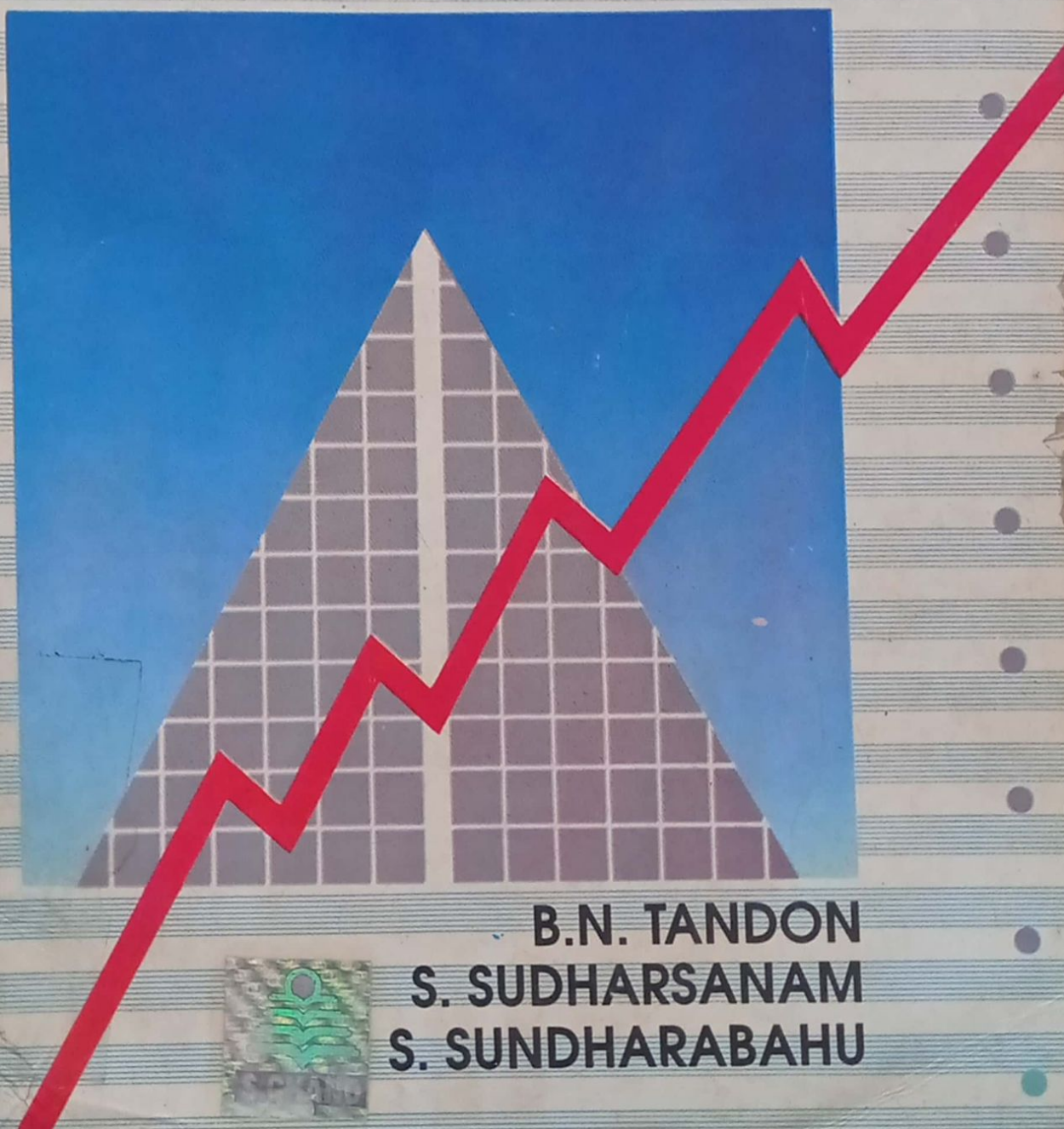


20658

A HANDBOOK OF PRACTICAL AUDITING



B.N. TANDON
S. SUDHARSANAM
S. SUNDHARABAHU



CONTENTS

<i>Chapter</i>		<i>Pages</i>
I. INTRODUCTION		1—32
✓	Origin of Audit—Definition of Audit—Difference between Book-Keeping, Accountancy, Auditing and Investigation—Qualities of an Auditor—Objects of Audit—Main Object—Expression of Expert Opinion - Secondary Objectives - Detection and Prevention of Errors- Location of Errors-Detection and Prevention of Frauds- The Position of Auditors in regard to Errors and Frauds affecting Financial Statements- Specific Objective-Different classes of Audit- Legislative Control, Relation of Auditor vis a vis Management, Periodicity, subject matter, Coverage of Audit, Manner of Checking—Advantages of an Audit-Audits of Different types of entities and their advantages-Typical Questions.	
II. AN OVERVIEW OF AUDITING		33—44
	Generally Accepted Auditing Practices- Competence, Independence, confidentiality- Audit Planning and Supervision- Audit Evidence- Compliance Procedure, Substantive Procedures, Gathering Audit Evidence- Auditing in Depth-Test Checking- Factors determining Size of the sample- Compliance to Accounting, Auditing Standards and Enactments- Generally Accepted Accounting Practices, Accounting and Auditing Statements, Guidance Notes and Standards- Auditing in a Computerised Environment- Typical Questions	
III. AUDIT PLANNING AND CONTROL		45—62
✓	Determining the Scope of Audit- Audit Engagement Letter- Gaining Knowledge of the Client's Audit Business. Accounting System, Internal Control- Audit Programmes- Man Power Planning- Considerations at the Commencement of a New Audit- Audit Control- Audit Control over Assistants-Audit Control over the Work Performed by Others-Co-ordinating the work of other Auditors- Documenting the Plan and Performance of Audit- Audit Note Book- Working Paper- Audit Files-Typical Questions	
IV. INTERNAL CONTROL		63—73
✓	Internal Control- Meaning, Importance- Internal Controls, Accounting, Administrative Controls- Internal Check- Evaluative Criteria for Good Internal Check- Internal Check for various Transactions, Internal Audit- Internal Audit and Statutory Audit, Using the work of Internal Auditor by External Auditor- Limitations of Internal Control- Evaluation of Internal Control- Typical Questions	
V. VOUCHING OF CASH TRANSACTIONS		74—98
✓	Vouching: Its Meaning-Voucher-Points to be noted in a Voucher-Internal Check as regards Cash-Vouching the debit side of the Cash Book-Teeming and Lading Method of frauds-How to detect such frauds-Vouching the credit side of Cash Book-Wages-Auditor's duty re wages-Capital Expenditure-Loans-Salaries-Commission-Insurance Premium-Petty Cash-Directors Fee-Bank Account-Typical Questions.	

