The Journal of Entrepreneurial Finance

Volume 7
Issue 1 *Spring 2002*

Article 5

December 2002

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Recommended Citation

Long, Michael S. and Sefcik, Stephan E. (2002) "Closely Held Firms As Going Concerns," *Journal of Entrepreneurial Finance and Business Ventures*: Vol. 7: Iss. 1, pp. 37-50.
DOI: https://doi.org/10.57229/2373-1761.1082
Available at: https://digitalcommons.pepperdine.edu/jef/vol7/iss1/5

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INTRODUCTION

Good grief, Charley Brown! After almost 50 years of publication, you are not a going concern but a mere extension of Charles Schultz. Who really cares whether *Peanuts*, a profitable business for almost half a century is really a separate on-going entity or, as it turns out, not a separate entity but merely an extension of its creator, Charles Schultz? As recently as six months ago, it would have met the traditional definitional requirement for a going concern; it could be expected to continue in operation into the foreseeable future. That going concern definition, however, does not take into consideration whether a current on-going business exists that is separate from the owner/manager, or as was the case with *Peanuts*, whether the business is merely an extension of a self-employed person. In essence, it muddles the entity issue.

This current GAAP determination of a going concern is shortsighted for two important reasons. The most important deals with creditors and other stakeholders involved with the business. Do they enter into contracts with the business or with the individual owner/manager? Currently, they contract with both since, in reality, they make no determination whether a separate firm (entity) exists. The second deals with valuing a business. If the business is not really a separate going concern, it would typically be valued as the sum of its individual assets instead of the present value of its future cash flows. Many times when buying a business, the acquirer is really just buying the assets to start his own business. This is particularly true in most service businesses.

The purpose of this paper is to advocate reintroducing a qualification to the going concern audit opinion when an entity separate from its owner/manager does not exist. Criteria for determination are also proposed. Arguably, this will make audited accounting statements more meaningful for closely-held firms. More important, this should produce information useful for potential creditors and outside owners. Traditionally, banks have extended loans to small, closely-held firms with only compiled statements; there was no need to provide audited statements. However, the process of lending is changing from a direct, face-to-face process between borrower and lender to an indirect one where credit scoring systems are used. Audited statements can provide better, higher quality information to lenders extending credit.

Though not necessarily related to going concern status, a similar situation exists with privately held firms having outside managers. Cavalluzzo and Sankaraguruswamy (2000) have a current working paper that finds executive compensation more closely related to sales than profitability in privately-held, small corporations. Almost every compensation study, starting with Lewellen and Huntsman's (1970) work over thirty years ago, finds compensation more closely related to profitability than sales for public firms. But all public firms have audited financial statements. Very few small, closely-held firms produce them. Since arguably, revenues are more difficult to manipulate than profits, compensation for these firms seems to be determined as a function of revenues. With outside managers in privately-held firms, audited statements would allow them to better assess performance to determine compensation and hopefully provide a better incentive to maximize shareholder value for the owners.

While the FASB and the SEC have focused on public firms, accounting rules have become less relevant for closely-held businesses. Creditors have learned to make lending decisions and outside owners have learned to evaluate performance without the benefit of audited financial statements. Firms that could provide this attestation function have foregone a significant revenue stream. Of course, major auditing firms are not affected as much because most small, closely-held businesses use local or regional accounting firms. Ironically, at a time when major, high- profile firms are promoting competition to identify the best-run small businesses in local markets as possible sources of new revenue, they are not considering the importance of directing GAAP to provide useful information for these closely held firms. It appears as if these large firms are moving from the traditional auditing function to focus on the more lucrative consulting business. Conceptually, accountants are not providing all the information about the firm that they can; practically, accountants have forfeited their potential auditing business with non-public firms which they could reclaim.

The remainder of this paper is organized as follows. First we provide a review of GAAP as related to the going concern and entity principles and then a review of the current literature as related to these issues. Next, an argument is made and data presented on why audited financial statements should be even more important today with changing lending practices. We then suggest how GAAP could be revised to determine a going concern. Finally, we discuss what is and is not a going concern under our criteria using an anecdotal example.

