

## SA 570: Going Concern

1. Abhinandan Ltd appointed Subahu & Co. as Auditors.

- Co. recd SCN for violating **environmental laws** levying penalty of ₹500 Cr
- Unaudited Profit ₹35 Cr & turnover ₹100 Cr
- Co. disclosed matter by way of footnote
- No provision created as legal dept assessed it'll be decided in Co's favour

Ans.

- SA 250
  - Understanding & evaluate effect of 'Other Laws' → don't have direct effect but compliance is fundamental to continue business & avoid penalties
  - Non-compliance with such l&r → material effect on F.S.
  - Audit Procedures: Inquiry + Inspection
- 143(3)(j) read with Rule 11(a)  
Co. has disclosed impact of pending litigation on its Financial Position in F.S.
- SA 570
  - 4 Disclosures [Events & Condn + Plans + M.U. + Assets/Liab]
  - If adequate discl not there → Q/A Opinion + Basis para [M.U. exists but not disclosed]
- Facts of Case [SCN recd of amt > Net Profit & turnover]
- Conclusion: Event/Condn exist → but no disclosure.  
So report 570 Going Concern Para + 143(3)(j) + **Adverse opinion** as per SA 705

2. Star Ltd(power generating Co) uses Coal as raw mat.

- Coal block scam unveiled, leading to ban on coal supply. Power generation process stopped.
- Many KMP left Co.
- No further financing from Bank
- No action plan to mitigate circumstances
- No disclosure in F.S.

Ans.

- SA 570 G.C. → Auditor's responsibility → SAAE → G.C. basis is appropriate & conclude M.U. exists
- When G.C. basis inappropriate → Adverse Opinion
- Also, if M.U. exists and adequate disclosure not there → SA 705 Basis of Q/A opinion → M.U. exists & F.S. don't disclose matter
- Facts of case → [all bad conditions]
- If G.C. is inappropriate → Adverse Opinion + Basis of Adverse Opinion Para [M.U. exists & disclosure not there]

3. MNO Ltd is facing liquidity constraints. Corporate Insolvency process started & resolution plan was approved on 2.03.19. This will clear all outstanding debts which were leading to negative cash flows.

Ans.

SA 570 G.C. → Events/condn identified → obtain SAAE → M.U. exists or not → Perform add. audit procedures

- Request mgt to perform assessment
- Evaluate mgt plans [Improvement + feasibility]

- Cash flow forecast [reliability of data + adequate support for assumptions]
- Add facts/info
- W.R. → Plans & feasibility
- ✓ Evaluate SAAE → G.C. is appropriate
- ✓ If events/condn exist & M.U. not there → F.S. disclose events/condn
- ✓ Approval of resolution plan **mitigating factor**
- ✓ Conclusion → No material uncertainty exists

4. TBR Ltd → Plan to close business.

- F.S. prepared same basis as earlier periods with add. note business will cease in future
- Auditor indicated this in KAM only by a reference as to a possible cessation of business

Ans.

- SA 570, mgt intention to liquidate → E/C cast significant doubt..
- If e/c exist but no M.U. there → f.s. disclose e/c
- SA 701 → M.U. related to e/c → by nature a KAM
- Conclusion: Mgt intention cast significant doubt is KAM. Simple reference is not sufficient.

5. Airlift Ltd has continuous financial losses. M.U adequately disclosed in notes.

Ans.

- SA 570 4 disclosures [E/C + Plan + M.U. + Assets & Liab]
- Adequate disclosure → Unmodified Opinion + MURG Para
- Draw Attention + state M.U. exists & opinion not modified

6. ABC Co. files law suit against Unlucky Co. Attorney feels suit is without merit. So mere disclosure given in F.S.

Ans.

- Definition of Contingent liab as per AS 29/ Ind AS 37  
[Possible obligation arises from past events and existence confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within control of the enterprise]
- SA 570, eg. Of e/c is Pending legal or regulatory proceedings against the entity.....
- If GC is appropriate by M.U. exists → F.S. give proper disclosure [4 points]
- If auditor finds uncertainty → ask mgt to make provision
- If mgt doesn't accept → Qualify report

Q7. Is similar to Q5. & Q8 is direct!

9. CA.K is appointed statutory auditor of SEEK INDIA LTD under Companies Act, 2013 for the first time. The company is preparing its accounts keeping in view applicable requirements of Division II of Schedule III of Companies Act, 2013. On scrutiny of financial statements of company put up for audit, it was noticed that notes to accounts show ageing of trade payables as per amended requirements of Schedule III of the Companies Act, 2013.

The ageing schedule forming part of notes is as under: - Outstanding for following periods from due date of payment (₹ In crore)

Particulars	<1 year	1-2 years	2-3 years	More than 3 years	Total
MSME	-	-	-	-	NIL
Others	2	4	3	1	10
Disputed dues-MSME	-	-	-	-	-
Disputed dues-others	-	-	-	-	-

Besides above, current ratio, debt-equity ratio, trade payables turnover ratio and net profit ratio disclosed in notes to accounts have slipped drastically as compared to last year and from standard norms.

Most of the key financial ratios are in red. There is no other relevant information concerning above in notes to accounts.

Further, on reviewing bank statement of cash credit limit (against hypothecation of paid stocks), it was noticed that there is no debit transaction in the month of March,2022.

On inquiry, he came to know that stock audit of company was conducted in the month of January,2022 and stock auditors have commented vide their report dated 25.2.2022 that company had negative drawing power due to high creditors. Accordingly, the bankers have refused further debits in cash credit account from start of March,2022. There is no information in this respect in financial statements and notes to accounts.

Discuss how CA K should deal with above for reporting in his audit report under the Companies Act, 2013.

[MTP Oct-22]

It is clear from ageing schedule that Co. is unable to pay creditors on time. Outstanding to creditors for a period of 1 year or more account for 80% of total dues to creditors of Co. from due date of payment. Most of key financial ratios are adverse.

Further, bankers have refused further debits in cash credit a/c due to negative drawing power from Mar-22. Cash credit loans are repayable on demand. There is no other info. or disclosure available how Co. plans to run its business without bank finance.

All above factors are indicators that a material uncertainty exists that may cast a significant doubt on Co's ability to continue as G.C. There is no express disclosure of this fact in F.S.

Therefore, it is a situation where M.U. exists which cast a significant doubt on Co's ability to continue as G.C as per SA 570, "Going Concern".

Although a material uncertainty exists casting a significant doubt on ability of Co. to continue as G.C., adequate disclosure of material uncertainty is not made in F.S., CA K shall give qualified or adverse opinion as per SA-705.