- VI. VOUCHING OF TRADING TRANSACTIONS** 99—112
 Internal Check System as regards Purchases-Duty of Auditor in connection with Credit Purchases-Purchases Returns-Credit Sales-Internal Checks as regards Credit Sales-Duty of an Auditor in connection with Credit Sales-Sales Returns-Goods Sold on Sale or Return System-Goods sent on Consignment-Packages and Emp-ties-Journal-Bought Ledger-Sales Ledger-Total Accounts and Sectional Balancing-Typical Questions
- VII. THE AUDIT OF IMPERSONAL LEDGER** 113—129
 Outstanding Assets and Liabilities-Income Receivable-Prepaid Expenses-Deferred Revenue Expenditure-Outstanding Liabilities-Allocation of Expenditure between Capital and Revenue-Capital Expenditure-Revue Expenditure-Importance of Distinction between Capital and Revenue Expenditure-Contingent Liabilities-Contingent Assets-Typical Questions.
- VIII. VERIFICATION AND VALUATION OF ASSETS AND LIABILITIES** 130—178
 Meaning of verification-Problems in Valuation of Assets-Valuation of Assets during Inflationary Period-Fixed Assets-Mode of Valuation of Fixed Assets-Floating or Current Assets-Mode of Valuation of Floating Assets -Wasting Assets-Intangible Assets-Auditor's Position as regards Valuation of Assets-Verification and Valuation of different classes of Assets-Market Value-Stock in Hand-Methods used in the Valuation of different classes of Goods-The Duty of an Auditor in connection with Stock-in-trade-Physical Verification of Stocks-Attendance of Auditor during physical verification of Stocks, Examination of Records, Verification of confirmation-Ensuring the ownership over the stocks-Valuation of Stocks-Valuation of Fixed Assets-Furniture, Plant and Machinery, Property, Book Debts, Goodwill-Verification of Liabilities-Share Capital, Trade Creditors, Bills Payable, Outstanding Expenses-Contingent Liabilities-Typical Questions.
- IX. DEPRECIATION** 179—201
 General Definition-Difference between Depreciation and Fluctuation-Objects and Necessity for providing Depreciation-Basis of Depreciation-Original cost Vs replacement value-Measure of Depreciation-Original cost of the Asset, Estimated Residual Value of the Asset, Expected Useful Life of the Asset, Methods of Providing Depreciation-Fixed Instalment Method, Reducing Instalment Method, Depreciation Fund method, Annuity method, Insurance Policy method, Revaluation method, the use of mileage method, Global method, depletion unit method, or production unit method, single charge method, investment of depreciation fund, Change in method of Depreciation-Revaluation of Fixed Assets-Writing off Full Cost of the Assets-Adjustment of Assets in the year of Disposal-Compliance to statutes-Plant Register-Auditor's Duty with regard to Depreciation-Repairs and Renewals-Legal Aspects of Depreciation-Legal Decisions Considered-Typical Questions

