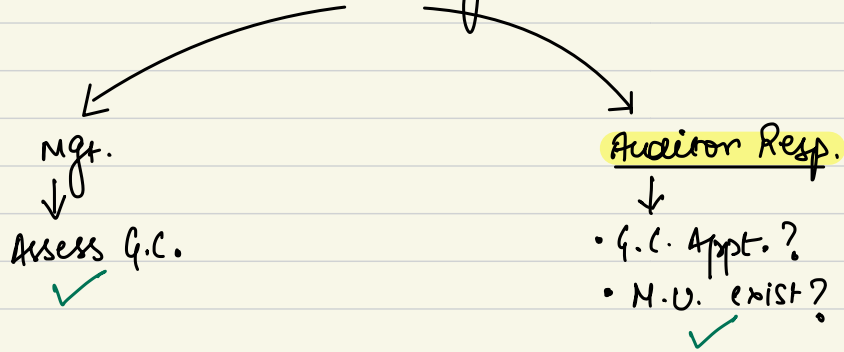
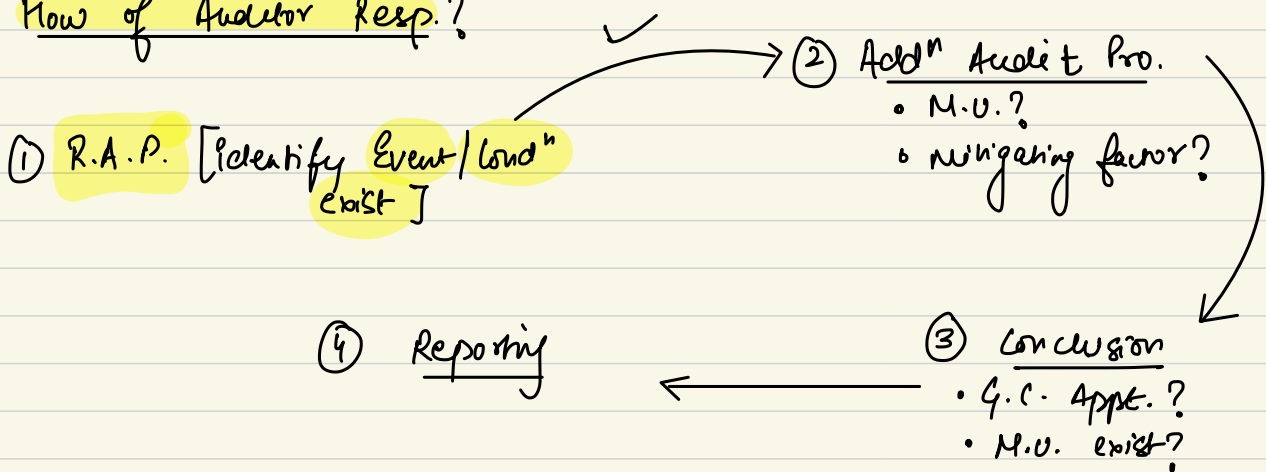


SA 570: Going Concern (G.C.) [V. Imp. + V. Easy]



Flow of Auditor Resp.?



[Basics]

G.C. Basis of Accounting

• Entity normally is a G.C. i.e. continuing operations for foreseeable future.

(meaning)