I. Current GAAP and Going Concern Status

A. Going Concern Definition

The most recent pronouncements on what constitutes a going concern are found in the **Statement on Auditing Standards, No. 59** (April 1988). This authoritative reference provides guidance to the auditor conducting an audit of financial statements in accordance with generally accepted auditing standards (GAAS). It posits, in the second paragraph, that the auditor has "...responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited." It notes in paragraph 4, that "...the auditor is not responsible for predicting future conditions or events." Apparently, this safe harbor provision protects the auditor by noting that evaluation of a firm's going concern status is not the primary goal or objective of the audit. Finally, note in paragraph 6, "Consideration of Conditions and Events" where none of the topics covered relates to the owner/manager or any other key person leaving the firm. Instead, it focuses on the usual problems that can cause a firm to discontinue operating due to poor performance.

Auditors, while aware of the going concern problem, never explicitly address the issue as it relates to a specific individual. In searching traditional accounting literature, no information was found relating going concern status to either a “key individual” or a continuation of the current owner/manager. Historically, accountants have found no reason to worry about what constitutes an “entity” when considering a going concern. The emphasis is entirely on future performance.

B. Evidence on Going Concern Qualifications with Public Firms

Accounting makes the going concern principle the basis for many measurement and valuation concepts such as the historical cost and revenue recognition assumptions. Many studies have been undertaken to demonstrate the stock price effect of receiving a going concern qualification on the financial statements. It appears to impart additional information to the market for both security pricing and predicting future activity such as bankruptcy or delisting. While these studies are all conducted on publicly-trade firms, one could expect similar inferences from a study of closely-held firms.

Prior literature generally provides evidence that the going concern audit opinion provides an early warning signal. Hopwood, McKeown and Mutchler (1989) find that the qualified going concern opinion provides incremental explanatory power in the context of a bankruptcy prediction model. Kennedy and Shaw (1991) report that the qualified opinion is a significant variable in explaining bankruptcy resolution (i.e., whether a company which files for bankruptcy eventually liquidates or reorganizes). Another aspect of this literature investigates possible reasons that underlie the auditor’s error “on the other side.” These studies consider the decision to issue a going concern opinion for a company that ultimately files bankruptcy (McKeown, Mutchler and Hopwood, 1991). In this approach in a later article, Hopwood, McKeown and Mutchler (1994) find no evidence that auditor’s qualified going concern opinions are inferior predictors of bankruptcy compared to traditional statistical models. Nogler (1995) follows companies that receive qualified opinions through their resolution in terms of bankruptcy, liquidation, merger or subsequent receipt of an unqualified opinion. He concludes the error rate quoted in the literature that results from incorrectly giving firms qualified opinions is too high.

The broader question as to whether "subject to" audit qualifications provide information content to capital market participants is a long-standing, though unresolved, research issue in the financial accounting literature. However, effective with SAS 58 (AIPCA 1988), the Auditing Standards Board eliminated the "subject to" audit opinion based, in part, on its view that it did not convey incremental information to financial statement users. Arguably, it should be reinstated.

Many studies examine whether the auditor’s decision to modify his opinion in the presence of material uncertainties is correlated with stock returns over time. They group together a variety of "subject to" audit opinions including asset realization, litigation concerns, as well as going concern issues. The earlier papers in this literature find little support for the information content of these opinions (e.g., Ball, Walker and Whittred, 1979; Elliott, 1982; and Dodd, Dopuch, Holthausen, and Leftwich, 1984). Subsequent literature suggests that these audit opinions affect stock returns in various contexts based upon whether the audit qualification receives media coverage (Dopuch, Holthausen, and Leftwich, 1986); whether the qualification is withdrawn (Loudder, Khurana, Sawyers, Cordery, Lowe, and Wunderle, 1992); or whether the audit opinion dampens market reaction to subsequent earnings announcements (Choi and Jeter, 1992).

