

Determinants of the Going-Concern Assumption in Financial Reporting: The Case of TURKEY

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ABSTRACT

The financial failures of businesses and the accounting scandals that give rise to significant results for countries and the flexibility in accounting and auditing standards have created the need to regulate the existing standards on the "going-concern assumption." In this context, the International Accounting Standards Board (IASB) provides further recommendations that focus specifically on the "going-concern assumption" and the International Auditing Standards Board (IASB) have developed new auditing standards by developing the standard "International Auditing Standards 570 – Going-Concern." In scope of this arrangements, the going-concern assumption made by Turkish Accounting Standards (TAS) is stated as "the financial reporting should be formed based on the assumption continuity of the business and the assumption that it will maintain its activities in the foreseeable future". The going-concern assumption becomes more of an issue in terms of the reliability of the information in the financial reporting, reflecting the truth and its usage the by financial users. Because, the going-concern assumption is a fundamental concept based on the preparation of financial reporting in accordance with generally accepted accounting principles. In addition, the going-concern assumption concerns a wide range of circles, including especially managers, investors, auditors, financial analysts, regulators and employees. Therefore, the discussions regarding the determination of the going-concern assumption have made the studies important, which aimed at predicting or determining of this hypothesis,

The purpose of this study is to identify the determinants, specific to business and audit, of going-concern assumption. In the study, the variables (Last two years' past year losses, operating loss, negative working capital and cash flow from negative operating activities) used in previous studies (Martens et. al., 2008; Chen & Church, 1992; Mutchler & Williams, 1990) were considered in determining the going-concern assumption. In this context, the data of 120 manufacturing companies that were traded in BIST between the years 2011-2015 have been utilized from. In the analyzing of the data, Logistic Regression Method was used. As a result of the analysis, it is confirmed that there is a statistically significant relationship between the going-concern assumption and the audition by four major audit firms, type of audit opinion, size of the operator, liquidity ratio and financial failure. However, there is no statistically significant relationship between going-concern assumption and asset profitability ratio, financial leverage ratio and the profit or loss reporting in the current period.

Keywords: Going-concern assumption, International Accounting Standards, Financial Reporting.

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