MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD

(Incorporated in Malaysia – Registration No.: 200001022382 (524989-M)

New Straits Times, Business Times – Thursday, May 26, 2022 (**A**)

DEVANESAN EVANSON

TIMELY DISCLOSURES

THE ISSUE OF GOING CONCERN

ON May 18, the board of directors of a public-listed company (PLC) announced that pursuant to paragraph 9.19(37) of the Main Listing Requirements (LRs) of Bursa Malaysia Securities Bhd, the company's external auditor had expressed its unqualified opinion with material uncertainty related to going concern in the audited financial statements of the company for the financial year ended Dec 31, 2021.

Any delay in announcing Paragraph 9.19(37) of the LRs requires the listed issuer to make an immediate announcement to Bursa Malaysia should there be any modified opinion or material uncertainty related to going concern in an external auditor's report.

But the annual report for the year ended Dec 31, 2021 was announced on April 30.

The question then is why there was a delay of 18 days before making the announcement under the LRs?

Should not the announcement be made on the same day the annual report was released as the subject matter of the announcement is already contained in the auditor's report in the annual report.

This indicates prima facie evidence that the board and the company secretary may not be aware of the provisions of the LRs and the need to make timely disclosures.

> *As a rule of thumb, whenever the current liabilities exceed the current assets, there is a potential for invoking a going concern uncertainty.*

Going concern

Going concern is an accounting term for a company that has the resources needed to continue operating indefinitely until it provides evidence to the contrary. This term also refers to a company's ability to make enough money to stay afloat or to avoid bankruptcy. The auditor has expressed uncertainty that the company has the resources needed to continue operating indefinitely.

The auditor drew attention to the financial statements, which indicated that the company incurred a net loss during the year ended Dec 31, 2021 and, as of that date, the group and the company's current liabilities exceeded its current assets by 2.6 times and 1.6 times, respectively.

The auditor has indicated that a material uncertainty exists and that it may cast significant doubt on the group's ability to continue as a going concern.

As a rule of thumb, whenever the current liabilities exceed the current assets, there is a potential for invoking a going concern uncertainty. The ratio of current assets to current liabilities is called the working capital ratio. The greater this ratio is above one, the better the working capital of the company and its ability to exist as a going concern. Ratios below one is cause for concern.

Again, as a rule of thumb.

Current assets are assets that are to be realised within the next year for the payment of current liabilities which are, in turn, those due to be settled within the next one year. It is obvious why there will be a concern if the current assets are below the current liabilities.

In the case of the PLC in question, the directors also had a say in relation to the observations of the auditor. After all, it is the directors' company's financial statements.

The directors stated that as at the date of the report, there is no reason for the directors to believe that the group will not generate sufficient cash from its operations within the next 12 months from the reporting date to repay the existing borrowings, complete the projects in progress and meet working capital.

The working capital ratio of below one is based on a snapshot position on the date of the year end. In this case, the ratio is as at Dec 31, 2021. Thus, the directors are entitled to say, "forget the snapshot at one point of time, we think we can continue to meet our current liabilities as and when they fall due over the next one year", which is what they have done.

The acid-test ratio

The acid-test ratio, also known as the quick ratio, is a liquidity ratio that measures how sufficient a company's short-term assets are to cover its current liabilities.

The acid-test ratio formula is like the working capital formula except that inventory is removed from the current assets. This is done on the premise that it will take more time to turnover inventories into cash compared to the other components of current assets. As such, it is a more exacting test on the liquidity of a company.

Conclusion

The key takeaway for minority shareholders is to beware when current assets are below current liabilities, there could be going concern issues.

The writer is chief executive officer of Minority Shareholders Watch Group