As noted by several of these authors, a variety of issues confound examination of the information content of these opinions. Information content studies are basically empirical studies of association (i.e., statistical dependency) between various independent (explanatory) variables and stock price changes over some appropriate event window. There are empirical problems in specifically identifying the event or announcement date with the release of accounting statements. Then problems exist with concurrent news disclosures. Finally, the absence of a suitable expectation model exists from which to discern the unexpected component of the qualification.

Other papers focus only on the information content of the going concern opinion. Firth (1978) finds for a sample of UK companies that the announcement of a qualified going concern opinion is associated with negative stock returns (though his results have never been replicated). Fleak and Wilson (1994) find that unexpected qualified going concern opinions are associated with negative abnormal returns, but unexpected clean opinions do not produce positive abnormal returns. Investigating both a qualified going concern report and subsequent bankruptcy (similar to Choi and Jeter's (1992) approach), Chen and Church (1996) report that the presence of qualified going concern status attenuates the market reaction to a subsequent bankruptcy filing.

More recently Willenborg and McKeown (1998) consider going concern opinions with IPOs. They find approximately one quarter of all IPOs under $10 million have going concern qualifications in their offering prospectus. Building this information incrementally into their delisting model based upon other publicly available information, they find that the explanatory power of the extended model is significantly increased. They also find that IPO firms with going concern opinions suffer less first-day underpricing than similar IPOs without going concern opinions. They conclude that having a going concern opinion reduces *ex ante* uncertainty for investors. Their work motivates consideration of a broader definition of going concern for closely-held firms.

These studies suggest that a qualified going concern opinion provides value-relevant information for publicly traded firms. We could find no literature dealing with going concern qualification in closely-held firms. All published studies dealt with the results of specific events' (e.g., qualified opinions) effect on either the firm's stock price or subsequent bankruptcy or delisting. While all are certainly logical research questions, research to date has failed to address the issue of whether the audit (qualification) process provides useful information for creditors of non-public firms. Unfortunately, no insight is provided into the going concern problem that we posit: does a separate entity actually exist in a closely held enterprise and how can it be recognized. We therefore consider some original research into whether others view separate going concerns with closely-held firms.

II. Going Concern Status of Closely Held Firms: A Lender's Perspective

Closely held firms rarely have audited financial statements. However, all banks lend money to these firms, suppliers extend credit to them, and obviously employees work for them. All without caring whether a separate going concern actually exists. This occurs, in good part, because of no well-defined going concern concept for small, closely-held firms. In not considering that issue, accountants have defaulted on their responsibility to provide any meaningful information about these firms' ability to survive in the future.

The standard argument for small firm owners when asked about audited financial statements is why bother, lenders don't care. But lenders do care. They almost always require that owner/managers personally co-sign loan agreements. After the owner/manager has established a successful relationship with the lender, usually five to ten years later, new loans will be made requiring only the "firm" to sign. Traditional finance arguments suggest agency problems. The firm could shift risk after borrowing the funds or it could just forego positive net present value investments by paying the money out to the owner/manager. While repeated success with a customer definitely attests to his/her character, adverse incentives still remain. However, after several successful loans, the firm has matured and now represents a going concern to the bank. Any adverse incentive problems are with respect to the business and not its owner/managers. Thus, the personal co-sign requirement is typically no longer necessary.

Direct evidence on going concern status is not available. However evidence is available on lenders' requirements for borrowers. Specifically, we can view the portion of firms whose owners are required to personally guarantee borrowing agreements. Overall, we find that a significantly higher portion of firms with owner/managers are required to give personal guarantees than are small firms with outside professional managers. Obviously, under our definition of going concern, these would almost all qualify as separate entities. Secondly, we find that older firms also have a lower portion of loans where personal guarantees are required. These firms are more likely to have established themselves as separate going concerns independent of their owner/managers.

