

SA 570 : Going Concern (G.C.) [Simple + Scoring]

G.C. Basis of Accounting

kal band? (nahi) → (chatti jayegi) → → → →

F.S. are prepared on basis that entity will continue operations for a **foreseeable future.**

General Purpose FS (Common users) prepared using G.C. Basis.

Sp. Purpose F.S. (SA800) [Specific users] may/may not be prepared using G.C. Basis. (nahi)

unless
 entry intends to liquidate or has no other alternative.
 or cease operations (bandhna band)

G.C. Appropriate? ⇒ [F.S. Effect].

Yes

No.

Assets & Liabilities recorded on a basis that entity be able to

FS are prepared using liquidation basis.

Realise Assets & Discharge liabilities in N.C.O.B.

eg P.P.E

Value in use	₹ 5,00,000
Selling price	₹ 3,00,000
Record?	₹ 3,00,000

Q Mgt Responsibility? Assess G.C. + Appr. disclosures of G.C. in F.S.

Q Auditor Responsibility? (2 stages)

I. (Aaj) SAAE → conclude → G.C. Appropriate?

II. (kal ki chinta) conclude ⇒ **Material uncertainty** exist?

(entity functioning)

Note: Auditor **can't guarantee** entity's ability to continue as a G.C.

∴ of J.L.A.

↓
 Maint! [P.C. evidence]

Basic Concepts

1. Events & conditions (E/Cⁿ) that may affect G.C.

financial [A.S.]

- High liabilities
↓
pay x
- high losses [operating]
- -ve cash flows

operating (Supply chain)

- Suppliers x
- workers x
- K.M.P x
- competition (strong)
- customer demand ↓

other

- NOCLAR
- High legal claims
- catastrophe (calamity)
↓
insurance x

2. Material Uncertainty (E/Cⁿ)

Likelihood (% ↑) + Magnitude (£ ↑)

eg high chances of penalty of £500M ⇒ Co. pay x (future)

G.C. ⇒ Appropriate
Trik ✓ [Aaj]
Kal ⇒ 'dikker aa skhi'
M.V. ✓

3. Mitigating factor [Remove M.V. ✓ Bal Bal Bachhe]

eg a) Govt allowed Co. ⇒ to pay penalty in instalments over 100 yrs.
Also waived off tot. of penalty.

b) Insolvency Resolution Process [Bankrupt Co.]

[Resolution Plan ⇒ Approve]

Revive
[creditors ⇒ work. Restructure]

Auditor's Role

R.A.P
(Identify → E/Cⁿ)

Additional Audit Procedures
E/Cⁿ
M.V.? + mitigating factor?

Conclusion
• G.C. App? ↓ (yes)
• M.V.? ↓

Reporting

R.A.P \Rightarrow Identify E/cⁿ

check if mgt performed G.C. Assessment?

Yes

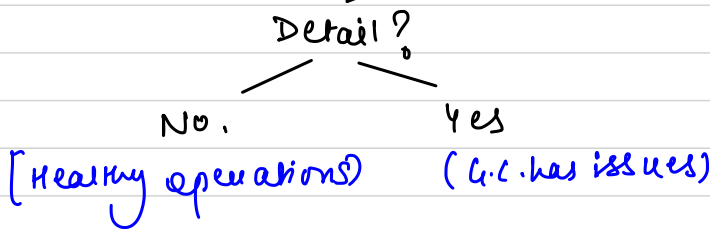
- Discuss the assessment with mgt
 - Inquire if any E/cⁿ identified?
- (Yes)
- mgt's plans to address them.

No

- Discuss "Basis" of using G.C. Basis of Accounting
- Inquire about E/cⁿ identified.

NOTE: 1. Stay Alert! for such E/cⁿ throughout audit.

2. Evaluate mgt's G.C. assessment



- Period?
- Same period as mgt
 - Minimum 12 months from date of FS.

