course of business. Refer to section 7.6.3.6 and Question 16 of the research questionnaire in APPENDIX E. The results are presented in section 8.3.3.

In this section, a scenario in which a company is a going concern was addressed. The next section will address the financial reporting framework that should be used if there is significant doubt as to a company's ability to continue as a going concern.

4.4.2 Significant doubt about ability to continue as a going concern – financial reporting framework

Should there be material uncertainties about certain events and conditions that may cast significant doubt on the entity's ability to continue as a going concern, IAS 1 par. 25 further determines that those uncertainties shall be disclosed (IASB, 2015d:A840). A material uncertainty exists when the magnitude of the potential impact and the likelihood of an occurrence are such that they need appropriate disclosure to achieve fair presentation (IRBA, 2013:98).

If the auditor determines that the going concern assumption is appropriate, but a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall determine whether

- that event or condition, as well as management's plan to deal with it, is adequately described, and
- that event or condition is clearly disclosed (IAASB, 2015c:562).

Under the heading 'Use of going concern assumption appropriate but a material uncertainty exists', ISA 570 *Going concern* gives the following two examples of cases where a material uncertainty exists. The purpose of these examples is to explain the basis for the auditor's opinion when the material uncertainty is not fully disclosed or not disclosed at all. In both these cases, the material uncertainty may cast significant doubt

on the company's ability to continue as a going concern and therefore on the company's ability to realise its assets and discharge its liabilities in the normal course of business (IAASB, 2015c:570).

In the *first* case, the company's financing arrangements have expired and there are amounts payable within three months after the reporting date. The company has been unable to renegotiate or obtain replacement financing to pay the outstanding amounts on the due date. The financial statements and the notes to the financial statements do not fully disclose this fact (IAASB, 2015c:570).

In the *second* case, the company's financing arrangements have expired and there are amounts payable on the reporting date. The company has been unable to re-negotiate or obtain replacement financing to pay the outstanding amounts and is therefore considering filing for bankruptcy. The financial statements and the notes to the financial statements do not disclose this fact (IAASB, 2015c:570-571).

The above examples could very well be applicable to a South African listed company under business rescue. Both examples illustrate the case where a company is unable to pay its debts when they fall due, which is one of the indicators of *financial distress* as indicated in section 1.2.2.

Although the purpose of these examples is to explain the basis of opinion, namely, an 'emphasis of matter[14]' for not fully disclosing the material uncertainty (case 1) and 'adverse opinion' for failing to disclose the matter at all (case 2), the fact that these examples are under the heading 'Use of going concern appropriate' should be noted. This shows that, on the one hand, the auditing standard considers the inability of a company to pay its debts when they fall due as a material uncertainty for going concern assessment purposes. On the other hand, the going concern assumption was still considered to be appropriate based on sufficient audit evidence obtained. The reason for this conclusion would be that the bar for departing from the going concern

[14] A new auditing standard, namely ISA 701 *Communicating key audit matters in the independent auditor's report*, has been issued. The standard is effective for periods ending on or after 15 December 2016. The new standard now refers to 'Material uncertainty related to going concern' instead of 'emphasis of matter'.

assumption is very high, that is, the company is not yet in liquidation nor does it have no alternative to liquidation.

A further consequence of applying the going concern assumption when there is material uncertainty about certain events and conditions that may cast significant doubt on the entity's ability to continue as a going concern is that the measurements for assets and liabilities in the financial statements will still be based on those used under the normal IFRSs accounting model. However, in order to achieve fair presentation the financial statements would fully disclose the possible effect that the material uncertainty may have on the realisation of assets and liabilities in the normal course of business in the *notes* to the financial statements.

From the above one may conclude that a South African listed company under business rescue, having applied for business rescue based on its inability to pay its debts when they fall due, would most likely still apply the going concern assumption and choose from the measurement bases available under the IFRSs.

The research questionnaire included some questions intended to ascertain the perceived state of solvency under business rescue and the going concern status whilst under business rescue. Refer to section 7.6.3.2 and 7.6.3.7 respectively, as well as Questions 8 to 10 and Questions 17 and 18 of the research questionnaire in APPENDIX E. The results are presented in sections 8.3.4 and 8.3.7 respectively.

With reference to the AICPA's audit literature, the following should be noted. AICPA's Auditing Standards Board converged their standards with the ISAs. The standard on going concern, namely, AU-C Section 570 *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* determines the following (AICPA, 2015:AU-C 570.02):

> Continuation of an entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary. Ordinarily, information that **significantly contradicts the going concern assumption relates to the entity's inability to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of**

> **business, restructuring of debt, externally forced revisions of its operations**, or similar actions (author's emphasis).

The above paragraph contains examples of actions taken by a company when it is unable to meet its obligations, as they become due, which would significantly contradict the going concern assumption. ISA 570 does not contain the this paragraph.

Since the above examples are provided by a recognised leading standard-setter, it was decided to include the examples in the research questionnaire and ask the respondents to consider the likelihood of a listed company under business rescue carrying out these actions. Refer to the research questionnaire, Question 13, as well as to section 7.6.3.4 and APPENDIX E. The results are presented in section 8.3.5.

In this section, a scenario in which there is significant doubt about a company's ability to continue as a going concern is considered. The next section will consider which financial reporting framework should be used if a company is not considered a going concern.

4.4.3 Company not a going concern – financial reporting framework

If the going concern financial reporting underlying assumption is not appropriate under the circumstances, ISA 570 *Going concern* par. A26 determines the following:

> If the entity's management is required, or elects, to prepare financial statements when the use of the going concern assumption is not appropriate in the circumstances, the financial statements are prepared ***on an alternative[15] basis (for example, liquidation basis)***. The auditor may be able to perform an audit of those financial statements provided that the auditor determines that ***the alternative basis is an acceptable financial reporting framework*** in the circumstances (author's emphasis) (IAASB, 2015c:571).

IFRSs do not address the liquidation basis of accounting. This is confirmed by the International Financial Reporting Group of Ernst and Young. They state that there is

[15] As indicated in section 1.3, ISA 570 *Going concern* (Revised) now refers to 'another basis' instead of an 'alternative basis'.

no guidance in the IFRSs concerning what impact there should be on financial statements if it is determined that the going concern basis is not appropriate (International Financial Reporting Group of Ernst & Young, 2011:129).

Koppeschaar et al. (2015:14) explain that the financial statements of a company that is not considered a going concern would differ from those prepared under the underlying assumption of going concern. They state that liquidation values should be used for certain elements of the financial statements (Koppeschaar et al., 2015:14). However, Glautier et al. (2011:70) suggest that where the going concern concept is abandoned realisable values for assets should be used.

In contrast to the limited guidance in the IFRSs on any other basis of accounting, other than the going concern basis, the US GAAP appears to give more guidance in cases where the liquidation basis of accounting should be used. The guidance provided by US GAAP will be further discussed in Chapter 5.

In SA, the IRBA provides guidance on the application of ISAs by way of the South African Auditing Practice Statements (SAAPS). SAAPS 3 (revised November 2015) gives guidance on the layout and wording of assurance reports. The SAAPS included a diagram of a going concern decision tree, which contains a definition of ‘going concern’.

It is very interesting to note how the definition of ‘going concern assumption’ has changed over time. It was initially defined as follows:

> 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 **(author’s emphasis)** (IRBA, 2010:114).

The above definition first appeared in the March 2010 revision of SAAPS 3 (IRBA, 2010:98). The SAAPS states that "changes to ISAs as well as South African legislative and regulatory requirements may result in changes to the auditor's reporting responsibilities" (IRBA, 2010:8). It seems that this SAAPS revision was done in line with the introduction of the 2008 Companies Act, as the Act was signed into law by the President in April 2009.

A company seeks protection from creditors by filing for business rescue. It is clear from the above that the SAAPS guidance suggests that a South African listed company under business rescue is not considered a going concern. However, in November 2015, SAAPS 3 was revised. In the revised version, reference to the *'or seeking protection from creditors pursuant to law or regulations'* section was deleted. In fact, the proposed SAAPS 3 replaces the 'going concern assumption' with 'going concern basis of accounting' and cites ISA 570 directly (IRBA, 2015:149) as follows:

> Going concern basis of accounting: The financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so (ISA 570 (Revised).2).

The change in SAAPS 3 will bring the South African guidance in line with the way ISA 570 defines 'going concern'.

The above aspects are evaluated in the research questionnaire, Questions 67 to 68. Refer to section 7.6.4.10 and APPENDIX E. The results are presented in section 9.2.10.

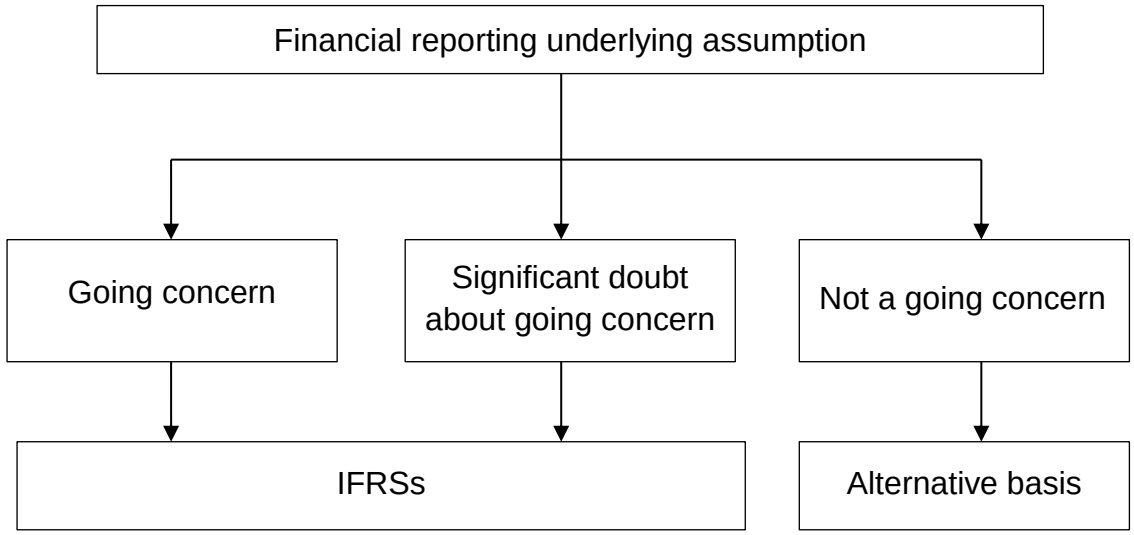
In this section, the applicable financial reporting framework for a company that is not considered a going concern was evaluated. The next section will provide a summary of the audit requirements that the applicable financial reporting framework should use when auditing a South African listed company under business rescue.

4.4.4 Summary of the audit requirements

In summary, this section considered the audit requirements with reference to the financial reporting of a South African listed company under business rescue. Figure 4.3 below illustrates the auditor's view on an applicable financial reporting framework for three categories of companies, namely:

- A company that is considered a going concern.
- A company where there is significant doubt on its ability to continue as a going concern.
- A company that is not a going concern.

Figure 4.3: Applicable financial reporting framework



Source: Own observation

In the first category, the South African listed company is a going concern and would be audited in terms of the IFRSs financial reporting framework. A South African company falling in the second category, that is, where there is significant doubt about its ability to continue as a going concern, would also be audited in terms of IFRSs. However, a South African company in the third category, in other words one that is not a going concern, would prepare its financial on an alternative basis such as the liquidation basis. As indicated earlier, there is no comprehensive IFRSs guidance available for the liquidation basis of accounting.

The third legislative and regulative aspect that may influence the financial reporting of a South African listed company whilst under business rescue is the JSE listing requirements. These requirements will be discussed in the next section.

4.5 JSE LISTING REQUIREMENTS

The four broad areas affecting the financial reporting of a listed company under business rescue were illustrated in Figure 4.1 of section 4.2. The previous sections, sections 4.3 and 4.4, considered the first and second of the three legislative and regulative areas that have an impact on the financial reporting of a listed company under business rescue.

In the following section, the last of the three areas, namely, the JSE listing requirements pertaining to a listed company under business rescue, will be considered. The applicable financial reporting framework that the JSE requires, as well as any reporting deadlines, will be discussed.

4.5.1 Financial reporting framework

In SA, the JSE is the regulatory body in terms of the company's listing of its securities. JSE listed companies are required to file interim financial statements (interim reports) and annual financial statements. In line with the 2008 Companies Act, the JSE listing requirements specifically state that the interim reports and annual financial statements of a company must be prepared according to IFRSs (JSE, 2015:par. 8.57(a, c) & 8.62(b)). However, the interim report is a condensed version with fewer disclosure requirements, although it still conforms to IFRSs. By specifying the IFRSs framework or conforming to IFRSs, the underlying assumption of going concern, as described in IAS 1 par 25 is applicable.

4.5.2 Reporting deadlines

The financial reports are submitted after a certain period has elapsed from the reporting date. IAS 10 *Events after the Reporting Period* deals with events that happen after the reporting date, up to the date the reports are authorised for publishing, and which may

have an effect on the use of the going concern underlying assumption. It is therefore important to review the reporting deadlines for a listed company under business rescue, as events that take place after the reporting date may influence the use of the going concern assumption.

IAS 10 requires that an entity should not prepare its financial statements on a going concern basis if events that take place after the reporting period indicate that the going concern assumption is not appropriate (IASB, 2015e:A936). Events that take place after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for appropriate issue (IASB, 2015e:A933-A934). According to Badenhorst, Ferreira and Pretorius (2014:105), the date of issue does not imply, inter alia, the date that the financial statements are filed with a regulatory body. The date when the financial statements are authorised for issue would be before the date that the financial statements are filed with a regulatory body. These types of report and their respective deadlines are discussed below.

4.5.2.1 Interim reports

The JSE listing requirements stipulate that interim reports must be prepared in accordance with IAS 34 *Interim Financial Reporting*, as well as SAICA's financial reporting guides and the financial pronouncements issued by the Financial Reporting Standards Council (FRSC) (JSE, 2015:par. 8.57(a)). These requirements state that interim reports (interim financial statements) shall be published and distributed to shareholders by no later than three months after the expiration of the first six-month period of a financial year (JSE, 2015:par. 3.15).

Where an issuer fails to submit an interim report, the JSE will grant a period of one month, from the date of such reminder, in which to issue the interim report, failing which the issuer's listing will be suspended (JSE, 2015:par. 3.17(a)). The reporting deadline may therefore be extended up to four months after the interim reporting date, and should a company under business rescue have an interim reporting date, the interim financial statements should conform to IFRSs.

4.5.2.2 Annual financial statements

The JSE further requires that every issuer should distribute audited annual financial statements for the relevant financial year to all holders of securities and should submit same to the JSE. The distribution and submission of the audited annual financial statements should be done within six months after the end of the financial year, and at least 15 business days before the date of the annual general meeting (JSE, 2015:par. 3.19).

However, if annual financial statements have not been distributed to all shareholders within three months of its financial year-end, the issuer must distribute and publish provisional annual financial statements ("provisional reports") within the three months following its year-end (JSE, 2015:par. 3.16(a) & 3.20). The provisional reports may be unaudited, in which case they must be reviewed by the issuer's auditor unless an audit report has already been issued on the underlying annual financial statements themselves (JSE, 2015:par. 3.18(c)). The provisional reports must be prepared in accordance with the framework concepts and the measurement and recognition requirements of the IFRSs and the AC 500 standards. The provisional reports must also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*, including a statement confirming that they have been so prepared. Furthermore, a statement must be included confirming that the accounting policies are in line with the IFRSs and are consistent with those of the previous annual financial statements (or include details of the changes) (JSE, 2015:par. 8.57(b-c)).

Once again, where an issuer fails to submit a provisional report, the JSE will grant a period of one month, from the date of such reminder, in which to issue its provisional report, failing which the issuer's listing will be suspended (JSE, 2015:par. 3.17(a)). It is clear that a provisional report, conforming to the IFRSs financial reporting framework, must at least be published within four months from its year-end if an extension is granted.

If the issuer has not submitted its annual financial statements six months after the company's financial year-end, the company's listing will be annotated on the JSE

trading system with an 'RE'[16] to indicate that it has failed to submit its annual financial statements timeously. The JSE will also release an announcement on its stock exchange news service (SENS), informing holders of securities that the issuer has not submitted its annual financial statements and cautioning holders of securities that the listing of the issuer's securities is under threat of suspension and possible termination. If the issuer has not submitted its annual financial statements by the end of the seventh month after its financial year-end, the issuer's listing will be suspended. The JSE may, however, waive the requirement for an issuer's listing to be suspended where it has not submitted its annual financial statements timeously (JSE, 2015:par. 3.23(b-d) & 3.24).

4.5.3 Summary on the JSE listing requirements

From the above it is clear that the JSE has put sanctions in place to compel listed companies to publish their annual financial statements, interim financial statements or provisional financial statements no later than four months after the reporting period (annual or interim). The financial information will take the framework concepts, the measurement and recognition requirements of the IFRSs and the AC 500 standards into account, which includes a consideration of the going concern basis of accounting.

In section 1.3, it was pointed out that it takes on average nine months to complete a business rescue. It is therefore likely that a listed company, whilst under business rescue, may need to consider the appropriateness of applying the financial reporting underlying assumption of going concern:

- in terms of IAS 10 for a reporting date just before entering business rescue, or
- for a reporting period (year-end or interim) during business rescue.

Moreover, it is also likely that the four-month period allowed for submitting either the annual financial statements or provisional annual financial statements, or the interim financial statements to the JSE would be while the company was under business rescue.

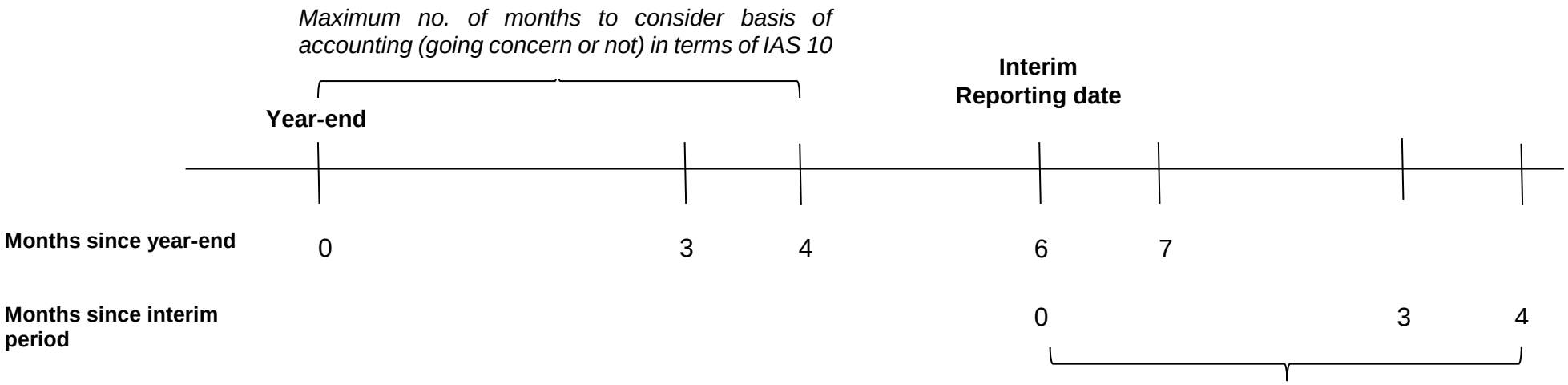
[16] The JSE listing requirements does not define the abbreviation "RE".

This aspect is evaluated in Question 12 in the research questionnaire. Refer to section 7.6.3.3 and APPENDIX E. The results are presented in section 8.3.2.

It should be noted that the JSE *may* suspend a listing of securities where an issuer is placed under business rescue proceedings in terms of Chapter 6 of the Companies Act (JSE, 2015:par. 3.19(a)(iii)). During suspension the company must unless the JSE decides otherwise, continue to comply with all the listing requirements applicable to it (JSE, 2015:par. 1.10(a)). In this study, it is assumed that the JSE will not normally waive compliance with its listing requirements and that a listed company under business rescue will still need to comply with these. Therefore, in preparing its financial reports, such as its interim and annual financial statements, management would have to consider the going concern assumption.

Bearing in mind that a listed company under business rescue would like to avoid the JSE sanction of suspension of its shares, it is all the more likely that it would submit the financial reports within the above four months' timeframe. Figure 4.4 below illustrates the JSE listing requirements reporting timeframe.

Figure 4.4: JSE listing requirements reporting timeframe



Scenario 1:	✓					
Scenario 2:	✓					
Scenario 3:		✓				
Scenario 4:						✓

Key to scenarios
Scenario 1: AFS submitted within three months, no provisional AFS needed.
Scenario 2: AFS not submitted within three months, but provisional AFS submitted within three months.
Scenario 3: AFS not submitted within three months, but provisional AFS submitted within four months to avoid suspension.
Scenario 4: Interim statements submitted by the latest four months after the interim period.
AFS = Annual financial statements

Source: Own observation

In this section, the JSE listing requirements with regard to the financial reporting framework and reporting deadlines were discussed. It was concluded that, given the length of time a company may be under business rescue, financial reporting to the JSE must still be done.

4.6 CONCLUSION

This chapter discussed some aspects that have an influence on the financial reporting of a South African listed company whilst under business rescue. The factors influencing the financial reporting environment were highlighted and then the legislative and regulative aspects influencing the financial reporting of a listed company under business rescue were considered.

The 2008 Companies Act introduced a new corporate rescue model, namely, business rescue. The rescue procedures were discussed, as well as the financial reporting requirements of the Act. It is clear that the 2008 Companies Act, the audit requirements and the JSE listing requirements all have an impact on the financial reporting of a listed company under business rescue. The 2008 Companies Act, supported by the JSE listing requirements, requires the application of the IFRSs financial reporting framework. Accordingly, the auditor will consider the applicability of the IFRSs financial reporting framework and will perform an audit in line with this. The JSE requires financial reporting, based on the IFRSs, to take place within four months following the year-end or interim reporting date. This may well be while the company is still under business rescue.

The change in the current business environment and the introduction of a business rescue regime may necessitate a reappraisal of the financial reporting framework needed for a company under business rescue. In particular, the use of an applicable underlying financial reporting assumption, that is, an accounting postulate, should be considered.

In Chapter 5, the financial reporting of a listed company under business rescue is considered in more detail, specifically with respect to the decision-usefulness objective, possible underlying assumptions for financial reporting and resulting measurement bases used for assets and liabilities.

CHAPTER 5
OBJECTIVES OF FINANCIAL REPORTING FOR LISTED COMPANIES UNDER BUSINESS RESCUE

5.1 INTRODUCTION

The primary research question of the study, as indicated in section 1.5, is to determine what underlying financial reporting assumption should be used for a South African listed company under business rescue. In section 2.5, the CF as a theory of accounting was discussed. In this discussion it was pointed out that the CF supports the objective of financial statements and the going concern accounting postulate as an underlying assumption. It was also shown that the theoretical concepts were derived from the accounting postulates and the accounting principles were, in turn, derived from the theoretical concepts. The current set of IFRSs, collectively referred to as the IFRSs financial reporting framework, encapsulates the accounting techniques to give effect to the theoretical concepts and accounting principles.

Chapter 4 discussed some aspects that may have an influence on the financial reporting of a South African listed company whilst under business rescue. Three factors influencing the financial reporting environment with respect to a South African listed company under business rescue were highlighted. In all three instances, IFRSs played an important role.

This chapter will focus on the fourth aspect indicated in Figure 1.1 on page 8 (and duplicated as Figure 4.1 on p. 118), namely, the objective of financial reporting under IFRSs. Figure 1.2 on page 11 expanded on the objective of financial reporting in terms of the IFRSs framework. The figure summarises the relationship between the underlying financial reporting assumption, the measurement bases and the decision-usefulness objective of financial reporting when preparing a company's financial statements.

In addition to the above relationship between the underlying financial reporting assumption and the related measurement bases depicted in Figure 1.2, recent studies

strongly encourage the use of a business model perspective in financial reporting. The current CF does not specifically address the business model of an entity in relation to the underlying assumption and the related measurement bases.

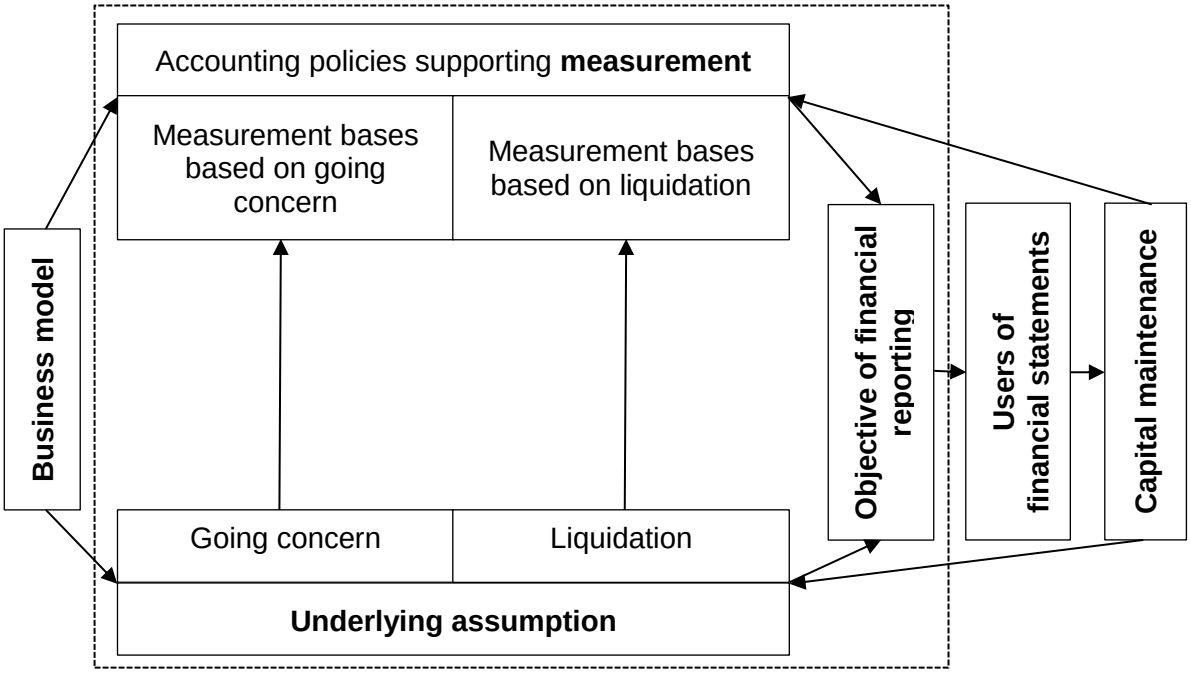
A listed company under business rescue may need to change its business model, hence the impact of a change in business model will also be considered when assessing the appropriate measurement basis for assets and liabilities, that is, the accounting model employed.

Moreover, the particular accounting model employed is also a result of the way in which the users of the financial statements expect the capital to be maintained. Owing to the relationship between capital maintenance and the particular measurement basis chosen for measuring assets and liabilities, the capital maintenance concept will also be addressed in this chapter.

In order to address the primary research question of the study, the objective of financial reporting, as it relates to a South African listed company under business rescue, is important. Furthermore, those aspects that flow from the objective of financial reporting and that may have an influence on the particular underlying assumption of financial reporting employed in preparing the financial statements are also of importance. These aspects are the financial information needs of the users of financial statements and the capital maintenance concept.

In order to improve the structure of this thesis, Figure 1.2 has been duplicated in *Figure 5.1: Measurement aspects supporting decision-useful financial statements* below and expanded to include the business model impact and capital maintenance considerations. This chapter will be structured according to the aspects illustrated in the figure.

Figure 5.1: Measurement aspects supporting decision-useful financial statements



Source: Figure 1.2 on p. 11 (inside dotted line) as expanded

The remainder of the chapter will address the considerations depicted in Figure 5.1 as follows:

- The objective of financial reporting (§ 5.2).
- The users of financial statements and their information needs (§ 5.3).
- The capital maintenance concept (§ 5.4) and its relationship to the measurement of assets and liabilities.
- A discussion of the going concern financial reporting underlying assumption, as well as a brief discussion of the liquidation basis of accounting (§ 5.5).

The possible measurement bases for the assets and liabilities for a listed company under business rescue and a consideration of the role of the business model in the financial reporting will be addressed in Chapter 6.

The above considerations form the basis of the research questionnaire. The data collected would in turn provide the information required to address the research

problems satisfactorily. The following section considers the objective of financial reporting.

5.2 THE OBJECTIVE OF FINANCIAL REPORTING

This section discusses the objective of financial reporting in more detail. The IASB states that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is **useful** to the primary users in making decisions about providing resources to the entity (2015b:A19) (**author's emphasis**). The stated objective of providing useful information is often referred to as the decision-usefulness objective (Gassen & Schwedler, 2010:495).

The CF of the IASB also includes a second objective, although not as prominently stated. The CF states that primary users will also need information on how efficiently and effectively the entity's management and governing board have discharged their responsibility to use the entity's resources, since the primary users have a right to vote on or otherwise influence management's actions (IASB, 2015b:A19). This second objective is known as the 'stewardship' objective of financial reporting (Gassen, 2008:6). According to Gassen (2008:5), some users regard the provision of information to assess management's stewardship as the main objective of financial reporting. For this reason, some commentators have expressed concern about the seeming relegation of the stewardship objective in favour of the decision-usefulness objective (Gassen, 2008:5).

Gjesdal (1981:226) posits that the decision-usefulness objective and the stewardship objective are not always aligned. The stewardship objective often leads to conservative accounting in order to avoid recognising bad news, whereas as the decision-usefulness objective prefers neutrality and a desire for mark-to-market accounting, often removing inconvenient non-recurring items from the accounting figures (Cascino et al., 2013:19-21).

Apart from the non-alignment of the two objectives, there is also an overlap between the decision-usefulness and the stewardship roles. Lambert (2010:294) states that information for valuation is sometimes useful for stewardship, and vice versa.

Since the above literature does not address a business rescue scenario in particular, it is important to determine which perspective the primary users would prefer, namely, a decision-usefulness and/or stewardship perspective. The perspective (decision-usefulness and/or stewardship) a user prefers would indicate the type of information that the user is looking for, namely, forward-looking cash flow information or more historically based cost information.

This aspect is evaluated by Question 28 in the research questionnaire. Refer to section 7.6.4.3 and APPENDIX E. The results are presented in section 9.2.3.

The two objectives of financial reporting, namely, the decision-usefulness and stewardship objectives, give an indication of the type of information that is important to the users of financial statements. The next section discusses the users and their information needs.

5.3 THE USERS OF FINANCIAL STATEMENTS AND THEIR INFORMATION NEEDS

The IASB (2015b:A19) states that the objective of general purpose financial reporting is 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. This objective clearly identifies the intended users of the financial reports. In this section the users of the financial statements are discussed.

The IASB refers to the potential investors, lenders and other creditors as the primary users for which the financial reports are provided. According to the IASB, individual primary users have information needs that may differ or be conflicting. The IASB thus endeavours to provide information that will meet the needs of most of the primary users (IASB, 2015b:A20).

In section 3.5, the corporate rescue model followed in the USA was discussed. With reference to financial reporting under reorganisation, it was indicated that applying the usual accounting principles during a reorganisation does not adequately reflect all the

changes in the entity's financial position caused by the reorganisation proceedings, hence the needs of the users of these financial statements will have changed.

The result is that if financial statements are prepared using the usual accounting principles when entities are under reorganisation proceedings, they are not as useful to the users as they should be. It is therefore important to determine whether there may be a change in the needs of the users of financial statements when listed South African companies are under business rescue, where IFRSs are applied as opposed to US GAAP.

It is, therefore, clear from the above that the information needs of the primary users are important. The Institute of Chartered Accountants of Scotland (ICAS) and the European Financial Reporting Advisory Group (EFRAG) investigated the different information needs of capital providers and subsequently published a comprehensive review in 2013. They commissioned a team of independent European academics to identify, consider and evaluate existing evidence on the use of information by the providers of capital to large and publicly listed companies. Although the review was done from a European Union (EU) perspective, the conclusions and implications were aimed at standard setters, which included the IASB (Cascino et al., 2013). The review will from now on be referred to as the 'Cascino review'.

The Cascino review considered who the key providers of capital to large and publicly listed companies in the EU were. The review found that primary capital providers in the EU included equity investors, lenders (debt providers) and trade creditors (Cascino et al., 2013:7). These users are also identified as primary users by the IASB's CF. The review reported that, given the level of risk, capital providers are interested in maintaining their capital and receiving a fair return on their investment (Cascino et al., 2013:8). This review therefore confirms the objective and information needs of equity investors as envisaged by the IASB's CF (IASB, 2015b:A19).

Each of these user groups is discussed in more detail in the following sections, pointing out whether the particular user group is also an affected party in a business rescue.

5.3.1 Equity investors

Equity investors are one type of capital provider and, in general, are interested in information that may assist them in estimating the amount, timing and risk of future cash flows (Cascino et al., 2013:8). Where the IASB CF refers to existing and potential shareholders, the Cascino review established that capital providers are not a homogeneous group.

The Cascino review sub-classifies equity investors into 'outside' equity investors and 'inside' equity investors. ‘Outside’ equity investors are further categorised as either professional (or institutional) equity investors or private (or retail) investors, whereas owner-managers in family businesses are considered ‘inside’ equity investors (Cascino et al., 2013:7).

Although the objective of equity investors, as one type of capital provider, is to maintain their capital and to receive a fair return on their investment, the Cascino review highlighted that 'inside' and 'outside' equity investors are expected to have different information needs. The different information needs are due to the fact that 'inside' equity investors have the ability to access price-sensitive information from within the entity, whereas outside equity investors do not have such access and can only rely on publicly available information (Cascino et al., 2013:7).

In a business rescue, equity investors, as shareholders, are an affected party (RSA, 2008:s 128(1)(a)). Their financial information needs are therefore important when considering the type of information presented in a set of financial statements. The financial information needs of each of the equity investor user group are briefly discussed below. The brief discussion is followed by a summary of their financial information needs, pointing out the implications for a South African listed company under business rescue.

5.3.1.1 Professional equity investors

The Cascino review considered different types of professional investor, such as fund managers and investment analysts (Cascino et al., 2013:22). According to Arnswald

(2001:44) professional equity investors are ultimately interested in maximising the returns of their shares as well as assessing whether a share is over-valued or under-valued. Equity investors therefore need information to assist them to estimate the future cash flows and the associated risk (Arnswald, 2001:12).

There is considerable complexity involved in the practice of equity analysis, including issues such as the definition and measurement of future cash flows. Accounting information that is not future orientated may also be important, for example in management appointment and remuneration decisions. However, a clear consensus emerges when considering questions on how cash flows are defined and measured, the use of dividends and free cash flow[17] versus earnings and the period for which to forecast the cash flow. Firstly, previous research has found that professional equity investors employ valuation models such as the price/earnings (P/E) ratio and discounted cash flow (DCF) models. Secondly, it emerged that financial statements are relied on heavily, particularly the statement of profit or loss and other comprehensive income. Thirdly, the information obtained through direct contact with a company is at least as important as its financial statements and annual reports (Cascino et al., 2013:24).

With respect to different measurement bases of assets, Gassen and Schwedler (2010:505-506) established that professional equity investors prefer fair value for all assets when it is based on mark-to-market values, rather than mark-to-model. Plantin, Sapra and Shin (2008:456) conducted a theoretical study on fair value versus historical cost in which they found that professional equity investors consider mark-to-market accounting to be problematic for long-lived, illiquid and senior assets.

[17] Free cash flow is the amount of cash available from revenue after operating costs, taxes, capital expenditures and working capital investments have been fully funded (TMA, 2011:7-4), and represent the potential amount that could be declared as a dividend to the shareholders.

5.3.1.2 Private/retail equity investors

Evidence suggests that private/retail investors use the following information sources for their investment decisions: public media; advice from financial institutions; friends and family; and financial statements (Cascino et al., 2013:32).

With respect to the financial statements, private/retail investors focus on the statement of financial position, statement of profit or loss, as well as other comprehensive income and statements of cash flows. Private/retail investors consider the income statement to be more informative than the statement of financial position sheet, which is similar to the professional equity investors. One of the key points that the Cascino review makes is that although private/retail investors make use of the financial statements, they ignore relevant information when it is complex. Another point is that they do not use sophisticated valuation models. Some evidence also suggests that private investors use financial statements to assess management's stewardship (Cascino et al., 2013:31-35). Stewardship was discussed in section 5.2 above.

5.3.1.3 Inside equity investors

Inside equity investors (i.e. owner/managers) are simultaneously both users and producers of accounting information (Demsetz & Lehn, 1985:1176). According to Cascino et al. (2013:36) inside investors need accounting information that is useful for managerial control, to set managerial compensation and to link actual performance to their planning. Therefore, financial reporting numbers can play both a stewardship role and a decision-usefulness role.

5.3.1.4 Summary on the equity investors group and implications for companies under business rescue

From the above it is clear that there is a need for information that is forward looking (for DCF valuations by professional equity investors) and that assists in assessing management’s performance (private/retail and inside equity investors). There also seems to be a preference for the statement of profit or loss and other comprehensive income.

The literature does not specifically address businesses in financial distress and the decisions the providers of equity capital would need to make would be based on the annual or interim financial statements. It would therefore be important to determine whether both the forward-looking decision usefulness and the more historically inclined stewardship perspectives of financial information are still applicable for equity investors in the financial reports of a listed company under business rescue. Furthermore, it should also be ascertained which financial statements the equity investors (shareholders) of a company under business rescue prefer and why they prefer them, as this preference would indicate the type of financial information important to them, which in turn could indicate possible measurement bases for assets and liabilities. It would also be important to determine the type of information that the investor would obtain through direct contact with a company, as this may also point towards the types of measurement basis for assets and liabilities that the investor deems useful.

These aspects are evaluated by Questions 29 to 36 in the research questionnaire. Refer to section 7.6.4.4 and APPENDIX E. The results are presented in section 9.2.4.

In this section, the first of three financial information user groups, namely equity investors, was addressed. The next section addresses the second user group, namely, the providers of debt.

5.3.2 Lenders

Lenders, also referred to as ‘debt providers’, are mainly banking institutions and may also be one of the affected parties in a business rescue. Lenders are concerned with the downside risk of debt only, as no return can be made in excess of the redemption value of debt (Cascino et al., 2013:8). Therefore, lenders need information to assess the probability that a company may not be able to pay its obligations when due. In other words, when the company is in financial distress, the credit risk will be of great concern. Credit risk is further addressed in section 6.5.3.6 on page 204.

Beaver, McNichols and Rhie (2005:98) identified the following three ratios as key to predicting financial distress:

- Return on assets (ROA), that is, the profitability of assets.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) to total liabilities, that is, the ability of cash flows to serve the payments.
- Total liabilities to total assets, that is, a measure of the assets available to the pay the debt.

The manner in which assets and liabilities are measured will have an effect on these accounting ratios when used in predicting financial distress. Cascino et al. (2013:38-39) cites various studies that argue that the accuracy of accounting models used to predict financial distress may be low. This argument is based on the fact that the prediction of financial distress is concerned with the likelihood of future events, while financial statements formulated under the going concern principle measure past performance, hence limiting the ability to predict financial distress. These studies also claimed that financial statements are less timely than other sources of information and that they do not provide estimates of volatility, which is considered important in distress prediction (Cascino et al., 2013:38-39).

The issue of conservatism is often noted. According to Armstrong et al. (2010:212-213) accounting information is important to lenders. Cascino et al. (2013:38-45) posits that lenders prefer conservative accounting to unbiased accounting, indicating that a conservative statement of financial position with high verifiability thresholds is therefore preferred. Conservatism refers to the timely recognition of losses and deferring the recognition of gains (Armstrong et al., 2010:212-213). The review also cites Citron, who states that statements of financial position are adjusted to exclude revaluation reserves and intangible assets, and Khan and Watts who found that conservatism restricts the artificial inflation of the earnings available for distribution to shareholders. Conservatism also avoids over-compensation of management via accounting-based compensation plans by limiting management's ability to overstate earnings (Cascino et al., 2013:38-45).

Conservative accounting prefers more historical cost measurements, which by nature, are more verifiable. Refer to section 6.5.3 below for a discussion of cost-based measurements.

The literature discussed above does not specifically address companies in financial distress. However, lenders are an important affected party if a company undergoes business rescue. It would therefore be important to determine whether lenders would still require or use conservative accounting when faced with decisions on the future of a company under business rescue; in other words whether or not lenders would need more historical-cost type of information. It would also be interesting to learn what adjustments lenders would make to the current financial statements for a listed company under business rescue.

This aspect is evaluated by Questions 29 to 31 and Questions 37 to 42 in the research questionnaire. Refer to section 7.6.4.4 and APPENDIX E. The results are presented in section 9.2.4.

This section discussed the second of three financial information user groups, namely, the providers of debt. The next section discusses the third user group, creditors.

5.3.3 Trade creditors

The Cascino review points out that trade credit is an important source of finance for EU companies. In making trade credit decisions, the providers of this credit use credit bureaus extensively as an information intermediary as opposed to accounting information, which is not used extensively. Credit bureaus, on the other hand, do use accounting information, although it only constitutes a small part of the actual inputs used by them (Cascino et al., 2013:45-47).

Trade creditors are also an affected party in a business rescue. Although the research by the Cascino review discussed above shows that trade creditors mainly use information intermediaries, the information needs of and the use of financial statements by trade creditors for a company under business rescue have not yet been researched. Furthermore, creditors are also exposed to their client's credit risk.

Unlike the major banking institutions, which may appear as lenders in most business rescue cases, trade creditors generally differ from business rescue case to business rescue case. It would therefore be important to also determine which financial

statements creditors prefer, and whether they would make any adjustments to the financial statements for their financial information purposes.

These aspects are evaluated by Questions 29 to 31 and Questions 43 to 48 in the research questionnaire. Refer to section 7.6.4.4 and APPENDIX E. The results are presented in section 9.2.4.

This section addressed the last of the three financial information user groups, namely, creditors. The next section draws conclusions on the three user groups.

5.3.4 Conclusion on the users of financial statements and their information needs

In summary, the literature reviewed found that financial statements are used in various ways by different capital providers with different financial information needs and objectives. A South African listed company under business rescue may well have the same types of capital provider as those highlighted by the review. It would therefore be important to consider their information needs. Equity investors as a group may need more forward-looking financial information, or financial information to assess management's performance. On the other hand, lenders may be looking for conservatively based accounting data, and trade creditors, one may argue, may need similar information to lenders.

Cascino et al. (2013:48) conclude that "one set of financial statements will not meet the needs of every type of user simultaneously".

The fact that one set of financial statements will not meet the needs of every type of user is important from a business rescue perspective. The question is whether the current financial reporting fulfils the objective of financial reporting for a listed company under business rescue that is busy implementing a business rescue plan.

The type of information that a user needs is also influenced by the user's view on how capital should be maintained as this view will drive the particular accounting model employed, which may further lead to a preference for certain measurement bases. The concept of capital maintenance will be discussed in the next section.

5.4 THE CAPITAL MAINTENANCE CONCEPT

The previous section discussed the primary users of financial statements and their financial information needs. The primary users were identified as the current and potential equity investors, lenders and creditors.

Users' financial information needs are also influenced by the way the user views the capital of the entity. The capital maintenance concept is concerned with how an entity defines the capital that it seeks to maintain, which in turn has a direct impact on the way in which profit is determined. Profit is determined as the increase in net assets (i.e. its capital) after excluding distributions to and contributions from owners during the period. The manner in which net assets is measured is consequently very important.

In section 2.5, it was shown that the capital maintenance concept is aligned to both the entity postulate and the proprietary theoretical concept, which were discussed in section 2.3. This section will further discuss the capital maintenance concept as it relates to the selection of an accounting model and the resulting measurement bases. From the above it is clear that the manner in which capital is to be maintained (i.e. net assets measured) would be important for the users of financial statements of a South African listed company under business rescue.

As indicated earlier, the selection of the appropriate capital maintenance concept should be based on the needs of the users of the financial statements. There are two types of capital maintenance views, namely, financial capital and physical capital. Financial capital maintenance should be adopted if the users of financial statements are primarily concerned with the maintenance of nominal invested capital or the purchasing power of invested capital. The physical capital maintenance view, on the other hand, would be applicable if the users are concerned with the operating capability of the entity (IASB, 2015b:A44).

Based on the two capital maintenance views, profit can be determined as either an increase in net assets (financial capital) or operating capability (physical capital), both after excluding distributions to, and contributions from, owners during the period. With respect to financial capital maintenance, the discussion in section 2.5 argued that the

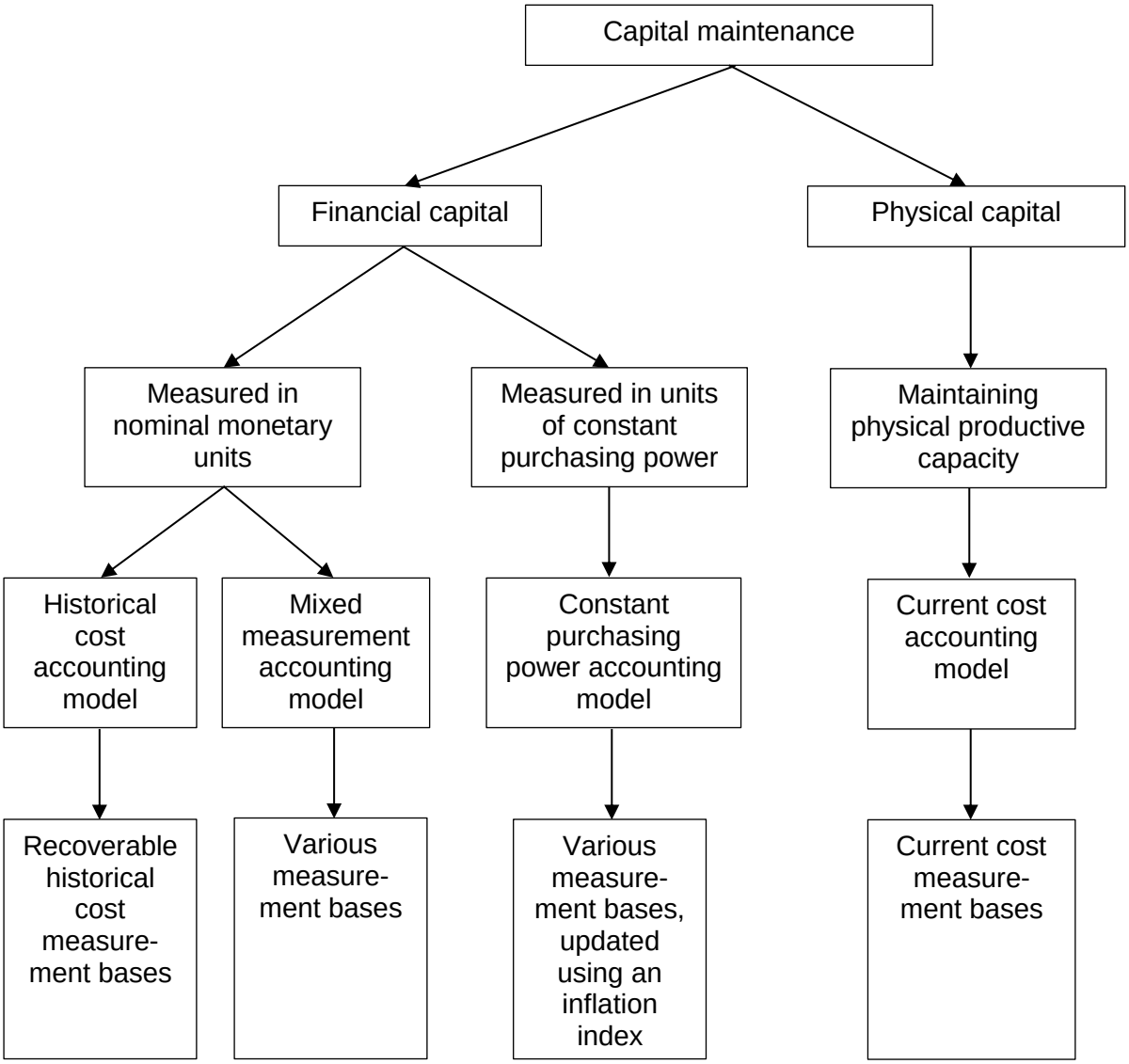
monetary unit under financial capital maintenance either can be viewed as stable or may be adjusted to reflect a constant purchasing power view. On the other hand, a physical capital maintenance view will reflect the constant purchasing power of the monetary unit, requiring the use of one measurement basis, namely, the current cost. Current cost is found in the price level adjustment theory of accounting, which, as indicated in section 2.4.3, is one of the different decision-useful prescriptive accounting theories. The particular capital maintenance concept applied is therefore important and will determine the particular measurement basis/bases used.

Figure 5.2 below shows the relationship between the capital maintenance concepts, the accounting model employed and the resulting broad measurement bases that will be used for measuring the assets and liabilities. However, it should be noted that the current CF supports the financial reporting underlying assumption of going concern. Therefore, the various accounting models depicted below would be applicable to that underlying assumption.

It is important to note that if a company were in liquidation or in financial distress, the users of the financial statements would be interested in the amount of cash available for distribution, not the capital to be maintained under the going concern assumption.

Figure 5.2 below illustrates the relationship between the two views of capital maintenance, various accounting models and the measurement bases used to account for the assets and liabilities in each of those accounting models.

Figure 5.2: Maintenance of capital, accounting model and measurement bases



Source: Own observation

Considered inductively, the preferred measurement basis/bases for measuring the assets and liabilities of a South African listed company under business rescue could indicate the particular capital maintenance concept that those users are interested in. Furthermore, the consideration of an applicable underlying assumption for financial reporting by a South African listed company in business rescue would emphasise the link between the assumption, the objective of measurement (i.e. what should be measured), the particular capital maintenance concept applied to determine profit, and the accounting model used to reflect the measurement bases applied to measure the assets and liabilities.

It was decided not to evaluate the capital maintenance concept in the final research questionnaire, as the results obtained from the pilot study clearly indicated that the respondents were unfamiliar with the different concepts of capital maintenance. It was finally decided that the question would not add meaningful research data and it was consequently excluded from the final version of the questionnaire.

As indicated in Figure 5.1, the type of information a user of the financial statements of a listed company under business rescue would need would also be based on the company's underlying financial reporting assumption. In other words, the company's future outlook and its ability to continue to operate in the foreseeable future are also important considerations. The next section briefly summarises and further explores the underlying financial reporting assumptions of going concern and liquidation.

5.5 UNDERLYING FINANCIAL REPORTING ASSUMPTIONS

The previous section highlighted the importance of considering the manner in which capital is to be maintained. Is was pointed out that the measurement bases used for measuring assets and liabilities are the result of employing a particular accounting model. The potential measurement bases for assets and liabilities are also closely linked to the way the particular asset or liability will be realised or settled, which in turn will depend on the future outlook of the company. Will the asset realise in the ordinary course of business, or under conditions of distress? In this section, the possible underlying financial reporting assumptions will be discussed.

The Accounting literature currently describes two underlying financial reporting assumptions for an entity, also referred to as 'bases of accounting'. The bases are the going concern and the liquidation basis of accounting (Holzmann, 2010:79; Pounder, 2012:21). The going concern basis has been briefly addressed previously in various sections. This section will elaborate further on these discussions, as well as consider additional facts where applicable. Moreover, the liquidation basis of accounting will also be discussed. Following the discussion on the going concern and the liquidation bases of accounting, the section will conclude with a discussion on the possibility that another basis of accounting may have to be developed.

5.5.1 Going concern basis

In Chapter 2 section 2.3.2, it was explained that the going concern assumption is an underlying accounting postulate of the theory of accounting. This is confirmed by Aras and Crowther (2012:22), who asset that one of the most important principles in accounting is the concept of the entity as a going concern. The FASB (2013a:1) states the presumption of a going concern is critical to financial reporting as it establishes the fundamental basis for measuring and classifying assets and liabilities. According to Hahn (2011:26) the going concern assumption is universally understood and accepted by accounting professionals, and is recognised by both the IFRSs Foundation and the USA-based FASB, the two leading accounting standard-setters in the world. Both accounting bodies have been working together since 2002 to achieve convergence of IFRSs and US GAAP.

After a period of harmonising South Africa GAAP with international standards, South Africa adopted IFRSs in 2005. As indicated in Chapter 4, the 2008 Companies Act also requires listed companies to comply with IFRSs in preparing their financial statements. In line with the 2008 Companies Act, the JSE listing requirements also require IFRSs to be applied to the financial statements of listed companies (JSE, 2015:par. 8.57(a, c) & 8.62(b)). Moreover, a JSE-listed company will be audited in accordance with the IFRSs framework (IAASB, 2015a:115-116).

Both the CF for financial reporting and the two IFRSs specifically address the going concern financial reporting underlying assumption. The CF states that an entity is a going concern when it is able to remain in existence for the foreseeable future (IASB, 2015b:A34). The inherent presumption is that the entity will be able to continue to operate in such a way that it will be able to realise its assets and settle its obligations in the ordinary course of business.

The first IFRSs that addresses the underlying assumption of going concern is IAS 1. IAS 1 deals with the presentation of financial statements and echoes the CF in its requirement that an entity should prepare financial statements on a going concern basis unless management intends either to liquidate the entity or to cease trading, or has no realistic alternative but to liquidate. If an entity does not prepare financial

statements on a going concern basis, that fact should be disclosed together with the basis on which it prepared the financial statements (IASB, 2015d:A840). IAS 1 does not define the term 'foreseeable future' (IASB, 2015d:A840), but it generally refers to a period of at least, but not limited to, 12 months after the end of the reporting period (Hahn, 2011:31).

The second IFRSs that specifically addresses the going concern financial reporting underlying assumption is IAS 10 *Events after the reporting period*. IAS 10 refers to IAS 1 and determines that "an entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so" (IASB, 2015e:A936).

The CF, IAS 1 and IAS 10 refer to the use of "another basis" if the entity is not considered to be a going concern. The CF (IASB, 2015b:A34) states that if the intention or need to liquidate exists, the financial statements may have to be prepared on a different basis, which should be disclosed. IAS 1 requires that an entity should disclose the fact and the basis used if it does not prepare financial statements on a going concern basis, as well as the reasons why it is not regarded as a going concern (IASB, 2015d:A840). Lastly, IAS 10 refers to the use of "another basis" if events that occur between the reporting period and the date that the financial statements are authorised for issue provide evidence that the going concern financial reporting assumption is not appropriate for the reporting period (IASB, 2015e:A936).

Reading the CF together with IAS 1 and IAS 10, one may conclude that the IFRSs already provide for some other basis of accounting. However, none of the three sources above provides further information on such a basis; one can merely assume that it is the liquidation basis that is referred to.

The lack of guidance on what such a basis might be was confirmed by the International Financial Reporting Group of Ernst and Young, one of the four biggest accounting firms in the world. The group stated that there was no guidance in the IFRSs standards concerning what impact there should be on financial statements if it was determined

that the going concern basis was not appropriate. They advised entities to consider their individual circumstances carefully in order to arrive at an appropriate basis (International Financial Reporting Group of Ernst & Young, 2011:129). Burkholder (2012:836) states that decision-making on how and when to report substantial doubt that a company can survive as a going concern has moved like a seesaw over more than four years. According to Burkholder (2012:836), the duty to report on the going concern status of a company currently resides with the auditor.

Until recently, a similar lack of guidance was found in the US GAAP. Pounder (2012:21) states that the US GAAP did not provide guidance for financial statement preparers on how to assess an entity's ability to continue as a going concern or when it is appropriate to use the liquidation basis of accounting. He further explains that the FASB took note of constituents' need for the US GAAP to provide guidance on how management should perform going concern assessments and when the entity should apply the liquidation basis of accounting (Pounder, 2012:21). Pounder (2012:22) mentions in this regard that the FASB's proposed Statement on Financial Accounting Standards (SFAS) on going concern incorporates and modifies the going concern guidance from the auditing literature to align it with IAS 1 as indicated above. He finds it interesting that the Statement of Auditing Standards (SAS) 126 *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (Redrafted) does not define what a going concern is but rather what a going concern is not. SAS 126 states that if the auditor has "substantial doubt about the entity's ability … to continue to meet its obligations as they become due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of its operations, or similar actions," then the entity ordinarily would not be considered able "to continue as a going concern" (Pounder, 2012:21).

After SAS 126 was issued it was harmonised with ISA 570 *Going concern* as AU-C Section 570 *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, 2015). The AU-C retained the paragraph that Pounder refers to above as AU-C 570.02. In other words, the definition of, according to Pounder, what is not a going concern has been retained. Refer to section 4.4.2 above for a discussion

of this paragraph from an auditor's perspective and its inclusion in the research questionnaire.

It is interesting to note the similarity between the AU-C 570.02 'definition' of what is not a going concern and the South African business rescue definition of financial distress. Both refer to the entity's inability to meet its obligations as they become due. Moreover, the actions referred to in the 'definition' of what is not a going concern are, in fact, some of the actions that a South African listed company under business rescue may need to implement, such as the disposition of assets outside the ordinary course of business, restructuring of debt and externally forced revisions of its operations. However, under the US-based AU-C section 570, an entity in need of the actions indicated in AU-C 570.02, if it does not file for bankruptcy under Chapter 11 (see 3.5.1), may have to report under the liquidation basis of accounting. The reason is that AU-C 570.02 states that those actions significantly contradict the underlying financial reporting assumption of going concern. Under certain circumstances, filing for bankruptcy under Chapter 11 provides an alternative accounting model, as indicated in section 3.5.2.

Considering the direct relationship between 'foreseeable future' and the 'going concern' underlying financial reporting assumption of a company, it was decided to evaluate this aspect in the research questionnaire, in the form of Questions 17 and 18. Refer to section 7.6.3.7 and APPENDIX E. The results are presented in section 8.3.7.

With reference to the measurement of assets and liabilities, it has been shown above that preparing financial statements on the going concern assumption indicates the entity's ability to continue in business for the foreseeable future. Accordingly, the measurement (i.e. the monetary amounts at which an item is recognised and carried) of its assets and liabilities will reflect the fact that these will be realised and settled in the normal course of business (IAASB, 2015c:558). It is therefore important to arrive at the appropriate basis for preparation, as this will have a direct impact on the measurement of the entity's assets and liabilities in the financial statements.

In contrast to the going concern underlying assumption, if management intends either to liquidate the entity or to cease trading, or has no realistic alternative but to do so, the assets and liabilities are measured at amounts reflecting a forced-sale, or liquidation basis scenario. The liquidation basis is discussed in the next section.

5.5.2 Liquidation basis

Section 4.4.3 indicated that IFRSs does not address the liquidation basis of accounting. This lack of guidance was also illustrated in an answer provided by the South African Institute of Chartered Accountants (SAICA) to a question posed by one of its members. The member quoted IAS 1 par 25 (refer § 1.3 on p. 9) and asked: "If the entity is not a going concern, can the liquidation basis be used? If so, what does this basis mean?" In response, SAICA stated that the liquidation basis may be used but it is not a recognised basis and therefore no specific guidance has been issued under IFRSs. The entity would therefore need to determine its own policies to apply when using the liquidation basis and subsequently disclose them (SAICA, 2013). With reference to the measurement of assets, Koppeschaar et al. (2015:14) suggest the use of the liquidation values for certain elements of the financial statements if a company is no longer a going concern. The same conclusion was reached by the ASB (UK) (1999:89), which concluded that "[f]inancial statements are usually prepared – and measures are usually arrived at – on the basis that the reporting entity is a going concern because measures based on break-up values tend not to be relevant to users seeking to assess the entity's cash generation ability and financial adaptability".

The Collins Dictionary defines 'break-up value' for an entity as the value assuming that it will not continue to trade (*Collins Dictionary*, 2015). On the other hand, Glautier et al. (2011:70) suggest the use of realisable values for assets where the going concern concept is abandoned. The attributes of both the liquidation (break-up) and the realisable values are discussed in section 6.5 below.

From the above it is apparent that in the absence of any other defined basis of accounting, we may assume that an entity that is not a going concern should use the liquidation basis of accounting. It is also noteworthy that IFRSs does not provide

sufficient guidance, and that an entity has to look elsewhere for guidance, or develop and disclose their own accounting policies on the matter.

Turning to international auditing standards, it was found that the only reference made to the "liquidation basis" is in ISA 570 *Going concern*. ISA 570 gives the liquidation basis as an *example* of an "alternative basis"[18] where the going concern financial reporting assumption is not appropriate, provided that this basis is an acceptable financial reporting framework in the circumstances (IAASB, 2015c:571). No further guidance on the liquidation basis is provided.

In contrast to the limited guidance in the IFRSs and international audit standards on any basis of accounting other than the going concern basis, the US GAAP, at the request of its constituents, provides more guidance on cases when the liquidation basis of accounting should be used (FASB, 2012). In general, the US GAAP also requires that an entity should prepare financial statements on the going concern basis unless liquidation is imminent.

According to the FASB, liquidation occurs "when a company is terminated and its assets are redistributed" (FASB, 2013a). According to Holzmann and Ramnath (2012:91), in a liquidation the focus shifts to reporting on the cash that would be available to investors after liquidation instead of reporting on the entity's economic performance.

This aspect is evaluated by Question 50 (second bullet) in the research questionnaire. Refer to section 7.6.4.5 and APPENDIX E. The results are presented in section 9.2.5.

According to the FASB guidance, an entity should prepare financial statements on the liquidation basis of accounting when liquidation is imminent. Liquidation is imminent when

[18] As indicated in section 1.3, ISA 570 *Going concern* (revised) now refers to "other basis" instead of "alternative basis".

- a plan for liquidation has been approved and the likelihood is remote that the plan will be blocked by other parties or that the entity will return from liquidation, or
- a plan for liquidation is imposed by other forces and the likelihood is remote that the entity will return from liquidation (FASB, 2013b:5).

The liquidation basis of accounting should be applied prospectively from the day that liquidation becomes imminent (FASB, 2013b:2). In applying the liquidation basis of accounting, assets should be measured at values reflecting the actual amount of cash that the entity expects to collect during the course of liquidation. Furthermore, the entity should recognise any assets that it had not previously recognised under US GAAP, but that it expects to either sell in liquidation or use in settling liabilities. An example is intangible assets that are not recognised. Liabilities should be recognised and measured according to current US GAAP, and not at amounts reflecting the possible waiving of a portion of the amount owed. The entity should also separately accrue and present the undiscounted costs to dispose of assets or settle liabilities during the liquidation, as well as any expense to be incurred and income to be earned during the liquidation. The expenses to be incurred and income to be earned are also undiscounted amounts (FASB, 2013b:1-2, 6).

Section 3.2.2 indicated that the UK Sharman panel found that in order to depart from the going concern basis of accounting and adopt the liquidation basis, a very high and imminent level of distress was required (FRC, 2012:2,25). The report reaffirmed that the going concern underlying financial reporting assumption will be used unless the company has no realistic alternative but to, or the directors intend to, cease trading or go into liquidation. The Sharman findings are in line with the US GAAP guidance discussed above. It is important to acknowledge that although a company may be in severe financial distress, no departure from the going concern assumption will be allowed unless the company finds itself in imminent liquidation.

The fact that the liquidation basis is only required when liquidation is imminent is important, as it illustrates that there may be a need for an appropriate basis of accounting in cases where a company is not necessarily a going concern, such as

a South African listed company under business rescue. This aspect is evaluated by Questions 21 to 24 in the research questionnaire. Refer to section 7.6.3.8 and APPENDIX E. The results are presented in section 8.3.8.

The next section will explore in more detail the need for a underlying financial reporting assumption that fits in between the underlying assumptions of going concern and liquidation.

5.5.3 The need for a different underlying financial reporting assumption

In the preceding sections, the underlying financial reporting assumption (basis of accounting) of going concern and the liquidation basis of accounting were discussed. It is clear that there is a need for both underlying assumptions. The going concern basis of accounting assumes that the company will be able to continue in the foreseeable future, and the liquidation basis of accounting indicates that the company will be liquidated in due course, hence it has no viable foreseeable future when compared to the going concern assumption.

Section 4.4.2 pointed out that in some instances significant doubt about a company's ability to continue in operation in the foreseeable future may exist. A South African listed company under business rescue, having placed itself in business rescue as a result of financial distress, finds itself in such a situation as there may be significant doubt about its ability to continue to operate in the foreseeable future.

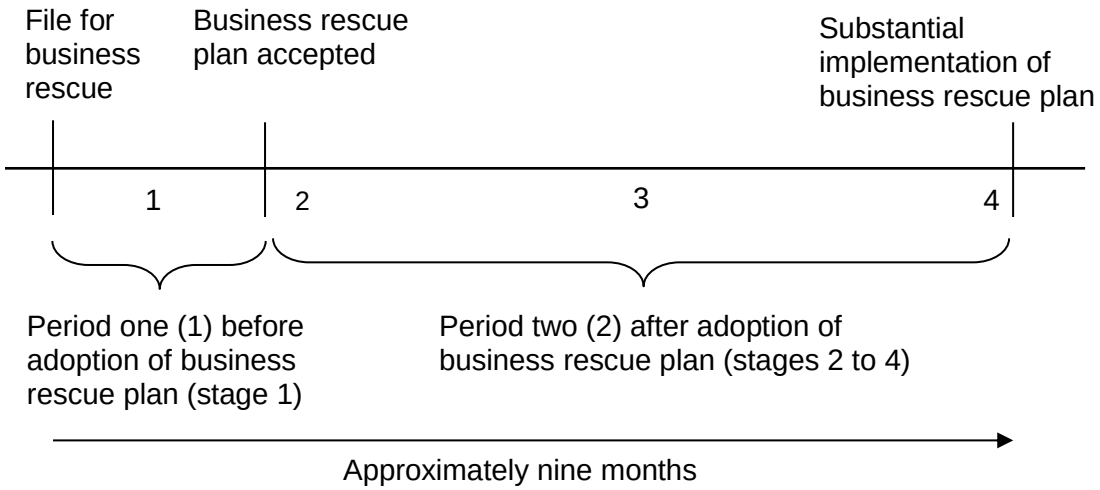
Earlier it was also pointed out that it currently takes about nine months to complete a business rescue procedure. Because a reporting date may occur at any stage during the business rescue proceedings, it is necessary to consider the point in time during the proceedings when the foreseeable future consideration should be made. This is important since the stage of implementation of the business rescue plan may have an effect on the consideration of the foreseeable future at a point in time during the implementation of the plan.

In order to illustrate this, the proceedings can be divided into two periods, which can be further divided into four stages. The first period, also stage 1, is encompasses the time from filing for business rescue up to the time the business rescue plan is adopted by the affected parties. Since the company has just filed for business rescue based on financial distress as defined, the foreseeable future may be severely limited during this period owing to the significant uncertainties. The second period stretches from the adoption of the business rescue plan up to the substantial implementation of the plan and can be divided into three further stages. These four stages may be broadly indicated at the following points in time:

- Stage 1: period from filing for business rescue up to adoption of the business rescue plan.
- Stage 2: just after the adoption of the business rescue plan.
- Stage 3: halfway through the implementation of the plan.
- Stage 4: just before substantial implementation of the plan.

Figure 5.3 below illustrates these stages diagrammatically.

Figure 5.3: Business rescue duration and stages of implementation



Source: Own observation

Apart from considering the stage of implementation, it is also important to consider the particular business rescue aim formulated by the BRP. In section 4.3.2 it was explained that there are two aims for business rescue, namely, either to continue in existence on a solvent basis, or to realise a better return for creditors and shareholders than under

immediate liquidation. For example, it would be interesting to ascertain if or when a company is considered to have a viable foreseeable future while the BRP is busy implementing a business rescue plan that aims to render a better return for creditors.

This aspect is evaluated by Questions 14 and 15 in the research questionnaire. Refer to section 7.6.3.5 and APPENDIX E. The results are presented in section 8.3.6.

Considering the above, one can conclude that there may be three scenarios regarding the foreseeable future, or continuity, of a company:

- A ‘long life’ scenario – the company is a going concern with a viable foreseeable future.
- A ‘limited life’ scenario – the company is under business rescue and there may be significant uncertainty about its ability to remain in existence in the foreseeable future.
- A ‘no life’ scenario – liquidation of the company is imminent and no foreseeable future exists.

This aspect is evaluated by Questions 21 to 24 in the research questionnaire. Refer to section 7.6.3.8 and APPENDIX E. The results are presented in section 8.3.8.

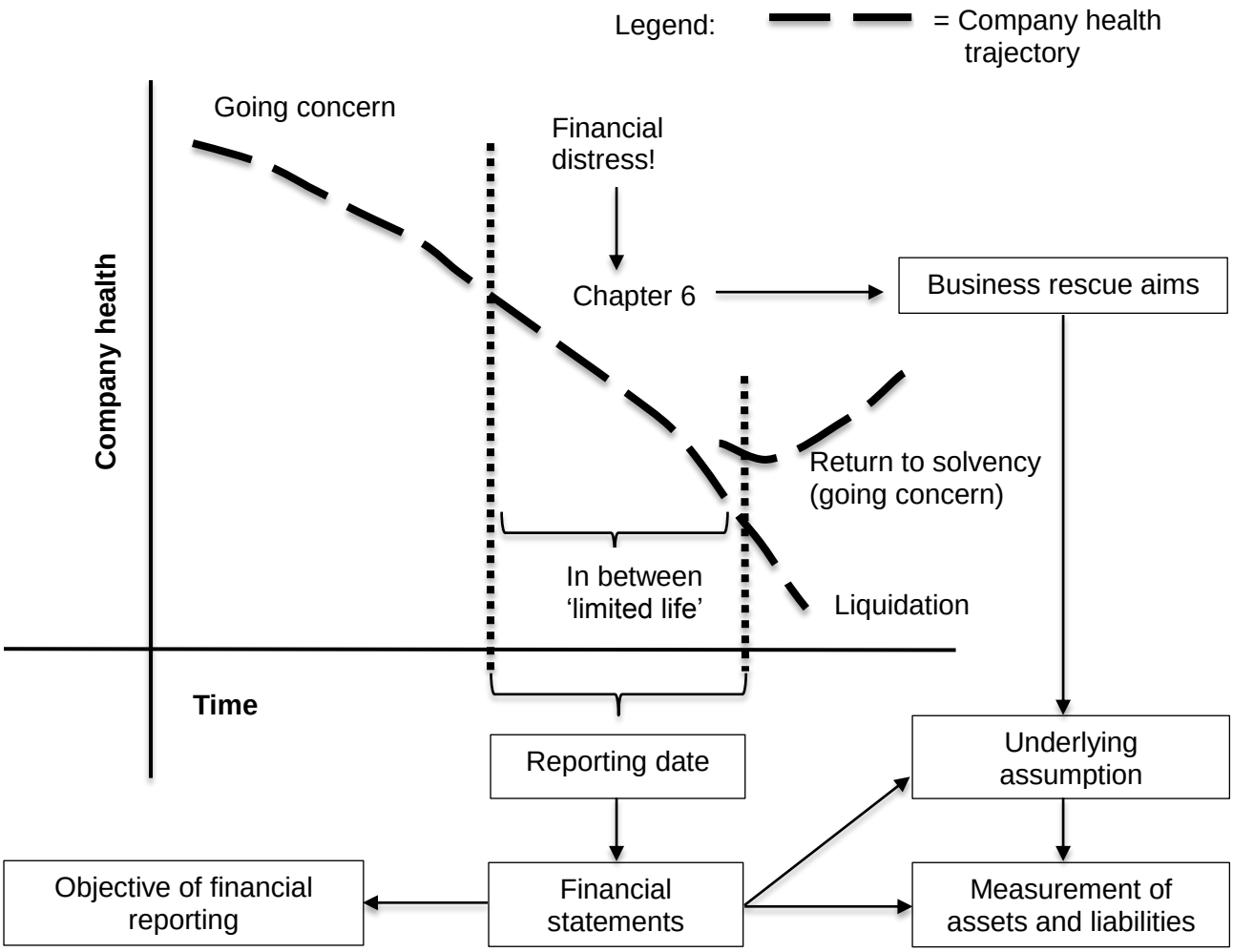
In section 2.3.2 it was pointed out that going concern is considered an accounting postulate in the structure of accounting theory. It was also indicated that a postulate can only be disproved with evidence to the contrary. It is clear from the above that there are currently two possible durations, namely, a going concern duration and liquidation duration. The FASB guidance on the liquidation basis of accounting is evidence of its importance to the users of financial statements.

It also seems that there may be a third duration, namely, that of a ‘limited life’. It would therefore appear that the *going concern* accounting postulate, as postulate in the structure of accounting, may be challenged. Moreover, it seems that the accounting postulate should only be referred to as a ‘continuity’ postulate, rather than to associate it with one duration. The going concern postulate is in fact sometimes referred to as ‘continuity’, but only as a synonym for going concern and not as encompassing the different life spans of an entity.

In referring to ‘continuity’ as an accounting postulate, a particular accounting theory and financial reporting framework may then employ one of two (or three?) foreseeable future scenarios as an underlying assumption in developing the accounting principles and techniques. In particular, the principles and techniques for measuring the assets and liabilities would then be linked to and be based on a particular underlying financial reporting assumption. Auditing fair presentation financial statements would then be possible based on that particular financial reporting framework, thus supporting a particular underlying assumption in line with the main structure of an accounting theory.

Figure 1.3 in Chapter 1, page 15, illustrates the research problem. For ease of reference, the figure has been duplicated below in *Figure 5.4: Illustration of research problem (duplicate).*

Figure 5.4: Illustration of research problem (duplicate)



Source: Own observation

Source: Duplicate of Figure 1.3 on p. 15

Figure 1.3 illustrates the financial reporting of a listed company under business rescue and shows the relationship between the reporting date and the business rescue aims, through the underlying assumption and measurement aspects of the financial statements. It also indicates that the financial statements serve to fulfil the users' needs in terms of the objective of financial reporting. It would be interesting to find out whether there is evidence to support a 'limited life' duration (see above) for a South African listed company under business rescue.

The primary research question deals with the appropriate underlying financial reporting assumption that should be used for a listed company under business rescue. Section 7.6.3 explains the various questions asked in order to answer the primary research question. Refer also to APPENDIX E. The results are presented in section 8.3.

In this section, the possible underlying financial reporting assumption was addressed. The next section will provide concluding remarks on the evaluation of the appropriate assumption to use when preparing financial statements for a South African listed company under business rescue.

5.6 CONCLUSION

The primary research question for this study is to determine which underlying financial reporting assumption should be used for a South African listed company under business rescue. This chapter addressed the fourth aspect that influences the financial reporting of such a company, namely, the objective of financial reporting. The chapter further addressed those aspects that, in turn, flow from the objective of financial reporting and that may have an influence on the particular assumption employed when preparing financial statements for a South African listed company under business rescue. These aspects are the financial information needs of the users of financial statements and the capital maintenance concept.

As already stated, users of financial statements have different financial information needs and objectives, they have a need for forward-looking financial information as well as information for assessing management's performance. The current objective of financial reporting addresses both these information needs, but it is necessary to assess whether these needs are still important for the users of financial statements in the case of a South African listed company under business rescue.

With respect to the capital maintenance concept, it was pointed out that the particular view that financial statement users have on the maintenance of capital would determine how profit is measured. The measurement of profit is therefore dependent on the measurement of a company’s assets and liabilities; in other words, its capital as

indicated by its net assets. Depending on the users' information needs, one of an array of accounting models may comply with their view of what capital they want to maintain.

It was also pointed out that the particular accounting model employed is also related to the underlying assumption of financial reporting used in preparing financial statements.

The underlying financial reporting assumptions of going concern and liquidation were discussed, and it was argued that there might be a need for a third underlying assumption, namely, one that falls in between the going concern and the liquidation assumptions.

The research aim of this study, as indicated in section 1.4, is to develop a financial reporting framework for South African listed company under business rescue. The next chapter addresses various aspects of the measurement of assets and liabilities in the context of a South African listed company under business rescue.

CHAPTER 6
MEASUREMENT OF ASSETS AND LIABILITIES OF LISTED COMPANIES UNDER BUSINESS RESCUE

6.1 INTRODUCTION

The research aim of the study is to develop a financial reporting framework for a South African listed company under business rescue. In particular, this framework would specifically deal with context-relevant measurement bases for the company's assets and liabilities when preparing decision-useful financial statements.

The previous chapter addressed the issue of which underlying financial reporting assumption should be used. The underlying assumptions of going concern and liquidation were addressed, but it was also argued that there may be a need for a third financial reporting underlying assumption, namely, one that fits in between the going concern and the liquidation assumptions.

In sections 1.3 and 2.3.2, it was explained that the underlying financial reporting assumption directs asset values and that the asset values are derived by using appropriate measurement bases. The FASB states that measurement is a critical aspect of financial reporting (FASB, 2007a:2). The current CF defines measurement as the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and presented (IASB, 2015b:A43).

> The measurement process involves the selection of a particular basis of measurement from a number of different bases available. This chapter will focus mainly on the various bases that may be used when preparing the financial statements for a listed company under business rescue.

The chapter will commence with the general need for financial information before addressing the qualitative characteristics of useful financial information. A consideration of the cost of obtaining the financial information versus the benefit of the information follows before the main section on measurement bases is addressed. The

chapter will conclude with a discussion of the impact that a change in the company's business model has on the measurement of its assets and liabilities. The need for financial information will now be briefly addressed.

6.2 THE NEED FOR FINANCIAL INFORMATION

Section 5.2 included a discussion on the users of financial statements, as well as the type of information they would need. In line with the findings on the type of information that users are looking for, the CF explains that the decisions made by the primary users (existing and potential investors, lenders and other creditors) depend on the returns that they expect. These primary users' returns may be dividends or principal and interest payments and depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity.

Consequently, the primary users need information to help them assess the prospects for the future net cash inflows of an entity. In order to assess an entity's prospects in this regard, the primary users need information about the entity's resources (assets), and claims against the entity (liabilities) (IASB, 2015b:A19). These assets and liabilities have a direct impact on the performance of an entity, as income and expenses are derived from the movements of assets and liabilities. Since investors are interested in cash flow-oriented information to take decisions, the financial statements will be most decision-useful for them if the assets and liabilities are measured at amounts that relate as closely as possible to the underlying cash flow. On the other hand, lenders and creditors, as well as investors, may be looking for more historical information in order to assess managements' stewardship of the resources entrusted to them.