Data we examine are taken from the 1993 National Survey of Small Business Finance that was jointly undertaken by the Federal Reserve Board and the U.S. Small Business Administration. It provides detailed information on the types and sources of financial services used by small businesses with emphasis on the use of credit. It contains information on collateral including personal guarantees being required by the owners. The firms are also categorized by type (proprietorship, partnership, corporation, and Subchapter S corporation) along with age and other variables. A good review of this data can be found in Cole and Wolken (1995).

We consider only regular or "C" corporations because proprietorships and partnerships are not really going concerns by almost any definition. A more difficult classification decision arose for Subchapter S corporations. We felt that these firms, almost as large in number as "C" corporations, do not really represent going concerns because of their limited number of shareholders and the unanimous agreement required by shareholders to qualify as a Subchapter S. However, it should be noted that we also examined the data including all corporations and obtained qualitatively similar results.

We investigate the hypothesis that lenders can identify going concerns and are less likely to require owners' personal guarantees on loans. The first characteristic that would qualify a small corporation as a going concern is having an outside manager. There were 2662 loans reported as "C" corporations. Coincidentally, exactly half or 1332 had owners' personal guarantees. However, for the 1949 owner/manager firms, 52.2% had personal guarantees while the remaining 713 firms with outside managers had only 44% with personal guarantees. Under the hypothesis of equal means, a binomial test indicates a significantly greater portion of loans to owner/manager firms required personal guarantees.

Our next test looks at whether the age of the firms makes a difference. We investigate the hypothesis that older firms are more likely to be going concerns. Over time, stakeholders start to identify more with the firm than its owner. For owner/manager firms, only 1142 loans are from firms reporting an age of greater than 10 years. Of these, 581 (or 50.9%) require personal guarantees. For the younger firms' 807 loans, 437 (or 54.2%) require the guarantee. While this difference is not as great as that between insider and outside management, it is still significantly different. Thus, consistent with our suggestion, it appears lenders are currently capable of identifying going concerns.

Why should accountants worry whether or not a going concern exists? The attestation function basically confirms that financial statements are fairly and consistently presented. Potential lenders use this data to assess risk in order to make informed financing decisions. Smaller firms rarely produce audited financial statements unless required. In cases of no audit, the financier must develop his own criteria for determining the going concern status and credit worthiness of the applicant.

The importance of accurate, relevant, and timely financial information can be expected to grow over time. Traditionally, small firms developed a close relationship with their banker that lasts for years. Bankers accumulate private information on these closely held firms that allowed them to make informed decisions. Closely held firms obtain financing without having to disclose their financial data to the public. However these relationships are changing now. With the recent merger activity in the banking industry, the small, closely-held firm finds its "personal" banker continuously changing. Banks routinely transfer managers from branch to branch making long term relationships built on trust and private information more difficult to maintain. Conversely, smaller firms, for their part, are now more likely to have less loyalty to their banker and more likely to shop around to obtain the best loan terms. The use of objective and verifiable information that includes audited financial statements will become more important.

Loan shopping reaches its extreme with the uniform conditions for granting small business loans. Wells Fargo has a program to extend $100,000 of credit to closely held firm owners through a standard application form somewhat similar to a car loan application. Forms are credit scored and the loan decision is made automatically. The securitization or pooling of loans to small businesses is also becoming common. For this line of business to expand and reach its potential requires reliable and consistent data. Arguably, this will require identifying which firms are really separate going concerns and which are merely extensions of their owner/manager entrepreneurs. Again, a clearer line in establishing what is a going concern becomes relevant.

