



input credit available in his ledger. Once the statutory period comes to an end, the authority has no further discretion in the matter, unless a fresh order is passed. In the case on hand, it is very unfortunate to note that despite the fact that the period of one year elapsed, the authority did not permit the writ-applicant to avail the credit available in his ledger. Even representation was filed in this regard but the authority thought fit not to pay heed to such representation.' While disposing off the writ application, the Honourable High Court further observed 'We make it clear that next time if we come across such a case, then the concerned authority would be held personally liable for the loss which the assessee might have suffered during the interregnum period.'

[Ambika Creation – Gujarat HC]

2.2 The Central Government had filed appeals against a common order passed by the learned Single Judge in number a bunch of writ petitions filed by the respondents praying for allowing them to file/upload GST TRAN-1 or to permit them to file revised TRAN-1 form. The learned Single Judge by the impugned order directed the GSTN Authorities, who manage to open the portal for the writ petitioners till March 31, 2020. This direction was issued to enable each of the writ petitioners to comply with whatever they had to do with their returns. The Honourable High Court perused the various judicial decisions on this matter across different states and observed that 'We note from the directions issued by the learned Single Judge that the authorities have been directed to open the portal so that the assessee may be able to file their respective TRAN-1 return or revise return or re-revise return. In our considered view, this would be a difficult exercise and such cannot be run by the assessing Officer in whose jurisdiction the assessee is carrying business. It probably will have to be done at the very higher level and consequently direction, if any, issued to open the portal, would become unworkable qua prayer made by the writ petitioners.' Hence, dismissing the appeals filed by the revenue authorities, the Honourable High Court granted liberty to the writ petitioner/assessee to file individual tax credit in GSTR-3B Forms for the month of January 2022 to be filed in the month of February, 2022 and the concerned authority/Assessing Officer would be at liberty to verify the genuineness of the claim.

[Das Auto Centre & Others – Calcutta HC]

## Going Concern – A Growing Concern 'Company is not chiranjivi'



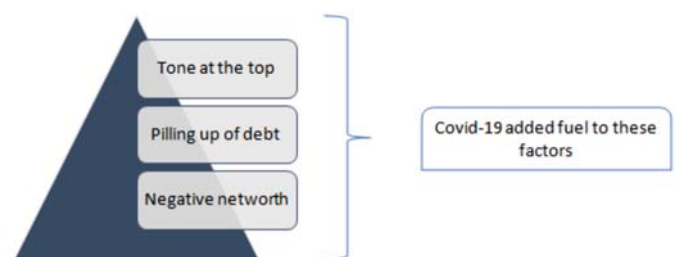
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'Chiranjivi' are the eight immortals who are to remain alive on Earth until the end of the current Kali Yuga, according to Hinduism. The Sanskrit term Chiranjivi means 'immortal'. The eight immortals are Veda Vyas, Hanuman, Parashurama, Vibhishan, Ashwatthama, Bali Raja, Kripacharya and Markandeya. So, interestingly companies are not in the part of these eight immortals then also the concept of 'going concern' is a fundamental assumption.

A going concern is a fundamental assumption while preparing the financial statement of the entity. Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. A going concern is an entity that assumes that the entity will have sufficient resources available to meet its financial obligations.

When going concern basis of accounting is followed, all the assets and liabilities are stated on realizable value the entity will be able to realize in the normal course of business.

The major factors contributing to increasing doubt of going concern is described in the following pyramid. This is based on the results declared by the various listed company.



### Management at the core:

Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. Management is responsible for maintaining the status of going concern. So, if the management wants to liquidate the entity, then this assumption fails even though the financial parameters are still in favor of the entity. The opposite of this is also valid as management is striving to run the



entity though financial parameters are not supporting the entity.

The increasing focus on the corporate governance by securities and exchange board of India (SEBI) can be seen by various steps taken by the authority. SEBI has directed the top 500 listed company by market capitalisation to separate the role of chairman and managing directors from April 1, 2022. The company with highest level of corporate governance tend to have better management and have less chances of fraud or mismanagement and this led to strengthening of balance sheet. Poor tone from the management could foster the environment more conducive to fraud. The several ways through which management tend to perpetrate the fraud which could lead to casting doubt on going concern is as follows:



So, management comes at the top of the pyramid when it comes to take decisive action on this fundamental assumption.