As stated above, the information that users need should be useful. In order to determine whether information is useful, qualitative characteristics have been identified that could be used to judge whether the information is useful or not. The next section addresses the qualitative characteristics of useful financial information.

6.3 QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION

In order to assess the decision-usefulness of the measurement bases employed in a set of financial statements, the CF provides qualitative characteristics of useful financial information. The qualitative characteristics describe the types of information that are likely to be most useful to the users of financial reports. The qualitative characteristics are grouped into fundamental and enhancing qualitative characteristics. The fundamental qualitative characteristics are 'relevance' and 'faithful representation' (IASB, 2015b:A26).

'Relevance' refers to information that is capable of making a difference in the decisions made by users of financial statements. Since financial reports represent economic phenomena in words and numbers, 'faithful representation' refers to financial information that can faithfully represent the phenomena that it purports to represent. Faithful representation was introduced in the 2010 CF and replaced the 'reliability' qualitative characteristic of the 1989 CF. The faithful representation characteristic is much stronger than reliability as it is driven by conscience and ethical values. Useful financial information is therefore information that is both relevant and faithfully represented. The usefulness of financial information is *enhanced* if it is comparable, verifiable, timely and understandable (IASB, 2015b:A26-27).

In discussing the different measurement bases below, the fundamental qualitative characteristics will be addressed as well. The preferred measurement bases for assets and liabilities for a listed company under business rescue should provide both relevant and faithfully represented information.

This aspect is evaluated by Questions 52 and 53 in the research questionnaire. Refer to section 7.6.4.6 and APPENDIX E. The results are presented in section 9.2.6.

In order to obtain relevant and faithfully represented financial information, certain costs may have to be incurred. The cost constraint of useful information is discussed in the next section.

6.4 THE COST CONSTRAINT OF USEFUL FINANCIAL INFORMATION

The previous section dealt with the qualitative characteristics of useful financial information, that is, information that is both relevant and faithfully represented. However, it is also important that the cost of obtaining the information be justified by the benefit to the user of the information presented in the financial statements. In view of the fact that the company expenses the cost of collecting, processing, verifying and disseminating information, the users of the financial information ultimately bear the costs by way of reduced returns (IASB, 2015b:A31). There is thus a trade-off between providing relevant and faithfully represented financial information and the costs incurred in providing that information.

In a business rescue scenario, the trade-off may be an important factor when the affected parties decide whether or not to accept the business rescue plan and, on acceptance of the plan, how the plan should be executed. The business rescue legislation allows limited time for the BRP to prepare the business rescue plan and for the affected parties to accept or reject the plan, which may affect the cost of providing the information.

This aspect is evaluated by Question 54 in the research questionnaire. Refer to section 7.6.4.7 and APPENDIX E. The results are presented in section 9.2.7.

In this section, the cost of providing useful financial information was discussed. The next section addresses the different measurement bases that may provide useful financial information with respect to the assets and liabilities of a South African listed company under business rescue.

6.5 OVERVIEW OF DEVELOPMENT OF MEASUREMENT BASES

The previous section discussed the cost constraint of providing useful financial information. This section addresses the potential measurement bases that may provide useful financial information on the assets and liabilities of a listed company under business rescue. The section will conclude by suggesting measurement bases for assets and liabilities that may provide useful financial information in a business rescue context.

In section 2.5 it was discussed that the IASB has identified deficiencies in the current CF. It was also indicated that the measurement of assets and liabilities was one such area. In determining the most applicable measurement bases that may be used for preparing the financial statements of a South African listed company under business rescue, it is therefore necessary to discuss the measurement bases currently found in the CF, as well as the IASB's proposals for improving the measurement section of the revised CF.

The 1989 CF summarised the measurement bases that were mainly in use at the time. However, some additional bases, such as 'fair value', have been defined over the years; this is one of the reasons that the current CF is now under review.

The discussion on the measurement bases in this section is done chronologically, commencing with the 1989 CF, through a suspended convergence project between the IASB and FASB, up to a 2015 IASB Exposure Draft (2015 ED). The discussion concludes with a summary of measurement bases that may be applicable to a South African listed company under business rescue.

The research questionnaire for this study was finalised in November 2014 and the data collection was concluded at the beginning of May 2015, just before the IASB's 2015 ED on the suggested changes to the 2010 CF were published. Where the 2015 ED differs from the 2013 DP, these differences will be discussed if they are applicable to the measurement bases.

6.5.1 1989: Original measurement bases

As indicated above, the section on measurement in the current CF dates back to 1989. The 2010 CF retained the section on measurement verbatim in the 1989 CF.

The section on the measurement bases is now considered in order to compile a list of available measurement bases. Table 6.1 below, which is similar to Table 2.3, lists the current CF's choices of applicable measurement bases.

Table 6.1: Measurement bases of assets and liabilities in the 1989 CF

Measurement base	Definition of base applicable to assets	Definition of base applicable to liabilities
Historical cost	Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition.	Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (e.g. income taxes) at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.
Current cost	Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently.	Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.
Realisable (settlement) value	Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal.	Liabilities are carried at their settlement values; that is, the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.
Present value	Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business.	Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

Source: IASB (IASB, 2015b:A43)

It should be noted in Table 6.1 that 'fair value' is not specifically listed as a measurement base, although many IFRSs developed since 1989 allow assets and liabilities to be measured at fair value. The increased use of and inconsistencies in the requirements for measuring and disclosing fair values led to the development of IFRS 13 *Fair Value Measurement* (IASB, 2015j:A681). Fair value is included in the 2013 DP and is discussed later in the chapter.

Considering the above measurement bases, it is clear that they cover a broad range of attributes. Some of these attributes refer to the time-frame, namely, past (historical cost), present (current cost) or future (present value of future cash flows). The attributes may also refer to prices (historical cost) or values (present value). These attributes were addressed by the IASB and FASB between 2007 and 2010 and are discussed in the next section.

6.5.2 2007–2010: The IASB and FASB CF project

In 2006 the IASB and the FASB embarked on a converged Conceptual Framework (CF) project (IASB Insight, 2006:9). Between 2007 and 2010 the two Boards worked on the measurement phase of the project. The aim of this phase was to provide guidance on the selection of measurement bases that satisfy the objectives and qualitative characteristics of financial reporting (FASB, 2010). During January and February 2007, the Boards held roundtable discussions on measurement and published two reports. Since the measurement issues are inherently complex, the Boards applied a building block approach, with each building block representing a separate milestone (FASB, 2007a). The first report (FASB, 2007a) dealt with Milestone I, namely, to summarise and define possible measurement bases. The second report summarised the roundtable discussions in terms of all three milestones (FASB, 2007b). Milestone II was to evaluate the measurement candidates identified in Milestone I, and Milestone III was to draw conceptual conclusions from the first two Milestones, while addressing practical issues.

Although the convergence project was never completed and the conclusions were meant to be tentative only, the investigation into different measurement bases is of value to the study. The value of the documented project work lies in the list of detailed measurement bases that were compiled from, amongst others, past IASB and FASB frameworks, other standard setters and the November 2005 IASB Discussion Paper on measurement bases (FASB, 2007a:3).

These measurement bases will assist the study to answer the secondary research question, namely, to determine what the preferred measurement base(s) of assets and liabilities are that will lead to decision-useful information for the users of financial statements of listed companies in under business rescue.

The Boards identified nine measurement basis candidates; these are either prices or values. The measurement basis candidates were then classified according to time-frame, namely, whether they provide information primarily about the past, present or future. The idea is to assess the economic utility or worth to the entity. However, prices

are determined by markets and may not reflect this utility. On the other hand, according to the Boards (FASB, 2007a:6) values are specific to the entity.

It would therefore be interesting to see whether the users of the financial statements of a South African listed company under business rescue would prefer measurements based on prices or values.

This aspect is evaluated by Questions 55 to 62 in the research questionnaire. Refer to section 7.6.4.8 and APPENDIX E. The results are presented in section 9.2.8.

Table 6.2 below lists the nine measurement basis candidates from a price or value perspective, according to time-frame, as proposed by the IASB and FASB.

Table 6.2: IASB and FASB – Measurement bases according to time-frame from a price or value perspective

Time-frame	Measurement base
Past	1. Past entry price
	2. Past exit price
	3. Modified past amount (neither price nor value)
Present	4. Current entry price
	5. Current exit price
	6. Current equilibrium price
	7. Value-in-use
Future	8. Future entry price
	9. Future exit price

Source: FASB (2007a:4 (adapted))

The Boards indicated that historical cost and fair value were not specifically included in the above list because there seems to be no common understanding of those terms. However, historical cost and fair value were not overlooked. The notion of historical costs is included in the measurement candidates relating to the past, whereas the candidates relating to the present include the various notions of fair value (FASB, 2007a:5).

The Boards also identified variations on these concepts. The variations on the entry and exit prices relate to whether or not any prices it would have had to pay for acquisition-related goods or services are either ignored or taken into account. The

variations on the modified past amount relate to the amount of past prices assigned to the asset by way of accumulation, allocation, amortisation or a combination thereof. Several variations were identified for the current entry price (where any prices it would have had to pay for acquisition-related goods or services are included), namely, identical replacement, identical reproduction, equivalent replacement and productive capacity replacement.

After due consideration, it was decided that none of these variations would be considered as a separate measurement basis for the purposes of the study. However, for the sake of completeness, as well as to show the building block approach followed by the Boards, the list of nine measurement basis candidates, each with its variations, has been included as APPENDIX A.

The Boards subsequently defined the concepts for each candidate and its variation, from the perspective of an asset and liability. These definitions will be considered for the final list of possible measurement bases that may be applied to assets and liabilities when preparing financial statements for a listed company under business rescue. APPENDIX B shows the definitions that the Boards assigned to each measurement base candidate, as well as examples thereof.

The Boards discovered that in some cases multiple terms were used to describe a single measurement basis, or a single term refers to various bases. Another problem noted was that the same measurement basis concept are used in a different way in different accounting standards, since the specific standard may prescribe the way a measurement basis could be used. Furthermore, some standards used a combination of measurement bases, such as a lower-of-cost-or-market rule. The Boards therefore decided to consider the concepts underlying the measurement basis candidate and not to accept each particular application or combination as a separate candidate (FASB, 2007a:4-5).

The FASB report made a valuable contribution by identifying and listing all the synonyms used for the identified measurement base concepts. These concepts, as well as their synonyms, are tabled in APPENDIX C.

After due consideration, it was decided that none of the measurement bases listed in APPENDIX C would be considered for the purposes of the study. The use of multiple terms to describe a single measurement basis, the reference of a single term to various bases and the practice of combining measurement bases to derive a new measurement base resulted in a large number of alternatives (i.e. more than 40) and thus too many to test in the research questionnaire. The measurement bases that are listed in APPENDIX C are therefore included only for the sake of completeness.

The next section will consider the measurement bases identified from the IASB's own CF project. The IASB reports will also be used to reduce the number of measurement bases for inclusion in the research questionnaire.

6.5.3 2011–2015: The IASB CF project

After the joint CF convergence project between the IASB and FASB has been suspended in 2010, the IASB restarted its own CF project in 2011, following public consultation on its agenda (IASB, 2013:5). The ensuing discussion paper entitled "A review of the Conceptual Framework for Financial Reporting" (hereafter referred to as the '2013 DP') represents the preliminary views of the IASB on some of the topics for which the IASB has identified problems.

In preparation for the 2013 DP, the IASB staff drew on public discussions that had already taken place on the CF, as well as work undertaken by other organisations such as the International Public Sector Accounting Standards Board and the International Integrated Reporting Council (IASB, 2013:16-17). The 2013 DP is a comprehensive document reflecting current insights and work done on the CF, and is therefore considered an authoritative piece of literature for the purposes of this study.

Included in the 2013 DP is a section on measurement (IASB, 2013:5). This deals with, amongst other things, the influence of the financial reporting objective and the qualitative characteristics of useful financial information on measurement, as well as a discussion on the measurement alternatives for assets and liabilities. Both these aspects will be discussed below.

6.5.3.1 The objective of measurement

In section 5.2 the objective of financial reporting in the CF was discussed. It was indicated that the objective of financial information should address a need for financial information that is decision-useful and that can be used to assess management's stewardship of the resources entrusted to it. The qualitative characteristics and cost constraints of such useful financial information were also briefly discussed in sections 6.3 and 6.4 respectively above.

With regard to the objective of financial reporting, and the qualitative characteristics and cost constraints of useful financial information, the IASB introduced a separate objective of measurement. Accordingly, the IASB holds the preliminary view that the objective of measurement is (IASB, 2013:112)

> … to contribute to the faithful representation of relevant information about the resources of the entity, claims against the entity and changes in resources and claims, and about how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use entity's resources.

As indicated earlier, the responsibility for using the entity's resources efficiently and effectively is known as stewardship. It is interesting to note that the IASB has now specifically included stewardship as part of a *measurement* objective, putting it on an equal footing with decision-usefulness. The measure of stewardship often refers to the use of historical cost (Holthausen & Watts, 2001:49). Since the IASB has introduced a measurement objective, it was considered important to evaluate the extent to which the measurement objective holds true in a business rescue context.

This aspect is evaluated by Question 50 (second part) in the research questionnaire. Refer to section 7.6.4.5 and APPENDIX E. The results are presented in section 9.2.5.

It should be noted that the IASB did not pursue the measurement objective any further in the 2015 ED, which was published subsequent to the release of the research questionnaire. However, the responses would still be useful in supporting earlier

questions asked about the decision-usefulness and stewardship objectives of financial information.

In section 2.4.3, Staubus's (2000:333) investigation of decision-usefulness theory for a particular class of users, namely investors, was discussed. Investors include the shareholders and creditors (Staubus, 2000:5), which are both affected parties in a business rescue scenario. Staubus argued that the cash flow potential/need of an asset or liability constitutes important information that investors would like to be aware of (Staubus, 2000:333).

According to Staubus (2000:334), the primary criterion for information to be decision useful is a particular measurement's relevance to cash flow (Staubus, 2000:334). The IASB supports Staubus's view in that a relevant measurement will indicate to the primary users (investors, creditors and other lenders) how a particular asset will contribute to future cash flows and how a particular liability will be settled or fulfilled (IASB, 2013:108-109). Staubus thus ranked commonly available forms of evidence according to their relevance (Staubus, 2000:334). The potential measurement bases for assets and liabilities are discussed in section 6.5.4. A ranking of evidence with respect to cash flow relevance is shown in the same section in Table 6.5 on page 208.

With respect to a listed company under business rescue it would therefore be necessary to determine how important it is for the users of its financial statements that the measurement of assets and liabilities reflect the cash flow potential or need as closely as possible. If it is important, then one would expect that cash flow-relevant measurement bases, as opposed to historical-cost measurements, would be more relevant and therefore preferred in a business rescue context. This aspect is evaluated in the research questionnaire by Question 51. Refer to section 7.6.4.5 and APPENDIX E. The results are presented in section 9.2.5.

The 2013 DP also addresses the issue of whether or not a single measurement basis for all assets and liabilities would provide the users of financial statements with relevant information. The IASB maintained that such an approach has problems. For example, measuring all assets and liabilities at cost would not provide relevant information on a

financial asset that is a derivative. Another problem that was pointed out is that some users consider information on margins based on cost-based information to be more relevant than that based on a current market price. It may also be subjective and expensive to estimate current market prices when they cannot be obtained directly (IASB, 2013:108).

For the above reasons the IASB's preliminary view is that a single measurement basis for all assets and liabilities may not provide users with the most relevant information (IASB, 2013:108); however, when a company is under business rescue their needs may have changed. It would therefore be interesting to find out whether the preparers and users of financial statements would prefer a single measurement base for all the assets and liabilities in such cases.

The pilot research questionnaire included a question to evaluate a single measurement basis for all assets and liabilities. After due consideration it was decided not to evaluate this aspect in a single question, since subsequent questions on the preferred measurement bases for assets and liabilities might also indicate whether respondents would prefer a single measurement base. Refer to section 7.6.4.6 for the questions on the preferred measurement bases for assets and liabilities. The results are presented in section 9.2.6.

Since the selection of a measurement for a particular asset depends on how it contributes to future cash flows and the selection of a measurement for a particular liability depends on how the liability will be settled or fulfilled, more than one measurement basis may be found in a set of financial statements with multiple assets and liabilities. In order to ensure that the financial statements comply with the understandability enhancing qualitative characteristic, the IASB's preliminary view is that the number of different measurements used should be the smallest number necessary to provide relevant information (IASB, 2013:110). It would therefore be important to determine what the smallest number of measurements are that would fulfil the financial information needs of the users of the financial statements of a listed company under business rescue.

This aspect is evaluated by Questions 52 and 53 in the research questionnaire. Refer to section 7.6.4.6 and APPENDIX E. The results are presented in section 9.2.6.

Apart from addressing the understandability enhancing characteristic, the 2013 DP also re-confirms that the other three enhancing characteristics, namely, timeliness, verifiability and comparability need to be considered when establishing measurement criteria. However, timeliness is already embodied in the relevance fundamental characteristic and verifiability is a precondition for using a measurement. Meanwhile, comparability would be complied with if the same measurements were used between periods and entities (IASB, 2013:111).

The 2013 DP confirms the current CF's statement that cost is a constraint on the information that can be provided by financial reporting and that the benefits of reporting the information need to be sufficient to justify the costs thereof (IASB, 2013:112-113).

Owing to the short time-frame available for obtaining relevant information for a company under business rescue, including financial information, the cost versus the benefits of the financial information will be an important consideration for the preparers of the financial statements for such a listed company. This aspect is evaluated by Question 54 of the research questionnaire. Refer to section 7.6.4.7 and APPENDIX E. The results are presented in section 9.2.7.

The next section deals with the different measurement alternatives available to the preparers of the financial statements. The measurement alternatives will also be assessed in terms of their perceived applicability to a listed company under business rescue.

6.5.3.2 Measurement bases: entry and exit values

The 2013 DP discusses various alternatives for measuring assets and liabilities. Comments pertaining to the measurement alternatives received on the 2013 DP were summarised by the IFRS Foundation's staff and presented to the IASB for discussion. The September 2014 staff paper on the measurement alternatives is of particular

importance to this study. This paper (IFRS Foundation, 2014) presented a revised working draft of an earlier IASB discussion on measurement bases for consideration when drafting the 2015 ED.

The research questionnaire (refer APPENDIX E) for this study was finalised after taking into account the views of both the 2013 DP and the September 2014 staff paper on measurement of assets and liabilities.

The staff paper categorised the measurement bases as either entry values or exit values (IFRS Foundation, 2014:2). This is similar to what the IASB and FASB did in the CF convergence project (see § 6.5.2), except that the focus then fell on the notion of prices or values as properties of the measurement base. The staff stressed the importance of making a distinction between entry and exit values. According to the staff, entry values provide information about the inputs to an entity's business activities and exit values provide information about the outputs from an entity's business activities (IFRS Foundation, 2014:2).

In terms of the staff's distinction, entry values reflect the actual, estimated or deemed cost of acquiring an asset or proceeds from incurring a liability. The entry values could therefore be historical or current costs or proceeds. In contrast, exit values for an asset reflect the value that would be received from that asset. The value received for an asset could be through the sale, use or collection of related cash flows. The exit value of a liability is the amount required to settle, transfer, fulfil or discharge the entity from a liability (IFRS Foundation, 2014:3).

6.5.3.3 Entry values of assets and liabilities

With reference to the entry values, the *actual*, *estimated* or *deemed* cost of acquiring an asset or the proceeds from incurring a liability are discussed in the 2013 DP as "cost-based measurements". As the name suggests, the initial measurement of an asset or liability is based on cost. The *actual* cost of an asset would be the historical cost and of a liability it would be the historical proceeds (IFRS Foundation, 2014:17). The initial measurement at historical cost may then be adjusted to reflect two

subsequent measurements of the entry values of the assets and liabilities, as discussed below.

Firstly, the actual historical cost may be adjusted over time to reflect the usage of the asset, the accrual of interest, addition of a discount or amortisation of a premium (IASB, 2013:114). In other words, it would be the *estimated* cost presenting the unconsumed portion of the historical cost of an asset, or the unfulfilled portion of the proceeds of a liability (IFRS Foundation, 2014:17). Both estimated amounts are also known as the carrying amount. Historical costs can be useful because they are well understood and are highly verifiable (IFRS Foundation, 2014:10). However, when price changes over time are significant, historical costs tend to be less useful.

The second subsequent measurement of historical costs takes price changes into account. The 2013 DP states that the initial cost could also be adjusted to reflect a current cost, either through general price changes or specific price changes (IASB, 2013:114). This would then be the *deemed* cost. For an asset, the deemed cost would be the current replacement cost, representing the current cost of the unconsumed part of an asset. The deemed cost of a liability would be the current proceeds, representing the consideration an entity would currently expect to receive if it undertook an identical liability (IFRS Foundation, 2014:18). As the measure suggests, current cost-based measurements reflect the economic conditions prevailing at the measurement date and may provide useful information during a period of changing prices (IFRS Foundation, 2014:11).

With respect to general price changes or specific price changes, it should be noted that adjusting cost to reflect *general* price changes is generally relevant for entities operating in hyperinflationary economies. Entities operating in hyperinflationary economies are required to apply IAS 29 *Financial Reporting in Hyperinflationary Economies*. South Africa is not considered to be a hyperinflationary economy and therefore any adjustments to cost to reflect general price changes are not considered further in this study.

The 2013 DP also mentioned that some respondents argued that deprival value, also known as value to the business, is another example of a current cost-based measurement. Deprival value is the lower of an asset's replacement cost or its recoverable amount (IASB, 2013:114). The latter is the higher of the asset's fair value less costs to sell and its value-in-use (IASB, 2015h:A1333). The IASB notes that in many cases the deprival value will equal the replacement cost (IASB, 2013:114). Since deprival value consists of a combination of separate identifiable measurement bases, namely, replacement cost, fair value less costs to sell (see fair value below) and value-in-use (see below), it will not be included as a separate potential measurement alternative on its own for the purposes of this study.

It can be deduced from the above that the entry value cost-based measurements can be summarised as shown in Table 6.3 below. The table distinguishes between the type of cost (i.e. actual, estimates or deemed) separately for assets and liabilities.

Table 6.3: Entry value cost-based measurement bases of assets and liabilities

Type of cost	**Measurement base**	
	Assets	**Liabilities**
Actual	*Historical cost:* actual cost	*Historical cost:* actual proceeds
Estimated	*Depreciated/amortised historical cost:* unconsumed portion of historical cost	*Amortised historical proceeds:* unconsumed portion of historical proceeds
Deemed	*Current replacement cost:* cost adjusted for price changes reflecting the unconsumed part of the asset if replaced with an asset of equivalent service potential	*Current proceeds:* current value reflecting the consideration the entity would currently expect to receive if it undertook an identical obligation equal to the remaining part of the obligation

Source: Own observation

The classification of the measurement bases as entry values, and their further distinction as regards the type of entry values, namely, actual, estimated or deemed, presents a valuable framework for identifying and classifying the potential cost-based measurement base. The distinction also guides the definition or, alternatively, serves as a guide to explain the manner in which the cost-based measurement is derived.

With respect to the measurement of assets and liabilities of a South African listed company under business rescue, the distinction may help to assess whether the particular entry value cost-based measurement base would be applicable in a business rescue context. These measurement bases were included in the list of possible measurement bases in Questions 52 and 53 in the research questionnaire. Refer to section 7.6.4.6 and APPENDIX E. The results are presented in section 9.2.6.

6.5.3.4 Exit values of assets and liabilities

As indicated earlier, the exit value of an asset depends on the manner in which the asset is used by the entity. Using the asset means that its value is realised through either its sale, continued use or from the collection of cash flows.

The value of an asset realised through *sale* would further depend on whether the value is realised in an orderly disposal or under conditions of distress. The measurement bases relating to the sale of an asset in an orderly disposal could be a realisable value measurement or a fair value measurement.

As indicated in Table 6.1, the CF defines realisable value as the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal (IASB, 2015b:A43). The realisable value after deducting an estimated transaction cost, namely, net realisable value (NRV), is a well-known IFRSs measurement used in IAS 2 *Inventories*. Hendriksen and Van Breda (1992:499) also prefer the NRV, and not realisable value, as an exit value measurement base. It is for this reason that NRV, and not only 'realisable value', will be considered as a possible base for measuring the assets and liabilities of a listed company under business rescue.

The 2013 DP states that for an asset that will be realised through sale, a current exit price (or perhaps a current exit price less cost to sell) is likely to be relevant. It also states that current prices (i.e. fair value) will provide more relevant information than historical costs for an asset such as an investment property (IASB, 2013:123-124). The

fair value measurement base is addressed in a separate standard, namely, IFRS 13 *Fair value measurement*, which defines "fair value" as the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction between market participants on the measurement date (IASB, 2015j:A710). The 2013 DP emphasises the phrase "orderly transaction", which implies that neither party to the transaction "is desperate or otherwise has an unusually weak bargaining position through being forced to sell or buy quickly because of *financial distress* or other factors" *(author's emphasis)* (IASB, 2013:115).

The above is a very important requirement in the fair value measurement definition and has a direct impact on the measurement of assets and liabilities at fair value for a company under business rescue, bearing in mind that companies are granted protection under business rescue because they are in financial distress. Moreover, the company would most likely still be experiencing financial distress during the execution of a business rescue plan. Consequently, if a financial reporting period (interim or year-end) is due during business rescue proceedings, the use of fair value as defined as a measurement base may not be appropriate at that stage. In fact, ISA 540 *Auditing accounting estimates, including fair value accounting estimates, and related disclosures* states that in most financial reporting frameworks the going concern presumption underlies the concept of fair value measurements. There would therefore not be "any intention or need to liquidate, curtail materially the scale of its operations, or undertake a transaction on adverse terms" (IAASB, 2015b:514).

The pilot questionnaire contained a separate question on the usefulness of fair value for a company in distress. It was later decided to remove the question from the final questionnaire since it was included in the list of possible measurements in a subsequent question. Refer to section 7.6.4.6 for an explanation thereof.

Seeing that the definition of fair value refers to an 'orderly transaction', fair value would not be an appropriate measurement base for assets when the realisation is not under orderly conditions. According to IAS 540, an amount that an entity would receive or pay in a forced transaction, involuntary liquidation, or distress sale would not be the fair value (IAASB, 2015b:514). One may conclude then that the value reflecting an unusually weak bargaining position and being forced to sell quickly (Hendriksen & Van

Breda, 1992:500) under business rescue proceedings, such as a ‘fire sale’, or liquidation value, may present more relevant financial information. The liquidation value will therefore also be considered as a possible measurement base when preparing financial statements for a listed company in this situation, as some assets may need to be sold in a forced transaction or distress sale.

The pilot questionnaire also contained a separate question on the usefulness of the liquidation value for a company under distress. It was once again decided to remove the question from the final questionnaire since it was included in the list of possible measurements in a subsequent question. Refer to section 7.6.4.6 for an explanation thereof.

The value of an asset realised through *use* can be measured as the present value of cash flows from continued use and disposal at the end of its useful life, discounted at a fair discount rate (IASB, 2015h:A1334, A1339). This measurement is known as ‘value-in-use’ and can provide relevant financial information for assets that will be realised through their continuing use and ultimate disposal at the end of their useful life (IFRS Foundation, 2014:14). If a business rescue practitioner pursues aim 1, namely, to return the company to solvency, the value-in-use measurement base may be appropriate for those assets that the company intends to continue to use.

Many financial instruments require the issuer to make payments or to deliver other financial instruments. The entity has the option to hold them and collect the contractual cash flows, or to sell them. If the value of the asset is realised by holding on to it and *collecting* the cash flows, an appropriate measurement base would be the ‘amortised cost’. The amortised cost of an asset would be the present value of cash inflows discounted at an effective interest rate. This interest rate is determined when the asset in initially recognised. When holding such instruments, the effective yield and the collectability are the important factors; the amortised cost can provide relevant information in this regard (IFRS Foundation, 2014:23; IASB, 2013:124).

It is evident from the above that relevant financial information for a listed company under business rescue can be provided by determining how the asset's value will be realised, that is, either through sale, use or collection of cash flows. Depending on the manner of realisation, the NRV, fair value, liquidation value, value-in-use or amortised cost may be applicable for measuring the company's assets. The above measurement types were evaluated by Question 52 in the research questionnaire. Refer to section 7.6.4.6 and APPENDIX E. The results are presented in section 9.2.6.

It was mentioned earlier that exit values for liabilities reflect the value that would be required to *settle*, *transfer*, *fulfil* or *discharge* the entity from a liability. Each if these four ways of exiting from a liability will be discussed below.

'Settlement value' is the liability equivalent of the realisable value. The CF defines the settlement value as the undiscounted amount of cash or cash equivalents that would be required to *settle* the obligation currently (IASB, 2015b:A43). Settlement value will provide relevant information on liabilities such as the entity's calculated income tax obligation.

Under the fair value of an asset it has already been shown that IFRS 13 *Fair value measurement* defines 'fair value' for a liability as the price that would be paid to *transfer* a liability in an orderly transaction between market participants at the measurement date (IASB, 2015j:A710). A fair value measurement would therefore provide relevant financial information in cases such as measuring a cash-settled share-based payment transaction for a listed company at the reporting date.

'Fulfilment value' is the liability equivalent of the value-in-use measurement. Fulfilment value is described as the present value of cash flows expected to result from *fulfilling* the liability (IFRS Foundation, 2014:21), discounted at a fair interest rate. The fulfilment value measurement provides relevant financial information when it relates to the expected future cash flows needed to fulfil the liability, such as a decommissioning liability.

The amortised cost measurement, on the other hand, will provide relevant information on the *discharge* of a liability, such as the obligation to redeem debentures issued by the entity. The amortised cost of a liability would be the present value of cash outflows, discounted at an effective interest rate.

The particular exit value measurement bases discussed above are summarised in Table 6.4 below. This summary is done for assets and liabilities separately according to the way in which the asset is realised or the liability exited.

Table 6.4: Exit value measurement bases of assets and liabilities

Way in which the asset is realised/the liability is exited		Measurement base
Assets	Sale – orderly disposal	*Net realisable value:* estimated selling price less estimated transaction cost in an orderly disposal. *Fair value:* price received to sell an asset in an orderly transaction between market participants at the measurement date.
	Sale – distressed disposal	*Liquidation value:* price received to sell an asset under distressed conditions.
	Use	*Value-in-use:* present value of cash flows from continued use and disposal at end of useful life, discounted at a fair interest rate.
	Collection	*Amortised cost:* present value of cash flows at effective interest rate.
Liabilities	Settle	*Settlement value:* undiscounted amounts of cash flow expected to be paid to satisfy the liabilities in the normal course of business.
	Transfer	*Fair value:* price paid to transfer a liability in an orderly transaction between market participants at the measurement date.
	Fulfil	*Fulfilment value:* present value of cash flows to arise in fulfilling the liability discounted at a fair interest rate.
	Discharge	*Amortised cost:* present value of cash flows at effective interest rate.

Source: Own observation

It is clear for the above that relevant financial information can be provided by determining the way in which the entity will realise an asset or exit from a liability. Once again, the distinction between the manner the asset is realised or the liability is exited guides its definition, or alternatively assists in explaining the manner in which the measurement base is arrived at.

With respect to measuring the assets and liabilities of a South African listed company under business rescue, the above distinctions may help to assess whether the particular exit value measurement base would be applicable. The above measurement aspects are evaluated by Question 53 in the research questionnaire,. Refer to section 7.6.4.6 and APPENDIX E. The results are presented in section 9.2.6.

Considering the above measurement bases, it may be concluded that the particular attribute of the measurement base relies on either entity-specific or market-related information. An entity/market perspective on the measurement base is discussed in the next section.

6.5.3.5 Measurement bases: entity or market perspective

The manner in which the measurement base is determined reflects either an entity or a market perspective. The 2013 DP indicates that a market perspective would be relevant for assets that can be sold without significant effort (e.g. fair value). The entity perspective would be relevant for both assets held for use (e.g. value-in-use) and liabilities that will be settled by performing services (IASB, 2013:130).

The question of when to use an entity perspective or a market perspective depends on the availability of market information and the likely relevance of each perspective for the specific asset or liability. The IASB further states that entity-specific inputs “would be relevant for unique and highly uncertain cash flows and may better indicate ultimate cash flows if the entity has plans that are different from plans of typical market participants or has more or better information” (IASB, 2013:130).

Uncertainty around cash flows may be encountered under business rescue proceedings. Therefore, one could expect entity-specific measurements to be preferable for some of the assets and liabilities of a listed company under business rescue. This aspect is evaluated by Questions 52 and 53 in the research questionnaire. Refer to section 7.6.4.6 and APPENDIX E. The results are presented in section 9.2.6.

The above indicates that the use of either an entity or market perspective depends on the availability of market information and the likely relevance of each perspective to the specific asset or liability. When a company enters business rescue, its cash flow is likely to be under pressure, accompanied by a possible risk of non-payment or default. The credit risk with respect to its liabilities from the entity's perspective is considered in the next section.

6.5.3.6 Measurement bases: entity's own credit risk

During the business rescue proceedings of a listed company there may be a high possibility that the company is unable to settle its liabilities when they fall due. The probability of non-payment will lead to a change in the expected cash flow of the liability. Furthermore, the market price for bearing the risk may change owing to the probability of non-payment or default. This will result in changes in or modifications to the expected cash flows. The controversial issue here is whether subsequent measurement of the liabilities should reflect these changes, that is, the changes in the cash flow and the discount/interest rate. The main concerns are the gains recognised when a liability is discounted at a higher rate because an entity's credit standing is deteriorating or the fact that there has been an increase in the market price for bearing this risk (IASB, 2013:131). Own credit risk influences the statement of comprehensive income as the portion of the fair value *adjustment* attributable to own credit risk is recognised in other comprehensive income, as opposed to profit or loss (IASB, 2015k:A394).

It would have been interesting to ascertain to what extent preparers consider the company's own credit risk in the measurement of liabilities for a listed company under business rescue.

The pilot questionnaire included a separate question on whether a company's own credit risk should be considered when measuring the financial liabilities of a listed company under business rescue. It was subsequently decided to remove the question from the final questionnaire because the respondents seemed unfamiliar with the concept. Nevertheless, the researcher feels that the consideration of own

credit risk does not detract from the possible use of fair value to measure liabilities in the statement of financial position.

6.5.4 Summary of potential measurement bases

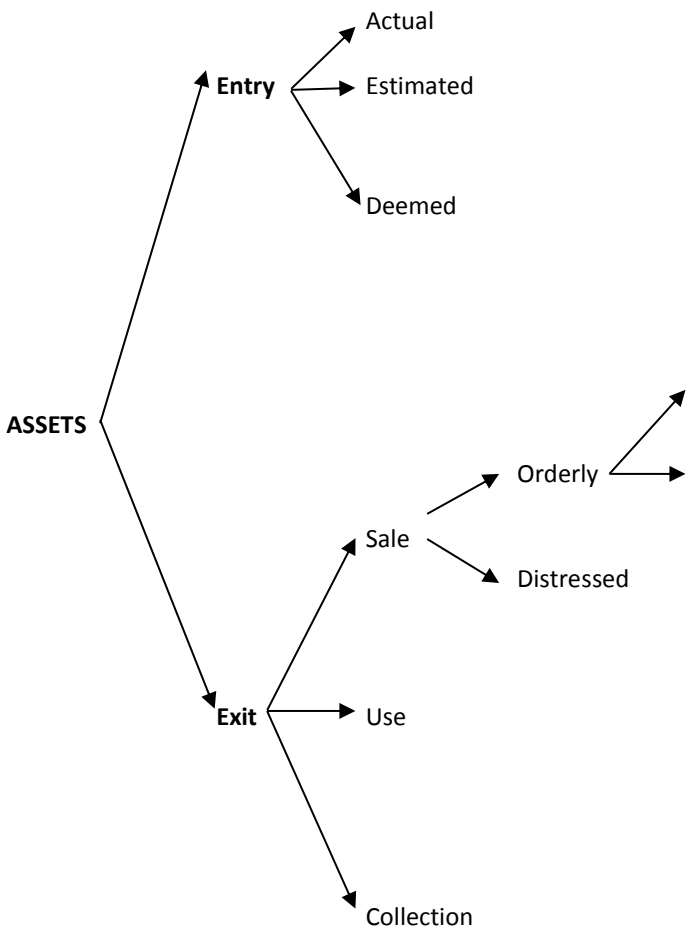
In the previous section various potential measurement bases were discussed. The discussion commenced with the measurement bases initially included in the 1989 CF. It was pointed out that those measurement bases had attributes referring to the time-frame, that is, past (historical cost), present (current cost) or future (present value of future cash flows), and attributes referring to prices (e.g. historical cost) or values (e.g. present value).

The convergence project between the IASB and FASB continued with the time-frame attributes and identified nine measurement base concepts within the past, present and future time-frames. The project also added an entry/exit value perspective to these measurement base concepts. This convergence project provided valuable insight into the problem of language by identifying 46 different descriptions (see APPENDIX C) of measurements for assets and liabilities found in IASB and FASB accounting standards. This is a good example of how confusing accounting terminology can become!

After the suspension of the CF convergence project, the IASB commenced with its own CF project. After comments on the 2013 ED had been received, the staff of the IFRS Foundation reduced the number of potential measurement bases to seven. To these the author added an additional measurement base, namely, the liquidation value. The IASB retained the entry/exit value perspective and also discussed the entity/market perspective on the relevant measurement bases.

Figures 6.1 and 6.2 below summarise all the measurement bases for assets and liabilities from an entry/exit value perspective. The figures also indicate the measurement from a market or entity perspective and give an example of each measurement base as well.

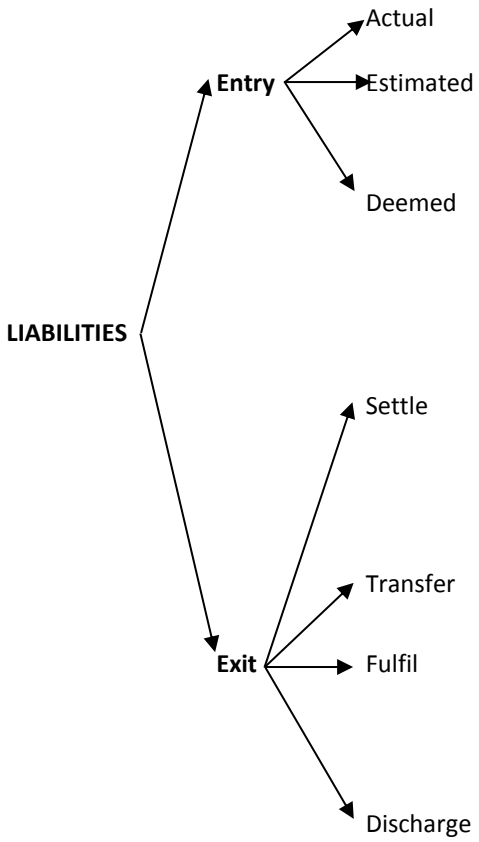
Figure 6.1: Potential measurement bases for assets



	Measurement base	Attribute	Perspective: Entity	Perspective: Market	Example
Actual	Historical cost	Actual cost	x		Prepayment
Estimated	Depreciated/amortised historical cost	Unconsumed portion of historical cost (carrying amount)	x		Equipment (Carrying amount)
Deemed	Current replacement cost	Cost adjusted for price changes reflecting the unconsumed part of the asset if replaced with an asset of equivalent service potential	x	x	Equipment (Current replacement cost)
Orderly	Net realisable value (NRV)	Estimated selling price less estimated transaction cost in an orderly disposal	x		Inventory
Orderly	Fair value	Price received to sell an asset		x	Financial instruments (e.g. Derivatives)
Distressed	Liquidation value less liquidation costs		x		Various assets under liquidation circumstances
Use	Value-in-use (VIU)	Present value of cash flows from continued use and disposal at end of useful life, discounted at a fair interest rate	x		Plant tested for impairment with VIU constituting the recoverable amount
Collection	Amortised cost	PV of cash flows at effective interest rate	x		Financial instruments (e.g. Debtors)

Source: Own observation

Figure 6.2: Potential measurement bases for liabilities



			Perspective		
	Measurement base	**Attribute**	**Entity**	**Market**	**Example**
Actual	Historical proceeds	Actual proceeds	x		Deposit received
Estimated	Amortised historical proceeds	Unconsumed portion of historical proceeds (carrying amount)	x		Deferred income
Deemed	Current value	Current value reflecting the consideration the entity would currently expect to receive if it undertook an identical obligation equal to the remaining part of the obligation	x	x	Provision for warranty (current cost)
Settle	Settlement value	Undiscounted amounts of cash flow expected to be paid to satisfy the liabilities in the normal course of business	x		Income tax obligation
Transfer	Fair value	Price paid to transfer a liability		x	Derivative liability
Fulfil	Fulfilment value	Present value of cash flows to arise in fulfilling the liability discounted at a fair interest rate	x		Decommissioning liability
Discharge	Amortised cost	Present value of cash flows discounted at an effective interest rate	x		Debentures issued

Source: Own observation

In section 6.5.3 above, Staubus's (2000:333) argument that the cash flow potential/need of an asset or liability is important information for investors was discussed. In determining the cash flow potential, the preparers gather imperfect evidence of the cash flow potential/need of an asset or liability when they apply the accounting process (Staubus, 2000:334).

Evidence of the cash flow potential of an asset, and therefore its value, could for example be its face value, contractual future cash flows or current price in an active market (Staubus, 2000:213). When faced with these alternative forms of evidence, preparers use the qualitative characteristics of information such as relevance, faithful representation, comparability, verifiability, timeliness and understandability of the information (IASB, 2015b:A26-27).

As indicated earlier, the primary criterion for investors would be the relevance of the evidence to cash flow-oriented decisions (Staubus, 2000:334). Staubus ranked the commonly available forms of evidence according to their relevance to cash flow-oriented decisions. If one compares Staubus's ranking with the measurement bases indicated in Figures 6.1 and 6.2, one could rank the measurements that a user would prefer from a cash flow-oriented point of view. Table 6.5 below shows the ranking of the form of evidence indicated by Staubus, as well as the measurement base that it would represent from Figures 6.5 and 6.6 above.

Table 6.5: Ranking of relevance of evidence to cash flow-oriented decisions and related measurement base

Relevance ranking	Form of evidence	Measurement base
1.	Cash count	[Already in cash]
2.	Discounted future cash flows or current market price of financial assets	Value-in-use (asset), or Fulfilment value (liability) Amortised cost, or Fair value
3.	Future cash flows of short-term items	Fair value, or Net realisable value (asset), or Settlement value (liability)

Relevance ranking	Form of evidence	Measurement base
4.	Best-use net realisable value	Net realisable value (asset) or Settlement value (liability)
5.	Current replacement cost or proceeds	Current replacement cost (asset) or Deemed current value (liability)
6.	Equity method for equity interests	[n/a[19]]
7.	Restated historical cost or proceeds	Depreciated/amortised historical cost (asset) or Amortised historical proceeds (liability)
8.	Historical acquisition cost or proceeds	Historical cost (asset) or Historical proceeds (liability)

Source: (Staubus, 2000:334) (adapted)

It is clear from Table 6.5 that cash-flow-oriented decisions are best served by evidence that is as closely related to cash flow as possible. The ranking indicates that value-in-use (liability: fulfilment value), amortised cost and fair values would be preferred. The table also indicates that the historical cost (liability: historical proceeds) would be the least relevant to investors' cash-flow-oriented decisions.

The measurement bases discussed in the above section all have attributes that would enable financial information to be useful from a decision-usefulness and/or stewardship perspective, but the question is whether they are fit for purpose for listed companies under business rescue. The following section considers the measurement bases in a business rescue context.

6.5.5 Measurement bases in a business rescue context

Slatter and Lovett (1999:26-27) studied the causes of corporate decline and highlighted the importance for successful businesses to generate sustainable cash flows. It is management's responsibility to produce useful, relevant, timely and

[19] According to the equity method, the investment is initially recognised at cost and subsequently adjusted for the post-acquisition change in the investor's share of the investee's net assets (IASB, 2015f:A1194). The equity method initially employs the historical cost base, but the subsequent share of changes in the net assets would consist of various measurement bases.

accurate information on which users can base their decisions (Slatter & Lovett, 1999:26).

The objective of measurement, as indicated in section 6.5.3.1 above, is to contribute to the faithful representation of relevant information about the assets and liabilities of the entity, as well as how efficiently and effectively the entity's management and governing board have discharged their responsibility to use the entity's resources. With reference to the most relevant measurement for a particular asset or liability, the 2013 DP makes the following comment, which is relevant to this study:

> Financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. If this assumption becomes inappropriate, a change may occur in how an asset is likely to contribute to future cash flows or how a liability is likely to be fulfilled. Hence, the most relevant measurement for a particular asset or liability may be different for entities that are not a going concern (IASB, 2013:117).

Section 1.4 pointed out that the overall research aim of the study is to determine what underlying financial reporting assumption should be used for a South African listed company under business rescue. Moreover, in preparing decision-useful financial statements, the underlying assumption would be further supported by context-relevant measurement bases for the company's assets and liabilities. In sections 1.2 and 1.3, it was indicated that whichever of the two business rescue aims the BRP aims to achieve, the chosen aim may also have an impact on the decision on which underlying assumption to use when preparing the financial statements. It was further indicated (see § 1.3) that the measurement bases chosen for measuring assets and liabilities should support this assumption.

In line with the IASB's comment above, the most relevant measurement for a particular asset or liability may differ from those generally considered relevant for a financially healthy company. The reason that a listed company files for business rescue protection is because it is in financial distress. In addition, it may not be a going concern and it is therefore possible that its assets and liabilities may contribute to or require cash flow in a different manner to that originally anticipated. In order to assist in identifying the

appropriate measurement bases for such a company's assets and liabilities from the alternatives provided in Figures 6.1 and 6.2 above, it is important to find out whether the measurement of its assets and liabilities should take the fact that it is in financial distress into account.

This aspect is evaluated by Question 49 of the research questionnaire. Refer to section 7.6.4.5 and APPENDIX E. The results are presented in section 9.2.5.

The measurement bases indicated in Figures 6.5 and 6.6 above are under applicable circumstances all considered to be able to contribute to the faithful representation of relevant information about the assets and liabilities of the entity. Such circumstances would include a listed company under business rescue. Since it is possible that the company's assets and liabilities may contribute to or require cash flow differently to what was originally anticipated, it is necessary to consider the manner in which the assets and liabilities will contribute to or need cash flow.

With respect to its assets, a company in financial distress will probably have to sell some of its assets under duress in order to address immediate cash flow requirements. One can also foresee that some of the assets may be sold in the normal course of business, in particular non-core assets. It would also be likely that some of the core assets will have to be retained in order to sustain the company going forward.

It would therefore be important to determine what particular measurement bases are preferable for the *individual* assets of a listed company under business rescue in terms of the above scenario; that is, when some assets are held for use, some sold immediately, or some sold in the normal course of business. Moreover, it would also be important to determine how the liabilities of such a company should be treated. Since the BRPs may pursue either of the two business rescue aims, if would also be important to determine the preferred measurement bases for the assets and liabilities for both these aims.

The above aspect is evaluated by Questions 55 to 62 in the research questionnaire. Refer to section 7.6.4.8 and APPENDIX E. The results are presented in section 9.2.8.

Furthermore, before filing for business rescue protection, the listed company's latest interim and annual financial statements would have been prepared on the going concern assumption in terms of IAS 1 par. 25. It therefore would be interesting to determine the usefulness and use of the latest interim and annual financial statements for the BRP preparing the business rescue plan. In particular, it would be interesting to determine if and how the values of assets and liabilities in the latest interim and annual financial statements are being used.

This aspect is evaluated by Questions 19 and 20 in the research questionnaire. Refer to section 7.6.4.1 and APPENDIX E. The results are presented in section 9.2.1.

6.5.6 Conclusion on the measurement aspects

The purpose of the study is to suggest a financial reporting framework for South African listed company under business rescue. This study therefore focused on the subsequent measurement of assets and liabilities for financial reporting purposes for listed companies under business rescue.

The main contribution of previous and current work done by the FASB and IASB lies in the detailed list of measurement bases compiled from different user, time, entry/exit and entity/market perspectives. The work also made a valuable contribution by identifying and listing all the synonyms used for the measurement base concepts identified. The final list of measurement bases will assist the study in determining what the measurement base(s) of assets and liabilities should be that will lead to decision-useful information for the users of financial statements of listed companies under business rescue. Determining this preference will indicate whether there is a particular preference, for example entity-specific exit value measurements as opposed to the normal accounting model's mixture of entity-specific entry values and market-based exit values.

As mentioned earlier, recent studies have strongly encouraged the use of a business model perspective in financial reporting. The business model applied by management will have a direct influence on the measurement of assets and liabilities in the financial statements and is therefore an important aspect to consider in developing a framework for financial reporting for companies under business rescue. The role of the business model is discussed in the next section.

6.6 THE ROLE OF THE BUSINESS MODEL IN FINANCIAL REPORTING

The previous section considered the need for financial information that is both forward-looking and decision-useful and that can serve to assess management's stewardship of the resources entrusted to it. Some measurement bases for assets and liabilities were identified that could provide a faithful representation of relevant financial information.

As discussed earlier, in determining an applicable and appropriate particular measurement base for an asset or liability recent research has shown that an entity's business model should be considered. However, the current CF does not address the notion of a 'business model' in relation to the measurement of assets and liabilities.

This section deals with this seemingly neglected but important aspect of measurement. The section addresses the importance of the business model in business rescue, and briefly discusses the way in which the business model may be defined and whether information provided on the basis of the company's business model would fulfil the qualitative characteristic of usefulness. The section concludes with a discussion on the role of the business model in financial reporting.

6.6.1 The importance of the business model in a business rescue

In a business rescue it is particularly important to understand how money is made or lost in the industry that the company finds itself in (Turnaround Management Association, 2011:2-1). During a turnaround a detailed financial analysis of the various income streams will assist to determine the viability of the business. Furthermore, the competitiveness of the product or service will be one of the most important elements

in the turnaround strategy (Harvey, 2011:19, 22 & 89). Moreover, Harvey (2011:473) states that knowing the value of the assets and managing them effectively will avoid a turnaround.

These factors involved in the turnaround of a distressed business, namely, the various income streams of the business, the competitiveness of the product or service and the value of the assets seem to point to the business model being employed. A recently issued research paper by the EFRAG, the French Autorité des Normes Comptables (ANC) and UK Financial Reporting Council (FRC) (hereafter referred to as the 'EFRAG paper') explored the implications of the business model for financial reporting, with specific reference to its role in the CF, recognition, measurement and presentations and disclosure.

It is interesting and important to note that the tentative view of the EFRAG, ANC and FRC is that the business model should play a role in financial reporting; this view is also supported by the European standard setters, as indicated in Table 6.6 below.

Table 6.6: Standard setters supporting the EFRAG, ANC and FRC research paper

Country	**Standard setter**	**Abbreviation**
Belgium	Commission des Normes Comptables/Commissie voor Boekhoudkundige Normen	CNC/CBN
Cyprus	The Institute of Certified Public Accountants of Cyprus	ICPAC
Denmark	Danske revisorer	FSR
Germany	Accounting Standards Committee of Germany	DRSC (ASCG)
Italy	Organismo Italiano di Contabilità	OIC
Luxembourg	Commission des normes comptables	CNC
Malta	The Malta Institute of Accountants	MIA
Netherlands	Raad voor de Jaarverslaggeving	RJ
Norway	Norsk RegnskapsStiftelse	NRS
Poland	Polish Accounting Standards Committee	KSR
Country	**Standard setter**	**Abbreviation**
Slovenia	Slovenski Institut za Revizijo	SIR

Sweden	Rådet för finansiell rapportering (Swedish Financial Reporting Board)	RFR (SFRB)

Source: (EFRAG et al., 2014:2)

Since so many standard setters support the EFRAG paper's view on the role of the business model in financial reporting, this role was also considered an important aspect of this study when developing the research questionnaire. Furthermore, since the EFRAG paper represents a comprehensive study, which is widely supported, the paper is also considered an authoritative piece of literature on the matter.

Bearing in mind the factors listed in the first paragraph it would seem that BRPs do consider the particular business model when attempting to turnaround a distressed business. Accordingly, the BRP will consider the types of activities carried out by the business to generate cash flows and create value, the configuration and use of its assets and, in particular, what products or services are sold or rendered and to which customers.

If the business model is considered by the BRP, then it would seem appropriate that the financial reporting (annual and/or interim) for a company under business rescue proceedings should also reflect the particular way in which the company conducts business and generates cash. This aspect is evaluated by Question 27 [part 1] in the research questionnaire. Refer to section 7.6.4.2 and APPENDIX E. The results are presented in section 9.2.2.

Before the impact of considering the business model on measurement can be assessed, the term should be defined. The next section discusses a working definition for the term 'business model'.

6.6.2 The definition of a business model

The EFRAG paper identifies some of the most significant characteristics common to most businesses in order to arrive at a common understanding of what a business model entails. It states that a business model may be identified as a response to asking

questions, such as what the activities of the business are, how the business generates cash flows and creates value, the reason why the assets of the business are configured in the way they are, who the customers of the business are and what products or services they need from the business (EFRAG et al., 2014:43-44).

The statement in the EFRAG paper that the business model plays a role in financial reporting is controversial. Commentators in favour of a role for the business model in financial reporting argue that it would enhance relevance, while those opposing the idea argue that the business model would introduce bias and that the transparency and comparability of financial reporting would be obstructed. The EFRAG paper gives examples, indicating that the notion of the business model has been implicitly used in the IFRSs, such as IAS 2 *Inventories,* where the purpose for which the inventories were acquired such as the case with broker-traders, determined the accounting treatment and measurement of the inventory. Another example given is IAS 40 *Investment Property*, where the difference between owner-occupied property and investment property reflects the different ways of using these assets, resulting in different accounting treatment and measurement in the financial statements (EFRAG et al., 2014:35).

The IFRS dealing with financial instruments, namely, IFRS 9 *Financial Instruments*, was introduced in 2009 and made the first reference to a business model (ICAEW, 2010:11). The IFRS requires an entity to classify and measure financial assets based on its business model. IFRS 9 does not define the term 'business model' but implies that it refers to the way assets and liabilities are managed (IASB, 2015k:A379). The EFRAG paper confirms that it may be difficult to find a universally acceptable definition of the term but nevertheless states that:

> Our assumed meaning of the term 'business model' focuses on the value creation process of an entity, i.e. how the entity generates cash flows. In case of non-financial institutions, it represents the end-to-end value creation process or processes of an entity within the business and geographical markets it operates (EFRAG et al., 2014:11).

The above definition of 'business model' will be used in the evaluation of the business model's impact on the measurement of assets and liabilities for a South

African listed company under business rescue. However, it is also important to consider the business model in the measurement of assets and liabilities in general in order to contrast it with a business rescue context. This aspect is evaluated in Question 25 of the research questionnaire. Refer to section 7.6.4.2 and APPENDIX E. The results are presented in section 9.2.2.

The CF identifies the characteristics of information that are likely to be most useful to the primary users of financial statements. The following sections briefly discuss the potential usefulness of the business model in financial reporting against the qualitative characteristics of useful financial information.

6.6.3 The qualitative characteristics of the business model

The EFRAG paper considered all the qualitative characteristics, except those of verifiability and timeliness. Verifiability was considered a precondition to be met if the business model is to play a role in financial reporting and timeliness was not considered relevant in the business model debate (EFRAG et al., 2014:11). The fundamental qualitative characteristics of relevance and faithful presentation, as well as the enhancing characteristics of comparability and understandability will be discussed next.

6.6.3.1 Relevance

Section 6.3 pointed out that financial information is relevant if it is capable of making a difference to those who use it in making decisions. Relevant information should have a predictive or confirmatory value or both (IASB, 2015b:A27).

On the question of whether financial reporting based on the business model would provide relevant information, the research paper states that evidence shows that investors do have an understanding of the business model of the entity prior to assessing the entity's financial position and performance. Consequently, users consider the role that various resources play in cash conversion cycles as relevant to financial reporting. The manner in which the sources are used in the context of a

business model has a direct impact on the timing and the amount of cash flows that will be generated, as well as the exposure to risks. Some commentators in the research paper point out that if one ignores the business model in financial reporting, then changes in value would be reflected that are irrelevant to the financial position and performance of the entity, or that the recognition of elements may be delayed. They further argue that by ignoring the business model in financial reporting may lead to financial statements that are established on a theoretical base and that produce information that is not founded on economic reality. It is for this reason that the commentators argue that the CF would not be complied with, making the financial statements unacceptable (EFRAG et al., 2014:11-13).

The EFRAG paper did, however, not address a business rescue situation in particular. Nevertheless, since the way in which a company creates its cash is an important consideration for the BRP, the relevance of the business model perspective in the financial reporting of a company under business rescue should be considered.

This aspect is evaluated by Question 27 [Part 2] in the research questionnaire. Refer to section 7.6.4.2 and APPENDIX E. The results are presented in section 9.2.2.

Some commentators have noted that a change in the entity's business model is a significant event and that users of the financial statements should be informed of this change, as well as the impact that the change will have on future cash flows. This is because a change in the entity's business model implies a change in how assets and liabilities are used to generate cash flow, thus affecting when and how gains and losses are recognised and reported. They believe that if assets and liabilities were to be presented as if there were no change in the business model, users would be deprived of relevant information useful for assessing future cash flows. Furthermore, they believe that from a stewardship perspective it would be useful to assess the impact of management’s decision to change the business model (EFRAG et al., 2014:13-14). A company under business rescue may very well need to change its business model in order to unlock cash generation possibilities.

The above aspect is evaluated by Question 26 in the research questionnaire. Refer to section 7.6.4.2 and APPENDIX E. The results are presented in section 9.2.2.

Those opposing the idea of reflecting the business model in financial reporting believe that although there is no better predictive or confirmatory value in allowing different methods of accounting based on the business model, it would in fact introduce subjectivity and harm investors' ability to assess future cash flows and stewardship. They believe that basing the measurement of assets and liabilities on a business model, instead of on objective internal information, would result in biased information. They point out that financial performance cannot be reliably depicted because the bias would fail to capture the potential cash flow that has been created or destroyed by the entity. Although these commentators do not deny that it is important to understand the business model and its impact on future cash flows, they believe that entities can provide additional disclosures in cases where the reported financial results do not reflect the business model properly (EFRAG et al., 2014:13-14).

The author supports the proponents of reflecting the business model in financial reporting and does not believe that considering the business model will introduce bias when measuring the assets and liabilities. However, the potential cash flow that has been created or destroyed by the entity is very important when it comes to a company under business rescue. It is therefore sensible to establish whether considering the business model during the measurement of the assets and liabilities would introduce bias in the case of a listed company under business rescue.

This aspect is evaluated by Question 27 [part 3] in the research questionnaire,. Refer to section 7.6.4.2 and APPENDIX E. The results are presented in section 9.2.2.

6.6.3.2 Faithful representation

The CF states that financial information must faithfully represent the phenomena that it purports to represent (IASB, 2015b:A27). On the question of whether financial reporting based on the business model would provide faithfully represented information, the EFRAG paper states that those supporting the role of the business

model in financial reporting believe that it does indeed enhance faithful representation of the economic phenomena. These supporters point out that the business model influences the entity's cash flow generation from assets and liabilities, and is therefore part of an entity's economic reality. They therefore contend that financial information should be prepared from the entity's perspective and strongly believe any presentation of financial information on a basis that is not in line with the entity's business model would portray the financial position and results as if from an entity different from the reporting entity (EFRAG et al., 2014:14).

Those opposing the business model notion believe that it introduces bias into financial reporting. They believe that it conflicts with faithful representation because the bias it introduces undermines neutrality in financial statements. They claim that a thorough focus on the rights and obligations associated with the resource would provide a more objective and more neutral way of assessing the future cash flows of the entity (EFRAG et al., 2014:14).

The above arguments for and against the ability of the business model approach to provide faithfully represented financial information do not consider a listed company under business rescue. It would be important to determine to what extent considering the business model in the financial reporting of a listed company under business rescue would enhance faithful representation of the economic phenomena.

This aspect is evaluated by Question 27 [Part 2] in the research questionnaire. Refer to section 7.6.4.2 and APPENDIX E. The results are presented in section 9.2.2.

6.6.3.3 Comparable

Supporters of the business model argue that comparability is enhanced by reflecting the way assets and liabilities are used to create value. Those opposing the idea state that the use of entity-specific information introduces bias and therefore make comparisons between entities more difficult (EFRAG et al., 2014:15).

As indicated earlier, the author supports the view that the business model should be considered in financial reporting. However, the above-mentioned opinions did not consider a South African listed company under business rescue. It would therefore be important to determine whether or not the business model notion enhances or hinders comparability in the financial reporting of a listed company under business rescue.

This aspect is evaluated by Question 27 [Part 2] in the research questionnaire. Refer to section 7.6.4.2 and APPENDIX E. The results are presented in section 9.2.2.

6.6.3.4 Understandability

The EFRAG paper notes that many of the arguments in favour of or against the business rescue model that were addressed with the above characteristics are also applicable to the qualitative characteristic of understandability. The paper states that understandability would be harmed if the business model notion were ignored (EFRAG et al., 2014:16).

Once again, the issue of understandability has not been assessed for a South African listed company under business rescue. It would therefore be important to determine whether or not the business model view enhances or hinders the understandability of financial reporting in such a case.

This aspect is evaluated by Question 27 [Part 2] in the research questionnaire. Refer to section 7.6.4.2 and APPENDIX E. The results are presented in section 9.2.2.

6.6.4 Conclusion on the role of the business model in financial reporting

The EFRAG paper makes a clear case for the use of the business model in financial reporting. The consequence of this for a company under business rescue is that the use of the business model would probably lead to the use of entity-specific measurements for assets and liabilities, as well as the grouping together of those assets and liabilities that generate cash.

Subsequent to the finalisation of the research questionnaire, and despite the above arguments for the use of the business model in financial reporting, the IASB has decided not to use the term ‘business model’ in the new CF. It also decided not to include a general discussion on the role played by the way an entity conducts its business in financial reporting (IASB, 2015a:11). However, the IASB has explained that in order to produce relevant information when selecting a measurement basis for an asset or liability, the way in which that the asset or liability contributes to future cash flows should be considered, as the cash flow contribution would in part depend on the nature of the business activities (IASB, 2015c:67).

With respect to the basic properties of the measurement bases, the Boards have agreed that most of the candidates for a measurement basis are either prices or values (FASB, 2007a:6). The report notes that assessments of economic utility or worth can be done with both prices and values, but makes the important point that values are entity-specific and prices are determined by markets and therefore may not show the economic worth of an asset or liability for the entity (FASB, 2007a:6). This observation is important: It was earlier indicated that recent research favours a business model perspective in financial reporting and that measurement under a business model reflects entity-specific measurement bases. It was also indicated that the BRP should consider the company’s business model when developing a business rescue plan.

When considering the Boards’ observation above in terms of a business model perspective, the need for entity-specific measurements would be expected. It is clear from the above that one has to determine, within a business rescue context, which measurement bases will provide the most relevant and faithfully represented financial information, taking the business model into account.

6.7 CONCLUSION

In this chapter the various aspects that have an impact on the financial reporting of a South African listed company under business rescue were considered. The objective of financial reporting points to the different users of financial statements, who have different financial information needs. They require useful forward-looking financial

information for making decisions, and/or conservative financial information for assessing management's stewardship of the resources entrusted to it.

The users' financial information needs also indicate what they consider as the capital to be maintained, which in turn will indicate a preferred accounting model and supporting measurement bases. Underlying and supporting the accounting model is the consideration of whether or not the entity will still be in business in the foreseeable future.

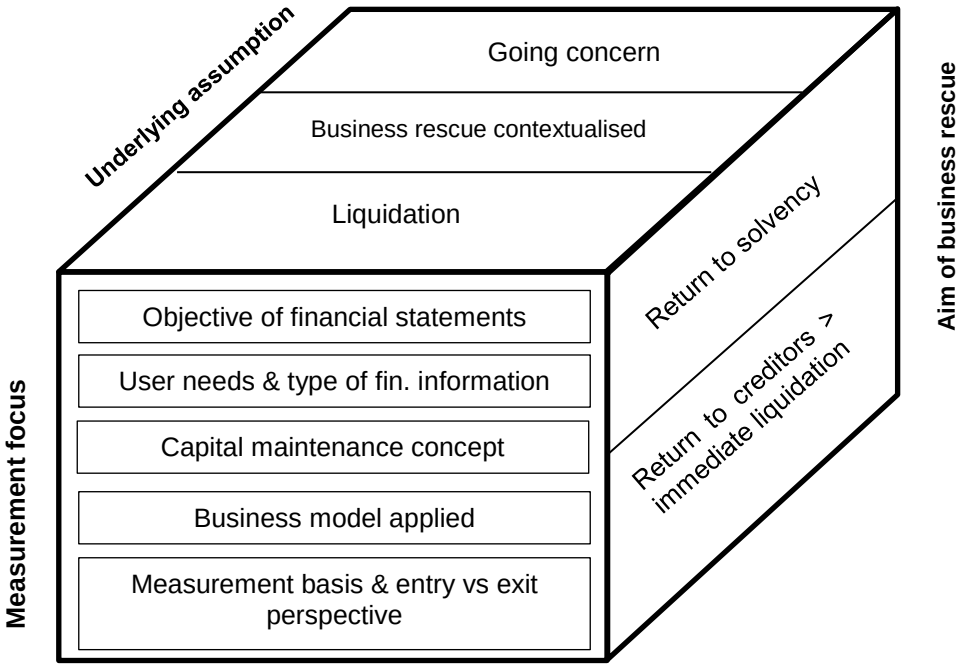
If a listed company has a reporting date during the business rescue period, applicability of the going concern (foreseeable future) assumption should to be assessed for financial reporting purposes at that point in time. The particular business rescue aim may also therefore have an effect on the viable foreseeable future outlook, that is, the aim is either to continue to exist on a solvent basis, or to realise a better return for the shareholders and creditors.

The particular accounting model applied would use appropriate measurement bases for assets and liabilities. Various measurement alternatives have been identified and described for this purpose and would depend on whether entry values or exit values for a particular asset or liability would provide the most relevant and faithfully represented financial information.

Moreover, a consideration of the business model notion in financial reporting, that is, the manner in which a company creates value (i.e. generates cash), is important when determining the appropriate measurement base. It is especially important for a South African listed company under business rescue, as it points to entity-specific measurements for assets and liabilities.

Bearing all the above in mind, the interaction between the aims of business rescue, the underlying financial reporting assumption and aspects of measurement is evident. Figure 6.3 below illustrates the interaction conceptually.

Figure 6.3: Conceptual model depicting the aims of business rescue, underlying financial reporting assumption and measurement focus



Source: Own observation

The various facets illustrated in the above conceptual model will be included in the research questionnaire. The aim is to obtain sufficient qualitative and quantitative data in order to answer the research questions and achieve the research aim, specifically, to determine what underlying financial reporting assumption should be used for a South African listed company under business rescue, further supported by context-relevant measurement bases for its assets and liabilities.

The next chapter discusses the research methodology followed to obtain the research data. The chapter also addresses the research design, the methodology used, the data collection and the data analysis techniques employed.

CHAPTER 7
RESEARCH METHODOLOGY

7.1 INTRODUCTION

The previous chapters together form the foundation for an empirical analysis of a financial reporting framework applicable to a South African listed company under business rescue. The objective of financial reporting is to provide decision-useful financial information to the users of financial statements to serve as a basis for making economic decisions. Financial reporting under the IFRSs is guided by the IASB's CF, which is a decision-useful prescriptive theory of accounting. In line with the structure of accounting theory, the CF supports the underlying financial reporting assumption of going concern.

The research problem, as discussed in section 1.3, is that it would seem that neither the going concern underlying assumption nor the liquidation underlying assumption is appropriate when preparing financial statements for listed companies under business rescue. Furthermore, the measurement of assets and liabilities is based on whichever underlying financial reporting assumption is used and therefore some measurement bases may not be appropriate in a business rescue context.

In line with the research problem, the primary research question deals with which underlying financial reporting assumption should be used for a South African listed company under business rescue. The secondary research question addresses the appropriate context-relevant measurement bases to use for the assets and liabilities of such a company. Accordingly, in order to achieve the research aim, the opinions of various role players who might influence the financial reporting of a listed company under business rescue should be obtained. Therefore, an appropriate research design would include all the role players that might have an influence on or interest in the financial reporting of a listed company under business rescue.

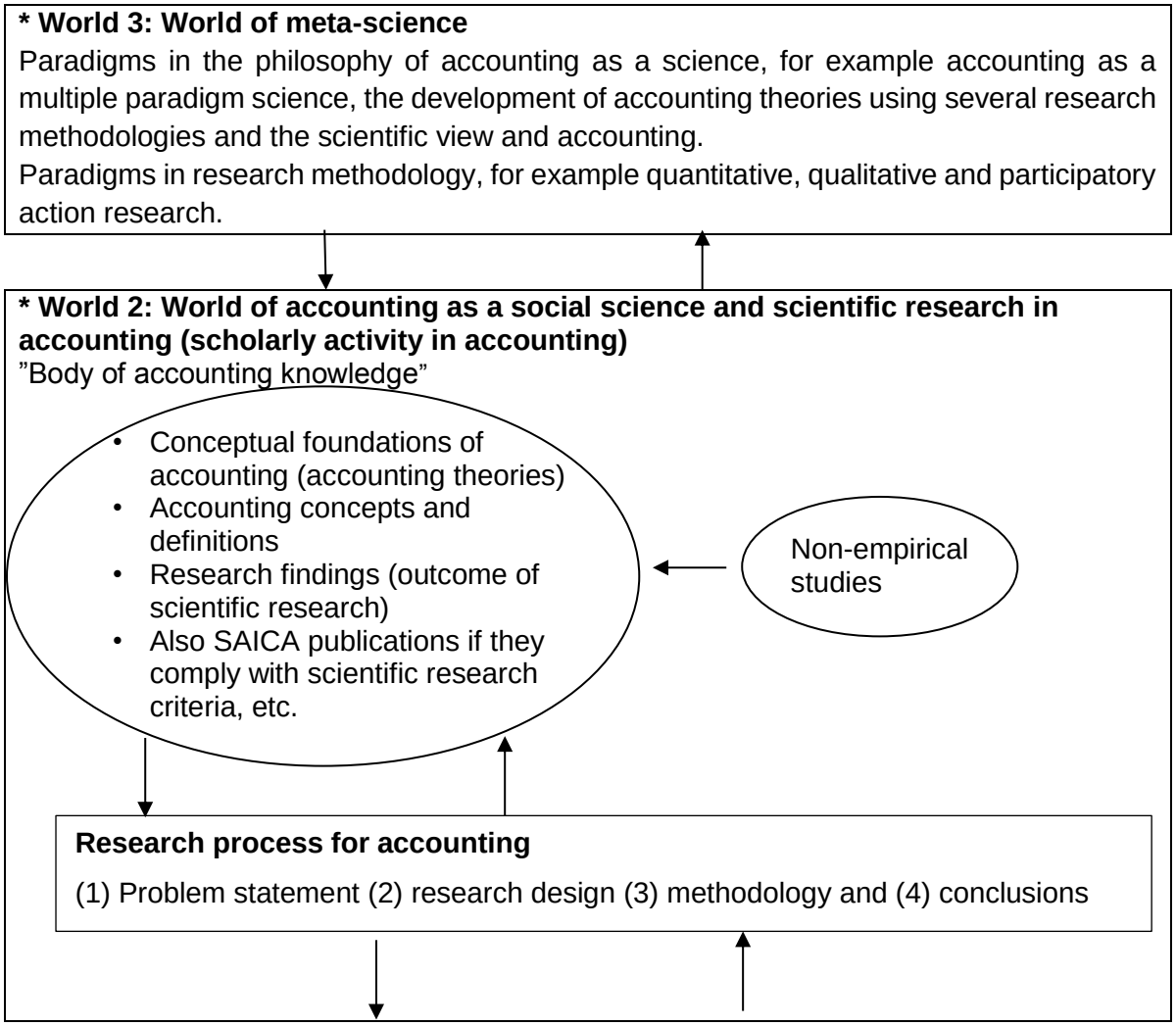
The aim of this chapter is to explain the research methodology followed in this study. The chapter commences with a discussion of the research context in which this study finds itself. The research process is then briefly addressed followed by an description

of the population and the sample of respondents. The development of the research instrument is explained and justified and this is followed by an account of the way in which the data was collected. The chapter concludes with a summary of the data analysis techniques used to obtain meaningful information.

7.2 RESEARCH CONTEXT

Mouton (2001:137-142) developed a “three world’s framework” to describe and clarify the context of the research problem and other aspects related to the logic of research. Van der Schyf (2008:5) adapted Mouton’s framework for accounting purposes and addressed the three elements of the research process, namely, the problem statement, the research design and the choice of methodology from an accounting point of view. The three world’s framework is illustrated in Figure 7.1 below, as adapted for accounting purposes, and provides an apt description of the research context of this study.

Figure 7.1: The three world's framework (adapted)



** The terms 'frame' or 'context' can be substituted for the term 'world'*

Source: Adapted from Van der Schyf (2008:5)

World 1 represents the everyday world we live in – the ordinary social and physical reality of our existence. In this world we produce and use knowledge of different kinds, referred to as 'lay knowledge'. We use the lay knowledge, such as common sense, practical knowledge and know-how, to perform everyday tasks and to solve everyday problems (Mouton, 2001:138). Van der Schyf (2008:5) explains that our interaction

with accounting standards and the objectives of financial statements happens in this world.

It is also in this world that management faces the problem of determining the appropriate underlying financial reporting assumption for a listed company under business rescue, as well as which measurement bases are appropriate for measuring the assets and liabilities in the financial statements. *World 1* therefore has accounting needs that must be met (Van der Schyf, 2008:5).

World 2 represents the world of science and scientific research. In this world we search for 'truth' and 'truthful knowledge' in order to generate valid and reliable descriptions, models and theories of the world (Mouton, 2001:138). Van der Schyf (2008:5) posits that the scholarly activity ('search for truth') in accounting happens in this world.

Accounting academics conduct scientific research in *World 2* by using the "body of knowledge" and a "scientific research process for accounting" (Van der Schyf, 2008:6). The body of knowledge includes the theory of accounting and accounting concepts and definitions. Section 2.6 explained the link between the theory of accounting and the research aim of this study. As was pointed out, the CF is a decision-useful prescriptive theory of accounting, and this study addresses some of the conceptual elements of the CF, namely, the underlying assumption (premise) and the measurement choices for assets and liabilities. The scientific research process for accounting can be broadly categorised into three steps that will lead to the conclusions, namely, (1) the problem statement, (2) the research design and (3) the research method (or methodology as Van der Schyf describes it). This study follows the scientific research process for accounting as explained above.

If Accounting academics use their knowledge of *World 1* to serve *World 1*'s research needs, this will take the form of an empirical study (see the up and down arrows between *Worlds 1* and *2*). If the scientific research aims to broaden the body of accounting knowledge, it will take the form of a non-empirical study, since it operates in World 2 only (Van der Schyf, 2008:6). In order to address the research problem and

to achieve the research aim, this study employs both empirical (survey) and non-empirical (literature review) research elements.

World 3 represents the world of meta-science in which we reflect on the reasons and justifications for certain actions. This reflection on the nature of science and scientific research has led to the development of meta-disciplines such as research ethics and the history of science (Mouton, 2001:138). Accounting subject experts who focus on the philosophy of accounting science and the development of new research methodologies to promote the body of accounting knowledge or research process would function in *World 3* (Van der Schyf, 2008:5, 8). This study does not pursue any meta-discipline and therefore *World 3* is not discussed further.

The next section addresses the research process that has been followed to conduct this study. The various elements of the research process are also explained individually.

7.3 RESEARCH PROCESS

The previous section presented the context of research in accounting. As mentioned, this study follows a scientific research process for accounting, consisting of three steps that will lead to the conclusions. In this section the three steps, namely, the problem statement, the research design and the research method, will be explained.

7.3.1 Problem statement

The research problem was comprehensively discussed in section 1.3. In summary, when a South African listed company under business rescue has a reporting date whilst undergoing the process of business rescue, management has to apply the IFRSs when preparing the financial statements. In the IFRSs, the underlying financial reporting assumption is the going concern assumption. In addition, the measurement bases for assets and liabilities are chosen in support of this assumption. However, it may be that the company is not a going concern but nor in liquidation. Thus, it can be seen that the appropriate underlying financial reporting assumption for a South African listed company under business rescue is problematic; this is compounded by the fact

that some of the known measurement bases may be less applicable in a business rescue context.

According to Olalere (2011:17), the primary determinant of the research methodology is the research question. In order to focus the research problem, primary and secondary research questions have been formulated. These questions were discussed in section 1.5 and are repeated here:

Primary research question: Which underlying financial reporting assumption should be used for a listed company under business rescue?

Secondary research question: What should be the measurement base(s) of assets and liabilities that will lead to more decision-useful information for the users of financial statements of listed companies in under business rescue?

Mouton (2001:53) posits that an empirical question asks something about *World 1*. In other words, it addresses a real-life problem. The nature of the research problem as a real-life problem was discussed in section 1.3. The above primary and secondary research questions are therefore empirical in nature.

In order to solve an empirical question, new data about *World 1* has to be collected, or existing data should be analysed (Mouton, 2001:53). In this study, new (primary) data will be collected to answer the empirical research questions.

Olalere (2011:17) argues that the research question would point to the purpose of the research (i.e. exploratory, descriptive or explanatory). When comparing the above research questions to the questions types explained in Mouton (2001:53), it is clear the research questions are exploratory in nature for the following reasons: Firstly, the aim is to determine which underlying financial reporting assumption should be used for a listed company under business rescue. Secondly, based on an appropriate underlying financial reporting assumption, to determine what should be the

measurement base(s) of assets and liabilities that will lead to more decision-useful information for the users of financial statements. Therefore an exploratory research design is applicable. The research design is discussed in the next section.