Additional Audit Procedures [5*]

(E/cⁿ identify \Rightarrow M.V.? \Rightarrow mitigating factor?)

khali khar?
② [Plan] Evaluate mgt's plans for future actions

- whether outcome likely to improve situation
- whether plans are feasible

(Sukha sukha)

① where mgt not yet performed G.C. assessment,

request mgt to make assessment.

④ Addⁿ facts/info. available since date of mgt's assessment.

③ where entity has prepared cash flow forecast & analysis of forecast is significant

Evaluate

Reliability of data used to prepare forecast

whether adequate support for assumptions in forecast.

by bank \rightarrow Addⁿ financing

Supporting Docs. ?
[Email / Agreement / Letter] official

⑤ Request W.R. from mgt & TCW regarding

- plans &
- their feasibility.

H.W Q.B (CSA570) Case Study Q1/2^{news}

Describe (a) (b) (c) [Read]
(attention)

Conclusion

I. SAAE → Conclude → G.C. Appropriate?

II. Conclude → M.U. (E/Cⁿ) Exists?

↓
"yes"
=

F.S. Disclosures (E/Cⁿ ✓ ⇒ M.U.?)

M.U. x

↓
E/Cⁿ

M.U. ✓ [4 x disclosures]

↓

"Read from Book"

B.P ↑ ○ E/Cⁿ → cast S.D. → G.C.

B.P ↓ ○ Plans

B.P ↑ ○ M.U.

○ Entity may be unable to

Realise Assets

Discharge Liab. on N.CoB

Reporting *

G.C. Inappropriate

G.C. Appropriate (M.U. Exists ✓)

F.S. prepared using

Liquidation (Trick) Basis

faili hai gaal baad

G.C. Basis

A. Unmodified Opinion

B. Adverse opinion (M.V + P.V)

Spl. case

mgt → F.S. disclose

G.C. Basis follow ✓

but G.C. Inappropriate

↓
Adverse opinion

galti → Abarene sudharap

C. Disclosures ✓

○ Unmodified opinion

+

○ M.U.R.C. Section (M.U. related to G.C.)

→ Draw attention to note in F.S.

+

→ State M.U. exists & our opinion is not modified on this matter.

Disclosures to

D. ○ Qualified / Adverse Opinion

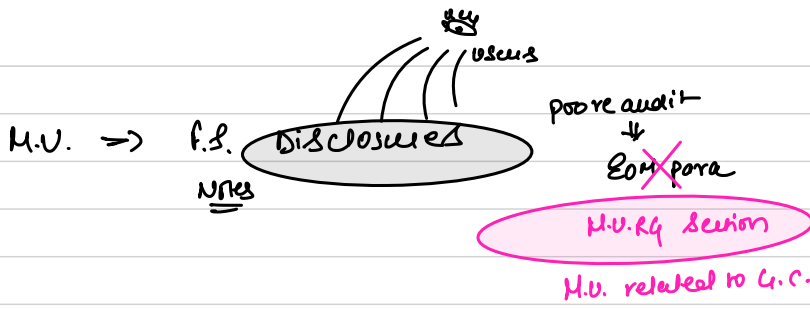
+

○ Basis for Q/A opinion section, state:
→ M.U. exists &
→ F.S. don't adequately disclose this matter.

[Trick: Over (G.C. issue v. high) disclosure Adverse / Under (G.C. issue v. low) disclosure Qualified]

E. mgt unwilling to make Extend

G.C. assessment ⇒ SAAE ⇒ Qualified / Disclaimer Opinion.



19 years → growing concern

CAO 2020 Reporting [Clause XIX of Para 3, CAO 2020]