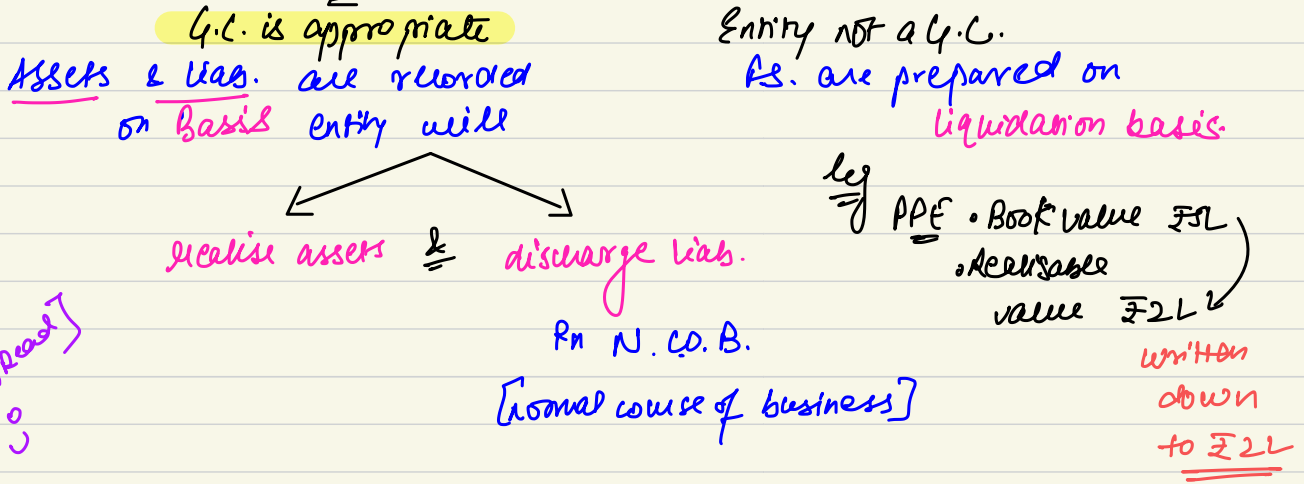
• Assumed that entity of liquidation or neither has intention to nawn nor necessity to majboori (dhande) materially curtailing scale of operations out down / reduce

• G.C Basis of Acc? fs. are prepared on assumption that entity is G.C. will continue operations for foreseeable future.

→ General Purpose fs. (GPFs) are prepared using G.C basis of Acc. all used

Farak

• Significance of G.C. Basis of Acc? It is effect on preparation of Ps.