7.3.2 Research design

Section 2.2.4 discussed the fact that all formal testable and verifiable theories will include elements of both deductive and inductive reasoning (Hendriksen & Van Breda, 1992:17). According to Hoque (2006:447), an exploratory research design indicates that there is no pre-existing theory (i.e. a-theoretical) nor is there a specific hypothesis. Olalere (2011:19) agrees that an exploratory study tends to be inductive, in other words, aimed at theory discovery.

In line with this, the study aimed to discover theory inductively by using research questions and research aims, as opposed to testing theory deductively using a hypothesis. In this study the discovery of theory relates to an appropriate financial reporting underlying assumption to use when preparing financial statements for a listed company under business rescue, supported by context-specific measurement for its assets and liabilities.

Olalere (2011:19) states that the research strategy is independent of the method of collection but not the form of the data. Since the research questions are exploratory in nature, the form of the data collected will be new (primary) empirical data.

In line with the above and in accordance with Mouton (2001:144), the following research designs may be applicable to empirical primary data where the key research questions are exploratory in nature and the mode of reasoning is inductive and a-theoretical. Table 7.1 below summarises the possible research designs that could be used.

Table 7.1: Possible research designs for an exploratory study with primary empirical data using an inductive mode of reasoning

No.	Research design	Description
1.	Ethnographic: participant observation study	In-depth description of a group of people, community or culture. It takes place in the natural setting of the actors being studied.
2.	Ethnographic: case study	In-depth description of a small number of cases such as companies or organisations.
3.	Life history	A study to reconstruct the life history of an individual.
4.	Participatory research/action research	A study to gain understanding and insight into the life of the research participants in order to empower same and change their social conditions.
5.	Discourse and conversational analysis	A study of the meaning of words within larger chunks of texts such as conversations and discourses.
6.	Methodological	A study to develop new methods of data collection or validating a newly developed instrument.
7.	Surveys	Using a representative sample of a large population, the study aims to provide a broad overview of the topic such as a needs assessment or attitudinal survey.

Source: Mouton (2001:143-180)

From the explanation of the research designs given in Table 7.1, it is clear that even though some may deal with primary empirical data in an exploratory study, they are not appropriate for this study. An ethnographic (participant observation) study is not appropriate since the study does not aim to describe a group of people, community or culture in its natural setting. Similarly, the study does not aim to reconstruct the life history of an individual nor does it aim to gain insight into the life of the research participants. Therefore, a participatory research/action research design was likewise not applicable. Furthermore, discourse and conversational analysis of the meaning of

words within larger chunks of texts was not applied in this study as it was not applicable as a potential research design. Lastly, the study did not intend to develop new methods of data collection or to validate a newly developed instrument, thus making a methodological research design inapplicable as well.

An ethnographic (case study) research design might have been appropriate, but to date there has been only one successful business rescue case of a JSE-listed company. Therefore, as a result of the dearth of successful cases, a case study research design was not considered appropriate either.

In this study, it was decided that the best way to conduct the empirical research and collect the primary data would be to use a survey. Hofstee (2006:122) states that a survey is a powerful tool for finding out people's opinions, desires and attitudes as they pertain to the issue under consideration. Hoque (2006:429) corroborates Hofstee's statement and describes the following underlying assumptions in survey research:

- The beliefs, opinions and intentions of individuals are the topics of interest. The respondents themselves are therefore the most reliable source for certain information.
- The above subjective perceptions actually matter. Even though the perceptions may not be real, people will act on their perceptions as perceptions of reality are more powerful than reality itself.
- It can be shown that perceptions can be linked to outcomes of interest to organisations. In other words, attitudes influence behaviours, which have real consequences for organisations.

Hoque (2006:429) concludes that if a researcher considers that these assumptions are tenable, surveys can be used to obtain valuable information; however, this is only on the explicit condition that the survey is designed so as to adequately assess the phenomenon of interest. With respect to the above-mentioned underlying assumptions in survey research, the following can be noted.

There are certain role-players whose beliefs, opinions and intentions are of interest and who may be considered a reliable source of certain information pertaining to

the financial reporting aspects of a South African listed company under business rescue. These role-players' beliefs, opinions and attitudes matter as they may influence the financial reporting of a listed company under business rescue in future through research activities, awareness raising and perhaps a request for alternative reporting bases.

The selection of the population and the sample of these role-players is further considered in section 7.4 below. The researcher therefore considers the underlying assumptions highlighted by Hoque to be tenable with respect to this study.

In order to ensure that the survey was designed to adequately assess the phenomenon of interest, a literature review was done on the various aspects that may influence the financial reporting of a South African listed company under business rescue. Mouton (2001:180) states that one of the benefits of a comprehensive and well-integrated literature review is that it provides a good understanding of the current theoretical thinking and definitions. However, although a literature review often leads to theoretical insights, an empirical study is nevertheless still be needed to test the new insights (Mouton, 2001:180).

In line with Mouton's guidance above, the literature review in this study covered various aspects that might influence the financial reporting of a South African listed company under business rescue. These aspects dealt with the South African legislative, regulative and financial reporting environments and were explained in Chapters 3 to 6 of this study. The insights gained from the literature review pertaining to the research problem being studied have been discussed and their inclusion in the empirical survey instrument (see § 7.3.3) below have also been highlighted.

7.3.3 Research method

The research method includes the data collection and the data analysis methods (Olalere, 2011:25). In this study the primary data was collected using a structured research questionnaire which was developed specifically for the survey, using the insights gained from the literature review.

7.3.3.1 Data collection

Surveys can be conducted by post, by telephone, in face-to-face interviews and online (Jackson, 2003:15; Sue & Ritter, 2012:5). After due consideration it was decided to conduct the survey online for the following reasons:

- Because the respondents were geographically dispersed around South Africa, an online survey was suitable because it has a wide geographic reach.
- The cost of conducting an online survey are low compared to face-to-face interviews, which would have had to be conducted throughout South Africa.
- In an online survey direct data entry is possible as opposed to other survey methods where the data has to be entered by the researcher.
- In an online survey it is easy to implement contingency questions as opposed to a postal mail survey.
- In an online survey it is still possible to ask open-ended questions to gain deeper insights into certain aspects of the research problem.

Sue and Ritter (2012:5) state a number of disadvantages of online surveys. These disadvantage, together with the actions taken to mitigate the disadvantage, are presented in Table 7.2 below.

Table 7.2: Disadvantages of an online survey method and resulting mitigating actions employed

No.	Disadvantage	Mitigating action by researcher
1.	Coverage bias	The researcher strived for an even response rate between the different respondent groups, mitigating any particular respondent group bias.
2.	Reliance on software	The software used was supported by the Information Technology department at Stellenbosch University.
3.	Too many digital surveys, causing overload	In order to mitigate the real problem of survey overload, the researcher contacted as many individuals in the population as possible before distributing the research questionnaire. Contact

No.	Disadvantage	Mitigating action by researcher
		was made through a telephone call and/or e-mail message explaining the research conducted and asking them to confirm their willingness to participate in the research.

Source: Disadvantages – Sue and Ritter (2012:5); Mitigating action – author's comments

Table 7.2 gives the mitigating actions employed to counter the disadvantages of using an online survey. The researcher is confident that the actions employed successfully mitigated the disadvantages and that the research data that resulted provided scientifically sound conclusions.

7.3.3.2 Data analysis

Surveys can be analysed using descriptive and inferential statistics. Analysis techniques could include statistical graphics, tabulations, correlations and factor analysis (Mouton, 2001:153). Since the online survey also allows for open-ended questions to be asked, content analysis can also be applied to analyse the data. Content analysis is also inductive and a-theoretical in nature (Mouton, 2001:165-166), which makes it particularly useful for this study. The specific techniques applied are described in section 7.8 of this chapter.

7.3.4 Summary of the research process

The research context in which the study took place has been described in section 7.2. As was mentioned, the scientific research process for accounting followed in *World 2* can be broadly categorised into three steps, namely, the problem statement, the research design and the research method.

In order to answer the research problem, exploratory research questions were formulated. The research employed an exploratory, a-theoretical and inductive research design, consisting of a structured research questionnaire for collecting the empirical data needed to draw the scientific conclusions. The data was analysed using

descriptive and inferential statistics, as well as content analysis of the data obtained from the open-ended questions.

The unit of analysis in this study was the individual respondents who were asked to give their views on the questions that were asked. The next section deals with the selection of the potential respondents.

7.4 SELECTION OF THE RESPONDENTS

In the previous section the research process was discussed. As was indicated, there were several key role-players whose beliefs, opinions and intentions were of interest to this study.

In this section the selection of the role-players as potential respondents for the study will be discussed. These respondents may be considered a reliable source of certain information pertaining to the financial reporting aspects of a South African listed company under business rescue.

7.4.1 Identification of role-players in the financial reporting of a listed company under business rescue

When selecting the population, the overarching consideration was to identify role players that had, in some way or other, an influence on or an interest in the financial reporting of a South African listed company under business rescue. Since the study focused on aspects of financial reporting, it was considered important for the potential respondents to have a strong financial accounting background.

Figure 1.1 on page 8 indicates various aspects that have an impact on the financial reporting of a South African listed company under business rescue. These aspects were used to identify the role-players from which potential respondents could be identified. Table 7.3 below lists the potential role-players in the financial reporting of a South African listed company under business rescue next to the aspects of financial reporting as identified in Figure 1.1.

Table 7.3: Identification of role-players in business rescue financial reporting

Financial reporting aspect	Role-player
Objective of financial reporting	• Management of the company • Users of financial statements • Accounting standard-setter • Academia
Companies Act (Chapter 6 – Business rescue)	• Management of the company • Business rescue practitioner • Affected parties
Audit requirements	• Management of the company • Registered auditors
JSE listing requirements	• Management of the company • JSE-accredited registered auditors

Source: Own observation

Table 7.3 above identifies the potential respondents with reference to each of the aspects of financial reporting. The role-players are discussed below.

7.4.1.1 Management of a company and business rescue practitioners

The business affairs of South African companies are managed by the board of directors (RSA, 2008:s 66(1)), which also has the responsibility for preparing the company's financial statements (RSA, 2008:s 30(1)). IAS 1 par. 25 refers to "management" (IASB, 2015d:A840), which, in terms of the 2008 Companies Act, would be the board of directors. The management of a company is therefore one of the main role players. In fact, it is identified as one of the main role players in each of the aspects that influences the financial reporting of a listed company under business rescue.

In section 1.2.2 it was pointed out that the 2008 Companies Act stipulates that during business rescue proceedings the BRP takes control temporarily of the management of the company (RSA, 2008:s 128(1)(b)). The BRP will therefore assume management's duties and be responsible for preparing the financial statements.

The 2011 Companies Act Regulations state that only senior BRPs are allowed to act for a large company, which would include a JSE-listed company (RSA, 2011:s 127(2)(c)(i)). Senior BRPs, as representatives of the management of a listed company under business rescue, were therefore also regarded as a group of potential respondents in this study.

Some of the professional accounting firms in South Africa have dedicated restructuring divisions that offer services as BRPs. Members of these restructuring divisions are experts on business rescue and were therefore also included as a group of potential respondents in this study.

7.4.1.2 Users of financial statements and affected parties in a business rescue

According to the CF, the primary users of the financial statements are the investors, lenders and other creditors (IASB, 2015b:A20). In section 4.3.2.1, it was also mentioned that the 2008 Companies Act defines an "affected person" as a shareholder, creditor, registered trade union or individual employee not represented by a registered trade union (RSA, 2008:s 128(1)(a)). A creditor would include a lender; therefore the investors, lenders and other creditors indicated by the CF are also affected parties.

According to Cascino et al. (2013), the providers of capital consist of professional equity investors (institutions), private/retail equity investors (individuals), inside equity investors (owner managers), lenders (banks) and creditors, all of which have, to some extent, different information needs. For this study, it was considered impractical to attempt to find a sufficient number of knowledgeable individuals to represent each of the above groups independently. After due consideration it was decided that the questions on the needs of users of financial statements for a listed company under business rescue (refer § 7.6.4.4) could satisfactorily be answered by all the other respondents, irrespective of their group. The respondents were, for purposes of the question, accordingly asked to assume the role of an investor, lender or creditor. It was felt that it would be fairly easy for these respondents, as senior business people, to assume these roles. However, some of the major banking institutions in South Africa do have a special division dealing with clients in financial distress, so these banks were considered as a group of potential respondents in this study if the researcher could

obtain the contact details of individuals in those divisions, and if it could be established that the potential respondent has an accounting background.

7.4.1.3 Standard setter and academia

The purpose of the Accounting Practices Committee (APC) of the South African Institute of Chartered Accountants (SAICA) is to stay informed of developing trends in financial reporting, to develop South African guidance where necessary and to make proactive and reactive submissions on all relevant pronouncements and legislation that affect financial reporting in South Africa, Africa and globally (SAICA, 2016). The members of the APC are very knowledgeable about financial reporting issues and were therefore included as a group of potential respondents.

Academic institutions play an important role in both the training of accountants and accounting research. It was therefore decided to include in the study a group consisting of the heads of divisions of Financial Accounting and Auditing in Departments/Schools of Accountancy of all the tertiary universities that offer academic programmes to prospective chartered accountants and who are accredited by SAICA.

7.4.1.4 JSE-accredited auditors

In section 1.2.3, it was indicated that the 2008 Companies Act determines that the financial records of a listed company shall be audited (RSA, 2008:s 30(2)(a)). In addition, section 4.4 also mentioned that auditors are experts in financial reporting and that their views were important to this study.

The JSE listing requirements (JSE, 2015:s 22 'Scope') specifies that only an audit firm, individual auditor, IFRSs adviser, reporting accountant or reporting accountant specialist recorded in the JSE list of auditors and their advisers may act as an auditor and/or reporting accountant for a listed company. An auditor registered with the Independent Regulatory Board for Auditors (IRBA) is therefore accredited in addition to having IRBA registration. Any JSE-accredited audit firm must also have at least one IFRS advisor, who is also accredited by the JSE (JSE, 2015:s 22(1)(d)). In this study,

JSE-accredited auditors, including any JSE-accredited IFRSs advisers, were considered as a group of potential respondents.

7.4.1.5 Summary of groups of potential respondents

The different groups of potential respondents are summarised in Table 7.4 below. The next section explains how the individual respondents were identified from the groups mentioned below.

Table 7.4: Summary of respondent groups

Group	Profile/member description	Expected member qualification/background
BRPs (senior)	Individuals allowed in terms of the Companies Act Regulations to perform the function of a BRP for a listed company.	Chartered accountants (CAs), accountants, IRBA registered auditors, lawyers and general business persons.
Restructuring division	Team members of a restructuring division of a professional accounting firm.	Mainly CAs with some members from general business.
Banking institutions	Team members of a restructuring division at any of the major banks.	CAs, accountants and members from general business.
APC	Members of the Accounting Practices Committee (APC) of SAICA.	Mainly CAs with some members from general business.
Academia	Heads of Financial Accounting and Auditing of the universities accredited by SAICA to offer degree programmes to prospective chartered accountants.	CAs and/or IRBA registered auditors.
JSE-accredited auditors (including IFRSs advisers)	Individuals accredited by the JSE to act as registered auditors and IFRSs advisors in JSE-accredited audit firms.	CAs and IRBA registered auditors.

Source: Own compilation

7.4.2 Identification of respondents

In this section the identification of the individual respondents from the respondent groups in Table 7.4 is discussed. The discussion concludes with a summary of population size for each of the respondent groups.

7.4.2.1 Business rescue practitioners (BRPs)

The latest list of senior BRPs, dated 17 November 2014, was obtained from the CIPC. The list gives the contact details and profession of the BRP. It was therefore possible to determine those practitioners with an accounting background by filtering the list for the following professions, namely, 'CA' and 'accountant'. One respondent indicating 'BCom/MBA' was also included.

The researcher is a member of the Academic subcommittee of the Turnaround Management Association of Southern Africa (TMA-SA). The TMA-SA endorsed this research and assisted by asking those of their members who fitted the profile to consider participating in the research (refer §§ 7.4.2.2 and 7.4.2.3 below). Halfway through the data collection period the TMA-SA requested the researcher to provide initial feedback on the research at a one-day conference, which the researcher did. Three of the BRPs who had not yet completed the research questionnaire also attended the conference so in order to avoid any potential bias in their responses, it was decided to strike their names from the population of BRP respondents. However, one of the respondents suggested another respondent in his place to which the research questionnaire was subsequently forwarded.

7.4.2.2 Members from a restructuring division

The list of TMA-SA members (www.tma-sa.com) was scrutinised in order to identify those in the restructuring divisions of the major professional accounting firms. The researcher also contacted the administrator of the TMA-SA and provided a list of the respondents who were also members of their association. The list included the names of TMA-SA members who were senior BRPs, members of a restructuring division of a professional accounting firm, as well as the name of a member of the restructuring/credit division of a banking institution (refer § 7.4.2.1 above and § 7.4.2.3 below). The administrator informed these people that the TMA-SA had endorsed the research and that they might be contacted in the near future with a request to participate.

7.4.2.3 Members from a banking institution

In addition to the TMA-SA member identification, the researcher obtained from the CIPC the contact details of individuals who could be contacted in relation to a meeting facilitated by the CIPC between the members of the restructuring/credit risk divisions of major banks and BRPs. The researcher also used the TMA-SA member database, as described in section 7.4.2.2 above, to identify similar respondents.

7.4.2.4 Members from the Accounting Practices Committee (APC)

The 2014 list of APC members was obtained from the SAICA website (www.saica.co.za). Since the contact details of these members were not available on the SAICA list, the researcher contacted the chairman of the committee who arranged that a link to the questionnaire be forwarded to the members via the SAICA secretariat. The secretariat indicated that there were two vacancies, resulting in the APC committee consisting of only 21 members.

7.4.2.5 Members from the Academia

A list of all the SAICA accredited programmes for 2014 was obtained from SAICA's website (www.saica.co.za), which indicated 15 universities. The website of each university was used to identify the heads of Financial Accounting and Auditing at that university. If it was not possible to identify these respondents from the university's website, the university was contacted to obtain their names and contact details. All the universities, except one, had separate heads for Financial Accounting and Auditing.

7.4.2.6 JSE-registered auditors

A list of JSE-registered auditing firms and IFRSs advisors was obtained from the JSE website (www.jse.co.za). This list contained 24 auditing firms and two external IFRSs adviser firms. The researcher also identified individuals from his own network that were members of the auditing firms listed on the JSE website. These people were contacted by the researcher and if they confirmed that they were also JSE registered, they were invited to participate in the research. At firms where the researcher did not have a JSE-

registered individual in his own network, a request to participate was sent to all the contact persons on the JSE list.

7.4.2.7 Summary of respondent population

A summary of the respondent population and the number of respondents to whom the questionnaire was sent is provided in Table 7.5 below. The sample size indicates the number of respondents to whom the research questionnaire was distributed.

Table 7.5: Summary of respondent population and sample sizes

Group	Population size	Sample size
BRPs (senior)	The population consisted of the 40 senior BRPs on the CIPC list with a background in accounting at the time of collecting the research data.	40
Restructuring division	The population of all the members in all the restructuring divisions is unknown. However, the sample size included members of the restructuring divisions of the biggest four professional accounting firms in South Africa	7
Banking institutions	The population of all the members in all the restructuring/credit divisions is unknown. However, the sample size included members of restructuring/credit divisions of the biggest three banks in South Africa, as well as the Development Bank of South Africa (DBSA) and the Industrial Development Corporation (IDC).	9
APC	The population consisted of the 21 members on the Accounting Practices Committee of SAICA at the time of collecting the research data.	21
Academia	The population consisted of the 29 heads of Financial Accounting and Auditing at the 15 SAICA accredited universities.	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, as well as one of the two IFRSs adviser firms. The other IFRSs adviser firm was already included as a member of the APC.	30
Total number of respondents		**136**

Source: Own compilation

The number of responses received from each of the respondent groups is discussed in section 7.7.3. In this section the selection of the population and sample was discussed. The reason why each of these groups was judged to possess the knowledge necessary to be able to answer the questions in the research questionnaire was also substantiated.

The next section discusses the development of the research instrument, namely, a research questionnaire. This questionnaire was developed using the insights gained from the literature review, and was structured in line with the research objectives outlined in section 1.6.

7.5 DEVELOPMENT OF THE RESEARCH INSTRUMENT

The previous section discussed the selection of the respondents. The way in which the respondents were identified from the various role-players that might have an influence on the financial reporting of a South African listed company under business rescue was also discussed.

In this section the development of the research instrument is discussed. The section commences by stating the purpose of the research questionnaire. This is followed by a discussion of the specific type of research questionnaire employed. The section further addresses the types of question that were asked, how the measurement scales were chosen, the ethical approval obtained and tests conducted to improve the quality of the research questionnaire.

7.5.1 Purpose of the research questionnaire

In order to achieve the research aim, a literature study was done to serve as theoretical support for the topic and as background to the empirical part of the research. In order to collect the data necessary to meet both the primary and secondary research questions as set out in section 1.5, an empirical study was performed. The empirical study was conducted by means of an electronic research survey using a research questionnaire distributed to the respondents indicated above. The purpose of the research questionnaire was (1) to determine what underlying financial reporting

assumption should be used for a South African listed company under business rescue, and (2) to determine what the context-relevant measurement bases for assets and liabilities are that would support the underlying assumption identified in (1) above. Determining an appropriate underlying assumption supported by context-relevant measurement bases would enhance the decision-usefulness of the financial statements of a South African listed company under business rescue.

7.5.2 Structured online survey questionnaire

In section 7.3.3.1 above it was indicated that an online survey was considered to be appropriate for obtaining reliable data to achieve the research objectives. In order to obtain the information from the survey respondents, it was decided to develop a structured research questionnaire containing relevant items, in the form of questions, to assess the decision-usefulness construct. The questions were structured around two main variables, namely, the underlying financial reporting assumption and the measurement bases of assets and liabilities. In relation to the above two main variables, the questions were grouped by theme, for example questions on the business rescue aims, state of solvency, foreseeable future and so forth.

Hofstee (2006:132) argues that questionnaires are an excellent way of collecting data for a dissertation, but warns against results that are biased or difficult to analyse. The author subsequently followed Hoque's (2006:431) advice on minimising bias and maximising the analysis potential of the questionnaire through

- clear questionnaire design (see § 7.6),
- thorough pilot testing (see § 7.5.7), and
- implementing measures to ensure variable measure reliability, such as asking more than one question pertaining to a construct (see § 7.6).

The researcher is employed by Stellenbosch University (SU). It was therefore possible to conduct the research using SU's electronic survey platform (https://sunsurveys.sun.ac.za/). The electronic survey was set up to deliver the questions sequentially once the previous question had been answered.

7.5.3 Types of question

The research questionnaire consisted of both closed and open-ended questions. The closed questions could be analysed with descriptive and inferential statistics, whereas the open-ended questions could be analysed using content analysis principles. Where it was deemed necessary, more than one question was asked in order to analyse the answers in combination.

7.5.4 Measurement scales

The researcher had the support of the Centre for Statistical Consultation (CSC) at SU. The measurement scales and their analysis possibilities were discussed with the CSC before the drafting of the research questionnaire commenced.

The research questionnaire employed nominal, ordinal and interval measurement scales. CSC's statistician recommended that an ordinal response scale with no midpoint be used. Hoque (2006:432) maintains that a response scale with no midpoint forces the respondent to choose to agree or disagree with a statement. As the respondents are all experienced and knowledgeable people in the business community, it was decided that a *'don't know'* descriptor would not be included in the ordinal scales.

Table 7.6 below indicates the measurement scales used in the research questionnaire.

Table 7.6: Measurement scales used in the research questionnaire

Type	**Scale**			
Nominal	Yes	No		
Ordinal: Agreement	1 Completely disagree	2 Disagree	3 Agree	4 Completely agree
Ordinal: Likelihood	1 Completely unlikely	2 Unlikely	3 Likely	4 Completely likely

Type	Scale			
Ordinal: Usefulness	1 Not useful at all	2 Not useful	3 Useful	4 Very useful
Ordinal: Importance	1 Not at all important	2 Not important	3 Important	4 Very important
Interval	Obtaining numbers			

Source: Own compilation

7.5.5 Ethical approval

This study involves human subjects and the necessary ethical approval for the research questionnaire was obtained from the University of the Free State. The reference number is: UFS-HSD2014/0302.

7.5.6 Covering letter

It was earlier indicated that SU's electronic survey platform was used in conducting the research. A link to the research questionnaire were therefore electronically distributed using the survey platform's built-in email function. A covering letter, explaining the purpose of the research, accompanied the link to the research questionnaire. The cover letter is included as APPENDIX D.

7.5.7 Test to improve the quality of the questionnaire

In order to improve the quality of the questionnaire, a pilot test was conducted. Hoque (2006:433) advises that a pilot study should include representatives of the population that will complete the questionnaire and who are willing to give constructive feedback.

The respondents for the pilot study were chosen in line with Hoque's advice and were requested to provide feedback on the measurement scales, the length, flow and difficulty of questionnaire, as well as any other general feedback. Seven of the nine respondents (78%) who were invited to complete the pilot research questionnaire did so. Five of the seven respondents (71%) were also among those who were invited to

complete the final research questionnaire. These respondents provided constructive and valuable feedback, as explained below.

Some of the respondents indicated that the questionnaire took a substantial amount of time to complete, but they also indicated that that was to be expected, given the complexity of the research topic. The respondents considered the general flow of the questions very helpful.

Some respondents asked for an ‘it depends’ option in Question 21 (part 3) (refer APPENDIX E). After due consideration it was decided not to include this option because the respondents were required to explain their answers. (See § 7.6.3.8 for an explanation of the question and § 8.3.8 for the analysis thereof.) The ‘it depends’ option was also removed from Question 17 for the same reason. (See § 7.6.3.7 for an explanation of the question and § 8.3.7 for the analysis thereof.)

The answers, although limited in number (n = 7), were descriptively analysed for reasonability. Based on the suggestions made by the respondents and an analysis of the responses, the following improvements to the research questionnaire were made:

- Indicating the approximate time it would take the respondent to complete the questionnaire.
- Repeating certain definitions of concepts to avoid scrolling back to earlier pages.
- Removing certain questions that were not deemed necessary in achieving the research aims.
- Limiting the items in the statement of financial position to those most often found in financial statements.
- Ensuring that the questions on the preferred measurement bases for assets and liabilities were only made available to respondents who indicated that they were ‘accountants’ or ‘chartered accountants’.
- Removing a question on ‘capital maintenance’. The pilot results indicated that the respondents were mostly unfamiliar with the concept.
- Removing a question on ‘a single preferred measurement base’. It was decided that the responses of some of the other questions would indicate whether a single measurement base was preferred.

In this section the development of the research questionnaire was discussed. The purpose of the research questionnaire was explained, as well as the type of questionnaire employed, the type of questions asked and the manner in which the research questionnaire was improved.

In the next section, the main sections of the research questionnaire are discussed. These are aligned with the research objectives, and are explained below.

7.6 MAIN SECTIONS OF THE QUESTIONNAIRE

The previous section explained the purpose and structural development of the online research questionnaire. The types of question, measurement scales, ethical approval and tests to improve the questionnaire were addressed as well.

In this section the development of the research questions is discussed. The rationale for including the particular question in the research questionnaire is also explained.

The section commences with the question that was used to obtain the respondents consent to participate in the research, followed by a few questions aimed at obtaining background information on the respondents. The rest of the section deals with the specific research questions included in the questionnaire. These questions are also broadly aligned with the research objectives stated in section 1.6.

7.6.1 Consent to participate in research

Question 1 of the research questionnaire required the respondent to indicate his/her consent to participate in this research project. As indicated earlier, the questionnaire was developed on a web-based platform. One of the features of the platform was that conditional questions could be asked. The consent to participate in the research was asked using the above-mentioned feature. Therefore, the respondent was allowed to proceed only if he/she had given their consent to participate in the research.

7.6.2 Background questions

Section 7.4 above described the approach followed in identifying and selecting the population and the sample to whom the research questionnaire was sent. The principle behind the selection was to engage with respondents who are experts in their particular field of business. Apart from selecting the appropriate respondent groups in terms of their expertise, the background questions were designed to obtain the additional information needed to confirm the respondents' experience.

Table 7.7 below provides the questions deemed appropriate to confirm the expertise and experience of these respondents. The first three background questions (Questions 2 to 4 below) were asked at the beginning if the questionnaire, and the remainder of the questions (Questions 69 to 71) at the end of the questionnaire.

Table 7.7: Questions to establish the expertise and experience of respondents

No.	Question	Variable(s)
2.	To which one of the following groups do you belong?	• Business rescue practitioner • JSE accredited Auditor • Member of APC/JSE accredited IFRSs specialist • Member of academia • Member of a banking institution • Member of an investment institution[20] • Member of restructuring service division • Other (please indicate below)
3.	How many years have you been a member of the above group?	• Number of years
4.	What is your profession/qualification? (You may select more than one option)	• Accountant • Advocate/attorney/lawyer • Auditor • Consultant/advisor • Chartered accountant • Chartered financial analyst

[20] Although the 'Member of an investment institution' group was included in the questionnaire, no corresponding respondents were invited. The decision was explained in section 7.4.1.2.

No.	Question	Variable(s)		
		• Engineer • Liquidator • Other (please specify)		
69.	What is your highest academic level and education?	• High (secondary) school • Diploma or certificate • Degree (please specify) • Postgraduate degree (please specify)		
70.	Please specify your highest degree obtained.			
71.	Please indicate the professional and/or related bodies that you belong to.	• ACCA; • CIMA • ECSA • IAC • IBA	• IOB • IoDSA • IRBA • SAIBA • SAICA	• SAIPA • SAITP • SARIPA • TMA-SA • Other

(See § 7.4)

Refer to section 8.2.1 for an evaluation of the results obtained for the above questions.

7.6.3 Questions addressing the underlying financial reporting assumption for a South African listed company under business rescue

The next section of the questionnaire deals with the primary research question, namely, 'Which financial reporting underlying assumption should be used for a listed company under business rescue?' The section is divided into subsections dealing with different areas that may influence the underlying financial reporting assumption. Each subsection of the questionnaire followed from earlier discussions in the preceding chapters. Reference to the sections in those chapters is made in order to support the rationale for including the questions. In order for the reader to obtain an idea of the type of answers that could be expected, the measurement scales (variables), as discussed in section 7.5.4, are also included. The rationale, summary of the questions and variables are presented below.

7.6.3.1 The aims of business rescue

Sections 4.3.2 and 4.3.3 discussed the manner in which Chapter 6 of the 2008 Companies Act aims to facilitate the rehabilitation of a financially distressed company. Questions 5 to 7 of the research questionnaire, as presented in table 7.8 below, were intended to establish the two aims of business rescue and whether or not the respondents viewed the aims as mutually exclusive or hierarchical. All the respondents were required to answer these questions.

Table 7.8: Questions to establish the aims of business rescue and whether or not the aims are ranked

No.	Question	Variable(s)
5.	Do you agree that the aim of business rescue is to achieve one of the following outcomes, namely: • to enable the company to continue in existence on a solvent basis (aim 1); or • to enable the realisation of assets under business rescue that will result in a better return for the company's creditors and shareholders than under immediate liquidation (aim 2).	• Yes • No
6.	*[If Question 5 = 'Yes']* Do you interpret the aims as: • mutually exclusive, in other words, either the one or the other aim, or • hierarchical, in other words, to first attempt to enable the company to continue in existence on a solvent basis, and if that is not possible, then to realise the assets under business rescue so that it will result in a better return for the company's creditors and shareholders than under immediate liquidation.	• Mutually exclusive • Hierarchical
7.	*[If Question 5 = 'No']* You have indicated that you do not agree. Please state your reasons in the space provided.	

(See § 4.3.3)

If the aims are considered mutually exclusive, pursuing aim 1 may lead to the company at some stage recovering from financial distress and having a foreseeable future, i.e. be a going concern, from that point going forward. Pursuing a better return for creditors than would be obtained under immediate liquidation (aim 2) from the outset indicates that it is unlikely that the company will recover from the financial distress and hence

there is no foreseeable future for the company throughout the process. If the aims are considered hierarchical, aim 2 would only be pursued once it is not possible to pursue aim 1 anymore. Pursuing aim 2, and its effect on the foreseeable future outlook as explained above, may therefore only commence at a later stage during the business rescue proceedings.

By assessing the results of the above questions in relation to subsequent questions on the state of solvency and foreseeable future, it may be possible to determine whether or not the aims and stage of implementation of the business rescue plan would indicate whether or not a particular underlying financial reporting assumption should be applicable.

Refer to section 8.3.1 for an evaluation of the results of the questions on the business rescue aims.

7.6.3.2 The state of solvency

Sections 4.3.2 and 4.3.3 addressed the definition of financial distress and indicated that it means a likelihood of commercial or technical insolvency. Question 8 of the research questionnaire was intended to determine the perceived initial state of commercial and technical insolvency of a listed company under business rescue from filing for business rescue up to the adoption or rejection of the business rescue plan. During this period the BRP will investigate the company and decide on the best course of action.

Questions 9 and 10 were intended to determine, for each of the two business rescue aims, whether the perceived state of commercial and technical insolvency will change over the period of business rescue proceedings. In addition to each aim, the respondent was asked whether they foresaw that the legal entity would continue to exist after concluding the proceedings. Although the financial distress definition covers a period of six months from the date financial distress is considered, it was decided to use the definition of commercial liquidity in the 2008 Companies Act. Section 4(1)(b)(i) of the 2008 Companies Act indicates a period of 12 months from the date on which the test is considered (RSA, 2008:s 4(1)(b)(i)). Using a period of 12 months would cover

the six-month period used by the financial distress definition and is also more conservative. After due consideration, it was also decided that questions 8 to 10, as set out in Table 7.9 below, would most likely be best answered by the BRP/RS and JSE-accredited auditors respondent groups.

Table 7.9: Questions to determine the state of commercial and technical solvency during business rescue proceedings

No.	Question	Variable(s)
8.	Please consider the commercial or technical state of solvency of a JSE listed company in financial distress that has filed for business rescue. In your opinion, will the company be: • commercially solvent in the period from filing for business rescue up to the adoption or rejection of the business rescue plan? • technically solvent in the period from filing for business rescue up to the adoption or rejection of the business rescue plan?	• Yes • No
9.	Assume a listed company is under business rescue and that the business rescue plan has been adopted with the aim of maximising the likelihood of the company continuing in existence on a solvent basis. Considering aim 1 and commercial solvency (liquidity): What is the likelihood that the listed company is *commercially solvent* (able to pay its debt as they fall due) during the proceedings at the following points in time?: • Just after adoption of the business rescue plan? • Halfway through the implementation of the business rescue plan? • Just before conclusion of the business rescue plan (filing the notice of substantial implementation)? Considering aim 1 and technical solvency: What is the likelihood that the listed company is *technically solvent* (fairly valued assets exceed fairly valued liabilities) during the proceedings at the following points in time?: • Just after adoption of the business rescue plan?	1 = Completely unlikely 2 = Unlikely 3 = Likely 4 = Completely likely

No.	Question	Variable(s)
	• Halfway through the implementation of the business rescue plan? • Just before conclusion of the business rescue plan? With this aim of enabling the company to continue in existence in mind (aim 1): • In your opinion, what is the likelihood that the listed company, as a legal entity, will continue to exist after the conclusion of the business rescue plan?	
10.	Assume a listed company is under business rescue and that the business rescue plan has been adopted with the aim of providing a better return to shareholders and creditors than under immediate liquidation. Considering aim 2 and commercial solvency (liquidity): What is the likelihood that the listed company is *commercially solvent* (able to pay its debt as they fall due) during the proceedings at the following points in time?: • Just after adoption of the business rescue plan? • Halfway through the implementation of the business rescue plan? • Just before conclusion of the business rescue plan (filing the notice of substantial implementation)? Considering aim 2 and technical solvency: What is the likelihood that the listed company is *technically solvent* (fairly valued assets exceed fairly valued liabilities) during the proceedings at the following points in time?: • Just after adoption of the business rescue plan? • Halfway through the implementation of the business rescue plan? • Just before conclusion of the business rescue plan? With this aim of enabling a better return to creditors and shareholders in mind: • In your opinion, what is the likelihood that the listed company, as a legal entity, will continue to exist after the conclusion of the business rescue plan?	1 = Completely unlikely 2 = Unlikely 3 = Likely 4 = Completely likely

(See §§ 4.3.2 and 4.3.3)

Evaluating the state of commercial and technical solvency for both aims during the above four periods (before plan adoption, just after adoption, midway through implementation, and just before substantial implementation) in the proceedings is considered important because the evaluation would indicate when the company is

likely to emerge from the financial distress that caused management to apply for business rescue.

Refer to section 8.3.4 for an evaluation of the results on the questions on the state of solvency.

7.6.3.3 The perceived duration of business rescue and likelihood of a reporting date

In sections 4.3.2 and 4.3.3 it was indicated that although the 2008 Companies Act envisaged that the business rescue proceedings should end within three months of commencement, current practice suggests otherwise. According to the CIPC, current business rescue proceedings take about nine months to complete.

In order to determine the likelihood of a financial reporting period occurring during business rescue proceedings for a South African listed company under business rescue, it was decided to ask the JSE-accredited auditors and BRP groups to estimate the duration of business rescue proceedings for a JSE-listed company. Table 7.10 below summarises the questions these respondent groups were asked.

Table 7.10: Questions to determine the likely duration of business rescue proceedings

No.	Question	Variable(s)
11.	For a listed company that has filed for business rescue, in your opinion, what is the likely duration of: • the period (in months) from filing for business rescue up to the date of adoption/rejection of the business rescue plan? (Please round off to the nearest month.) • the period (in months) from adoption of the business rescue plan to conclusion of the business rescue plan (filing the notice of substantial implementation)?	N/a

(See § 4.3.3)

In section 4.5.2 it was indicated that a JSE-listed company should submit at least provisional reports within four months of the reporting date. However, it is likely that the company will still be under business rescue at this time. Therefore, when preparing

the annual financial statements, management, now led by the BRP, should take a decision on the applicability of going concern as the underlying financial reporting assumption. Whatever the assumption decided on, the auditor would consider it in terms of IFRSs and IASs.

The JSE-accredited auditors and BRP/RS groups were therefore asked to consider the likelihood that a listed company would experience a financial reporting date (interim or year-end) whilst under business rescue proceedings. These two groups were also asked to consider the likelihood of the company still being under business rescue four months after its reporting date. In other words, the likelihood that management would need to report whilst still under business rescue. Table 7.11 below summarises these questions.

Table 7.11: Questions to determine the likelihood of having to submit financial statements whilst under business rescue proceedings

No.	Question	Variable(s)
12.	The JSE listing requirements determine that if annual financial statements have not been distributed to all shareholders within three months of its financial year-end, the issuer must distribute and publish provisional annual financial statements ('provisional reports'). The JSE allows one month's grace if the provisional reports have not been published within the three months as specified. Based on your experience of the likely duration of a business rescue: • what is the likelihood that a listed company will experience a financial reporting date (interim or year-end) whilst under business rescue proceedings? • what is the likelihood that a listed company under business rescue will still be under business rescue four months after its reporting date (interim or year-end)?	1 = Completely unlikely 2 = Unlikely 3 = Likely 4 = Completely likely

(See §§ 4.3.3 and 4.5.2)

Refer to section 8.3.2 for an evaluation of the results of the questions on the perceived duration of the business rescue proceedings and the likelihood of a reporting date whilst under business rescue.

7.6.3.4 The actions taken to rescue the company

In section 4.4.2, it was indicated that guidance from AICPA's Auditing Standards Board gives examples of actions taken by a company when it is unable to meet its obligations as they become due that would significantly contradict the going concern assumption (AICPA, 2015:AU-C 570.02). The examples provided by AICPA may also be actions that a listed company under business rescue would take and could thus be an indicator of whether the company can be considered a going concern.

It was therefore decided to include a question asking the respondents what the likelihood would be that those actions might be required by a listed company under business rescue. If those actions are considered likely, it would significantly contradict the going concern underlying assumption. Table 7.12 below indicates the question asked. All the respondents were required to answer this question.

Table 7.12: Question on actions taken to rescue the company

No.	Question	Variable(s)
13.	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 • Others: Please specify	1 = Completely unlikely 2 = Unlikely 3 = Likely 4 = Completely likely

(See § 4.4.2)

Refer to section 8.3.5 for an evaluation of the results of the above question.

7.6.3.5 The foreseeable future and realisation of assets and liabilities

Section 5.5.3 discussed the meaning of going concern as a financial reporting underlying assumption. It was shown that if a company is regarded as a going concern then it is expected to continue in existence for the foreseeable future, which means a period of no less than 12 months from the reporting date. Assessing the foreseeable

future can therefore be considered to be an indicator of whether the company under business rescue can be regarded as a going concern.

It is possible for a financial reporting date to occur during the business rescue proceedings. In order to determine the appropriate underlying financial reporting assumption that should be used in this case, the respondents were asked to indicate the likelihood that the company would continue to operate in the foreseeable future given a financial reporting date occurring at various stages during the business rescue proceedings. The evaluation was also done for both business rescue aims. Refer to Questions 14 and 15 in Table 7.13 below. All the respondents were required to answer these questions.

Table 7.13: Questions on the foreseeable future of a listed company under business rescue

No.	Question	Variable(s)
14.	Aim 1: Assume a listed company will experience a financial reporting date (interim or year-end) whilst under business rescue and that the aim of business rescue is to enable the company to continue to exist after the proceedings have ended. Moreover, consider that the foreseeable future of a company indicates a period of at least, but not limited to, 12 months after the end of the reporting date (interim or year-end). Please consider the above aim and the fact that you need to assess the foreseeable future on a financial reporting date that may fall during various stages in the business rescue period. In your opinion, what is the likelihood that the company will continue to operate in the foreseeable future if the financial reporting date: • falls in the period from filing for business rescue up to the adoption/rejection of the business rescue plan? • is just after adoption of the business rescue plan? • is halfway through the implementation of the business rescue plan? • is just before conclusion of the business rescue plan (filing the notice of substantial implementation)?	1 = Completely unlikely 2 = Unlikely 3 = Likely 4 = Completely likely

No.	Question	Variable(s)
15.	Aim 2: Assume a listed company will experience a financial reporting date (interim or year-end) whilst under business rescue and that the aim of business rescue is to enable a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company. Please consider the above aim (aim 2) and the fact that you need to assess the foreseeable future on a financial reporting date that may fall during various stages in the business rescue period. In your opinion, what is the likelihood that the company will continue to operate in the foreseeable future if the financial reporting date: • falls in the period from filing for business rescue up to the adoption/rejection of the business rescue plan? • is just after adoption of the business rescue plan? • is halfway through the implementation of the business rescue plan? • is just before conclusion of the business rescue plan?	1 = Completely unlikely 2 = Unlikely 3 = Likely 4 = Completely likely

(See § 5.5.3)

Refer to section 8.3.6 for an evaluation of the results on the questions on the foreseeable future of a listed company under business rescue.

7.6.3.6 The realisation of assets and liabilities

Auditing guidance states that when the going concern assumption is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business (see § 4.4.1). The question is whether a company in financial distress would be able to realise its assets and discharge its liabilities in the normal course of business. Therefore, if a company under business rescue is not able to do this, the going concern assumption may not be appropriate. One can further deduce that financial distress could then be considered an indicator of whether the going concern assumption is appropriate.

In order to assist with the decision of which underlying financial reporting assumption to apply to a listed company under business rescue, a question on the effect of financial

distress on the realisation of assets and liabilities was also included. Refer to Question 16 in Table 7.14 below. All the respondents were required to answer this question.

Table 7.14: Question on the realisation of assets and liabilities

16.	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?	1 = Completely unlikely 2 = Unlikely 3 = Likely 4 = Completely likely

(See § 4.4.1)

Refer to section 8.3.3 for an evaluation of the questions on the realisation of assets and liabilities whilst in financial distress.

7.6.3.7 Assessing business rescue in relation to the going concern underlying assumption

In the previous section, the fact that Questions 14 and 15 were asked to establish the foreseeable future of a listed company under business rescue for both business rescue aims was discussed. The rationale for this was so as to draw conclusions on the applicability of going concern from those answers, taking the business rescue aims and possible change in the foreseeable future into account.

Since a direct relationship exists between the 'going concern' and the 'foreseeable future' of a company (see § 5.5.1), it was also decided to ask the respondents for their view on the matter, without referring to a particular business rescue aim. Table 7.15 below indicates the questions asked. Respondents were then given an opportunity to give a reason for their answer. The answers could then be analysed to attain a higher level of interpretation and identify themes or trends in the responses. The results could then be interpreted in relation to earlier questions that served as indicators of whether a company under business rescue could be considered a going concern. All the respondents were required to answer these questions.

Table 7.15: Questions to assess business rescue in relation to the going concern underlying assumption

No.	Question	Variable(s)
17.	Assume that 'going concern' indicates that the company has the ability to continue to exist in the foreseeable future. The foreseeable future indicates a period of at least, but not limited to, 12 months after the end of the reporting date. In your opinion, is a listed company, which has a reporting date whilst under business rescue proceedings, a going concern in terms of IFRSs?	• Yes • No
18.	Please indicate the reason(s) for your answer above in the block provided.	N/a

(See §§ 3.5.3 and 5.5.1)

Refer to section 8.3.7 for an evaluation of the results of the questions intended to assess business rescue in relation to the going concern assumption.

7.6.3.8 Assessing the applicability of other underlying assumptions

The questions in sections 7.6.3.1 to 7.6.3.5 are intended to establish whether a listed company under business rescue may be considered a going concern by assessing certain indicators of going concern.

The rationale for the following question is threefold: The first part of Question 21 was intended to establish whether or not the action of applying for business rescue indicates that the company intends to liquidate, or has no realistic alternative but to do so, thereby indicating a liquidation basis of accounting from the start of the proceedings.

The second part of Question 21 was intended to establish whether or not a company under business rescue can be considered something that is in between a going concern and liquidation. One needs to bear in mind here that going concern means that the company has a foreseeable future of at least 12 months from the reporting date, and the underlying assumption of liquidation is used for a company in liquidation or when liquidation is imminent. Depending on the answers to the above two questions,

when considered together, it may become clear that there is a period during a company's existence when it may not be thought to be able to continue in existence for the foreseeable future, but neither does it face imminent liquidation.

In the light of the possible answers that may emanate from the first two parts of Question 21, and the fact that it seems that IAS 1 par. 25 may require a company to prepare financial statements on a going concern underlying assumption if liquidation is not imminent, part 3 of Question 21 was asked. In part 3, the respondents were requested to state whether they agreed that IAS 1 par. 25 requires the management of a company under business rescue to prepare financial statements on a going concern assumption. If the respondent answered 'Yes' to the third part of question 21, the respondent was further asked, in Question 22, to briefly indicate why he/she considered the going concern assumption to be appropriate and, in Question 23, how decision-useful they considered the financial statements would be for the users. Moreover, in Question 23 they had to indicate how decision-useful the disclosures of material uncertainties related to events or conditions that might cast significant doubt about the ability of the company under business rescue to continue as a going concern would be to the users of the financial statements.

On the other hand, if the respondent answered 'No' to the third part of Question 21, the respondent was asked, in Question 24, to indicate what underlying assumption he/she would recommend, as well as to provide a reason for that recommendation. Table 7.16 below sets out the questions as discussed above. All the respondents were required to answer these questions.

Table 7.16: Questions to assess the applicability of other underlying assumptions

No.	Question	Variable(s)
21.	[Part 1] Do you agree that if the management of a listed company applies for business rescue instead of provisional liquidation, it indicates that management, at the stage of business rescue application,	• Yes • No

No.	Question	Variable(s)
	does not intend to liquidate the entity or cease trading (or that it has no realistic alternative but to do so)? [Part 2] Do you agree with the following statement? *A company under business rescue is not necessarily a going concern, but not in liquidation either.* [Part 3] Do you agree that applying IAS 1 par. 25 (see above) requires management of a listed company, which has a reporting date whilst under business rescue proceedings, to prepare financial statements on a going concern assumption?	
22.	[If Question 21 (part 3) = 'Yes'] You have answered 'Yes' that IAS 1 par. 25 requires the management of a listed company under business rescue to prepare financial statements on a going concern assumption. • Briefly indicate why you consider the going concern assumption appropriate.	
23.	Further to your reasons given above: In your opinion, how 'decision useful' is financial statements, prepared on a going concern assumption for a listed company under business rescue, to the users of the financial statements (i.e. shareholders, creditors and lenders)? IAS 1 par. 25 further states that when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. In your opinion, how 'decision useful' is the disclosure of material uncertainties related to events or conditions that may cast significant doubt about the ability of the company under business rescue to continue as a going concern, to the users of the financial statements?	1 = Not at all useful 2 = Not useful 3 = Useful 4 = Very useful
24.	[If Question 21 (part 3) = 'No'] You have answered 'No' that IAS 1 par. 25 requires the management of a listed company under business rescue to prepare financial statements on a going concern assumption. • Please indicate what underlying assumption you would recommend. • Please provide your reason(s) for recommending that particular assumption.	

(See §§ 4.3.3, 4.4.1, 5.5.2 and 5.5.3)

Refer to section 8.3.8 for an evaluation of the results on the questions regarding the applicability of other underlying assumptions.

7.6.4 Questions addressing the decision-usefulness of financial statements and the measurement bases for assets and liabilities

The previous section of the questionnaire dealt with the primary research question, namely 'Which underlying financial reporting assumption should be used for a listed company under business rescue?' The section was divided into subsections dealing with the different areas that might affect the underlying financial reporting assumption.

This section deals with the secondary research question, namely, 'What should be the measurement base(s) of assets and liabilities that will lead to more decision-useful information for the users of financial statements of listed companies in under business rescue?'

Each subsection in this part of the questionnaire again followed from earlier discussions in the preceding chapters. Reference to the sections in those chapters is once again made in order to support the rationale for including the questions. The questions are presented with the measurement scales (variables) that were discussed in section 7.5.4. The rationale, summary of the questions and the variables are presented below.

7.6.4.1 Determining the usefulness and use of the latest interim and audited annual financial statements

A company will prepare its financial statements in line with IAS 1 par. 25, that is, on a going concern assumption unless liquidation is imminent or unavoidable. The latest financial statements (interim and annual) for a listed company would most likely have been prepared on the going concern assumption.

The researcher was interested in finding out how useful the previous financial statements (interim and annual) would be to the BRP who had to prepare a business

rescue plan for such a listed company that had since filed for business rescue protection. In particular, the researcher was interested in ascertaining the usefulness and use of the values disclosed in the latest interim and audited financial statements.

The following questions were posed to the BRP group. Table 7.17 below presents the questions.

Table 7.17: Questions to assess the usefulness of current annual and interim financial statements

No.	Question	Variable(s)
19.	Please indicate if you would use the following financial reports when developing the business rescue plan, as well as how useful you find the financial information in the reports in developing the business rescue plan. • The latest audited annual financial statements • The latest interim financial statements	• Yes • No 1 = Not at all useful 2 = Not useful 3 = Useful 4 = Very useful
20.	Can you give one brief example of or reason for using or not using the financial reports? (Please indicate in the space provided.) • I find the latest annual financial statements useful for … • The annual financial statements are not useful because … • I find the latest interim financial statements useful for … • The interim financial statements are not useful because …	N/a

(See § 0)

Refer to section 9.2.1 for an evaluation of the results on the questions regarding the usefulness and use of the annual and interim financial statements.

7.6.4.2 Questions to establish the importance of the business model

In section 6.6, the role of the business model in financial reporting was discussed. The use of 'business model' in this regard means that there is a focus on the process of value creation in a company, that is, how the company generates its cash flows.

As discussed, it is important to consider the business model in the financial reporting of a listed company under business rescue, particularly in terms of establishing the

measurement bases for assets and liabilities. Accordingly, a business model perspective on financial reporting would indicate entity-specific information. Therefore, if the respondents agree that considering the business model is important in financial reporting, it would imply that the entity-specific measurements for assets and liabilities are also important. Table 7.18 below lists the questions posed to the respondents. All the respondents were required to answer these questions.

Table 7.18: Questions to assess the importance of considering the business model in business rescue

No.	Question	Variable(s)
25.	In general, to what extent do you agree/disagree that it is important to consider the business model in order to establish measurement bases for assets and liabilities (e.g. net realisable value, value-in-use, amortised cost, etc.)?	1 = Completely disagree 2 = Disagree 3 = Agree 4 = Completely agree
26.	How likely is a change in a company's business model required during a business rescue?	1 = Completely unlikely 2 = Unlikely 3 = Likely 4 = Completely likely

No.	Question	Variable(s)
27.	[Part 1] For a company that has filed for business rescue, to what extent do you agree/disagree that the company's business model should be considered: • in the development of its business rescue plan? • for financial reporting purposes, with respect to the measurement of assets and liabilities whilst under business rescue proceedings? [Part 2] To what extent do you agree/disagree that considering the business model in the financial reporting for a company under business rescue: • would lead to more relevant financial information (due to allowing different methods of accounting based on the business model) • will enhance faithful representation of the economic phenomena? • will enhance comparability of financial information between companies? • will enhance the understandability of the financial information? [Part 3] To what extent do you agree/disagree that considering the business model in the financial reporting for a company under business rescue: • would lead to biased information, because it failed to capture the potential cash flow that has been created or destroyed by the company.	1 = Completely disagree 2 = Disagree 3 = Agree 4 = Completely agree

(See § 6.6)

Refer to section 9.2.2 for an evaluation of the results on the questions that evaluate the importance of considering the business model in business rescue.

7.6.4.3 Questions on the objective of financial reporting

In section 5.2 the decision-usefulness and stewardship perspectives on financial reporting were discussed. Decision usefulness was described as the provision of future-oriented financial information about the reporting entity that is useful for making investment/valuation decisions (also referred to as the 'valuation' role). Stewardship was explained as information on past transactions for determining how efficiently and

effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources (capital) after it has been invested (also referred to as the 'contracting' or 'accountability' role).

It was further indicated that the perspective (decision-usefulness and/or stewardship) would show the type of information that a user is looking for, namely, forward-looking cash flow information or more historically based cost information. A possible change in the users' perspective when a company is under business rescue as opposed to a healthy company could therefore be an indicator of the type of measurement base(s) that should be used to measure the assets and liabilities of a South African listed company under business rescue. Table 7.19 below presents the questions posed to the respondents in this regard. All the respondents were required to answer these questions.

Table 7.19: Questions to assess the decision-usefulness vs stewardship perspectives: healthy vs business rescue

No.	Question	Variable(s)
28.	For a healthy solvent company under normal circumstances, how important do you rate the role of financial information in the financial reports in terms of the following? • Decision usefulness • Stewardship If a company is under business rescue, how important do you rate the role of financial information in the financial reports in terms of the following? • Decision usefulness • Stewardship	1 = Not at all important 2 = Not important 3 = Important 4 = Very important

(See § 5.2)

Refer to section 9.2.3 for an evaluation of the results on the decision-usefulness vs stewardship perspectives for both a healthy company and one that is under business rescue.

In section 5.3 the users of financial statements and their information needs were discussed. The following section explains the research questions relating this this issue.

7.6.4.4 Users of financial statements of a company under business rescue and their information needs

Section 5.3 discussed the fact that the primary users intended by the CF are also some of the affected parties in a business rescue context. It was further established that the information needs differ between the respective user groups. Accordingly, the users of financial statements may prefer financial information that tends to be more forward-looking (i.e. decision-usefulness), or more historical (i.e. stewardship), or a combination of both.

In order to establish the preferred measurement base(s) for the financial statements in a business rescue scenario, this section of the research questionnaire addressed the information needs of the user groups. It did so, firstly, by determining whether the information needs of the user groups, namely, investors, lenders and creditors of a company under business rescue would remain the same as for a normal company, or whether they would change to one of the two perspectives. The reasons provided for a particular importance rating are of particular interest here because they may indicate a preference for certain financial information, which in turn may indicate certain measurement bases for assets and liabilities.

Question 29, indicated in Table 7.20 below, addressed the decision-usefulness and stewardship perspectives of each of the three roles, namely, investor, lender, and creditor. Depending on the respondents answer, they were then asked to provide a reason for their answer on each of the three roles, as indicated in Table 7.21. Since the questions were similar in nature for each of the three roles, the questions are combined in Table 7.21 and the different roles indicated in square brackets.

The literature points out that when assessing a normal financially healthy company, certain users may prefer certain financial statements, such as the statement of profit or loss and other comprehensive income. In order to determine whether there is a

particular preference for certain financial statements when a company is under business rescue, a question was included asking the respondent to rank the usefulness of the different financial statements and provide a reason for their top choice.[21] The choice and reasons provided may indicate what type of financial information users prefer for a company under business rescue, which may be further helpful in determining the preferred measurement bases for assets and liabilities. Table 7.20 gives the questions on the ranking of the financial statements and the request for a reasons for the top choice. All the respondents were required to answer these questions.

Table 7.20: Questions to assess the decision usefulness vs stewardship perspectives

No.	Question	Variable(s)
29.	Please assume each of the following three user roles with respect to a JSE-listed company that has filed for business rescue: • Role 1: An equity investor (i.e. a shareholder) • Role 2: A lender (e.g. a major bank) • Role 3: A creditor (i.e. a trade creditor) From the perspective of each of the above users, please consider the decision usefulness and stewardship roles of financial information in the financial reports of a listed company under business rescue. • Decision usefulness • Stewardship	1 = Not at all important 2 = Not important 3 = Important 4 = Very important
30.	From the perspective of each of the above users, please rank the statement of financial position (SFP), statement of comprehensive income (SCI), statement of cash flow (SCF) and statement of changes in equity (SCE) in the order that the user rely on it the most, where 1 = the statement the user rely on most and 4 = the one the user use least of all.	Ranking 1 to 4
31.	For each of the assumed roles, why do you prefer the statement ranked no 1 the most?	

(See §§ 3.5.3 and 5.2)

[21] The system had to capture the responses to Question 29 before presenting the response-related section on the reasons and any additional information. In order to utilise the available web-page space below Question 29 effectively, the questions on the ranking and the reasons for it (Questions 30 and 31) were presented on the same web-page as Question 29.

Assuming the role of an investor, the respondents were also asked what other supplementary information, if any, they would obtain through direct contact with the company. On the other hand, assuming the roles of a lender and creditor, the respondents were asked if they would adjust the financial statements, that is, make these more conservative. If they did, the content of those adjustments is of interest as it would be a further indicator of the type of measurement for assets and liabilities a lender and creditor would prefer. The questions on the additional information is summarised in Table 7.21 below. The different roles are once again indicated in square brackets. All the respondents were once again required to answer these questions.

Table 7.21: Questions to assess the different user groups' information needs

No.	Questions (depending on the answers in Question 29)	Variable(s)
32; 37; 43.	Assuming the role of a [shareholder][lender][creditor], you have indicated that you regard the **decision-usefulness** role of accounting information for a company **under business rescue** as IMPORTANT or VERY IMPORTANT: • As a [shareholder][lender][creditor], please indicate for what purpose you would mostly use the future-oriented accounting information.	N/a (text)
33; 38; 44.	Assuming the role of a [shareholder][lender][creditor], you have indicated that you regard the **decision-usefulness** role of accounting information for a company under business rescue as NOT AT ALL IMPORTANT or NOT IMPORTANT: • As a [shareholder][lender][creditor], please indicate your reason(s).	N/a (text)
34; 39; 45.	Assuming the role of a [shareholder][lender][creditor], you have indicated that you regard the **stewardship** role of accounting information for a company under business rescue as IMPORTANT or VERY IMPORTANT: • As a [shareholder][lender][creditor], please indicate for what purpose you would mostly use the accounting information on past transactions.	N/a (text)
35; 40; 46.	Assuming the role of a [shareholder][lender][creditor], you have indicated that you regard the **stewardship** role of accounting information for a company under business rescue as NOT AT ALL IMPORTANT or NOT IMPORTANT: • As a [shareholder][lender][creditor], please indicate your reason(s).	N/a (text)

No.	Questions (depending on the answers in Question 29)	Variable(s)
36.	Assuming the role of a shareholder, what other supplementary information, if any, would you obtain through direct contact with the company?	N/a (text)
41; 47.	As a [lender][creditor], would you make adjustments to the financial statements for your own purposes?	• Yes • No
42; 48.	[If Question 41 for a lender = 'Yes'] [If Question 47 for a creditor = 'Yes'] • What adjustments would you make?	N/a (text)

(See § 5.3.1 for Questions 32 to 36 [shareholder], § 5.3.2 for Questions 37 to 42 [lender] and § 5.3.3 for Questions 43 to 48 [creditor])

Refer to section 9.2.4 for an evaluation of the results on the different user groups and their information needs for a listed company under business rescue.

7.6.4.5 Questions to address the objective of measurement and financial distress

Section 6.5.5 indicated that the most relevant measurement for a particular asset or liability for a listed company under business rescue may differ from those normally considered relevant for a financially healthy company. The reason cited was that a listed company under business rescue may not be a going concern and it is therefore possible that its assets and liabilities may contribute to or require cash flow in a different way than was originally anticipated. In order to assist in identifying the appropriate measurement bases for the assets and liabilities of a listed company under business rescue, a question on whether the measurement should take financial distress into account was included. Table 7.22 below indicates the particular question asked. All the respondents were required to answer this question.

Table 7.22: Question on whether to take financial distress into account in the measurement of assets and liabilities

No.	Question	Variable(s)
49.	For a listed company that is under business rescue and needs to prepare annual financial statements, should the measurement of its	• Yes • No

No.	Question	Variable(s)
	assets and liabilities in the statement of financial position take into account the fact that it is in financial distress?	

(See § 0)

Refer to section 9.2.5 for an evaluation of the results on the influence of financial distress on the objective of measurement.

In section 3.5.3 it was pointed out that the AICPA guidance states that the objective of financial statements issued by an entity under the US Chapter 11 reorganisation proceedings should be to reflect its financial evolution during the proceedings. In order to assess whether the objective of financial reporting for a South African listed company under business rescue should also reflect the financial evolution of the company during business rescue proceedings, a question to that effect was included. Considering the types of accounting entries made to reflect the financial evolution, support for the above focus would point towards a need for fair value for assets and fulfilment/settlement value measurements in the financial statements, as opposed to historical type measurements. The financial evolution would also be reflected by disclosing the transactions and events that were directly associated with the reorganisation separately from the rest of the transactions and events. Refer to Table 7.23 below (part 1 first bullet point) for the question asked.

Section 5.5.2 indicated that in the absence of any other defined basis of accounting, we may assume that an entity that is not a going concern should use the liquidation basis of accounting. The focus in a liquidation would therefore shift to reporting on the cash that would be available to investors after liquidation instead of reporting on the entity's economic performance. In order to assess whether the objective of financial statements should focus on the cash available not only to investors, but also to creditors and other affected parties, a question to that effect was asked. The rationale for including this question is that support for this objective would indicate a need for measurements of assets and liabilities that would reflect the immediate cash flow potential or need. Table 7.23 below (part 1 second bullet point) includes the question posed to the respondents.

Section 6.5.3 dealt with improvements to the 2010 CF and discussed the fact that the IASB has introduced a measurement objective in relation to the general objective of financial information. In order to consider to what extent this measurement objective holds true in a business rescue context, a number of questions were asked. These questions are listed in Table 7.23 (second part) below. It was also noted that the IASB did not pursue the measurement objective any further in the 2015 ED. However, the questions would still be useful when related to earlier questions asked about the decision-usefulness and stewardship objectives of financial information. All the respondents were required to answer these questions.

Table 7.23: Questions to assess reporting focus: financial evolution or available cash

No.	Question	Variable(s)
50.	*[Part 1]* In a business rescue context, to what extent do you agree/disagree that the objective of financial reporting: • should also focus on reflecting the financial evolution of the company by distinguishing the transactions and events that are directly associated with the reorganisation from the rest of the transactions and events? • should rather focus on reporting on the cash that would be available to investors, creditors and other affected parties, instead of reporting on the entities' economic performance? *[Part 2]* In a business rescue context, to what extent do you agree/disagree that the objective of measurement in the financial statements: • should be to contribute to the faithful representation of relevant information about the resources of the entity (assets), claims against the entity (liabilities) and changes in resources and claims? • is about how efficiently and effectively the entity's management and governing board have discharged the responsibilities to use the entity's resources?	1 = Completely disagree 2 = Disagree 3 = Agree 4 = Completely agree

(See §§ 3.5.3, 5.5.2 and 6.5.3)

Refer to section 9.2.5 for an evaluation of the results on the objectives of financial reporting and measurement in a business rescue context.

In section 6.5.3 it was noted that investors, which include shareholders and creditors, would like to know about the cash flow potential or need of an asset or liability. A question to that affect was therefore included in the research questionnaire. The rationale for doing so is that should these investors regard the cash flow potential or need of an asset or liability as important, one would expect cash flow relevant measurement bases as opposed to historical cost measurements to be more relevant in a business rescue context. The question asked is shown in Table 7.24 below. All the respondents were required to answer this question.

Table 7.24: Questions to assess cash flow potential/need of an asset or liability

No.	Question	Variable(s)
51.	With reference to the measurement of assets and liabilities of a listed company with a reporting date whilst under business rescue: How important is it for users of the financial statements that the measurement of the particular: • asset reflect the future cash flow potential as closely as possible? • liability reflect the future cash flow need as closely as possible?	1 = Not at all important 2 = Not important 3 = Important 4 = Very important

(See § 6.5.3)

Refer to section 9.2.5 for an evaluation of the results on the cash flow potential/need of an asset or liability in a business rescue context.

7.6.4.6 Measurement bases for assets and liabilities

In section 6.3 the qualitative characteristics of useful financial information were discussed, namely, that relevant and faithfully represented financial information should be provided. The potential measurement bases for assets and liabilities were discussed in section 6.5, where it was indicated that if various measurement bases for assets and liabilities are suitable, this would result in a mixed-measurement base accounting model. A summary of the measurement bases that could be used in the case of assets was presented in Figure 6.1 (p. 206), followed by those for liabilities in Figure 6.2 on page 207.

In order to determine which measurement bases would be able to faithfully represent relevant information in a business rescue context, the questions mentioned below were asked. The meanings of ‘relevance’ and ‘faithful representation’ were also provided as an introduction to the question. This introductory information and the question on the measurement bases of assets are indicated in Table 7.25 below. All the respondents were required to answer these questions.

Table 7.25: Measurement bases for assets

No.	Question	Variable(s)
[Introduction to Questions 52 and 53] Please consider the following: Relevance: Relevant financial information can make a difference in the decisions made by users. Financial information can make a difference in decisions if it has predictive value, confirmatory value or both. Faithful representation: Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but must also faithfully represent the phenomena that it purports to represent. This depiction would be complete, neutral and free from error.		
52.	With respect to an asset of a listed company under business rescue with a reporting date whilst under business rescue, please choose from the following measurement bases those, in your opinion, that could faithfully represent relevant information about a particular economic resource (asset): • Historical cost [i.e. the actual cost incurred] • Depreciated/amortised historic cost [i.e. the unconsumed portion of historical cost (carrying amount)] • Current replacement cost [i.e. the cost adjusted for price changes reflecting the unconsumed part of the asset if replaced with an asset of equivalent service potential] • Net realisable value [i.e. the estimated selling price, less estimated transaction cost in an orderly disposal] • Fair value [i.e. the price received to sell an asset. Please consider that according to International Financial Reporting Standard (IFRS) 13, the transaction used to determine fair value should be orderly. An orderly transaction may not reflect a forced transaction, such as a distressed sale]	• Yes • No

No.	Question	Variable(s)
	• Liquidation value [i.e. the value reflecting the estimated selling price, less estimated transaction cost – if the asset is sold as quickly as possible (also known as a fire sale).] • Value-in-use [i.e. the present value of cash flows from continued use and disposal at end of useful life, discounted at a fair interest rate] • Amortised cost [i.e. the present values of cash flows discounted at an effective interest rate] • Any other relevant measurement bases? (Please indicate)	

(See §§ 6.3 and 6.5.4)

The question on the measurement bases for liabilities was developed in the same manner. The question in presented in Table 7.26 below.

Table 7.26: Measurement bases for liabilities

No.	Question	Variable(s)
53.	With respect to a liability of a listed company under business rescue with a reporting date whilst under business rescue, please choose from the following measurement bases those, in your opinion, that could faithfully represent relevant information about the economic obligation (liability): • Historical cost [i.e. the actual proceeds received, for example a 50% down payment received] • Amortised historical cost (proceeds) [i.e. the unconsumed portion of historical proceeds (carrying amount), for example 'Deferred income: Government grant'] • Current value (of liability) [i.e. the consideration the entity would currently expect to receive if it undertook an identical obligation to the remaining part of the obligation] • Settlement value [i.e. the undiscounted amounts of cash flow expected to be paid to satisfy the liability in the normal course of business] *(the liability equivalent of NRV)* • Fair value [price paid to transfer a liability. Please consider that IFRS 13 determines that the transaction used to determine fair value should be orderly and may not reflect a forced transaction] • Fulfilment value [i.e. the present value of cash flows to arise in fulfilling the liability at a fair interest rate] *(the liability equivalent of value-in-use)* • Amortised cost [present values of cash flows discounted at an effective interest rate] • Any other relevant measurement bases? (Please indicate)	• Yes • No

(See §§ 6.3 and 6.5.4)

Refer to section 9.2.6 for an evaluation of the results on the applicability of the above-measurement bases in a business rescue context.

7.6.4.7 Cost vs benefit

Sections 6.4 and 6.5.3.1 point out that the cost of providing financial information should be considered, as it is important that the benefits of reporting financial information are sufficient to justify the cost of providing the information. In a business rescue context time is often of the essence and it was therefore considered all the more important to determine to what extent the respondents agreed that the cost of providing information would still be a limiting factor. Table 7.27 below indicates the question asked in this regard. All the respondents were required to answer this question.

Table 7.27: Cost vs benefit

No.	Question	Variable(s)
54.	The faithful representation of relevant information is normally constrained by the cost of providing that information. Specifically in a business rescue context, • to what extent do you agree/disagree that the provision of relevant and faithfully represented information should be constrained by the cost of providing the information?	1 = Completely disagree 2 = Disagree 3 = Agree 4 = Completely agree

(See §§ 6.4 and 6.5.3.1)

Refer to section 9.2.7 for an evaluation of the results on the cost of providing the information vs the benefit to the users thereof in a business rescue context.

7.6.4.8 Preferred measurement base by business rescue aim per individual line item

In sections 6.5.4 and 6.5.5 various measurement bases were discussed in order to determine their applicability in a business rescue context. As pointed out, the assets of a listed company under business rescue may realise cash flow by being held for use, sold immediately, or sold in the normal course of business. With respect to the

liabilities, it was pointed out that it would be important to determine how the liabilities would be treated for a listed company under business rescue.

The following questions were therefore posed to respondents in order to obtain their views on the applicable measurement bases for the assets and liabilities of a company under business rescue, taking the manner of cash flow contribution or need into account.

Since a fair level of technical knowledge of accounting was needed to answer these questions, they were only posed to respondents who had indicated their profession as being an accountant, chartered accountant or auditor. The respondents were also asked to consider the questions in relation to both aims of business rescue, namely, to continue to exist on a solvent basis (aim 1) and realising a better return than under immediate liquidation (aim 2). The respondents were also asked to use only those measurements that they had indicated in Questions 52 and 53 as being applicable in a business rescue context. In order to assist the respondents, the measurement bases chosen by the respondent in Question 52 and 53 were displayed as Question 55. Table 7.28 below displays the information provided and questions asked in this regard.

Table 7.28: Preferred measurement bases for assets

No.	Question	Variable(s)
55.	You have indicated that the following measurement bases are applicable to assets in a business rescue context. Please use only these bases in the next section below. However, you may go back to the previous pages to change any of your selections should you wish to do so.	Automated list based on answers in Question 52.
56-57.	If the aim of business rescue is to maximise the likelihood of the company continuing in existence (aim 1), please select your preferred measurement basis for the following line items in the SFP, for a listed company that has a financial reporting date whilst under business rescue. Note: Please consider each line item from the point of view that it may be, in terms of the business rescue plan, held for use, sold immediately, or sold in the normal course of business. Aim 1: Assets • Property, plant and equipment • Goodwill • Other intangible assets – internally generated • Other intangible assets – purchased • Financial instruments at fair value (through PL or OCI) • Financial instruments at amortised cost • Deferred tax asset • Inventory • Trade and other receivables • Cash and cash equivalents • Other current assets	For each line item, and for each column (held for use, sold immediately, or sold in the normal course of business), choose the appropriate measurement base.
58.	If the aim of business rescue is to provide a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company (aim 2), please select your preferred measurement basis for the line items in the SFP, for a listed company that has a financial reporting date whilst under business rescue. Once again, please use only the bases chosen in question 52 above.	Automated list based on answers in Question 52.
59-60.	Note: Please consider each line item from the point of view that it may be, in terms of the business rescue plan, held for use, sold immediately, or sold in the normal course of business. Aim 2: Assets [Same assets as Questions 56 and 57]	

(See §§ 6.5.2 and 6.5.5)

With respect to the liabilities, the questions were presented in the form of a matrix; the rows containing a list of liability line items and the columns each of the business rescue aims. Various measurement bases were given in a drop-down list at every point where the row and the column intersected. The questions asked are presented in Table 7.29 below.

Table 7.29: Preferred measurement bases for liabilities

No.	Question	Variable(s)
61.	You have indicated that the following measurement bases are applicable to liabilities in a business rescue context. Once again, please use only these bases in the next section below. You may go back to the previous pages to change any of your selections should you wish to do so.	Automated list based on answers in Question 53.
62.	For each of the two aims of business rescue, please indicate your preferred measurement basis for the following liability line items in the SFP, for a listed company that has a financial reporting date whilst under business rescue. LIABILITIES • Financial instruments at fair value • Financial instruments at amortised cost • Deferred tax liability • Employee benefit obligations • Trade and other creditors • Provisions • Other current liabilities • Cash and cash equivalents	For each line item, two columns (Aim 1: Return to solvency & Aim 2: Better return to creditors and shareholders)

(See § 0)

Refer to section 9.2.8 for an evaluation of the results on the preferred measurement bases for assets and liabilities under both business rescue aims.

7.6.4.9 Questions to assess the timing of re-measurements and their presentation

Section 3.5.2.3 addressed the possibility of applying ‘fresh-start reporting’ principles in a South African context. Fresh-start reporting principles specify that assets and liabilities should be re-measured to fair values. The re-measurement is recorded just prior to the fresh-start reporting date, which is usually the date on which the plan of reorganisation is confirmed. The net re-measurement (adjustments) of assets is

presumably presented as fresh-start adjustments in the statement of operations (statement of profit and loss and other comprehensive income) in the profit or loss section. Furthermore, certain disclosures relating to the re-measurements and debt-forgiveness are made in the notes to the financial statements. Moreover, liabilities and transactions, and events relating to the reorganisation, are presented in a certain way in the statement of financial position and the statement of profit or loss and other comprehensive income, respectively.

In line with the above principles, if it is clear that a change from the current mixed-measurement base accounting model to a current value measurement model is preferable for a listed company under business rescue. It is also important to determine when the change should be recorded and where the re-measurements should be reflected. If a respondent chooses the statement of profit or loss and other comprehensive income, it would be useful to determine whether the adjustment should be recorded through profit or loss, or in the other comprehensive income section. The distinction is useful because, with fresh-start reporting, the accounting records of a South African listed company under business rescue will not be closed off. In addition, it was also considered necessary to determine what other presentations and disclosures would be useful for the users of the financial statements.

Although the researcher was not sure whether the research results would indicate the need for a change in the accounting model in a South African context, the following follow-up questions (see Table 7.30) were nevertheless included based on the following observations from the literature:

- The AICPA identified that there are changes in an entity's financial position caused by reorganisation proceedings.
- Fresh-start reporting principles, which include the necessary re-measurements, are developed to show the changes in an entity's financial position caused by reorganisation proceedings.
- One of the aims of business rescue is to return the company to solvency by allowing it time to reorganise.

Based on the above observations, the researcher considered it more likely than not that at least some of the assets and liabilities would require re-measurement in order to reflect the unique cash flow challenges faced by a listed company under business rescue. The following three questions were therefore included in the research questionnaire and are presented in Table 7.30 below. All the respondents were required to answer these questions.

Table 7.30: Questions assessing the timing and presentation of re-measurements including other useful presentations and disclosures

No.	Question	Variable(s)
63.	In your opinion, would it be useful to record the re-measurements for the assets and liabilities on the day the business rescue plan is adopted, i.e. to start with a 'Day 1' statement of financial position?	• Yes • No
64.	Where would you prefer to see the net effect of all the re-measurements of the assets reflected? (Please select from the list): • In the SFP as a separate line item, namely 'Reorganisation value' • In the statement of financial position (SFP) as part of 'Goodwill' • In the statement of comprehensive income in the profit or loss (P&L) section • In the statement of comprehensive income in the other comprehensive income (OCI) section.	Selection of 1 of the 4 choices provided
65.	How useful do you consider the presentation and disclosure suggestions in the financial statements for a listed company under business rescue, as indicated below? • Present pre- and post-commencement liabilities separately in the statement of financial position • Present events and transactions related to the business rescue separately from the continuing and discontinued operations in the statement of comprehensive income • Disclose the adjustments made to historical amounts of assets and liabilities in the notes to the financial statements • Disclose the amount of debt forgiveness in the notes to the financial statements.	1 = Not at all useful 2 = Not useful 3 = Useful 4 = Very useful

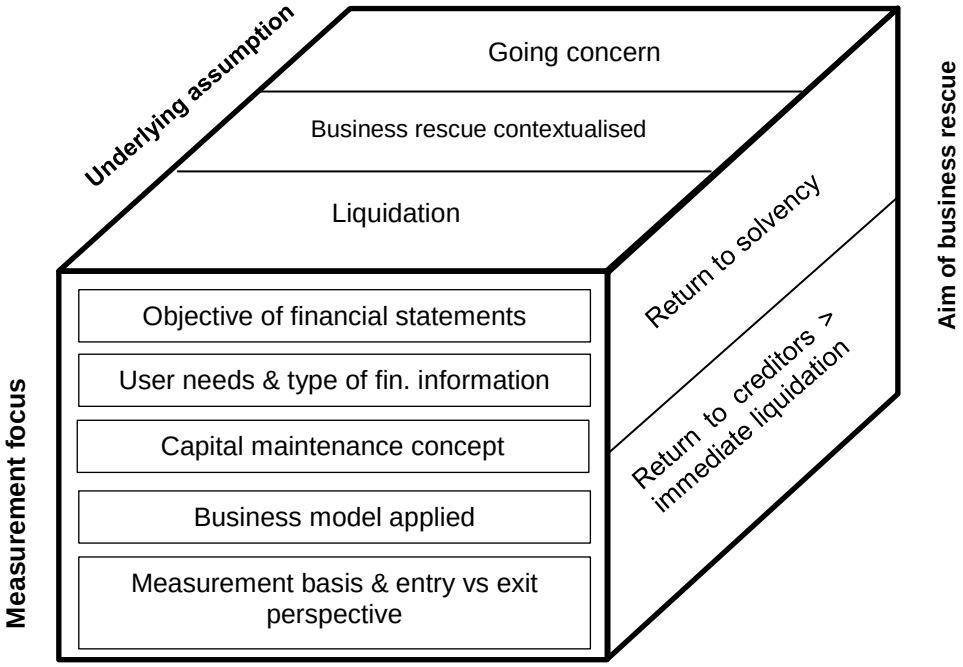
(See § 3.5.2)

See section 9.2.9 for an evaluation of the results on the timing and presentation of the re-measurements, as well as the presentation and disclosure of other useful information.