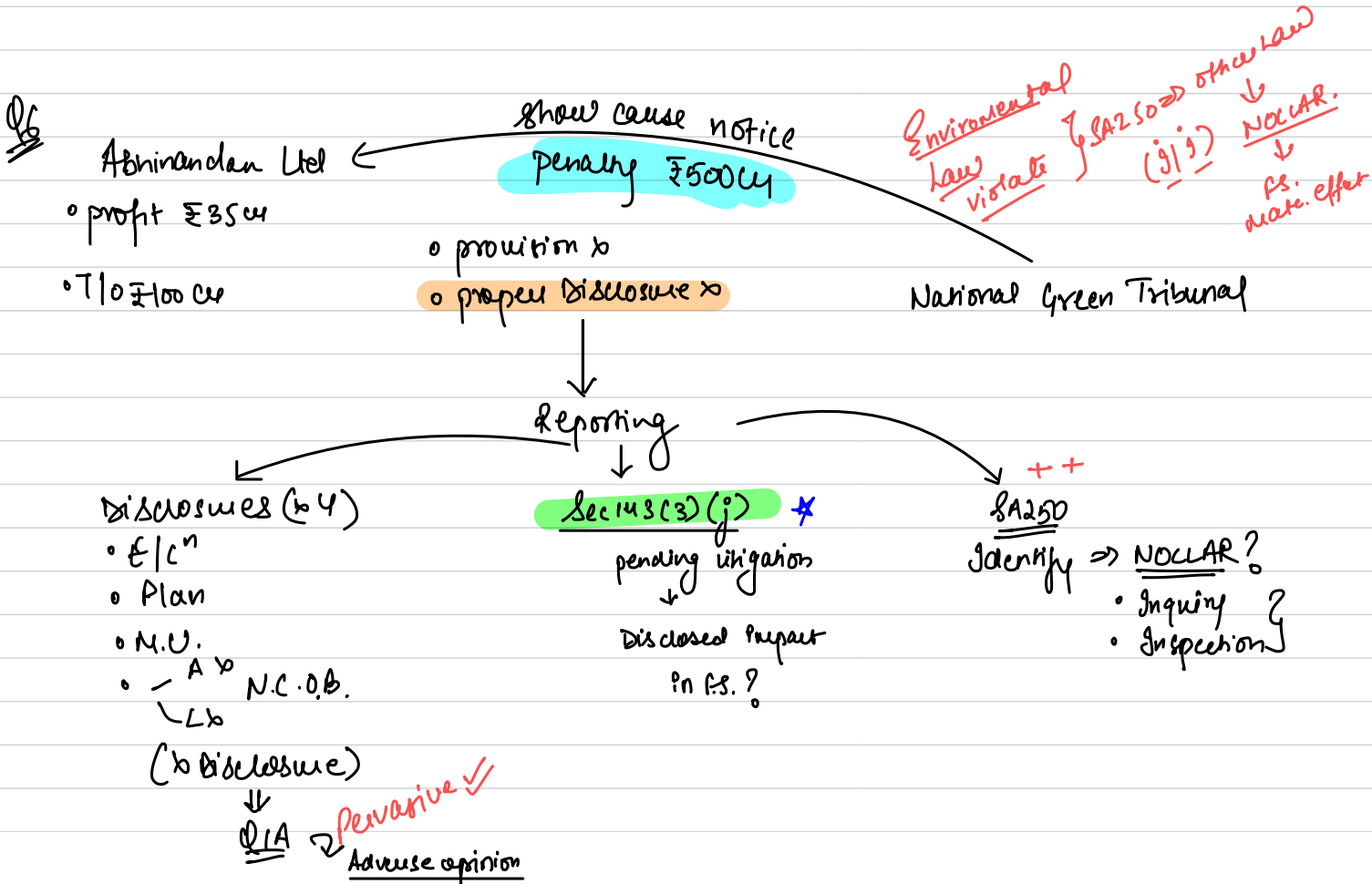
- On basis of
 - Ageing & expected dates of realisation of financial assets,
 - payment of financial liabilities,
 - financial ratios, current ratio | quick ratio | DE ratio → Milenge
 - BoDs & mgts plans &
 - other info. in fs.

