

ASBG 13 LIQUIDATION AND CLOSING REPORTS

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OBJECTIVE AND BASIS FOR PREPARATION

1. The objective of this Accounting Standards Board's guideline ASBG 13 "*Liquidation and Closing Reports*" is to describe the financial statements (hereinafter also *the financial statement*) to be prepared in accordance with the Estonian financial reporting standard upon the termination of an entity's economic activities and the commencement of liquidation proceedings, during liquidation proceedings and upon the completion of liquidation proceedings. Estonian financial reporting standard is a body of financial reporting requirements directed at the public and based on the internationally accepted accounting and reporting principles, which principal requirements are established by the Accounting Act and which is specified by a regulation of the minister responsible for the area established on the basis of subsection 34 (4) of the Accounting Act (hereinafter *guideline of the Standards Board* or for short *ASBG*).

2. Section 3 of IFRS for SMEs "*Financial Statement Presentation*" describes the policies for assessing the compatibility of the going concern principle upon the preparation of the financial statements; these principles have also been adhered to in this guideline. At the same time, IFRS for SMEs does not describe those principles that should be used in the case the going concern principle does not apply. The preparation of ASBG 13 is based on the general principles and policies of IFRS for SMEs and it also takes into consideration international practice.

SCOPE

3. *ASBG 13 "Liquidation and closing reports" shall be applied to the financial statements prepared for entities for which the going concern principle no longer applies, i.e.:*

- (a) upon the termination of economic activities and the commencement of liquidation proceedings (liquidation reports);*
- (b) during liquidation proceedings (liquidation interim reports); and*
- (c) upon the completion of liquidation proceedings (closing reports).*

4. *In case the entity has not yet started liquidation proceedings by the time of preparing the financial statements, but the termination of economic activities is probable within the next twelve months, the measurement of assets and liabilities as well as the presentation of the financial statements shall be based on the same principles as those used for the preparation of the liquidation report.*

5. In case an entity has started the termination of its economic activities or it is probable that it will or is forced to start the termination of its economic activities within the next twelve months, it shall not prepare its statements in accordance with the going concern principle set out in the Accounting Act and in clauses 36-37 of ASBG 1, but in accordance with the accounting policies set out in this guideline.

6. Companies whose dissolution has been decided by the owners (voluntary dissolution) as well as those whose dissolution is prescribed by law (compulsory dissolution) shall abide by this guideline.

7. This guideline shall not be applied to the preparation of an entity's merger statement. The closing balance of an acquiree shall be prepared using the same accounting policies and presentation format, which was used when preparing the balance sheet that was a part of the last financial statements.

8. Instead of full liquidation report, liquidation interim report and closing report, micro and small entities may prepare abridged reports, consisting of a balance sheet, income statement and notes.

DEFINITIONS

9. The following terms are used in this guideline with the meanings specified:

Liquidation report is the financial statement to be prepared for the financial year preceding the liquidation upon the termination of an entity's economic activities and the beginning of liquidation proceedings.

Liquidation interim report is the report to be prepared during the liquidation proceedings.

Closing report is the report to be prepared upon the termination of liquidation proceedings, which consists of the final balance sheet, income statement cash flow statement, statement on the changes in the owner's equity and notes, other information required under this guideline and, in the cases prescribed by law, of the distribution plan for assets.

Net selling price is the amount for which an asset can be sold in a transaction between knowing, interested and independent parties, less costs to sell.

ANNUAL REPORT TO BE PREPARED UPON THE COMMENCEMENT OF AN ENTITY'S LIQUIDATION PROCEEDINGS

Preparation of the liquidation report

10. Financial statements (liquidation report) shall be prepared upon the termination of an entity's economic activities and the beginning of liquidation proceedings, which shall provide an overview of the financial year preceding the liquidation and the entity's financial position immediately before the beginning of liquidation.

11. When terminating an entity's economic activities and starting the liquidation proceedings, the financial year can be shorter or longer than 12 months but it shall not exceed 18 months.

Example 1 – Periods of liquidation report

An entity's regular financial year is the calendar year. What follows are examples of the length of the last financial year prior to liquidation, depending on the date of commencing the liquidation.

(a) The entity's owners decide to liquidate the entity as at 31.12.20X1. The entity's financial statements for the year 20X1 are also the entity's liquidation report.

(b) The entity's owners decide to liquidate the entity as at 15.05.20X2. By the time of preparing the financial statements for 20X1, the decision of the owners regarding the liquidation is already known. The entity's last financial statements (which are also the liquidation report) shall be prepared for the period 1.01.20X1 - 15.05.20X2 and the entity does not have to prepare the entity's regular financial statements for the year 20X1.

