



**GOVERNMENT OF TAMIL NADU**

**HIGHER SECONDARY FIRST YEAR**

**VOCATIONAL EDUCATION**

# **Auditing**

## **PRACTICAL**

A publication under Free Textbook Programme of Government of Tamil Nadu

**Department of School Education**

**Untouchability is Inhuman and a Crime**

## Government of Tamil Nadu

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## OVERVIEW OF PRACTICAL AUDITING

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Auditing is an independent examination of books of accounts, vouchers, documents, and statutory records of an organisation to ascertain whether the financial statements represent a true and fair view of the state of affairs of the business concern. The scope of the subject Practical Auditing involves examination of the system of accounting, checking the accuracy of transactions, verification of the assets and liabilities and ensuring the truthfulness and correctness of the items in Profit and Loss Account and Balance Sheet with a view to express an opinion thereon.

*Practical Auditing* is an important paper for Commerce students. This book explains basic concepts about auditing in a simple and easy to understand manner. The subject is explained with a practical approach by means of illustrations. All important concepts have been explained in detail with diagrams and flowcharts. Further, summarized form of advantages and limitations to important concepts has been given to make the students remember and recollect the points easily. At the end of each chapter, *summary* has been given to give a clear understanding to the students. A *Glossary* of the key terms used in the book is given at the end of the book.





# CAREER GUIDANCE AFTER +2



Commerce is that part of business which is concerned with exchange of goods and services and includes all those activities which directly or indirectly facilitate that exchange. With globalisation and digitalisation of economy the importance of commerce and finance has enhanced providing greater opportunities for students pursuing commerce subject

## DEGREE COURSES

- B.Com : Bachelor of Commerce
- B.Com : Bachelor of Commerce — Accounting and Finance
- B.Com : Bachelor of Commerce — Computer Applications
- B.Com : Bachelor of Commerce — Information Systems Management
- B.Com : Bachelor of Commerce — Honours
- B.Com : Bachelor of Commerce — Marketing Management
- B.Com : Bachelor of Commerce — Co-operation
- BCS : Bachelor of Corporate Secretary ship
- BBA : Bachelor of Business Administration
- BBM : Bachelor of Bank Management
- BMS : Bachelor of Management Science
- BBS : Bachelor of Business Studies
- BSW : Bachelor of Social Work
- BA : Bachelor of Arts - Economics

## PROFESSIONAL COURSES

### CHARTERED ACCOUNTANT - CA

Chartered Accountant deals with the management of money and provides financial advice. They maintain records of financial transactions which every organisation is required to keep by law and also carry out company audits

#### Education Pathway

The Chartered Accountancy Course is regulated by the Institute of Chartered Accountants of India (ICAI) and exam is conducted in three stages

#### Level I

Foundation

#### Level II

Intermediate

#### Level III

Final

#### Career Opportunities

- Independent Auditor .1
- Accounts Manager / Executive .2
- Finance Manager / Executive .3
- (Chief Financial Officer (CFO) .4
- Financial Analyst .5
- Financial Consultant .6
- Financial Controller .7

## PROFESSIONAL COURSES

### COST AND MANAGEMENT ACCOUNTANT - CMA

Cost Accountant creates budgets to manage costs and maximise profitability of a company. They provide detailed cost information that management needs to control costs and further aids management to take decisions

#### :Education Pathway

The Cost and Management Accountant Course is regulated by the Institute of Cost Accountants of India and exam is conducted in three stages

Level I

Foundation

Level II

Intermediate

Level III

Final

#### :Career Opportunities

Cost and Management Accountant .\nCost Controller .\nCost Auditor .\n

## PROFESSIONAL COURSES

### COMPANY SECRETARY - CS

Company Secretary is one of the principal officer of the company. They keep the company's records, complete tax returns, advise the Board of Directors of their legal obligations and ensure that companies comply with statutory legislation

#### :Education Pathway

The Company Secretary Course is regulated by the Institute of Company Secretaries of India (ICSI) and exam is conducted in three stages

Level I

Foundation

Level II

Executive

Level III

Professional

#### :Career Opportunities

Company Secretary .\nLegal Advisor .\nCorporate Policymaker .\nAdministrative Officer .\n

## PROFESSIONAL COURSES

### CORPORATE LAWYERS

Corporate lawyers undertake all legal processes related to the formation, operation and governance of a corporation. They are responsible for all aspects of corporate law practice

