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DOCTRINE OF GOING CONCERN IN CHANGING BUSINESS SCENARIO.

Abstract:-

The importance of accounting, reporting and auditing is all pervasive and getting more vigour and complexity with the widespread corporations, social awareness, constitutional provisions and the globalisation. In carrying out the expectations of the stakeholders of all corners the accountancy is to use the various concepts, conventions, doctrines, postulates, assumptions etc.

One of the fundamental accounting assumptions is Going Concern. The Going Concern Assumption refers to the assumption that the accounting entities will run for infinite life stream. That is it will not stop its operations in forcible future. The accounting and reporting are done predominantly based on this assumption.

But with the change in the social, legal and the business environmental factors the efficiency of the Going Concern is at stake. The accounting information generated based on this assumption does not provide true picture of the entity. The time has come to have a revisit on the concept of Going Concern Assumption. My objective of the paper is to focus the limitations of the going concern assumption arising out of the changing business scenario and suggest possible ways out for consideration.



Keywords:

Going Concern assumption, Perpetual, Terminable venture, Stakeholders, Disclosure, Governance, True and fair view, GAAP, Sick, Obsolescence, Mid-term exit, Negative net worth, Viability reporting, Vision statement, Valuation Balance Sheet.

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INTRODUCTION

Every branch of study has a well defined and constructed theory of its own. Without a well-constructed and practical theory no field of study can survive. The subject of accountancy is not also its exception. Though there are some differences in concreteness between the theories of physical science and the social science, the process of evolution or construction of the theory in all the cases are more or less the same. It's observed facts or in some cases it explains the reasons of particular practice followed. The theories of physical science have cause and effect relationship but for social sciences this relation does not prevail. Theory of accountancy does not have cause and effect relationship except in case of Dual Aspect concept ie Double Entry Principle. This is the only Science in accountancy. The subject of accountancy is an art as well as a science. In case of social sciences the theories must be conducive to the requirement of the time. It must be susceptible to changing scenario and business environment. It must satisfy the rational need of the hour.

BACKGROUND POSITION.

The accounting theory has got some concepts, conventions, Doctrines, and Assumptions. The above terms are mostly used interchangeably. It explains the reasons underlying the particular accounting practice. According to the Indian Accounting Standard issued by the Institute of Chartered Accountants of India there are three fundamental accounting assumptions. These are Going Concern, Consistency and Accrual. And possibly the Doctrine of Going Concern is the most fundamental of the fundamental accounting assumptions.

WHAT IT IS

The objective of accountancy, in a word, is nothing but recording of transactions reporting of financial or equivalent information. While preparing and providing for information, it is assumed that the entity under reference will continue its functions for infinite life stream and it will not end or close its functions or business in foreseeable future. And obviously there are two types of accounting. Firstly the Accounting for Going Concern and secondly Accounting for other than Going Concern ie Accounting for Terminable Venture.

ACCOUNTING FOR GOING CONCERN

Accounting for Going Concern refers to accounting and reporting for entries where concept of going concern applies. The main thing or the hard disc lies on the concepts of maintenance of asset and maintenance of capital. And the main problem or the virus of the system is that the profit/value cannot be calculated as accurately as it can be done in the case of accounting for terminable venture. As a result all the concepts, conventions, doctrines postulates and assumptions are developed centring on the going concern assumptions. Here we have to try to exhibit true and fair view of the accounting statements and information of the entity. This true and fair view can be provided if and only if the accounting statements are prepared and information are supplied on the basis of observance of the doctrines, concepts etc. And following are the generally accepted accounting principles (GAAP). The concepts and conventions, which are directly related or arising out of going concern assumptions are mentioned below:

1. ACCRUAL CONCEPT --- Accrual accounting
2. CONSISTENCY --- Consistency in application of accounting principles.
3. MATERIALITY --- All material information is to be reported.
4. PERIODICAL ACCOUNTING --- Business entities are perpetual in life, in some cases legally and in some cases assumed, but human life is not perpetual. Therefore there arises the need for periodical accounting and reporting.
5. CONSERVATISM --- Provide for all possible losses but not gain until and unless it is certain to be realised. Conservatism is to be followed for proper maintenance of asset and capital and that makes us safer in the journey towards perpetuity.
6. MATCHING CONCEPT --- Matching of expenditure with revenue. No expenditure will remain unrecovered from revenue.
7. NATURE OF INCOME AND EXPENSE --- Distinction between the capital and revenue expenditure and income.

ACCOUNTING FOR TERMINABLE VENTURE

These are short lived. Normally it ends within the same accounting period. As a result only the realization concept applies. We need not maintain asset or capital as because at the end capital or asset will be realised in cash only.

GOING CONCERN --- REVISITED

Therefore the doctrine of going concern is the most important accounting assumptions and the most fundamental of the fundamental accounting assumptions. And it can be truly said that all the accounting and reporting complexities, legal requirements, professional pronouncements, disclosure requirements and of late governance are required due to this particular assumption. This is the unique assumption to satisfy the society needs of the audience of the annual accounts and reports of the entities.

But at present time of wide spread fall of corporations and/or becoming sick, the time has come to have a re-look on the efficiency of the assumption in the preparation of financial statements and providing for information especially in some situations. Here I shall discuss some situations where there is obvious scope for supplementary supports to the going concern assumption.

SICK COMPANIES /COMPANIES HAVING NEGATIVE NET WORTH: this is the situation mostly in the case of Public Sector Undertakings/ Enterprises. Negative net worth means where the capital/ shareholders, fund has been completely eroded and a part of other fund has also been consumed up. In such situations how can we assume that the company/ entity will run for infinite life stream. And the entity is being managed by the persons who are like alien to the entity because they are not having anything virtually in the entity. And factually they are consuming the others property. And the going concern assumption is in danger.

OBSOLESCENCE OF PRODUCT AND CLOSURE OF THE SAME : In the present age of fast changing technology, various products are being obsolete even in the very next moment and as a result the product is to be discontinued. In such cases if there is no alternative use of the product/ specific asset, then how the valuation of those assets can be done. And surely going concern assumption will not apply there.

MID-TERM EXIT OPTION FROM PROJECT : This is the another problem that the going concern assumption is facing at present time. At present time the promoters are increasingly interested at the time of entering into a project in the scope in built or otherwise, of exit from project. If it is in a corporate concept it has to report on the basis of going concern assumption. Then the concept will face problem in the mid-term exit. It will be clear from the following example.

Suppose a project is undertaken in the year Y_t and there is well planned exit option. And the promoters exit from the project in the tear $Y_t + 4$. Then how accounting information supplied in the years Y_t to $Y_t + 3$ on the basis of going concern assumption.

SUGGESTION

To overcome the above situations following adjustments/ way outs may be proposed for your consideration. The present practice of disclosure may be further enriched with the following supplementary reports.

Disclosure of the realisable value of the assets.
Viability reporting.
Promoters' action-vision statement.
Valuation Balance Sheet.(Periodically)

CONCLUSION

I can say that all the above problems are due to the peculiarity that lies in the fact that everything on earth is short-lived but organizations are assumed to be not. Accountancy has given perpetual succession status in case of every type of entity and it has been legally supported in case of corporations. Again it is so important/ essential assumption that we cannot deny. In spite of some drawbacks it is the only way to prepare accounting statements and supply information. The accounting statement/ information will be generated following, among others, the concept of going concern. Otherwise it will not give TRUE AND FAIR VIEW. And we can supplement its efficiency in some specific situations. We, at this moment, are to depend on the Going Concern Concept until evolution of some better alternative to the assumption of going concern.