- X. RESERVES** 202—218
 Meaning-General Reserve-Specific Reserve or Provision-Difference between General Reserve and Provision-Reserves for Bad Debts-Reserve for Discount on Debtors and Creditors-Sinking Fund-Difference between Sinking Fund for the Redemption of a Liability and Sinking Fund for the Replacement of an Asset-Duty of an Auditor as regards Sinking Fund-How is it created-Reserve or Development Funds-Capital Reserve-Duties of an Auditor in connection with the Capital Reserve-Secret Reserve-Definition-How Secret Reserve is created-Objects of Creating Secret Reserve-Dangers of or Objections to Secret Reserve-Duty of an Auditor in connection with the Secret Reserves-Typical Questions.
- XI. AUDIT OF LIMITED COMPANIES-COMPANY AUDITOR** 219—248
 Qualifications of an Auditor of a Limited Company-Disqualifications-Appointment of first auditor, subsequent appointment, appointment of auditor of Government Companies, appointment of auditor by special resolution, casual vacancies, appointment of branch auditor, powers of the board to appoint auditor, powers of the central government to appoint auditor-Ceiling on Number of Audits-Removal of Auditor-Remuneration and Expenses of an Auditor-Different classes of Auditors-Joint Auditors, branch auditors-Powers and Duties of an Auditor-rights and powers of an auditor, duties of an auditor-Status of an Auditor-Preliminaries to be gone through the actual work is begun by the Auditor-Typical Questions
- XII. AUDIT OF LIMITED COMPANY** 249—319
 Audit of Financial statements-Books of Accounts to be kept by the Company-Annual Accounts and Balance Sheet-Audit of Financial Statements-Audit of Balance Sheet of a Company-Share Capital-Audit of issue of Share Capital-authorisation; procedural compliances-pricing the issue, issue of shares for consideration other than cash, issue of bonus shares, compliance to SEBI guidelines and Company Law provisions-Audit Procedures to check the issue of Share Capital- Duty of Auditor in regard to Shares issued at Premium-Duty of Auditor in regard to shares issued at discount-Duty of Auditor in regard to shares issued for consideration other than cash-Duty of Auditor in regard to issue of Bonus Shares-Forfeited Shares-Audit of Share Transfer-Brokerage and Underwriting Commission on issue of Shares-Reorganisation of Capital-Disclosure requirements for Share Capital-Reserves and Surplus-Secured Loans-Debenture-Meaning, issue of debenture redemption, securing debenture, SEBI guidelines for issue of debenture, Auditors duty in checking debenture-Unsecured Loans-Fixed deposits-Provisions of Company Law regarding public deposits, Auditors duty in Checking Deposits-Current Liabilities and Provisions-Contingent Liabilities-Assets: Fixed Assets- Investments-Auditor's duty with regard to investments-Current Assets, Loans and Advances-Miscellaneous Expenditure-Preliminary Expenses-Interest paid out of capital, P & L account Debit balance-Audit of Profit and Loss Account or Income and Expenditure Account-