In a recent paper related to small firm business lending, Petersen and Rajan (2000) look at the "distance" of small firm borrowers from their lenders. Using the same National Survey of Small Business Finance data, they found small firms are now significantly further in geographic proximity from their sources of funds. They point out that informational transparency, or the ability to evaluate the firm's credit quality at low cost, will lower the cost of lending to the firm. We feel that audited financial statements are one way to provide certified information to lenders. This data can be interpreted with confidence with respect to its accuracy and fairness. Further, it does not necessitate physical visits or personal contacts by the lender that would traditionally be required as due diligence for loans to small, closely-held firms. The federal government is one lender that has historically required audited financial statements before making loans. In programs like the Small Business Administration (SBA), higher accounting standards are enforced. Further, the SBA is aware of the weakness in the going concern verification for small firms. They require owners on *any* equity position to co-sign the loan; not just the principal owners required in private arrangements. This requirement and the senior position of their debt greatly restricts firms' financing options; particularly their ability to undertake additional financing in the future. As an aside, the government guaranteed portion of these loans, typically 80% of the amount borrowed, is already being securitized and resold. It is entirely likely that the other 20% will be pooled and also sold in the future.

III. Does A Going Concern Exist?

When valuing closely held firms, the first consideration is whether a separate "going concern" actually exists. For a large firm, going concern refers to whether the entity is solvent and can continue to exist in the immediate future as currently structured. With a closely held firm, emphasis is changed from potential survivability in the future to whether an independent business exists that is separate or separable from its current owner/managers. Thus, the relevant issue becomes whether the current business can continue to exist with a significant change in ownership. In many cases, closely held firms are not separate entities from their owners. The business is merely an extension of the entrepreneur or person who developed the entity or "firm" over time. It most likely is structured as a separate firm for legal and/or tax reasons. However, with a change in ownership, a different business may emerge. Prior to the owner/manager being replaced, it can be very difficult to determine whether a separate business exists, but such a determination is required to know how the business should be valued.

The following two criteria are posited for a closely held firm to be considered a separate, on-going entity from its current owner/managers. First, will the firm continue to operate as it is currently structured if the current owner/manager is replaced? That is, if the owner were replaced, would there truly be a continuity of business or would a new business be formed using the old assets. Many small firm sales are really the restructuring of old assets into a new enterprise. You purchase a farm to become a farmer, a cab medallion to become a taxi driver, or a seat on the stock exchange to become a trader. These are all new businesses that require specific assets to enter the field. These assets are basically sellable property rights and do not represent specific ongoing businesses.

The second test considers the perspective of the various stakeholders that deal with the business. Do the customers or suppliers view themselves as dealing with the business or with its current owners? For example, consider an accounting business. An independent accountant has her firm name on the door, Small Business Solutions, Joan Smith, CPA. She has an office staff and several junior people working for her. This business is merely an extension of Joan. She may, in fact, have valuable assets to sell when she retires, including her current customer list and a well trained staff and organization. However, the new buyers must establish themselves as a going concern. Clients probably would consider their new accountant to be a different firm even if the same name were retained. Contrast this with a large firm. Assume that your accountant is Arthur Andersen. While you may deal with a specific individual, you know that when he or she leaves, their replacement will be of similar quality (education, training, and experience). Further, users of your financial statements look at Arthur Andersen to establish credibility and not the specific partner who signs the statements. One reason the market is willing to pay a higher rate for Big 5 assurance services is because users of their financial statements know the firm and its reputation and do not have to consider the quality and integrity of the individual accountant.

If a firm passes both tests, it should be valued as an ongoing business. Even though changes will be made in the firm after it is sold, the valuation process should start by evaluating current cash flows and assuming that the enterprise will continue into the future even if operations are conducted by new individuals and under new leadership/management.

A firm failing to pass either test should be valued instead as the sum of the specific assets being sold. These assets could be either tangible or intangible. In rural areas, farmland is priced for its location (bottomland or upland) by the acre. Similarly, specific intangible assets such as a cab medallion or a seat on a security exchange are also priced differently depending on city location or stock exchange. Quite often, current prices are published in local newspapers. These are identifiable specific assets.

Conceptually similar, but more difficult to measure, is buying a service business such as a medical, legal, accounting, or consulting practice. What is actually being acquired? An existing office, some staff, or possibly just some used equipment. But what is really being paid for is the chance to see and hopefully impress most of the current customers *once*. If they do not like you, they will shop elsewhere. You and your expertise are the product. This is why you cannot value the business as a going concern.