7.6.4.10 Questions on the need for business-rescue contextualised financial statements, alternative financial reporting frameworks and general guidance

Section 7.5.2 pointed out that the electronic survey system was set up to deliver a new question once the previous question had been answered. By the time the respondents reached Question 66 they had responded to several questions aimed at establishing their views on the interaction between the business rescue aims, the underlying financial reporting assumptions of going concern and liquidation and the measurement focus. These questions dealt with most of the aspects indicated in the conceptual model displayed in Figure 6.3 on page 224. The figure has been duplicated below as Figure 7.2 for ease of reference. Please note that a question on the capital maintenance concept was not included in the final questionnaire. The reason for this exclusion was discussed in section 5.4.

Figure 7.2: Copy of the conceptual model depicting the aims of business rescue, underlying financial reporting assumption and measurement focus



Source: Own observation (copy of Figure 6.3 on p. 224)

A question on an underlying financial reporting assumption that fits in between the going concern and liquidation assumptions was left for last. The rationale for this was that the respondents should firstly be given an opportunity to express their views on the business rescue aims, the traditional underlying assumptions and the various issues related to the measurement focus, before asking them for their opinion on an underlying assumption that fits in between the going concern and liquidation assumptions. This question is shown in Table 7.31 below. All the respondents were once again required to answer it.

Table 7.31: Question on the need for business-rescue contextualised financial statements

No.	Question	Variable(s)
66.	In your opinion, to what extent do you agree/disagree that shareholders, lenders and creditors of companies under business rescue can be better served, for decision-making purposes, by business-rescue contextualised general-purpose financial statements that are prepared on an assumption that fits in between the going concern assumption and the liquidation assumption?	1 = Completely disagree 2 = Disagree 3 = Agree 4 = Completely agree

Section 4.4.3 pointed out that an auditor may be able to perform an audit of financial statements in circumstances where the going concern assumption is not appropriate if he/she decided that the alternative basis is an acceptable financial reporting framework. Since this study aims to suggest a financial reporting framework for a South African listed company under business rescue, it was considered important to find out exactly what alternative financial reporting framework(s) the auditor would consider acceptable if a company were not a going concern. The question was therefore only posed to the auditor group of respondents. The question is shown in Table 7.32 below.

Table 7.32: Question on an alternative financial reporting framework

No.	Question	Variable(s)
67.	International auditing standard (ISA) 570 states that the auditor may be able to perform an audit of financial statements when the going-concern assumption is not appropriate in the circumstances, if the auditor determines that the alternative basis (assumption) is an acceptable financial reporting framework. What alternative basis (assumption) would you suggest for a company that is not a going concern?	N/a (text)

(See § 4.4.3)

Although the outcome of the research questions was unknown at this stage, it was considered important to include a final question on the usefulness of certain guidance. The rationale for this was that if a respondent disagreed in any way, they would merely state that the guidance was not useful. This question may be found in Table 7.33 below.

Table 7.33: Questions on general suggestions

No.	Question	Variable(s)
68.	With respect to the financial reporting of a listed company under business rescue: Please indicate, in your opinion, to what extent the following guidance would be useful. • A change to the Conceptual Framework to allow for an underlying business-rescue assumption with applicable business-rescue contextualised measurement(s) of assets and liabilities. • A South African statement or interpretation of GAAP (AC 500 series) on Financial Reporting of Listed companies under Business Rescue, detailing an underlying business-rescue assumption, together with applicable business-rescue contextualised measurement(s) of assets and liabilities. • A SAICA Guide on the Financial Reporting of Listed companies under Business Rescue • A SAICA Circular on the Financial Reporting of Listed companies under Business Rescue	1 = Not at all useful 2 = Not useful 3 = Useful 4 = Very useful

Refer to section 9.2.10 for an evaluation of the results obtained from Question 68.

This section explained the main sections of the research questionnaire. The rationale for and theoretical background to these questions were also indicated and referred to.

The next section will briefly explain how the data was collected. The response rate will also be discussed.

7.7 DATA COLLECTION

The previous section discussed the main sections of the research questionnaire, namely, consent to participate in the research, questions to elicit information on respondents' background and two sections containing the questions that addressed the various research objectives (see § 1.6) for the primary and secondary research questions (as indicated in § 1.5). The rationale for each of the questions asked was also explained.

In this section the data collection process is discussed. The distribution of the questionnaire to the potential respondents is addressed, as well as the transformation of the data and the response rate.

7.7.1 Distribution of the questionnaire

The selection and identification of the respondents from the various respondent groups was discussed in section 7.4. As shown in Table 7.2, to confirm their willingness to participate in the research the researcher contacted as many respondents as possible before distributing the questionnaire. Contact was made through a telephone call and/or e-mail message explaining the research project.

As indicated in section 7.4.2, the research was conducted using the SU electronic survey platform (https://sunsurveys.sun.ac.za/). This platform uses the *Checkbox* online survey tool (Checkbox Survey Inc., 2014). The research questionnaires were distributed to most respondents using the Checkbox built-in e-mail system. This e-mail system makes it possible to track non-responses and to send reminders. The SAICA secretariat, however, preferred to forward a link to the research questionnaire to the members of the APC. Although the survey platform (hereafter referred to as 'Checkbox') does allow for this, the disadvantage is that non-responses could not be tracked. Refer to section 7.7.3 for a discussion of the response rate and the measures employed to increase it.

7.7.2 Data transformation

According to Sue and Ritter (2012:149), analysis programs treat questions without a response as missing values. In order to eliminate missing values as far as possible, Checkbox was set to allow the respondent to proceed to the next question only if the previous one had been answered.

It was also indicated in section 7.6 above, some questions were only posed to certain respondents based on the group that they fell into, namely, BRP, JSE-accredited auditor, academia etc. It could be that a missing value might still have occurred if the respondent chose the ‘Other’ group in Question 2, because a specific question might not have been made available in such a case. Such instances were limited and will be indicated in the analysis of the research results.

7.7.3 Response rate

Sue and Ritter (2012:131) argue that a pre-notification message outlining the purpose of the research and the importance and value of the respondent’s contribution will increase the response rate. The researcher attempted to make contact with as many of the potential respondents as possible before distributing the survey. The pre-notification contact proved to be helpful in attaining an acceptable response rate, as indicated in Table 7.34 below. However, it was still necessary to perform follow-up procedures in most cases. Follow-up procedures included telephonic and e-mail reminders.

Table 7.34: Summary of respondent population and sample sizes

Group	Sample size	Responded	
		n	%
BRPs	40	12	30
Restructuring division	7	5	71
Subtotal – BRPs and restructuring divisions	***47***	***17***	***36***
Banking institutions	9	5	56
APC	21	7	33
Academia	29	10	34
JSE-accredited auditors (including IFRSs advisors)	30	10	33
Total	**136**	**49**	**36**

Source: Own compilation

The above table shows that the response rate varied from 30% (BRPs) to 71% for the 'Members from a restructuring division', with an average of 36%. Since the BRPs and members from a restructuring division share the same outlook, it was decided to group them together for data analysis purposes. The combined response rate was therefore 36%. The average response rate of 36% compares very well with a response rate of 17% for long internet-based surveys, such as that obtained by Deutskens, De Ruyter, Wetzels and Oosterveld (2004:33) and 19.8% for web-based surveys without response incentives as cited by Sax, Gilmartin and Bryant (2003:417). The population consists of experts with a proven background in accounting, and the likelihood of a non-response bias[22] was considered to be low.

In this section the method of data collection, questionnaire distribution and data transformation were explained. The response rate was also discussed. The following section deals with the way in which the data were analysed.

[22] Non-response bias is the bias that may exist if the responses from invited respondents that did not participate in the study would differ from those that did participate in the study.

7.8 DATA ANALYSIS

In the previous section, the way in which the data were collected was described. In addition, the way the research questionnaire was distributed and the resulting data were transformed were discussed, as was the response rate. In this section the manner in which the data were analysed is explained.

7.8.1 Types of data

The type of data generated determines the way in which the data can be analysed. Data can be classified into two broad types, namely, qualitative and quantitative data. Quantitative data can be further classified into three types, that is, nominal, ordinal and interval data (Keller, 2005:18-20).

Qualitative data is mostly textual in nature. An example would be when a respondent provides a reason for one of his/her answers. With respect to the quantitative data, the type of data that could be linked to each measurement scale was discussed in section 7.5.4. The different data scales are discussed further below.

In a nominal scale the objects or individuals are divided into categories, resulting in data with no numerical weight (Jackson, 2003:33). Examples would be where a ‘yes’/‘no’ answer is required, or where a respondent has to indicate his/her profession.

An ordinal scale is one where the objects or individuals are firstly categorised, and the categories are then ranked along a continuum. The magnitude of differences are not indicated between the measurement points (Jackson, 2003:33). An example would be to rank the individual financial statements (i.e. statement of financial position, statement of profit or loss and other comprehensive income, etc.) in order of most useful to least useful.

Interval data are real numbers and are also known as quantitative or numerical data. An example of interval data would be the number of months a company would be under business rescue before the proceedings are concluded.

This study generated both qualitative and quantitative data. Qualitatively, the research questionnaire allowed for some open-ended questions (e.g. Questions 18, 22 and 24). However, most of the questions generated nominal and ordinal quantitative data.

7.8.2 Qualitative: content analysis

The responses to open-ended questions were analysed using content analysis principles. According to Busch et al. (2012:1), content analysis is a research tool that can be used to determine the presence of certain words or concepts within texts. Accordingly, the researcher analyses the words or concepts, determines any meaning and relationships between them and make inferences about the messages contained in the texts (Busch et al., 2012:1)

According to Jenkins (1999:29), there are two ways of categorising the responses to open-ended questions, namely, to develop a framework of categories in advance and enter the responses accordingly, or to sort responses into broad categories during the analysis of the responses. In this study the latter approach was followed to analyse the responses to the open-ended questions.

7.8.3 Quantitative: statistical techniques used in analysing the data

The types of data generated by most of the questions in this study are either ordinal or nominal. However, the ordinal data are treated as interval data to facilitate a more complex analysis of the data.

The data are analysed using both descriptive and inferential (explanatory) quantitative data analysis techniques. The particular descriptive and inferential statistical techniques used in relation to the measurement scale (refer § 7.5.4) are indicated in Table 7.35 below. A brief explanation of the inferential techniques used follows the table.

Table 7.35: Quantitative analysis: measurement scale and statistical method applied

Measurement scale	Statistics used	
	Descriptive	**Inferential**
Nominal (categorical)	Frequency distributions, Percentages	McNemar's chi-square test for independence
Ordinal (treated as interval)	Frequency distributions (mode, median) Percentages Histogram	Analysis of variance (ANOVA) Variance estimation, precision and comparison (VEPAC)
Interval	Frequency distributions (mean, mode, median, standard deviation) Histogram	ANOVA VEPAC

Source: Own compilation

The above table shows the various statistical techniques used in this study. The particular inferential techniques used are briefly explained below.

7.8.3.1 McNemar's chi-square test for independence (a test for within-subjects)

The McNemar test is used to compare two variables measured in the same sample when the variables of interest are dichotomous (Dell Inc., 2015). It is then possible to infer whether differences exist between the populations of nominal data (Keller, 2005:557). The chi-square test statistic $p > 0.05$ indicates that the null hypothesis is accepted and that there is no statistical difference between variables. An example is would be to compare the considered applicability of two measurement bases in a business rescue context with each other, such as NRV vs HC, and to infer whether the one is considered more applicable than the other by assessing the chi-square test statistic.

7.8.3.2 Analysis of variance (ANOVA)

Lehtonen and Pahkinen (2004:257) posit that complex survey data can be analysed using multivariate methods, such as the ANOVA method. The ANOVA technique is a traditional method (Dell Inc., 2015), which compares two or more populations of interval data and determines whether differences exist between population means (Keller, 2005:493). The test statistic $p > 0.05$ indicates that the null hypothesis is accepted and that there is no statistical difference between the population's means. An example is the number of years' experience between different respondent groups.

7.8.3.3 Variance estimation, precision and comparison (VEPAC)

Compared to the ANOVA method, the VEPAC method is considered a more modern and general mixed-model approach. This method tests only for fixed effects, whereas the ANOVA tests for both fixed and random effects. Owing to the structure of the test, the VEPAC will have more degrees of freedom in the numerator than the ANOVA test (Dell Inc., 2015). In this study the VEPAC method was used when possible. An example would be when measuring the state of commercial solvency over multiple periods, and inferring whether there are statistical differences between the periods using the test-statistic p-value.

7.8.4 Conclusion

In this section the manner in which the data was analysed has been explained. The different types of data generated by this research were indicated, as well as the qualitative and quantitative methods that were used to analyse the data.

7.9 SUMMARY

In this chapter the research methodology used in this study was explained and was illustrated in terms of an accounting research context. The research process that was followed was set out, as well as how the respondents were selected. A large portion of this chapter was devoted to the development of the research instrument, as a similar instrument has not been developed elsewhere. The manner in which the data were

collected was further explained and the chapter concluded with an explanation of how the data were analysed.

The next chapter will address the empirical results relating to the primary research question. The empirical results will be presented and analysed using the techniques explained in this chapter.

CHAPTER 8
EMPIRICAL RESULTS ON THE UNDERLYING FINANCIAL REPORTING ASSUMPTION FOR A SOUTH AFRICAN LISTED COMPANY UNDER BUSINESS RESCUE

8.1 INTRODUCTION

The aim of the research, as indicated in section 1.4, was to determine what underlying financial reporting assumption should be used for a South African listed company under business rescue. This assumption would then be supported by context-relevant measurement bases for the company's assets and liabilities when preparing decision-useful financial statements for the users of its financial statements.

In the previous chapter the research methodology applied to collect sufficient research data to achieve the research aim and answer the research questions was described. In this chapter the research results relating to the primary research question, as indicated below, are presented and discussed.

Primary research question
Which financial reporting underlying assumption should be used for a listed company under business rescue?

The presentation and discussion here is aligned to the each of the primary research objectives as identified in section 1.6. The primary research objectives are divided into two categories.

Category 1 of the primary objectives deals with the business rescue proceedings in order to establish the business rescue aims, the likely duration of the business rescue proceedings and the likelihood of a reporting date occurring during the business rescue proceedings. Category 2 of the primary objectives deals with the underlying financial reporting assumption to be used when preparing financial statements. These primary objectives aim to assess the company's solvency, foreseeable future and possibility of being a going concern whilst under business rescue. Furthermore, the objectives seek

to ascertain whether or not the underlying going concern assumption is required by IFRSs and the perceived decision-usefulness thereof. The last of the Category 2 primary objectives is to establish whether there is an underlying assumption that fits in between the going concern and the liquidation assumption and whether it would be preferable in the case of business rescue.

The results of the study are evaluated in the following sections, which broadly agree to the sections in the research questionnaire (see APPENDIX E):

- Section 8.2: Profile of the survey respondents.
- Section 8.3 Assessing questions on the underlying financial reporting assumption for a South African listed company under business rescue.

Both of the above sections are discussed below. In order to aid the reader, the particular question for which the results are discussed is included as well.

8.2 PROFILE OF THE SURVEY RESPONDENTS

In sections 7.6.2 and 7.4.1 it was pointed out that the plan was to involve respondents who were experts in their particular field of business. Furthermore, it was noted that a strong financial accounting background would also be required to answer most of the questions. Accordingly, the credibility of the research results would be enhanced if it could be established that the respondents could be considered experts in their field of business and had a strong accounting background.

The background questions were therefore asked in order to establish a profile of the respondent and to assess his/her experience and expertise in their field of business. The results of the background questions are presented below using frequency tables.

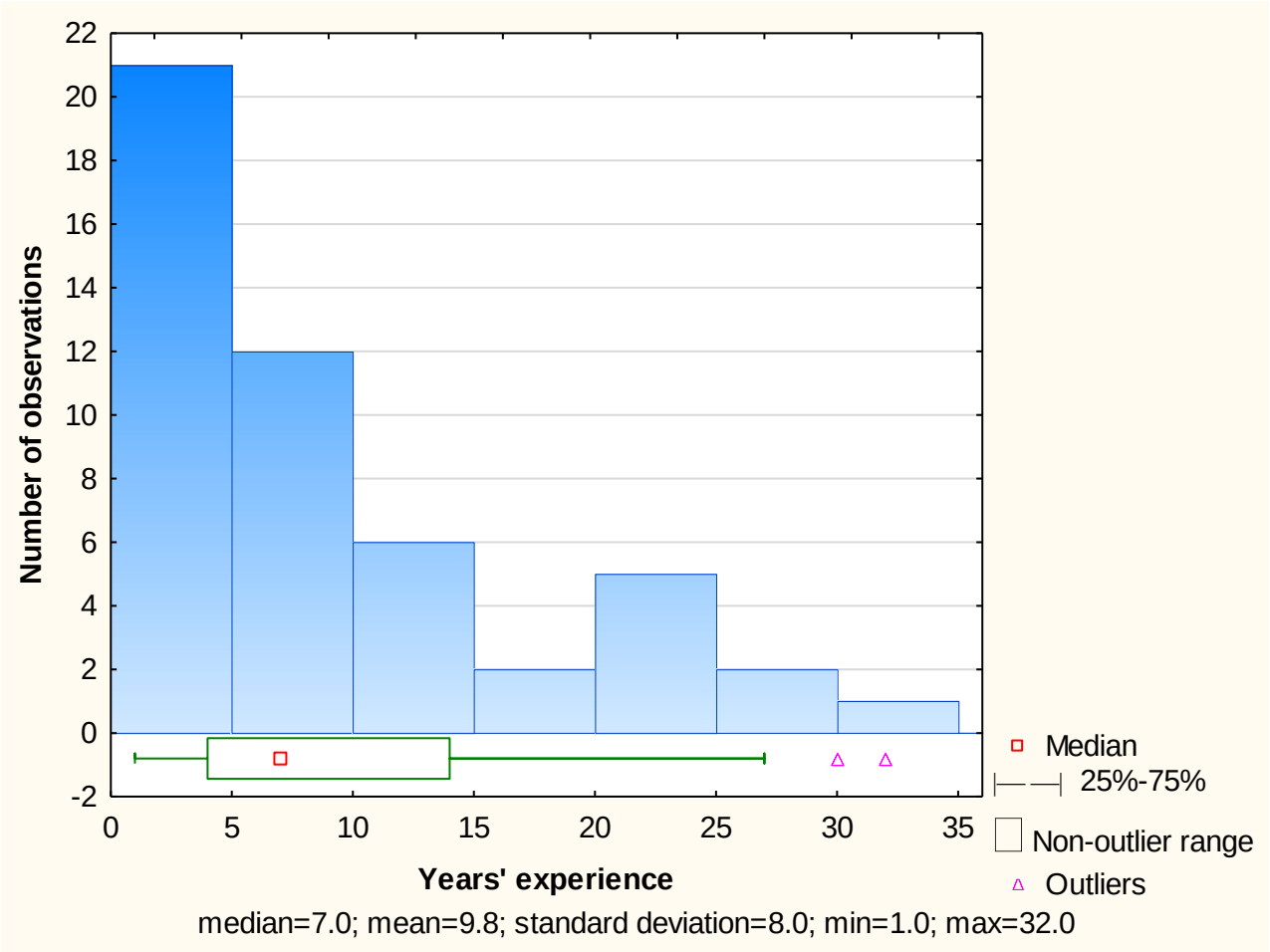
8.2.1 Evaluation of the background questions

In section 7.4.2 the selection and choice of the respondents were discussed. The different groups of respondents were also described and explained. In line with those

groups, the respondent was then asked to indicate to which group he/she belonged. As indicated earlier, the contact details of the potential respondents were obtained and the covering letter was personalised by referring to the respondent's group, for example BRP, JSE-accredited auditor (Auditor), member of academia (academia), member of the Accounting Practices Committee (APC), member of a banking institution (banking) or member of a restructuring division (RS). The number of responses per group was indicated in section 7.7.3.

The number of years that a member had been part of that particular group is an indicator of the respondent's experience in that field of business. Figure 8.1 below presents a histogram of the years' experience for the 49 respondents in intervals of five years.

Figure 8.1: Histogram on the number of years' experience



(Questionnaire – Question 3)

The respondents' experience as a member of the particular group ranges from one year to 32 years, with a mean of 9.8 years and a median of 7.0 years. There are two outliers, that is, observations that do not follow the characteristic distribution of the rest of the data. These were identified as two respondents with 30 years or more experience. The box in the box-and-whiskers plot indicates that 50% of the respondents had between four and 14 years' experience.

This discussion shows that the respondents were fairly experienced with an average of almost 10 years. However, in order to draw further conclusions on the respondents' experience, the number of years' experience of the respondents in each of the groups was analysed. Table 8.1 below summarises the number of years' experience per group.

Table 8.1: Frequency table of the number of years a member of a particular group

Group (n = 49)	Mean	Median	Standard deviation	Mini-mum	Maxi-mum	Sum	n
BRP/RS	7.2	4.0	8.5	2	32	122.5	17
Auditors	7.5	7.0	2.7	5	12	75.0	10
APC	6.4	7.0	2.0	3	9	45.0	7
Academia	17.0	14.5	8.8	2	30	170.0	10
Banking	13.9	15.5	8.7	1	22	69.5	5
Totals	**9.8**	**7.0**	**8.0**	**1**	**32**	**482.0**	**49**

Legend:
BRP/RS = Business rescue practitioners and Members of a restructuring division
APC = Members of the Accounting Practices Committee

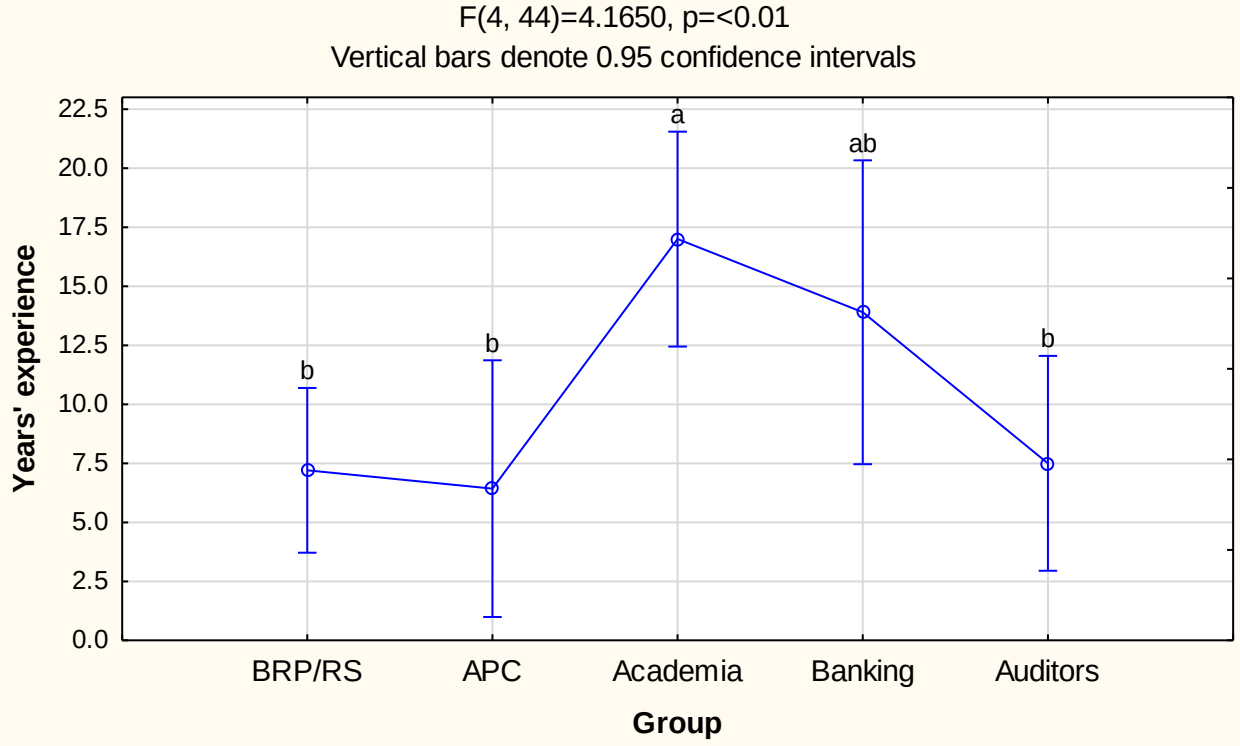
(Questionnaire – Question 2 combined with Question 3)

The respondents coming from academia (mean = 17.0 years) and the banking industry (mean = 13.9 years) had the most experience. Although it may seem that the members of the APC had on average 6.4 years' experience, one should take into account that the question asked the respondent how long he/she had been a member of the APC. The APC rotates its members every few years and to be a member of the APC, a thorough knowledge of financial accounting is required.

In the case of BRPs (including restructuring services), one should also take into account that the business rescue industry is relatively new. The 2008 Companies Act only came into effect in 2011; however, to have been accredited as a senior BRP by the CIPC, the particular respondent had to show a minimum of 10 years' experience in turnarounds, which would have included non-legislative informal turnarounds.

In considering the average number of years' experience of JSE-accredited auditors, one should remember that JSE-accreditation is separate from the normal IRBA registration. Consequently, an auditor may have been an IRBA-registered auditor for a certain period before accreditation with the JSE commenced. In total, the respondents had 482 years of experience between them.

Figure 8.2: ANOVA on the years' experience per group of respondents



Legend:
BRP/RS = Business rescue practitioners and Members of a restructuring division
APC = Members of the Accounting Practices Committee
o = Mean
a,b = Difference in letters indicates a statistical difference between the respondent group means

(Questionnaire – Question 2 combined with Question 3)

It is obvious from the above analysis of the number of years' experience that the respondents were experienced in their particular field of business. Table 8.2 below indicates the various professions that the respondents indicated in the questionnaire. It should be noted that a respondent might have indicated more than one profession; in other words, the row percentages do not add up to 100%.

Table 8.2: Frequency table of the respondent group by profession

	n	Accountant	Auditor	Consultant/Advisor	Chartered accountant	Other: insolvency practitioner	Other: Turnaround specialist
BRP/RS *(Row percentage)*	17	5 *(29%)*	2 *(12%)*	7 *(41%)*	11[23] *(65%)*	1 *(6%)*	–
Auditors *(Row percentage)*	10	1 *(10%)*	10[24] *(100%)*	–	10[25] *(100%)*	–	–
APC *(Row percentage)*	7	3 *(43%)*	–	–	7[26] *(100%)*	–	–
Academia *(Row percentage)*	10	–	1 *(10%)*	–	10 *(100%)*	–	–
Banking *(Row percentage)*	5	–	–	1 *(20%)*	3 *(60%)*	–	1 *(20%)*
Total ***(Row percentage)***	**49**	**9** ***(18%)***	**13** ***(27%)***	**8** ***(16%)***	**41** ***(84%)***	**1** ***(2%)***	**1** ***(2%)***

Legend:
BRP/RS = Business rescue practitioners and members of a restructuring division
APC = Members of the Accounting Practices Committee

(Questionnaire – Question 2 combined with Question 4)

[23] Two of the respondents in the BRP group did not select 'Chartered accountant' as their profession in Question 4. However, both respondents indicated that they were members of SAICA (see Question 71). They were therefore been considered to be chartered accountants for analysis purposes.
[24] One respondent in the JSE-accredited auditor group did not select 'Auditor' as his/her profession in Question 4. The respondent did however indicate that he/she was a member of the IRBA (Refer Question 71). The respondent was therefore included as an auditor for analysis purposes.
[25] Three of the respondents in the JSE-accredited auditor group did not select 'Chartered accountant' as their profession in Question 4. However, these respondents all indicated that they were members of SAICA (see Question 71). Therefore, for analysis purposes, these respondents were also considered to be 'Chartered Accountants'.
[26] Two of the members of the APC did not did not select 'Chartered accountant' as their profession in Question 4. However, both respondents indicated that they were members of SAICA (Refer Question 71). They were therefore considered chartered accountants for analysis purposes.

In the above analysis, it should be noted that 41 (84%) of the respondents were chartered accountants. Since respondents could select more than one option, a further analysis of the data revealed that of the eight respondents that were not chartered accountants, three were accountants. By adding the number of accountants to the number of chartered accountants, the respondents with an accounting background account for 90% of the total (44 of 49 respondents).

Considering the respondents' academic level and education, one would expect a very high percentage of respondents to have postgraduate qualifications. This is because the academic requirements for registering as an auditor or chartered accountant are currently a postgraduate qualification in business with financial accounting and auditing as two of the major subjects. Therefore, one would at least expect 41 respondents (84%) to have had a postgraduate qualification. Table 8.3 below summarises the frequency of the respondents' highest academic level.

Table 8.3: Frequency table of the highest academic level and education

Academic level and education	**Frequency**	***Percentage***
Diploma/certificate	1	*2*
Degree	3	*6*
Postgraduate degree	45[27]	*92*
Total	**49**	***100***

(Questionnaire – Question 69)

The expectation of having a high number of respondents with postgraduate qualification was confirmed. Of the total respondents, 45 (92%) had a postgraduate qualification. This compares favourably with the minimum expected number of respondents with a postgraduate qualification, namely 41 (84%). The above results show that the respondents had a strong academic background and could offer valuable insights into the matters addressed in the questionnaire.

Question 70 of the research questionnaire asked the respondents to specify the highest degree obtained. The rationale for this was to be able to note whether that

[27] Two respondents did not indicate that they had a postgraduate degree. Please refer to the explanation in the footnotes to the table below.

degree is in business where a major in financial accounting could be expected. Unfortunately some respondents did not specify their postgraduate qualification clearly, merely indicating ‘masters’ or ‘PhD’. Some respondents who were chartered accountants also indicated only a degree and no postgraduate studies. However, comfort regarding a solid academic foundation in financial accounting can be drawn from the fact that 41 (84%) of the respondents were chartered accountants. Fortunately, the respondents provided sufficient information to determine the split between honours, masters and doctoral level degrees when one assumes that all chartered accountants would have, unless they indicated otherwise, an honours level postgraduate qualification. It was therefore possible to determine the frequency of the postgraduate qualifications per group, further divided between the different postgraduate qualifications. Table 8.4 below illustrates the respondent groups by highest academic level, divided between the various qualifications.

Table 8.4: Frequency table of the respondent group by highest academic qualification

Group (n = 49)	n	Frequency of post-graduate degree	Highest level		
			Honours or equivalent degree[28]	Masters degree	Doctoral degree
BRP/RS *(Row percentage)*	17	14 *(82%)*	9 *(53%)*	4 *(23%)*	1 *(6%)*
Auditors *(Row percentage)*	10	10 *(100%)*	10 *(100%)*		
APC *(Row percentage)*	7	7[29] *(100%)*	6 *(86%)*	1 *(14%)*	
Academia *(Row percentage)*	10	10[30] *(100.0%)*	2 *(20%)*	6 *(60%)*	2 *(20%)*
Banking *(Row percentage)*	5	5 *(100%)*	2 *(40%)*	3 *(60%)*	
Total ***(Row percentage)***	**49**	**46** ***(94%)***	**29** ***(59%)***	**14** ***(29%)***	**3** ***(6%)***

Legend:
BRP/RS = Business rescue practitioners and members of a restructuring division
APC = Members of the Accounting Practices Committee

(Questionnaire – Question 2 combined with Questions 4, 69 and 70)

In total, 46 of the 49 respondents (94%) had postgraduate qualifications, with 29 (59%) of the respondents having an honours degree (or equivalent), 14 (29%) a master's degree and three (6%) a doctoral degree. As expected, the high percentage of respondents with a postgraduate qualification is also reflected in the different respondent groups. The percentages were calculated as a percentage of the number

[28] A Certificate in the Theory of Accounting, which would have allowed a person to write the qualifying examination, is for purposes of this analysis considered as equal to an honours degree.
[29] One member of the APC did not indicate whether he/she had a postgraduate degree. However, since all the members of the APC are chartered accountants registered with SAICA, the respondent must have completed his/her postgraduate studies.
[30] One member of the academia group did not indicate whether he/she had a postgraduate degree. However, the respondent did indicate that he/she had a doctorate, therefore he/she must have completed postgraduate studies.

of respondents in that group, that is, nine (53%) of the 17 respondents in the BRP and restructuring services group had honours degrees.

The academia group had the most respondents with doctoral degrees, namely, two (20%). A total of 60% of the academia group (6 respondents), as well as 60% of the banking institution group (3 respondents) included respondents with master's degrees. It is interesting to note that none of the JSE-accredited auditors had pursued further studies post-honours.

As indicated earlier, knowledge of financial accounting is very important for this study. It was also mentioned that knowledge of financial accounting can be assumed for those respondents that are chartered accountants (41 of 49 respondents). From Table 8.3 one can deduce that seven of the eight respondents that were not chartered accountants had a degree or postgraduate qualification. It was interesting to note that of the seven respondents, two had degrees in commerce, four had a masters in commerce/finance and one had a PhD. The one respondent who indicated a certificate/diploma fell into the BRP group. The respondent is therefore a senior BRP with sufficient proven turnaround experience to have been awarded accreditation by the CIPC.

Question 71 required the respondent to select the professional or related bodies that they belonged to. The responses were used to complement Questions 2 (groups) and 4 (profession) as indicated. No significant additional insight on the profile of the members could be determined and the responses were not further analysed.

8.2.2 Summary of the respondents' profile

It is apparent from the above discussion that a clear respondent profile may be identified. With the exception of two respondents who had 30 years' experience or more, most of the respondents had between four and 14 years of experience, with a median of seven years.

At least 48 (98%) of the 49 respondents had a degree in business. Of the total respondents, 46 (94%) had postgraduate qualifications ranging from honours degrees

to doctorates. Of the total respondents, 41 (84%) had financial accounting as a major subject because they had studied to become a chartered accountant.

From the above discussion one may conclude that the respondents were all highly experienced, highly qualified and knowledgeable persons working in business and academia. Therefore, one can rely on their responses to the questions asked in the research questionnaire, which were aimed at deriving data and information that would, once analysed, be acceptable to the scientific community.

The next section assesses the primary research question, namely, 'Which financial reporting underlying assumption should be used for a listed company under business rescue?'. The section concludes with a summary of the findings relating to the primary research question and the research objectives.

8.3 ASSESSING QUESTIONS ON THE UNDERLYING FINANCIAL REPORTING ASSUMPTION FOR A SOUTH AFRICAN LISTED COMPANY UNDER BUSINESS RESCUE

The previous section presented an analysis of the respondents' profile with a view to establishing their expertise and experience. It was indicated that the respondents may be considered experts in their particular field of business with many years' experience. It was also noted that the responses obtained from these respondents could be relied on to arrive at scientifically acceptable conclusions.

In this section the research findings pertaining to the primary research question, namely, 'Which financial reporting underlying assumption should be used for a listed company under business rescue?', are presented and discussed. The section is once again divided into subsections, each dealing with a different area that may influence the underlying financial reporting assumption and its related research objectives, as indicated in section 1.6.

8.3.1 The aims of business rescue

As noted in section 7.6.3.1, Questions 5 to 7 were intended to establish the two aims of business rescue and whether or not the respondents' viewed the aims as mutually exclusive or hierarchical. The questions asked are shown below, followed by a frequency table presenting the results. A discussion follows the presentation of the results.

Questions	
5.	Do you agree that the aim of business rescue is to achieve one of the following outcomes, namely: • to enable the company to continue in existence on a solvent basis (aim 1); or • to enable the realisation of assets under business rescue that will result in a better return for the company's creditors and shareholders than under immediate liquidation (aim 2).
6.	*If Question 5 = 'Yes':* Do you interpret the aims as: • mutually exclusive, in other words, either the one or the other aim, or • hierarchical, in other words, to first attempt to enable the company to continue in existence on a solvent basis, and if that is not possible, then to realise the assets under business rescue so that it will result in a better return for the company's creditors and shareholders than under immediate liquidation.
7.	*If Question 5 = 'No':* You have indicated that you do not agree. Please state your reasons in the space provided.

(Questionnaire – Questions 5 to 7)

Table 8.5: Frequency table of the aims of business rescue and mutual exclusivity vs hierarchical view

Frequency: Aims of business rescue			**Frequency: Mutual exclusivity vs hierarchical**			
			Mutually exclusive		**Hierarchical**	
Variable	**n**	***Percentage***	**n**	***Percentage***	**n**	***Percentage***
Yes	49	*100*	10	*20*	39	*80*
No	0	*0*	chi-square (df = 4) = 1.15, p = 0.89			
Total	**49**	***100***				

(Questionnaire – Question 5 combined with Question 6)

All 49 (100%) respondents agreed with the two aims of business rescue as set out in section 128(1)(b) of the 2008 Companies Act. Of the total respondents, 39 (80%) viewed the aims as hierarchical, with the remaining 10 (20%) viewing the aims as mutually exclusive. Since all the respondents agreed with the two aims in Question 5, no responses were received for Question 7.

In order to determine whether any of the groups favoured a particular view on any one of the two aims, a chi-square test of independence was performed. The results indicated that there was no statistical difference (p = 0.89) between the respondent groups and the mutually exclusive/hierarchical view chosen by the respondents in the group.

If an hierarchical view is adopted it means that aim 1 is pursued first and the business rescue plan, if adopted, will be constructed in such a way that the company can recover from financial distress and return to solvency. Therefore, if the plan is successful, the company will at some stage during the proceedings recover from the financial distress. However, once the BRP decides that aim 1 will not be achieved, he/she may pursue aim 2, if approved by the creditors. This could happen during the business rescue proceedings. Owing to the nature of aim 2, the company is not deemed to recover from financial distress as the intention is not to return to solvency. Aim 2 is also referred to as an ‘orderly liquidation’.

It is clear from the above discussion that when considering an applicable underlying financial reporting assumption, the particular aim pursued should be considered, as this illustrates the intended outcome, even though the outcome may be an uncertain one. Therefore, the business rescue aims may be regarded as an indicator of whether or not the company can be considered a going concern.

The consideration of whether or not a company is a going concern would be done when a reporting date becomes due. The next section addresses the perceived duration of business rescue and the likelihood that a reporting date may occur during the business rescue proceedings.

8.3.2 The perceived duration of business rescue and the likelihood of a reporting date occurring whilst under business rescue

In section 7.6.3.3, it was established that it is necessary to determine the likely duration of business rescue proceedings for a JSE-listed company. It was also indicated that Questions 11 and 12 (see below) would be posed to the BRP and auditor groups. Question 11 on the likely duration would help to determine the likelihood of a financial reporting date occurring during business rescue proceedings. It was also mentioned that current CIPC statistics show that it takes about nine months to conclude business rescue proceedings.

In this section the results of questions relating to the length of time a listed company would be under business rescue are presented and discussed. It should be noted that the total number of respondents in the BRP and auditor groups was 22. Unfortunately, Questions 11 and 12 (see below) were not posed to the members of the restructuring divisions group. However, it was thought that the answers, as indicated below, would not have differed had the restructuring divisions group been included. The section also presents the findings on the questions aimed at determining the likelihood of a reporting date occurring whilst the company is under business rescue. The questions are indicated below, followed by the research results and a discussion thereof.

8.3.2.1 The perceived duration of business rescue

Question

For a listed company that has filed for business rescue, in your opinion, what is the likely duration of:

- the period (in months) from filing for business rescue up to the date of adoption/rejection of the business rescue plan? (Please round off to the nearest month.)
- the period (in months) from adoption of the business rescue plan to conclusion of the business rescue plan (filing the notice of substantial implementation)?

(Questionnaire – Question 11)

The respondents were asked to estimate the number of months from filing for business rescue up to the adoption or rejection of the business rescue plan, as well as the period from the adoption of the business rescue plan to the substantial implementation thereof. Table 8.6 below presents the frequency distributions for these periods, as provided by the respondents.

Table 8.6: Frequency distribution on the duration of business rescue

Period from:	**Mean**	**Median**	**Standard deviation (sd)**
Filing for business rescue up to adoption/rejection of the business rescue plan	5.6	3.0	4.5
Adoption of the business rescue plan up to its substantial implementation	10.8	12.0	6.8
Total duration (calculated)	**16.4**	**15.0**	**9.4**

(Questionnaire – Question 11)

The respondents indicated that it may take on average 5.6 months (median = 3; sd = 4.5 months) from filing for business rescue up to the adoption or rejection of a business rescue plan. On the other hand. the period from the adoption of a business rescue plan to the substantial implementation of the plan may take 10.8 months (median = 12; sd = 6.8).

The above duration stands in sharp contrast to the duration envisaged in the 2008 Companies Act, which states that it should take just over two months to have the business rescue plan adopted or rejected, with a total of three months to conclude business rescue proceedings. One may conclude that the duration envisaged by the 2008 Companies Act is clearly inadequate and impractical. Furthermore, it seems obvious that with a total duration of approximately 16 months (median = 15; sd = 9.4), the likelihood of having a reporting date while the company is under business rescue is highly probable. However, to be certain the respondents were asked to assess the likelihood of having a reporting date whilst under business rescue.

The next section shows the questions asked on the likelihood of having a reporting date whilst under business rescue, as well as the results thereof. An interpretation of the results follows their presentation.

8.3.2.2 The likelihood of a reporting date whilst under business rescue

Question

The JSE listing requirements determine that if annual financial statements have not been distributed to all shareholders within three months of its financial year-end, the issuer must distribute and publish provisional annual financial statements ('provisional reports'). The JSE allows one month's grace if the provisional reports have not been published within the three months as specified.

Based on your experience of the likely duration of a business rescue:

- what is the likelihood that a listed company will experience a financial reporting date (interim or year-end) whilst under business rescue proceedings?
- what is the likelihood that a listed company under business rescue will still be under business rescue four months after its reporting date (interim or year-end)?

(Questionnaire – Question 12)

The respondents were firstly asked to indicate what the likelihood is of a financial reporting date occurring whilst the company is under business rescue proceedings.

Since the JSE listing requirements allow four months for submitting provisional reports, the respondents were asked to assess the likelihood that the company would still be under business rescue when the provisional reports are due. The results of these questions are presented in Table 8.7 below.

Table 8.7: Frequency table of the reporting date and business rescue

Likelihood (n = 22)	**Financial reporting date whilst under business rescue?**	**Under business rescue four months after reporting date?**
Completely unlikely *(Row percentage)*	2 *(9%)*	1 *(5%)*
Unlikely *(Row percentage)*	0 *(0%)*	0 *(0%)*
Likely *(Row percentage)*	6 *(27%)*	11 *(50%)*
Completely likely *(Row percentage)*	14 *(64%)*	10 *(45%)*
Total ***(Row percentage)***	**22** ***(100%)***	**22** ***(100%)***

(Questionnaire – Question 12)

Of the total respondents, six (27%) considered it likely and a further 14 (64%) considered it completely likely that a financial reporting date would occur whilst under business rescue. On the question of the likelihood that the company would still be under business rescue four months after the reporting date, 11 (50%) considered it likely and a further ten (45%) considered it completely likely to happen. One may therefore conclude that it is very likely that a financial reporting date will occur while the company is under business rescue, and that the company will still be under business rescue when the provisional reports required by the JSE are due four months (3 months plus 1 month's grace) after the reporting date (see § 4.5.2). The above results also concur with the results on the perceived duration of business rescue proceedings as indicated in Table 8.6 above.

8.3.2.3 Summary of the findings on the perceived duration of business rescue and the likelihood of a reporting date occurring whilst under business rescue

The rationale for asking these questions was to confirm that it is likely that a South African listed company would have to report while it is under business rescue. The perceived duration of the business rescue proceedings indicated that it would take on average longer than 12 months to wrap up the proceedings.

A reporting date is therefore very likely to occur during the business rescue proceedings. Furthermore, the JSE listing requirements state that the company should at least provide provisional reports at the latest four months (3 months plus 1 month's grace) after the reporting date (see § 4.5.2). Once again, the results showed that the company is likely to still be under business rescue four months after the reporting date. Therefore, because the company has to submit financial reports a decision on the appropriate underlying financial reporting assumption to apply should be made.

Companies go into business rescue because they find themselves in financial distress. The next section discusses the realisation of the company's assets and liabilities while it is in financial distress.

8.3.3 Assessing financial distress and the realisation of assets and liabilities

In section 7.6.3.5, it was mentioned that the presence of financial distress may have an effect of the realisation of assets and the settlement of liabilities in the normal course of business. The question below was posed to the respondents to obtain their view on the matter. The presentation and discussion of the results follow the question below.

Question

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?

(Questionnaire – Question 16)

Of the 49 respondents, 25 (51%) agreed and a further 17 (35%) completely agreed 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 indicate that 86% of the respondents were of the opinion that while the company is in financial distress, the company's assets and liabilities may not be realised or settled in the normal course of business. In other words, whilst experiencing financial distress the company may not be considered a going concern. The presence of financial distress can therefore be considered an indicator that a company may not be a going concern.

The next section addresses the state of solvency as an indicator of financial distress. The state of solvency will be considered for both business rescue aims at various stages of the business rescue proceedings.

8.3.4 The state of solvency

In section 7.6.3.2 it was pointed out that evaluating the state of commercial and technical solvency for both aims during the business rescue proceedings will determine the likelihood of recovery from financial distress. The state of commercial and technical solvency is therefore an indicator of financial distress, which in turn is an indicator of when a company can be considered a going concern.

The state of commercial and technical solvency is determined at four stages during the business rescue proceedings, namely, before the business rescue plan is adopted/rejected, just after the plan has been adopted, midway through the implementation of the plan and just before substantial implementation of the plan.

The evaluation of the state of commercial and technical solvency is presented in the following subsections:

- Section 8.3.4.1: Business rescue aims 1 and 2 – for the period from filing for business rescue to adoption or rejection of the business rescue plan.
- Section 8.3.4.2: Business rescue aim 1 – for the period from the adoption of the business rescue plan to the substantial implementation thereof.

- Section 8.3.4.3: Business rescue aim 2 – for the period from the adoption of the business rescue plan to the substantial implementation thereof.
- Section 8.3.4.4: Relationship between the state of solvency, as an indicator of financial distress, and the consideration of going concern.

8.3.4.1 Business rescue aims 1 and 2: from filing for business rescue to the adoption or rejection of the business rescue plan

The first question considers the commercial and technical state of solvency of the company during the period from filing for business rescue up to the adoption or rejection of the business rescue plan. The question, as well as the relevant definitions, are given below and this is followed by the results, which are discussed at the end of the section.

Question

Please consider the commercial or technical state of solvency of a JSE listed company in financial distress that has filed for business rescue. In your opinion, will the company be:

- commercially solvent in the period from filing for business rescue up to the adoption or rejection of the business rescue plan?
- technically solvent in the period from filing for business rescue up to the adoption or rejection of the business rescue plan?

Commercial solvent (also referred to as 'liquidity'):

The company is able to pay its debts as they become due in the ordinary course of business for a period of 12 months after the date on which the commercial solvency (liquidity) is considered.

Technically solvent:

The assets of the company, as fairly valued, equal or exceed the liabilities of the company, as fairly valued (also referred to as factual solvency).

(Questionnaire – Question 8)

These questions were posed to BRP/RS and JSE-accredited auditors groups. In order to determine whether there is a statistical difference between the groups (independent

variable) and the respondents' answer on their perceived state of solvency (dependent variable), a chi-square test of independency was performed. The assessment of commercial solvency ($p = 0.54$) and technical solvency ($p = 0.95$) revealed that there are no statistical differences between the groups (BRP/RS and Auditors) and the answers (Yes/No) provided. The results may therefore be considered for a combined total of 26 respondents. Table 8.8 below summarises the responses on the state of commercial and technical solvency from filing for business rescue up to the adoption or rejection of the business rescue plan.

Table 8.8: Frequency table of the state of commercial and technical solvency from filing for business rescue up to adoption or rejection of the business rescue plan

State of solvency	**Consideration of solvency**		
	Yes	**No**	**Row totals**
Commercially solvent *(Row percentage)*	4 *(15%)*	22 *(85%)*	**26**[31] ***(100%)***
Technically solvent *(Row percentage)*	8 *(31%)*	18 *(69%)*	**26** ***(100%)***

(Questionnaire – Question 8)

In assessing the state of commercial solvency during the period from filing for business rescue up to the adoption or rejection of the business rescue plan, 22 (85%) of the total respondents indicated that the company would not be commercially solvent. In other words, only 15% of the respondents were of the opinion that the company would be commercially solvent. Considering the technical solvency during the period from filing for business rescue up to the adoption or rejection of the business rescue plan, 18 (69%) indicated that the company would not be technically solvent. In other words, only 31% of the respondents were of the opinion that the company would be technically solvent.

[31] One respondent in the BRP/RS group initially chose the 'Other' option in Question 2 and was not automatically assigned to the BRP/RS group. The respondent gave his e-mail address at the end of the questionnaire and could subsequently be classified in the BRP/RS group for data analysis purposes. However, Questions 8 to 10 were conditional on the initial selection of the group and were therefore not made available to the respondent. Therefore, the BRP/RS group in this question consists of 16 respondents, instead of 17.

The above discussion reveals that a listed company, after filing for business rescue protection, would not be considered to be either commercially or technically solvent in the period from filing for business rescue up to the adoption or rejection of a business rescue plan. This means that the company is still in financial distress during that period, further indicating that the company may not be considered a going concern during that period.

The higher percentage (85%) attributed to not being commercially solvent may be because companies tend to file for business rescue when experiencing an inability to pay their debts when they fall due. The slightly lower percentage attributable to not being technically solvent (69%) may be attributable to the fact that the definition of financial distress (see § 1.2.2) allows a company to file for business rescue protection even if the company becomes technically insolvent within the ensuing six months. Some companies may therefore still be technically solvent but commercially insolvent. However, such a company is still in financial distress and, due to the fact that the assets and liabilities may not be realised in the normal course of business, may not be considered a going concern.

The rest of the questions considered the commercial and technical solvency during the period from the adoption of a business rescue plan to the substantial implementation of the plan under both aims of business rescue. The state of commercial and technical solvency under aim 1 is discussed next.

8.3.4.2 Business rescue aim 1 (continue to exist): from the adoption of the business rescue plan to the substantial implementation thereof

Question

Assume a listed company is under business rescue and that the business rescue plan has been adopted with the aim of maximising the likelihood of the company continuing in existence on a solvent basis (aim 1).

Considering aim 1 and commercial solvency (liquidity): What is the likelihood that the listed company is *commercially solvent* (able to pay its debt as they fall due) during the proceedings at the following points in time?:

- Just after adoption of the business rescue plan?
- Halfway through the implementation of the business rescue plan?
- Just before conclusion of the business rescue plan (filing the notice of substantial implementation)?

Considering aim 1 and technical solvency: What is the likelihood that the listed company is *technically solvent* (fairly valued assets exceed fairly valued liabilities) during the proceedings at the following points in time?:

- Just after adoption of the business rescue plan?
- Halfway through the implementation of the business rescue plan?
- Just before conclusion of the business rescue plan?

With this aim of enabling the company to continue in existence in mind (aim 1):

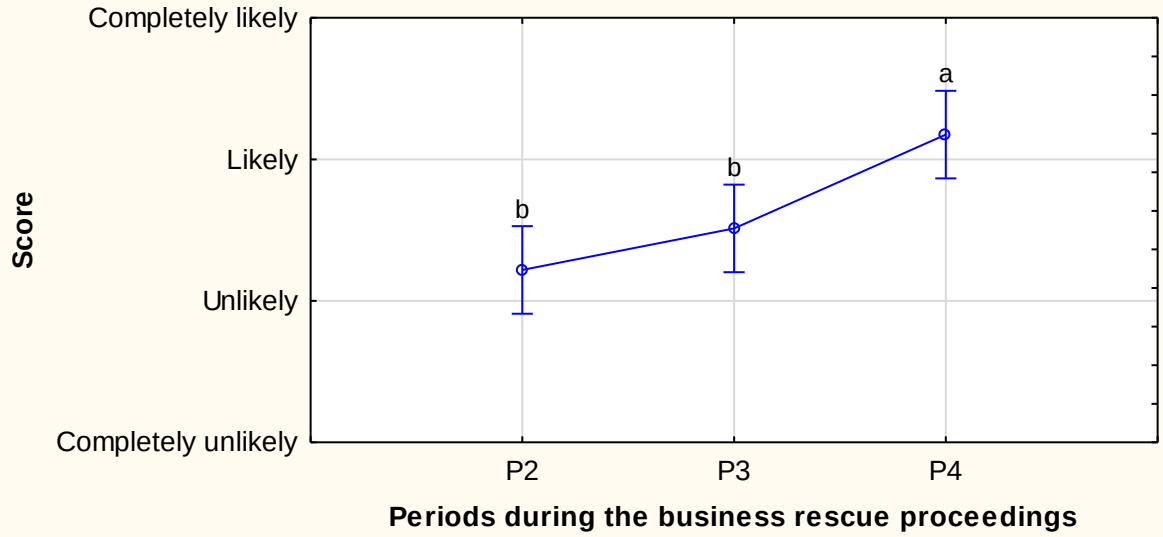
- In your opinion, what is the likelihood that the listed company, as a legal entity, will continue to exist after the conclusion of the business rescue plan?

(Questionnaire – Question 9)

A VEPAC was performed on the results. The VEPAC interaction effect F-test indicated that there is no statistical difference ($p = 0.73$) between the groups (independent variable) and the likelihood of commercial solvency (dependent variable). The

respondents' answers could therefore be considered in total for the 26 respondents in the BR/RS and auditor groups. Figure 8.3 below summarises the results.

Figure 8.3: VEPAC on the state of commercial solvency under business rescue aim 1 (continue to exist)



Legend:
P2 = Just after adoption of the business rescue plan
P3 = Halfway during the implementation of the business rescue plan
P4 = Just before substantial implementation of the business rescue plan

(Questionnaire - Question 9)

The different letters above the vertical bars indicate whether or not there is a statistical difference between the results for the different periods (P2 to P4). If the letters are the same, it indicates that there is no statistical difference between the scores for these periods.

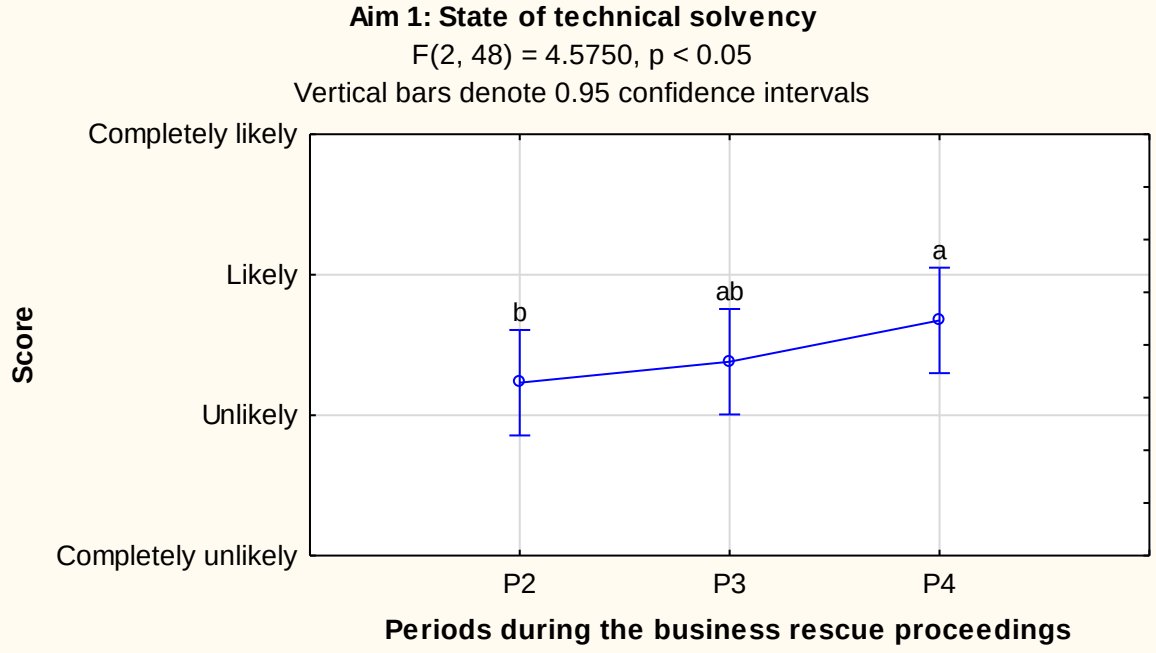
The graph indicates that there are significant statistical differences ($p < 0.01$) between the periods. Although there is no statistical difference between P2 and P3, a statistical difference exists between P2 and P4, and between P3 and P4.

With respect to P2 and P3, 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 up to halfway through implementing the business rescue plan. However, the respondents considered it more than likely that the company would be commercially solvent just before substantial implementation of the plan (P4).

Regarding the technical state of solvency for a listed company under business rescue, the VEPAC interaction effect F-test indicated that there is no statistical difference ($p = 0.24$) between the groups (independent variable) and the likelihood of technical solvency (dependent variable). The respondents' answers could therefore once again be considered in total, as indicated in Figure 8.4 below.

Figure 8.4: VEPAC on the state of technical solvency under business rescue aim 1 (continue to exist)



Legend:
P2 = Just after adoption of the business rescue plan
P3 = Halfway during the implementation of the business rescue plan
P4 = Just before substantial implementation of the business rescue plan

(Questionnaire - Question 9)

The above results indicate that there is no statistical difference between the periods P2 and P3. There is also no statistical difference between the periods P3 and P4. However, there is a statistical difference between P2 and P4. In terms of the likelihood of technical solvency, the results indicate that the respondents considered it more

unlikely than likely that the company would be technically solvent during the period P2 and P3. 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 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.

On the question of whether or not the company would continue to exist as a legal entity after the conclusion of the business rescue proceedings, 22 (81%) indicated that it was likely, and a further four (15%) of the total respondents indicated that it would be very likely that the company would continue to exist on concluding the business rescue.

As an indicator of financial distress, the above results on the state of commercial and technical solvency indicate that the company would be likely recover from financial distress in the period just before the substantial implementation of the business rescue plan. This opinion that the company would continue to exist also correlates with the recovery from financial distress. If one considers that continuing to exist on a solvent basis is the purpose of business rescue aim 1, one may therefore expect, as the results indicate, that the company will return to solvency in the period just before substantial implementation of the plan. On the other hand, the results also indicate that it is likely that the company would remain in financial distress in the preceding periods.

As indicated earlier, the BRP may pursue aim 2 during the business rescue proceedings. The next question considers commercial and technical solvency when aim 2 is pursued. This consideration is done for the same periods used for Question 9 above.

8.3.4.3 Business rescue aim 2 (better return to creditors): from the adoption of the business rescue plan to the substantial implementation thereof

Question

Assume a listed company is under business rescue and that the business rescue plan has been adopted with the aim of providing a better return to shareholders and creditors than under immediate liquidation (aim 2).

Considering aim 2 and commercial solvency (liquidity): What is the likelihood that the listed company is *commercially solvent* (able to pay its debt as they fall due) during the proceedings at the following points in time?:

- Just after adoption of the business rescue plan?
- Halfway through the implementation of the business rescue plan?
- Just before conclusion of the business rescue plan (filing the notice of substantial implementation)?

Considering aim 2 and technical solvency: What is the likelihood that the listed company is *technically solvent* (fairly valued assets exceed fairly valued liabilities) during the proceedings at the following points in time?:

- Just after adoption of the business rescue plan?
- Halfway through the implementation of the business rescue plan?
- Just before conclusion of the business rescue plan?

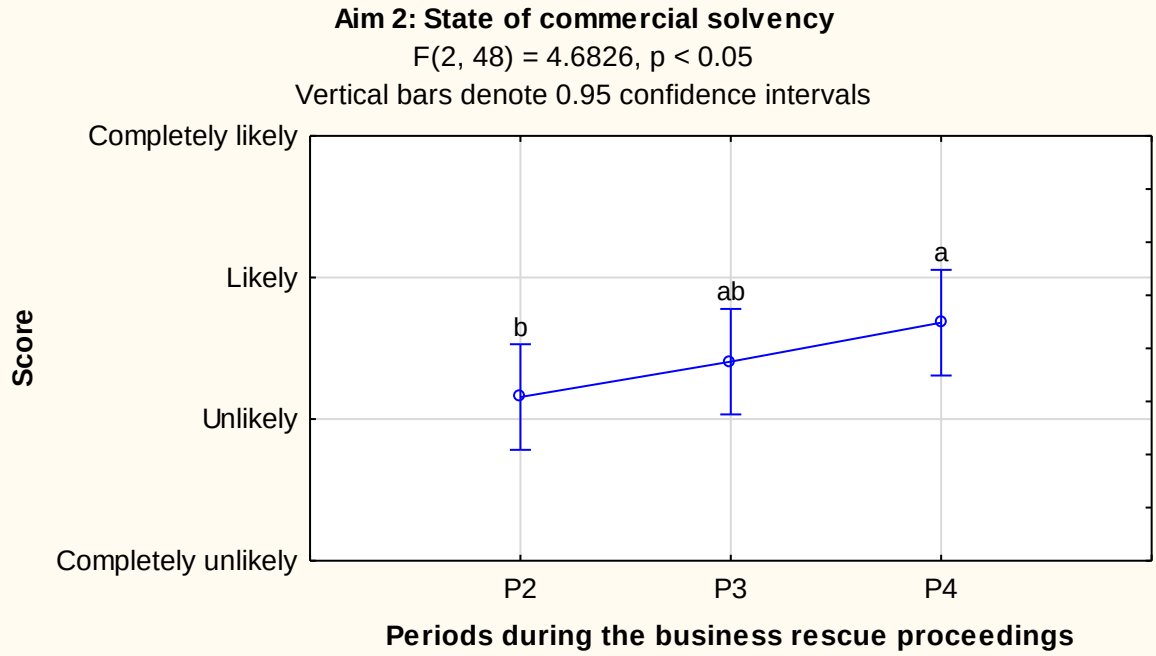
With this aim of enabling a better return to creditors and shareholders in mind:

- In your opinion, what is the likelihood that the listed company, as a legal entity, will continue to exist after the conclusion of the business rescue plan?

(Questionnaire – Question 10)

The VEPAC performed on the results revealed an interaction effect F-test of $p = 0.22$, indicating the existence of no statistical difference between the groups (independent variable) and the likelihood of commercial solvency (dependent variable). The respondents' answers could therefore once again be considered in total for the 26 respondents in the BR/RS and auditor groups. Figure 8.5 below summarises the results.

Figure 8.5: VEPAC on the state of commercial solvency under business rescue aim 2 (better return to creditors)



Legend:
P2 = Just after adoption of the business rescue plan
P3 = Halfway during the implementation of the business rescue plan
P4 = Just before substantial implementation of the business rescue plan

(Questionnaire - Question 10)

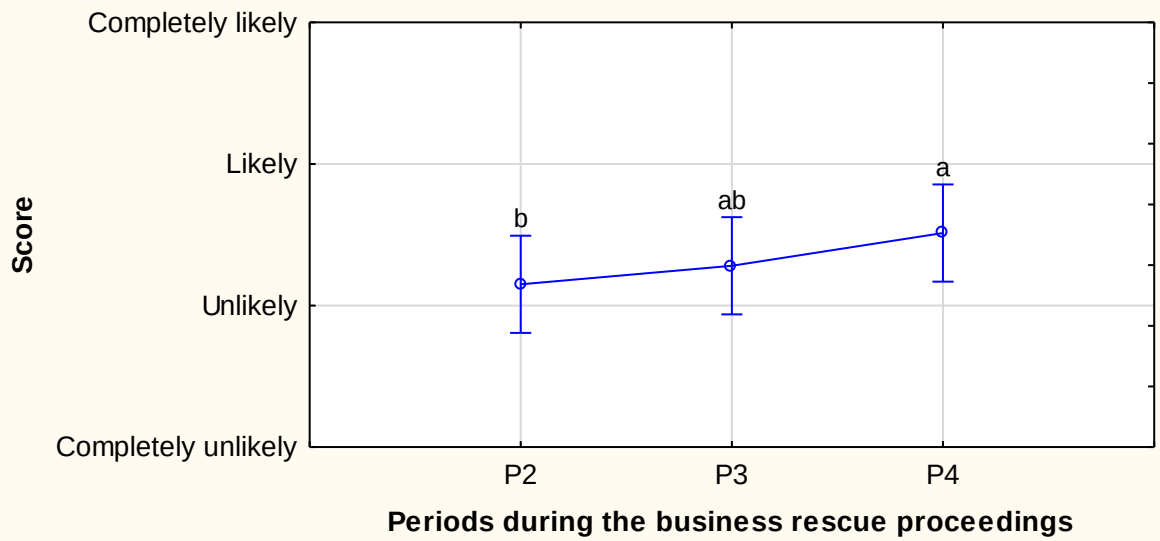
The VEPAC indicated statistical differences ($p < 0.05$) between the periods. No statistical difference was found between P2 and P3, or between P3 and P4. However, there a statistical difference was found between P2 and P4.

The results indicate that for the period 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 commercially solvent. However, the results also indicate that there is 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 are ambivalent on their view for the period P2, that is, halfway through the business rescue proceedings.

In summary, the results indicate that it is 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.

With reference to the technical state of solvency for a listed company under business rescue pursuing aim 2, the VEPAC interaction effect F-test indicated no statistical difference ($p = 0.22$) between the groups (independent variable) and the likelihood of technical solvency (dependent variable). The respondents' answers could therefore be considered in total for the 26 respondents in the BR/RS and auditor groups, as indicated in Figure 8.6 below.

Figure 8.6: VEPAC on the state of technical solvency under business rescue aim 2 (better return to creditors)



Legend:
P2 = Just after adoption of the business rescue plan
P3 = Halfway during the implementation of the business rescue plan
P4 = Just before substantial implementation of the business rescue plan

(Questionnaire - Question 10)

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. However, the results also indicated that there is no statistical difference between P3

and P4. However, there is a statistical difference between P2 and P4. Considering the scores and the statistical indifference together, it seems more unlikely than likely that the company would be considered technically solvent.

The last question in this series assessed the likelihood that a listed company under business rescue, where the BRP pursues aim 2, would continue to exist after the conclusion of the business rescue proceedings. Of the total respondents that answered this question, 14 (52%) indicated that would be likely that the company would continue to exist, while a further two (7%) considered it very likely that the company would continue to exist. In other words, 59% (52% + 7%) of the respondents considered it likely that the company would continue to exist. This seeming contradiction is further discussed below.

In summary, the results on the commercial and technical state of solvency indicate that the respondents considered a company unlikely to be commercially or technically solvent just after the adoption of a business rescue plan. Halfway through the proceedings the company would be considered not to be technically solvent, but the respondents were undecided on the state of commercial solvency. Just prior to the substantial implementation of the business rescue plan, the respondents stated that the company would still not to be technically solvent, although there is a slight likelihood that the company might be considered commercially solvent.

If one considers that the purpose of business rescue aim 2 is to use and realise the assets in order to render a better return for creditors, the company might be able to pay its debts as they fall due (i.e. commercial solvent) so as to conclude the proceedings. However, some or most of those debts would have been renegotiated amounts with creditors. In other words, the slight likelihood of commercial solvency may be due to the winding down of the assets and not because the company is trading successfully again.

The respondents indicated that it is likely that the company might continue to exist after the business rescue proceedings have been concluded. Owing to the purpose of aim 2, the respondents' view is surprising. However, it is possible that the company could

continue to exist as a shell with no assets and liabilities, but not as a company that will be trading successfully.

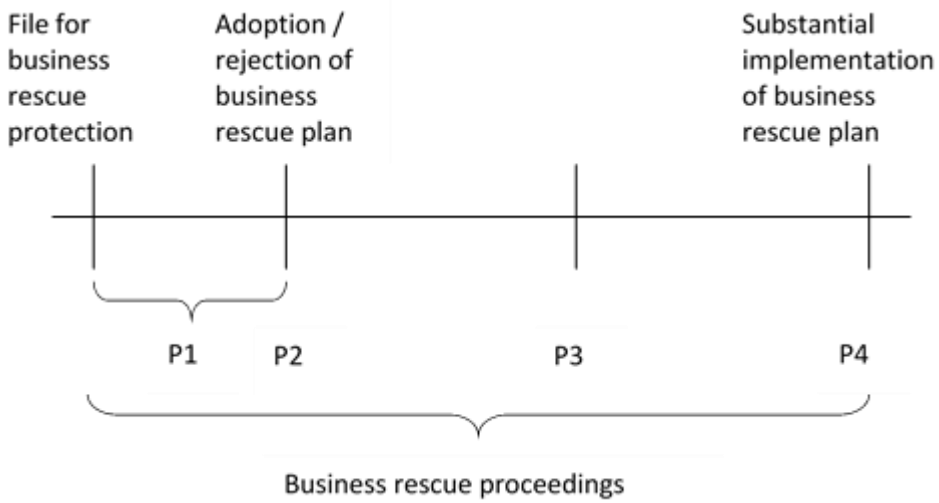
8.3.4.4 Relationship between the state of solvency, as an indicator of financial distress, and the consideration of going concern

It was earlier noted that a company enters business rescue because it is in financial distress. Financial distress refers to the commercial and technical state of solvency of a company. Therefore the state of commercial and technical solvency is considered an indicator of financial distress.

In section 8.3.3 it was mentioned that if a company cannot realise its assets and liabilities in the normal course of business, it may not be considered a going concern. It was also concluded that a company in financial distress may not realise its assets and liabilities in the normal course of business. Therefore, the state of solvency can be considered an indicator of whether the company may be considered a going concern.

The questions in this section assessed the state of commercial and technical solvency for a South African listed company under business rescue. The assessment was made for both business rescue aims and at various points during the business rescue proceedings. Figure 8.7 below summarises the conclusions made on the state of solvency during the various periods in the business rescue proceedings.

Figure 8.7: Summary on the state of solvency during business rescue proceedings



Aim 1 (continue to exist): State of solvency				
• Commercially	U	U	U	L
• Technically	U	U	?	L
Aim 2 (better return to creditors): State of solvency				
• Commercially	U	U	?	? to L
• Technically	U	U	U	U

Legend:
P1 = Period from filing for business rescue to adoption/rejection of the plan
P2 = Just after 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 periods above
? = Undecided whether it can be considered a going concern at period P3 and P4 above
L = Likely to be considered a going concern at period P4 above

Source: Own observation

The above figure summarises the conclusions made on the state of commercial and technical solvency during the various periods in the business rescue proceedings for both business rescue aims. The conclusions are discussed separately for each of the aims below.

8.3.4.5 Consideration of solvency with respect to business rescue aim 1 (continue to exist)

The results indicated that the likelihood of the company being commercially solvent would occur in the period just before substantial implementation of the business rescue plan. Therefore, the company is unlikely to recover from financial distress in the periods

following the filing for business rescue (P1) up to halfway through the business rescue proceedings (P3). The above periods includes a period (P3) where the respondents were undecided on the matter of the technical solvency of the company.

Considering the relationship between financial distress and going concern, this therefore indicates that the company is unlikely to be considered a going concern for the periods P1 up to P3. The company is only likely to be considered a going concern just before substantial implementation of the business rescue plan. This conclusion is supported by the fact that the respondents considered it likely that the company would continue to exist after conclusion of the business rescue proceedings.

8.3.4.6 Consideration of solvency with respect to business rescue aim 2 (better return to creditors)

The results indicate a slight likelihood that the company may be commercially solvent just before substantial implementation of the business rescue plan. As indicated earlier, this may be due to the fact that the assets are being wound down to render a better return for creditors than under immediate liquidation. Despite this possibility, however, the author considers that it is unlikely that such a company would return to commercial or technical solvency during the proceedings.

If one considers the relationship between financial distress and going concern, it is apparent that a company where the BRP pursues aim 2 is unlikely to be considered a going concern during the business rescue proceedings. Nevertheless, the respondents maintained that it would be likely that the company might continue to exist after the business rescue proceedings were concluded. As indicated earlier, although this is a possibility the most likely scenario would be as a shell company devoid of assets or liabilities.

If a company is in financial distress, certain actions may be needed to rescue it and to help it recover from financial distress. The next section presents the findings relating to questions intended to determine the likelihood of those actions.

8.3.5 Assessing the actions to rescue the company

When a company is unable to meet its obligations as they become due, certain actions should be taken in order to meet the obligations; these may significantly contradict the going concern financial reporting underlying assumption, as indicated in section 7.6.3.4. If a company is under business rescue, the BRP will construct a plan in order to meet the company's debts (obligations), either under business rescue aim 1 (continue to exist) or aim 2 (better return to creditors).

In this section the results of the question on the actions necessary to rescue a listed company under business rescue are presented and discussed. The questions asked are stated below, followed by a table indicating the results.

Question

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
- Others: Please specify

(Questionnaire – Question 13)

Table 8.9: Frequency table of the actions taken to rescue the company

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%)*	**48** **(100%)**
Restructuring of debt (Action 2) *(Row percentage)*	1 *(2%)*	0 *(0%)*	11 *(23%)*	36 *(75%)*	**48** **(100%)**
Substantial revision of its operations (Action 3) *(Row percentage)*	1 *(2%)*	6 *(13%)*	29 *(60%)*	12 *(25%)*	**48** **(100%)**
Materially scaling down its operations (Action 4) *(Row percentage)*	0 *(0%)*	13 (*27%)*	30 *(63%)*	5 *(10%)*	**48** **(100%)**

(Questionnaire – Question 13)

One respondent did not answer the question. The results indicated that 31 (64%) of the 48 respondents who answered the question considered the substantial disposition of assets outside the ordinary course of business as likely to be necessary, with a further eight (17%) considering it completely likely to be necessary. In other words, 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 by 11 (23%) of the respondents and completely likely by a further 36 (75%). In other words, 98% (23% + 75%) considered it likely that debt would need to be restructured in order to rescue the company.

The substantial revision of a company’s operations under business rescue was also considered a necessary action. A total of 29 respondents (60%) considered this action likely to be necessary, with a further 12 (25%) considering it completely likely to be necessary. In other words, 85% (60% + 25%) considered the action necessary to rescue the company.

With regard to the need to materially scale down the company's operations, 30 (63%) of the respondents considered the action to be likely and a further five (10%) of the respondents considered it completely likely. In this case a total of 73% (63% + 10%) considered that it would be necessary to materially scale down the company's operations in order to rescue the company.

The above analysis indicates that all of the listed actions were considered either likely or completely likely to be necessary to rescue 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, they would significantly contradict the potential assessment of the company as a going concern.

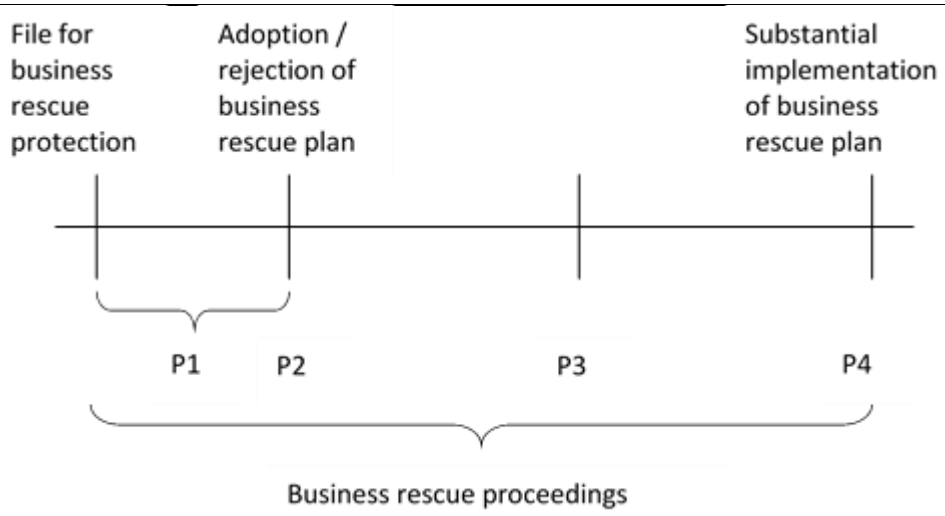
In view of the fact that the business rescue proceedings will stretch over a certain period and that a reporting date may occur at any point during the proceedings, it is important to consider when those actions are likely to occur. If the BRP pursues aim 1, it is the author’s opinion that the substantial disposition of assets outside the ordinary course of the business and the restructuring of debt would likely occur in the early stages of business rescue plan implementation. On the other hand, a substantial revision of the company’s operations and the material downscale of its operations are perhaps more likely to occur in the early and middle stages of the business rescue proceedings when pursuing aim 1.

If the BRP pursues aim 2, the author maintains that the orderly winding down of the assets would likely include a substantial disposition of assets outside the ordinary course of the business in the early stages of the business rescue plan execution. A material scaling down of its operations would therefore likely occur over the full period

of the proceedings. The author does not believe that the debt would be significantly restructured, nor would it be deemed necessary to substantially revise the company's operations.