#### The impact of debt:

Debt is sought when company is in the stage of capex. Taking debt from financial institutes shows the confidence of the management in the company, marketability, and the future economic outlook. Management prefers to borrow from the third party as they were somehow not comfortable with the equity dilution. However, there is a turnaround in these thought process after financial institutions becoming risk avert and retail investors have increased their participation in the equity market (thanks to lockdown and greed for easy money!)

However, when the outlook turned negative, the companies tend to lose the marketability and debt started piling up. The restriction on the inflow now pinches the management and operating cashflows started turning negative. Company is now not able to service the debt and unable to make payment to their other creditors. Insolvency and Bankruptcy proceeding is now the only way forward and which cast significant doubt on the entity's ability to continue as a going concern unless the proper value discovery took place in IBC proceeding.

#### Accumulated losses:

The company came into existence to generate the profit. Profit is the main motive of any company to function, and this profit drives the value of the company in the eyes of shareholders. Slight detour, the new age tech companies are constantly incurring the loses and burning cash but based on

some futuristic projections of capturing the market share and hence taking a big pie of profit, these companies are surviving but unless they start generating the profit, days are not far when their auditor issue a para on 'material uncertainty over going concern' in their audit report. So, the point of discussion is, in absence of profit, companies will never reverse the decline and hence cast significant doubt on going concern.

Profit is the only way to return the money to the shareholders. As they say, 'revenue is vanity, profit is sanity but cashflow is reality,' accumulated losses lead to negative operating cash flow, meaning the company is not able to generate profit from its day-to-day activity! Negative operating cashflow is one of the factors casting significant doubt on going concern. Only financial institutions can afford to generate negative operating cash flows as they have financing activity as their main operation.

#### The impact of Covid-19:

Covid accelerated the process of company reaching to the stage of decline, if not managed properly. Recently the disruption of covid-19 has halted the economic activity, and which caused the industries to suffer loss of revenue for many months. The management needs to decide the effects of such shut down/lock down considering the various government restrictions, supports, market sentiments, piling up of fixed cost, reduction in net worth etc to conclude on the assumption of going concern.

In recent times, the listed entities, in their financial statement, which has shown the effect of going concern has increased as the country hit the pandemic. Several industries like hospitality industry, entertainment industry, white goods industry, capital goods industry etc faced several financial crunches due to distinct reasons such as:

- Curtailment on the activity by the government
- Loss of income of individual
- Increased inequality
- Increased saving to face the uncertainty
- Lower consumer confidence
- Increased price of raw materials
- Curb on private capex

The reasons listed above are unprecedented and no educational guidance were provided as the conditions and events existed in this pandemic were unfortunate and unpredictable. The financial statements with disclosures bearing going concern for the year ending on March 31, 2021, has increased to manifolds. Various listed company's independent audit report has shown the matter relating to going



concern as a part of material uncertainty over going concern, key audit matters. Some independent auditor's report has shown emphasis of matter paragraph citing the impact of covid 19 over the financial statement.

**How 20-21 fared for some companies?**

International Accounting Standard Board (IASB) has already issued educational material which implicitly says management would need to consider broader factors to conclude whether preparing financial statements on a going concern basis is appropriate.

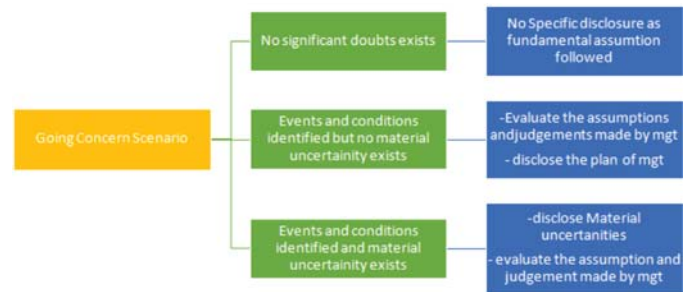
Notes to financial statement incorporated notes regarding 'going concern' in line with the disclosures prescribed under Para 20 of SA 570 (revised). We have considered some of the companies in which accumulated losses, covid, and debt has played pivotal role to push the company in the conditions that cast significant doubt on going concern. We will consider the various disclosures forming part of their financial statement.