Chapter	Pages
Managerial Remuneration-Company Law Provisions regarding Ceiling on Managerial Remuneration. Computation of Profit for the purpose of Managerial Remuneration-Dividend-Statutory Provisions regarding payment of dividend, interim dividend, final dividend, dividend on preference shares, unclaimed dividend, the duty of an auditor in connection with payment of dividend-Profits Prior to Incorporation-The audit of Private Limited Companies-The audit of a holding company-Duties of an Auditor of a Holding Company-Proforma Balance Sheet and Profit and Loss Account of a Limited Company-Typical Questions	
XIII. AUDIT OF LIMITED COMPANIES- AUDIT REPORT	320—336
Contents of Audit Report-Opinion as to true and fair view-Report Vs Certificate-Basic Elements of Auditor's Report-Signing of Auditor's Report-Types of Opinion-Unqualified Opinion, other than unqualified Opinion, -qualified opinion: when to qualify, how to qualify, adverse opinion, disclaimer-Reporting Requirements under Section 227(1A)-Reporting Requirements under Section 227(4A)-MAOCARO 1988-Events Occurring After Balance Sheet Date-Typical Questions	
XIV. AUDIT OF BANKING COMPANIES	337—356
Salient Features of Enactments Affecting Banks-Accounting System of a Bank-Internal Control System in a Bank-Bank Audit, Its Approach-Steps in Bank Audit-Checking of assets, checking of liabilities, scrutiny of P & L items, making report-Audit of Advances-Points to be checked in Audit of Advances-Format of Balance Sheet and P & L Account of Banks-Typical Questions	
XV. THE AUDIT OF CO-OPERATIVE BANKS AND INSTITUTIONS	357—371
Introduction-Registration of Co-operative Societies-Liabilities of the Members-Limited Liability Societies-Unlimited Liabilities Societies-Privileges of Registered Societies-Restrictions imposed on Co-operative Societies-Investment of Funds-Appropriation of Profits-Inspection of Co-operative Societies-Application of Banking Regulation Act to Co-operative Banks-Audit of Co-operative Institutions-Rights and Duties of Auditor-Forms of Balance Sheet and Profit and Loss Account of Co-operative Banks-Typical Questions.	
XVI. THE AUDIT OF INSURANCE COMPANIES	372—397
Introduction-Code of Conduct for General Insurance-Registration of Insurance Companies-Deposits-Management-Investigation-Accounts-Investments-Points to be noted while auditing the Accounts of a General Insurance Company-Premiums-Investments-Claims-Commissions-Expenses of Management-Provisions for Unexpired Risks and Reserve Fund-Reinsurance-Cash Balances and Investments-Balances written or standing against Agent, etc.-Miscellaneous-Form of Balance Sheet of an Insurance Company-Form of Classified Summary of Assets of an Insurance Company-Form of Profit and Loss Account of an Insurance Company-Form of Profit and Loss Appropriation Account of an Insurance Company-Form of Revenue Account of a General Insurance Company-Typical Questions.	