Figure 8.8 below summarises the actions discussed above and indicates them with an 'X' in the period of the business rescue proceedings in which they are likely to occur. The results therefore show that should these actions be included in the business rescue plan, which is very likely, they would significantly contradict the potential assessment of the company as a going concern during those periods.

Figure 8.8: Summary on the actions necessary to rescue a company and consideration of going concern



Aim 1 (continue to exist):				
• Disposition of assets	–	X	–	–
• Restructuring of debt	–	X	–	–
• revision of its operations	–	X	X	–
• Scaling down of its operations	–	X	X	–
Aim 2 (better return to creditors):				
• Disposition of assets	–	X	–	–
• Scaling down of its operations	–	X	X	X

Legend:
P1 = Period from filing for business rescue to adoption/rejection of the plan
P2 = Just after 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
X = Likelihood of action implemented during period P above

Source: Own observation

The above discussion also indicates that, should the BRP pursue aim 1 (continue to exist), the company may be considered a going concern towards the end of the business rescue proceedings. If aim 2 (better return to creditors) is pursued, it is unlikely that the company will be considered a going concern at all.

The respondents were also asked to list any other actions that they deemed to be necessary. The rationale for asking them to do this was to determine whether these additional actions would also indicate a significant going concern problem.

Of the total respondents, nine listed additional actions that they considered necessary for salvaging a company under business rescue. Accordingly, the respondents deemed the following actions to be necessary, judging them either likely or completely likely:

- Replacement of management
- Appointing a new board of directors
- Issuing new shares
- Obtaining new finance
- A substantial change in shareholding
- Reviewing onerous contracts.

These additional actions are interesting. If these actions were taken by a healthy company, it would not necessarily raise any questions about the company's ability to continue as a going concern. However, if they were included in a business rescue plan in combination with some of the actions listed in the question, it would most likely add to the significant contradiction of assessing such a company as a going concern.

8.3.6 Assessing the foreseeable future of a listed company under business rescue

In section 7.6.3.5 it was pointed out that a consideration of a foreseeable future for a company is also an indicator of whether it can be considered a going concern. The respondents were therefore asked to state the likelihood that the company would continue to operate in the foreseeable future, given a financial reporting date occurring at various stages during the business rescue proceedings.

This section presents the results of the foreseeable future assessment. The question posed and the results are presented for each of the business rescue aims, followed by a discussion of the results.

8.3.6.1 Business rescue aim 1 (continue to exist) and foreseeable future

Question

[Aim 1]

Assume a listed company will experience a financial reporting date (interim or year-end) whilst under business rescue and that the aim of business rescue is to enable the company to continue to exist after the proceedings have ended. Moreover, consider that the foreseeable future of a company indicates a period of at least, but not limited to, 12 months after the end of the reporting date (interim or year-end).

Please consider the above aim and the fact that you need to assess the foreseeable future on a financial reporting date that may fall during various stages in the business rescue period.

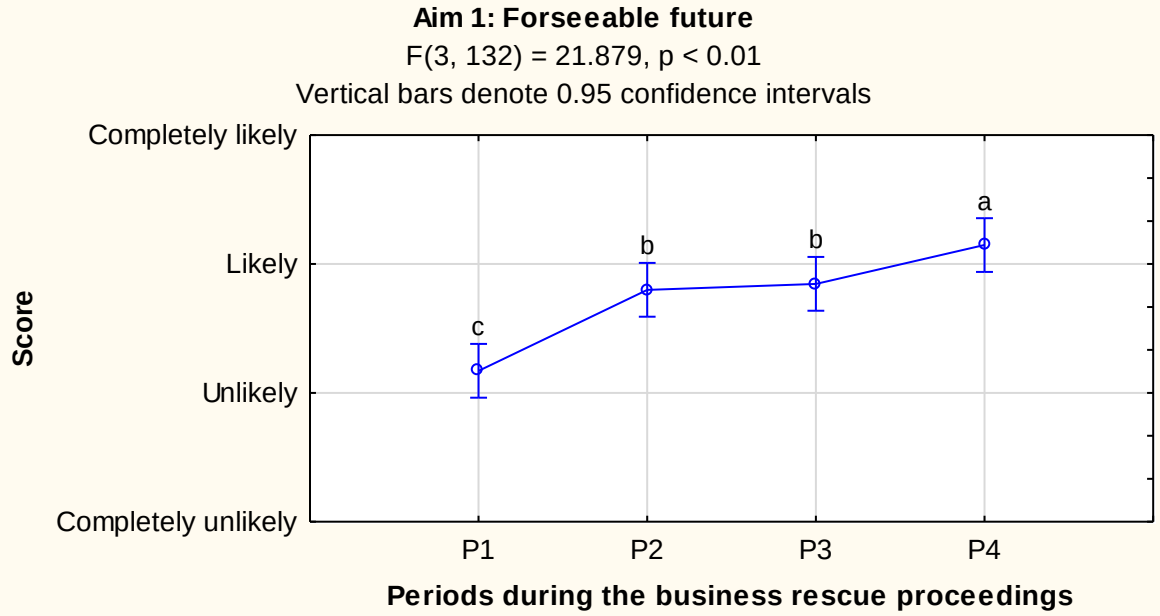
In your opinion, what is the likelihood that the company will continue to operate in the foreseeable future if the financial reporting date:

- falls in the period from filing for business rescue up to the adoption/rejection of the business rescue plan?
- is just after adoption of the business rescue plan?
- is halfway through the implementation of the business rescue plan?
- is just before conclusion of the business rescue plan (filing the notice of substantial implementation)?

(Questionnaire – Question 14)

A VEPAC was performed on the results. The interaction effect F-test of the VEPAC indicated no statistical difference ($p = 0.42$) between the groups (independent variable) and the likelihood of a foreseeable future (dependent variable). The respondents' answers could therefore be considered in total for all 49 respondents. Figure 8.9 below summarises the results.

Figure 8.9: VEPAC on the foreseeable future under business rescue aim 1 (continue to exist)



Legend:
P1 = From filing for business rescue up to adoption or rejection of the business rescue plan
P2 = Just after adoption of the business rescue plan
P3 = Halfway during the implementation of the business rescue plan
P4 = Just before substantial implementation of the business rescue plan

(Questionnaire - Question 14)

The graph indicates that there are significant statistical differences ($p < 0.01$) between the periods in the business rescue proceedings. The results show that there is a statistical difference between P1 and all the other periods. The graph further reveals that there is no difference in the respondents' views between periods P2 and P3. However, there is a statistical difference between P2 and P3 in comparison to P4.

The above discussion indicates 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 the period between the filing for business rescue and the adoption or rejection of the business rescue plan (P1). By contrast, however, the respondents considered it more likely than unlikely that the company would have a viable foreseeable future for the period just after adoption of the business rescue plan (P2) up to halfway through the implementation of the business rescue plan (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.

In summary, the above results indicate that the respondents considered it more likely than not that a company under business rescue, where the BRP pursues aim 1 (continue to exist), would have a viable foreseeable future beginning just after adoption of a business rescue plan. Their view subsequently improves from more likely than not to likely in the period just before substantial implementation (P4) of the business rescue plan.

8.3.6.2 Business rescue aim 2 (better return to creditors) and foreseeable future

The next question considers the foreseeable future when the BRP is pursuing aim 2 (better return to creditors). The question is summarised below, followed by the results and the discussion thereof.

Question

[Aim 2]

Assume a listed company will experience a financial reporting date (interim or year-end) whilst under business rescue and that the aim of business rescue is to enable a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company.

Please consider the above aim (aim 2) and the fact that you need to assess the foreseeable future on a financial reporting date that may fall during various stages in the business rescue period.

In your opinion, what is the likelihood that the company will continue to operate in the foreseeable future if the financial reporting date:

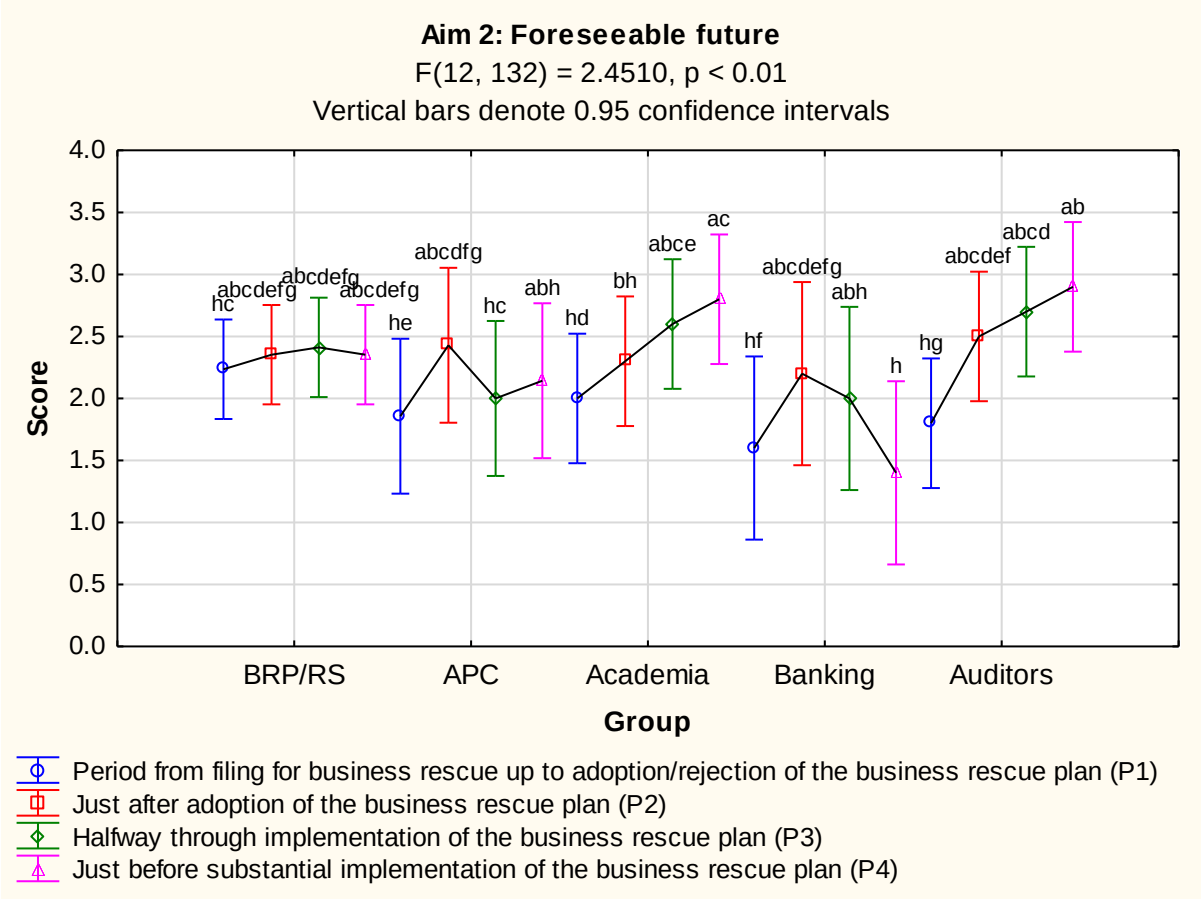
- falls in the period from filing for business rescue up to the adoption/rejection of the business rescue plan?
- is just after adoption of the business rescue plan?

- is halfway through the implementation of the business rescue plan?
- is just before conclusion of the business rescue plan?

(Questionnaire – Question 15)

Regarding the foreseeable future for a listed company under business rescue where the BRP is pursuing aim 2, the interaction effect F-test of the VEPAC indicated that there is a statistical difference ($p < 0.01$) between the groups (independent variable) and the likelihood of a viable foreseeable future (dependent variable). The respondents' answers could therefore not be considered in total in this case, but had to be evaluated separately for each of the groups, as indicated in Figure 8.10 below.

Figure 8.10: VEPAC on the foreseeable future per group under business rescue aim 2 (better return to creditors)



(Questionnaire – Question 15)

The F-test found that there are statistical differences ($p < 0.01$) within the groups in relation to the likelihood of the company having a viable foreseeable future during that

stage of the business rescue 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 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 auditors 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).

In summary, 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 auditors groups indicated that the company might have a viable foreseeable future, commencing halfway through the business rescue proceedings. However, since aim 2 seeks to render a better return to creditors than under immediate liquidation, and not to return the company to solvency, one would expect that this 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 auditors groups may be disregarded as it clearly contradicts the rationale behind aim 2. The author therefore agrees 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.

8.3.6.3 Foreseeable future as an indicator of going concern

If a company is a going concern, it means that the company will have a viable foreseeable future on the date of the going concern assessment. In other words, if a company is believed not to have a viable foreseeable future on any given date, that company would not be considered a going concern.

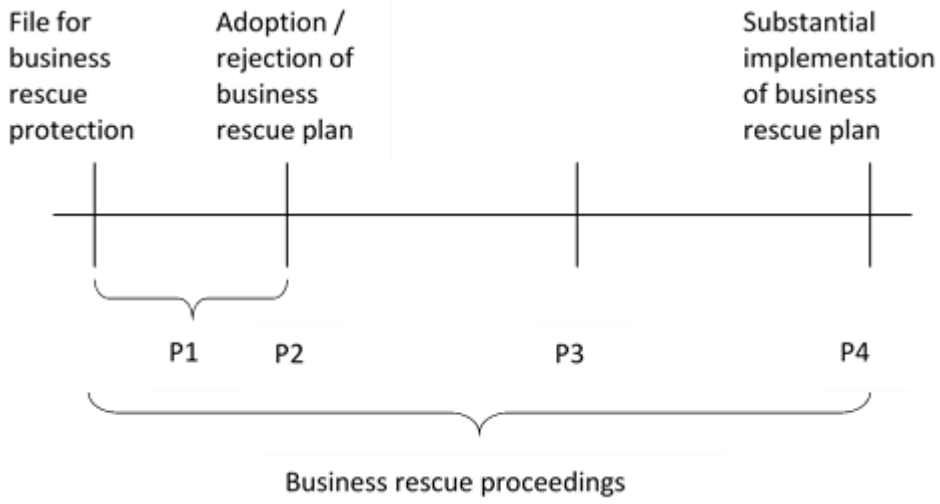
The above results indicate that if the BRP pursues aim 1, the respondents believed that it would be more likely than unlikely that the company would have a viable

foreseeable future as early as in the period following the adoption or rejection of the business rescue plan. The respondents maintained that just before substantial conclusion of the business rescue plan, the likelihood of the company having a viable foreseeable future would increase 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.

If the BRP pursues aim 2, the results indicated mixed views from the different respondent groups. However, in line with aim 2, it was concluded that the company would not be considered to have a viable foreseeable future at any point during the business rescue proceedings. A company under business rescue, where the BRP pursues aim 2, can therefore not be considered a going concern at any point during the business rescue proceedings.

Figure 8.11 below summarises the conclusions made on the state of solvency during the various periods in the business rescue proceedings.

Figure 8.11: Summary of the foreseeable future and going concern consideration



Foreseeable future				
• Aim 1 (continue to exist)	U	L	L	L
• Aim 2 (better return to creditors)	U	U	U	U

Legend:
P1 = Period from filing for business rescue to adoption/rejection of the plan
P2 = Just after 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
L = Likely to be considered a going concern at period P above

Source: Own observation

The above results will be further compared to the results of the questions on the other indicators of going concern in the summary (see § 8.3.9) at the end of this chapter.

8.3.7 Assessing going concern as an underlying assumption under business rescue

In section 7.6.3.7 the rationale for the questions indicated below was explained. Respondents were asked whether or not a listed company under business rescue could be considered a going concern. It was consequently noted that no reference to any of the business rescue aims would be made, and the results would be interpreted

according to IFRSs only. The questions asked, the results obtained and a discussion of the results follow below.

Question	
17.	Assume that 'going concern' indicates that the company has the ability to continue to exist in the foreseeable future. The foreseeable future indicates a period of at least, but not limited to, 12 months after the end of the reporting date. In your opinion, is a listed company, which has a reporting date whilst under business rescue proceedings, a going concern in terms of IFRSs?
18.	Please indicate the reason(s) for your answer above.

(Questionnaire – Questions 17 and 18)

On the question of whether or not a listed company with a reporting date whilst under business rescue can be considered a going concern in terms of IFRSs, the results were surprising: The respondents were almost evenly divided on the matter, with 24 (49%) regarding such a company as a going concern in terms of IFRSs, and the remaining 25 (51%) disagreeing on the matter. This emphasises that this issue is a grey area for accountants and also underlines the importance of this study.

Since the respondents were divided on the matter, it was decided to perform a chi-square test of independence to establish whether there was a significant difference between the respondent groups (independent variable) and their answers (dependent variable). The chi-square test subsequently indicated a significant difference ($p < 0.05$) between the groups and their answers. Table 8.10 below presents a breakdown of the groups according to the answers provided.

Table 8.10: Respondent groups and assessment of going concern

Group	**Going concern?**		**Row totals**
	Yes	**No**	
BRP/RS *(Row percentage)*	13 *(76.5%)*	4 *(23.5%)*	17 *(100.0%)*
APC *(Row percentage)*	1 *(14.3%)*	6 *(85.7%)*	7 *(100.0%)*

Group	Going concern?		Row totals
	Yes	No	
Auditors *(Row percentage)*	3 *(30.0%)*	7 *(70.0%)*	10 *(100.0%)*
Academia *(Row percentage)*	5 *(50.0%)*	5 *(50.0%)*	10 *(100.0%)*
Banking *(Row percentage)*	2 *(40.0%)*	3 *(60.0%)*	5 *(100.0%)*
Totals ***(Row percentage)***	**24** ***(49.0%)***	**25** ***(51.0%)***	**49** ***(100.0%)***
	chi-square(df = 4) = 10.81, p < 0.05		

(Questionnaire – Question 17)

With reference to the different respondents groups, it is interesting to note that 13 (76.5%) of the 17 members of the BRP/RS group considered the company to be a going concern. On the other hand, six (85.7%) of the members of the APC group and seven (70%) of the members of the auditors group considered the company not to be a going concern.

By contrast, the members of the academia group were evenly divided on the matter with five (50%) of the members considering the company to be a going concern and the other five (50%) having the opposite view. Members of the banking group were likewise divided on the matter. Of the total members of the banking group, two (40%) considered it a going concern and three (60%) considered it not to be a going concern.

Question 18 requested the respondents to give a reason for their answer. In order to gain more insight into the respondents' answers, the content was analysed for recurring themes and trends. The content analysis is presented in the next section.

8.3.7.1 Content analysis on assessing going concern

The reasons provided by the respondents are summarised below by answer (Yes/No) and by group. This is followed by a summary of the recurring themes that emerged from the analysis.

The 13 respondents in the BRP/RS group who answered ‘Yes’ (that such a company is a going concern) mainly argued that the company could be regarded a going concern for the following reasons:

- The company is not in liquidation and can therefore be considered a going concern in terms of IFRSs. However, it should be noted [in the notes to the financial statements] that a material uncertainty exists.
- A business rescue plan is implemented to restructure the company. The plan will indicate how the company will return to liquidity and solvency, therefore the company can continue in existence [in the foreseeable future].
- One respondent indicated that his assessment would actually depend on which business rescue aim was pursued.

The only respondent in the APC group who chose ‘Yes’ based his/her answer on the assumption that aim 1 was pursued. One can therefore conclude that if aim 2 was pursued, the answer would have been ‘No’. This respondent therefore made his/her answer dependent on the particular business rescue aim pursued.

The members of the academia group were evenly divided on the matter. The five members who answered 'Yes', based their answers mainly on the following:

- Although significant doubt exists about the company’s ability to continue as a going concern, business rescue does not mean that the company will cease operations, hence it can be considered a going concern.
- Entering business rescue indicates a reasonable expectation that the entity will continue its operations.
- The objective of business rescue is biased towards saving the business, implying a going concern.
- It depends on the expected outcome of the business rescue plan, that is, if the prospect of future recovery seems probable then it is a going concern, otherwise it cannot be considered a going concern.

Only one respondent of the banking group who answered 'Yes' elaborated on his/her answer. The respondent stated that the company could be considered a going concern, assuming that management makes sufficient disclosure regarding any

material uncertainties related to events or conditions that might cast significant doubt on the entity's ability to continue as a going concern in accordance with IAS 1.

The reasons for answering ‘No’ (indicating that the company cannot be regarded as a going concern) are presented below for each group.

The four BRP/RS respondents who answered 'No', based their answers on the fact that

- there is significant uncertainty about the entities ability to pay debts as they fall due, and therefore to continue to exist in the future.
- without business rescue the company would be liquidated.

One of the BRP/RS respondents who answered ‘No’, made the following comment:

> *Historically, too many companies under business rescue do not continue as a going concern and it is seen as an interim period before liquidation. Many companies only consider business rescue as an absolute last resort, even though they are already really struggling to pay their debts as they fall due. Until this misconception of business rescue is addressed, I do not believe that, on average, a company in business rescue would continue as a going concern.[32]’*

Six of the seven APC group members responded that the company would not be a going concern. Their reasons can be summarised as follows:

- The business as currently constituted [i.e. under business recue] is unlikely to be a going concern.
- It does not meet the solvency requirements.
- There are significant concerns about whether the entity is able to continue operating for the foreseeable future.

One APC group respondent chose 'No', but stated the following:

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[32] Cited *verbatim* after correcting for minor spelling mistakes

> *However, given that the main objective of business rescue is to save the company, the mere fact that the entity is in business rescue should not automatically lead to an answer that the entity is not a going concern. But, a high hurdle of evidence is needed to support a going concern conclusion.*

Another APC group respondent chose 'No', but stated that the conclusion on whether or not the company was a going concern would depend on an assessment of material uncertainties related to events or conditions that might cast significant doubt on the entity's ability to continue as a going concern.

One of the respondents in the APC group also argued that his/her answer would in fact depend on the business rescue aims. The respondent stated:

> *So, if it is clear that the aim of a particular business rescue is to realise the assets, then to my mind there is no going concern. On the other hand, if the aim of the business rescue is to restore the company to health, and that objective has a reasonable probability of success, then it is a going concern.* [33]

The five (50%) respondents in the academia group that did not consider the company to be a going concern, gave the following reasons:

- There is no confirmation that the company can continue for the foreseeable future.
- It is more probable than not that the entity will not be able to continue to exist.
- It is unlikely that there would be sufficient evidence to support the going concern assumption.
- The company indicated itself that it may not be a going concern.

Of the three respondents in the banking group that answered 'No', two gave reasons for their answers. One remaining respondent stated that the company could not operate for the next 12 months [foreseeable future] or refinance its debts in the ordinary course of business. The other respondent answered as follows:

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[33] Cited verbatim after correcting for minor spelling mistakes

While under BR the outcome is not sure. It depends on voting of the BR plan and successful implementation of BR plan. Furthermore any BR is highly dependable on the company obtaining post commencement finance. To be able to predict 'going concern' with the outcome of the BR not certain would be difficult.

8.3.7.2 Summary of themes emerging from the content analysis on assessing going concern

It was interesting to note that most of the respondents who regarded a listed company under business rescue to be a going concern came from one group, namely, the BRP/RS group. One may perhaps expect the BRPs to be optimistic on the future outlook of a company – it is after all their duty to rescue the business. However, despite the almost even divide in total between those that considered the company to be a going concern and those that did not, distinct themes emerged from the responses.

The respondents who stated 'Yes' (that the company can be regarded a going concern), based this on the following reasons:

- Theme 1 – Reference to IFRSs (IAS 1 par. 25): the company is not in liquidation and can therefore be considered a going concern. Sufficient disclosure regarding any uncertainties should be made.
- Theme 2 – Business rescue aim 1 pursued: a business rescue plan is implemented to restructure and save the company.
- Theme 3 – State of solvency: the business rescue plan will indicate how the company will return to commercial (liquidity) and technical solvency.
- Theme 4 – Foreseeable future: indicating that the company can continue to trade and operate.
- Theme 5 – Particular business rescue aim pursued: a theme that did not specifically support the going concern assumption, but which became evident from the analysis. Some respondents indicated that the assessment of going concern should take the particular aim pursued into account. If the prospect of future recovery seems probable (aim 1), then the company is a going concern;

if future recovery is not probable (aim 2), then it is not considered a going concern.

The above themes obtained from the content analysis support the study in various ways. The first theme identified above (Reference to IFRSs) supports the research problem identified in section 1.3, in that the mere fact that the company is not in liquidation results in the company being considered a going concern. Themes 2 (Business rescue aim 1 pursued) and 5 (Particular business rescue aim pursued) go together. It has already been indicated that the particular business rescue aim pursued should be considered an indicator of whether or not the company under business rescue may be considered a going concern. Themes 3 (State of solvency) and 4 (Foreseeable future) have also both been identified as indicators of whether or not a company under business rescue can be considered a going concern.

The reasons provided by respondents who answered 'No', thereby indicating that a company under business rescue may not be considered a going concern, can be summarised according to the following themes:

- Theme 1 – State of solvency: there is significant uncertainty about the liquidity and solvency of the company.
- Theme 2 – Foreseeable future: as a result of the financial distress, the company does not have a foreseeable future as envisaged by the underlying going concern assumption.
- Theme 3 – Particular business rescue aim pursued: once again, it is mentioned that the aims of business rescue should be considered when determining whether or not a company under business rescue is a going concern;
- Theme 4 – Use of business rescue protection too late: owing to the fact that some companies consider business rescue at a very late stage, it could be regarded as an interim period before eventual liquidation of the company.
- Theme 5 – Uncertainty of business rescue outcome: considering it a going concern would need a high burden of evidence, which would be difficult given the uncertain outcome of the business rescue proceedings.

Some of the above themes identified once again support some of the earlier findings of this study. Themes 1 (State of solvency) and 2 (Foreseeable future) have both been identified as indicators of whether or not a company under business rescue can be considered a going concern. Theme 3 (Particular business rescue aim pursued) has also already been identified as an indicator in this regard.

Themes 4 (Use of business rescue protection to late) and 5 (Uncertainty of business rescue outcome) are very interesting. Both are provided as reasons for considering that the company is not a going concern, but they do not refer to what IFRSs require, or to any viewpoint taken on one of the above indicators of going concern. However, both themes may support the low success rate of business rescue proceedings in general. Moreover, the fact that the respondents did mention it indicates that a company entering business rescue may tend not to be a going concern. Despite the above possibility, the author submits that an application of the going concern indicators over the period of the business rescue proceedings would render a more accurate answer of whether or not a listed company under business rescue were a going concern.

Table 8.11 below summarises the themes that emerged from the analysis. The table also indicates whether or not the theme supports any of the identified indicators of going concern.

Table 8.11: Summary of the themes emerging from the content analysis and comparison to indicators of going concern

Theme	Going concern?		Identified as an indicator of going concern
	Yes	No	
Reference to IFRSs (IAS 1 par. 25)	X		n/a
Business rescue aim 1 pursued	X		Yes
State of solvency	X	X	Yes
Foreseeable future	X	X	Yes
Particular business rescue aim pursued	X	X	Yes
Use of business rescue protection too late		X	No
Uncertainty of business rescue outcome		X	No
Legend: X = Theme indicated as a reason for going concern view n/a = Not applicable Yes/No = Theme also identified as an indicator of going concern			

Source: Own observation

The above table clearly indicates the common themes, which have also been identified as indicators of going concern, although the respondents interpreted those indicators in different ways. It also shows that there could be diversity in practice when management is called on to assess the appropriateness of the going concern underlying assumption. This grey area around whether a listed company under business rescue can be considered a going concern or not underscores the uncertainty on the matter that is addressed in this study. The next section addresses the applicability of other underlying assumptions such as liquidation.

8.3.8 Assessing the applicability of other underlying assumptions

The previous sections assessed whether a company can be considered a going concern based on certain indicators. The results indicated that there may be period during a business rescue where it is unlikely that the company can be considered a going concern.

In section 7.6.3.8 it was pointed out that the rationale for Questions 21 and 22 (repeated below) was threefold: Firstly, they were intended to establish whether the liquidation basis of accounting would be applicable to a listed company under business rescue from the start of the proceedings. Secondly, whether or not an underlying financial reporting assumption that fits in between the going concern underlying assumption and liquidation basis of accounting might be more applicable. Thirdly and lastly, to determine whether the going concern financial reporting assumption is applicable in terms of the current reporting framework (as per IAS 1.25), even though the company may be under business rescue and in financial distress.

In order to obtain more insight into the matter, those respondents who agreed that the going concern underlying assumption should be used were asked to indicate why they considered it appropriate. They were also asked to consider the usefulness of preparing financial statements under the going concern financial reporting assumption for a company under business rescue. On the other hand, those respondents who disagreed that the underlying assumption of going concern should be used were asked to indicate what financial reporting assumption they would recommend.

The questions asked and the responses received are presented below. A discussion follows the summary statistics presented below.

Questions	
21.	[Part 1] Do you agree that if the management of a listed company applies for business rescue instead of provisional liquidation, it indicates that management, at the stage of business rescue application, does not intend to liquidate the entity or cease trading (or that it has no realistic alternative but to do so)? [Part 2] Do you agree with the following statement? *A company under business rescue is not necessarily a going concern, but not in liquidation either.*

	[Part 3] Do you agree that applying IAS 1 par. 25 requires management of a listed company, which has a reporting date whilst under business rescue proceedings, to prepare financial statements on a going concern assumption?
22.	You have answered 'Yes' [in part 3 above], Briefly indicate why you consider the going concern assumption appropriate.

(Questionnaire – Questions 21 and 22)

Table 8.12 below presents the summary statistics of all three parts of questions 21.

Table 8.12: Frequency table of the applicability of the liquidations basis of accounting and required use of the going concern assumption

Question 21 (n = 49)	**Yes**	**No**	**Total**
Filing for business rescue does not intend to liquidate company or cease trading. *(Row percentage)*	41 *(84%)*	8 *(16%)*	**49** ***(100%)***
Company under business rescue is not necessarily a going concern, but not in liquidation either. *(Row percentage)*	45 *(92%)*	4 *(8%)*	**49** ***(100%)***
IAS 1 par. 25 requires management to prepare financial statements on a going concern financial reporting assumption. *(Row percentage)*	32 *(65%)*	17 *(35%)*	**49** ***(100%)***

(Questionnaire – Question 21)

Of the total respondents, 41 (84%) agreed that if the management of a listed company applies for business rescue instead of provisional liquidation, it indicates that management, at that stage of business rescue application, does not intend to liquidate the entity or cease trading (or that they have no realistic alternative but to do so). The results show that the respondents felt, in the main, that at this stage of filing for business rescue at least, the hurdle to use the liquidation basis of accounting had not been cleared.

The results also indicate that 45 (92%) of the total respondents believed that a company under business rescue is not necessarily a going concern, but is not in liquidation either. This result corroborates the results obtained from part 1 of the question, that is, that the company cannot be automatically considered to be in liquidation and therefore requiring the liquidation basis of accounting. However, the results also indicate that there may be a period during business rescue proceedings where the company may not be considered a going concern, but nor it is in liquidation. Section 8.3.9 below further explores this possible period between the going concern underlying assumption and the liquidation basis of accounting.

Considering the results of the previous two parts of the question, part 3 of the question is very important. Thirty-two (65%) of the total respondents agree that IAS 1 par. 25 requires management to use the going concern assumption for a listed company under business rescue. Thirty of the 32 respondents who agreed to part 3 of the question, also agreed to part 2 of the question that the company is not necessarily a going concern but nor is it in liquidation. This indicates that when a company is not necessarily a going concern, but nor is it in liquidation, it has to apply the underlying financial reporting assumption of going concern. It is this seemingly compulsory application of the going concern assumption and its effect on the measurement of the company's assets and liabilities that is highlighted and addressed in the study.

Those that agreed that IAS 1 par. 25 requires the use of the going concern assumption for a listed company under business rescue based their choice mainly on the reasons summarised below. Using content analysis principles, the reasons are grouped by theme as follows:

- Theme 1 – Reference to IFRSs (IAS 1 par. 25): The company has not yet reached the stage where it has no alternative but to liquidate and the company should apply the going concern assumption by default. One respondent mentioned that the standard does not refer to business rescue, hence there is nothing in between the going concern or liquidation basis, that is, a business rescue underlying assumption.
- Theme 2 – Intention of business rescue (aim 1): The intention of business rescue is to turn the company around and to continue trading.

- Theme 3 – Particular business rescue aim pursued: A number of respondents mentioned that the answer would actually depend on the business rescue aims. One respondent elaborated on this, arguing that if aim 1 (continue to exist) is pursued then the going concern assumption is appropriate because IAS 1 par. 25 compels the company to use it. However, if aim 2 (better return to creditors) is pursued then the going concern is not appropriate because the company intends to cease trading. Another respondent similarly argued that if aim 1 (continue to exist) is pursued, liabilities will be compromised and valued downwards to less than the assets. If the plan is to wind down the assets, then the liquidation basis is applicable. The author interprets the winding down of the assets as referring to aim 2 (better return to creditors). One respondent also mentioned that it is also important to take the different stages of the business rescue process into account when considering going concern.

With reference to theme 2 (Intention of business rescue) above, one respondent mentioned that if the application for business rescue is to delay the possibility of one creditor applying for liquidation, the going concern assumption is not appropriate. This comment is interesting and may also add to the reasons why the success of business rescue is relatively low. It also supports the notion that there may currently be a slight bias towards the fact that a company under business rescue is more unlikely than likely to be a going concern.

The content analysis of the answers given once again confirms the themes that have been identified in section 8.3.7.2 above. A listed company under business rescue may be viewed as a going concern because it is not in liquidation in terms of IFRSs yet (theme 1), although aim 2 indicates that the plan is to wind down the assets. Themes 2 and 3 indicate that the particular aim of business rescue pursued should be considered when assessing the underlying financial reporting assumption of a listed company under business rescue.

The first part of Question 23 (see below) was asked in order to determine the usefulness of the financial statements prepared according to the going concern financial reporting underlying assumption for a listed company under business rescue.

This question was posed to the 32 respondents who considered that IAS 1 par. 25 required the use of the going concern assumptions discussed above. It was then put to the respondents that IAS 1 par. 25 states that when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. Part 2 of Question 23 then asked the 32 respondents how 'decision useful' the disclosure of material uncertainties is. The question asked, as well as the responses and a discussion thereof, are provided below.

Question	
23.	[Part 1] Further to your reasons given above: In your opinion, how 'decision useful' is financial statements, prepared on a going concern assumption for a listed company under business rescue, to the users of the financial statements (i.e. shareholders, creditors and lenders)? [Part 2] In your opinion, how 'decision useful' is the disclosure of material uncertainties related to events or conditions that may cast significant doubt about the ability of the company under business rescue to continue as a going concern, to the users of the financial statements?

(Questionnaire – Question 23)

Table 8.12 below presents the results relating to the question on the 'decision usefulness' of the going concern underlying assumption and material uncertainty disclosures.

Table 8.13: Frequency table of the 'decision usefulness' of the going concern underlying assumption and material uncertainty disclosures

Question 23 (n = 32)	**Usefulness**				
Decision-usefulness of:	1 = Not at all useful	2 = Not useful	3 = Useful	4 = Very useful	**Total**
Preparing financial statements on the going concern underlying assumption *(Row percentage)*	3 *(9%)*	8 *(25%)*	21 *(66%)*	0 *(0%)*	**32** ***(100%)***
Disclosure of material uncertainties *(Row percentage)*	1 *(3%)*	2 *(6%)*	8 *(25%)*	21 *(66%)*	**32** ***(100%)***

(Questionnaire – Question 23)

Table 8.13 shows that 32 (65%) of the total respondents agreed that IAS 1 par. 25 requires management to use the going concern assumption when preparing the financial statements of a listed company under business rescue. The results in this table indicate that 21 (66%) of the 32 respondents also found the financial statements prepared on basis of the going concern assumption useful. Of the 32 respondents, eight (25%) found the disclosures useful and a further 21 (66%) regarded the disclosures as very useful.

The above results are surprising, given that 30 of the 32 respondents also agreed that the company is not necessarily a going concern, but not in liquidation either. When one considers the responses on the disclosure of material uncertainties, it is evident that these disclosures tend to be more useful than the underlying assumption on which the financial statements have been prepared.

Question 21 part 3 also gave the respondents the option of disagreeing with the statement that IAS 1 par. 25 requires management to prepare the financial statements on the basis of the going concern assumption, even if the company is under business rescue. If the respondents disagreed, they were asked in Question 24 (see below) to

indicate what underlying assumption they would recommend and why they would recommend it.

Question	
24.	You have answered 'No' that IAS 1 par. 25 requires the management of a listed company under business rescue to prepare financial statements on a going concern assumption. • Please indicate what underlying assumption you would recommend (in the space provided). • Please provide your reason(s) for recommending that particular assumption (in the space provided).

(Questionnaire – Question 24)

In Table 8.12 it was shown that 17 (35%) of the 49 respondents disagreed that IAS 1 par. 25 requires management to use the going concern assumption for a listed company under business rescue. However, many of these respondents did not give an alternative underlying assumption as a basis for preparing the financial statements. Instead, they elaborated further on their disagreement.

In section 8.3.7.2 five themes were identified in relation to the reasons why the going concern assumption may not be appropriate for a listed company under business rescue. If a reason given below confirms one of the themes indicated in section 8.3.7.2, then it is indicated in square brackets. The reasons given for disagreeing with IAS 1 par. 25 were as follows:

- The BRP could have pursued aim 2 (better return to creditors), in which case the going concern assumption might not be applicable [Theme 3: Particular business rescue aim pursued].
- There is too much uncertainty to use the going concern basis [Theme 5: Uncertainty of business rescue outcome].
- Using the going concern basis would need more evidence [Theme 5: Uncertainty of business rescue outcome].

The above indicates that the reasons provided by the respondent for their disagreement that IAS 1 par. 25 requires the management to use the going concern assumption for a listed company under business rescue, confirm some of the themes already indicated in section 8.3.7.2. Those respondents that did suggest an underlying assumption and a reason for that choice, are summarised below. The summary is presented in terms of the underlying assumption suggested. If the reason corresponds with one of the themes indicated in section 8.3.7.2, the theme is once again the included in square brackets. The underlying assumption suggested, reasons for that choice and corresponding themes are presented below.

- Liquidation: The liquidation underlying assumption was suggested for the following reasons:
    - The company does not have sufficient cash inflows [Theme 1: State of solvency (liquidity)].
    - There is significant doubt that an entity will continue to operate in the foreseeable future [Theme 2: Foreseeable future].
    - If aim 2 (better return to creditors) is pursued, then the going concern assumption would not be appropriate and a non-going concern basis would be applicable, such as the liquidation basis [Theme 3: Particular business rescue aim pursued].
    - Although the company does not intend to liquidate, it appears that it would have no choice but to liquidate [Theme 4: Use of business rescue protection too late or Theme 5: Uncertainty of business rescue outcome].
    - To protect the users of the financial statements because some assets will be sold, and compromises with creditors will have to be made.
- Fair value: One respondent suggested a fair value underlying assumption, as the assets are currently overstated and need impairment.

When considering the themes as indicated above, the results reveal that most of the respondents chose the liquidation underlying assumption as a basis for accounting when they do not consider a listed company under business rescue to be a going concern. One respondent chose the liquidation underlying assumption to protect the users of the financial statements, indicating a consideration for the usefulness of the

financial statements. The usefulness of financial statements is addressed in the next chapter.

It is also interesting to note that a fair value underlying assumption was chosen by one respondent. In other words, the respondent did not consider the going concern of the liquidation basis to be appropriate but suggested a fair value basis instead. The 'fair value' suggested may indicate that the respondent favoured fair values for measuring assets and liabilities. Chapter 9 reports on the assessment of measurement bases for assets and liabilities and its link to the underlying assumption.

One respondent made the following interesting comment:

> *IFRS is a framework for an entity that is a going concern. IAS 1 states that if an entity is not a going concern then the going concern basis of accounting should not be applied. This effectively means that IFRS should not be applied (since it is premised on the going concern assumption). The problem is that if the JSE or the Companies Act requires IFRS to be applied, then the only way it can be applied is to assume that the entity is a going concern. However, it would not be possible to say that the information fairly presents the financial position and performance because the going concern assumption is not valid. Hence, there would need to be adequate disclosure of the fact that the entity is not a going concern, but IFRS has been applied nonetheless.*

The above comment supports the fact that IAS 1 par. 25 requires the use of a going concern underlying assumption even if a company may not be considered a going concern. The above comment also supports the research problem as explained in section 1.3. The next section summarises the results of the research questions discussed in this chapter.

8.3.9 Summary of findings on the going concern indicators

In section 8.3.2 it was determined that it is very likely that a company would have a financial reporting date while under business rescue, and that it would still be under business rescue when certain regulatory reports are due. Having a reporting date whilst under business rescue and the obligation imposed on JSE-listed companies to

submit certain reports necessitates the consideration of an appropriate financial reporting underlying assumption when preparing the financial statements of such a company.

In section 8.3.1 the research results confirmed that the 2008 Companies Act provides for two aims, namely, to continue to exist on a solvent basis (business rescue aim 1), or if that is not possible, to provide a better return for creditors and shareholders than under immediate liquidation (business rescue aim 2). The results further indicated that the respondents considered the aims of business rescue to be hierarchical.

A hierarchical view means that the BRP would first attempt to enable the company to continue in existence on a solvent basis (business rescue aim 1). If it is subsequently found that returning from financial distress to solvency is not possible, then the aim is to realise the assets so that a better return will result for the company's creditors and shareholders than under immediate liquidation (business rescue aim 2).

Although both aims may be pursued from the outset, establishing the respondents' view on the hierarchy was important as they had chosen the going concern underlying assumption in line with aim 1 of the business rescue legislation. The particular business rescue aim pursued can therefore be considered the first indicator of whether a company can be considered a going concern.

With reference to the business rescue aims, the respondents chose the going concern underlying assumption because of the intention to return the company to solvency (aim 1). However, aim 2 is not intended to return the company to solvency and respondents indicated that when aim 2 is pursued, the company may not be considered a going concern. A few respondents specifically mentioned that the liquidation underlying assumption would be applicable when aim 2 is pursued. The latter correlates with the interpretation of aim 2 as an 'orderly liquidation'.

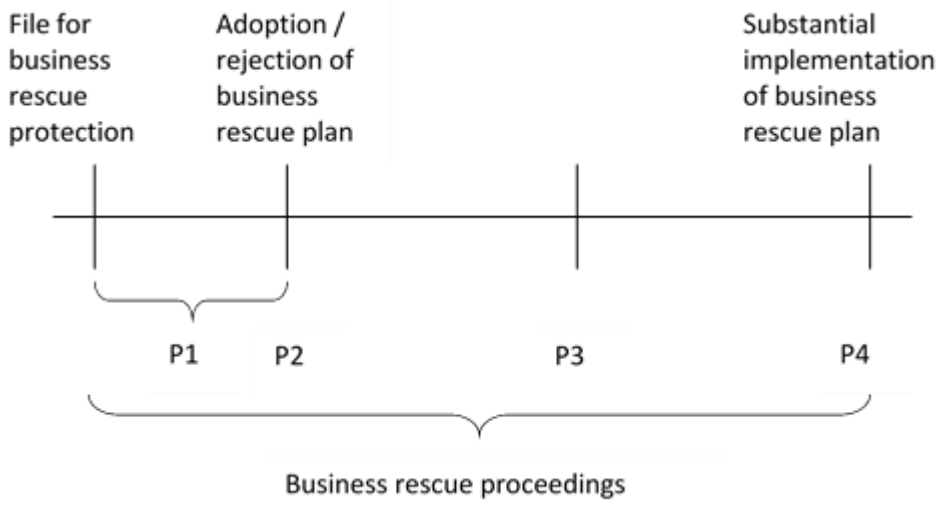
In order to assess which financial reporting assumption should be used for listed companies under business rescue, various questions were asked to determine

whether such a company can be considered a going concern. The following indicators of going concern were established:

- Financial distress is an indicator that the company may not be considered a going concern as it may not realise its assets and settle its liabilities in the normal course of business (§ 8.3.3). The state of commercial and technical solvency at various points during the business rescue proceedings, in turn, is an indicator of financial distress (§ 8.3.4).
- Certain actions taken to rescue the company may significantly contradict the use of the going concern underlying assumption and are therefore considered indicators that the company may not be a going concern (§ 8.3.5).
- The viable foreseeable future of the company has also been identified as an indicator of whether a company under business rescue can be considered a going concern (§ 8.3.6).

Figure 8.12 below summarises the indicators of going concern and the likelihood that a company may be considered a going concern during the various periods of the business rescue proceedings.

Figure 8.12: Indicators of going concern and likelihood of going concern during business rescue proceedings



	Going concern indicator				
1.	Business rescue aims • Aim 1 • Aim 2	→ L → U			
2.	State of solvency • Aim 1 • Aim 2	U U	U U	U/? U	L U
3.	Actions to rescue the company • Aim 1 • Aim 2		U U	U U	L U
4.	Foreseeable future • Aim 1 • Aim 2	U U	L U	L U	L U

Legend:
P1 = Period from filing for business rescue to adoption/rejection of the plan
P2 = Just after 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

Source: Own observation

The figure above summarises the conclusions reached in respect of each of the going concern indicators.

In section 8.3.1 it was concluded that the particular business rescue aim pursued can be considered an indicator of going concern. The intention (indicated in the above figure with an arrow) of aim 1 (continue to exist) is to return the company to solvency and respondents showed, as discussed in section 8.3.7, that they consider aim 1 to be an indicator of going concern. On the other hand, the intention of business rescue aim 2 is to render a better return to creditors than under immediate liquidation. The intention under aim 2 is not to return the company to solvency and the company would therefore not be considered a going concern when pursuing business rescue aim 2.

Section 8.3.4 assessed the state of solvency as an indicator of financial distress, which in turn is an indicator of going concern. Under business rescue aim 1 (continue to exist) it is unlikely that the company could be considered a going concern during the initial stages of the implementation of the plan. However, the respondents indicated that the company might be likely to show technical solvency halfway through the implementation of the business rescue plan. Therefore, just before substantial implementation of the business rescue plan, the company would likely be considered a going concern. Under business rescue aim 2 (better return to creditors) it is unlikely that the company could be considered a going concern for the full duration of business rescue.

In section 8.3.5 certain actions to rescue the company were considered as indicators of going concern and the presence of those actions would significant contradict the use of the going concern assumption. Depending on the actions taken, the author submits that some actions, when the BRP pursues aim 1 (continue to exist), would likely be implemented in the early to middle stages of the business rescue proceedings. In other words, the company would be considered unlikely to be a going concern when those actions are being implemented. Under business rescue aim 1 (continue to exist), the company would likely be considered a going concern just before substantial implementation of the business rescue plan. Owing to the nature of business rescue aim 2 (better return to creditors), one of the actions will most likely be implemented during the full business rescue proceedings. The company would therefore be unlikely

to be considered a going concern for the full duration of the business rescue proceedings.

Sections 8.3.6 assessed a viable foreseeable future as an indicator of going concern. It was surprising to note that the respondents considered the company to have a viable foreseeable future if business rescue aim 1 (continue to exist) were pursued, commencing just after adoption of the business rescue plan. Under business rescue aim 2 (better return to creditors) the company would be unlikely to have a viable foreseeable future for the full duration of the business rescue proceedings.

8.4 CONCLUSION

The primary research question for this study is to determine what underlying financial reporting assumption should be used for a South African listed company under business rescue. In this chapter, four indicators of going concern were established. It is clear that the indicators should be considered in combination in order to establish which underlying assumption should be used in the financial statements of a listed company under business rescue. The indicators established are:

(1) Particular business rescue aim pursued.
(2) State of solvency.
(3) Certain actions to rescue the company.
(4) A viable foreseeable future.

If business rescue aim 1 (continue to exist) is pursued, the second, third and fourth indicators of going concern above should be considered when a reporting date occurs, as the likelihood of being a going concern would change from unlikely to likely during the implementation of the business rescue plan. If business rescue aim 2 (better return to creditors) is pursued, the above indicators show that it is unlikely that the company would be a going concern at any point in time during the duration of the business rescue proceedings.

During the period that the company is considered unlikely to be a going concern, the question then arises as to which underlying assumption should then be used. In section 8.3.8, the respondents indicated that when a company enters business rescue,

liquidation is not intended at that stage. However, the respondents also indicated that they would use the liquidation basis of accounting when a company is not a going concern. Furthermore, it was also established that the business rescue proceedings may take approximately 16 months to conclude.

Considering the above, the results show that the company is unlikely to be a going concern during the early implementation stages of the business rescue plan if aim 1 (continue to exist) is pursued. The company is only likely to be considered a going concern just before substantial implementation of the business rescue plan. Therefore, it seems counterintuitive to use the liquidation basis of accounting, as suggested by some respondents, to only later switch over to a going concern underlying assumption again. The author submits that for the period of time that the company may be considered unlikely to be a going concern, and to avoid the negative connotation of the liquidation basis of accounting, that a 'company under business rescue' underlying assumption be established.

If business rescue aim 2 (better return to creditors) is pursued, it seems fair that the liquidation basis of accounting be used. However, owing to the amount of time that business rescue proceedings under aim 2 may take, and the fact that a reporting date can occur at any point in time, the values of the assets and liabilities may not all be liquidation values. The intention under aim 2 is to utilise and realise the assets in such a manner that the creditors receive a better return than would have been the case under immediate liquidation. The author therefore submits that a 'company under business rescue' underlying assumption will also suffice in this case.

When one considers the results, it is evident that a company cannot, by default, be considered a going concern; in other words, to have a viable foreseeable future. There is also the scenario where a company has no viable foreseeable future, for example when liquidation is imminent or the company is already in liquidation. Furthermore, and very importantly, the results established that there is also a period where the future outlook of the company is uncertain; the company is unlikely to be a going concern but liquidation is not yet imminent. This scenario happens somewhere in between being a

going concern and possibly going into liquidation, that is, when a company is placed under business rescue.

In section 2.3.2 it was mentioned that going concern is one of the accounting postulates in the structure of an accounting theory. The results presented in this chapter indicate that the accounting postulate in the structure of an accounting theory should not refer to ‘going concern’, but rather to an ‘entity continuity period’. ‘Entity continuity period’ could then be described as one of three scenarios:

- A ‘long life’ scenario – the company has a clearly viable foreseeable future and the *going concern* underlying assumption is applicable.
- A ‘limited life’ scenario – there may be significant uncertainty about its ability to remain in existence in the foreseeable future and a *company under business rescue* underlying assumption is applicable.
- A ‘no life’ scenario – liquidation of the company is imminent and no foreseeable future exists. The *liquidation* underlying assumption is applicable.

The next chapter addresses the second research question, namely, ‘What should be the measurement base(s) of assets and liabilities that will lead to more decision-useful information for the users of financial statements of listed companies in under business rescue?’. Answering this question will provide context-relevant measurement bases for assets and liabilities that may support a *company under business rescue* underlying assumption when preparing decision-useful financial statements for the users of financial statements.

CHAPTER 9
EMPIRICAL RESULTS OF THE MEASUREMENT OF ASSETS AND LIABILITIES FOR A SOUTH AFRICAN LISTED COMPANY UNDER BUSINESS RESCUE

9.1 INTRODUCTION

The previous chapter addressed the primary research question, that is, to determine what underlying financial reporting assumption should be used for a South African listed company under business rescue. It was shown that there are three different scenarios with respect to the continuity of a company. Owing to significant uncertainty about its ability to remain in existence in the foreseeable future, a listed company under business rescue has a 'limited life', a scenario in which a *company under business rescue* underlying assumption may be appropriate, albeit still uncertain.

This chapter deals with the secondary research question. This question is indicated below, and is followed by an explication of the layout of the chapter.

Secondary research question

What should be the measurement base(s) of assets and liabilities that will lead to more decision-useful information for the users of financial statements of listed companies in under business rescue?

The presentation and discussion of the research results in this chapter are aligned to each of the secondary research objectives, as identified in section 1.6. Section 1.6 indicated that the secondary research objectives are divided into two categories. The following section will address the research objectives of each of the two categories chronologically and concludes with a summary of the findings.

9.2 ASSESSING QUESTIONS ON THE APPROPRIATE MEASUREMENT BASE(S) FOR ASSETS AND LIABILITIES

In this section each of the research objectives of the secondary research question, which have been divided into two categories, will be addressed. Category 1 of the secondary objectives aims to establish the usefulness and use of the latest interim and annual financial statements in preparing the business rescue plan, the importance of considering the financial distress and the business model in establishing measurement bases for assets and liabilities, the importance of the decision-usefulness and stewardship roles of accounting information as indicators of users' measurement preferences and, lastly, the preferred measurement bases for assets and liabilities under each of the business rescue aims. Category 2 of the secondary research objectives deals with general matters on presentation and possible guidance on financial reporting when a company is under business rescue.

9.2.1 Assessing the usefulness and use of the latest annual and interim financial statements

In section 7.6.4.1 is was indicated that, before a listed company files for business rescue, its latest interim and annual financial statements will most likely have been prepared on the financial reporting underlying assumption of going concern. The usefulness and use of these financial statements in preparing the business rescue plan are of interest, in particular the possible use of the values attributed to the assets and liabilities in going concern-based financial statements. The questions posed to the respondents in this regard are indicated below, followed by a discussion of the results.

Question

Please indicate (Yes/No) if you would use the following financial reports when developing the business rescue plan, as well as how useful you find the financial information in the reports in developing the business rescue plan.

- The latest audited annual financial statements
- The latest interim financial statements

Can you give one brief example of or reason for using or not using the financial reports?

(Questionnaire – Questions 19 and 20)

9.2.1.1 Annual financial statements (AFS)

Of the group of 12 BRPs, 11 (92%) indicated that they would use the annual financial statements (AFS) in preparing the business rescue plan. These respondents also considered the AFS useful (8 respondents, 67%) or very useful (3 respondents, 25%), mainly for the following reasons:

- To obtain an overall picture of the financial state of affairs.
- To understand the history and events leading up to business rescue.
- To obtain basic financial information as a basis for developing the business rescue plan.
- To understand the capital structure.
- To obtain a liquidation valuation in support of the business rescue plan.
- To obtain fair values of the assets.

The researcher was particularly interested to see if and how the BRPs used the values of assets and liabilities in the historical AFS; in other words, to ascertain the usefulness of those values. The CF states that investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity. In order to assess an entity's prospects for future net cash inflows, investors, lenders and other creditors need information about the assets (resources) and liabilities (claims), and information on management's stewardship of the entity's resources (IASB, 2015b:A19).

It should be noted that when a set of financial statements is prepared on the going concern assumption liquidation values are not provided. Also, all the items in the statement of financial position are not measured at fair values, only those for which it is the accounting policy to do so or if a standard requires such values in addition to another measurement base.

Considering the reasons provided, there is no clear indication that the focus of measurement is on assessing the prospects for future net cash inflows. It would seem that the historical AFS are more useful for understanding the business and as a basis for developing a business rescue plan. It is submitted that the business rescue plan would most likely include many of the actions required to rescue a company, as discussed in section 8.3.5, which may significantly affect the asset and liability values reported in the AFS.

One respondent who considered the AFS not to be useful, commented as follows:

> *They have some use in the process, but given the expected major changes in the business to rescue, they are unlikely to be a useful indicator of the future and therefore not useful for the BR plan.*[34]

Notwithstanding the inconclusive evidence on the use of the values of assets and liabilities to assess the prospects for future net cash inflows to an entity, the above comment supports the notion that the values (measurement bases) used are unlikely to be a useful indicator of the future as intended. This seems to indicate a disconnect between the current set of IFRSs measurement bases and the financial reporting underlying assumption when a company enters business rescue.

9.2.1.2 Interim financial statements (IFS)

Once again, of the group of 12 BRPs, 11 (92%) indicated that they would use the interim financial statements (IFS) in preparing the business rescue plan. These respondents also considered the IFS to be useful (5 respondents, 42%) or very useful (6 respondents, 50%), mainly for the following reasons:

- More up to date financial information (in support of the business rescue plan).
- To identify trends and early warning signs in the business activities.
- To observe changes in the capital structures and assets values.
- To obtain a liquidation valuation in support of the business rescue plan.

[34] Cited verbatim, except for minor grammatical corrections.

Once again it is evident that the interim financial statements are used to obtain more up-to-date financial information in support of developing the business rescue plan. The respondents considered the IFS more useful for analysing trends, as it represents supposedly more current information about the business.

One respondent made the following interesting comment:

> *The problem with the audited and interim published financials is that they do not describe the business model, which is needed to turn a business around. The most important info is normally hidden in the financials and need to be regenerated in a different format namely the business model format, which in my opinion is the only way to determine whether a business can be traded back to solvency.*

The above comment is very important as it indicates support for a business model view in preparing financial statements. The importance of the business model is addressed in the next section.

9.2.2 Assessing the importance of the business model

Section 7.6.4.2 discussed the rationale for including questions on the role and importance of the business model in the financial reporting of a South African listed company under business rescue. In particular, it was important to establish whether the particular business model applied should be considered in the measurement of assets and liabilities. Therefore, a consideration of the business model in the measurement of assets and liabilities would point towards entity-specific measurement bases.

The questions asked and the responses received are presented below. A general discussion then follows the summary statistics presented below. The questions commence with a consideration of the business model in general, as indicated below.

Question

In general, to what extent do you agree/disagree that it is important to consider the business model in order to establish measurement bases for assets and liabilities (e.g. net realisable value, value-in-use, amortised cost, etc.)?

(Questionnaire – Question 25)

Table 9.1 below summarises the responses with respect to the general importance of considering the business model in the measurement of assets and liabilities.

Table 9.1: Frequency table of the extent of agreement that the business model should be considered in establishing measurement bases for assets and liabilities

Question 25 (n = 49)	**Agreement**				
	1 = Completely disagree	2 = Disagree	3 = Agree	4 = Completely agree	**Total**
General importance of considering the business model in order to establish measurement bases *(Row percentage)*	2 *(4%)*	3 *(6%)*	20 *(41%)*	24 *(49%)*	**49** ***(100%)***

(Questionnaire – Question 25)

The above indicates that 44 (90%) of the 49 respondents agreed or completely agreed that it is in general important to consider the business model in order to establish measurement bases for assets and liabilities. The implication of this will be considered together with the rest of the answers at the end of this section. The focus of the next question is on a company under business rescue.

Question

How likely is a change in a company's business model required during a business rescue?

(Questionnaire – Question 26)

The responses with respect to the likelihood of a change in the company's business model being necessary during a business rescue is presented in Table 9.2 below.

Table 9.2: Frequency table of the likelihood of a change in the company's business model during a business rescue

Question 26 (n = 49)	**Likelihood**				
	1 = Completely unlikely	2 = Unlikely	3 = Likely	4 = Completely likely	**Total**
Likelihood of a change in a company's business model required during a business rescue? *(Row percentage)*	0 *(0%)*	7 *(14%)*	27 *(55%)*	15 *(31%)*	**49** ***(100%)***

(Questionnaire – Question 26)

The above results indicate that the majority, namely 42 (86%) of the 49 respondents, considered it likely or completely likely that a change in a company's business model would be required during a business rescue. The implication of this will also be considered together with the rest of the answers at the end of this section.

The first part of last question assesses the extent to which the respondent agree that the business model should be considered in the development of the business rescue plan, as well as for financial reporting purposes.

Question

[Part 1]

For a company that has filed for business rescue, to what extent do you agree/disagree that the company's business model should be considered:

- in the development of its business rescue plan?
- for financial reporting purposes, with respect to the measurement of assets and liabilities whilst under business rescue proceedings?

(Questionnaire – Question 27 [part 1])

Table 9.3 below summarises the responses regarding a consideration of the business model in the development of the business rescue plan and for financial reporting purposes.

Table 9.3: Frequency table of the consideration of the business model in the business rescue plan and for financial reporting purposes

Question 27 [part 1] (n = 49)	**Agreement**				
Consider the business model in:	1 = Completely disagree	2 = Disagree	3 = Agree	4 = Completely agree	**Total**
The development of the business rescue plan *(Row percentage)*	0 *(0%)*	2 *(4%)*	21 *(43%)*	26 *(53%)*	**49** ***(100%)***
For financial reporting purposes *(Row percentage)*	2 *(4%)*	6 *(12%)*	23 *(47%)*	18 *(37%)*	**49** ***(100%)***

(Questionnaire – Question 27 [part 1])

With respect to the consideration of the business model in the development of the business rescue plan, the above table indicates that the majority of the respondents agreed (21 respondents; 43%) or completely agreed (26 respondents; 53%) that it should be considered. Similarly, the majority of the respondents agreed (23 respondents; 47%) or completely agreed (18 respondents; 37%) that the business model should be considered for financial reporting purposes when measuring assets and liabilities. The implications of the above results will be considered together with the rest of the answers at the end of this section.

The second part assesses the extent to which the respondent agreed that considering the business model would lead to more relevant, faithfully represented, comparable and understandable financial information.

Question

[Part 2]

To what extent do you agree/disagree that considering the business model in the financial reporting for a company under business rescue:

- would lead to more relevant financial information (due to allowing different methods of accounting based on the business model)
- will enhance faithful representation of the economic phenomena?
- will enhance comparability of financial information between companies?
- will enhance the understandability of the financial information?

(Questionnaire – Question 27 [part 2])

The responses to the above question are presented in Table 9.4 below.

Table 9.4: Frequency table of the consideration of the business model to present relevant, faithfully represented, comparable and understandable financial information

Question 27 (n = 49)	**Agreement**				
[part 2] Consider the business model in financial reporting to present:	1 = Completely disagree	2 = Disagree	3 = Agree	4 = Completely agree	**Total**
Relevant financial information *(Row percentage)*	2 *(4%)*	4 *(8%)*	33 *(68%)*	10 *(20%)*	**49** ***(100%)***
Faithfully represent the economic phenomena *(Row percentage)*	2 *(4%)*	4 *(8%)*	36 *(74%)*	7 *(14%)*	**49** ***(100%)***
Comparable financial information *(Row percentage)*	3 *(6%)*	12 *(24%)*	27 *(56%)*	7 *(14%)*	**49** ***(100%)***
Understandable financial information *(Row percentage)*	3 *(6%)*	2 *(4%)*	33 *(68%)*	11 *(22%)*	**49** ***(100%)***

(Questionnaire – Question 27 [part 2])

The above results show a noticeable trend between disagreement (Completely disagree and Disagree) versus agreement (Agree and Completely agree) on the individual matters considered. The results will thus be compared in total between disagreement and agreement.

The results indicate that the respondents were mostly in agreement that a consideration of the business model in the financial reporting for a company under business rescue would be able to present

- relevant financial information (43 respondents; 88%).
- the economic phenomena faithfully (43 respondents; 88%).
- financial information that is comparable (34 respondents; 70%).
- financial information that is understandable (44 respondents, 90%).

The implications of the above results will once again be considered together with the rest of the answers at the end of this section. The last part of the question assesses the extent to which the respondent agreed that considering the business model would lead to biased information in the financial statements.

Question

[Part 3]

To what extent do you agree/disagree that considering the business model in the financial reporting for a company under business rescue:

- would lead to biased information, because it failed to capture the potential cash flow that has been created or destroyed by the company.

(Questionnaire – Question 27 [part 3])

The results on the above question are presented in Table 9.5 below. A discussion follows.

Table 9.5: Frequency table of the consideration of the business model to lead to biased information

Question 27 [part 3] (n = 49)	**Agreement**				
Consideration of the business model in financial reporting to present:	1 = Completely disagree	2 = Disagree	3 = Agree	4 = Completely agree	**Total**
Financial information that is biased *(Row percentage)*	9 *(18%)*	29 *(60%)*	9 *(18%)*	2 *(4%)*	**49 *(100%)***

(Questionnaire – Question 27 [part 3])

The above results indicate that the respondents mostly completely disagreed (9 respondents, 18%) or disagreed (29 respondents, 60%) that a consideration of the business model in financial reporting would lead to biased financial information.

In summary, the results on the consideration of the business model in financial reporting clearly show that it is in general important to consider the business model in establishing measurement bases for assets and liabilities. In other words, the measurement base should take into account how the company will generate/utilise cash. With respect to a listed company under business rescue, it is also likely that a change in the business model is necessary. The results confirmed that it is also necessary to consider the company's business model in both the development of a business rescue plan and for financial reporting purposes with respect to the measurement of its assets and liabilities.

Regarding the consideration of the business model in financial reporting, the majority of the respondents agreed that it would lead to more relevant, faithfully represented, comparable and understandable financial information. Their agreement is consistent with recent research (see § 6.6) which argues for the use of the business model in financial reporting. Moreover, the respondents indicated that a consideration of the business model in financial reporting would not lead to biased information. Once again, the respondents' views confirm the above-mentioned research.

In section 6.6.4 it was indicated that, subsequent to the finalisation of the research questionnaire, the IASB decided not to use the term ‘business model’ in the new CF. Furthermore, the IASB decided not to include a general discussion on the role played in financial reporting by the way an entity conducts its business but rather to focus on the manner in which the asset or liability contributes to future cash flows. In this study the term ‘business model’ also focuses on the way in which the asset or liability contributes/requires cash. Therefore, the IASB’s decision to focus on the manner in which the asset or liability contributes/requires cash confirms and supports the research results presented above.

The results presented above indicate that the particular business model applied should be considered when measuring the assets and liabilities of a South African listed company under business rescue. However, a consideration of the business model when measuring these would point towards entity-specific measurement bases. In section 9.2.6 the preferred measurement bases for assets and liabilities of a South African listed company under business rescue is discussed in more detail. The next section reports on the two perspectives on the objective of financial reporting, namely, the decision-usefulness and stewardship perspectives.

9.2.3 Assessing the objective of financial reporting: the decision-usefulness vs the stewardship perspectives

The rationale for the following question on the objective of financial reporting was explained in section 7.6.4.3. It was argued that the perspective (decision-usefulness and/or stewardship) would indicate the type of information that a user is looking for, that is, forward-looking cash flow information or more historical cost-based information. It was further indicated that a possible change in the users’ perspective when a company is under business rescue, as opposed to a healthy solvent company, could be an indicator of the type of measurement base(s) that should be used to measure the assets and liabilities of such a company.

Question

For a healthy solvent company under normal circumstances, how important do you rate the role of financial information in the financial reports in terms of the following?

- Decision usefulness
- Stewardship

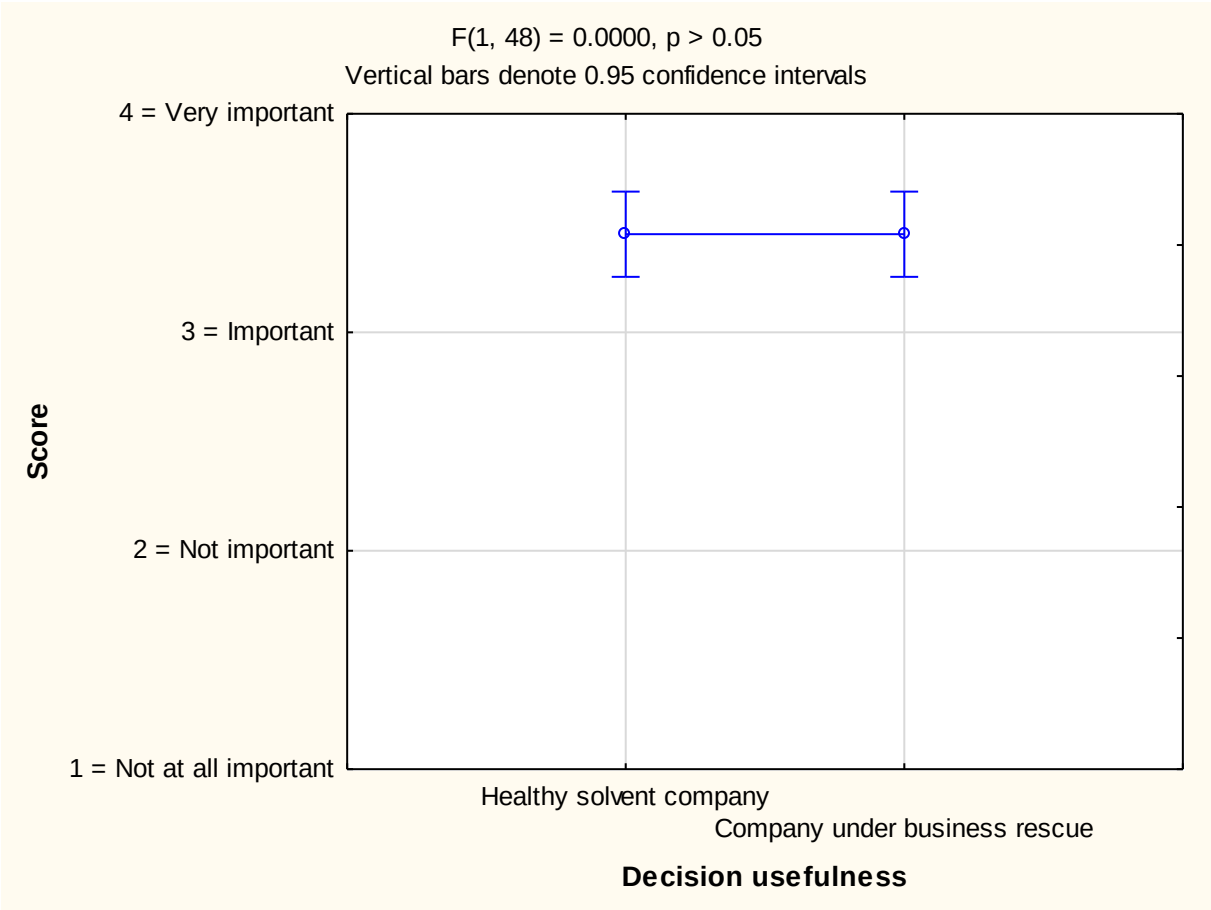
If a company is under business rescue, how important do you rate the role of financial information in the financial reports in terms of the following?

- Decision usefulness
- Stewardship

(Questionnaire – Question 28)

The figures below summarise the results of the above question. In order to determine whether there is a change in perspective between a healthy solvent company and a company under business rescue, the results have been grouped by perspective, namely, decision-usefulness (Figure 9.1) and stewardship (Figure 9.2), and analysed by way of a VEPAC.

Figure 9.1: VEPAC on the decision-usefulness perspective for a healthy solvent company vs a company under business rescue

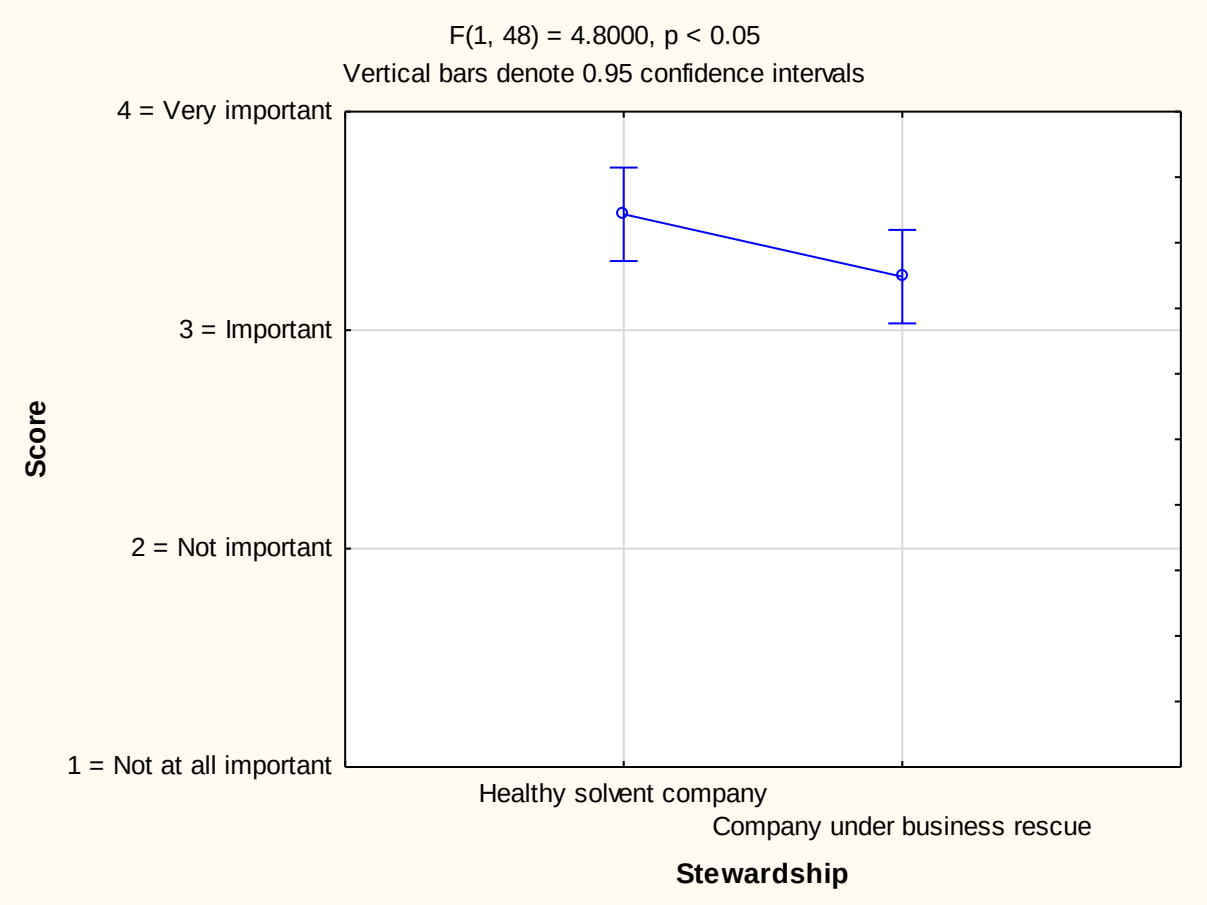


(Questionnaire – Question 28)

Figure 9.1 above indicates that the decision-usefulness role of financial information is more than important for both a healthy solvent company (mean = 3.4) and a company under business rescue (mean = 3.4). The figure also shows that there is no statistical difference ($p > 0.05$) between the importance rating of decision-usefulness in a healthy solvent company as opposed to a company under business rescue. This statistical indifference indicates that the importance of the decision-usefulness role of financial information does not increase or decrease if a company is under business rescue. It further indicates that users would not require more or less future-looking financial information if a company were now under business rescue as opposed to being a healthy solvent company.

Figure 9.2 shows the results of the stewardship perspective for a healthy solvent company as opposed to a company under business rescue. A discussion of the results follows the figure.

Figure 9.2: VEPAC on the stewardship perspective for a healthy solvent company vs a company under business rescue



(Questionnaire – Question 28)

With respect to the stewardship role of financial information, Figure 9.2 indicates that it is important to very important to the users of a healthy solvent company (mean = 3.5), as well as to a company under business rescue (mean = 3.2). The statistical difference ($p < 0.05$) between the importance ratings shows that the stewardship role of financial information decreases if a company is under business rescue, although it is still important. It is interesting to note that the stewardship role of financial information is still important if a company is under business rescue, since this situation usually indicates the need for more historically based cost information! The result is surprising,

as one may argue that the focus should shift to the future cash-generating opportunities of the company under the leadership of a BRP, thereby significantly reducing the need for stewardship-type information on past events.

It is, however, important to note that the results point to the general importance of stewardship as an objective of financial reporting. As mentioned in section 5.2, commentators have expressed concern about the seeming demotion of the stewardship objective in favour of the decision-usefulness objective. However, the empirical results emphasise the importance of the stewardship objective of financial reporting. It can be noted that, subsequent to the finalisation of the research questionnaire, the IASB did propose to reintroduce the term ‘stewardship’ in the revised CF alongside an existing description of what it encapsulates, thereby making it more prominent (IASB, 2015a:17).

The above results show that both the decision-usefulness and stewardship perspectives are and remain important to the users of financial statements, even if the company is under business rescue. The next section will address the particular type of information needed, namely, forward-looking cash flow information or more historical cost-based information, in more detail.

9.2.4 Users of a listed company under business rescue and their information needs

The rationale for including the questions on the users of financial statements of a listed company under business rescue were explained in section 7.6.4.4. It was indicated that the primary users of financial statements are also some of the ‘affected parties’ in a business rescue context and that information needs differ between the respective user groups. The questions were intended to establish whether the various users of the financial statements of a listed company under business rescue prefer more forward-looking financial information (i.e. decision-usefulness), more historical-type financial information (i.e. stewardship), or a combination of both. The user groups’ perspectives on the above role of financial information may be an indicator of a preference for certain measurement bases for assets and liabilities.

The first question aimed to determine if the information needs of the various user groups, namely, equity investors, lenders and creditors of a company under business rescue, will remain the same as the already established view on decision-usefulness and stewardship for a normal company (see § 5.3), or whether they will change to favour one of the two perspectives. The question asked is indicated below, followed by the presentation and discussion of the research results. The results with respect to the decision-usefulness and stewardship perspectives are reported in sections 9.2.4.1 and 9.2.4.2 respectively.

Question

Please assume each of the following three user roles with respect to a JSE listed company that has filed for business rescue:

- Role 1: An equity investor (i.e. a shareholder)
- Role 2: A lender (e.g. a major bank)
- Role 3: A creditor (i.e. a trade creditor)

From the perspective of each of the above users, please consider the decision usefulness and stewardship roles of financial information in the financial reports of a listed company under business rescue.