whether auditor is of opinion that

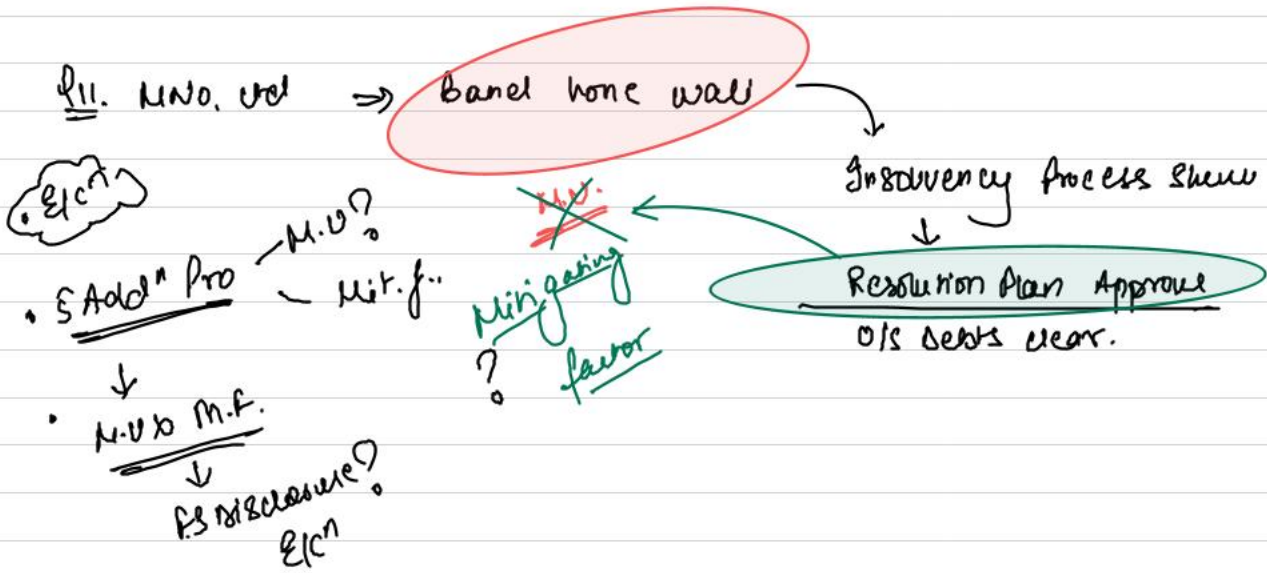
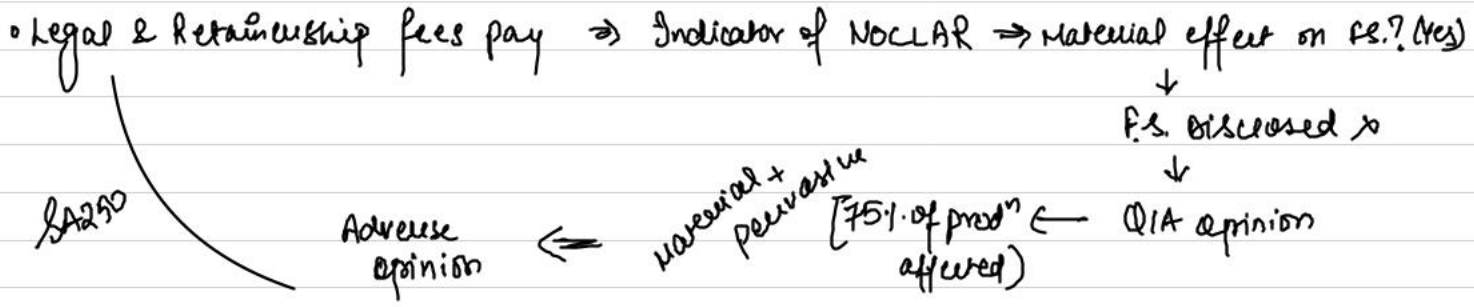
No M.V. exists on date of AR that

