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## Going Concern Concept

### What is Going Concern Concept

Going concern concept is one of the accounting principles that states that a business entity will continue running its operations in the foreseeable future and will not be liquidated or forced to discontinue operations for any reason.

In other words, a going concern is expected to have the following things working in their favour:

1. The business is capable of running the daily operations and has capital and raw materials to do so.
2. A business has the ability to pay off the debt during the accounting period.
3. There should be demand in the market for the products or services offered by the company.
4. There should be no changes in the law governing the business.

### Importance of Going Concern Concept in Accounting

Going concern concept is very important for the generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). The concept of going concern plays a significant role in the way assets are treated.

The concept of depreciation and amortization are based on the assumption that a business will continue to perform its operations in the near future (this period is the next 12 months after an accounting period).

### Advantages of Going Concern Concept

Following are some of the advantages of the going concern concept

1. Companies during the formation years will be purchasing fixed assets that will be requiring expenditure upfront, but such assets will be providing the benefits spread over a long term, that is well beyond one accounting period. Therefore, the going concern concept provides a way to record the value of such assets.
2. It is the basis on which the profits and losses of the business are recorded for the year to which it belongs.

### Disadvantages of Going Concern Concept

Listed below are some of the disadvantages of the going concern concept:

1. Financial statements are prepared at cost and not on the basis of current market value. In such a case, if the company in an event of liquidation, will have assets valued at the market value, and as such these values will be different from the value determined at cost.
2. In the event of business being liquidated, the financial statements will be calculated on the on going concern basis, which can be misleading for the stakeholders.

This was all about the topic of Going Concern Concept, which is an important topic of Accountancy for Commerce students. For more such interesting articles, stay tuned to BYJU'S.