IV. Real Examples of Going Concern Determination

The previous examples were meant to suggest straightforward decisions. The actual distinction between a going concern and a non-going concern can be somewhat arbitrary. For that matter, the delineation between a going concern and a self-employed entrepreneur is also murky. One purpose of this paper is to flag the importance of making a going concern determination based upon more than the future profitability of old owners. In the next section, some real examples of what is and what is not a going concern are provided. Then an example of a business that at first glance would appear to be a going concern but, in fact, turns out not to be, is provided.

A. The CEO is Important But Not the Entire Factor

Ford Motor Company is obviously a going concern even though the Ford family controls 40% of the voting stock and their chairman of the board is William Clayton Ford, Jr., who is the founder's great grandson. Similarly, consider a newer firm whose founder's name is not on the door: Microsoft and Bill Gates. If Mr. Gates suddenly dies from a car accident, the market value of the company Microsoft would undoubtedly suffer. Does this mean that Microsoft is not a going concern? Of course not. It just shows that Mr. Gates is a highly valued, key employee. Or, what about Mike Bloomberg who controls the privately held Bloomberg News Service? While his demise would cause great problems, one would still consider Bloomberg News as a going concern.

Moving along the continuum to a more personal relationship, consider *Lutece,* a four star restaurant in New York City, owned by Andre Soltner. Recently, a valuation was undertaken for a possible sale. The valuation was done two ways: with and without Mr. Soltner continuing on as chief chef. Since customers of a restaurant of this caliber view the chef as the major determinant of its quality, it becomes questionable whether a going concern exists without him. This relevant accounting issue is not just whether the current owner/manager is valuable to the business, but whether the business is separable or even capable of being valued without him.

One test that is <u>not</u> considered in determining a going concern is how it's actually organized legally. The current owner/managers organize their firms to minimize certain types of costs. These include transaction costs to establish the business, its potential liability exposure, and the joint firm and individual tax exposure. While most proprietorships and regular partnerships would not qualify as going concerns under our definition, others would. This would include many Limited Liability Companies (LLCs), or in some states, Limited Liability Partnerships (LLPs). Most LLCs both have a limited life (30 year maximum) and are reorganized if there is an ownership change. LLCs can be taxed as either a corporation or a partnership. Some are going concerns under our criteria while others are not. Conversely, many small corporations are merely the extension of the owner/manager’s self-employment. Conceptually, the corporate form has a continuous life, but for valuation purposes most small closely held corporations should be viewed as facing a finite investment horizon.

B. *Florida Retirement Lifestyles* and the Going Concern

What happened to *Florida Retirement Lifestyles* provides a good example of what constitutes a going concern under our definition. As Hoffman (1998) reported, about 30 years after its founding in 1946, Dyeann and Richard Dummer purchased what became *Florida Retirement Lifestyles*. Starting in the mid-1970's, Florida became an extremely popular place for people to retire. *Mobile Home Living*, which was the magazine’s original name, evolved into *Florida Retirement Lifestyles.* It was riding the crest of that trend. Despite some lean times, the Dummers have converted a weekly tabloid into a glossy magazine that appears 10 times a year.

In July 1996, they produced their banner issue for the 50,000-circulation voice of the Sunshine State’s retirement community. The 86 pages featured a home-buying guide for retirees and brimmed with real-estate ads. More importantly, it generated almost $100,000 in revenues which was a record for a single issue according to the Dummers. The demographic trend in the burgeoning retirement population points to continued growth for the publication and even greater revenues in the future.

Is this magazine a going concern under our definition, or merely an extension of the Dummers? First, can one expect the business to continue as it is currently structured if the owner/manager is replaced? It appears as if this firm could continue without much interruption. It has been in business over 50 years and has already gone through one change of ownership. Second, do customers (and other stakeholders) view their interactions with the business, or magazine, as dealing with the firm or with the Dummers? The purchasers of the magazine buy it for content not because of *who* publishes it. Similarly, advertisers consider the audience of the magazine and not the specific publisher, when they purchase advertising space.