Chapter	Pages
XVII. AUDIT OF PARTNERSHIP ACCOUNTS	398—407
Introduction-Advantages of getting the Accounts of a Firm Audited-Procedure to be followed by a newly appointed auditor of a partnership-Audit on behalf of Different classes of partners-Typical Questions.	
XVIII. GOVERNMENT ACCOUNTS AND THEIR AUDIT	408—414
Objectives of Government Audit-Distinction between Audit of Government Accounts and Commercial concerns-Audit of Government Companies' Accounts-Definition of Government Company-Appointment of auditors of a Government Companies-Conduct of audit of Government Companies-Supplementary Audit by Comptroller-Audit of Government-owned units-Typical Questions.	
XIX. COST AUDIT	415—436
Introduction-Criticism of Cost Audit-Definition of Cost Audit-Purpose of Cost Audit-Distinction between Financial Audit and Cost Audit-Conditions under which Cost Audit is conducted-Objectives of Cost Audit-Qualifications of Cost Auditor-Commencement of Cost Audit-Cost Audit Programme-Cost of Materials_labour Records-Records of Overhead Charges-Depreciation-Work-in-Progress-Incomplete Contracts-Stores and Spare Parts Records-Cost Auditor's Report-Form of Cost Audit Report-Typical Questions.	
XX. MANAGEMENT AUDIT	437—447
Importance of Management Audit-Definition-Objectives-Criticism of Management Audit-Distinction between Statutory Audit and Management Audit-Who should conduct management Audit-Preliminaries to conduct Management Audit-Management Audit Programme-Outlines of Management Programme-Work and Duties of Management Auditor-Management Auditor's Report-Typical Questions.	
XXI. TAX AUDIT	448—459
Scope of Auditor's Role under Income Tax Act-Compulsory Tax Audit-Certification for Claiming Exemptions/ Deductions-Selective Tax Audit-Tax Consultancy and Representation-Proforma of Forms 3CA and 3CD-Typical Questions.	
XXII. DIVISIBLE PROFITS	460—490
What are Profits-Problems which arise in the Determination of Profits-Profits on uncompleted contracts-Who are affected if profit if profit is not correctly determined-Consequences of Incorrect Valuation of Profits-Profits and Divisible Profits-Factors to be considered before recommending a Dividend-Whether Capital Profits are available for Dividends-Whether all the surplus made by the Company engaged in working a wasting Asset is available for Dividends-Whether the Loss of Fixed Asset must be made good before the distribution of the surplus-Whether profits made prior to Incorporation are available for Dividends-Loss prior to Incorporation-Legal cases considered-General Summary to the Rules relating to the Distribution of Profits-Typical Questions.	

<i>Chapter</i>	<i>Pages</i>
XXIII. INVESTIGATION	491—518
Definition-Difference between Investigation and Auditing -Points to be noted while conducting an Investigation-Objects of Investigation-Different Classes of Investigations-Investigation on behalf of a Purchaser to ascertain the earning capacity-Investigation on behalf of an incoming Partner-Investigation on behalf of a Lender of Money-Investigation when Fraud is suspected-Investigation on behalf of a Client who wishes to purchase the shares of a company-Valuation of shares-Investigations under the provisions of the Companies Act-Special Audit-Investigation to ascertain the amount of compensation payable on the compulsory removal of business-Investigation for claims under an Insurance Policy covering Consequential Loss-Investigation for Auditor's Report for Prospectus-Technique of Investigation-Legal cases-Typical Questions.	
XXIV. LIABILITIES OF AN AUDITOR	519—568
Legal position of an Auditor-Liabilities of an Auditor appointed by a private concern-Liability of an Auditor under the Companies Act-Liability for Negligence under the Law of Agency-Liability under the Law of Agency-Liability under Statute-Civil Liability-Criminal Liability-Under Indian Penal Code-Liability of an Auditor to third parties-Liability of an Honorary Auditor-Liability of Joint Auditors-Liability of an Auditor of a Holding Company-Liability of Auditor for branch audit-Liability of Local Auditors-Liability of Auditors for libel-Liability for unaudited accounts-Legal decisions considered-Typical Questions.	
XXV. PROFESSIONAL CONDUCT AND ETHICS	569—606
Introduction-Entry of Names in the Register-Disabilities-Removal of the name of a Member from the Register-First Schedule-Second Schedule-Procedure for Enquiry of Misconduct by a Member-Legal cases considered. Typical Questions.	
XXVI. TYPICAL AUDIT PROGRAMMES	607—630
Preliminary Works-Cash Book-Petty Cash Book-Purchases Book-Purchases Returns-Sales Book-Sales Returns-Wages Book-Bills Receivable and Payable Books-Journal-Purchase Ledger-Sales Ledger-Nominal Ledger-Audit Programme for the Statutory Report-General Audit Programme for Limited Companies-Special Features of the Audit of Non-Trading Concerns-Charitable Institutions-Hospitals-Special Features of the Audit of Trading Concerns-Branches-Bus Companies-Cinemas-Theatres-Circuses, etc.-Collieries-Contractors and Builders-Co-operative Societies-Electric and Gas Companies-Executors and Trustees-Finance and Trust Companies-Hotels-Newspapers and Periodicals-Publishers-Railway Companies-Retailers-Rubber, Tea and Coffee Plantations-Shipping Companies-Solicitors-Typical Questions.	
APPENDIX A	631—787
Questions and Model Answers	