Name of the Company	Events/Conditions that casted significant doubt on entity's ability to continue as going concern	Steps taken to mitigate the risk of going concern
PVR Limited and Inox Leisure Limited	<ul style="list-style-type: none"> <li>- Eroded retained earning</li> <li>- Negative operating cash flows</li> <li>- Loss of major chunk of revenue due to country wide restrictions</li> <li>- Uninsured or underinsured catastrophes (Covid 19)</li> </ul>	<p>These companies have raised additional funds by way of right issue and conducted the qualified institutional placement (QIP). This has aided in strengthening the liquidity position of the Companies.</p> <p>The companies have taken cost saving initiatives like salary cuts and headcount reduction, waiver of rental and maintenance charges.</p>
Indian Hotels	<ul style="list-style-type: none"> <li>- Net Liability position i.e., negative working capital</li> <li>- Negative operating cash flows</li> <li>- Loss of revenue</li> <li>- Uninsured or underinsured catastrophes (Covid 19)</li> </ul>	<p>The company has adequate funds at its disposal and management were confident of securing additional finance considering the past trend and positive net worth of the company. The company also had undrawn sanctioned lines of credit. Also, the management proposes dividend from the retained earning which is positive sign of confident management.</p>
Essar Shipping Limited	<ul style="list-style-type: none"> <li>- Accumulated losses</li> <li>- Default on several loans</li> <li>- Net liability position i.e., negative working capital</li> <li>- Admission to Corporate Insolvency Resolution Process</li> </ul>	<p>The company entered in settlement proposal with the debenture holders. Some of the liabilities has been realigned and revised payment schedule is approved. The company is also in the phase of monetization of assets to settle the loans. The company has also formulated plans to turn the business profitable.</p>
Imagica World Entertainment Limited	<ul style="list-style-type: none"> <li>- Operation severally affected by Covid 19</li> <li>- Accumulated losses</li> <li>- Unable to negotiate terms with lenders to obtain replacement financing</li> <li>- Net liability position i.e., negative working capital</li> </ul>	<p>The auditor has explicitly provided an opinion regarding uncertainty of the company to continue as going concern. However, company has prepared financial statement considering:</p> <ul style="list-style-type: none"> <li>- Reduction in fixed cost</li> <li>- Positive operating cash flows</li> <li>- Steps taken to preserve the assets in workable conditions</li> </ul>

		<ul style="list-style-type: none"> <li>- Receipt of refunds</li> <li>- Business model is of upfront cash and hence limited credit risk</li> </ul>
HMT Limited	<ul style="list-style-type: none"> <li>- Net liability position</li> <li>- Negative operating cash flows</li> <li>- Heavy reliance on asset monetisation rather income from operation</li> </ul>	<p>The company is heavily dependent on the value realization from non-current asset held for sale from the discontinuing operation and which makes it net worth positive. The company being a government run entity, it has relied on the government support also.</p>

**Responsibility as an Auditor:**

Standard on Auditing 570 has provided explicit guidance on the responsibility of auditor. Though the primary responsibility is as of the management, auditor is supposed to express its opinion on the same. The guidance provided is as follows:



**Conclusion:**

With the new age technologies coming into existence, it is the duty of the management to stay relevant. Again, high standard of corporate governance plays crucial role to keep the company afloat. The major reasons listed above which cast significant doubt on going concern get the booster dose through covid 19 and hence now adequacy of disclosure regarding going concern plays important role in the eyes of the stakeholders. On the other side of the table, auditor needs to be more vigilant in assessing this fundamental assumption as the economic scenario is changing. Many times, it has been observed that there are events or conditions which cast doubt on going concern but material uncertainty does not exist and there is no corresponding disclosures in financial statement based on which books have been drawn. Company specific disclosures would aid the stakeholders in taking informed decisions.