The potential of this magazine also caught the attention of William A. Campbell, then 55, who had recently relocated near Fort Lauderdale. While previously a financial planner with no publishing experience, Campbell saw great potential in the magazine business. He spotted a favorable demographic trend in the growing retirement population and purchased the magazine from the Dummers for an undisclosed sum. Campbell integrated *Florida Retirement Lifestyles* with two other smaller publications he had bought earlier, hoping to lower overall expenses such as circulation and accounting.

The issue, from our perspective, is whether Campbell bought a going concern in *Florida Retirement Lifestyles* or just a title (and circulation list) to make into his own magazine. The going concern classification is most important at the time of a major financing and/or ownership change. One indication that the transaction involved a going concern was that the magazine's editor continued on with the new owner, Campbell. He was very encouraged as Campbell upgraded the journalistic standards of the magazine, disdaining "puff pieces." Campbell also spent heavily on graphics and content assuming that improved quality would increase the sale of advertising space which was the primary source of revenues.

Changing a business after its purchase does not, by itself, indicate it was or was not a going concern. What matters is various parties' perspectives at the time of a restructuring or sale. In this business, the major stakeholders were employees and advertisers. While the employees were content with the change, advertisers had reservations. The Dummers, who were no longer involved with the business, were outstanding salespeople. They had produced a product that pleased their advertisers. However, the key to determining the going concern status of this business is neither the Dummers' sales talents nor Campbell's strategic decisions. The key is what the stakeholders thought. In an *Inc.* magazine article, Steve Wallschlaeger, general manager of the retirement community Hacienda Del Rio in Edgewater, Florida, states… "We've known the Dummers for years. When they left, the magazine left with them." It is not surprising that advertising revenues dropped way off. As a result, if Mr. Wallschlaeger's view is a representative quote, no going concern existed with this magazine when it changed hands.

One year to the month after the banner issue that initially caught Campbell's attention, his publishing business filed for bankruptcy. The business reported assets of $98,089 and liabilities of $557,712. Two months later, Campbell filed personal bankruptcy owing more that $800,000 to 32 creditors. His largest single debt was owed to the Dummers who had financed his purchase of their magazine. If the business had been identified as a non-going concern and was viewed as inseparable from its owners, it is quite likely Mr. Campbell would have considered the purchase more carefully and quite possibly avoided bankruptcy.

While anecdotal, these stylized facts for a closely held business and its purchase highlight issues that must be considered before making a major financing or acquisition decision. Obviously, every situation will be different. However, specific rules to determine a going concern, while difficult to articulate, are not impossible to establish.

V. Conclusions

Generally Accepted Accounting Principles (GAAP) apply to more than just publicly traded firms. Further, information's relevance should be measured by more than security market price reactions. The growing financial markets for lending are now securitizing loans for small, closely held firms. Lenders and borrowers are further separated geographically than ever before making personal visits by lenders more difficult if not problematic. Audited accounting statements could provide important information in that process. However, this would require a change in standard-setting trends for GAAP as well as the attitudes of accounting firms towards this possible new area for business generation.

As a neglected criteria in this shift, we consider the going concern principle. As it now stands going concern status is based entirely on a firm's ability to continue existence as it is currently operating. No thought is given as to whether a going concern would even exist if a sudden change in its principle owner/manager occurred. This is obviously an important piece of critical information for potential creditors. We propose two criteria to determine whether a separate going concern exists. Will the firm continue to exist if its owner/manager is replaced? Do customers and other stakeholders view themselves as dealing with a separate entity or just the owner/manager? Reinstating a going concern qualification in the attestation process, especially for small, closely-held firms, will provide useful information for potential creditors and shed light on this contentious valuation issue.

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