is capable of meeting liabilities at B.S. date,

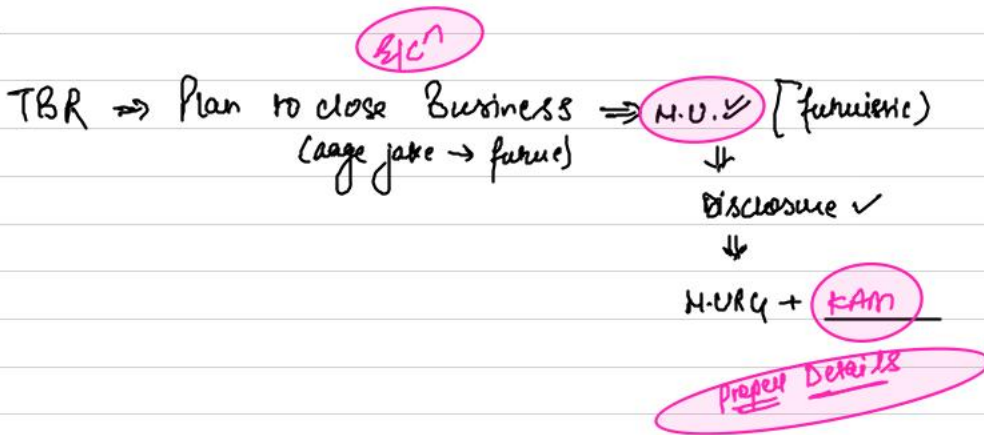
when they fall due within 1 year from B.S. date.



Q8 Quorum Mechanics UoP



Q12



SA570 Summary chart

• **Q.C. Basis of Accounting** → Appropriate → A/L recorded $\begin{cases} A \rightarrow \text{Revalue} \\ L \rightarrow \text{Discharge N.C.O.B.} \end{cases}$
 → App'to → Liquidation Basis

• **mgt Resp.?** Assess Q.C. + Disclosures in PS.

• **Auditor Resp.?** I. SAAE → conclude → Q.C. Appt.?. II. conclude → M.U. Exists?

• **R.A.P → Identify EICⁿ** → mgt $\begin{cases} \rightarrow \text{Q.C. Assess } \checkmark \rightarrow \text{Discuss + Inquire (EICⁿ) + Plans} \\ \rightarrow \text{Q.C. Assess } \times \rightarrow \text{Discuss + Inquire (EICⁿ)} \end{cases}$
 → Q.C. Assess. Evaluate → cover min. 12 months.

• **Addⁿ Audit Pro.** [EICⁿ → M.U.? + Mitigating factor?]

1. Request Q.C. Assessment
2. Plan [improve + feasible]
3. Cash flow forecast (beta + assumptions)
4. Addⁿ facts & info.
5. W.R. (plans + feasibility)

• **Conclusion I.** SAAE → conclude → Q.C. Appt.?. II. conclude → M.U. Exists?

• **Disclosures** → EICⁿ $\begin{cases} \rightarrow \text{M.U. } \checkmark \text{ [EICⁿ + Plans + M.U. + Assets Liab NCOB]} \\ \rightarrow \text{M.U. } \times \text{ (EICⁿ)} \end{cases}$

• **Reporting** $\begin{cases} \rightarrow \text{Q.C. Inappropriate (B. Q.C. Basis } \checkmark) \rightarrow \text{Adverse opinion} \\ \rightarrow \text{Q.C. Appt. (M.U. exists } \checkmark) \end{cases}$
 • Disclosures \checkmark → Unmodified opinion + NURC section $\begin{cases} \text{Draw attention} \\ \text{M.U. } \checkmark \\ \text{opinion } \times \text{ modified.} \end{cases}$

• Disclosures \times → QIA opinion + Basis for QIA opinion [M.U. \checkmark Disclosures \times]

• **Caro 2000** Basis of financial Asses/Liab ratios + mgt plans + other info

whenever no M.U. exists ⇒ Co. capable → meet Liab. at B.S. date due within 1 year from B.S. date.

• **SA 701:** M.U. related to Q.C. by its nature a kAM.

Notes: • If no disclosure of M.U. (Q.C. severely affected ^{eg.} 75-1. prodⁿ / Soccer penalty) ⇒ Adverse opinion.

• CARO Reporting when Q.C. Inappropriate

• SA 250 reference when Indicators of NOCLAR in Ques.