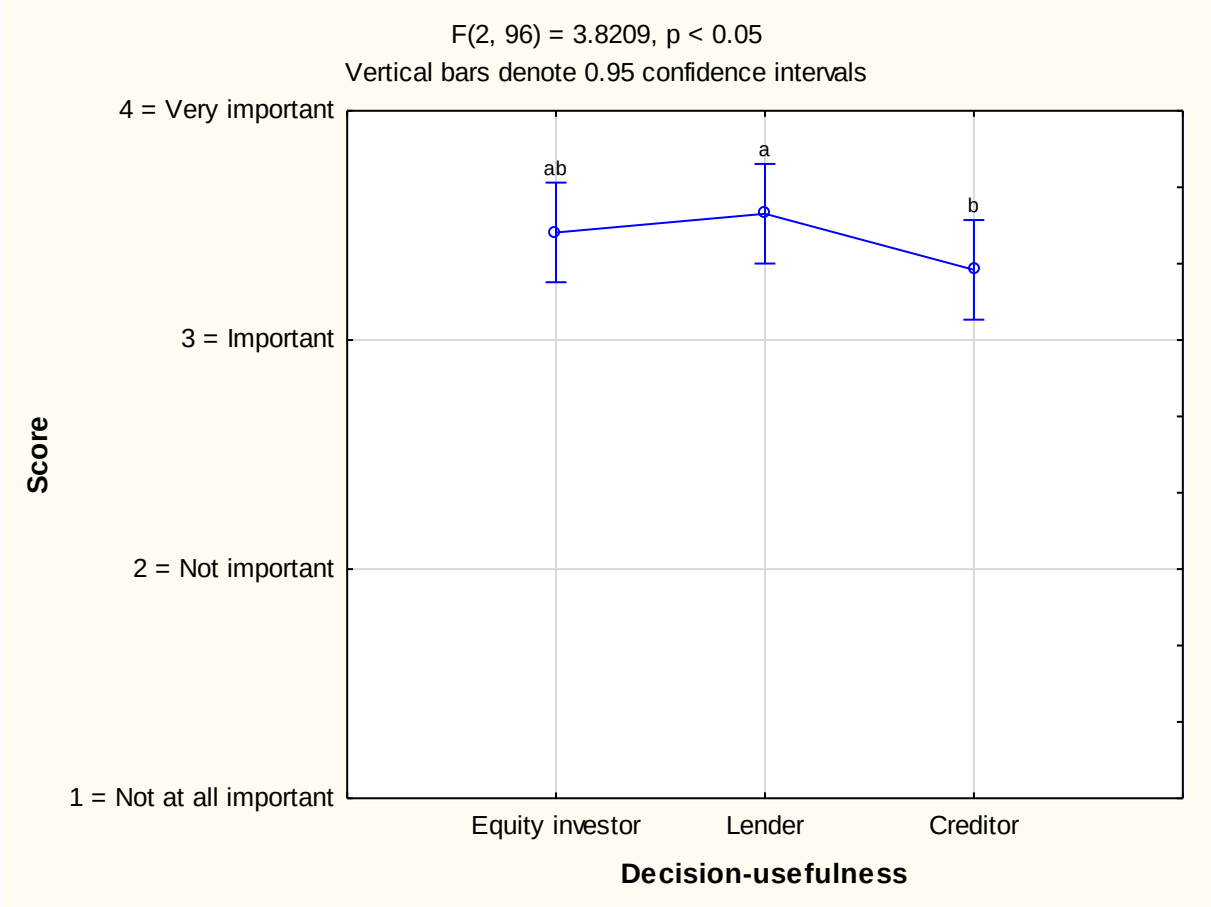
- Decision usefulness
- Stewardship

(Questionnaire – Question 29)

9.2.4.1 The decision-usefulness role of financial information

The decision-usefulness role of financial information from the perspectives of an investor, lender and creditor are summarised in Figure 9.3 below, followed by a discussion on the reasons for the respondent's importance rating.

Figure 9.3: VEPAC on the decision-usefulness role of financial information from the perspectives of an equity investor, lender and creditor



(Questionnaire – Question 29)

Figure 9.3 above indicates that the decision-usefulness role of financial information is *more than important* for each of the three roles (indicated by a mean of between 3.3 and 3.6). The results show that the decision-usefulness of financial information remains important even if the company is under business rescue – in other words, even in this situation, future-looking financial information is still required.

The figure also shows that there are statistical differences ($p < 0.05$) between the importance rating of decision-usefulness given by lenders and creditors. However, no statistical differences were found between equity investors and lenders, or between equity investors and lenders with respect to their rating of the importance of the decision-usefulness of the financial information.

The difference noted between lenders' and creditors' consideration of the importance of decision-usefulness is interesting. It seems that lenders are a bit more interested in forward-looking financial information than creditors, although both groups rated it more than important, that is, gave it a score of more than 3. The high importance given to forward-looking decision-useful financial information by the lender and creditor groups is important because it indicates that they are looking for information to assist them in determining the cash generating possibilities of the company.

In order to obtain more information on why decision-usefulness would be important for the different user groups, the question repeated below was presented to the respondents for each of the three different roles assumed. This question is presented in a summarised format, followed by a summary of the respondents' answers.

Question

Assuming the role of a [shareholder][lender][creditor], you have indicated that you regard the decision-usefulness role of accounting information for a company under business rescue as IMPORTANT or VERY IMPORTANT:

- As a [shareholder][lender][creditor], please indicate for what purpose you would mostly use the future-oriented accounting information.

(Questionnaire – Questions 32 [shareholder], 37 [lender] and 43 [creditor])

The respondents indicated that they would, as an equity investor (shareholder), use future-oriented accounting information for the following purposes. The purposes are broadly grouped by theme. The themes are as follows:

- Used for decision making purposes, i.e. use the financial information to assess whether to hold the shares, sell them or invest more in the company. These decisions would also incorporate approving or rejecting the business rescue plan, and judging the progress of implementing the business rescue plan.
- Used to assess the company's future, that is, to determine the viability, sustainability, future positioning and future restructuring needs of the company. Furthermore, future-oriented accounting information will also help to assess the future cash flow generation possibilities, which includes revenue and growth

plans. Moreover, the prediction of outcomes and the likelihood of turning the company around can also be assessed.

- Used for valuation purposes, that is, to determine the value drivers, the value of the investment (including the net asset value), the rate of return on the investment and the capital growth possibilities.
- To obtain current financial information, that is, to indicate the current financial position and claims against the company.

The above uses of financial information for a company under business rescue confirm that such information is still used for making decisions on whether to buy, sell or hold equity instruments as intended by the IASB's CF (IASB, 2015b:A19). Furthermore, in line with the Cascino review (see § 5.3.1.1) the information is also used to determine the estimated future cash flows and to assess the corresponding risk in order to determine an appropriate value of and return on the investment.

The fact that the financial information is also used to ascertain the likelihood of turning the company around, whether to approve or reject the business rescue plan and to assess the progress of business rescue plan implementation is important to this study. It confirms that future-oriented accounting information is necessary, which points to the need to use measurement bases for assets and liabilities that encapsulate future-oriented accounting information.

With respect to a lender, it was indicated in section 5.3.2 that lenders would normally look for more conservative financial information. It was also noted that lenders are more concerned with the downside risk of debt as no return can be earned in excess of the redemption value. In order to assess the downside risk of debt, lenders need information to evaluate the probability that a company may not be able to pay its obligations when due. Ratio analysis, such as return on assets, EBITDA to total liabilities and solvency, are then often used in making these decisions.

On the question of the uses of future-oriented accounting information with respect to a lender of a company under business rescue, the respondents indicated that future-oriented accounting information is used to

- understand the current trading situation and to determine what caused the company to be under business rescue.
- assess the future cash flows, future viability, default risk and sustainability of the company in order to determine the company's ability to repay the debt.
- assess the financial position and solvency of the company and the value of the loan, and to determine any debt provisions to be made.
- determine whether the company is a going concern.
- assess the probability of success of the business rescue plan in order to decide whether to support the turnaround plan, or to move for liquidation.
- decide whether to call up the debt or, if it is long-term debt, whether it can be restructured.
- determine whether there are unencumbered assets, or portions of assets, that can serve as security.

It was earlier noted that the high importance rating for decision-useful financial information was surprising. Considering the above uses of future-oriented accounting information, the high importance rating for decision-useful financial information becomes apparent. Apart from the ongoing need to assess the company's ability to repay the debt, as explained above, the focus of the financial information needs seems to have shifted towards future-oriented information. Since the company is under business rescue, it is now also important to assess the company's going concern status, what course of action to follow with respect to the debt, and whether to support the turnaround plan or move for liquidation.

With reference to the decision-usefulness of financial information for a creditor of a company under business rescue, the respondents indicated the following reasons for using future-oriented accounting information:

- To understand the likelihood and size of future cash flows of the business in order to determine the company's ability to repay the debt, as well as to determine whether to continue supplying credit to the company (in other words, to provide post-commencement support) or to trade on a cash only basis. Furthermore, to assess the best prospects for recovery of the funds advanced, i.e. trading out of the difficulty vs liquidation vs something in between. Moreover,

to determine the value of the receivable and to assess the extent of bad debt, as well as to determine what security the company could offer.

- To understand the financial position and solvency of the company and its ability to continue as a going concern, as well as to assess the chances of the business rescue plan being implemented successfully.

These reasons make interesting reading. In section 5.3.3 it was indicated when making credit decisions accounting information is not used extensively but rather information supplied by credit bureaus. If a company is under business rescue, it seems that the creditor would become more interested in the solvency of the company, its ability to continue as a going concern and the likelihood of the business rescue plan being implemented successfully. Accordingly, the creditor needs to decide whether to continue trading with the company, and if so, under what terms, including the security on offer.

In order to explore the decision-usefulness role of financial information further, the respondents were also asked to indicate the reasons for not rating the decision-usefulness of financial information for a company under business rescue as important. These responses were also analysed in order to determine whether there was any other aspect that should be considered with respect to the measurement of assets and liabilities. A summary of the question and the responses per shareholder, lender and creditor roles are provided below.

Question

Assuming the role of a [shareholder][lender][creditor], you have indicated that you regard the decision-usefulness role of accounting information for a company under business rescue as NOT AT ALL IMPORTANT or NOT IMPORTANT:

- As a [shareholder][lender][creditor], please indicate your reason(s).

(Questionnaire – Questions 33 [shareholder], 38 [lender] and 44 [creditor])

Assuming the role of a shareholder, four respondents indicated that the decision-usefulness role of financial information is not important. Three of the four respondents incorrectly considered decision-usefulness as referring to *historical* information and therefore indicated that it is of limited value and usefulness. The fourth respondent stated that a shareholder should have access to many more in-depth management reports that focus on operational efficiency rather than reporting accuracy.

With respect to the decision-usefulness of financial information for a lender, three respondents indicated that it is not important. One of the three respondents also thought that decision-usefulness referred to *historical* information and therefore merely indicated that it would not be decision-useful. The second respondent argued that the lender is only interested in how good their security is and the third respondent stated that the lender would not lend to the company in future.

Considering the decision-usefulness of financial information from a creditor's perspective, a few respondents concluded that it was not important. They argued that

- the creditor is not interested in the future prospects of the company[35] but would rather focus on the short term and is therefore only concerned with whether the company is able to pay its debts at a moment in time.
- the creditor would also change the terms to cash on delivery.

One respondent indicated that financial information is not presented timeously enough to determine the change in the company's risk profile. The respondent indicated that

[35] The respondent(s) indicated that the creditor is not interested in the future prospects of the company. This assertion may be debatable: if it is an important client then it would also be important for the creditor to support any reasonable plan to ensure that the client continued to exist on a solvent basis.

the creditor would have to use alternative measures to determine the company's ability to repay the debt.

The above responses from the shareholder, lender and creditor perspectives did not highlight any new information that should be considered with respect to the measurement of assets and liabilities.

In conclusion, the results indicate that the decision-usefulness role of financial information is important for shareholders, lenders and creditors alike. Lenders and creditors, in particular, look for future-oriented financial information when a company is under business rescue in order to aid their decisions with respect to both their claim against the company and their future association with the company. One can therefore conclude that measurement bases for assets and liabilities that enable a user to assess the timing and the associated risk of future cash flows are preferable when preparing financial statements for a listed company under business rescue.

The next section explores the stewardship role of financial information for a company under business rescue. Once again, the role of the financial information will be assessed from the perspective of shareholders, lenders and creditors.

9.2.4.2 Stewardship role of financial information

In this section the results of an evaluation of the stewardship role of financial information are presented. The results are presented once again by user group, namely, shareholders, lenders and creditors. The question posed to the respondents in this regard (see p. 385) is once again presented below for ease of reference.

Question

Please assume each of the following three user roles with respect to a JSE-listed company that has filed for business rescue:

- Role 1: An equity investor (i.e. a shareholder)
- Role 2: A lender (e.g. a major bank)
- Role 3: A creditor (i.e. a trade creditor)

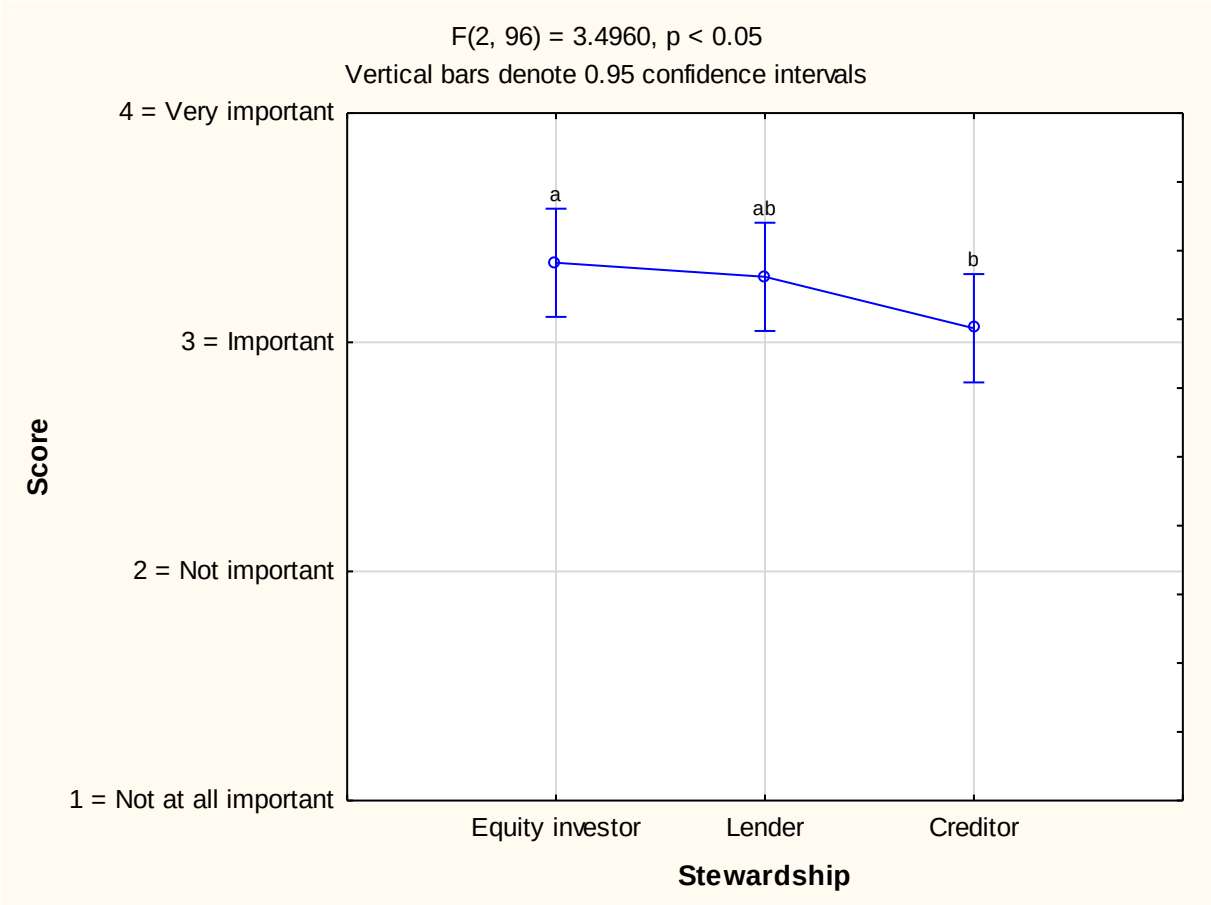
From the perspective of each of the above users, please consider the decision usefulness and stewardship roles of financial information in the financial reports of a listed company under business rescue.

- Decision usefulness
- Stewardship

(Questionnaire – Question 29 [copied from p. 385])

Figure 9.4 below illustrates the more historically inclined stewardship perspective on financial information for the different user groups.

Figure 9.4: VEPAC on the stewardship role of financial information from the perspectives of an equity investor, lender and creditor



(Questionnaire – Question 29)

With respect to the stewardship role of financial information, Figure 9.4 indicates that this role is also important to the different users of a company under business rescue (mean = between 3.1 and 3.3). The importance attributed to stewardship financial information is somewhat surprising for a company under business rescue. However, it seems that the respondents consider the way in which management has managed the company's resources still to be important going forward.

Figure 9.4 also shows that there are statistical differences ($p < 0.05$) between the importance ratings of the equity investor and creditor groups. However, no statistical differences were found between the equity investor and lender groups, or between the lender and creditor groups. These results thus indicate that even if a company is under business rescue, the more historical type of financial information is still considered important for all these user groups.

In order to further explore the importance rating of the stewardship role of financial information for the different user groups, the respondents were asked to indicate for what purpose they mostly used the accounting information on past transactions. The question asked and a summary of the results are provided below.

Question

Assuming the role of a [shareholder][lender][creditor], you have indicated that you regard the stewardship role of accounting information for a company under business rescue as IMPORTANT or VERY IMPORTANT:

- As a [shareholder][lender][creditor], please indicate for what purpose you would mostly use the accounting information on past transactions.

(Questionnaire – Questions 34 [shareholder], 39 [lender] and 45 [creditor])

In section 5.3.1 it was pointed out that investors also consider accounting information that is not future orientated. This historically oriented accounting information is, for example, used to make management appointments and remuneration decisions.

The respondents who indicated that stewardship-type accounting information on past transactions is important for an equity investor in a company under business rescue, would use this information to

- determine the nature of the business, the overall financial position of the company, as well as to calculate ROI and how the company has fared in terms of its forecasts.
- assess how management executed its fiduciary duties and governance responsibilities.
- investigate what caused the company's financial distress.
- understand whether the business is sustainable, how the company can move forward and what opportunities still exist; also, to what extent reliance can be placed on future plans.
- decide on the shareholders' support for the business rescue plan with respect to further investment in the company, or whether to exit the company.

Considering the above uses of financial information on past transactions for a company under business rescue, it should be noted that investors are looking for more than just an assessment of how management managed the resources entrusted to it. Investors are also looking for reasons for the company's financial distress, as well as information on whether the business is still sustainable, what opportunities still exist and whether to invest further in the company or to consider exiting it. The above indicates that the shareholders are looking at the past transactions in order to determine a future course of action.

With respect to the stewardship role of past transactions, the respondents considered this important for lenders for the following reasons:

- To assess trends in the company's past cash flows in order to predict future cash flow generating possibilities.
- To assess the possible repayment of debt, how much more debt the company can absorb and what financial covenants should be set.
- To understand the reasons for the company's financial problems.

- To obtain a clear picture of the financial position of the company, how many other debts the company has in comparison to its assets, the current value of the debt, the probability of success and whether reliance can be placed on future plans.
- To assess the effectiveness of management's stewardship of the resources entrusted to it.
- To assist in making the decision as to whether to support the business rescue plan further, that is, with respect to future lending to the company.

Current literature reveals that lenders prefer more conservative historical-type accounting information (see § 5.3.2). The above uses of historical information were therefore largely expected. However, in addition to the expected uses of historical accounting information, lenders would also be interested in the reasons for the financial problems of a company under business rescue. Furthermore, the lenders would use the historical information to assess whether to further support the business rescue plan, that is, with respect to future lending to the company.

Considering the importance of the stewardship role of financial information for creditors, the respondents indicated the following reasons for using accounting information on past transactions:

- To determine whether the company can generate sufficient cash to service its debt.
- To assess the past track record of profitability, the trading cycle and the future prospects of the company.
- To determine the reasons for the financial distress.
- To obtain a picture of the financial position of the company in order to evaluate its solvency and liquidity strength and funding structure, in particular whether they are funding assets via trade creditors; also to determine the reasonability of the information on which future plans are based.
- To assess the strength and risk of management and whether it has acted responsibly with the resources entrusted to them.

One of the respondents also mentioned that historical information allows you to assess your competition! Once a company is in business rescue, the veil of secrecy is lifted and all creditors become known to each other.

Some of the other uses mentioned were that stewardship information would aid in decisions such as whether to support the business rescue plan and do future business with the company, as well as to determine the level of credit to be granted, the risk of default and whether legal action should be taken against the directors.

Considering the above uses of the financial information on past transactions, it is clear that creditors would pay much more attention to the financial statements of a company when it is under business rescue. Their actions are understandable since creditors do not normally have any security over the assets of the company. As an affected party in the business rescue proceedings, creditors now need to assess the recoverability of their claim. Creditors also need to decide whether to support the business rescue plan and continue doing business with the company, or take legal action to recover their claim. In order to make these decisions they would need information on various issues ranging from the reasons for the financial problems, the strength and risk of management, the current financial position of the company and whether the future plans are based on reasonable information.

In conclusion, the results indicated that the stewardship role of financial information is also important for shareholders, lenders and creditors. Shareholders (investors) look at past transactions in order to determine a future course of action. Such past information on the reasons for the company's financial distress, information on whether the business is still sustainable and the opportunities that still exist will assist them to form an opinion on whether to further invest in or exit the company. Apart from the normal conservative historical-type accounting information that lenders and creditors prefer, lenders and creditors of a company under business rescue are also interested in the reasons for the company's financial problems. This historical information would be used to assess, amongst other things, whether to further support the business rescue plan and whether to continue trading with the company and on what terms. With

respect to the measurement of assets and liabilities of a company under business rescue, it would therefore seem that historical-type information is also useful.

The respondents were also asked to provide reasons for rating the stewardship role of financial information as not important. These reasons were asked in order to further explore the stewardship role of financial information and to determine whether there was any other aspect that should be considered in the measurement of assets and liabilities. A summary of the question and responses per shareholder, lender and creditor roles are provided below.

Question

Assuming the role of a [shareholder][lender][creditor], you have indicated that you regard the stewardship role of accounting information for a company under business rescue as NOT AT ALL IMPORTANT or NOT IMPORTANT:

- As a [shareholder][lender][creditor], please indicate your reason(s).

(Questionnaire – Questions 35 [shareholder], 40 [lender] and 46 [creditor])

In considering the viewpoint of a shareholder, the respondents reasoned that the stewardship role of accounting information for a company under business rescue shareholders is not relevant as the focus shifts from the past to the future potential of the company. Furthermore, going into business rescue indicates a lack of confidence in the stewardship ability of the old management. Therefore, this stewardship is no longer relevant and is also not indicative of how the BRP will manage the entity.

With reference to a lender, the respondents maintained that the stewardship role of financial information is not important for the following reasons:

- The focus is not on past results but on the future performance of the company. The historical information is only useful as a comparison to the forecasts.
- Management has discredited itself in its stewardship role. When the company is in business rescue the BRP and the business rescue plan are more important.
- Lenders would only be interested in how good their security is.
- Stewardship is no longer important as lenders will not lend funds to the company in future.

With regard to creditors, the respondents indicated that the stewardship role of financial information would not be important for the following reasons:

- The focus is not on historical information but on current information and the forecasted future cash position. The creditor would therefore be interested in the company's ability to repay the debt and not in how the business got itself into trouble.
- The creditors would look for answers in the business rescue plan and for an explanation from the BRP, but not by reading the financial statements.
- Stewardship now resides with the BRP. The business rescue proceedings would not be the best tool for investigating the directors' actions in detail.

The above indicates that the respondents who did not consider the stewardship role of financial information important for shareholders, lenders and creditors actually favoured forward-looking financial information, such as that found in the decision-usefulness role of financial information. The above results therefore add no additional information should be considered with respect to the measurement of assets and liabilities but rather confirm the importance of the decision-usefulness role of financial information.

The literature has shown that under normal circumstances users prefer certain financial statements. The next section reports on preferences regarding the financial statements for a listed company under business rescue.

9.2.4.3 Ranking of statements

In section 7.6.4.4 it was indicated that users of financial statements may rely more on certain financial statements than others for their information needs. In order to determine whether a preference is displayed by the users of financial statements in a listed company under business rescue, which may point towards a preference for certain measurement bases for assets and liabilities, the following questions were asked.

Question

From the perspective of each of the above users, please rank the statement of financial position (SFP), statement of comprehensive income (SCI), statement of cash flow (SCF) and statement of changes in equity (SCE) in the order that the user rely on it the most, where 1 = the statement the user rely on most and 4 = the one the user uses least of all.

(Questionnaire – Question 30)

In order to gain an understanding of why the respondent considered a particular statement to be relied on most, the following question was also asked.

Question

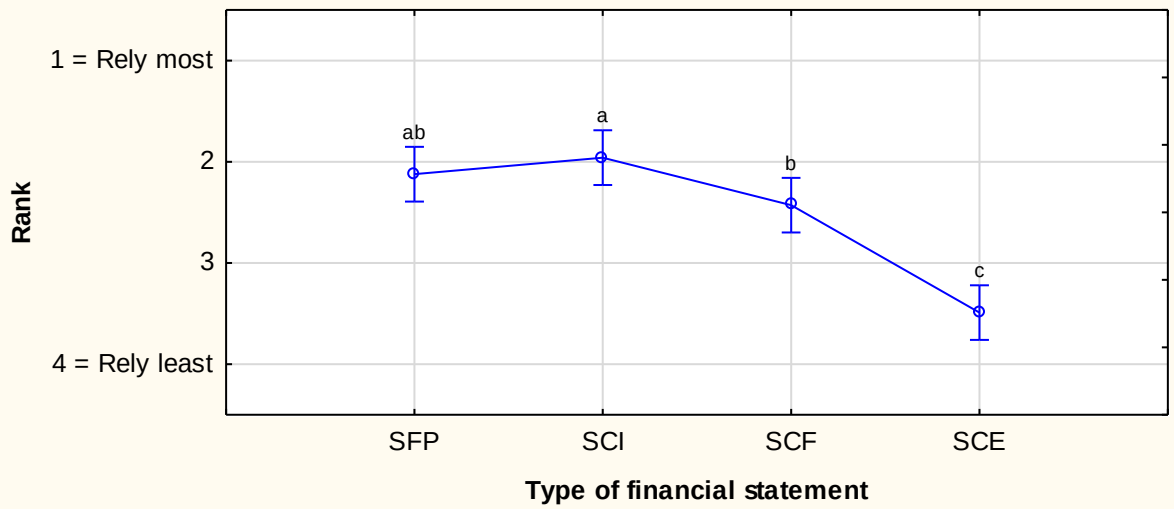
For each of the assumed roles, why do you prefer the statement ranked no 1 the most?

(Questionnaire – Question 31)

The results of both the above questions are presented below for each of the three roles, namely, shareholder, lender and creditor. A VEPAC indicating the ranking of the financial statements for the particular role will be presented and discussed first, followed by a summary of the main reasons why a user may rely most on that particular statement.

A VEPAC on the ranking of the financial statements with respect to the equity investor role is presented first. Figure 9.5 below indicates the results.

Figure 9.5: VEPAC on the ranking of the financial statements for an equity investor



Legend:
SFP = Statement of financial position
SCI = Statement of profit and loss and other comprehensive income
SCF = Statement of cash flows
SCE = Statement of changes in equity

(Questionnaire - Question 30)

The results in the above table indicate that a statistical difference ($p < 0.01$) exists between the various statements. However, there is no statistical difference between the SFP and the SCI in terms of the extent to which the equity investors rely on the statement for their financial information. Furthermore, no statistical difference was found between the SFP and the SCF in terms of how the equity investors rely on those statements for their financial information. However, a statistical difference was found between the ranking of the SCI and the SCF.

These results therefore show that both the SCI and the SFP would be relied on by equity investors for financial information. Since there is no statistical difference between the rankings of these two statements, the reasons given on why that statement would be relied on most will be discussed below for both statements.

The respondents who indicated that the SCI is relied on most gave the following reasons:

- The SCI is used to determine whether the company is profitable, as well as to determine its revenue-generating ability and growth in revenue and what future performance is possible.
- Investors also use the SCI to determine the return on investment and to calculate earnings before interest, tax, depreciation and amortisation (EBITDA) used for valuation purposes.
- By using the above information, the investor can assess the dividends and capital gain on the shares in order to decide whether to invest in the company.

The above information confirms the conclusion reached by the Cascino review, namely, that a shareholder would require forward-looking financial information from the SCI in order to perform a valuation on which to base his/her investment decision. The Cascino review did not specifically address a company under business rescue, therefore the results also indicate that equity investors are looking for the same type of information from the SCI irrespective of whether the company is in business rescue or not.

With respect to the reasons for relying more on the SFP, the respondents noted the following:

- The SFP is used to determine the overall position of a company at a point in time, the solvency and liquidity of the company, its asset value and the overall stability of the company.
- It is also used to determine what the possible return on investment would be, what the future of the company is, as well as the growth in net assets, in order to decide whether or not to continue to invest in the company.

In section 5.3.1.1, it was noted that the Cascino review states that empirical evidence is limited on professional investors' views with respect to different measurement bases of assets. However, the review did cite two studies where it were noted that investors would prefer fair values for liquid non-operating assets and historical costs for long-lived, illiquid and senior assets.

The research results relating to the respondents' reasons for relying more on the SFP are important. The results show that, as regards the SFP, the shareholders of a company in business rescue are interested in financial information pertaining to the overall position of the company and its solvency and asset values. The need for this type of information may indicate a need for more current/fair value-type information. The reason for this is that solvency is determined at a point in time by considering the excess of the assets, fairly valued, over the liabilities, also fairly valued. Thus, the extent to which the company is solvent will show the overall position of the company and its asset values at fair value and would also assist in determining how stable the company is. Accordingly, using the SCI in combination with the SFP would enable the user to determine return on investment on a fair value basis.

The above preference for fair value type information will again be evaluated against the results on the preferred measurement bases for assets and liabilities in sections 9.2.6 and 9.2.8. The type of information that the investor would obtain through direct contact with a company may also point to the type of measurement bases preferred. Question 36 was formulated for this purpose. The results are presented in the section following the question.

Question

Assuming the role of a shareholder, what other supplementary information, if any, would you obtain through direct contact with the company?

(Questionnaire – Question 36)

The respondents indicated that shareholders would obtain the following supplementary information through direct contact with the company. The supplementary information is grouped according to the themes identified:

- Management reports: the latest balance sheets, historic management accounts, including divisional and operational results in order to see how management does its reporting, budgets and forecasts.
- Business rescue plan and future strategy: management's plan to rescue the company. The status of current implementation of the business rescue plan,

including a comparison of the results compared to those budgeted for in the business rescue plan and how quickly the company will return to profitability. Potential outcomes and possible scenarios/alternatives, associated assumptions and short and medium-term strategies and plans.

- Future oriented information with reference to actual and future cash inflows and cash outflows. Information on the business model and any changes made to the business model. Future dividend prospects.
- Valuations: actual asset, debtor and creditor valuations.
- Information on management itself: the reasons for the distress, the role management played for the company to find itself in distress, and what corrective actions are intended. An assessment of the going concern status of the company.

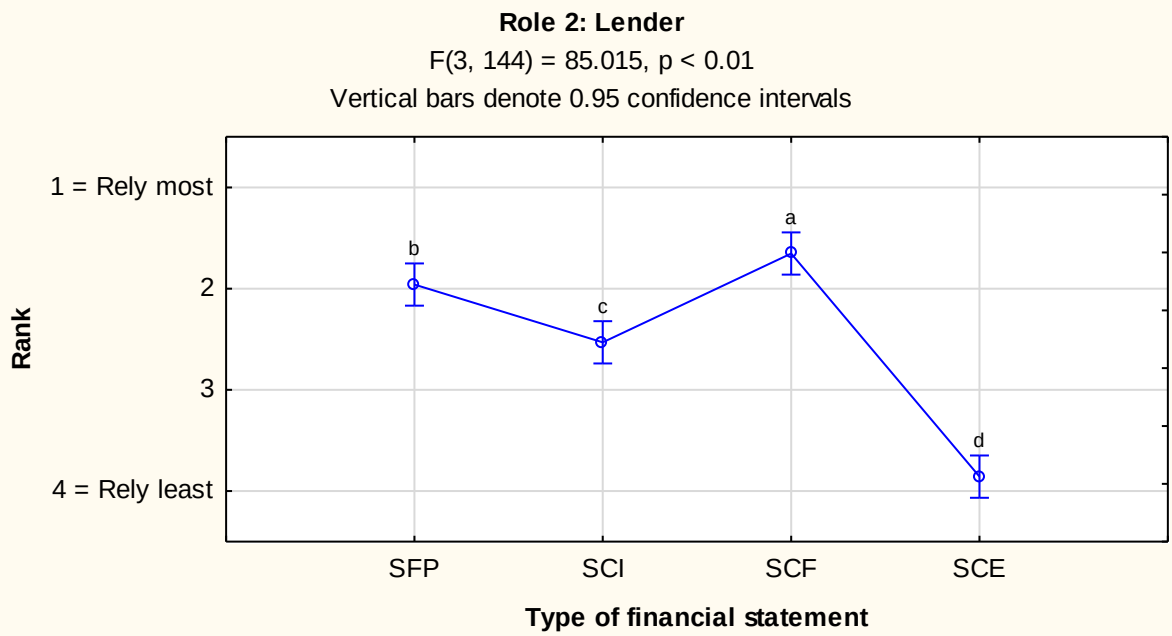
The respondents also raised the following sundry issues for which they would like to obtain information from the company if they were the shareholders:

- What contracts are available for future business.
- The company's cultural entropy and morale.
- Any loss of key management in recent months and the availability of staff and leaders to work with, including the current expertise of management and its ability to deal with tough issues.
- Any changes in funding provided by banks, credit lines from suppliers, sureties/bonds/liens supplied over the assets and the effect that this will have on the business.
- An explanation of the risks that the company is currently facing and the macroeconomic factors in the industry the company is operating in.
- The extent of any reputational damage to the company.

The purpose of Question 36 was to assess the information that the investor would obtain through direct contact with a company. This would include looking for indications that support particular measurement bases for assets and liabilities. Considering the data obtained from the responses to Question 36 no new conclusions can be reached regarding a preference for particular measurement bases for assets and liabilities other than those already discussed in the preceding paragraphs.

With respect to the ranking of financial statements from a lender's viewpoint, the respondents' preferences are displayed in Figure 9.6 below. The reasons for choosing the statement ranked first will be discussed following the interpretation of the results presented in Figure 9.6.

Figure 9.6: VEPAC on the ranking of the financial statements for a lender



Legend:
SFP = Statement of financial position
SCI = Statement of profit and loss and other comprehensive income
SCF = Statement of cash flows
SCE = Statement of changes in equity

(Questionnaire - Question 30)

The above results indicate that there are statistical differences ($p < 0.01$) between the rankings that resulted. Respondents indicated that lenders would rely most on the SCF for their information needs, followed by the SFP, the SCI and, lastly, the SCE. Since there are statistical differences between all the statements in terms of their ranking, only the reasons for preferring the SCF will be discussed further.

The respondents almost unanimously indicated one reason why a lender would rely most on the SCF; namely, to assess whether the company was able to generate sufficient cash in order to service the debt. This finding corresponds with the Cascino

review's conclusion that lenders need information to assess the probability that a company may not be able to pay obligations when due (see § 5.3.2). The finding also indicates that lenders would look for information on the company's ability to generate cash in order to service debt, whether a company was under business rescue or not.

In section 5.3.2 it was also pointed out that lenders prefer conservative accounting and that an SFP with high verifiability thresholds is therefore preferred. Furthermore, conservative accounting would avoid over-compensation of management by limiting management's ability to overstate earnings in the SCI where accounting-based compensation plans are used. Conservative accounting in the SCI would therefore include the timely recognition of losses and deferring the recognition of gains. In order to address conservatism with respect to a listed company under business rescue, the following question was also asked.

Question

- As a lender, would you make adjustments to the financial statements for your own purposes?

[If Question 41 for a lender = 'Yes']

- What adjustments would you make?

(Questionnaire – Questions 41 and 42)

In total, 37 of the 49 respondents (75.5%) indicated that they would make adjustments to the financial statements when considered from a lender's viewpoint. The suggested adjustments are grouped according to the statement they apply to and are presented below. A discussion of the adjustments will follow in order to determine whether this indicates a need for conservative accounting, and therefore more historical cost measurements.

Adjustments to the SCI:

- Disregard extraordinary items that will not be repeated (Note: IAS 1 no longer allows extraordinary items, therefore the respondent may have been referring to once-off expenses).
- Make adjustments for abnormal costs to understand profit from operations better.
- Disregard any excess from discontinued operations and non-recurring income.
- Consider adjusting operating costs upwards.
- Disregard depreciation (Note: the respondent may have suggested this adjustment in order to obtain cash flow).
- Disregard the effect of IFRS 2 BEE deals.[36]

Considering the above adjustments, it is evident that the adjustments are done more to arrive at amounts to be used for projecting future cash flows than to restrict the artificial inflation of earnings. The above findings supports the earlier finding on the lender's preference for information on the company's ability to generate cash flow. The findings therefore do not support the conservative accounting view that adjustments are done to restrict the artificial inflation of earnings.

With respect to the adjustments in the SFP, the respondents indicated that they would make adjustments in order to

- determine the fair value of assets.
- determine the realisable value of assets, in particular if existing disclosures indicated many uncertain assumptions.
- reduce assets to forced sale values.
- reflect the recoverability of assets such as goodwill, other intangible assets, deferred tax, debit loans, fixtures and fittings and specialised equipment. These assets are often disregarded when it comes to the realisation of assets to repay creditors.

[36] IFRS 2 deals with share-based payments. SAICA has issued a guide, Financial Reporting Guide (FRG) 2, which also deals with the accounting for Black Economic Empowerment (BEE) transactions in the context of IFRS 2. FRG 2 provides guidance on when BEE transactions should be expensed in profit or loss. The contra entry would most likely be to the SCE.

- reflect the lender's assessment of the increased entity-specific and credit risk. In other words, the lender needs to discount all risk factors, some of which are not in the normal financial reporting. The effect of the increased credit risk on the valuation of loans granted to the company under business rescue should be assessed and reflected.
- reflect the impact of operating lease commitments and contingent liabilities that are not recorded in the statement of financial position.

The respondents also indicated that they would consider the current debt versus equity situation, for example shareholders' loans that are subordinated.[37] The lenders would also consider the assumptions that management has made in preparing the financial statements and adjust for possible changes that have taken place since. Furthermore, the debt should be split between secured, unsecured-, preferent, concurrent and contingent debt. Moreover, the details of the business rescue plan should also be factored in. One respondent also mentioned that a lender would perform a worst-case scenario assessment of the company.

The above adjustments and considerations indicate that the lenders to a listed company under business rescue would restate the SFP to reflect fair values/realisable values, or even forced sale values (i.e. liquidation values). Furthermore, the recoverability of assets is important, presumably to consider the assets that are available to settle the debt should this become necessary. With respect to the debt, the results indicate that loans would be revalued to reflect the increased entity-specific and credit risk. In other words, the SFP would be restated to reflect the fair value of loans. Moreover, the impact of operating lease commitments and contingent liabilities would also be considered. Both operating lease commitments and contingent liabilities are not reflected on in the SFP under current IFRS conventions. It should be noted that the IASB has recently published a new standard on leases, namely, IFRS 16 *Leases*. Once effective, the standard will deal with operating lease commitments as liabilities under certain circumstances.

[37] Analysts often regard subordinated shareholder loans as equity.

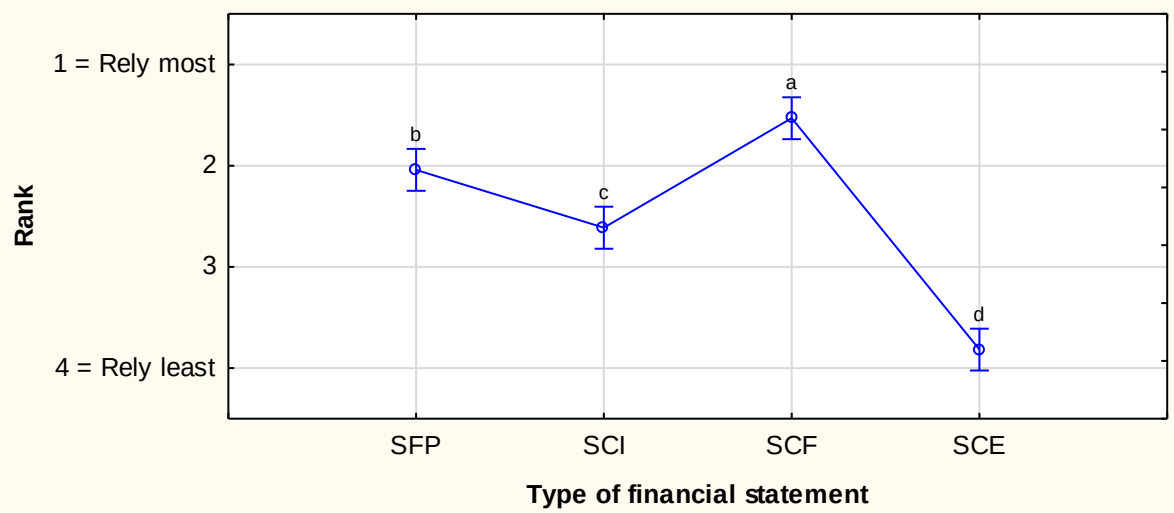
The results on the adjustments made to the SFP indicate that lenders would adjust this statement to reflect fair value type information as opposed to historical type information. Therefore, for a listed company under business rescue the lenders would not require a conservative balance sheet with high verifiability thresholds, such as that found using historical costs for measurements of assets and liabilities. This is important, as it points towards certain preferred measurements for assets and liabilities, namely, those measurements where fair value is an attribute. The measurement of assets and liabilities will be further addressed in sections 9.2.6 and 9.2.8.

A few respondents indicated that certain adjustments would be made to the SCF, such as adjusting for capital commitments and working capital. One can deduce that these adjustments are made to arrive at a free cash flow, which is used to value a company. It was earlier concluded that the SCF would be relied on most, mainly to assess the company's ability to generate cash in order to settle its debts. By adjusting the cash flow further to free cash flow,[38] the lender can first assess whether there is in fact any free cash flow and the place a value on the company. A positive free cash flow indicates that the company is liquid as the changes in working capital have been taken into account. The resulting value would also assist the lender in their assessment of whether to advance any further funds to the company.

In respect to the ranking of the financial statements from a creditor's point of view, the respondents indicated their preference as shown in Figure 9.7 below. Once again, the reasons for choosing the statement ranked first will be discussed following the interpretation of the results indicated in Figure 9.7.

[38] Refer to section 5.3.1.1 for the following explanation: Free cash flow is the amount of cash available from revenue after operating costs, taxes, capital expenditures and working capital investments have been fully funded (TMA, 2011:7-4), and represent the potential amount that could be declared as a dividend to the shareholders.

Figure 9.7: VEPAC on the ranking of the financial statements for a creditor



Legend:
SFP = Statement of financial position
SCI = Statement of profit and loss and other comprehensive income
SCF = Statement of cash flows
SCE = Statement of changes in equity

(Questionnaire - Question 30)

The ranking of the financial statements from a creditor's perspective indicates a similar pattern to that for a lender. Figure 9.7 indicates that there are statistical differences ($p < 0.01$) between the rankings of the various statements. The figure indicates that the SCF is once again the preferred statement for a creditor's information needs, followed by the SFP, SCI and, lastly, the SCE.

Question 31 required the respondents to provide a reason for choosing the statement ranked no. 1. The reasons given were found to be in line with those given on why the SCF is relied on most by lenders for their information needs of. The respondents once again indicated that a creditor would be interested in the cash flows of the business going forward in order to repay the debt outstanding. The focus is therefore on the company's short-term liquidity position.

In order to gain further insight into creditors' financial information needs, the respondents were also asked a similar question on the adjustments creditors would make to the financial statements for their own purposes.

Question

- As a creditor, would you make adjustments to the financial statements for your own purposes?

[If Question 47 for a creditor = 'Yes']

- What adjustments would you make?

(Questionnaire – Questions 47 and 48)

Only 14 of the 49 respondents (28.5%) indicated that, speaking on behalf of creditors, they would make adjustments to the financial statements. The significant percentage difference between the respondents who indicated that a lender would make adjustments to the financial statements for their own information needs (75.5%) and the above 28.5% is notable. This low percentage for creditors correlates with the Cascino review's statement that creditors use credit bureaus far more as information intermediaries than accounting information, which is not used extensively (see § 5.3.3).

The suggested adjustments are grouped below by whether they refer to the SCI or the SFP. With respect to the SCI, the respondents indicated that a creditor would

- make adjustments for items that would not be repeated.
- consider adjusting the revenue and costs[39].
- adjust the accounts for IFRS entries in order to obtain true cash, such as IFRS 2 BEE deals.

In respect of the SFP, the only suggested adjustment is to determine the fair value of all assets. Other suggested adjustments that might influence the financial statements include an independent risk assessment and performing a what-if-type analysis under potential scenarios. One respondent also indicated that creditors should be split into secured or unsecured and that liabilities would then be ranked. This suggestion presumably refers to the order in which debt is to be repaid.

[39] This consideration would presumably be an adjustment downwards.

In summary, it is clear from the above results that creditors use financial information mainly to assess the future cash flow potential of the company and therefore its ability to repay their debt. Any amendments to the financial statements would be done in order to assess more accurately the future cash flow of the company, as well as to obtain the fair values of the assets. Information on the fair values of assets would assist in determining what amount the creditor can expect to receive should the need arise to realise some of these assets. Furthermore, a split between secured and unsecured creditors would assist the creditors even more in their decision on the way forward. The above findings also confirm that the creditors, if they do use the financial statements, are not interested in conservative accounting,[40] but in financial information that will paint a true picture of the company's cash flow/fair value going forward. Moreover, the findings also show that there is a need for measurements of assets and liabilities that have the requisite attributes to reflect the cash flow potential/need in a fair-value manner.

9.2.4.4 Summary of the information needs of users of a listed company under business rescue

Decision usefulness is still important from an equity investor, lender and creditor user perspective. This shows that all three user groups are looking for information that will assist them in determining the cash flow generating possibilities of the company under business rescue.

With respect to the decision-usefulness perspective, the research found, firstly, that equity investors use forward-looking accounting information for decision-making purposes, such as whether to buy or sell shares in the company concerned. Such information is also used to assess the company's future, both for valuation purposes and to obtain current financial information on the company. Secondly, lenders not only use decision-useful financial information to assess the company's ability to repay its debt, but also to assess the company's going concern status, what course of action to follow with respect to the debt and whether to support the turnaround plan or to move

[40] Refer to section 5.3.2 and the **Definitions of terms** on page xxviii for a discussion and explanation of conservative accounting.

for liquidation. Lastly, creditors use future-oriented accounting information to determine various aspects with respect to their claim and its recoverability, as well as what future course of action to follow. Creditors also use the information to understand the financial position and solvency of the company, its ability to continue as a going concern and the chances of the business rescue plan being implemented successfully.

With respect to the stewardship role of financial information, the result is surprising – the findings show that the stewardship role is still considered important. In other words, even if a company is under business rescue, it seems that the more historical type financial information associated with the stewardship role is still considered important for all the different user groups.

By applying content analysis principles to the users of stewardship-type financial information, the results firstly show that equity investors use the information to understand the business and its financial position; this will include a calculation of the ROI. Equity investors also use this information to assess the way in which management has carried out its fiduciary duties and governance responsibilities, and to investigate what caused the company's financial distress and what the appropriate future course of action would be. Secondly, a lender would use the information to assess the trends in the company’s past cash flows and its ability to repay its debt, as well as how much more debt the company can absorb. Lenders would also use the information to understand the reasons for the financial distress, to assess management's stewardship of the resources entrusted to it and to decide on the correct course of action to follow in the future. Lastly, creditors would use the information in a similar way to lenders. However, it was noted that creditors would pay more attention to a company’s financial statements when it is under business rescue than when it is not.

With regard to equity investors, the SFP and SCI were ranked as equally important for their financial information needs. The reasons for the statement preference indicated that equity investors use the various financial statements to obtain an overall picture of the company, its solvency and its asset values, which may indicate that they need to have more current/fair value type information.

The respondents indicated that lenders would rank the SCF as the preferred statement for their financial information needs. The main finding showed that lenders would to rely on the SCF in order to assess whether the company was able to generate sufficient cash to service the debt. The results show that if lenders make adjustments to the SCI, this is done in order to arrive at the amounts to be used for projecting future cash flows rather than to restrict the artificial inflation of earnings found in conservative accounting. It was important to note that lenders would make adjustments to the SFP to reflect the fair values/realisable values, or even forced sale values (liquidation values).

Creditors, if they do use the financial statements, would also prefer the SCF as the main source of financial information and use the SCF to extract similar information to that sought by lenders. In the normal course of events, creditors do not adjust the financial statements for their own purposes; if they did they would do so for the same reason as lenders.

In summary then, the research therefore found that the information needs for the three user groups for a listed company under business rescue do not differ much. All three user groups considered both the decision-usefulness and the stewardship roles of financial information as being important. In other words, it seems that all the user groups are interested in forward-looking financial information as well as more historical type financial information. However, with respect to the stewardship role of financial information, it was shown that users are not looking for the conservative historical information as found in conservative accounting but preferred information that helped them to understand the business, find reasons for its distress and make decisions on what to do next.

The above finding on the stewardship role were corroborated by the reasons users gave for their preference of which financial statement to rely on most. Although equity investors prefer the SFP and the SCI, and lenders and creditors the SCF, the reasons given pointed to the importance of fair/realisable values for all the user groups.

9.2.5 Assessing the objective of measurement during financial distress

In section 9.2.3 the objective of financial reporting was assessed. In this section the objective of financial reporting is further explored in terms of an assessment of the objective of measurement as it relates to a financially distressed company that has filed for business rescue.

9.2.5.1 Financial distress and the measurement of assets and liabilities

In section 7.6.4.5 it was pointed out that a listed company under business rescue may not be a going concern and that it may therefore be possible that its assets and liabilities contribute to or require cash flow in different way to that originally anticipated. The result may be that the most relevant measurement for a particular asset or liability differs for a listed company under business rescue that is in financial distress from that for a financially healthy company.

The rationale for the next question was therefore to assess whether the measurement of assets and liabilities should take into account the fact that the company is in financial distress. The question is stated below, followed by a discussion of the results.

Question

For a listed company that is under business rescue and needs to prepare annual financial statements, should the measurement of its assets and liabilities in the statement of financial position take into account the fact that it is in financial distress?

(Questionnaire – Question 49)

With respect to the above question, 44 of the 49 (90%) respondents agreed that the measurement of the assets and liabilities of a listed company under business rescue should take into account the fact that it is in financial distress. This result will be further considered in combination with the results from sections 9.2.5.2 and 9.2.5.3 in the conclusion at the end of this section.

9.2.5.2 Reporting focus: financial evolution or available cash?

In section 7.6.4.5 it was explained that financial statements issued by an entity under the US Chapter 11 reorganisation proceedings would reflect the entity's financial evolution during the proceedings by using measurements such as fair value for assets and fulfilment and the settlement values for liabilities, as opposed to historical-type measurements. Furthermore, the financial evolution would also be reflected by certain presentations, such as to disclose the transactions and events that are directly associated with the reorganisation separately from the rest of the transactions and events. A question to assess this issue was therefore asked. Agreement would indicate the need for fair value type measurements in the financial statements as well as a certain way of presenting the financial evolution of the company under business rescue.

It was also indicated that we may assume that an entity that is not a going concern should use the liquidation basis of accounting in the absence of any other defined accounting basis (see § 5.5.2). In a liquidation the focus would shift to reporting on the cash that would be available to investors after liquidation, instead of reporting on the entity's economic performance. A question assessing this shift in focus was also asked. If the respondents agreed, it then would indicate a need for measurements that reflect immediate cash flow potential or need.

Question

In a business rescue context, to what extent do you agree/disagree that the objective of financial reporting:

- should also focus on reflecting the financial evolution of the company by distinguishing the transactions and events that are directly associated with the reorganisation from the rest of the transactions and events?
- should rather focus on reporting on the cash that would be available to investors, creditors and other affected parties, instead of reporting on the entities' economic performance?

(Questionnaire – Question 50 [part 1])

With respect to the question on the financial evolution of the company, 40 of the 49 respondents (82%) agreed or completely agreed that the objective of financial reporting should also focus on reflecting the financial evolution of the company. In hindsight it was realised that the question unfortunately did not specifically refer to the possible fair value measurement for assets or the fulfilment and settlement value measurements for liabilities. The use of the results is therefore limited to the fact that there is a need to at least distinguish the transactions and events that are directly associated with the reorganisation from the rest of the transactions and events. However, one can draw conclusions on the preferred measurement bases in a business rescue context from subsequent questions in the research questionnaire. These questions are discussed later in this chapter in sections 9.2.6 and 9.2.8.

With respect to the question on the reporting of available cash, 28 respondents (57%) agreed or completely agreed that the objective of financial reporting should focus on reporting on the cash that would be available to investors, creditors and other affected parties rather than reporting on the entity's economic performance. By using the word 'rather' in the question, the researcher intended the answers to the question on available cash to be mutually exclusive from those to the question on the financial evolution of the entity during business rescue proceedings. The relatively high percentage of respondents that agreed/completely agreed indicates that the respondents may not have interpreted the question in the way intended by the researcher. Considering the above, one may therefore still conclude that a fair percentage of the respondents considered that reporting on the cash available should be an objective of financial reporting in a business rescue context. In other words, there is a need for measurements that reflect an asset's or liability's immediate cash flow potential or need.

The following questions were asked as a result of the introduction of a measurement objective in the 2013 DP. The rationale was to assess the extent to which the measurement objective holds true in a business rescue context. The questions asked are indicated below, followed by a discussion of the results.

Question

In a business rescue context, to what extent do you agree/disagree that the objective of measurement in the financial statements:

- should be to contribute to the faithful representation of relevant information about the resources of the entity (assets), claims against the entity (liabilities) and changes in resources and claims?
- is about how efficiently and effectively the entity's management and governing board have discharged the responsibilities to use the entity's resources?

(Questionnaire – Question 50 [part 2])

All the respondents (100%) agreed or completely agreed that the objective of measurement should be to contribute to the faithful representation of relevant information about the resources (assets) of the entity, claims (liabilities) against the entity and changes in resources and claims. This objective of measurement is in fact the same as the decision-usefulness objective of financial reporting and may be the reason that the IASB did not include a measurement objective in the 2015 ED. However, agreement with this objective still indicates support for measurement bases that would faithfully represent relevant financial information, even in a business rescue context.

With respect to the question on the efficient and effective discharge of management's responsibilities, 35 of the 49 respondents (71%) agreed or completely agreed to this as a measurement objective in a business rescue context. This objective is similar to the stewardship objective of financial reporting. Although a smaller percentage of the respondents agreed to the objective, it still indicates a need for measurement bases that may be used to judge management's stewardship.

9.2.5.3 Cash flow potential or need

In section 7.6.4.5 it was indicated that the cash flow potential or need of an asset or liability is important financial information for investors (which include shareholders and creditors). The question stated below was therefore included in the research questionnaire. If these investors regard the cash flow potential or need for an asset or

liability as important, one would expect cash flow relevant measurement bases to be preferred over historical cost measurements in a business rescue context.

Question
With reference to the measurement of assets and liabilities of a listed company with a reporting date whilst under business rescue:
How important is it for users of the financial statements that the measurement of the particular:

- asset reflect the future cash flow potential as closely as possible?
- liability reflect the future cash flow need as closely as possible?

(Questionnaire – Question 51)

With respect to a listed company under business rescue, 46 of the 49 (94%) respondents considered that the measurement of assets should reflect the cash flow potential as closely as possible. Regarding the liabilities, 48 of the 49 (98%) respondents considered that the measurement of a liability should reflect the cash flow need as closely as possible. These results clearly indicate that cash flow relevant measurement bases would be important in a business rescue context. As indicated in Figure 6.1 and Figure 6.2 on pages 206 and 207, cash flow relevant measurement bases are also entirely entity-specific measurement bases.

9.2.5.4 Summary of financial distress and the objective of measurement

It was earlier indicated that it is possible that when a company is not a going concern, its assets and liabilities contribute to or require cash flow in a different way to that originally anticipated. In section 8.4 it was concluded that a listed company under business rescue, where the BRP pursues aim 1 (continue to exist), would only be considered a going concern just before substantial implementation of the business rescue plan. Furthermore, it was also established that if aim 2 (better return to creditors) were pursued, the company would not be considered a going concern at any point during the business rescue proceedings. It was also indicated that the most relevant measurement bases for the assets and liabilities of a financially distressed

listed company under business rescue would therefore differ from those for a financially healthy company.

In order to assess what the measurement objective for such a listed company under business rescue should be, various questions were put to the respondents. The results show that the measurement of the assets and liabilities of such a company should take the fact that the company is in financial distress into account. Furthermore, in a business rescue context the relevant measurement bases should reflect the cash flow potential for assets or the cash flow need for liabilities. Moreover, some support was found for reporting the cash available to investors, creditors and other affected parties instead of reporting on an entity's economic performance. Once again, this would indicate measurement bases for assets and liabilities that are closely related to cash.

The findings also indicate that the measurement bases employed should still present relevant and faithfully represented financial information. Furthermore, the financial information should still enable the user to judge management's stewardship of the resources entrusted to it. To this extent, the objective of measurement is in line with the IASB's view, namely, to contribute to the faithful representation of relevant information about the resources of the entity, claims against the entity and changes in resources and claims, and about how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use entity's resources (IASB, 2013:112). However, the findings nevertheless indicate a need to differentiate the transactions and events that are directly associated with the reorganisation from the rest of the transactions and events that are indicated.

9.2.6 Assessing the applicability of asset and liability measurement bases to a listed company under business rescue

In section 7.6.4.6 it was mentioned that various measurement bases for assets and liabilities exist, resulting in a mixed-measurement based accounting model. Following this, with respect to a listed company under business rescue, it was deemed important to establish which measurement bases for assets and liabilities would be considered applicable in the circumstances. The applicability of the various measurement bases

for the assets and liabilities of such a listed company is assessed in the following two sections.

9.2.6.1 Measurement bases for assets: applicability to a listed company under business rescue

Regarding the various measurement bases that may be used to measure assets, the following question was asked. The question is followed by a discussion of the results.

Question

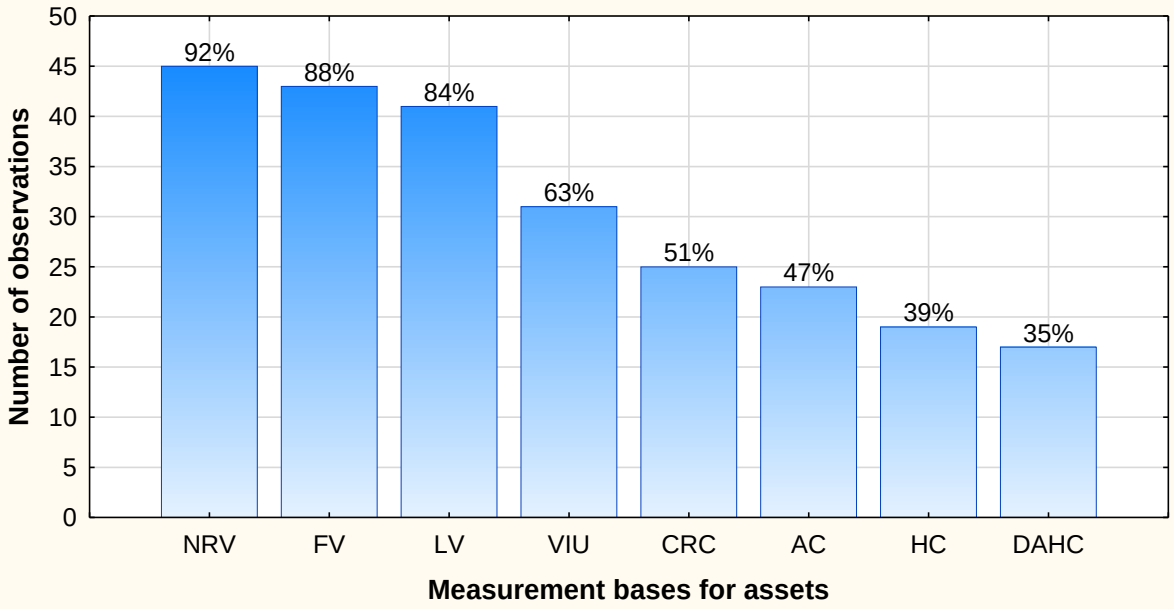
With respect to an asset of a listed company under business rescue with a reporting date whilst under business rescue, please choose from the following measurement bases those, in your opinion, that could faithfully represent relevant information about a particular economic resource (asset):

- Historical cost [i.e. the actual cost incurred]
- Depreciated/amortised historic cost [i.e. the unconsumed portion of historical cost (carrying amount)]
- Current replacement cost [i.e. the cost adjusted for price changes reflecting the unconsumed part of the asset if replaced with an asset of equivalent service potential]
- Net realisable value [i.e. the estimated selling price, less estimated transaction cost in an orderly disposal]
- Fair value [i.e. the price received to sell an asset. Please consider that according to International Financial Reporting Standard (IFRS) 13, the transaction used to determine fair value should be orderly. An orderly transaction may not reflect a forced transaction, such as a distressed sale]
- Liquidation value [i.e. the value reflecting the estimated selling price, less estimated transaction cost – if the asset is sold as quickly as possible (also known as a fire sale).]
- Value-in-use [i.e. the present value of cash flows from continued use and disposal at end of useful life, discounted at a fair interest rate]
- Amortised cost [i.e. the present values of cash flows discounted at an effective interest rate]
- Any other relevant measurement bases? (Please indicate)

(Questionnaire – Question 52)

Figure 9.8 below indicates the applicability of the measurement bases for assets in a business rescue context. The measurement bases are ranked according to the number of observations, that is, the number of times the respondents indicated that the measurement base would be applicable in a business rescue context.

Figure 9.8: Histogram on applicable measurement bases for assets



Legend:

NRV = Net realisable value
FV = Fair value
LV = Liquidation value
VIU = Value-in-use
CRC = Current replacement cost
AC = Amortised cost
HC = Historical cost
DAHC = Depreciated / amortised historical cost

(Questionnaire – Question 52)

With respect to the applicable measurement bases for assets, the results show that all the measurement bases may be applicable to some extent. However, the net realisable value (NRV) (92%), fair value (FV) (88%) and liquidation value (LV) (84%) were considered to be the most applicable of all the measurement bases.

In order to statistically confirm the above findings, a McNemar chi-square test was performed. This test is used to determine whether there is a statistical difference between a measurement base when compared to each of the other measurement bases (see § 7.8.3.1 for an explanation and interpretation of the test statistic). The results of the McNemar chi-square test are presented in Table 9.6 below.

Table 9.6: McNemar chi-square p-values on the asset measurement bases

McNemar chi-square p-values	HC	DAHC	CRC	NRV	FV	LV	VIU	AC
HC		p = 0.72	p = 0.34	p < 0.01	p < 0.01	p < 0.01	p < 0.05	p = 0.48
DAHC	p = 0.72		p = 0.15	p < 0.01	p < 0.01	p < 0.01	p < 0.05	p = 0.24
CRC	p = 0.34	p = 0.15		p < 0.01	p < 0.01	p < 0.01	p = 0.33	p = 0.86
NRV	p < 0.01	p < 0.01	p < 0.01		p = 0.68	p = 0.34	p < 0.01	p < 0.01
FV	p < 0.01	p <0.01	p < 0.01	p = 0.68		p = 0.77	p < 0.01	p < 0.01
LV	p < 0.01	p < 0.01	p < 0.01	p = 0.34	p = 0.77		p < 0.05	p < 0.01
VIU	p < 0.05	p < 0.05	p = 0.33	p < 0.01	p < 0.01	p < 0.05		p < 0.05
AC	p = 0.48	p = 0.24	p = 0.86	p < 0.01	p < 0.01	p < 0.01	p < 0.05	

Legend:
HC = Historical cost
DAHC = Depreciated/amortised historical cost
CRC = Current replacement cost
NRV = Net realisable value
FV = Fair value
LV = Liquidation value
VIU = Value-in-use
AC = Amortised cost

(Questionnaire – Question 52)

The results in the above table (see box inside the table with the bold boundary lines) indicate that there is no statistical difference between net realisable value and fair value (p = 0.68) and liquidation value (p = 0.34). There is also no statistical difference between the fair value and liquidation value (p = 0.77). However, statistical differences were found between the above three measurement bases and all the other measurement bases on both the 0.01 and the 0.05 levels.

The results also reveal that there are no statistical differences between the amortised cost, historical cost, depreciated/amortised historical cost and current replacement cost. However, based on the number of observations, these measurement bases were judged to be less applicable to a business rescue context.

The results presented in Figure 9.8 and Table 9.6 confirm that the net realisable value, fair value and liquidation value are considered to be most applicable in a business rescue context. It is interesting to note that all three values are exit values and pertain to the possible sale of the assets (see Figure 6.1 on p. 206). It therefore seems that a likely sale of assets is foremost in the minds of the respondents. The above findings also indicate that entry value measurement bases, namely, the historical cost, depreciated/amortised historical cost and current replacement cost, are considered

less applicable in a business rescue context. In other words, historical cost type measurements would be less applicable for a listed company under business rescue.

9.2.6.2 Measurement bases for liabilities: applicability to a listed company under business rescue

With respect to the various measurement bases that could be used to measure liabilities, the following question was asked. The results are discussed following the question.

Question

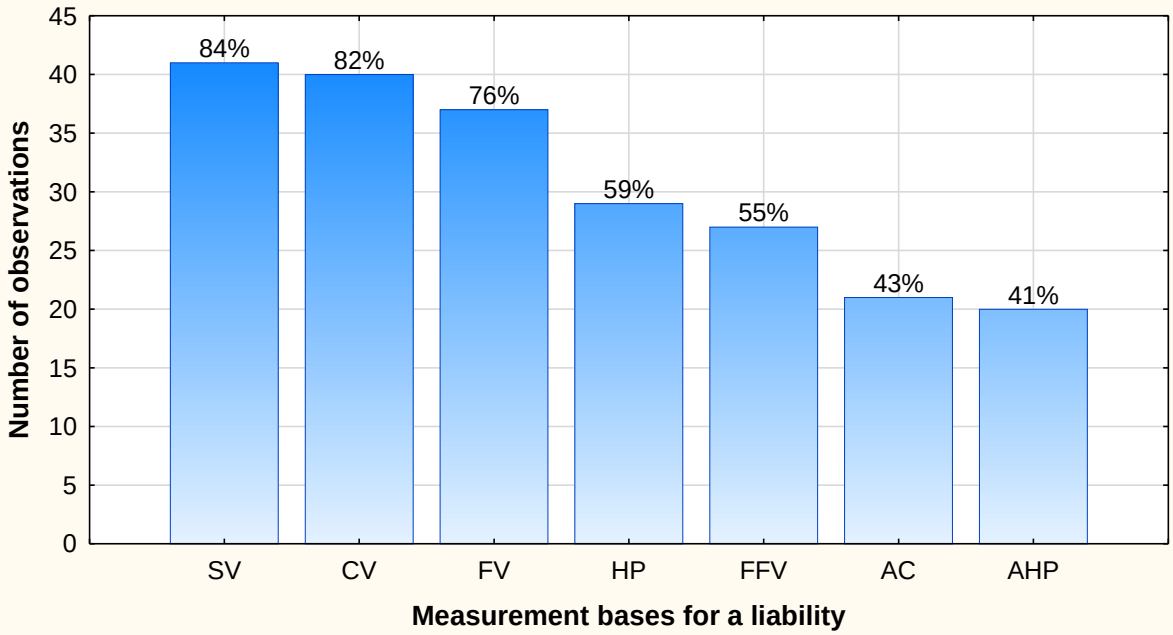
With respect to a liability of a listed company under business rescue with a reporting date whilst under business rescue, please choose from the following measurement bases those, in your opinion, that could faithfully represent relevant information about the economic obligation (liability):

- Historical cost [i.e. the actual proceeds received, for example a 50% down payment received]
- Amortised historical cost (proceeds) [i.e. the unconsumed portion of historical proceeds (carrying amount), for example 'Deferred income: Government grant']
- Current value (of liability) [i.e. the consideration the entity would currently expect to receive if it undertook an identical obligation to the remaining part of the obligation]
- Settlement value [i.e. the undiscounted amounts of cash flow expected to be paid to satisfy the liability in the normal course of business] *(the liability equivalent of NRV)*
- Fair value [price paid to transfer a liability. Please consider that IFRS 13 determines that the transaction used to determine fair value should be orderly and may not reflect a forced transaction]
- Fulfilment value [i.e. the present value of cash flows to arise in fulfilling the liability at a fair interest rate] *(the liability equivalent of value-in-use)*
- Amortised cost [present values of cash flows discounted at an effective interest rate]
- Any other relevant measurement bases? (Please indicate)

(Questionnaire – Question 53)

The applicability of the measurement bases for liabilities in a business rescue context is presented in Figure 9.9 below. The measurement bases are once again ranked according to the number of observations, that is, the number of times the respondents indicated that the measurement base would be applicable in this context.

Figure 9.9: Histogram on applicable measurement bases for liabilities



Legend:

SV = Settlement value
CV = Current value
FV = Fair value
HP = Historical proceeds
FFV = Fulfilment value
AC = Amortised cost
AHP = Amortised historical proceeds

(Questionnaire – Question 53)

Like the applicable measurement bases for assets, the above results also indicate that all the measurement bases may, to some extent, be applicable to a listed company under business rescue. However, the results also show that the settlement value (SV) (84%), current value (CV) (82%), and fair value (FV) (76%) are considered to be the most applicable of all the measurement bases for liabilities.

A McNemar chi-square test was also performed on the above results to confirm the findings statistically. The results of the test are presented in Table 9.7 below.

Table 9.7: McNemar chi-square p-values on the liability measurement bases

McNemar chi-square p-values	HP	AHP	CV	SV	FV	FFV	AC
HP		p = 0.05	p < 0.05	p < 0.01	p = 0.12	p = 0.82	p = 0.12
AHP	p = 0.05		p < 0.01	p < 0.01	p < 0.01	p = 0.17	p = 1.00
CV	p < 0.05	p < 0.01		p = 1.00	p = 0.55	p < 0.01	p < 0.01
SV	p < 0.01	p < 0.01	p = 1.00		p = 0.48	p < 0.01	p < 0.01
FV	p = 0.12	p < 0.01	p = 0.55	p = 0.48		p < 0.05	p < 0.01
FFV	p = 0.82	p = 0.17	p < 0.01	p < 0.01	p < 0.05		p = 0.24
AC	p = 0.12	p = 1.00	p < 0.01	p < 0.01	p < 0.01	p = 0.24	
Legend: HP = Historical proceeds AHP = Amortised historical proceeds CV = current value SV = Settlement value				FV = Fair value FFV = Fulfilment value AC = Amortised cost			

(Questionnaire – Question 53)

The results in Table 9.7 above (see box inside the table with the bold boundary lines) indicate that there is no statistical difference between the settlement value compared to current value (p =1.00) and fair value (p = 0.48). There is also no statistical difference (p = 0.55) between the current value and the fair value measurement base. The results further indicate that there are statistical differences between the top two measurement bases ranked by number of observations, namely, settlement value and current value, and all the other measurement bases on a p-level of 0.01 or 0.05. Furthermore, no statistical difference (p = 0.12) was found between the fair value measurement base and the historical proceeds measurement base.

The results also reveal that there are no statistical differences between the historical proceeds, amortised historical proceeds, fulfilment value and amortised cost measurement bases. Once again, based on the number of observations in Figure 9.9, it should be noted that these measurement bases were judged to be less applicable in a business rescue context.

Considering the results presented in Figure 9.9 and Table 9.7 in combination, the results confirm that the settlement and current values were considered to be the most

applicable in a business rescue context, followed by the fair value and historical proceeds. It is interesting to note that the settlement value, the liability equivalent of the net realisable value, is considered one of the two most applicable measurement bases. The net realisable and settlement value measurement bases are both entity-specific exit values and are based on undiscounted future cash inflows or outflows. Furthermore, these values are used when considering the cash inflows and outflows in the normal course of business.

It is also interesting to note that the current value was considered highly applicable to a business rescue scenario. The current value is an entity-specific deemed entry value reflecting the consideration the entity would currently expect to receive if it undertook an identical obligation equal to the remaining part of the obligation (see Figure 6.2 on p. 207). The preference or not for this measurement base will be further judged on an individual liability basis in section 9.2.8.

9.2.6.3 Summary of the applicability of asset and liability measurement bases to a listed company under business rescue

The results indicate that most of the measurement bases can be considered applicable to a listed company under business rescue. However, the net realisable value, fair value and liquidation value are considered to be the most applicable for assets in a business rescue context. The most applicable measurement bases for liabilities are the settlement, current and fair-value measurement bases. The indicated applicability of both the related net realisable value for assets and settlement value for liabilities may point towards an implied preference for a specific accounting model – one where the measurement bases are net realisable and settlement values. The preferred measurement bases for individual assets and liabilities are again considered in section 9.2.8, but then taking into account the manner in which the asset may realise cash in a business rescue context. The possible identification of a specific accounting model will be dealt with further in that section.

The above results indicate that the faithful representation of relevant information for a listed company under business rescue may require different measurement bases from

those used by a normal healthy company. The next section will consider whether or not cost should constrain the provision of this information.

9.2.7 Assessing cost vs benefit

In section 7.6.4.7 it was indicated that it is generally important that the benefits of reporting financial information should be sufficient to justify the cost of providing the information. However, when a company is under business rescue time is often of the essence, which may have an impact on the above cost/benefit consideration. The following question was therefore posed to the respondents in an attempt to obtain their views on the matter. The results are discussed below the question.

Question
The faithful representation of relevant information is normally constrained by the cost of providing that information.

Specifically in a business rescue context,

- to what extent do you agree/disagree that the provision of relevant and faithfully represented information should be constrained by the cost of providing the information?

(Questionnaire – Question 54)

The results on the above question indicate that 28 (57%) of the 49 respondents agreed or completely agreed that the provision of relevant and faithfully represented information should be constrained by the cost of providing the information. In other words, although the company may be under business rescue, the cost of proving relevant and faithfully presented financial information should not exceed the perceived usefulness of the statements.

In the above two sections the applicability of various measurement bases for assets and liabilities, as well as the cost vs benefit of providing the relevant and faithfully represented financial information were considered. In the next section the preferred measurement bases for individual assets and liabilities are considered and reported on.

9.2.8 Assessing the preferred measurement bases for assets and liabilities

In section 9.2.6 the applicability of various measurement bases for assets and liabilities for a listed company under business rescue was considered. Three measurement bases for assets and two measurement bases for liabilities were judged to be most applicable to a listed company under business rescue. Further analysis indicated that one of the asset measurement bases and one of the liability measurement bases were related, namely, the net realisable value for assets and the settlement value for liabilities.

In this section, the preferred measurement bases for assets and liabilities are considered in more depth. The focus is now on measurement bases for *individual* assets and liabilities, taking into account the particular business rescue aim the BRP is pursuing, as well as the manner in which an asset is likely to contribute to cash flow. A consideration of the individual measurement base preferred, the manner of cash flow contribution and the business rescue aim would assist in achieving the second research aim, namely, to determine context-relevant measurement bases for the assets and liabilities of a South African listed company under business rescue.

The individual preferred measurement bases for assets are considered first, followed by the individual measurement bases preferred for liabilities. The results are presented and discussed following an explanation of the questions asked.

9.2.8.1 Preferred measurement bases for assets – aim 1 (continue to exist)

In section 7.6.4.8 it was indicated that the assets of a listed company under business rescue may realise cash flow for the company through being held for use, sold immediately, or sold in the normal course of business. A BRP may also pursue one of two aims, namely, to continue in existence on a solvent basis (aim 1) or to render a better return to creditors and shareholders (aim 2) under business rescue than would have been achieved under immediate liquidation.

The second research aim of this study was to determine context-relevant measurement bases for the assets and liabilities of a South African listed company

under business rescue. In Chapter 8, an underlying financial reporting assumption was suggested for the two business rescue aims. In order to relate context-relevant measurement bases to each of these assumptions suggested, the following question was asked. The question focuses on the individual preferred measurement base for several assets in the SFP, taking into account the manner in which the asset may realise cash flow. The purpose of this question is to identify a trend/trends in preferred measurement bases for each of the two business rescue aims. The question is presented below, followed by a discussion of the results.

Question

You have indicated that the following measurement bases are applicable to assets in a business rescue context. Please use only these bases in the next section below. However, you may go back to the previous pages to change any of your selections should you wish to do so.

Firstly, if the aim of business rescue is to maximise the likelihood of the company continuing in existence (aim 1), please select your preferred measurement basis for the following line items in the SFP, for a listed company that has a financial reporting date whilst under business rescue.

Secondly, if the aim of business rescue is to provide a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company (aim 2), please select your preferred measurement basis for the line items in the SFP, for a listed company that has a financial reporting date whilst under business rescue.

Note: Please consider each line item from the point of view that it may be, in terms of the business rescue plan, held for use, sold immediately, or sold in the normal course of business.

ASSETS

- Property, plant and equipment
- Goodwill
- Other intangible assets – internally generated
- Other intangible assets – purchased
- Financial instruments at fair value (through PL or OCI)
- Financial instruments at amortised cost
- Deferred tax asset
- Inventory
- Trade and other receivables
- Cash and cash equivalents
- Other current assets

(Questionnaire – Questions 55 to 60)

The above question generated a large amount of data because the respondent could choose from nine[41] measurement bases (independent variables) to apply to each of the eleven line items for assets (dependent variables) for each of the three ways in which the asset might contribute to cash flow. The three possible forms in which cash flow may contribute, as discussed in section 6.5.5 (see grey block on p. 211), are as follows:

- Assets that are sold immediately (fire sale)
- Assets sold in the normal course of business
- Assets held for use.

In order to evaluate which measurement bases are preferred under which conditions, or to identify a trend in preferred measurement bases, the results have been summarised in three frequency tables, one for each of the above-mentioned forms of cash flow contribution.

If a company is in business rescue, one of the first things to be done would be to generate cash by selling some of the assets. It might be that the sale of these assets would be under duress and without the benefit of time to realise a market-related value. Table 9.8 below shows the preferred measurement bases if these assets were to be sold under duress, also referred to as a fire sale. The preferred measurement base is the one with the highest percentage of observations and is indicated in bold and grey. It was also considered useful to evaluate the measurement base that scored the second highest number of observations, particularly with a view to detecting any trends in the preferred measurement bases. The second most preferred measurement base is indicated in a grey cell inside the table.