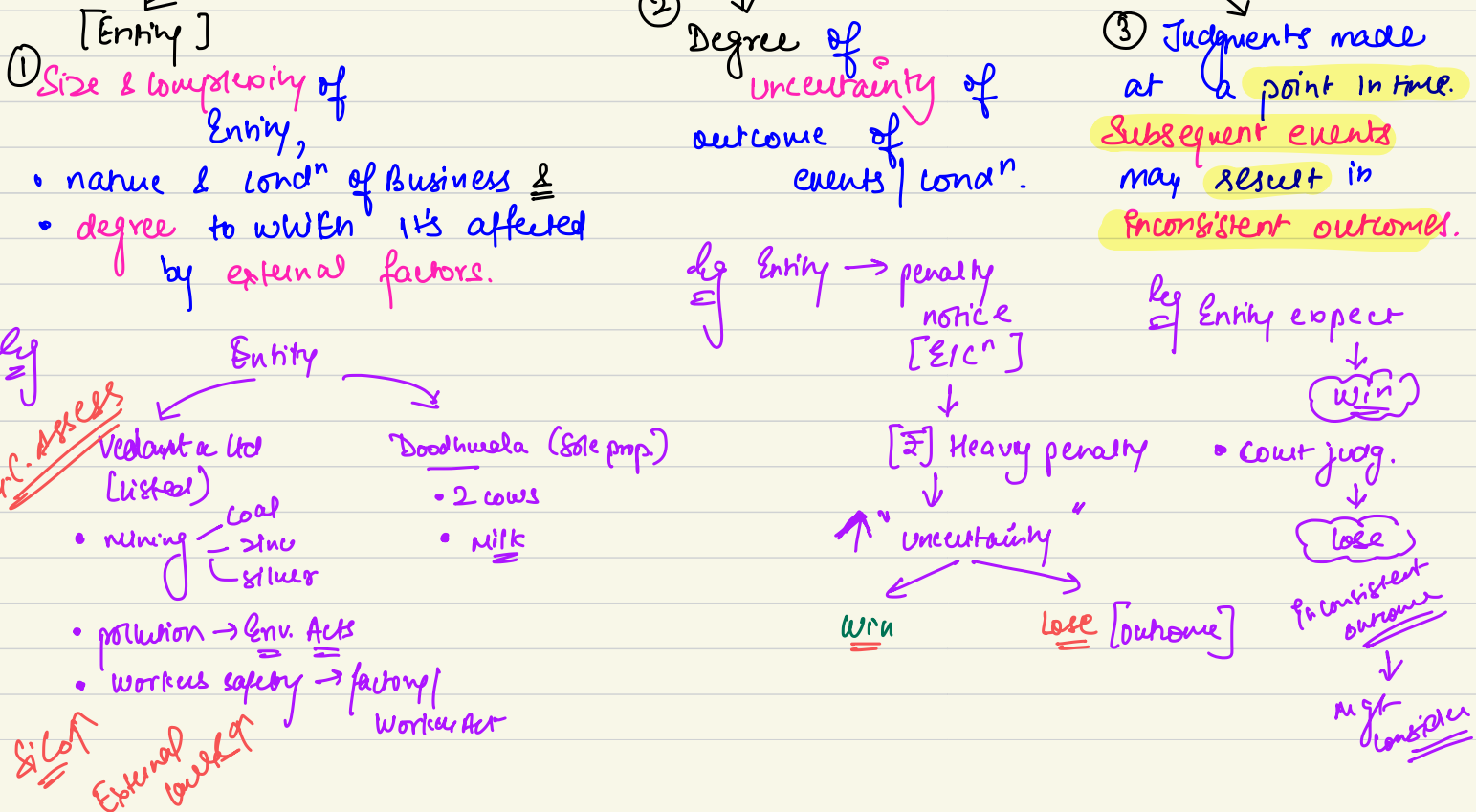


Amun
[Book → Asset]

1. Responsibility for G.C. Assessment? mgr

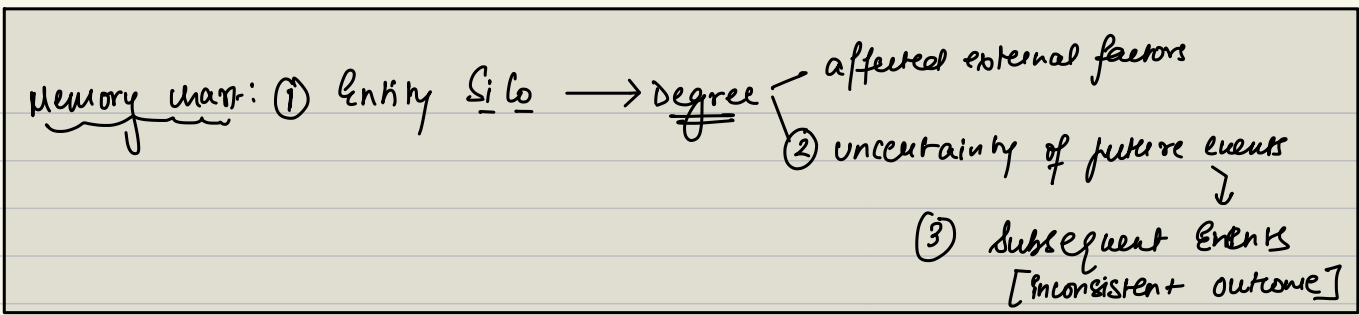
• Mgr's G.C. assessment involves judgment at point in time about uncertain future outcome of events/condⁿ.

"Factors" relevant to judgment



U.C. Assets

Si Cost
External
condition

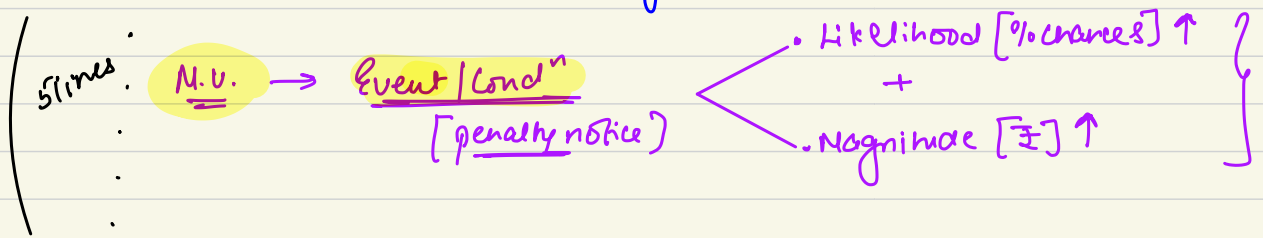


duin
 ✓

Auditor's Responsibility (2 stages)

I [Aaj]: obtain SAAE & conclude on appropriateness of G.C. assumption.