#### :Education Pathway

Level I

Entrance Exam

Level II

Graduation In Law

Level III

Post Graduation In Law

#### :Career Opportunities

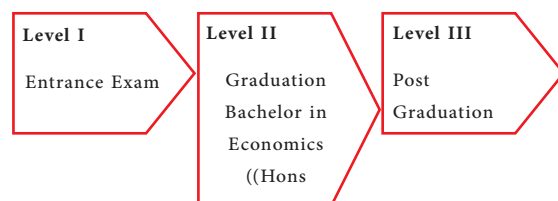
Lawyer .\nLegal Advisor .\nLegal Consultant .\n

## PROFESSIONAL COURSES

### ECONOMIST

Economist provides advice and practical information that will aid managerial planning and decision-making tasks. They analyse and interpret complicated numerical and financial information.

#### :Education Pathway



#### :Career Opportunities

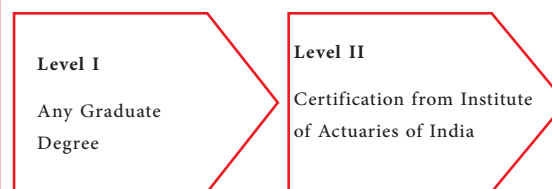
Economist .1  
Analyst .2  
Research Associate .3

## PROFESSIONAL COURSES

### ACTUARY

Actuarial Science is a course that uses mathematics and statistics to determine risks in sectors like insurance, finance and other relevant fields. The Institute of Actuaries of India (IAI) is the Government body responsible for actuarial education in India.

#### :Education Pathway



#### :Career Opportunities

Chief Actuary .1  
Analyst .2  
Intern .3  
Associate .4

## POST GRADUATION COURSES

Master of Commerce	:	M.Com	■
Master of Business Administration	:	MBA	■
Master of Management Science	:	MMS	■
Master of Social Work	:	MSW	■
Master of Corporate Secretary ship	:	MCS	■

## INTERNATIONAL COURSES

Certified Management Accountant	:	CMA	■
Certified Public Accountant	:	CPA	■
Association of Chartered Certified Accountants	:	ACCA	■
Chartered Financial Analyst	:	CFA	■

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**E-book**



**Assessment**



**DIGI links**



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- Open the QR code scanner application
- Once the scanner button in the application is clicked, camera opens and then bring it closer to the QR code in the text book.
- Once the camera detects the QR code, a url appears in the screen.Click the url and goto the content page.





## Learning Objectives



- Meaning and Definition of Auditing
- Primary and Secondary Objects of Auditing
- Various Types of Errors and Frauds
- Advantages and Limitations of Auditing
- Meaning and Definition of Investigation
- Objectives of Investigation
- Distinguish between Auditing and Investigation
- Auditing in a Computer Based Environment

**1.1 Introduction**

In ancient days, the owners of the business verify their accounts by expert accountants or book keepers to detect errors and frauds. Even the Kings and Zamindars used to listen from the accounts regarding receipts and payments of their kingdom.

At the end of Fifteenth Century due to revival in Italy, there was a rapid growth in industry, trade and commerce. The principle of double entry system was introduced by Luca Pacioli, a famous Italian mathematician. Besides cash transactions, credit transactions are recorded in books, as a result complexity of accounts was increased.

As a result of Industrial revolution in England in the Eighteenth century, there was a substantial increase in the volume of business. A rapid increase in commercial activity, emergence of banking, insurance, joint stock companies and growing activities in the Government sector led the need for audit of accounts.

The technological development, globalization of business, complex business environment, requirement of the interested parties regarding true accounts, necessity of the government to get audited accounts for different purposes have influenced auditing to be used as a fact-finding tool and have caused a greater responsibility in the technique, scope, professional, legal, moral and ethical responsibilities from the auditors.

**1.2 Meaning of Auditing**

The term 'Audit' is derived from the Latin word, "Audire", which means, 'to hear'. Auditing is a detailed and critical examination of books of accounts and support documents to verify whether the financial statements which include Profit and Loss Account and Balance Sheet represent a true and fair view of the state of affairs of the business concern.

It is the verification of financial position as it is disclosed by the Balance

Sheet and the Profit and Loss Account. It is an examination of accounts to ascertain whether the Balance Sheet and the Profit and Loss Account give a true and fair view of financial position and Profit or Loss of the business. For this purpose, all the business transactions and the manner in which these are recorded must be examined.

Auditing is the intelligent and critical test of accuracy, adequacy and dependability of accounting data and accounting statements. It is concerned with examination of accounting data to determine the extent of accuracy of Profit and Loss account and the Balance sheet prepared from such data.