[41] Eight measurement bases as well as a ‘n/a’ choice.

Table 9.8: Frequency table of the preferred measurement bases for assets – business rescue aim 1 (continue to exist – fire sale)

AIM 1: PREFERRED MEASUREMENT BASES FOR ASSETS – SOLD IMMEDIATELY (FIRE SALE)										
LINE ITEM	**MEASUREMENT BASE**									**TOTAL**
	HC	**DAHC**	**CRC**	**NRV**	**FV**	**LV**	**VIU**	**AC**	**N/A**	
PPE *(row %)*	0 *(0%)*	0 *(0%)*	1 *(2%)*	13 *(30%)*	7 *(16%)*	**22 *(50%)***	0 *(0%)*	0 *(0%)*	1 *(2%)*	**44 *(100%)***
GW *(row %)*	4 *(9%)*	0 *(0%)*	1 *(2%)*	7 *(16%)*	6 *(14%)*	**12 *(27%)***	4 *(9%)*	0 *(0%)*	10 *(23%)*	**44 *(100%)***
IA(I) *(row %)*	1 *(2%)*	2 *(5%)*	1 *(2%)*	10 *(23%)*	4 *(9%)*	**18 *(41%)***	4 *(9%)*	0 *(0%)*	4 *(9%)*	**44 *(100%)***
IA(P) *(row %)*	0 *(0%)*	1 *(2%)*	2 *(5%)*	12 *(27%)*	5 *(11%)*	**21 *(48%)***	2 *(5%)*	0 *(0%)*	1 *(2%)*	**44 *(100%)***
FI@FV *(row %)*	0 *(0%)*	0 *(0%)*	0 *(0%)*	11 *(25%)*	11 *(25%)*	**21 *(48%)***	0 *(0%)*	0 *(0%)*	1 *(2%)*	**44 *(100%)***
FI@AC *(row %)*	0 *(0%)*	0 *(0%)*	0 *(0%)*	10 *(23%)*	9 *(20%)*	**24 *(55%)***	0 *(0%)*	0 *(0%)*	1 *(2%)*	**44 *(100%)***
DTA *(row %)*	6 *(14%)*	0 *(0%)*	0 *(0%)*	5 *(11%)*	5 *(11%)*	11 *(25%)*	1 *(2%)*	2 *(5%)*	**14 *(32%)***	**44 *(100%)***
Inv *(row %)*	0 *(0%)*	0 *(0%)*	0 *(0%)*	13 *(30%)*	5 *(11%)*	**25 *(57%)***	0 *(0%)*	0 *(0%)*	1 *(2%)*	**44 *(100%)***
ToR *(row %)*	0 *(0%)*	0 *(0%)*	0 *(0%)*	12 *(27%)*	8 *(18%)*	**23 *(52%)***	0 *(0%)*	0 *(0%)*	1 *(2%)*	**44 *(100%)***
Cash *(row %)*	**11 *(25%)***	1 *(2%)*	0 *(0%)*	8 *(18%)*	**11 *(25%)***	8 *(18%)*	1 *(2%)*	2 *(5%)*	2 *(5%)*	**44 *(100%)***
OCA *(row %)*	0 *(0%)*	0 *(0%)*	0 *(0%)*	8 *(18%)*	8 *(18%)*	**22 *(50%)***	0 *(0%)*	1 *(2%)*	5 *(11%)*	**44 *(100%)***
TOTAL *(row %)*	**22 *(5%)***	**4 *(1%)***	**5 *(1%)***	**109 *(23%)***	**79 *(16%)***	**207 *(43%)***	**12 *(2%)***	**5 *(1%)***	**41 *(8%)***	**484 *(100%)***

Legend (measurement bases):					
HC =	Historical cost	NRV =	Net realisable value	VIU =	Value-in-use
DAHC =	Depreciated/amortised historical cost	FV =	Fair value	AC =	Amortised cost
CRC =	Current replacement cost	LV =	Liquidation value	N/A =	Not applicable

Legend (line items):					
PPE =	Property, plant and equipment	FI@FV =	Financial instruments at fair value	ToR =	Trade and other receivables
GW =	Goodwill	FI@AC =	Financial instruments at amortised cost	Cash =	Cash and cash equivalents
IA(I) =	Intangible assets – internally generated	DTA =	Deferred tax asset	OCA =	Other current assets
IA(P) =	Intangible assets – purchased	Inv =	Inventory	NRV =	Net realisable value

(Questionnaire – Questions 55 to 60)

As pointed out in section 7.6.4.8, a fair level of technical knowledge of accounting is needed to answer the above questions. Therefore the questions were only posed to the 44 respondents who had indicated their profession as accountant, chartered accountant or auditor.

Considering the results in total, the table shows that the liquidation value (LV) is the preferred measurement base for all of the asset line items, except for deferred tax asset (DTA) and Cash. It should be noted that the question was presented to the respondents in a matrix format, namely, the line items as rows and the three forms of cash flow contribution as columns, with the measurement choices as the independent choices where the row and column intersect. The result was that some line item/form of cash flow combinations might not be applicable. The respondent could then choose a N/A measurement if he/she so decided. The DTA and Cash under a fire sale condition are examples resulting from the matrix format used. The N/A choice for DTA is therefore understandable, although the LV was the second most preferred measurement base. DTA is further discussed in Table 9.10 where assets are held for use.

The LV is preferred for goodwill (GW), but it is interesting to note that the second most preferred measurement base for GW is the N/A choice. This shows that those respondents consider that GW will have no value when sold under duress. It could very well be that GW will realise no value as the annual impairment test at year-end may require a full write-down of GW. This may be due to the company's uncertain future outlook that will affect the recoverable amounts of those cash-generating units to which GW relates.

The preferred measurement base for the Cash line item was the historical cost (HC), with fair value (FV) preferred second most. With the benefit of hindsight, it was realised that it was not necessary to assess the Cash line item, as Cash is already reflected at its true value.

As expected, the total observations confirms that the LV is the most preferred measurement base, drawing 43% of the total choices made. The net realisable value

(NRV) (23%) was considered the second choice of the line items, except for DTA, GW and Cash as discussed above. The relative frequency of the NRV choice is interesting, as the measurement's attributes indicate that it would be applicable when the cash flow is realised in the normal course of business, and not when the asset is sold under duress. It seems that those respondents who supported the use of NRV may have focused on the fact that it indicates a 'net realisable' value, that is, what I can get for the asset, as opposed to the fact that it is most appropriately used when assessing the asset's value in the normal course of business. A general discussion on the re-measurements necessary to reflect the LV will be provided in the summary of this section.

The results with respect to the preferred measurement base when assets are sold in the normal course of business are presented in Table 9.9 below. The measurement base that is preferred most is highlighted in bold and grey, and the second most preferred measurement base is highlighted in grey only. A discussion on the results follows the table.

Table 9.9: Frequency table of the preferred measurement bases for assets – business rescue aim 1 (continue to exist – sold in normal course of business)

AIM 1: PREFERRED MEASUREMENT BASES FOR ASSETS – SOLD IN NORMAL COURSE OF BUSINESS										
LINE ITEM	**MEASUREMENT BASE**									**TOTAL**
	HC	**DAHC**	**CRC**	**NRV**	**FV**	**LV**	**VIU**	**AC**	**N/A**	
PPE	2	3	0	17	**20**	0	1	0	1	**44**
(row %)	*(5%)*	*(7%)*	*(0%)*	*(39%)*	***(45%)***	*(0%)*	*(2%)*	*(0%)*	*(2%)*	**(100%)**
GW	4	0	1	10	**14**	0	6	1	8	**44**
(row %)	*(9%)*	*(0%)*	*(2%)*	*(23%)*	***(32%)***	*(0%)*	*(14%)*	*(2%)*	*(18%)*	**(100%)**
IA(I)	1	2	1	**16**	13	1	6	0	4	**44**
(row %)	*(2%)*	*(5%)*	*(2%)*	***(36%)***	*(30%)*	*(2%)*	*(14%)*	*(0%)*	*(9%)*	**(100%)**
IA(P)	1	2	1	**16**	**16**	3	3	1	1	**44**
(row %)	*(2%)*	*(5%)*	*(2%)*	***(36%)***	***(36%)***	*(7%)*	*(7%)*	*(2%)*	*(2%)*	**(100%)**
FI@FV	0	0	0	14	**26**	1	1	1	1	**44**
(row %)	*(0%)*	*(0%)*	*(0%)*	*(32%)*	***(59%)***	*(2%)*	*(2%)*	*(2%)*	*(2%)*	**(100%)**
FI@AC	0	0	0	13	**18**	3	2	7	1	**44**
(row %)	*(0%)*	*(0%)*	*(0%)*	*(30%)*	***(41%)***	*(7%)*	*(5%)*	*(16%)*	*(2%)*	**(100%)**
DTA	7	2	0	7	6	2	3	3	**14**	**44**
(row %)	*(16%)*	*(5%)*	*(0%)*	*(16%)*	*(14%)*	*(5%)*	*(7%)*	*(7%)*	***(32%)***	**(100%)**
Inv	4	0	0	**28**	9	1	1	0	1	**44**
(row %)	*(9%)*	*(0%)*	*(0%)*	***(64%)***	*(20%)*	*(2%)*	*(2%)*	*(0%)*	*(2%)*	**(100%)**
ToR	1	0	0	**20**	17	1	1	3	1	**44**
(row %)	*(2%)*	*(0%)*	*(0%)*	***(45%)***	*(39%)*	*(2%)*	*(2%)*	*(7%)*	*(2%)*	**(100%)**
Cash	**13**	2	0	10	**13**	1	1	2	2	**44**
(row %)	***(30%)***	*(5%)*	*(0%)*	*(23%)*	***(30%)***	*(2%)*	*(2%)*	*(5%)*	*(5%)*	**(100%)**
OCA	3	0	0	14	**16**	2	1	2	6	**44**
(row %)	*(7%)*	*(0%)*	*(0%)*	*(32%)*	***(36%)***	*(5%)*	*(2%)*	*(5%)*	*(14%)*	**(100%)**
TOTAL	**36**	**11**	**3**	**165**	**168**	**15**	**26**	**20**	**40**	**484**
(row %)	***(7%)***	***(2%)***	***(1%)***	***(34%)***	***(35%)***	***(3%)***	***(5%)***	***(4%)***	***(8%)***	***(100%)***

Legend (measurement bases):					
HC =	Historical cost	NRV =	Net realisable value	VIU =	Value-in-use
DAHC =	Depreciated/amortised historical cost	FV =	Fair value	AC =	Amortised cost
CRC =	Current replacement cost	LV =	Liquidation value	N/A =	Not applicable

Legend (line items):					
PPE =	Property, plant and equipment	FI@FV =	Financial instruments at fair value	ToR =	Trade and other receivables
GW =	Goodwill	FI@AC =	Financial instruments at amortised cost	Cash =	Cash and cash equivalents
IA(I) =	Intangible assets – internally generated	DTA =	Deferred tax asset	OCA =	Other current assets
IA(P) =	Intangible assets – purchased	Inv =	Inventory	NRV =	Net realisable value

(Questionnaire – Questions 55 to 60)

The results indicate that the NRV and FV measurement bases alternate as the preferred measurement base for all the asset line items except for Cash and DTA. Similar to the findings in Table 9.8 above, the preferred choice for DTA was N/A. As indicated earlier, DTA will be considered in Table 9.10 below. Furthermore, it has already been indicated that Cash reflects its true value and therefore both HC and FV could be applicable.

A comparison of the total number of observations confirms an equal preference for both measurement bases, namely, the NRV (34%) and the FV (35%). As indicated in Figure 6.1 on page 206, both measurement bases are exit values used to reflect cash flow from an orderly sale. However, NRV is determined from an entity perspective whereas FV is determined from a market participant's perspective. A general discussion on the re-measurements necessary in order to reflect an NRV or an FV subsequent measurement will be done in the summary of this section.

The third form of cash flow contribution is discussed next, namely, when the assets are held for continued use. Table 9.10 below presents the results, followed by a discussion thereof.

Table 9.10: Frequency table of the preferred measurement bases for assets – business rescue aim 1 (continue to exist – held for use)

AIM 1: PREFERRED MEASUREMENT BASES FOR ASSETS – HELD FOR USE										
LINE ITEM	**MEASUREMENT BASE**									**TOTAL**
	HC	**DAHC**	**CRC**	**NRV**	**FV**	**LV**	**VIU**	**AC**	**N/A**	
PPE	3	7	1	7	**13**	0	12	0	1	**44**
(row %)	*(7%)*	*(16%)*	*(2%)*	*(16%)*	***(30%)***	*(0%)*	*(27%)*	*(0%)*	*(2%)*	***(100%)***
GW	6	1	1	3	**12**	1	9	2	9	**44**
(row %)	*(14%)*	*(2%)*	*(2%)*	*(7%)*	***(27%)***	*(2%)*	*(20%)*	*(5%)*	*(20%)*	***(100%)***
IA(I)	3	5	1	4	10	1	**12**	2	6	**44**
(row %)	*(7%)*	*(11%)*	*(2%)*	*(9%)*	*(23%)*	*(2%)*	***(27%)***	*(5%)*	*(14%)*	***(100%)***
IA(P)	2	6	1	4	**17**	1	11	1	1	**44**
(row %)	*(5%)*	*(14%)*	*(2%)*	*(9%)*	***(39%)***	*(2%)*	*(25%)*	*(2%)*	*(2%)*	***(100%)***
FI@FV	0	1	0	5	**34**	1	2	0	1	**44**
(row %)	*(0%)*	*(2%)*	*(0%)*	*(11%)*	***(77%)***	*(2%)*	*(5%)*	*(0%)*	*(2%)*	***(100%)***
FI@AC	0	2	0	6	12	2	3	**18**	1	**44**
(row %)	*(0%)*	*(5%)*	*(0%)*	*(14%)*	*(27%)*	*(5%)*	*(7%)*	***(41%)***	*(2%)*	***(100%)***
DTA	**13**	2	0	5	7	0	5	3	9	**44**
(row %)	***(30%)***	*(5%)*	*(0%)*	*(11%)*	*(16%)*	*(0%)*	*(11%)*	*(7%)*	*(20%)*	***(100%)***
Inv	5	0	0	**24**	8	1	4	1	1	**44**
(row %)	*(11%)*	*(0%)*	*(0%)*	***(55%)***	*(18%)*	*(2%)*	*(9%)*	*(2%)*	*(2%)*	***(100%)***
ToR	2	0	0	**17**	14	0	3	7	1	**44**
(row %)	*(5%)*	*(0%)*	*(0%)*	***(39%)***	*(32%)*	*(0%)*	*(7%)*	*(16%)*	*(2%)*	***(100%)***
Cash	**13**	2	0	9	**13**	0	2	3	2	**44**
(row %)	***(30%)***	*(5%)*	*(0%)*	*(20%)*	***(30%)***	*(0%)*	*(5%)*	*(7%)*	*(5%)*	***(100%)***
OCA	4	1	0	12	**15**	1	2	3	6	**44**
(row %)	*(9%)*	*(2%)*	*(0%)*	*(27%)*	***(34%)***	*(2%)*	*(5%)*	*(7%)*	*(14%)*	***(100%)***
TOTAL	**51**	**27**	**4**	**96**	**155**	**8**	**65**	**40**	**38**	**484**
(row %)	***(11%)***	***(6%)***	***(1%)***	***(20%)***	***(32%)***	***(2%)***	***(13%)***	***(8%)***	***(8%)***	***(100%)***

Legend (measurement bases):

HC =	Historical cost	NRV =	Net realisable value	VIU =	Value-in-use
DAHC =	Depreciated/amortised historical cost	FV =	Fair value	AC =	Amortised cost
CRC =	Current replacement cost	LV =	Liquidation value	N/A =	Not applicable

Legend (line items):

PPE =	Property, plant and equipment	FI@FV =	Financial instruments at fair value	ToR =	Trade and other receivables
GW =	Goodwill	FI@AC =	Financial instruments at amortised cost	Cash =	Cash and cash equivalents
IA(I) =	Intangible assets – internally generated	DTA =	Deferred tax asset	OCA =	Other current assets
IA(P) =	Intangible assets – purchased	Inv =	Inventory	NRV =	Net realisable value

(Questionnaire – Questions 55 to 60)

The results in Table 9.10 indicate that although the FV measurement is once again preferred, other measurement bases are now preferred for some items, namely, VIU for IA(I), AC for FI@AC, HC for DTA and NRV for Inv and ToR. The preferred measurement base for Cash is evenly split between HC and FV. The results above present some interesting findings with respect to the individual line items, which will be discussed below for each of the respective asset line items.

Property, plant and equipment (PPE) is usually measured using a cost or revaluation model. The depreciated/amortised historical cost (DAHC) would represent the subsequent measurement for asset classes in PPE where the cost model is used. If some of the asset classes are measured according to the revaluation model, the subsequent measurement should result in a carrying amount that would approximate FV. The preference for the FV (most preferred) and value in use (VIU) (second most preferred) measurement bases indicates that the respondents would like to see PPE being reflected at a current value rather than an historical cost value.

If GW had to be impaired, which would likely given that the company is under business rescue, the impairment test would be based on an apportionment of GW to a cash generating unit (CGU), and comparing the carrying amount of the CGU to the higher of FV less disposal costs or VIU. The preference for FV as the most preferred measurement base and VIU as the second most preferred measurement base is therefore understandable. It is also notable that some respondents considered GW to have no value, hence the N/A choice.

Recognised intangible assets, whether they were internally generated or purchased, would normally be measured at an amortised historical cost. If the company is under business rescue, it may likely indicate that an impairment test is necessary. Similar to GW above, the result of the impairment test would be a value that is either FV less disposal cost or VIU, whichever is the higher. Therefore, the preferred measurement bases, namely, FV and VIU, are expected.

As the name indicates, FI@FV is usually measured at FV. The preferred FV measurement base is therefore expected. If financial instruments are carried at

amortised cost (AC), the particular measurement category indicates that these financial instruments are held to collect the cash flows, namely, the interest and principal. The AC measurement base is therefore expected. However, it is interesting to note that some respondents preferred FV. This may indicate that they did not consider that the company would be able to hold these financial instruments to maturity, and that they might be sold.

With respect to a DTA, it would be recognised if it were probable that there would be taxable income available against which a deductible temporary difference, such as one arising from an assessed loss, could be used. The normal measurement would therefore be an HC calculated as the tax rate times the net deductible temporary differences. Once again, some respondents maintained that the deferred tax would not have any value for a company under business rescue, hence a N/A choice.

Inventory is usually measured at the lower of HC or NRV. It is therefore interesting to note that most respondents preferred NRV as a measurement base, followed by FV as the second most preferred. It therefore seems that the respondents assume that a write-down to NRV would be necessary when a company is under business rescue.

Trade receivables are usually measured at AC, while other receivables, such as deposits held, would be measured at HC. The question did not give a breakdown of trade receivables and other receivables, but trade receivables would normally represent the majority of such an amount. It is therefore interesting to note that respondents mainly preferred NRV, and FV as the second most preferred measurement base for the ToR line item. It seems that respondents consider that the company would not collect the trade receivable as intended under the AC measurement base. Personal communication with a BRP corroborates the above in that once a company goes into business rescue, the BRP finds it extremely difficult to collect trade receivables at the amounts that are legally owed to the company. Debtors find excuses for not paying in the hope that the BRP will accept a lower settlement amount (Fairhurst, 2015).

It was earlier indicated that Cash already reflects its true value, therefore no measurement base preference will be considered further. The question did not give a breakdown of what constitutes the other current assets (OCA) line item. However, if one assumes that the respondent would draw on his/her experience of what OCA may constitute, it is interesting to note that the majority of the respondents chose FV as the preferred measurement base, followed by the NRV. One may deduce that respondents would like to see the OCA reflected at a current (exit) value as opposed to a historical (cost) value.

Considered in total, the results displayed in Table 9.10 above show that there is a trend for preferring more current (exit) values as measurement bases for assets and liabilities. FV seems to be the preferred measurement base for most of the assets when those assets are held for continued use, followed by the NRV measurement base.

Table 9.11 below summarises the *total* frequencies of the preferred measurement bases per form of cash flow contribution. The purpose is to confirm any trends noticed in the individual assessments of preference, and to compare them to those measurement bases that were deemed appropriate in a business rescue context.

Table 9.11: Summarised frequency table of the preferred measurement bases for assets – business rescue aim 1 (continue to exist)

Question 55–60 (n = 44)	**HC**	**DAHC**	**CRC**	**NRV**	**FV**	**LV**	**VIU**	**AC**	**N/A**	**TOTAL**
Sale – Fire sale *(Row percentage)*	22 *(5%)*	4 *(1%)*	5 *(1%)*	109 *(23%)*	79 *(16%)*	**207** ***(43%)***	12 *(2%)*	5 *(1%)*	41 *(8%)*	**484** ***(100%)***
Sell – normally *(Row percentage)*	36 *(7%)*	11 *(2%)*	3 *(1%)*	165 *(34%)*	**168** ***(35%)***	15 *(3%)*	26 *(5%)*	20 *(4%)*	40 *(8%)*	**484** ***(100%)***
Held for use *(Row percentage)*	51 *(11%)*	27 *(6%)*	4 *(1%)*	96 *(20%)*	**155** ***(32%)***	8 *(2%)*	65 *(13%)*	40 *(8%)*	38 *(8%)*	**484** ***(100%)***
Total ***(Row percentage)***	**109** ***(8%)***	**42** ***(3%)***	**12** ***(1%)***	**370** ***(25%)***	**402** ***(28%)***	**230** ***(16%)***	**103** ***(7%)***	**65** ***(4%)***	**119** ***(8%)***	**1452** ***(100%)***

Legend (measurement bases):					
HC =	Historical cost	NRV =	Net realisable value	VIU =	Value-in-use
DAHC =	Depreciated/Amortised historical cost	FV =	Fair value	AC =	Amortised cost
CRC =	Current replacement cost	LV =	Liquidation value	N/A =	Not applicable

(Questionnaire – Questions 55 to 60)

As indicated in sections 2.5.2 and 2.5.5, the current application of the CF results in a mixed-measurement based accounting model. Depending on the form of cash flow contribution, the above table indicates a trend towards a preference for three measurement bases for the assets of a listed company under business rescue emerged, namely, FV, NRV and LV. In section 9.2.6.1, the same three measurement bases were considered those that were most appropriate in a business rescue context. In particular, LV is not generally used in going concern based financial statements, but it does become necessary when preparing financial statements for a listed company under business rescue. LV should therefore be included as a measurement base, as it addresses a specific for of cash flow contribution that is not addressed by the other measurement bases. Furthermore, the FV, NRV and LV measurement bases are all exit (current) values, indicating a general trend away from cost-based measurements such as HC and DAHC.

In particular, the results indicate that PPE, when held for use, should be re-measured to FV or VIU. Furthermore, inventory held for use should immediately be re-measured at NRV, and intangible assets re-measured to VIU (if internally generated) or FV (if purchased).

The above results indicate that the financial statements will still represent a mixed-measurement based accounting model when prepared for a listed company under business rescue where the BRP pursues aim 1. However, the accounting model now tends to prefer current values as opposed to historical values. In the next section the preferred measurement bases are discussed when the BRP pursues aim 2.

9.2.8.2 Preferred measurement bases for assets – aim 2 (better return to creditors)

The respondents were also asked to indicate a preferred measurement base for the same asset line items used above, but they were now asked to consider it for a company where the BRP pursues aim 2, namely, to render a better return to creditors and shareholders than under immediate liquidation. It is important to remember that the aim is not to return the company to solvency, but to use the protection and time allowed by the business rescue proceedings to enable a better return to creditors and

shareholders. Depending on when the reporting period falls during the business rescue proceedings, it is possible that assets will contribute to cash flow in the same way as discussed above. In other words, the assets may contribute to cash flow by way of immediate sale (fire sale), sale in the normal course of business, as well as (temporarily) using some of the assets before subsequently selling them in settlement of remaining debts.

With the above in mind, the purpose of the question is once again to identify any trends for preferred measurement bases when the BRP pursues aim 2. Table 9.12 below presents the results of the preferred measurement bases if some assets need to be sold under duress, that is, a fire sale. In all the tables in this section the measurement base preferred most is shown in bold and grey, while the second most preferred measurement base is shown in grey.

Table 9.12: Frequency table of the preferred measurement bases for assets – business rescue aim 2 (better return to creditors – fire sale)

AIM 2: PREFERRED MEASUREMENT BASES FOR ASSETS – FIRE-SALE										
LINE ITEM	**MEASUREMENT BASE**									**TOTAL**
	HC	**DAHC**	**CRC**	**NRV**	**FV**	**LV**	**VIU**	**AC**	**N/A**	
PPE	0	0	0	8	7	**28**	0	0	1	**44**
(row %)	*(0%)*	*(0%)*	*(0%)*	*(18%)*	*(16%)*	***(64%)***	*(0%)*	*(0%)*	*(2%)*	***(100%)***
GW	2	0	1	7	4	**18**	2	0	10	**44**
(row %)	*(5%)*	*(0%)*	*(2%)*	*(16%)*	*(9%)*	***(41%)***	*(5%)*	*(0%)*	*(23%)*	***(100%)***
IA(I)	1	0	0	7	3	**27**	1	0	5	**44**
(row %)	*(2%)*	*(0%)*	*(0%)*	*(16%)*	*(7%)*	***(61%)***	*(2%)*	*(0%)*	*(11%)*	***(100%)***
IA(P)	0	0	0	7	5	**26**	1	0	5	**44**
(row %)	*(0%)*	*(0%)*	*(0%)*	*(16%)*	*(11%)*	***(59%)***	*(2%)*	*(0%)*	*(11%)*	***(100%)***
FI@FV	0	0	0	8	9	**26**	0	0	1	**44**
(row %)	*(0%)*	*(0%)*	*(0%)*	*(18%)*	*(20%)*	***(59%)***	*(0%)*	*(0%)*	*(2%)*	***(100%)***
FI@AC	0	0	0	8	8	**26**	0	1	1	**44**
(row %)	*(0%)*	*(0%)*	*(0%)*	*(18%)*	*(18%)*	***(59%)***	*(0%)*	*(2%)*	*(2%)*	***(100%)***
DTA	2	0	0	6	5	**19**	1	3	8	**44**
(row %)	*(5%)*	*(0%)*	*(0%)*	*(14%)*	*(11%)*	***(43%)***	*(2%)*	*(7%)*	*(18%)*	***(100%)***
Inv	0	0	0	12	4	**27**	0	0	1	**44**
(row %)	*(0%)*	*(0%)*	*(0%)*	*(27%)*	*(9%)*	***(61%)***	*(0%)*	*(0%)*	*(2%)*	***(100%)***
ToR	0	0	0	7	8	**27**	0	1	1	**44**
(row %)	*(0%)*	*(0%)*	*(0%)*	*(16%)*	*(18%)*	***(61%)***	*(0%)*	*(2%)*	*(2%)*	***(100%)***
Cash	9	1	0	9	8	**14**	0	1	2	**44**
(row %)	*(20%)*	*(2%)*	*(0%)*	*(20%)*	*(18%)*	***(32%)***	*(0%)*	*(2%)*	*(5%)*	***(100%)***
OCA	0	0	0	7	7	**24**	0	1	5	**44**
(row %)	*(0%)*	*(0%)*	*(0%)*	*(16%)*	*(16%)*	***(55%)***	*(0%)*	*(2%)*	*(11%)*	***(100%)***
TOTAL	**14**	**1**	**1**	**86**	**68**	**262**	**5**	**7**	**40**	**484**
(row %)	***(3%)***	***(0%)***	***(0%)***	***(18%)***	***(14%)***	***(54%)***	***(1%)***	***(1%)***	***(8%)***	***(100%)***

Legend (measurement bases):					
HC =	Historical cost	NRV =	Net realisable value	VIU =	Value-in-use
DAHC =	Depreciated/Amortised historical cost	FV =	Fair value	AC =	Amortised cost
CRC =	Current replacement cost	LV =	Liquidation value	N/A =	Not applicable

Legend (line items):					
PPE =	Property, plant and equipment	FI@FV =	Financial instruments at fair value	ToR =	Trade and other receivables
GW =	Goodwill	FI@AC =	Financial instruments at amortised cost	Cash =	Cash and cash equivalents
IA(I) =	Intangible assets – internally generated	DTA =	Deferred tax asset	OCA =	Other current assets
IA(P) =	Intangible assets – purchased	Inv =	Inventory	NRV =	Net realisable value

(Questionnaire – Questions 55 to 60)

The results displayed in Table 9.12 show strong support for the LV measurement base, which was preferred for all the asset line items. Similar to the previous section, GW and DTA were again considered to have no value by some of the respondents. The argument presented in the previous section in respect of these two assets when considered in a fire sale context would also apply here. Furthermore, it was earlier indicated that Cash already reflects its true value and any of the HC, NRV or FV measurement bases could therefore apply.

In total, and considering the number of observations, the LV measurement base was mostly preferred, drawing 54% of the total observations. The strong support for the LV measurement base clearly indicates that its properties as a measurement base are required when considering the measurement of assets for a listed company under business rescue where the BRP pursues aim 2.

With respect to assets that may be sold in the normal course of business, the respondents' measurement base preferences are presented in Table 9.13 below. A discussion on the results will follow the table.

Table 9.13: Frequency table of the preferred measurement bases for assets – business rescue aim 2 (better return to creditors – sold in normal course of business)

AIM 2: PREFERRED MEASUREMENT BASES FOR ASSETS – SELL IN NORMAL COURSE OF BUSINESS										
LINE ITEM	**MEASUREMENT BASE**									**TOTAL**
	HC	**DAHC**	**CRC**	**NRV**	**FV**	**LV**	**VIU**	**AC**	**N/A**	
PPE	2	0	0	**17**	16	8	0	0	1	**44**
(row %)	*(5%)*	*(0%)*	*(0%)*	***(39%)***	*(36%)*	*(18%)*	*(0%)*	*(0%)*	*(2%)*	***(100%)***
GW	2	0	1	**14**	9	7	2	0	9	**44**
(row %)	*(5%)*	*(0%)*	*(2%)*	***(32%)***	*(20%)*	*(16%)*	*(5%)*	*(0%)*	*(20%)*	***(100%)***
IA(I)	1	0	0	**16**	13	8	1	0	5	**44**
(row %)	*(2%)*	*(0%)*	*(0%)*	***(36%)***	*(30%)*	*(18%)*	*(2%)*	*(0%)*	*(11%)*	***(100%)***
IA(P)	1	0	0	**16**	14	7	1	0	5	**44**
(row %)	*(2%)*	*(0%)*	*(0%)*	***(36%)***	*(32%)*	*(16%)*	*(2%)*	*(0%)*	*(11%)*	***(100%)***
FI@FV	0	0	0	16	**21**	6	0	0	1	**44**
(row %)	*(0%)*	*(0%)*	*(0%)*	*(36%)*	***(48%)***	*(14%)*	*(0%)*	*(0%)*	*(2%)*	***(100%)***
FI@AC	0	0	0	**17**	15	6	0	5	1	**44**
(row %)	*(0%)*	*(0%)*	*(0%)*	***(39%)***	*(34%)*	*(14%)*	*(0%)*	*(11%)*	*(2%)*	***(100%)***
DTA	6	0	0	9	9	6	1	3	**10**	**44**
(row %)	*(14%)*	*(0%)*	*(0%)*	*(20%)*	*(20%)*	*(14%)*	*(2%)*	*(7%)*	***(23%)***	***(100%)***
Inv	1	0	0	**22**	9	10	1	0	1	**44**
(row %)	*(2%)*	*(0%)*	*(0%)*	***(50%)***	*(20%)*	*(23%)*	*(2%)*	*(0%)*	*(2%)*	***(100%)***
ToR	0	0	0	**16**	15	8	1	3	1	**44**
(row %)	*(0%)*	*(0%)*	*(0%)*	***(36%)***	*(34%)*	*(18%)*	*(2%)*	*(7%)*	*(2%)*	***(100%)***
Cash	11	1	0	11	**14**	4	0	1	2	**44**
(row %)	*(25%)*	*(2%)*	*(0%)*	*(25%)*	***(32%)***	*(9%)*	*(0%)*	*(2%)*	*(5%)*	***(100%)***
OCA	1	0	0	**14**	13	8	2	1	5	**44**
(row %)	*(2%)*	*(0%)*	*(0%)*	***(32%)***	*(30%)*	*(18%)*	*(5%)*	*(2%)*	*(11%)*	***(100%)***
TOTAL	**25**	**1**	**1**	**168**	**148**	**78**	**9**	**13**	**41**	**484**
(row %)	***(5%)***	***(0%)***	***(0%)***	***(35%)***	***(31%)***	***(16%)***	***(2%)***	***(3%)***	***(8%)***	***(100%)***

Legend (measurement bases):					
HC =	Historical cost	NRV =	Net realisable value	VIU =	Value-in-use
DAHC =	Depreciated/amortised historical cost	FV =	Fair value	AC =	Amortised cost
CRC =	Current replacement cost	LV =	Liquidation value	N/A =	Not applicable

Legend (line items):					
PPE =	Property, plant and equipment	FI@FV =	Financial instruments at fair value	ToR =	Trade and other receivables
GW =	Goodwill	FI@AC =	Financial instruments at amortised cost	Cash =	Cash and cash equivalents
IA(I) =	Intangible assets – internally generated	DTA =	Deferred tax asset	OCA =	Other current assets
IA(P) =	Intangible assets – purchased	Inv =	Inventory	NRV =	Net realisable value

(Questionnaire – Questions 55 to 60)

Considering the most preferred measurement basis, it should be noted that the NRV measurement base is preferred in most of the asset line items, but that it is closely followed in some cases by FV. The exceptions are once again the DTA and Cash, where the same argument applies as indicated in the previous section.

Considered in total, one can see that the NRV and LV measurement bases constitute 66% of the total number of observations. The strong support for these exit (current) values once again indicates that there is a move towards current value measurements, as opposed to historical cost measurements.

With regard to assets that are held for use during business rescue proceedings under aim 2, the respondents indicated their preferences as summarised in Table 9.14. The results are discussed following the table.

Table 9.14: Frequency table of the preferred measurement bases for assets – business rescue aim 2 (better return to creditors – held for use)

AIM 2: PREFERRED MEASUREMENT BASES FOR ASSETS – HELD FOR USE										
LINE ITEM	**MEASUREMENT BASE**									**TOTAL**
	HC	**DAHC**	**CRC**	**NRV**	**FV**	**LV**	**VIU**	**AC**	**N/A**	
PPE	2	2	0	11	**14**	9	4	0	2	**44**
(row %)	*(5%)*	*(5%)*	*(0%)*	*(25%)*	***(32%)***	*(20%)*	*(9%)*	*(0%)*	*(5%)*	***(100%)***
GW	3	2	1	10	5	7	5	0	**11**	**44**
(row %)	*(7%)*	*(5%)*	*(2%)*	*(23%)*	*(11%)*	*(16%)*	*(11%)*	*(0%)*	***(25%)***	***(100%)***
IA(I)	1	3	0	9	**12**	8	4	0	7	**44**
(row %)	*(2%)*	*(7%)*	*(0%)*	*(20%)*	***(27%)***	*(18%)*	*(9%)*	*(0%)*	*(16%)*	***(100%)***
IA(P)	1	3	0	10	**11**	8	5	0	6	**44**
(row %)	*(2%)*	*(7%)*	*(0%)*	*(23%)*	***(25%)***	*(18%)*	*(11%)*	*(0%)*	*(14%)*	***(100%)***
FI@FV	0	2	0	12	**21**	6	1	0	2	**44**
(row %)	*(0%)*	*(5%)*	*(0%)*	*(27%)*	***(48%)***	*(14%)*	*(2%)*	*(0%)*	*(5%)*	***(100%)***
FI@AC	0	3	0	13	**14**	6	1	5	2	**44**
(row %)	*(0%)*	*(7%)*	*(0%)*	*(30%)*	***(32%)***	*(14%)*	*(2%)*	*(11%)*	*(5%)*	***(100%)***
DTA	5	2	0	9	6	5	2	3	**12**	**44**
(row %)	*(11%)*	*(5%)*	*(0%)*	*(20%)*	*(14%)*	*(11%)*	*(5%)*	*(7%)*	***(27%)***	***(100%)***
Inv	3	1	0	**19**	7	9	3	0	2	**44**
(row %)	*(7%)*	*(2%)*	*(0%)*	***(43%)***	*(16%)*	*(20%)*	*(7%)*	*(0%)*	*(5%)*	***(100%)***
ToR	0	1	0	**14**	**14**	8	2	3	2	**44**
(row %)	*(0%)*	*(2%)*	*(0%)*	***(32%)***	***(32%)***	*(18%)*	*(5%)*	*(7%)*	*(5%)*	***(100%)***
Cash	**12**	2	0	10	11	4	1	1	3	**44**
(row %)	***(27%)***	*(5%)*	*(0%)*	*(23%)*	*(25%)*	*(9%)*	*(2%)*	*(2%)*	*(7%)*	***(100%)***
OCA	1	2	0	**13**	12	8	1	1	6	**44**
(row %)	*(2%)*	*(5%)*	*(0%)*	***(30%)***	*(27%)*	*(18%)*	*(2%)*	*(2%)*	*(14%)*	***(100%)***
TOTAL	**28**	**23**	**1**	**130**	**127**	**78**	**29**	**13**	**55**	**484**
(row %)	***(6%)***	***(5%)***	***(0%)***	***(27%)***	***(26%)***	***(16%)***	***(6%)***	***(3%)***	***(11%)***	***(100%)***

Legend (measurement bases):

HC =	Historical cost	NRV =	Net realisable value	VIU =	Value-in-use
DAHC =	Depreciated/amortised historical cost	FV =	Fair value	AC =	Amortised cost
CRC =	Current replacement cost	LV =	Liquidation value	N/A =	Not applicable

Legend (line items):

PPE =	Property, plant and equipment	FI@FV =	Financial instruments at fair value	ToR =	Trade and other receivables
GW =	Goodwill	FI@AC =	Financial instruments at amortised cost	Cash =	Cash and cash equivalents
IA(I) =	Intangible assets – internally generated	DTA =	Deferred tax asset	OCA =	Other current assets
IA(P) =	Intangible assets – purchased	Inv =	Inventory	NRV =	Net realisable value

(Questionnaire – Questions 55 to 60)

The results display the mixture of FV and NRV preferences for the various asset line items. GW and the DTA are once again judged by some respondents not to be applicable. The preference for Cash has once again been either HC or FV or NRV in most of the cases. With respect to GW, DTA and Cash, the same argument applies as presented in the previous section.

It is interesting to note that it is now preferable for line items that are usually carried at DAHC, namely, PPE, IA(I), IA(P) and Inv, to be recognised at either NRV or FV. This preference is understandable considering that, as the BRP implements a business rescue plan under aim 2, these assets will eventually be sold in order to settle the remaining liabilities. The overall strong support for NRV (27%) and FV (26%) once again shows that there is a need for measurements that will portray more current values as opposed to historical cost financial information.

Table 9.15 below gives a summary, in total, of all the observations with respect to the three possible forms of cash flow when a BRP implements the business rescue plan for a listed company in business rescue under aim 2.

Table 9.15: Summarised frequency table of the preferred measurement bases for assets – aim 2 (better return to creditors)

Question 55 – 60 (n = 44)	**HC**	**DAHC**	**CRC**	**NRV**	**FV**	**LV**	**VIU**	**AC**	**N/A**	**TOTAL**
Sale – Fire sale *(Row percentage)*	14 *(3%)*	1 *(0%)*	1 *(0%)*	86 *(18%)*	68 *(14%)*	**262** ***(54%)***	5 *(1%)*	7 *(1%)*	40 *(8%)*	**484** ***(100%)***
Sell – normally *(Row percentage)*	25 *(5%)*	1 *(0%)*	1 *(0%)*	**168** ***(35%)***	148 *(31%)*	78 *(16%)*	9 *(2%)*	13 *(3%)*	41 *(8%)*	**484** ***(100%)***
Held for use *(Row percentage)*	28 *(6%)*	23 *(5%)*	1 *(0%)*	**130** ***(27%)***	127 *(26%)*	78 *(16%)*	29 *(6%)*	13 *(3%)*	55 *(11%)*	**484** ***(100%)***
Total ***(Row percentage)***	**67** ***(5%)***	**25** ***(2%)***	**3** ***(0%)***	**384** ***(26%)***	**343** ***(24%)***	**418** ***(29%)***	**43** ***(3%)***	**33** ***(2%)***	**136** ***(9%)***	**1452** ***(100%)***

Legend (measurement bases):					
HC =	Historical cost	NRV =	Net realisable value	VIU =	Value-in-use
DAHC =	Depreciated/amortised historical cost	FV =	Fair value	AC =	Amortised cost
CRC =	Current replacement cost	LV =	Liquidation value	N/A =	Not applicable

(Questionnaire – Questions 55 to 60)

The above results indicate the preference for three main measurement bases for assets when a BRP pursues aim 2, namely, the NRV, the FV and the LV. These measurement bases are also those that the respondents considered to be most applicable in a business rescue context (see § 9.2.6). All three measurement bases are exit (current) values and this clearly indicates a move away from the traditional preference for mainly entry (historical cost) measurement bases. The implication of this trend will be discussed in the summary of this section.

The next section discusses the preferred measurement basis for liabilities under both aims of business rescue, namely, to continue to exist on a solvent basis (aim 1) and the rendering a better return to creditors and shareholders (aim 2). The preferred measurement basis for liabilities under aim 1 is discussed first.

9.2.8.3 Preferred measurement bases for liabilities – aim 1 (continue to exist)

Section 7.6.4.8 indicated that it is important to determine how the liabilities of a listed company under business rescue would be treated. The purpose of the question is once again to determine any trends in the measurement of liabilities for a listed company that has to prepare financial statements while under business rescue proceedings. The question formulated is presented below.

Question

You have indicated that the following measurement bases are applicable to liabilities in a business rescue context. Once again, please use only these bases in the next section below. You may go back to the previous pages to change any of your selections should you wish to do so.

For each of the two aims of business rescue, please indicate your preferred measurement basis for the following liability line items in the SFP, for a listed company that has a financial reporting date whilst under business rescue.

LIABILITIES

- Financial instruments at fair value
- Financial instruments at amortised cost
- Deferred tax liability
- Employee benefit obligations
- Trade and other creditors
- Provisions

- Other current liabilities
- Cash and cash equivalents

(Questionnaire – Questions 61 to 62)

The following two tables, one for each of the business rescue aims, show the results with respect to the preferred measurement base for liabilities. Table 9.16 below summarises the results of this under aim 1.

Table 9.16: Frequency table of the preferred measurement bases for liabilities – business rescue aim 1 (continue to exist)

AIM 1: PREFERRED MEASUREMENT BASES FOR LIABILITIES									
LINE ITEM	**MEASUREMENT BASE**								**TOTAL**
	HP	**AHP**	**CV(D)**	**SV**	**FV**	**FFV**	**AC**	**N/A**	
FI@FV *(row %)*	0 *(0%)*	0 *(0%)*	3 *(7%)*	7 *(16%)*	**28** ***(64%)***	3 *(7%)*	1 *(2%)*	2 *(5%)*	**44** ***(100%)***
FI@AC *(row %)*	0 *(0%)*	1 *(2%)*	4 *(9%)*	8 *(18%)*	**14** ***(32%)***	1 *(2%)*	**14** ***(32%)***	2 *(5%)*	**44** ***(100%)***
DTL *(row %)*	9 *(20%)*	1 *(2%)*	6 *(14%)*	4 *(9%)*	**11** ***(25%)***	2 *(5%)*	1 *(2%)*	10 *(23%)*	**44** ***(100%)***
EBO *(row %)*	1 *(2%)*	0 *(0%)*	9 *(20%)*	5 *(11%)*	**19** ***(43%)***	6 *(14%)*	2 *(5%)*	2 *(5%)*	**44** ***(100%)***
ToC *(row %)*	4 *(9%)*	0 *(0%)*	10 *(23%)*	10 *(23%)*	**12** ***(27%)***	2 *(5%)*	4 *(9%)*	2 *(5%)*	**44** ***(100%)***
PROV *(row %)*	3 *(7%)*	0 *(0%)*	10 *(23%)*	5 *(11%)*	**14** ***(32%)***	5 *(11%)*	5 *(11%)*	2 *(5%)*	**44** ***(100%)***
OCL *(row %)*	5 *(11%)*	0 *(0%)*	8 *(18%)*	10 *(23%)*	**13** ***(30%)***	2 *(5%)*	4 *(9%)*	2 *(5%)*	**44** ***(100%)***
Cash *(row %)*	9 *(20%)*	1 *(2%)*	5 *(11%)*	4 *(9%)*	**18** ***(41%)***	1 *(2%)*	3 *(7%)*	3 *(7%)*	**44** ***(100%)***
TOTAL ***(row %)***	**31** ***(9%)***	**3** ***(1%)***	**55** ***(16%)***	**53** ***(15%)***	**129** ***(37%)***	**22** ***(6%)***	**34** ***(10%)***	**25** ***(7%)***	**352** ***(100%)***

Legend (measurement bases):					
HP =	Historical proceeds	SV =	Settlement value	AC =	Amortised cost
AHP =	Amortised historical proceeds	FV =	Fair value	N/A =	Not applicable
CV(D) =	Current value (deemed)	FFV =	Fulfilment value		

Legend (line items):					
FI@FV =	Financial instruments at fair value	EBO =	Employee benefit obligation	OCL =	Other current liabilities
FI@AC =	Financial instruments at amortised cost	ToC =	Trade and other creditors	Cash =	Cash and cash equivalents (liability)
DTL =	Deferred tax liability	PROV =	Provisions		

(Questionnaire – Questions 61 to 62)

The results in Table 9.16 above show a general preference for measuring liabilities at their FV. Some interesting trends are apparent that will be discussed below.

In the case of FI@AC, the AC measurement base was equally preferred. The support for measuring FI@AC at FV indicates that the respondents do consider the company's own credit risk in the measurement of these liabilities. In other words, there is a probability of non-payment of the liability that will lead to a change in the expected cash flow, hence the measurement at FV instead of at AC.

Although most of the respondents, that is 25%, thought that the DTL should be measured at FV, a few respondents (23%) once again thought that the DTL might have no value, hence the N/A choice. If the realisation of assets results in tax deductible losses, it may very well be that a DTL will be reduced to zero. It should also be noted that 20% of the respondents stated that they would measure the DTL in the normal manner, that is, as historical proceeds (HP). In other words, the DTL is the result of multiplying the net taxable timing differences by the tax rate.

The employee benefit option (EBO) is usually measured as the present value of future cash flows discounted at a fair interest rate, which is similar to the fulfilment value (FFV) measurement. It is therefore interesting to note that most respondents (43%) would measure the EBO at its FV, thereby indicating that the anticipated future cash flows may not be as expected, and a measurement reflecting the price to be paid to transfer the liability is preferable.

Trade and other creditors (ToC) is normally measured at AC. The FV choice by 27% of the respondents once again indicates that a measurement reflecting a price to transfer the liability, in this case one that would likely be lower than the HP amount, is considered preferable. However, the settlement value (SV) and current value (deemed) (CV(D)) measurement bases were each preferred by 23% of the respondents. The SV indicates the undiscounted amounts of cash flow expected to be paid to satisfy the liabilities in the normal course of business. Since the SV refers to the expected amounts to be paid, which could very well differ from the original ToC amount, the choice is understandable. However, the CV(D) refers to a deemed

current value, indicating the consideration the entity would currently expect to receive if it undertook an identical obligation equal to the remaining part of the obligation. In other words, it reflects the current value of the same remaining obligation. In a business rescue context, creditors may likely be required to take a ‘haircut’, that is, receive less than what is owed to them. Therefore, the remaining obligation would more likely than not change and the CV(D) measurement base would not be applicable.

Provisions are measured at the amount required to settle the liability at the reporting date (SV) or the price paid to transfer the liability (FV). The respondents mainly preferred the FV (32%). However, the CV(D) (23%) was once again preferred as the second measurement base. It is doubtful whether the provisions, as originally envisaged when they were recognised, would remain the same when the company enters business rescue. An FV measurement or an SV measurement would be more likely. Any new provisions would also most likely be recognised at the FV or SV measurement bases.

The question posed to the respondents did not give any examples of other current liabilities (OCL). Despite the lack of specific examples, FV (30%) was preferred the most, followed by 23% of the responses preferring the SV. Both these measurement bases could be expected for OCL.

Cash, as a liability, would normally be a bank overdraft or a short-term loan facility. It may be that the bank is also required, or has offered, to take a haircut. If this was the case then the FV measurement base preference is understandable. If the credit provider has enough security over the overdraft or short-term loan, then cash would be reflected at the HP amount, as indicated by 20% of the respondents.

Considered in total, one can see that the FV (37%) is the preferred measurement base, followed by the CV(D) with 16%. However, the SV with 15% of the responses is very close to the CV(D) measurement base. All three of these measurement bases were considered the most applicable in a business rescue context, as discussed in section 9.2.6.

It was earlier indicated that it is also important to consider the measurement of liabilities when the BRP pursues aim 2. Under aim 2, the BRP will take the time and protection available under the business rescue proceedings in order to render a better return to creditors and shareholders than under immediate liquidation. The results on the preferred measurement basis for liabilities under aim 2 are presented in Table 9.17 below.

Table 9.17: Frequency table of the preferred measurement bases for liabilities – business rescue aim 2 (better return to creditors)

AIM 2: PREFERRED MEASUREMENT BASES FOR LIABILITIES									
LINE ITEM	**MEASUREMENT BASE**								**TOTAL**
	HP	**AHP**	**CV(D)**	**SV**	**FV**	**FFV**	**AC**	**N/A**	
FI@FV *(row %)*	0 *(0%)*	0 *(0%)*	1 *(2%)*	**22** ***(50%)***	18 *(41%)*	1 *(2%)*	0 *(0%)*	2 *(5%)*	**44** ***(100%)***
FI@AC *(row %)*	0 *(0%)*	0 *(0%)*	4 *(9%)*	**21** ***(48%)***	12 *(27%)*	0 *(0%)*	5 *(11%)*	2 *(5%)*	**44** ***(100%)***
DTL *(row %)*	5 *(11%)*	1 *(2%)*	4 *(9%)*	**12** ***(27%)***	8 *(18%)*	1 *(2%)*	1 *(2%)*	**12** ***(27%)***	**44** ***(100%)***
EBO *(row %)*	0 *(0%)*	0 *(0%)*	3 *(7%)*	**20** ***(45%)***	14 *(32%)*	5 *(11%)*	0 *(0%)*	2 *(5%)*	**44** ***(100%)***
ToC *(row %)*	1 *(2%)*	0 *(0%)*	4 *(9%)*	**23** ***(52%)***	11 *(25%)*	2 *(5%)*	1 *(2%)*	2 *(5%)*	**44** ***(100%)***
PROV *(row %)*	2 *(5%)*	0 *(0%)*	6 *(14%)*	**16** ***(36%)***	12 *(27%)*	3 *(7%)*	3 *(7%)*	2 *(5%)*	**44** ***(100%)***
OCL *(row %)*	2 *(5%)*	0 *(0%)*	4 *(9%)*	**21** ***(48%)***	12 *(27%)*	3 *(7%)*	0 *(0%)*	2 *(5%)*	**44** ***(100%)***
Cash *(row %)*	7 *(16%)*	2 *(5%)*	2 *(5%)*	13 *(30%)*	**15** ***(34%)***	1 *(2%)*	2 *(5%)*	2 *(5%)*	**44** ***(100%)***
TOTAL ***(row %)***	**17** ***(5%)***	**3** ***(1%)***	**28** ***(8%)***	**148** ***(42%)***	**102** ***(29%)***	**16** ***(5%)***	**12** ***(3%)***	**26** ***(7%)***	**352** ***(100%)***

Legend (measurement bases):					
HP =	Historical proceeds	SV =	Settlement value	AC =	Amortised cost
AHP =	Amortised historical proceeds	FV =	Fair value	N/A =	Not applicable
CV(D) =	Current value (deemed)	FFV =	Fulfilment value		

Legend (line items):					
FI@FV =	Financial instruments at fair value	EBO =	Employee benefit obligation	OCL =	Other current liabilities
FI@AC =	Financial instruments at amortised cost	ToC =	Trade and other creditors	Cash =	Cash and cash equivalents (liability)
DTL =	Deferred tax liability	PROV =	Provisions		

(Questionnaire – Questions 61 to 62)

The respondents indicated a strong preference for the SV measurement base. With the exception of cash (overdraft), the SV measurement base is preferred in all of the line items for liabilities. It should be noted that the DTL is also an equal preference for the N/A choice. The same argument as indicated above applies for the DTL in this case.

Considering the strong support for the SV measurement base, one should remember the attribute of this base, namely, that it should reflect the undiscounted amounts of cash flow expected to be paid to satisfy the liabilities in the normal course of business. The BRP is afforded time to settle the liabilities, and therefore the SV measurement base is not surprising. In total, the SV measurement base drew 42% of the choices made, followed by the FV measurement base with 29%. Once again, the preferred measurement basis indicates a move towards exit (current) values, as opposed to more historical cost measurement bases.

9.2.8.4 Summary of the preferred measurement bases for assets and liabilities

In section 1.4 it was indicated that part of the research aim of this study is to determine context-relevant measurement bases for assets and liabilities in support of the underlying financial reporting assumption used in preparing decision-useful financial statements. In order to achieve the research aim, the second research question addressed the preferred measurement bases for assets and liabilities. The stated research objectives addressed this question from the point of view of both business rescue aims, namely, to continue to exist on a solvent basis (aim 1), and to render a better return to creditors and shareholders than under immediate liquidation (aim 2). With respect to the measurement bases for assets, the preference was determined by considering the three possible ways in which an asset may generate cash flow, namely, through an immediate sale under duress (fire sale), sale of the asset in the normal course of business and by holding onto the asset in order to generate cash flow. In this summary, the assets and liabilities will be considered for each of the business rescue aims.

Regarding the preferred measurement bases for assets under business rescue aim 1 (continue to exist) that would have to be sold immediately under duress, the results indicated a clear preference for the liquidation value for those assets. The results further showed a preference for both a fair value and a net realisable value for those assets that could be sold in the normal course of business. With respect to those assets that would be held to generate future cash flows, the fair value was preferred. This preference of fair value is interesting, as one might have expected the value-in-use preference since the assets will be held to generate future cash flows. However, a fair value may have been preferred because of the still uncertain future outlook of the company. It may very well be that even these assets will have to be sold if the business rescue is unsuccessful.

The three most preferred measurement bases for assets under business rescue aim 1 (continue to exist), namely, the fair value, net realisable value, and the liquidation value are all examples of exit (current) values. These preferences clearly indicate the need for more current value accounting information, as opposed to historical cost information.

Further, with respect to the measurement basis for liabilities under business rescue aim 1 (continue to exist), the results indicate an overall preference for the fair value measurement base. As already indicated, the fair value measurement base reflects an exit (current) value. If one considers the preferred measurement bases for assets together with those for the liabilities, it is evident that a preference for exit (current) value accounting information emerged. The importance of the preference for exit (current) value accounting information will be further addressed in the conclusion to this chapter in section 9.3.

With regard to the preferred measurement basis for assets under business rescue aim 2 (better return to creditors), the results also indicated a noticeable preference for the liquidation value for those assets that need to be sold immediately. However, for those assets that will generate cash flow by selling them in the normal course of business and those that will be held for use, the net realisable value measurement basis was slightly more preferred than the fair value measurement basis. This once

again indicates that there is a need for current value accounting information, as opposed to traditional historical cost information.

With respect to the preferred measurement bases for liabilities under business rescue aim 2 (better return to creditors), a clear preference for the settlement value measurement base emerged, followed by a preference for fair value measurements. It is interesting to note that the settlement value is the liability equivalent of the net realisable value. If one considers that the net realisable value and fair value were also both preferred for the measurement of assets under business rescue aim 2 (better return to creditors), this once again reveals the need for current value accounting information. The importance of the preference for these exit (current) value accounting information will be further addressed in the conclusion to this chapter in section 9.3.

One should remember that the asset and liability line items as discussed in the section would have been recorded at measurement bases stipulated by the applicable IFRSs. In order to re-measure these line items in terms of different measurement bases, accounting entries need to be recorded in the accounting records. The next section deals with those accounting entries that should be recorded, where the aggregate re-measurement should be disclosed in the financial statements and how the relevant financial information should be presented.

9.2.9 Assessing the timing of re-measurements, presentation and other useful disclosures

Section 7.6.4.9 addressed the some of the questions asked to determine what the possibilities are of applying ‘fresh-start reporting’ principles in a South African context. These questions are individually addressed in the following sections.

9.2.9.1 Timing and presentation of re-measurements

In section 7.6.4.9 it was indicated that ‘fresh-start reporting’ principles require a re-measurement to be recorded on the day the reorganisation plan is confirmed. Furthermore, the net re-measurements of assets are recorded as fresh-start

adjustments and presumably presented in the profit or loss section of the statement of profit and loss and other comprehensive income, since the ‘old’ company books are closed off. The section also discussed other useful presentation and disclosure requirements.

In section 9.2.8 above is was concluded that it is indeed preferable to measure the assets and liabilities of a listed company under business rescue at current values as opposed to historical costs. The following questions deal with the timing and presentation of the re-measurements. The questions are listed below, each followed by a discussion of the results.

Question
In your opinion, would it be useful to record the re-measurements for the assets and liabilities on the day the business rescue plan is adopted, i.e. to start with a ‘Day 1’ statement of financial position?

(Questionnaire – Question 63)

The results show that 82% of the respondents considered it useful to record the re-measurements of the assets and liabilities on the day the business rescue plan is adopted. In other words, to start with a ‘Day 1’ SFP. The strong support for recording the re-measurements on the day the business rescue plan is adopted indicates that re-measurements should be treated similarly to that of re-measurements in the US GAAP ‘fresh-start reporting’ principles.

The following question dealt with where the adjustments to assets should be reflected. Several possibilities were offered to the respondents, as shown below.

Question
Where would you prefer to see the net effect of all the re-measurements of the assets reflected? (Please select from the list):

- In the SFP as a separate line item, namely ‘Reorganisation value’
- In the statement of financial position (SFP) as part of ‘Goodwill’
- In the statement of comprehensive income in the profit or loss (P&L) section
- In the statement of comprehensive income in the other comprehensive income (OCI) section

(Questionnaire – Question 64)

Almost half of the respondents preferred the net effect of all re-measurements of assets to be reflected in the SFP as a separate line item, namely, ‘reorganisation value’ (48%). The second preference was to reflect it in the SCI (P&L), which was supported by 28% of the respondents, followed by a further 20% of the respondents preferring the SCI (OCI). In total, 48% preferred the SCI, albeit different sections of the SCI. The remaining 4% of respondents preferred to reflect it as part of goodwill.

The even preference for a separate line item in the SFP, namely 48% of the respondents, is surprising. It would seem that those respondents who suggested this may have been thinking of the treatment of acquired assets under a business combination. If that was the case, their suggestion would be in line with the treatment under US GAAP ‘fresh-start reporting’. However, treatment under the US GAAP is to record the adjustments in the statement of operations, that is, the statement of profit and loss and other comprehensive income, which is what the other 48% of the respondents suggested, although in different sections of the SCI.

9.2.9.2 Presentation

In section 7.6.4.9 it was also indicated that the ‘fresh-start reporting’ principles require a certain presentation in the SFP and SCI, as well as certain disclosures in the notes to the financial statements. The following related question was asked in a South African context. A discussion of the results then follows.

Question

How useful do you consider the presentation and disclosure suggestions in the financial statements for a listed company under business rescue, as indicated below?

- Present pre- and post-commencement liabilities separately in the statement of financial position
- Present events and transactions related to the business rescue separately from the continuing and discontinued operations in the statement of comprehensive income
- Disclose the adjustments made to historical amounts of assets and liabilities in the notes to the financial statements
- Disclose the amount of debt forgiveness in the notes to the financial statements

(Questionnaire – Question 65)

The above suggestions were strongly supported by the respondents, as indicated below:

- Ninety per cent of the respondents thought that a separate presentation in the SFP of the pre- and post-commencement liabilities would be useful or very useful. The strong support for this suggestion is understandable given the general importance of post-commencement finance for a successful business rescue.
- All the respondents (100%) considered it useful or very useful to present events and transactions related to the business rescue separately from continuing and discontinued operations in the SCI. The full agreement with the suggestion indicates that the users of financial statements would like to see what transactions and events the BRP has concluded in his/her pursue of one of the two business rescue aims.
- All (100%) the respondents supported the suggestion that a disclosure of the adjustments made to historical amounts of assets and liabilities be included in the notes to the financial statements. This support indicates that users would like to see what adjustments were made to each of the asset and liability line items. Such a disclosure would also assist the user to estimate the cash flow potential/need for those line items more accurately.
- All the respondents (100%) considered that a disclosure of the amount of debt forgiveness in the notes to the financial statements would be useful or very useful.

The strong support for the above presentation and disclosure suggestions indicate that users of the financial statements would like to see what is being done while the company is under business rescue. This support further indicates that the principles of ’fresh-start reporting’ are also useful in a South African context.

9.2.9.3 Summary of the timing, presentation and other useful disclosures

The questions in the research questionnaire were intended to establish whether the principles of US GAAP ‘fresh-start reporting’ would also be useful in a South African context. The results indicated that these principles are indeed useful in a South African context. Indeed, the research has already shown that there is a need for current value measurements similar to fresh-start reporting. With that in mind, the research indicated a preference for the same accounting treatment, namely, to record the adjustments on the day the business rescue plan is accepted, as well as some support for the presentation of the re-measurements of the assets in the SCI. The findings also indicated the same presentation of the liabilities in the SFP, as well as the need for the same presentation of events and transactions related to the business rescue in the SCI. Disclosures in the notes to the financial statements of adjustments made to assets and liabilities and the amount of debt forgiveness were also well supported.

9.2.10 General suggestions

Section 7.6.4.10 pointed out that, up to Question 65, the questionnaire gave the respondents the opportunity to express their views on the business rescue aims, traditional underlying assumptions and various issues relating to the measurement focus. Having applied their minds to the above questions, it was considered opportune to ask the respondents for their opinion on an underlying assumption that fits in between the going concern and liquidation underlying assumptions. The questions asked is indicated below, followed by a discussion of the results.

Question
In your opinion, to what extent do you agree/disagree that shareholders, lenders and creditors of companies under business rescue can be better served, for decision-making purposes, **by business-rescue contextualised** general-purpose financial statements that are prepared on an assumption that fits in between the going-concern assumption and the liquidation assumption?

(Questionnaire – Question 66)

The majority of the respondents, namely 84%, agreed or completely agreed that shareholders, lenders and creditors of companies under business rescue can be better served, for decision-making purposes, by business-rescue contextualised general-purpose financial statements that are prepared on an assumption that fits in between the going concern assumption and the liquidation assumption.

The above result is in line with earlier findings which show that when under business rescue, a company finds itself in a period of significant uncertainty. Although the company is unlikely to be a going concern, liquidation is also not yet imminent.

In section 7.6.4.10 is was also indicated that it would be important to determine exactly the other applicable financial reporting framework(s) an auditor would consider if a company were judged not to be a going concern. This question is indicated below, followed by the results.

Question (only asked to JSE-accredited auditors)
International auditing standard (ISA) 570 states that the auditor may be able to perform an audit of financial statements when the going-concern assumption is not appropriate in the circumstances, if the auditor determines that the alternative basis (assumption) is an acceptable financial reporting framework. What alternative basis (assumption) would you suggest for a company that is not a going concern?

(Questionnaire – Question 67)

Six (60%) of the ten auditors indicated a liquidation basis. Included in the six responses was one that described it as ‘liquidation/fair value’ basis and another one that described it as a ‘break up basis of accounting’.

The other four (40%) respondents gave the following alternative bases:

- Reorganisation basis
- Business rescue assumption
- 'Trading under business rescue' basis of accounting
- Hybrid, would depend on assets/liabilities held by entity.

The above results are interesting as the respondents considered them acceptable financial reporting frameworks for a company that is not a going concern. The support for the liquidation basis was expected, as it is normally assumed when the company is not a going concern. The other four suggestions are interesting, however, as they point to a financial reporting framework – which is indeed the purpose of this study.

The last question in the questionnaire dealt with general guidance that the respondent would consider useful with reference to a listed company under business rescue. The question is stated below, followed by the results.

Question

With respect to the financial reporting of a listed company under business rescue: Please indicate, in your opinion, to what extent the following guidance would be useful.

- A change to the Conceptual Framework to allow for an underlying business-rescue assumption with applicable business-rescue contextualised measurement(s) of assets and liabilities.
- A South African statement or interpretation of GAAP (AC 500 series) on Financial Reporting of Listed companies under Business Rescue, detailing an underlying business-rescue assumption, together with applicable business-rescue contextualised measurement(s) of assets and liabilities.
- A SAICA Guide on the Financial Reporting of Listed companies under Business Rescue
- A SAICA Circular on the Financial Reporting of Listed companies under Business Rescue

(Questionnaire – Question 68)

The above question was posed to all the respondents and the results indicate that the majority of the respondents considered that the above suggestions would be useful. Based on the number of observations, the support was as follows:

- Thirty-six respondents (74%) considered a change to the CF to allow for an underlying business-rescue assumption with applicable business-rescue contextualised measurement(s) of assets and liabilities to be useful or very useful.
- Forty-one respondents (84%) considered a South African statement or interpretation of GAAP (AC 500 series) on Financial Reporting of Listed companies under Business Rescue to be useful of very useful.
- Forty-two respondents (86%) considered a SAICA Guide on the Financial Reporting of Listed companies under Business Rescue to be useful or very useful.
- Forty respondents (82%) considered a SAICA Circular on the Financial Reporting of Listed companies under Business Rescue to be useful of very useful.

Although the above suggestions were all considered useful or very useful it is noticeable that, based on the number of observations, there is a slight preference for a SAICA guide on the Financial Reporting of Listed companies under Business Rescue.

9.2.11 Summary of findings on the measurement of assets and liabilities for a South African listed company under business rescue

The BRPs indicated that they found both the annual financial statements and interim financial statements useful. The former are considered useful for understanding the business and the events that led to the business rescue as well as to obtain basic financial information. The fair values of assets, as far as it is provided, is used as a basis from which to develop the business rescue plan. However, the interim financial statements are more useful for identifying trends as the information is supposedly more current. Apart from the use of the available fair values of assets, no evidence was found that the values of assets and liabilities in the annual financial statements

and interim financial statements are specifically used to assess the future cash flows of the company.

In addition, the results indicated that it is in general important to consider the company's business model when establishing measurement bases for assets and liabilities. With respect to a company under business rescue, the respondents agreed that it is likely that a change in a company's business model would be required during a business rescue. The results further indicated that the company's business model should be considered in the development of the business rescue plan, as well as for financial reporting purposes with respect to the measurement of assets and liabilities. Moreover, considering the business model for financial reporting purposes would not negatively affect the qualitative characteristics of the financial information.

Regarding the objective of financial reporting and the financial information needs of users, the results confirmed that both decision-useful financial information and financial information for judging management's stewardship of the resources entrusted to it are important. The consequence is that forward-looking cash flow information (i.e. decision-usefulness), as well as more historical cost-based information (i.e. stewardship), are both considered important. The results further revealed that the different user groups, namely, equity investors (shareholders), lenders and creditors, use both types of information for various purposes. However, when the respondents referred to the values of assets, the reference was to the use of fair values/net realisable values.

With respect to measurement, the results showed that the fact that the company is under business rescue should be taken into account in the measurement of assets and liabilities. The measurement bases for these should furthermore reflect the cash flow potential for assets or the cash flow need for liabilities, and the particular choice of measurement base must still be able to present relevant and faithfully represented financial information. The results also show that for a listed company under business rescue, transactions and events that are directly associated with the reorganisation should be differentiated from the rest of the transactions and events.

Although the results show that most of the considered measurement bases are applicable to a listed company under business rescue, there is an obvious preference for certain measurement bases. With respect to assets, the net realisable, fair and liquidation value measurement bases were preferred, while for liabilities the settlement, current and fair value measurement bases were preferred. When considering the appropriate measurement base, it was found that the cost vs benefit of providing the information should still be considered.

Considering the preferred measurement bases for specific assets under each of the two business rescue aims, the results once again indicated a preference for the above-mentioned measurement bases for assets. However, the preference was now more focused on the form in which the assets would contribute to cash flow, that is, by way of an immediate sale, a sale in the normal course of business or held for continued use. With respect to business rescue aim 1 (continue to exist), the results surprisingly indicated a preference for fair value for assets that will be held for continued use. As mentioned, this preference might be due to the uncertain future outlook of the company. Regarding business rescue aim 2 (better return to creditors), the results showed a slight preference for the net realisable value over the fair value for those assets that are not sold immediately under duress. With respect to the measurement of liabilities, the results of the preferred measurement bases for individual liabilities under business rescue aim 1 (continue to exist) showed a clear preference for using fair values. Under business rescue aim 2 (better return to creditors), a clear preference for the settlement value measurement base emerged.

The results presented in this chapter confirm that the measurement and disclosure principles of the US GAAP ‘fresh-start reporting’ are also useful in a South African context. In particular, the similar use of current value measurements for assets and liabilities is noteworthy.

Lastly, the results indicated that shareholders, lenders and creditors of companies under business rescue can be better served, for decision-making purposes, by business-rescue contextualised general-purpose financial statements that are prepared on an assumption that fits in between the going concern assumption and

the liquidation assumption. The findings therefore corroborate the findings discussed in Chapter 8 on the need for a financial reporting underlying assumption that fits in between the going concern assumption and the liquidation assumption. Interestingly, the results further indicated that some members of the auditor respondent group would consider a reorganisation basis/business rescue assumption/hybrid financial reporting framework to be acceptable for a company that is not a going concern. With respect to possible guidance on the financial reporting aspects of a listed company under business rescue, the respondents showed the most interest in a SAICA guide dealing with the 'Financial Reporting of Listed Companies under Business Rescue'.

9.2.12 An accounting model for a South African listed company under business rescue

The results presented and discussed in this chapter clearly show that a change in the business model, that is, in the way in which a company generates its cash flow, of a company under business rescue is likely to happen. Furthermore, the business model should be considered when measuring the company's assets and liabilities for financial reporting purposes.

Three measurement bases were preferred for the assets and liabilities for a listed company under business rescue. It is evident that the choice of measurement base should be considered with respect to the particular business rescue aim pursued, as well as the form of cash-flow contribution/need with respect to the assets and liabilities. In particular, the results showed that the liquidation value measurement base, a measurement base not currently used in IFRSs, was preferred for measuring assets that would be sold immediately and under duress. Furthermore, the net realisable value and fair value measurement bases were preferred for the remaining assets. With respect to the liabilities, the fair value and settlement value measurement bases were preferred. The settlement value measurement base is the liability equivalent of the net realisable value.

The above-mentioned preferred measurement bases are all examples of exit value measurements. This preference for exit value measurement bases is very important as it clearly indicates a preference for a current value accounting model when a

company is under business rescue, as opposed to the adapted historical cost accounting model currently in use under IFRS. In fact, Riahi-Belkaoui (2004:484) identified a current value accounting model based on current exit prices, although presumably in the context of a going concern underlying assumption. The current exit price in the current value accounting model refers to the amount of cash for which an asset might be sold or a liability be refinanced (Riahi-Belkaoui, 2004:484). Although Riahi-Belkaoui refers to net realisable value in his discussion on a current exit price, one can argue that both the fair and the liquidation value measurement bases can, in the context of this study,[42] be included in his definition of current exit prices.

In the context of this study's secondary research question, and the findings on the preferred measurement bases for assets and liabilities of a South African listed company under business rescue, the current value accounting model based on current exit prices, as proposed by Riahi-Belkaoui (2004:497-500), warrants further investigation. The advantages of the current value accounting model and its implications with respect to the secondary research question addressed in this chapter will be discussed first, followed by a discussion of the disadvantages and their implications for the secondary research question.

The first advantage of current exit prices is its relevance when making decisions with respect to the use or sale of a company's assets, as well as whether a company should remain a going concern. The research findings indicate that users need relevant information in order to decide their future course of action, such as whether to support the business rescue plan or file for liquidation. Fair and net realisable values were indicated as useful in this regard.

The second advantage is that current exit prices provide relevant information for evaluating the financial adaptability and liquidity of a company. Once again, the research findings indicate that the users need information in order to judge a company's solvency and liquidity. The preference for current exit prices supports and corroborates this advantage.

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[42] Refer to Figure 6.1 on page 206 and Figure 6.2 on page 207.

Thirdly, current exit prices can be used to evaluate management's stewardship function because they reflect current sacrifices and other choices. The research findings indicate that the users also considered the stewardship role of management to be very important. The fact that current exit prices are preferred also supports this advantage.

The fourth advantage of current exit prices is that the need for arbitrary cost allocation based on the estimated useful life of an asset is eliminated. This advantage is not relevant to this study as it did not specifically address the allocation of an asset’s cost.

Lastly, financial statements based on exit prices are feasible and are becoming more acceptable. This advantage is welcomed and indicates that financial statements that are prepared using exit prices for the assets and liabilities of a listed company under business rescue may be both feasible and acceptable.

The disadvantages are also important in respect of the conclusion on the secondary research question of this study. The first disadvantage refers to the difficulty of obtaining the current exit prices of specialised plant and equipment with limited alternative uses, and that scrap values may be the only alternative for these assets. Whatever the way such an asset will be retained or sold with respect to a listed company under business rescue, the cash contribution must reflect the appropriate value. If it is to be sold, then scrap values representing either a liquidation of net realisable value may indeed be the only realistic values.

The second disadvantage is that current exit prices are not relevant for assets that the company expects to use. The research findings indicated that the fair and net realisable values were indeed preferred for assets that the entity expects to use. It was argued that the users consider these values relevant because of the company’s uncertain future outlook. The use of current exit prices gives the user an immediate idea of the amount those assets could be realised for should the need arise. This disadvantage has therefore been rebutted in the context of a listed company under business rescue.

Thirdly, the valuation of certain assets, such as intangibles and goodwill, as well as some liabilities, has not yet been resolved. Unfortunately, Riahi-Belkaoui does not indicate which liabilities are referred to. However, it is submitted that if the valuation of these intangibles and goodwill is difficult, or the cost of providing the information exceeds the benefit, the users of financial statements may very well reduce those values to zero for their decision-making purposes.

The fourth disadvantage is that the use of current exit prices abandons the realisation principle (i.e. the gains recognised) at the point of sale and that valuing assets at current exit prices would necessitate the immediate recognition of all gains and losses at a point other than the point of sale. When considered from the principle of objectivity, Vorster (1986:250) states that the net realisable value would be the recommended valuation base for the assets of a segment that is not considered a going concern. Since it has already been established that a listed company under business rescue may not be a going concern and that exit values are the appropriate values for measuring its assets and liabilities, the abandonment of the realisation principle is exactly what is needed. This disadvantage has therefore also been rebutted in the context of a listed company under business rescue.

The last disadvantage is that current exit prices do not take the changes in the general price level into account. Once again, this disadvantage can be rebutted since the initial measurement of the assets and liabilities at current exit prices when filing for business rescue and then re-measuring them at every subsequent reporting date would automatically include any changes in the general price level.

The above evaluation of the advantages and disadvantages of a current value accounting model based on exit prices clearly shows that such an accounting model should be adopted in the context of a listed company under business rescue. The above conclusion is important and can also be demonstrated in terms of the theory of accounting discussed in Chapter 2. Section 2.4.3 indicated that the current conceptual framework and resulting IFRS accounting pronouncements are based mainly on the traditional historical-cost accounting model, but that it includes some elements of the other accounting theories in order to address the deficiencies of

historical cost accounting. Figure 2.4 on page 65 gave examples of some of the other decision-useful prescriptive accounting theories that have been developed over time and which may have influenced the current CF to some extent. One of these theories is in fact the net realisable value theory on which Riahi-Belkaoui's current value accounting model, based on exit prices, is founded (Riahi-Belkaoui, 2004:497-500). One can therefore conclude that the measurement of the assets and liabilities of a South African listed company under business rescue should be based on a current value accounting model using exit values.

In this section the appropriate measurement base for the assets and liabilities of a South African listed company under business rescue have been assessed using various research questions. Each question dealt with a specific aspect in order to answer the secondary research question. The next section will make an overall conclusion on the secondary research question.

9.3 CONCLUSION

The secondary research question for this study was to determine what the measurement base(s) of assets and liabilities should be in order to result in more decision-useful information for the users of financial statements of listed companies under business rescue.

The findings in this chapter indicate a likely change in the business model, that is, in the manner in which the assets and liabilities generate or utilise cash. The manner of cash flow generation/use would, together with the particular business rescue aim pursued, influence the choice of measurement base. Under both business rescue aims the preferred measurement bases were the net realisable, fair and liquidation values. All three of these values can present relevant and faithfully represented financial information. Moreover, all three of these measurement bases are exit values and are measurement bases that are in line with a current value accounting model based on exit prices. The secondary research question of this study has therefore been addressed.

The next chapter will make an overall conclusion on whether the research aim was achieved and the research problem addressed. The chapter will address the achievement of the research aim by a synthesis of the research objectives that were formulated to answer the primary and secondary research questions.

CHAPTER 10
CONCLUSION

10.1 INTRODUCTION

The research aim for this study was to develop a financial reporting framework for South African listed companies under business rescue. A financial reporting framework specifically for South African listed companies under business rescue was deemed too be important, specifically in relation to the particular underlying financial reporting assumption that should be used and the measurement bases that should be applied to its assets and liabilities in support of this underlying assumption.

The current IFRSs framework assumes that a company is a going concern unless liquidation is imminent or there is no alternative to liquidation. However, if a company files for business rescue, this indicates that it is in financial distress. The defining terms of financial distress, when compared to the financial reporting underlying assumption of going concern, indicates that the company may not be a going concern in terms of IFRSs. If a company is not a going concern, then the normal measurement bases used for its assets and liabilities that are associated with a going concern company may culminate in financial information that is not as decision useful as it could be.