II [kal]: obtain SAAE & conclude whether Material Uncertainty (M.U.) exists,
duin {
 • about Events / Condⁿ
 • that may cast Sig. Doubt
 • on Entity's ability to continue as G.C.



• SA 200, potential effect of J.L.A. to detect M.M., "greater" for future EICⁿ that may cease Entity's G.C.

• [why?] Auditor can't predict such future EICⁿ. Jyoshish

Conclusion: Absence of reference to M.U. can NOT be viewed as guarantee that Entity will continue as G.C.

duin
 ✓

→ EICⁿ

[Understanding → ROMM]

Risk Assess. Procedures [R.A.P.]

↓

Identify EICⁿ that may cast S.D on Entity's Ability to continue as G.C.

[mgt pushho]

↓ ↙

Performed G.C. Assess.

↓ ↘

G.C. Assess. "NOT" performed

- Discuss assessment with mgt
- Determine if mgt identified "EICⁿ that may... S.O. G.C."
- if yes,

- Discuss the Basis of using G.C. Basis of AIC
- Inquire whether, "EICⁿ exist... S.D. G.C."

• mgt's "plans" to address them.

NOTE: Stay "ALERT!" throughout audit for such EICⁿ.

* Evaluating G.C. Assessment

• Not Auditor's responsibility to verify lack of analysis by mgt.

2 cases

↓ ↙

Healthy Entity

- Lack of detailed analysis
- ↓
- will not prevent auditor to conclude G.C. is appropriate.

eg History of profitable operations & ready access to finance
↓
mgt can make assessment without detailed analysis)

↓ ↘

Unhealthy Entity

- Auditor shall evaluate,
 - Process mgt followed, 3M
 - Assumptions for assessment
 - mgt "Plans" for future actions & whether plans feasible in circumstances.
- Bas. Ki?

• Detailed Evaluation? No

In this case, auditor can avoid detailed evaluation of
 if other procedures are sufficient to conclude, ^{q.c. assessment,}
 q.c. is appropriate.

E/Cⁿ identify

Addⁿ Audit Procedures

- M.V.?
- including mitigating factors

E/Cⁿ → ② [Plan]

Evaluate mgt's Plans for future actions

① where mgt not yet performed

q.c. assessment → request mgt to make assessment.

• whether outcome likely to improve situation?

• whether plans are feasible in circumstances

↓ sukha sukha?

④ whether any

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 generated to prepare forecast

whether adequate support for assumptions.

Eg Addⁿ financing Bank

Agreement?

⑤ Request w.r.

(mgt & TWG)

regarding

- plans &
- their feasibility

Concept [M.V. + mitigating factor]

Co. → default → E/Cⁿ [M.V.]

Crs [₹1000cr]

Insolvency application → NCLT

Co. 21nda ✓
"mitigating factor"

₹1000cr
₹200cr

[R.P] Resolution Professionals [Co. mgr]

Crs [R. Plan]

Conclusion

Responsibility

- SAAE & conclude → (i) G.C. Appropriate?
- (ii) M.U. exist [E/Cⁿ → S.D. → G.C.]
[Likelihood + magnitude]

[E/Cⁿ → S.D. → G.C.]

F.S. Disclosures

M.U. x
E/Cⁿ

M.U. ✓

2nd learn
[learn]
*
React from ASOK

- B.P.T. • E/Cⁿ → cast S.D. → Ability → G.C.
- B.P.V. • mgt Plans to deal with E/Cⁿ
- B.P.T. • M.U. related to [E/Cⁿ → S.D. → G.C.]
- Entity maybe unable to

Realised Assets & Discharge Liab. in N.C.O.B.