In case the entity has still decided to prepare the financial statements for 20X1, the financial statements will be prepared for the period 1.01.20X1 - 31.12.20X1 on the same principles with the liquidation report and the liquidation report shall be prepared for the period 1.01.20X2 - 15.05.20X2.

(c) Due to non-compliance with law, an entity is declared to be subject to compulsory liquidation as at 1.12.20X2. The entity shall prepare a liquidation report for the time period 1.01.20X2 - 1.12.20X2.

12. *The liquidation report consists of the opening balance, income statement, cash flow statement, statement of changes in equity as well as the notes.*

13. The liquidation report consists principally of the same parts as the regular financial statements, but different accounting policies and a presentation format are used for its preparation. This guideline describes these differences for the preparation of the liquidation report.

Accounting policies applied in the liquidation report

14. *In the preparation of the liquidity report, the assessment of assets and liabilities is based on the following principles:*

- (a) cash shall be recognised in nominal amount;***
- (b) receivables, that are expected to be recovered during the liquidation period, are recorded at their likely recoverable amount;***
- (c) other assets are recorded at their net selling price;***
- (d) known liabilities are recorded in the amount payable according to the contracts or laws.***
- (e) if necessary, additional provisions shall be set up for onerous contracts, redundancy benefits, litigation and other legal obligations accompanying liquidation proceedings.***

15. Liquidation reports shall not be based on the going concern principle and as a result, accounting policies for the recognition of assets and liabilities either relating to their cost (for example, long-term financial assets and liabilities recognised under the amortised cost method), periodisation (for example, depreciation of non-current assets as well as prepaid expenses and deferred income) or revaluation of assets under the equity method shall not be applied.

16. The determination of the net selling price of assets shall be based on the estimated length of the liquidation proceedings and the resulting potential effect on the sales period and selling price of assets.

17. Upon the measurement of interest-bearing liabilities, accrued interest payable until the reporting date shall be taken into consideration and interest arising after the reporting date shall not be considered for measuring liabilities.

18. Provisions for onerous contracts (for example, non-cancellable unnecessary leases), redundancy benefits (employees to be laid off in conjunction with the liquidation), potential litigation and other circumstances shall be set up in the opening balance of liquidation, pursuant to the policies set out in the guideline ASBG 8 “Provisions”.

19. Although different accounting policies are used for the measurement of assets and liabilities in the liquidation report than for the preparation of regular financial statements, comparative information of the previous period shall not be adjusted retrospectively in the liquidation report.

Opening balance of liquidation

20. The preparation of the opening balance of liquidation shall be based on the entity’s regular balance sheet format, whose item titles have been specified, if necessary, or where additional items have been added, if necessary. For example, it may be appropriate to add the item “Assets held for sale” for those assets that the entity used as property, plant and equipment in its business operations but that it is forced to sell in conjunction with the commencing liquidation.

21. In the opening balance of liquidation, all assets and liabilities are accounted for as short-term.

Income Statement Prior to Liquidation

22. The preparation of the income statement as part of the liquidation report is based on the entity’s regular income statement format, but items "Profit (loss) prior to liquidation" as well as "Profit (loss) from the revaluation of assets and liabilities to liquidation value" shall precede the item “Profit (loss) for financial year”. The effect arising from revaluation of assets and liabilities due to the entity's liquidation shall be reported in the item "Profit (loss) from revaluation of assets and liabilities to liquidation value".

Example 2 – revaluation of assets upon the preparation of the liquidation balance sheet	
An entity has non-current assets in its balance sheet as at the date of terminating its economic activities:	
Cost of non-current assets:	400,000
Accumulated depreciation:	150,000
Non-current assets shall be revalued to their net selling price and reclassified in the balance sheet to current assets in the item "Assets held for sale".	
Let us assume that the expected net selling price of non-current assets is (a) 600 000 and (b) 100 000.	

(a) Accounting entry:		
D	Assets held for sale	600,000
D	Accumulated depreciation	150,000
Cr	Non-current assets	400,000
Cr	Profit from revaluation of assets and liabilities to liquidation value	350,000
(b) Accounting entry:		
D	Assets held for sale	100,000
D	Accumulated depreciation	150,000
D	Loss from revaluation of assets and liabilities to liquidation value	150,000
Cr	Non-current assets	400,000

Disclosures in the Notes to the Liquidation Report

23. Disclosures in the notes to the liquidation reports shall meet the same requirements as disclosures in the notes to the regular financial statements (see ASBG 15 “Disclosures in the Notes”).