### 1.3 Definition of Auditing

- The **Institute of Chartered Accountants of India** describes audit as “the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such examination is conducted with a view to expressing an opinion there on”.
- **Spicer and Pegler** defines auditing as, “such an examination of books of accounts and vouchers of a business as will enable the auditor to satisfy the Balance Sheet is properly drawn up so as to give a true and fair view of the state of affairs of the business, whether the Profit and Loss account gives a true and fair view of the profit and loss for the financial period, according to the best of his information and explanation given to him as shown by the books, and if not, in what respect he is not satisfied.”



- In the words of **L.R.Dicksee**, “Auditing is an examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transaction to which they purport to relate”.
- **Montgomery** defines the term as “Auditing is a systematic examination of books and records of a business or other organization in order to ascertain or verify and to report upon the facts regarding its financial operations and the result thereof”.

**The Institute of Chartered Accountants of India (ICAI) is regulating the accountancy profession in India established under the Chartered Accountants Act, 1949 passed by the Parliament of India.**



### 1.4 Features (or) Characteristics of Auditing

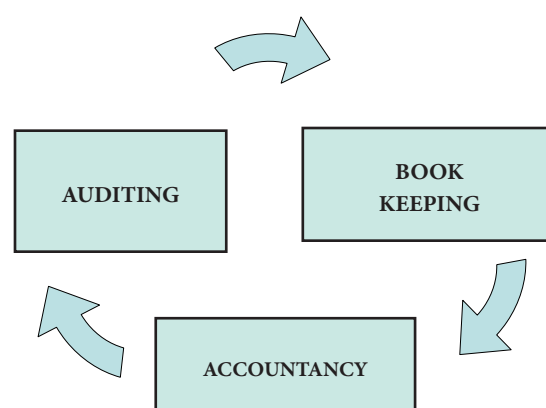
1. It is a systematic and independent examination of financial information of a concern.
2. Its main motive is to detect errors and frauds in the books of accounts and financial statement.
3. It is conducted either by independent or body of persons who possess in depth knowledge and extensive practical training.
4. It ensures the correctness of Trading, Profit and Loss Account and Balance Sheet whether it reflects a true and fair view of the state of affairs of the business.
5. It further ensures that the financial statements follow the accounting standards.

## 1.5 Book-Keeping, Accountancy and Auditing

**Book-Keeping** is the art of recording the business transactions in the books of original entry. It involves the process of recording all the transactions, journalising, posting to the relevant ledger accounts and balancing.

**Accountancy** involves the process of recording, classifying, summarising and interpreting all the financial transactions that take place during a particular period in a concern. It is the work of an accountant in maintaining financial books, checking of numerical accuracy of the books of accounts, preparation of trial balance, trading account, profit and loss account and balance sheet. Hence, it is commonly said “*Accountancy begins where Book-keeping ends*”.

**Auditing** involves a detailed and critical examination and verification of accounts by an independent and qualified person to ascertain the true and fair view of the financial position of the concern. For example after verification the auditor has to submit a report to the management that the financial statement represents a true and fair view of the statement of affairs of the business. Hence, it is said “*Auditing begins where Accountancy ends*”.

