

F2 Going Concern History Exam Question Analysis09

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https://www.100test.com/kao_ti2020/645/2021_2022_F2_Going_C_c52_645078.htm (a) Describe external auditors ' responsibilities and the work that they should perform in relation to the going concern status of companies. (5 marks) (b) Describe the possible audit reports that can be issued where the going concern status of a company is called into question. your answer should describe the circumstances in which they can be issued. (5 marks)

Corsco is a large telecommunications company that is listed on the Stock Exchange. It is highly geared because, like many such companies, it borrowed a large sum to pay for a licence to operate a mobile phone network with technology that has not proved popular. The company ' s share price has 0dropped by 50% during the last three years and there have been several changes of senior management during that period. There has been considerable speculation in the press over the last six months about whether the company can survive without being taken over by a rival. There have been three approaches made to the company by other companies regarding a possible takeover but all have failed, mainly because the bidders pulled out of the deal as a result of the 0drop in share prices generally. The company has net assets, but has found it necessary to severely curtail its capital investment program. Some commentators consider this to be fundamental to the future growth of the business, others consider that the existing business is fundamentally sound. It

has also been necessary for the company to restructure its finances. Detailed disclosures of all of these matters have always been made in the financial statements. No reference has been made to the going concern status of the company in previous auditors' reports on financial statements and the deterioration in circumstances in the current year is no worse than it has been in previous years. Required:

- (c) On the basis of the information provided above, describe the audit report that you consider is likely to be issued in the case of Corsco, giving reasons. (4 marks) (d) Explain the difficulties that would be faced by Corsco and its auditors if Corsco's audit report made reference to going concern issues. (6 marks) (20 marks)
- 答案 :
- (a) External auditor responsibilities going concern SAS 570 going concern deals with this issue. (i) Auditors are required to consider the going concern status of companies and any disclosures regarding going concern in forming their audit opinion. Companies that are listed on stock exchanges may be required to make additional disclosures in relation to going concern issues. (ii) Auditors are required to assess the adequacy of the means (the processes) by which directors have satisfied themselves that the going concern basis is appropriate and that adequate disclosures have been made. Auditors conduct an initial analysis at the planning stage of the audit as well as assessments at later stages. (iii) Auditors should make enquiries of the directors and examine appropriate documentation supporting the company's going concern status such as budgets and cash flow forecasts. (iv) Auditors consider whether the period to which directors have

paid particular attention is adequate. This should normally be at least 12 months from the balance sheet date. Auditors also enquire of management as to their knowledge of events or conditions beyond this period that may cast significant doubt on the entity ' s ability to continue as a going concern. (v) Auditors need to consider the appropriateness of assumptions which directors have made, the sensitivity of assumptions to external and internal changes, any obligations, guarantees or undertakings arranged with other entities, the existence and adequacy of borrowing facilities and the directors ' plans to deal with any going concern problems. (vi) Auditors are required to document the extent of any concerns, taking account of matters that have come to their attention during the course of the audit and in particular, financial, operational, or other indicators of going concern problems that are present. (vii) Indicators of going concern issues would include trading losses, impairment of assets, net liabilities, defaults on loans, liquidity problems, an inability to refinance loans where necessary, fundamental changes in the markets or technology having an adverse effect on the company, loss of management, staff, customers or suppliers, or major litigation, for example. (viii) Auditors should consider the need to obtain written management representations. (ix) Auditors should consider the adequacy of any disclosures in the financial statements.

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