With respect to the liquidation financial reporting underlying assumption, one should bear in mind that when a company files for business rescue it is intending to use the protection it offers allowed to restructure its activities or render a better return for creditors than under immediate liquidation. Therefore, the company is not in liquidation yet, or liquidation may not be imminent at the date of business rescue application. Consequently, the financial reporting underlying assumption of liquidation and its supporting measurement bases may also not be appropriate. Current accounting guidance does not specifically address the above problem.

In order to address the problem stated above, the research aim of this study was to develop a financial reporting framework for a South African listed company under

business rescue. The research problem and the research aim are addressed by means of the following two research questions:

Primary question: Which underlying financial reporting assumption should be used for a listed company under business rescue?

Secondary question: What should be the measurement base(s) of assets and liabilities that will lead to more decision-useful information for the users of financial statements of listed companies in under business rescue?

In order to achieve the research aim and to answer the research questions, primary and secondary research objectives were subsequently identified for each of the two research questions. A research questionnaire was then developed that dealt with each of the research objectives. The questionnaire was electronically distributed to experts in the fields of business rescue, financial reporting and auditing. The results obtained were summarised and analysed using qualitative and quantitative techniques.

In this chapter a synthesis of the empirical findings is presented, followed by recommendations for a financial reporting framework for a South African listed company under business rescue. The theoretical consequences of some of the findings are also illustrated. In addition, a summary of the contribution to the academic body of knowledge of this study will be provided, as well as recommended areas for future research. The chapter will conclude with an overall conclusion to this study.

10.2 SYNTHESIS OF EMPIRICAL FINDINGS AND CONCLUSIONS ON RESEARCH OBJECTIVES

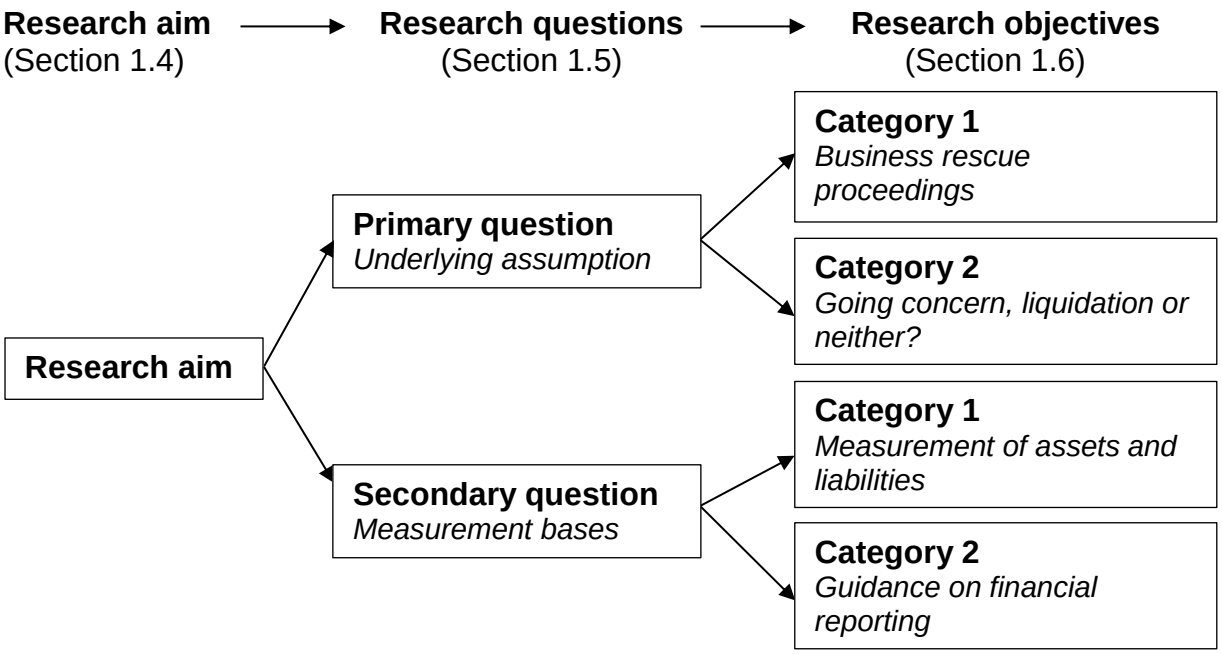
In order to achieve the research aim, two research questions were formulated. In addition, several research objectives were identified which would, when achieved, answer the two research questions. The research findings aimed at answering the primary research question were presented in *Chapter 8: Empirical results on the underlying financial reporting assumption for a South African listed company under*

business rescue. The following chapter, *Chapter 9: Empirical results on the measurement of assets and liabilities for a South African listed company under business rescue,* presented the research findings on the secondary research question.

This section will synthesise the empirical findings on each of the research objectives in order to answer the two research questions. In order to assist with the synthesis, the research objectives have all been assigned a reference number in this section. Based on the answers to the research questions, the section will conclude with a suggestion for a financial reporting framework for a South African listed company under business rescue.

The relationship between the research aim, research questions and research objectives was illustrated in Figure 1.4 on page 18. For ease of reference the figure has been duplicated and relabelled below as *Figure 10.1: Relationship between the research aim, questions and objectives (duplicate)*.

Figure 10.1: Relationship between the research aim, questions and objectives (duplicate)



Source: Duplicate of Figure 4.1 on page 18

10.2.1 Synthesis of findings and conclusions on the primary research question

The primary research question, namely, 'Which underlying financial reporting assumption should be used for a listed company under business rescue?' was addressed using two categories of research objectives. Category 1 of the primary research question objectives dealt with the business rescue proceedings and Category 2 dealt with the underlying financial reporting assumption that should be used when preparing financial statements while a company is under business rescue.

10.2.1.1 Synthesis of findings on the primary research question – Category 1 objectives (business rescue proceedings)

The Category 1 research objectives related to the primary research question were noted in section 1.6. The objectives were formulated in order to establish

- that there are two business rescue aims in terms of the legislation (PRQ-C1-O1[43]).
- whether the business rescue aims are considered hierarchical or mutually exclusive (PRQ-C1-O2).
- the likely duration of the business rescue proceedings (PRQ-C1-O3).
- the likelihood of a reporting date occurring during the business rescue proceedings (PRQ-C1-O4).

All of the above objectives were achieved. The results, as summarised in section 8.3.1, showed that all the respondents were of the opinion that there are two business rescue aims (PRQ-C1-O1), and that the majority (80%) regard the business rescue aims to be hierarchical (PRQ-C1-O2). In section 8.3.2, the respondents indicated a total duration of approximately 16 months from the date of filing for business rescue up to the substantial implementation of the business rescue plan (PRQ-C1-O3). Given the total duration of approximately 16 months, the likelihood of the company having a reporting date while under business rescue is very high (PRQ-C1-O4).

[43] Key to research objective reference number: PRQ = Primary research question; C1 = Category 1; O1 = Objective 1

The implications that achieving the above research objectives have for the first research question are considered in section 10.2.1.3 below. Category 2 of the research objectives is discussed next.

10.2.1.2 Synthesis of findings on the primary research question – Category 2 objectives (going concern, liquidation or neither)

In section 1.6, the Category 2 research objectives dealing with the primary research question were noted. These research objectives were formulated to identify indicators that could be used to determine whether the company may be considered a going concern, in liquidation, or neither a going concern nor in liquidation. The objectives were therefore formulated to establish

- whether the existence of financial distress would indicate that a company may not be able to realise its assets and settle its liabilities in the normal course of business (PRQ-C2-O1).
- the company's state of solvency, as an indicator of financial distress, at various stages during business rescue proceedings and for both business rescue aims (PRQ-C2-O2).
- for both business rescue aims, the likelihood of certain actions taken to rescue the company as indicators of the company not being a going concern (PRQ-C2-O3).
- for each of the business rescue aims, what the viable foreseeable future outlook is at various stages during the business rescue proceedings (PRQ-C2-O4).
- whether a company under business rescue is a going concern in terms of IFRSs (PRQ-C2-O5).
- the applicability of any other financial reporting underlying assumptions (PRQ-C2-O6).

All of the objectives above were achieved, except for the fifth objective (PRQ-C2-O5), which yielded inconclusive results. The first four objectives were found to be indicators of whether a company could be considered a going concern. The presence of financial distress was found to be an indicator that the company may not be a going concern since it may not be able to realise its assets and settle its liabilities in the

normal course of business (PRQ-C2-O1). The company's state of solvency under each of the business rescue aims, in turn, emerged as indicators of financial distress (PRQ-C2-O2). Considering both the above objectives together, it was concluded that if the BRP pursues business rescue aim 1 (continue to exist), the company is only likely to be considered a going concern just before the substantial implementation of the business rescue plan. On the other hand, if the BRP pursues business rescue aim 2 (better return to creditors), it was concluded that the company is unlikely to be a going concern at any stage during the business rescue proceedings (PRQ-C2-O1 and PRQ-C2-O2). Therefore, the actions that were taken to rescue the company, as well as the business rescue aim that the BRP pursued, would indicate that the company might not be a going concern at the point when the particular rescue action was implemented (PRQ-C2-O3). With respect to a viable foreseeable future during the various stages of the business rescue proceedings (PRQ-C2-O4), it was found that if the business rescue practitioner pursues business rescue aim 1 (continue to exist), the company is likely to have a viable foreseeable future in the period following the adoption of the business rescue plan. However, if the BRP pursues business rescue aim 2 (better return to creditors), the company is unlikely to have a viable foreseeable future at any stage during the business rescue proceedings.

Regarding whether a company under business rescue is a going concern in terms of IFRSs, the results indicated that the respondents were divided on the matter. A content analysis of the reasons given once again revealed that the above four indicators of going concern should be considered and that one cannot conclude that the company is or is not a going concern in terms of IFRSs if it is under business rescue (PRQ-C2-O5).

With respect to the appropriateness of any other financial reporting underlying assumptions (PRQ-C2-O6), the findings showed that when a company files for business rescue, it cannot automatically be regarded as being in liquidation, and therefore may not use the liquidation basis of accounting. Furthermore, the results also showed that when a company is under business rescue it is not necessarily a going concern but it is not in liquidation either. Nevertheless, most of the respondents maintained that IAS 1 par. 25 requires management to prepare financial statements

on a going concern financial reporting underlying assumption, even if the company is under business rescue. Further, the respondents were of the opinion that these financial statements will be decision-useful if proper disclosure of material uncertainties is made.

10.2.1.3 Conclusions on the primary research question

The above research objectives addressed the primary research question, namely 'Which underlying financial reporting assumption should be used for a listed company under business rescue?' Considering the key findings on the above research objectives, the results have shown that it is very likely that a South African listed company under business rescue will have a reporting date during business rescue proceedings.

The default stance taken by IFRSs is to regard a company as a going concern unless liquidation is imminent or the company has no realistic alternative but to liquidate. However, the findings of this study show that when considering which financial reporting underlying assumption to be used as a basis for preparing the financial statements, the business rescue aim pursued should also be taken into account. This is because these two aims, namely, to continue to exist on a solvent basis (aim 1) and a better return for creditors (aim 2) have different intended outcomes. Furthermore, the research revealed several indicators that should be considered in combination when deciding which underlying financial reporting assumption should be used.

The findings show that if business rescue aim 1 (continue to exist) is pursued, the company is unlikely to be a going concern from the date it applies for business rescue up to at least halfway through the business rescue proceedings. Indeed, it is only likely to be considered a going concern just before the substantial implementation of the business rescue plan. On the other hand, if business rescue aim 2 (better return to creditors) is pursued, the findings show that the company is unlikely to be a going concern at any stage during the business rescue proceedings. Whichever aim is pursued, it is clear that the company is unlikely to be considered a going concern for most of the time that the company is under business rescue. It is only close to the

date of the substantial implementation of the business rescue plan under business rescue aim 1 (continue to exist) that a company is likely to be considered a going concern.

Since the research revealed that the company is unlikely to be a going concern for most of the duration of the business rescue proceedings, the question was then whether the liquidation underlying assumption would be appropriate. The results indicated that by filing for business rescue, the company does not intend to liquidate, as envisaged by IAS 1 par. 25. Although business rescue aim 2 (better return to creditors) can be considered an 'orderly liquidation', the intention is still to use the grace period allowed under business rescue proceedings, which are likely to take 16 months, in order to realise a better return for creditors and shareholders than under immediate liquidation. The conclusion is therefore that the liquidation underlying assumption is also not appropriate. In fact, the respondents agreed that a company under business rescue is not necessarily a going concern, but nor is it in liquidation.

In answering the question of which underlying financial reporting assumption should be used for a listed company under business rescue, the evidence indicates that it should be an underlying assumption that fits in between the going concern and the liquidation underlying assumptions. The recommendation is that such an underlying assumption should be called 'company under business rescue'.

The fact that there is a period of uncertainty when a company is neither a going concern nor in liquidation is a major finding and has implications for the theory of accounting. Accordingly, it indicates a third period in the life of a company that is not currently considered in the theory of accounting. This influence of this finding will be discussed in section 10.4 below.

10.2.2 Synthesis of findings and conclusions on the secondary research question

Two categories of research objectives were used to address the secondary research question, namely, ‘What should be the measurement base(s) of assets and liabilities that will lead to more decision-useful information for the users of financial statements

of listed companies in under business rescue?'. Category 1 of the secondary research objectives dealt with the measurement of assets and liabilities in a business rescue context, while the Category 2 dealt with general matters on presentation and possible guidance on financial reporting when a company is under business rescue.

10.2.2.1 Synthesis of findings on the secondary research question – Category 1 objectives (measurement of assets and liabilities)

The Category 1 research objectives related to the secondary research question were noted in section 1.6. These objectives were formulated to establish

- the usefulness and use of the latest interim and annual financial statements in developing the business rescue plan (SRQ-C1-O1[44]).
- the importance of considering the business model in establishing measurement bases for assets and liabilities (SRQ-C1-O2).
- whether the objective of financial reporting, as an indicator of the type of measurement bases that should be used, would change if the company is under business rescue (SRQ-C1-O3).
- what the information needs of users of a listed company under business rescue are (SRQ-C1-O4).
- what the objectives of measurement should be (SRQ-C1-O5).
- the preferred measurement bases for assets and liabilities under each of the business rescue aims (SRQ-C1-O6).

All of the above objectives were achieved. The results indicated that the latest interim and annual financial statements are useful, but that they are mainly used to understand the business, to obtain available fair values/net realisable values and to act as a basis for preparing the business rescue plan. The evidence did not indicate that the normal values of the assets and liabilities of the interim and annual financial statements are specifically used to assess the prospects for future net cash flows to the company (SRQ-C1-O1).

[44] Key to research objective reference number: SRQ = Secondary research question; C1 = Category 1; O1 = Objective 1

The results showed that it is very likely that a company under business rescue would experience a change in its business model. Therefore, the business model should be considered when measuring the company's assets and liabilities for financial reporting purposes. Such a business model perspective on measurement would likely reflect a measurement basis with attributes that take into account the way in which that asset or liability generates or utilises cash flow (SRQ-C1-O2).

With respect to the objective of financial reporting, the results show that both forward-looking (decision-useful) cash flow and historical cost-based (stewardship) financial information are important even if a company is under business rescue. In considering this objective on its own it would seem that the type of financial information (measurement bases) a user is looking for may consist of both entry- and exit values (SRQ-C1-O3).

The results relating to the information needs (SRQ-C1-O4) of equity investors, lenders and creditors indicate that all these groups are looking for fair/realisable values. Financial information on stewardship is considered to be important for understanding the business and the reasons for the financial distress as well as to assist in deciding on a future course of action. With respect to the measurement of assets and liabilities, it is clear that fair/realisable values are preferred. Considering objectives SRQ-C1-O3 and SRQ-C1-O4 together indicates that the need for stewardship-type financial information does not specifically refer to historical cost information, as one would normally assume, but to the other information as indicated above.

Regarding the objective of measurement (SRQ-C1-O5), it was found that the objective for a company under business rescue remains the same than that for a normal company that is a going concern. In other words, the objective of measurement is still to contribute to the faithful representation of relevant information about the assets, liabilities and changes in them, as well as how efficiently and effectively the entity’s management board has discharged its responsibilities in the use of the entity’s resources. However, the results show that there is a focus on measurements that are closely related to the potential cash flow contribution and

need and to differentiate the transactions and events that are directly associated with the reorganisation from the rest of the transactions and events.

With respect to the preferred measurement base for assets and liabilities under each of the business rescue aims (SRQ-C1-O6), the results indicated that the measurement base preferred depends on the form of the asset's or liability's cash flow contribution or need. With respect to business rescue aim 1 (continue to exist), the liquidation value was preferred for those assets that would be sold immediately. By contrast, the fair- and the net realisable values were preferred for those assets that would be sold in the normal course of business, while the fair value is also preferred for assets that are held for continued use. The fair value was also preferred for the measurement of liabilities under aim 1 (continue to exist).

With respect to business rescue aim 2 (better return to creditors), the findings indicated that the liquidation value is preferred for those assets that will be sold immediately, while the net realisable value is preferred for the assets that will be sold in the normal course of business and for those assets that will be held for use until the company's eventual sale. The net realisable value was marginally preferred over the fair value for those assets that will be held for use until its eventual sale for business rescue aim 2 (better return to creditors). Regarding the liabilities, the settlement value was the preferred measurement base for business rescue aim 2 (better return to creditors).

10.2.2.2 Synthesis of findings on the secondary research question – Category 2 objectives (guidance on financial reporting)

The Category 2 research objectives dealing with the secondary research question were noted in section 1.6. These research objectives were aimed at addressing general matters on presentation and possible guidance with respect to the financial reporting of a listed company under business rescue. The objectives were therefore formulated to establish

- where in the financial statements the possible re-measurements, if any, for the assets and liabilities are to be presented (SRQ-C2-O1).

- what other presentation and disclosure are preferable in respect of financial reporting for companies under business rescue, if any (SRQ-C2-O2).
- what guidance on financial reporting for a company that is under business rescue is preferable, if any (SRQ-C2-O3).

All the above-mentioned objectives were achieved except for the first objective (SRQ-C2-O1), which was only partially achieved. With respect to the first objective, the findings did indicate that the assets should be re-measured on the adoption of a business rescue plan, but the respondents were evenly divided on whether the adjustments to the assets should be reflected in the statement of financial position or whether they should be reflected in the statement of profit or loss and other comprehensive income (SRQ-C2-O1).

With respect to presentation and disclosure (SRQ-C2-O2), the results show that the following are considered useful:

- A separate presentation in the statement of financial position of the pre- and post-commencement liabilities.
- Presenting events and transactions related to the business rescue separately from the continuing and discontinued operations in the statement of profit or loss and other comprehensive income.
- Disclosing the adjustments made to the historical amounts of assets and liabilities in the notes to the financial statements.
- Disclosing the amount of debt forgiveness in the notes to the financial statements.

Regarding the provision of guidance (SRQ-C2-O3) on the financial reporting of a listed company under business rescue, the results show a slight preference for a SAICA guide on the matter. The results indicated that the users of financial statements of a company under business rescue could be better served, for decision-making purposes, by business-rescue contextualised general-purpose financial statements that are prepared on an assumption that fits in between the going concern assumption and the liquidation assumption. Some of the auditor respondents,

although in the minority (40%), felt that such a basis could be an acceptable financial reporting framework for a company that is not a going concern.

10.2.2.3 Conclusions on the secondary research question

The above research objectives addressed the secondary research question, namely, 'What should be the measurement base(s) of assets and liabilities that will lead to more decision-useful information for the users of financial statements of listed companies in under business rescue?' The key findings on the secondary research question are addressed below.

One of the key findings is that although both the annual financial statements and the interim financial statements are considered useful, they are in the main not used for the values of a company's assets and liabilities but for other reasons. The way in which a company generates its cash, that is, its business model, was also found to be important with respect to a company under business rescue. The findings indicate that it is very likely that a company under business rescue would need to change its business model, and that the measurement of its assets and liabilities should reflect this change. Another key finding is that stewardship is still considered important for a company under business rescue, not because historical costs are used to measure its assets and liabilities but rather to provide other information pertaining to the business and the reasons for distress and which future course of action to follow.

The findings further indicate that the measurement of assets and liabilities should take into account the fact that the company is in financial distress, and that the measurement base chosen should also show the cash flow potential or need of that asset or liability. In relation to the above finding, the results show that three measurement bases are preferred, namely, fair value, net realisable value and the liquidation value. These measurement bases were judged to be able to present relevant and faithfully represented financial information.

With respect to the above-mentioned preferred measurement bases, a key finding was that these depict a specific accounting model, namely, a current value accounting model based on exit prices. This finding is noteworthy when considered together with

the findings on the accounting treatment and presentation of re-measurements, the presentation and disclosure of information relating to liabilities, adjustments to historical amounts and disclosure of the amount of debt forgiveness. All of the above indicate support for a framework for financial reporting for a company under business rescue that is similar to that found under US GAAP, namely, the application of 'fresh-start reporting' principles. This finding is deemed especially important because it illustrates that users may benefit from the development of a financial reporting framework formulated specifically for listed companies under business rescue.

This section provided a synthesis of the empirical findings on each of the research objectives with respect to the primary and secondary research questions. It was concluded that both the primary and the secondary research questions have been answered.

The combined result of achieving the research objectives and thereby answering the research questions will be presented in the next section. The presentation will take the form of a suggested financial reporting framework for listed companies under business rescue, which was the research aim of this thesis.

10.3 Recommended financial reporting framework for a South African listed company under business rescue

The previous section presented a synthesis of the empirical findings on each of the stated research objectives. The section revealed how the achievement of the research objectives contributed to answering the primary and secondary research questions.

The research aim of this study was to develop a financial reporting framework should for South African listed companies under business rescue. This section will present a recommendation for such a financial reporting framework. The recommended financial reporting framework was developed using the answers to the primary and secondary research questions, as became evident from the key findings of the stated research objectives.

The framework will indicate those aspects that fell outside the scope of the study, but which may be adopted from the current conceptual framework. Figure 10.2 below illustrates the recommended financial reporting framework for a South African listed company under business rescue.

Figure 10.2: Recommended financial reporting framework for a South African listed company under business rescue

Framework concepts and principles	Key research findings	Research objective
Objective of financial reporting	Users need forward-looking decision-useful financial information, as well as information to judge management's stewardship of the resources entrusted to it, with a focus on current value measurement bases.	SRQ-C1-O3
Qualitative characteristics	Current value measurement bases can provide relevant and faithfully represented financial information.	SRQ-C1-O3
Definitions of elements	Outside the scope[45] of this study. The current conceptual framework definitions are applicable.	N/a
Recognition and de-recognition criteria	Outside the scope[46] of this study. The current conceptual framework criteria are applicable	N/a
Financial reporting underlying assumption	A 'company under business rescue' underlying assumption should be used during business rescue proceedings.	PRQ-C1-O1 to PRQ-C1-O4; and PRQ-C2-O1 to PRQ-C2-O6.
Measurement (including capital maintenance and accounting model)	Considering the change in the business model, use a current value accounting model based on exit values, namely, fair value, net realisable value and liquidation value. The particular choice of measurement base should also take the specific business rescue aim pursued into account.	SRQ-C1-O1; SRQ-C1-O2; and SRQ-C1-O4 to SRQ-C1-O6
Presentation	In the statement of financial position, present • the initial re-measurement of assets preferably in the statement of profit or loss and other comprehensive income[47] • the pre- and post-commencement liabilities separately. In the statement of profit or loss and other comprehensive income: • distinguish between transactions and events related to the business rescue and the continuing and discontinued operations.	SRQ-C2-O1 and SRQ-C2-O2.
Disclosure	Disclose adjustments made to historical amounts of assets and liabilities, as well as the amount of debt forgiveness.	SRQ-C2-O2 and SRQ-C2-O3.

Source: Own compilation

[45] Refer to section 1.8 on the scope and limitations of the study.
[46] *Ibid.*
[47] Author's suggestion due to inconclusive evidence.

The above framework was developed using the key findings of the research presented in this study. The purpose of the framework is to illustrate those concepts and principles of financial reporting that were found to be unique to a South African listed company under business rescue, as opposed to a going concern company where the financial statements are prepared on the financial reporting underlying assumption of going concern.

Two of the key findings presented in the above framework may have theoretical implications. The potential theoretical implications are discussed in the next section.

10.4 RECOMMENDED ADJUSTMENTS TO THE THEORY OF ACCOUNTING POSTULATES

In the previous section a financial reporting framework was presented that could be used in preparing decision-useful financial statements for a South African listed company under business rescue. It was indicated that two of the key findings in the framework could have theoretical implications.

In this section the potential theoretical implications are discussed. These will be addressed in line with the key findings of this study.

In section 2.4.3 it was indicated that normative theories are not necessarily based on observation. It was also argued that the current CF is the result of a normative deductive process. Section 2.6 further stated that if the reasoning followed in a deductive process is valid, then the deductive theory can only be challenged by questioning the premises or the conclusions in an empirical manner (Wolk et al., 1992:29).

The first significant finding deals with the going concern postulate. In section 2.3.2 it was explained that the *going concern postulate* holds that the entity will continue to operate in the foreseeable future in order to realise its projects, commitments and ongoing activities. The *going concern postulate* is also known as the ‘continuity’ postulate, although the term 'going concern' is mainly used. The corollary to the *going concern postulate* is the liquidation basis for valuing assets.

The empirical evidence presented in this study revealed the existence of a period of uncertainty when a company may not be considered a going concern, but the alternative, namely, the liquidation underlying assumption, is also not yet applicable. Based on the evidence presented in this study it is submitted that the direct reference to 'going concern' as an absolute postulate in the theory of accounting is not appropriate. The theory of accounting should instead refer to the 'continuity' postulate, further indicating that one of three time periods may be applicable. Based on the foreseeable future of the company, these time periods could be referred to as a 'long life', a 'limited life' and a 'no life' scenario.

From a pragmatic point of view, the current CF would then be applicable only to companies that are genuinely considered to be going concerns based on their foreseeable future and their ability to realise their projects, commitments and ongoing activities in the normal course of business over time. By contrast, the financial statements of companies that are in liquidation would be based on the liquidation underlying assumption and would use liquidation values for all the assets. Companies that are under business rescue should thus not apply the current CF, but should instead base their reporting on an underlying assumption of limited life (i.e. ‘company under business rescue’) with appropriate current values as explained further below.

The above-mentioned findings therefore differ from theorists such as Fremgren and Sterling (as cited by Wolk et al., 2004:132), as well as Wolk et al. (2004:132), who argue that the period of continuity is long enough for an entity to conclude its present contractual arrangements and that continuity is more in the nature of prediction than an underlying assumption. As indicated above, the findings do support the *going concern postulate*, but as one of three sub-postulates of a broad *continuity postulate*.

There is a further implication with respect to the theory of accounting that is related to the *going concern postulate*. In section 2.3.4 it was indicated that the *cost principle* determines that historical cost, or an amortised portion of that value, is the appropriate measurement base for the recognition of assets, liabilities, capital transactions and expenses. The *cost principle* can be justified in terms of the *going concern postulate*,

thereby eliminating the need for the use of current values or liquidation values for measuring assets.

The evidence presented in this study shows that current values, specifically those based on exit prices, are in fact considered the appropriate measurement basis for the assets and liabilities of a listed company under business rescue. The *cost principle*, as explained in the theory of accounting, can therefore be rebutted with reference to the financial statements of a listed company under business rescue.

The second significant finding of this study is, therefore, that a current value accounting model, based on exit prices, is preferred for a listed company under business rescue. In section 2.4.3 it was noted that several current value theories, such as net realisable value and present value theories, were developed to overcome the weaknesses of historical cost accounting. It was also indicated that theories that link to economic events that may affect a going concern, such as bankruptcy, are still lacking.

The evidence presented in this study shows that a current value theory, based on exit prices, such as net realisable value theory, can be linked to the economic events that affect a company's going concern status, namely, when the company goes into business rescue.

In this section the potential theoretical implications, based on the evidence presented in this study, were debated. It was indicated that two significant key findings may have certain theoretical implications, namely, for the theory of accounting and in that they link a specific current value theory of accounting to economic events that may affect the going concern status of a company.

In the next section, a summary of contributions to the academic body of knowledge will be presented. This summary will be followed by a suggestion for future research.

10.5 SUMMARY OF CONTRIBUTIONS

The previous section explained the theoretical implications of some of the key findings of this study. In addition to the theoretical implications, the study also contributes new knowledge and insights to the existing body of financial reporting knowledge. In this section, a summary of the contributions will be presented.

In achieving the research aim as set out in section 1.4, this study made a valuable contribution in respect of the following:

- Understanding the impact that going into business rescue has on the financial reporting of a South African listed company.
- Providing indicators that can be used to assess the going concern status when a company is under business rescue.
- Establishing that an unique and new underlying assumption, specifically for a company under business rescue, is needed.
- Noting the needs of the users of the financial statements of a listed company under business rescue.
- Establishing that a company under business rescue will experience a change in its business model and this will have an influence on the measurement bases for its assets and liabilities when considered in combination with the particular business rescue aim pursued.
- Establishing the preferred accounting treatment, as well as presentation and disclosure aspects, relevant to a company under business rescue.
- Providing a framework for financial reporting for a South African listed company under business rescue in which the above contributions are reflected.

These contributions have been made on the basis of a reflection on the research findings presented in this study. Several areas that may require further research have been identified. The future research opportunities is the topic of the next section.

10.6 RECOMMENDED FUTURE RESEARCH

The previous section highlighted the contributions that this study has made to the general body of accounting and business rescue knowledge. In addressing the research objectives and assessing the research evidence, some aspects became known that, although outside the scope of the study, may present opportunities for future research. This section will briefly identify some of the potential areas for future research.

The following aspects may require further research:

- The manner in which capital is maintained determines how profit is measured. The evidence obtained in this study showed that users would like to see an accounting model that represents exit values. This represents a special financial capital maintenance view with respect to solvency, and its relation to a listed company under business rescue could be researched in more depth.
- This study indicated a link between net realisable value theory and the economic phenomenon of a South African listed company under business rescue. This theory could be improved on the basis of further descriptive evidence on the preferred measurement bases applied.
- The framework for the financial reporting of a listed company under business rescue presented in this study could be further developed using case studies of companies that have successfully exited the business rescue proceedings, as well as those that were eventually liquidated following an unsuccessful business rescue attempt.
- This study presented a framework and therefore did not attempt to address measurement at a standards level. Further research into the measurement aspects at a normative standards level would be useful to the preparers and users of these financial statements.

In this section some areas for future research have been identified. The next section will draw final conclusions on the research conducted in this study.

10.7 CONCLUSION

This research found that the financial reporting of a listed company under business rescue needs special attention, as one cannot merely assume that such a company is a going concern. The intention of the business rescue proceedings, the specific user needs under business rescue and the ensuing changes to its business model all play a role in shaping its financial reporting requirements.

The evidence presented in this study indicated that a company under business rescue finds itself in a unique period of uncertainty and that a specific current value accounting model, based on exit prices, is preferable in these circumstances. Consequently, the preparers and users of the financial statements of such a company will benefit from the guidance this study offers on financial reporting while under business rescue. It was therefore the intention of this study to present a financial reporting framework that could be used in these circumstances.

It is envisaged that the accounting profession, SAICA, academics and standard setters alike may benefit from and apply the findings of this study to develop guidance that will present the users of these financial statements with the decision-useful and stewardship financial information that they require.

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APPENDIX A
IASB AND FASB – MEASUREMENT BASES INCLUDING VARIATIONS

Time-frame	Measurement base concept
Past	1. Past entry price a. without related prices b. with related prices
	2. Past exit price a. without related prices b. with related prices
	3. Modified past amount a. accumulated b. allocated c. amortised d. combined
Present	4. Current entry price a. without related prices b. with related prices i. identical replacement ii. identical reproduction iii. equivalent replacement iv. productive capacity replacement
	5. Current exit price a. without related prices b. with related prices
	6. Current equilibrium price
	7. Value-in-use
Future	8. Future entry price a. Without related prices b. With related prices
	9. Future exit price a. without related prices b. with related prices

Source: (FASB, 2007a:10 (adapted))

APPENDIX B

IASB AND FASB – DEFINITION OF MEASUREMENT BASIS CONCEPTS

Time-frame	Measurement base concept	Definition of measurement base concept: asset and liability	*Example*
Past	1. Past entry price	***Asset:*** The price that an entity would have had to pay in the past in exchange for purchasing its asset, (a) ignoring any prices it would have had to pay for acquisition-related goods or services, or (b) plus the prices it would have had to pay for acquisition-related goods or services. ***Liability:*** (1) The price that an entity would have received in the past in exchange for incurring its liability, (a) ignoring the prices it would have had to pay for incurrence-related goods or services, or (b) less the prices it would have had to pay for incurrence-related goods or services; or (2) an amount imposed in the past for incurring a non-exchange liability.	*The amount that an entity would have had to pay in the past to purchase an office computer, (a) ignoring or (b) including sales tax or VAT, and delivery and installation charges.* *The proceeds that an entity would have received in the past from issuing a corporate bond, (a) ignoring or (b) net of underwriting costs.*
	2. Past exit price	***Asset:*** The price that an entity would have received in the past in exchange for selling its asset, (a) ignoring any prices it would have had to pay for disposition-related goods and services, or (b) less any prices it would have had to pay for disposition-related goods and services.	*The amount that an entity would have received in the past for selling a stock investment, (a) ignoring or (b) net of the broker commission.*

Past		***Liability:*** The price that an entity would have had to pay in the past in exchange for extinguishing its liability, (a) ignoring any prices it would have had to pay for extinguishment-related goods and services, or (b) less any prices it would have had to pay for extinguishment-related goods and services.	*The amount that an entity would have had to pay in the past to settle an account payable, (a) ignoring or (b) including a fee for late payment.*
	3. Modified past amount	**a. Accumulated** ***Asset:*** The sum of all entry prices paid in the past to assemble, construct, or augment an asset over an extended period of time, including the prices paid for acquisition-related goods or services. ***Liability:*** The sum of all prices received in the past in exchange for incurring multiple obligations within a single liability or incrementally increasing an existing single-obligation liability over an extended period of time, net of the prices paid for incurrence-related goods or services.	*The accumulation of all amounts that were paid over a three-year period to construct an office building.* *The total amount that was drawn down on a construction loan over a three-year period, net of the payments for loan origination fees.*
		b. Allocated ***Asset:*** The amount assigned to an asset after allocating a past entry price to multiple items. ***Liability:*** The amount assigned to a liability after allocating a past entry price to multiple items.	*The amount that was assigned to land in the past purchase of land and a building for a single price.* *The amount that was assigned to a bond in the past issuance of the bond and detachable stock purchase warrants for a single proceeds amount.*
		c. Amortised ***Asset:*** The remainder of an asset's original past entry price or subsequent past exit price after assigning some of that price to subsequent accounting periods, according to an accounting rule for amortisation or depreciation. ***Liability: (see next page)***	*The depreciated cost of a vehicle, using straight-line depreciation.*

		Liability: The remainder of a liability's original past entry price or subsequent past exit price after assigning some of that price to subsequent accounting periods, according to an accounting rule for amortisation.	*The amortised proceeds of a corporate bond issue sold at a premium, using straight-line amortisation.*
		d. Combined ***Asset:*** The amount assigned to an asset through a combination of accumulation, allocation, and/or amortisation of past prices. ***Liability:*** The amount assigned to a liability through a combination of accumulation, allocation, and/or amortisation of past prices.	*The amount assigned to an asset that was constructed over time, where allocations of overhead costs were made to the asset, and the asset has been depreciated using straight-line depreciation.* *The amortised proceeds of a corporate bond issue sold at a premium, using straight-line amortisation, where the bond had been sold with warrants and some of the proceeds were allocated to the warrants.*

Present	4. Current entry price	***Asset:*** The price that an entity would have to pay currently in exchange for purchasing its asset, (a) ignoring any prices it would have to pay for acquisition-related goods or services, or (b) plus any prices it would have to pay for acquisition-related goods or services; **(b)(i) Identical replacement** The current entry price of replacing an existing asset with an identical one by purchase. **(ii) Identical reproduction** The current entry price of replacing an existing asset with an identical one by reproduction **(iii) Equivalent replacement** The current entry price of replacing an existing asset with an equivalent asset. **(iv) Productive capacity replacement** he current entry price of replacing the productive capacity of an existing asset with the most current technology available. ***Liability:*** (1) The price that an entity would receive currently in exchange for incurring its liability, (a) ignoring any prices it would have to pay for incurrence-related goods or services; or (b) less any prices it would have to pay for incurrence-related goods or services, or (2) an amount that would be imposed on an entity currently for incurring the entity's non-exchange liability.	*The amount that an entity would have to pay currently to purchase its headquarters building, (a) ignoring or (b) plus attorneys' fees and closing costs.* *(b)(iii): The current entry price to replace a used Nikon microscope with a used Leica microscope with the same power and features.* *(b)(iv): The current entry price to replace an air conditioning unit with one that has the same cooling capacity but is more energy efficient.* *The amount that a bank would receive currently from a depositor for one of its existing certificates of deposit, (a) ignoring or (b) net of the price of the bank's gift to the depositor for opening the account.*

Present	5. Current exit price	***Asset:*** The price that an entity would receive currently in exchange for selling its asset, (a) ignoring any prices it would have to pay for disposition-related goods or services, or (b) less any prices it would have to pay for disposition-related goods or services. ***Liability:*** The price that an entity would have to pay currently in exchange for extinguishing its liability, (a) ignoring any prices it would have to pay for extinguishment-related goods or services, or (b) plus any prices it would have to pay for extinguishment-related goods or services.	*The amount that an entity would receive currently from selling a parcel of land, (a) ignoring or (b) net of an appraisal fee and a real estate transfer tax.* *The amount that an entity would have to pay currently to pay off a mortgage loan, (a) ignoring or (b) including an early payment penalty.*
	6. Current equilibrium price	***Asset:*** The single equilibrium price for which an asset could be exchanged currently between knowledgeable, willing parties in an arm's-length transaction conducted in an efficient, complete, and perfect market. ***Liability:*** The single equilibrium price for which a liability could be exchanged currently between knowledgeable, willing parties in an arm's-length transaction conducted in an efficient, complete, and perfect market.	*The price at which a security could be purchased or sold currently, if the securities markets were efficient, complete, and perfect.* *The price at which an insurance obligation could be incurred or extinguished currently, if the market for insurance contracts was efficient, complete, and perfect.*
	7. Value-in-use	***Asset:*** The value that an entity places on its own asset. In its most sophisticated form, the amount of discounted net cash flow that the entity expects to receive from using its asset, including cash flow from the asset's eventual disposition.	*The forecast future cash flows from using a printing press (including cash inflows from printing revenues and the sale of the press at the end of its use, as well as cash outflows for supplies, repairs, and maintenance), discounted at a rate equal to the entity's cost of capital and netted.*

		Liability: The value that an entity places on its own liability. In its most sophisticated form, the amount of discounted net cash flow that the entity expects to pay for having incurred its liability, including cash outflows for carrying costs and for the liability's eventual extinguishment.	*The forecast future cash flows for carrying a pension liability (including cash outflows for pension administration and payments to pensioners), discounted at a rate equal to the entity's cost of capital.*

Future	8. Future entry price	***Asset:*** The price that an entity would have to pay in the future in exchange for purchasing its asset, (a) ignoring any acquisition-related goods or services, or (b) plus any prices it would have to pay for any acquisition-related goods or services. ***Liability:*** (1) The price that an entity would receive in the future in exchange for incurring its liability, (a) ignoring any incurrence-related goods or services, or (b) less any prices it expects to pay for any incurrence-related goods or services, or (2) the amount that an entity would have to pay in the future because of the imposition of a non-exchange liability.	*The amount that an entity forecasts it would have to pay to purchase a replacement jet airplane eight years in the future, (a) ignoring or (b) including license fees and taxes.* *The amount of premium that an insurance company forecasts it would receive for issuing a life insurance policy three years from now, (a) ignoring or (b) net of the forecast sales commission.*
	9. Future exit price	***Asset:*** The price that an entity would receive in the future in exchange for selling its asset, (a) ignoring any prices it would have to pay for disposition-related goods or services, or (b) less any prices it would have to pay for disposition-related goods or services. ***Liability:*** The price that an entity would have to pay in the future in exchange for extinguishing its liability, (a) ignoring any prices it would have to pay for extinguishment-related goods or services, or (b) plus any prices it would have to pay for extinguishment-related goods or services.	*The amount that an entity forecasts it would receive from the sale of its patent five years from now, (a) ignoring or (b) net of the entity's forecast legal fees and an intangibles transfer tax.* *The amount that an entity forecasts it would have to pay to satisfy a court judgment next year in a lawsuit that the entity expects to lose, (a) ignoring or (b) including court and attorneys' fees.*

Source: (FASB, 2007a:Appendix C (adapted))

APPENDIX C

IASB AND FASB – MEASUREMENT BASE CONCEPT AND SYNONYMS

| Time-frame | Measurement base concept | Definition – asset/liability | Past | | | | | Present | Future | | | | |

Present					Time-frame
Current exit price	Current entry price				Measurement base concept
A (a) (b) L (a) (b)	A (a) (b) (i) (ii) (iii) (iv) L (a) (b)	d. Com-bined A L	c. Amor tised A L	b. Allo-cated A L	Definition – asset/liability
		× ×	× ×	× ×	Historical costs
					Past purchase price
		×		×	Historical proceeds
					Past selling price
					Past exit value
					Past settlement amount
				×	Allocated cost
			×		Depreciated cost
			× ×		Amortised cost
			×		Amortised proceeds
	× ×				Current cost
×	×				Market price
×	×				Market value
	×				Consideration amount
	×				Current equivalent proceeds
×	× ×				Current proceeds
	× × ×				Replacement cost
	×				Reproduction cost
	×				Net proceeds
×					Fair value
× ×					Current settlement value
×					Current cash equivalent
×					Current exit value
×					Current market value
×					(Net) realisable value
×					Cost of release
					Discounted value of future cash flows
					Investment value
					Present value
					Present value of future cash flows
					Future cost
					Future proceeds
					Future entry value
					Future proceeds
					Future selling price
					Best estimate
					Expected outcome
					Future settlement amount
					Most likely amount
					Undiscounted expected amount
					Future exit value
					Net market value
					Net selling value
					Expected value
					Exp value in due course of business
					Non-discounted amt of exp cash outlay

Future					Time-frame
Future exit price	Future entry price		Value-in-use	Current equili-brium price	**Measurement base concept**
A (a) (b) L (a) (b)	A (a) (b) L (a) (b)	**Definition – asset/liability**	A L	A L	
		Historical costs			
		Past purchase price			
		Historical proceeds			
		Past selling price			
		Past exit value			
		Past settlement amount			
		Allocated cost			
		Depreciated cost			
		Amortised cost			
		Amortised proceeds			
		Current cost			
		Market price			
		Market value			
		Consideration amount			
		Current equivalent proceeds			
		Current proceeds			
		Replacement cost			
		Reproduction cost			
		Net proceeds			
		Fair value		x x	
		Current settlement value			
		Current cash equivalent			
		Current exit value			
		Current market value			
x		(Net) realisable value			
		Cost of release			
		Discounted value of future cash flows	x x		
		Investment value	x		
		Present value	x x		
		Present value of future cash flows	x x		
	x x	Future cost			
	x x	Future proceeds			
	x x	Future entry value			
		Future proceeds			
x		Future selling price			
x		Best estimate			
x		Expected outcome			
x		Future settlement amount			
x		Most likely amount			
x		Undiscounted expected amount			
x		Future exit value			
x		Net market value			
x		Net selling value			
x		Expected value			
x		Exp value in due course of business			
x		Non-discounted amt of exp cash outlay			

Source: FASB (2007a:11-24)

APPENDIX D

COVER LETTER

Dear Respondent

Thank you very much for making available some of your time to this research. As an expert in the field of business rescue/financial reporting, we kindly request your participation in a study that investigates some financial reporting aspects of a listed company under business rescue. The study is the first of its kind in South Africa and is undertaken in pursuit of a Ph.D. degree in Accounting at the University of the Free State (UFS).

The study uses an electronic questionnaire to gather information needed on some financial reporting issues of a listed company under business rescue (e.g. business rescue aims, going concern issues, user needs, appropriate measurements of assets and liabilities). Please note that we are interested in your personal views and thoughts, irrespective of what you may believe others think or believe. The questionnaire will take approximately 60 minutes of your time.

Click on the link to complete the survey: <link>

Kindly note that ethical clearance for the research was obtained from the Ethics Committee of the UFS and all information obtained will be treated as confidential. Your responses will be used for academic purposes only and will be reported on in a statistical manner.

We will gladly share the research results with you once these have been finalised. You will be given an opportunity to indicate your interest in the research results at the end of the questionnaire.

Yours sincerely

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APPENDIX E
RESEARCH QUESTIONNAIRE

E.1 SURVEY QUESTIONS

E.1.1 Background questions

No.	Question	Variable(s)	Res[51]	Type[52]
2.	To which one of the following groups do you belong?	• Business rescue practitioner; • JSE accredited Auditor; • Member of APC/JSE accredited IFRS specialist; • Member of Academia; • Member of a Banking institution; • Member of an Investment institution; • Member of restructuring service division, • Other (please indicate below)	All	Drop down list
3.	How many years have you been a member of the above group?	Number of years	All	Open-ended single line
4.	What is your profession/qualification? (You may select more than one option)	• Accountant; • Advocate/Attorney/Lawyer; • Auditor; • Consultant/Advisor;	All	Drop down list

[51] Res = Repondents required to answer this question.
[52] Type = Type of question format used in the electronic web-based survey system.

No.	Question	Variable(s)	Res[51]	Type[52]
		• Chartered Accountant; • Chartered Financial Analyst; • Engineer; • Liquidator; • Other (please specify)		
Other profile questions were asked at the end of the questionnaire.				

E.1.2 Questions dealing with the primary and secondary research question

E.1.2.1 The aim of business rescue

Questions 5 to 7. Refer to section 4.3.3.

No.	Question	Variable(s)	Res	Type
5.	Section 128(1)(b) of the Companies Act, 2008 states that: Business rescue facilitates rehabilitation of a financially distressed company by providing for: • temporary supervision and management; • a temporary moratorium on the rights of claimants against the company or its property; and • **the development and implementation of a plan to rescue the company by restructuring its affairs, business, property, debt, other liabilities and equity in a manner that:** - **maximises the likelihood of the company continuing in existence on a solvent basis, or** - **if it is not possible for the company to so continue in existence results in a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company** (my emphasis).			

	Considering the above statement, do you agree that the aim of business rescue is to achieve one of the following outcomes, namely: - to enable the company to continue in existence on a solvent basis (aim 1); or - to enable the realisation of assets under business rescue that will result in a better return for the company's creditors and shareholders than under immediate liquidation (aim 2).	• Yes • No	All	Drop down list
6.	Do you interpret the aims as: • mutually exclusive, in other words, either the one or the other aim, or • hierarchical, in other words, to first attempt to enable the company to continue in existence on a solvent basis, and if that is not possible, then to realise the assets under business rescue so that it will result in a better return for the company's creditors and shareholders than under immediate liquidation.	• Mutually exclusive • Hierarchical	If Q5 = 'Yes'	Drop down list
7.	You have indicated that you do not agree. Please state your reasons in the space provided.		If Q5 = 'No'	Open-ended multi-line

E.1.2.2 The state of solvency

Questions 8 to 10. Refer to sections 4.3.2 and 4.3.3.

No.	**Question**	**Variable(s)**	**Res**	**Type**
	For a JSE listed company in financial distress that has filed for business rescue, please consider the commercial or technical state of solvency against the following meanings: *Financial distress:* It appears to be reasonably unlikely that the company will be able to pay all of its debts as they become due and payable within the immediately ensuing six months, or if appears to be reasonably likely that the company will become insolvent within the immediately ensuing six months. *Commercial solvent (also referred to as 'liquidity'):* The company is able to pay its debts as they become due in the ordinary course of business for a period			

No.	Question	Variable(s)	Res	Type
	of 12 months after the date on which the commercial solvency (liquidity) is considered. *Technically solvent:* The assets of the company, as fairly valued, equal or exceed the liabilities of the company, as fairly valued (also referred to as factual solvency).			
8.	Please consider the commercial or technical state of solvency of a JSE listed company in financial distress that has filed for business rescue. In your opinion, will the company be: • commercially solvent in the period from filing for business rescue up to the adoption or rejection of the business rescue plan? • technically solvent in the period from filing for business rescue up to the adoption or rejection of the business rescue plan?	• Yes • No	BRP, Aud & RS	Drop down list
9	Assume a listed company is under business rescue and that the business rescue plan has been adopted with the aim of maximising the likelihood of the company continuing in existence on a solvent basis. Considering aim 1 and commercial solvency (liquidity): What is the likelihood that the listed company is *commercially solvent* (able to pay its debt as they fall due) during the proceedings at the following points in time?: • Just after adoption of the business rescue plan? • Halfway through the implementation of the business rescue plan? • Just before conclusion of the business rescue plan (filing the notice of substantial implementation)? Considering aim 1 and technical solvency: What is the likelihood that the listed company is *technically solvent* (fairly valued assets exceed fairly valued liabilities) during the proceedings at the following points in time?: • Just after adoption of the business rescue plan?	1=Completely unlikely 2=Unlikely 3=Likely 4=Completely likely	BRP, Aud & RS	Matrix

No.	Question	Variable(s)	Res	Type
	• Halfway through the implementation of the business rescue plan? • Just before conclusion of the business rescue plan? With this aim of enabling the company to continue in existence in mind (aim 1): In your opinion, what is the likelihood that the listed company, as a legal entity, will continue to exist after the conclusion of the business rescue plan?			
10.	Assume a listed company is under business rescue and that the business rescue plan has been adopted with the aim of providing a better return to shareholders and creditors than under immediate liquidation. Considering aim 2 and commercial solvency (liquidity): What is the likelihood that the listed company is *commercially solvent* (able to pay its debt as they fall due) during the proceedings at the following points in time?: • Just after adoption of the business rescue plan? • Halfway through the implementation of the business rescue plan? • Just before conclusion of the business rescue plan (filing the notice of substantial implementation)? Considering aim 2 and technical solvency: What is the likelihood that the listed company is *technically solvent* (fairly valued assets exceed fairly valued liabilities) during the proceedings at the following points in time?: • Just after adoption of the business rescue plan? • Halfway through the implementation of the business rescue plan? • Just before conclusion of the business rescue plan? With this aim of enabling a better return to creditors and shareholders in mind: In your opinion, what is the likelihood that the listed company, as a legal entity, will continue to exist after the conclusion of the business rescue plan?	1=Completely unlikely 2=Unlikely 3=Likely 4=Completely likely	BRP, Aud & RS	Matrix

E.1.2.3 Duration of business rescue

Question 11. Refer to section 4.3.3.

No.	Question	Variable(s)	Res	Type
11.	For a listed company that has filed for business rescue, in your opinion, what is the likely duration of: • the period (in months) from filing for business rescue up to the date of adoption/rejection of the business rescue plan? (Please round off to the nearest month.) • the period (in months) from adoption of the business rescue plan to conclusion of the business rescue plan (filing the notice of substantial implementation)?	Number (of months)	BRP, Aud & RS	

E.1.2.4 Business rescue and reporting date

Question 12. Refer to sections 4.3.3 and 4.5.2.

No.	Question	Variable(s)	Res	Type
12.	The JSE listing requirements determine that if annual financial statements have not been distributed to all shareholders within three months of its financial year-end, the issuer must distribute and publish provisional annual financial statements ('provisional reports'). The JSE allows one month's grace if the provisional reports have not been published within the three months as specified. Based on your experience of the likely duration of a business rescue: • what is the likelihood that a listed company will experience a financial reporting date (interim or year-end) whilst under business rescue proceedings? • what is the likelihood that a listed company under business rescue will still be under business rescue four months after its reporting date (interim or year-end)?	1=Completely unlikely 2=Unlikely 3=Likely 4=Completely likely	BRP, Aud	Matrix

E.1.2.5 Actions taken to rescue company

Question 13. Refer to section 4.4.2.

No.	Question	Variable(s)	Res	Type
13	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 • Others: Please specify	1=Completely unlikely 2=Unlikely 3=Likely 4=Completely likely	All	Matrix

E.1.2.6 Foreseeable future

Questions 14 – 15. Refer to section 5.5.3.

No.	Question	Variable(s)	Res	Type
14.	Aim 1: Assume a listed company will experience a financial reporting date (interim or year-end) whilst under business rescue and that the aim of business rescue is to enable the company to continue to exist after the proceedings have ended. Moreover, consider that the foreseeable future of a company indicates a period of at least, but not limited to, 12 months after the end of the reporting date (interim or year-end). Please consider the above aim and the fact that you need to assess the foreseeable future on a financial reporting date that may fall during various stages in the business rescue period. In your opinion, what is the likelihood that the company will continue to operate in the foreseeable future if the financial reporting date: • falls in the period from filing for business rescue up to the adoption/rejection of the business rescue plan? • is just after adoption of the business rescue plan? • is halfway through the implementation of the business rescue plan? • is just before conclusion of the business rescue plan (filing the notice of substantial implementation)?	1=Completely unlikely 2=Unlikely 3=Likely 4=Completely likely	All	Matrix

No.	Question	Variable(s)	Res	Type
15.	Aim 2: Assume a listed company will experience a financial reporting date (interim or year-end) whilst under business rescue and that the aim of business rescue is to enable a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company. Please consider the above aim (aim 2) and the fact that you need to assess the foreseeable future on a financial reporting date that may fall during various stages in the business rescue period. In your opinion, what is the likelihood that the company will continue to operate in the foreseeable future if the financial reporting date: • falls in the period from filing for business rescue up to the adoption/rejection of the business rescue plan? • is just after adoption of the business rescue plan? • is halfway through the implementation of the business rescue plan? • is just before conclusion of the business rescue plan?	1=Completely unlikely 2=Unlikely 3=Likely 4=Completely likely	All	Matrix

E.1.2.7 Realisation of assets and liabilities

Question 16. Refer to section 4.4.1.

No.	Question	Variable(s)	Res	Type
16.	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?	1=Completely disagree 2=Disagree 3=Agree 4=Completely agree	All	Matrix

E.1.2.8 Business rescue and going concern

Questions 17 – 18. Refer to sections 3.5.3 and 5.5.1.

No.	Question	Variable(s)	Res	Type
17.	Assume that 'going concern' indicates that the company has the ability to continue to exist in the foreseeable future. The foreseeable future indicates a period of at least, but not limited to, 12 months after the end of the reporting date. In your opinion, is a listed company, which has a reporting date whilst under business rescue proceedings, a going concern in terms of IFRS?	• Yes • No	All	Matrix
18.	Please indicate the reason(s) for your answer above in the block provided below.	N/a	All	Open-ended single line

E.1.2.9 Usefulness of current interim and annual financial statements

Questions 19 – 20. Refer to section 6.5.5

No.	Question	Variable(s)	Res	Type
19.	Please indicate if you would use the following financial reports when developing the business rescue plan, as well as how useful you find the financial information in the reports in developing the business rescue plan. • The latest audited annual financial statements • The latest interim financial statements	• Yes • No 1 = Not at all useful 2 = Not useful 3 = Useful 4 = Very useful	BRP	Matrix

No.	Question	Variable(s)	Res	Type
20.	Can you give one brief example of or reason for using or not using the financial reports? (Please indicate in the space provided.) • I find the latest annual financial statements useful for … • The annual financial statements are not useful because … • I find the latest interim financial statements useful for … • The interim financial statements are not useful because …	N/a	BRP	Matrix

E.1.2.10 The applicability of other underlying assumptions

Questions 21 – 24. Refer to sections 4.3.3, 4.4.1, 5.5.2 and 5.5.3.

No.	Question	Variable(s)	Res	Type
21.	Background: The Conceptual Framework for Financial Reporting par 4.1 states that the financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. It further states that should the entity intend or need to liquidate or curtail materially the scale of its operations, the financial statements may have to be prepared on a different basis (assumption). International Accounting Standard (IAS) 1 par. 25 requires that an entity shall prepare financial statements on a going-concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. Furthermore, when an entity does not prepare financial statements on a going-concern basis, it shall disclose that fact, together with the basis (assumption) on which it prepared the financial statements and the reason why the entity is not regarded as a going concern. Considering the above: Do you agree that if the management of a listed company applies for business rescue instead of provisional liquidation, it indicates that management, at the stage of business rescue	• Yes • No	All	Matrix

No.	Question	Variable(s)	Res	Type
	application, does not intend to liquidate the entity or cease trading (or that it has no realistic alternative but to do so)? Do you agree with the following statement? *A company under business rescue is not necessarily a going concern, but not in liquidation either.* Do you agree that applying IAS 1 par. 25 (see above) requires management of a listed company, which has a reporting date whilst under business rescue proceedings, to prepare financial statements on a going-concern assumption?			
22.	You have answered 'Yes' that IAS 1 par. 25 requires the management of a listed company under business rescue to prepare financial statements on a going-concern assumption. Briefly indicate why you consider the going-concern assumption appropriate.	N/a (text)	If Q 21 (last part) = 'Yes'	Open-ended multi-level
23.	Further to your reasons given above: In your opinion, how 'decision useful' is financial statements, prepared on a going-concern assumption for a listed company under business rescue, to the users of the financial statements (i.e. shareholders, creditors and lenders)? IAS 1 par. 25 further states that *when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties*. In your opinion, how 'decision useful' is the disclosure of material uncertainties related to events or conditions that may cast significant doubt about the ability of the company under business rescue to continue as a going concern, to the users of the financial statements?	1=Not at all useful 2=Not useful 3=Useful 4=Very useful	If Q 21 (last part) = 'Yes'	Matrix
24.	You have answered 'No' that IAS 1 par. 25 requires the management of a listed company under business rescue to prepare financial statements on a going-concern assumption. Please indicate what underlying assumption you would recommend (in the space provided). Please provide your reason(s) for recommending that particular assumption (in the space provided).	N/a (text)	If Q 21 (last part) = 'No'	Matrix

E.1.2.11 Measurement: Importance of business model

Questions 25 – 27. Refer to section 6.6.

No.	Question	Variable(s)	Res	Type
25.	Assume that the term 'business model' means a focus on the process of value creation in a company, i.e. how the company generates cash flows. Further assume that the term 'economic phenomena' refers to information about the reporting entity's economic resources , claims against the reporting entity and the effects of transactions and other events and conditions that change those resources and claims. In general, • to what extent do you agree/disagree that it is important to consider the business model in order to establish measurement bases for assets and liabilities (e.g. net realisable value, value-in-use, amortised cost, etc.)?	1=Completely disagree 2=Disagree 3=Agree 4=Completely agree	All	Matrix
26.	How likely is a change in a company's business model required during a business rescue?	1=Completely unlikely 2=Unlikely 3=Likely 4=Completely likely	All	Matrix

No.	Question	Variable(s)	Res	Type
27.	For a company that has filed for business rescue, to what extent do you agree/disagree that the company's business model should be considered: • in the development of its business rescue plan? • for financial reporting purposes, with respect to the measurement of assets and liabilities whilst under business rescue proceedings? To what extent do you agree/disagree that considering the business model in the financial reporting for a company under business rescue: • would lead to more relevant financial information (due to allowing different methods of accounting based on the business model) • will enhance faithful representation of the economic phenomena? • will enhance comparability of financial information between companies? • will enhance the understandability of the financial information? To what extent do you agree/disagree that considering the business model in the financial reporting for a company under business rescue: • would lead to biased information, because it failed to capture the potential cash flow that has been created or destroyed by the company.	1=Completely disagree 2=Disagree 3=Agree 4=Completely agree	All	Matrix

E.1.2.12 Measurement: Objective of financial reporting (decision usefulness/stewardship)

Questions 28 – 31. Refer to sections 3.5.3, 5.2 and 5.3.

No.	Question	Variable(s)	Res	Type
28.	Please consider the following perspectives on the roles of financial information: Decision usefulness: The provision of future-oriented financial information about the reporting entity that is useful in making investment /valuation decisions (also referred to as the 'valuation' role). Stewardship: Information on past transactions in order to determine how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources (capital) after it has been invested (also referred to as the 'contracting' or 'accountability' roles). For a healthy solvent company under normal circumstances, how important do you rate the role of financial information in the financial reports in terms of the following? • Decision usefulness • Stewardship If a company is under business rescue, how important do you rate the role of financial information in the financial reports in terms of the following? • Decision usefulness • Stewardship	1=Not at all important 2=Not important 3=Important 4=Very important	All	Matrix

No.	Question	Variable(s)	Res	Type
29.	Please assume each of the following three user roles with respect to a JSE listed company that has filed for business rescue: • Role 1: An equity investor (i.e. a shareholder) • Role 2: A lender (e.g. a major bank) • Role 3: A creditor (i.e. a trade creditor) From the perspective of each of the above users, please consider the decision usefulness and stewardship roles of financial information in the financial reports of a listed company under business rescue. • Decision usefulness • Stewardship	Three columns, one for each user, with scale: 1=Not at all important 2=Not important 3=Important 4=Very important	All	Matrix
30.	From the perspective of each of the above users, please rank the statement of financial position (SFP), statement of comprehensive income (SCI), statement of cash flow (SCF) and statement of changes in equity (SCE) in the order that the user rely on it the most, where 1 = the statement the user rely on most and 4 = the one the user use least of all.	Three columns, one for each user, with ranking 1 to 4.	All	Matrix
31.	For each of the assumed roles, why do you prefer the statement ranked no 1 the most?	Three columns, one for each user, with space for text.	All	Matrix

E.1.2.13 Measurement: Users of financial statements and their information needs with respect to a listed company under business rescue

Refer section 5.3.1 for questions 32 to 36 [shareholder], section 5.3.2 for questions 37 to 42 [lender] and section 5.3.3 for questions 43 to 48 [creditor]

No.	Question	Variable(s)	Res	Type
32.	Assuming the role of a shareholder, you have indicated that you regard the **decision-usefulness** role of accounting information for a company **under business rescue** as IMPORTANT or VERY IMPORTANT: As a shareholder, please indicate for what purpose you would mostly use the future-oriented accounting information.	N/a (text)	All	Open-ended multi-line
33.	Assuming the role of a shareholder, you have indicated that you regard the **decision-usefulness** role of accounting information for a company under business rescue as NOT AT ALL IMPORTANT or NOT IMPORTANT: As a shareholder, please indicate your reason(s).	N/a (text)	All	Open-ended multi-line
34.	Assuming the role of a shareholder, you have indicated that you regard the **stewardship** role of accounting information for a company under business rescue as IMPORTANT or VERY IMPORTANT: As a shareholder, please indicate for what purpose you would mostly use the accounting information on past transactions.	N/a (text)	All	Open-ended multi-line
35.	Assuming the role of a shareholder, you have indicated that you regard the **stewardship** role of accounting information for a company under business rescue as NOT AT ALL IMPORTANT or NOT IMPORTANT: As a shareholder, please indicate your reason(s).	N/a (text)	All	Open-ended multi-line
36.	Assuming the role of a shareholder, what other supplementary information, if any, would you obtain through direct contact with the company?	N/a (text)	All	Open-ended multi-line

No.	Question	Variable(s)	Res	Type
37.	Assuming the role of a lender (e.g. a major bank), you have indicated that you regard the **decision-usefulness** role of accounting information for a company under business rescue as IMPORTANT or VERY IMPORTANT: As a debt provider, for what purpose do you mostly use the future-oriented accounting information?	N/a (text)	All	Open-ended multi-line
38.	Assuming the role of a lender (e.g. a major bank), you have indicated that you regard the **decision-usefulness** role of accounting information for a company under business rescue as NOT AT ALL IMPORTANT or NOT IMPORTANT: As a debt provider, please indicate your reason(s).	N/a (text)	All	Open-ended multi-line
39.	Assuming the role of a lender, you have indicated that you regard the **stewardship** role of accounting information for a company under business rescue as IMPORTANT or VERY IMPORTANT (insert automatically from question 29): As a debt provider, for what do you mostly use the accounting information on past transactions?	N/a (text)	All	Open-ended multi-line
40.	Assuming the role of a lender, you have indicated that you regard the **stewardship** role of accounting information for a company under business rescue as NOT AT ALL IMPORTANT or NOT IMPORTANT: As a debt provider, please indicate your reason(s).	N/a (text)	All	Open-ended multi-line
41.	As a lender, would you make adjustments to the financial statements for your own purposes?	• Yes • No	All	Radio buttons
42.	What adjustments would you make?	N/a (text)	If Q 41 = Yes	Open-ended multi-line

No.	Question	Variable(s)	Res	Type
43.	Assuming the role of a creditor, you have indicated that you regard the **decision-usefulness** role of accounting information for a company under business rescue as IMPORTANT or VERY IMPORTANT: As a creditor, for what purpose do you mostly use the future-oriented accounting information?	N/a (text)	All	Open-ended multi-line
44.	Assuming the role of a creditor, you have indicated that you regard the **decision-usefulness** role of accounting information for a company under business rescue as NOT AT ALL IMPORTANT or NOT IMPORTANT: As a creditor, please indicate your reason(s).	N/a (text)	All	Open-ended multi-line
45.	Assuming the role of a creditor, you have indicated that you regard the **stewardship** role of accounting information for a company under business rescue as IMPORTANT or VERY IMPORTANT: As a creditor, for what purpose do you mostly use the accounting information on past transactions?	N/a (text)	All	Open-ended multi-line
46.	Assuming the role of a creditor, you have indicated that you regard the **stewardship** role of accounting information for a company under business rescue as NOT AT ALL IMPORTANT or NOT IMPORTANT: As a creditor, please indicate your reason(s).	N/a (text)	All	Open-ended multi-line
47.	As a creditor, would you make adjustments to the financial statements for your own purposes?	• Yes • No	All	Radio buttons
48.	What adjustments would you make?	N/a (text)	If Q 47 = Yes	Open-ended multi-line

E.1.2.14 Objective of measurement: Address financial distress in measurement of assets and liabilities

Question 49. Refer to section 6.5.5

No.	Question	Variable(s)	Res	Type
49.	For a listed company that is under business rescue and needs to prepare annual financial statements, should the measurement of its assets and liabilities in the statement of financial position take into account the fact that it is in financial distress?	• Yes • No	All	Radio buttons

E.1.2.15 Reporting focus: financial evolution or available cash

Question 50. Refer to sections 3.5.3, 5.5.2 and 6.5.3

No.	Question	Variable(s)	Res	Type
50.	In a business rescue context, to what extent do you agree/disagree that the objective of financial reporting: • should also focus on reflecting the financial evolution of the company by distinguishing the transactions and events that are directly associated with the reorganisation from the rest of the transactions and events? • should rather focus on reporting on the cash that would be available to investors, creditors and other affected parties, instead of reporting on the entities' economic performance? In a business rescue context, to what extent do you agree/disagree that the objective of measurement in the financial statements: • should be to contribute to the faithful representation of relevant information about the resources of the entity (assets), claims against the entity (liabilities) and changes in resources and claims? • is about how efficiently and effectively the entity's management and governing board have discharged the responsibilities to use the entity's resources?	1=Completely disagree 2=Disagree 3=Agree 4=Completely agree	All	Matrix

E.1.2.16 Objective of measurement: Cash flow potential/need

Question 51. Refer to section 6.5.3.

No.	Question	Variable(s)	Res	Type
51	With reference to the measurement of assets and liabilities of a listed company with a reporting date whilst under business rescue: How important is it for users of the financial statements that the measurement of the particular: • asset reflect the future cash flow potential as closely as possible? • liability reflect the future cash flow need as closely as possible?	1=Not at all important 2=Not important 3=Important 4=Very important	All	Matrix

E.1.2.17 Potential measurement bases

Questions 52 – 53. Refer to sections 6.3 and 6.5.4.

No.	Question	Variable(s)	Res	Type
52.	Please consider the following: **Relevance:** Relevant financial information can make a difference in the decisions made by users. Financial information can make a difference in decisions if it has predictive value, confirmatory value or both. **Faithful representation:** Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but must also faithfully represent the phenomena that it purports to represent. This depiction would be complete, neutral and free from error. With respect to an asset of a listed company under business rescue with a reporting date whilst under business rescue, please choose from the following measurement bases those, in your opinion, that could faithfully represent relevant information about a particular economic resource (asset): • Historical cost [i.e. the actual cost incurred] • Depreciated/amortised historic cost [i.e. the unconsumed portion of historical cost (carrying amount)] • Current replacement cost [i.e. the cost adjusted for price changes reflecting the unconsumed part of the asset if replaced with an asset of equivalent service potential] • Net realisable value [i.e. the estimated selling price, less estimated transaction cost in an orderly disposal] • Fair value [i.e. the price received to sell an asset. Please consider that according to International Financial Reporting Standard (IFRS) 13, the transaction used to determine fair value should be orderly. An orderly transaction may not reflect a forced transaction, such as a distressed sale] • Liquidation value [i.e. the value reflecting the estimated selling price, less estimated transaction cost – if the asset is sold as quickly as possible (also known as a fire sale).] • Value-in-use [i.e. the present value of cash flows from continued use and disposal at end of useful life, discounted at a fair interest rate] • Amortised cost [i.e. the present values of cash flows discounted at an effective interest rate]	• Yes • No	All	Matrix

No.	Question	Variable(s)	Res	Type
	• Any other relevant measurement bases? (Please indicate)			
53.	With respect to a **liability** of a listed **company under business rescue** with a reporting date whilst under business rescue, please choose from the following measurement bases those, in your opinion, that could **faithfully** represent **relevant** information about the economic obligation (liability): • Historical cost [i.e. the actual proceeds received, for example a 50% down payment received] • Amortised historical cost (proceeds) [i.e. the unconsumed portion of historical proceeds (carrying amount), for example 'Deferred income: Government grant'] • Current value (of liability) [i.e. the consideration the entity would currently expect to receive if it undertook an identical obligation to the remaining part of the obligation] • Settlement value [i.e. the undiscounted amounts of cash flow expected to be paid to satisfy the liability in the normal course of business] *(the liability equivalent of NRV)* • Fair value [price paid to transfer a liability. Please consider that IFRS 13 determines that the transaction used to determine fair value should be orderly and may not reflect a forced transaction] • Fulfilment value [i.e. the present value of cash flows to arise in fulfilling the liability at a fair interest rate] *(the liability equivalent of value-in-use)* • Amortised cost [present values of cash flows discounted at an effective interest rate] • Any other relevant measurement bases? (Please indicate)	• Yes • No	All	Matrix

E.1.2.18 Cost vs benefit

Questions 54. Refer to sections 6.4 and 6.5.3.1.

No.	Question	Variable(s)	Res	Type
54.	The faithful representation of relevant information is normally constrained by the **cost of providing** that information. Specifically in a **business rescue context**, • to what extent do you agree/disagree that the provision of relevant and faithfully represented information should be constrained by the cost of providing the information?	1=Completely disagree 2=Disagree 3=Agree 4=Completely agree	All	Matrix

E.1.2.19 Preferred measurement bases for assets for each of the two business rescue aims

Questions 55 – 60. Refer to sections 6.5.2 and 0.

No.	Question	Variable(s)	Res	Type
	Only asked to respondents indicating their profession as Chartered Accountants, Accountants or Auditors The following three questions require your view on the applicable measurement bases for the assets and liabilities of a company under business rescue. Please consider the measurement bases taking into account the particular aim (aim 1 or aim 2) of business rescue. *These questions will take about 10 minutes to answer, after which only a few short questions (2 – 3 minutes) will follow before conclusion of the questionnaire.*			
55.	You have indicated that the following measurement bases are applicable to assets in a business rescue context. Please use only these bases in the next section below. However, you may go back to the previous pages to change any of your selections should you wish to do so.	Automated list based on answers in Q 52.		
56-57.	If the aim of business rescue is to maximise the likelihood of the company continuing in existence (aim 1), please select your preferred measurement basis for the following line items in the SFP, for a listed company that has a financial reporting date whilst under business rescue.	For each line item, and for each column (held for use, sold immediately, or sold in the normal course of business), choose the appropriate measurement base.	CAs; Accountants; Auditors	Matrix

No.	Question	Variable(s)	Res	Type
	Note: Please consider each line item from the point of view that it may be, in terms of the business rescue plan, held for use, sold immediately, or sold in the normal course of business. **Aim 1** **Assets** Property, plant and equipment Goodwill Other intangible assets – internally generated Other intangible assets – purchased Financial instruments at fair value (through PL or OCI) Financial instruments at amortised cost Deferred tax asset Inventory Trade and other receivables Cash and cash equivalents Other current assets			
58.	If the aim of business rescue is to provide a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company (aim 2), please select your **preferred measurement basis** for the line items in the SFP, for a listed company that has a financial reporting date whilst under business rescue. Once again, please use only the following bases in the next section.	Automated list based on answers in Q 52.	CAs; Accountants; Auditors	Matrix

No.	Question	Variable(s)	Res	Type
59-60.	Note: Please consider **each line item** from the **point of view** that it may be, in terms of the business rescue plan, held for use, sold immediately, or sold in the normal course of business. **Aim2** **Assets** Property, plant and equipment Goodwill Other intangible assets – internally generated Other intangible assets – purchased Financial instruments at fair value (through PL or OCI) Financial instruments at amortised cost Deferred tax asset Inventory Trade and other receivables Cash and cash equivalents Other current assets			

E.1.2.20 Preferred measurement bases for liabilities for each of the two business rescue aims

Questions 61 – 62. Refer to section 6.5.5.

No.	Question	Variable(s)	Res	Type
61.	You have indicated that the following measurement bases are applicable to liabilities in a business rescue context. Once again, please use only these bases in the next section below. You may go back to the previous pages to change any of your selections should you wish to do so.	Automated list based on answers in Q 53.	CAs; Accountants; Auditors	Matrix
62.	For each of the two aims of business rescue, please indicate your preferred measurement basis for the following **liability** line items in the SFP, for a listed company that has a financial reporting date whilst under business rescue. **LIABILITIES** • Financial instruments at fair value • Financial instruments at amortised cost • Deferred tax liability • Employee benefit obligations • Trade and other creditors • Provisions • Other current liabilities • Cash and cash equivalents	For each line item, two columns (Aim 1: Return to solvency & Aim 2: Better return to creditors and shareholders)		

E.1.2.21 Timing and presentation of re-measurements including other useful presentations and disclosures

Questions 63 – 65. Refer to section 3.5.3.

No.	Question	Variable(s)	Res	Type
63.	In your opinion, would it be useful to record the re-measurements for the assets and liabilities on the day the business rescue plan is adopted, i.e. to start with a 'Day 1' statement of financial position?	• Yes • No	All	Radio buttons
64.	Where would you prefer to see the net effect of all the re-measurements of the assets reflected? (Please select from the list): • In the SFP as a separate line item, namely 'Reorganisation value' • In the statement of financial position (SFP) as part of 'Goodwill' • In the statement of comprehensive income in the profit or loss (P&L) section • In the statement of comprehensive income in the other comprehensive income (OCI) section	Selection as per 1 of the 4 choices provided	If Q 63 = 'Yes'	Drop- down list
65.	How useful do you consider the presentation and disclosure suggestions in the financial statements for a listed company under business rescue, as indicated below? • Present pre- and post-commencement liabilities separately in the statement of financial position • Present events and transactions related to the business rescue separately from the continuing and discontinued operations in the statement of comprehensive income • Disclose the adjustments made to historical amounts of assets and liabilities in the notes to the financial statements • Disclose the amount of debt forgiveness in the notes to the financial statements	1=Not at all useful; 2= Not useful; 3=Useful; 4=Very useful	If Q 63 = 'Yes'	Matrix

E.1.2.22 The need for business-rescue contextualised financial statements

Question 66. Question based on respondents opinion considering previous questions.

No.	Question	Variable(s)	Res	Type
66.	In your opinion, to what extent do you agree/disagree that shareholders, lenders and creditors of companies under business rescue can be better served, for decision-making purposes, **by business-rescue contextualised** general-purpose financial statements that are prepared on an assumption that fits in between the going-concern assumption and the liquidation assumption?	1=Completely disagree 2=Disagree 3=Agree 4= Completely agree	All	Matrix

E.1.2.23 An alternative financial reporting framework

Question 67. Refer to section 4.4.3.

67.	International auditing standard (ISA) 570 states that the auditor may be able to perform an audit of financial statements when the going-concern assumption is not appropriate in the circumstances, if the auditor determines that the alternative basis (assumption) is an acceptable financial reporting framework. What alternative basis (assumption) would you suggest for a company that is not a going concern?	N/a (text)	Auditors	Open-ended single line

E.1.2.24 General suggestions

Question 68.

68.	With respect to the financial reporting of a listed company under business rescue: Please indicate, in your opinion, to what extent the following guidance would be useful. • A change to the Conceptual Framework to allow for an underlying business-rescue assumption with applicable business-rescue contextualised measurement(s) of assets and liabilities. • A South African statement or interpretation of GAAP (AC 500 series) on Financial Reporting of Listed companies under Business Rescue, detailing an underlying business-rescue assumption, together with applicable business-rescue contextualised measurement(s) of assets and liabilities. • A SAICA Guide on the Financial Reporting of Listed companies under Business Rescue • A SAICA Circular on the Financial Reporting of Listed companies under Business Rescue	1=Not at all useful; 2= Not useful; 3=Useful; 4=Very useful	All	Matrix

E.1.2.25 Further questions on expertise and experience of respondents

Questions 69 – 71. Refer to section 7.4.

No.	Question	Variable(s)	Res	Type
69.	What is your highest academic level and education? **[Please choose one and fill in an answer when the Degree or Post Graduate Degree is selected]**	High (Secondary) School, Diploma or Certificate, Degree (please specify), Post Graduate Degree (please specify)	All	Drop-down list
70.	Please specify your highest degree obtained	N/a (text)	If Q 69 = 'Degree'or 'Post graduate degree'	Open-ended single line
71.	Please indicate the professional and/or related bodies that you belong to.	ACCA, CIMA, ECSA, IAC, IBA, IOB, IoDSA, IRBA, SAIBA, SAICA, SAIPA, SAITP, SARIPA, TMA-SA, Other: Please indicate	All	Check-boxes
72.	Please enter your email address below if you are interested in obtaining a copy of the research results.	N/a (text)	All	Open-ended single line

END OF QUESTIONNAIRE

LAST PAGE OF MANUSCRIPT