Reporting

G.C. Inappropriate

G.C. Appropriate

F.S. Liquidation Basis

F.S. G.C. Basis

M.U. Exists ✓

Unmodified opinion

Advise opinion
[D/A/Q]

Adequate Disclosures

Inadequate Disclosures

• Unmodified opinion +

• Express D/A/Q opinion as per SA 705

• Include a separate section under heading "MURC"

[Material Uncertainty Related to Going Concern]

• In Basis for HQ opinion state:

→ M.U. exists &

→ F.S. don't adequately disclose matter.

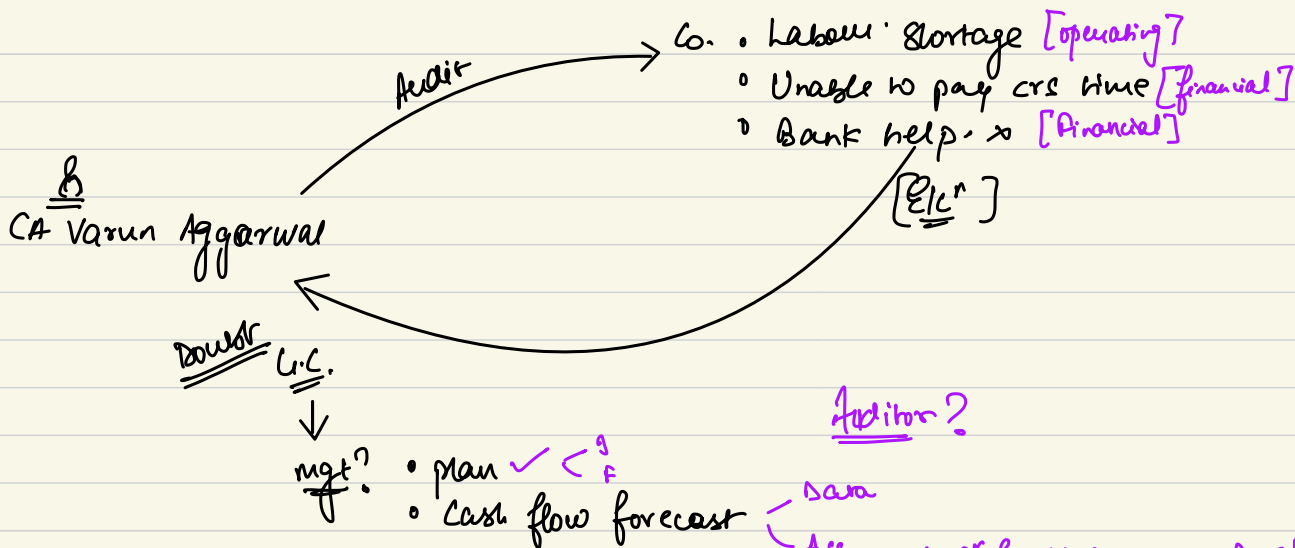
Draw attention to Note in FS that discloses matter

≠ state that E/Cⁿ indicate M.U. exists

≠ audit opinion is not modified on this matter.

Note: mgt → Assessment → [SAAE x] → D/A/Q opinion

T.Y.U
Ans



Solution [Intro] As per SASTO, "G.C.", significant labour shortages, inability to pay creditors on time etc. are examples of EIC that may cast S.D. on entity's ability to continue as G.C.

[Mgt?] Mgt should • prepare future plan of action
• Also, cash flow forecast showing inflow & outflows of cash.

This will address concern of liquidity crises faced by Co.

[Auditor?] Auditor shall • Evaluate whether plan is feasible & will improve situation.

- Also evaluate
 - reliability of data &
 - adequate support of assumptions

underlying cash flow forecast.

- Consider addⁿ facts/info. available since date of mgt's G.C. assessment.
- Obtain W.R. for plans & their feasibility.

Spt. points:

- Purpose of A.Pro. [G.C.] → Responsibility / Conclusion (Aj | Kal)
- Significance → Effect on FS [G.C. Appt → AIC ✓
Appt → Uq. Basis]