24. The following additional disclosures shall be made in the notes to the liquidation report:

- (a) explanation of why the entity’s economic activities are terminated and its liquidation is initiated;
- (b) significant circumstances that have impacted the evaluation of assets and liabilities in the opening balance sheet of liquidation;
- (c) explanation of the income statement item “Profit (loss) from revaluation of assets and liabilities to liquidation value”.

INTERIM REPORTS PREPARED DURING LIQUIDATION PROCEEDINGS

25. *Upon the decision to liquidate, an entity's ongoing financial year ends and from the date following the same, a new financial year begins. If 12 months has passed from the start of the new financial year (date of the start of liquidation proceedings) and the liquidation process has not yet concluded, liquidators must prepare a liquidation interim report. If liquidation proceedings continue, a liquidation interim report shall be prepared at each financial year-end date.*

Example 3 – Periods of interim reports of liquidation

The decision to liquidate an entity was made at 15.05.20X1. The entity shall select 15.05.20X1 as the date to record the termination of its economic activities and initiation of liquidation proceedings. Therefore, the entity's ongoing financial year ended at 15.05.20X1 and the period from 16.05.20X1 to 15.05.20X2 shall be deemed a new financial year. Liquidators shall be required to prepare the first interim liquidation report as at 15.05.20X2

provided that the liquidation proceedings are still ongoing.
The next interim liquidation report shall be prepared as at 15.05.20X3, etc., until the liquidation proceedings have been completed.

26. *The interim liquidation report consists of the interim liquidation balance sheet, income statement, cash flow statement, statement of changes in equity and the notes.*

27. In preparing the interim liquidation report, the same accounting policies shall be used for evaluating assets and liabilities as in preparing the liquidation report.

28. In preparing the interim liquidation balance sheet, the same format of presentation shall be used as when preparing the opening balance sheet of liquidation.

29. The regular income statement format shall not be used in the liquidation income statement but the latter shall present the main income and expense groups related to the liquidation proceedings, incl.:

- (a) profit (loss) from revaluation of assets and liabilities;
- (b) profit (loss) from revaluation of assets and liabilities;
- (c) fees paid to liquidators;
- (d) other income and expenses.

30. In the cash flow statement, cash flows shall not be classified as those from operating, investing or financing activities, but instead, principal receipts and disbursements associated with the liquidation proceedings shall be presented as appropriately grouped.

31. Comparative information of the previous period shall be presented in the liquidation income statement and the cash flow statement only if this is at least the second interim report (information from the previous interim liquidation report shall be presented as comparative information).

32. Changes in net assets shall be recognised in the statement of changes in equity from the commencement of liquidation proceedings and during the last (two) interim liquidation periods.

33. The notes to the interim liquidation report are not required to meet the requirements set for disclosures in the notes to the regular financial statements. Instead, significant events that have occurred during the liquidation proceedings of the reporting period shall be described in the notes to the interim liquidation report along with the liquidator's opinion regarding the expected completion date of liquidation proceedings.

REPORTS TO BE PREPARED UPON THE COMPLETION OF AN ENTITY'S LIQUIDATION PROCEEDINGS

34. *After satisfying all the claims of creditors and depositing cash, liquidators shall prepare the closing report, consisting of closing balance sheet, income statement, cash flow statement, statement of changes in owners' equity and notes, and a distribution plan of assets in the cases prescribed by law. Cash remaining by the end of liquidation proceedings*

and amounts deposited for covering potential liabilities shall be reported in the closing balance sheet.

35. As a rule, assets shall be distributed to the owners in cash. Upon the consent of owners, the liquidators are not required to sell all the assets of the entity, if it is not necessary for meeting the requirements of creditors. In such a case, the remaining assets shall be reported in the closing balance sheet at the net selling price.

36. In case the liquidators have deposited cash either for covering known debts, which have not yet become due or for covering other potential obligations, the respective liability shall be recorded in the closing balance sheet.

37. Disclosures in the notes to the liquidation report include:

- (a) evaluation principles of non-monetary assets in closing balance sheet;
- (b) amounts deposited for covering potential obligations in the closing balance sheet;

COMPARISON WITH IFRS FOR SMES

38. IFRS for SMEs does not regulate the principles to be used for the preparation of the financial statements in case the going concern principle does not apply. The principles set out in ASBG 13 are in compliance with the general principles of IFRS for SMEs.