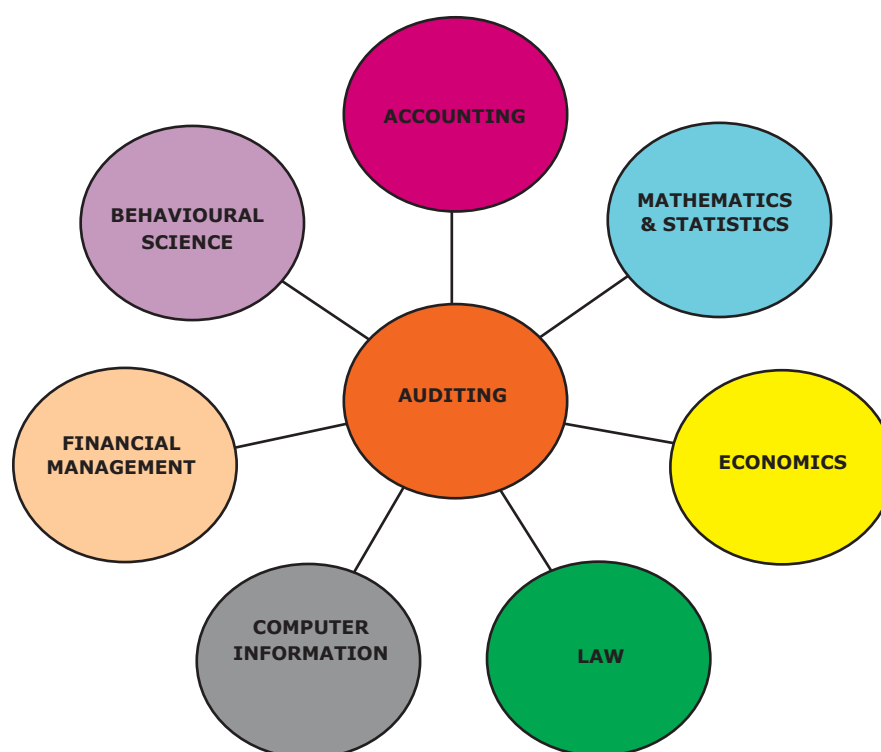


## 1.6 Difference Between Accountancy and Auditing

Basis	Accountancy	Auditing
1. Meaning	It is the process of recording, classifying, summarising and interpreting all the financial transactions.	It is the process of examining books of accounts and reporting on the financial statements.
2. Objectives	Its main objective is to find out profit earned or loss suffered by a company and to show the financial position of the company for a particular period.	Its main objective is to examine the correctness of the accounts and financial statements and certify that whether the company exhibits a true and fair view of state of affairs of the concern.
3. Nature of Employment	An accountant is a permanent employee of the organisation.	An auditor is an independent person and is not an employee of the organisation.
4. Qualification	He should have the knowledge of double entry system of book -keeping and principles and concepts of accounting.	An auditor should be a qualified chartered accountant certified by the Institute of Chartered Accountants of India for auditing joint stock companies.

5. Reports	Accountant is not required to submit the report on the financial statements prepared by him.	Auditor should submit the report certifying the truth and fairness of the financial statements.
6. Remuneration	An accountant is remunerated in the form of salary.	An auditor is remunerated in the form of professional fees.
7. Commencement of work	Accountancy starts where Book-keeping ends.	Auditing starts where Accountancy ends.

## 1.7 Relationship of Auditing with other Disciplines



Disciplines	Relationship
1. Accounting	Auditor has to review and evaluate the financial statements by providing an opinion. Therefore, he should have thorough knowledge about accounting concepts and principles.
2. Mathematics and Statistics	Auditor deals with financial data and the amount that appears in financial statements. Hence, it requires knowledge of calculation procedure involved in computing various items, for example., depreciation, provision for bad debts, tax etc. Auditor is also expected to have knowledge of statistical sampling for making meaningful conclusion.
3. Economics	Auditor requires knowledge regarding business and economic environment affecting the client. Thus, economic concepts are required to perform auditing in a meaningful way.

4. Law	Audit of a business concern has to be undertaken with respect to conformity with law. Thus, an auditor should have sound knowledge of laws affecting the client.
5. Computer Information System	In recent times, clients maintain their accounts in computer information system. Thus, working knowledge on computer is required for auditors to conduct audit in an effective way.
6. Financial Management	Auditor to understand and evaluate the financial statements in a better way should have knowledge of financial techniques.
7. Behavioural Science	Auditor has to deal with many personnel to conduct the audit efficiently. Hence, he should have the tact of getting along with people.

## 1.8 Auditor

### 1.8.1 Meaning – Auditor

The person who checks the accuracy of the books of accounts and expresses an opinion on the financial statements of the business concern is called as an Auditor. The person who is a Chartered Accountant holding Certificate of Practice from the Institute of Chartered Accountants of India is referred to as an Auditor. Auditors enjoy a distinctive professional status in the society because of specialized functions of auditing.

### 1.8.2 Functions of an Auditor

The following are the functions or basic aspects to be covered by the auditor in the course of audit. They are:

- 1. Examination:** Auditor should examine the accounting system to ensure about their appropriateness.
- 2. Books:** Check the books of accounts to ensure the arithmetical accuracy.
- 3. Evidence:** The auditor should examine documentary evidence to support the entries in the books of accounts.
- 4. Full Inclusion:** Check whether all entries in the books of accounting have been taken while preparing financial statements.
- 5. Properness:** Examine whether information contained in financial statements is proper and it does not contain any fraudulent entry.
- 6. Verification of Assets and Liabilities:** Check the existence, valuation and disclosure of all assets and liabilities in financial statements.
- 7. Statutory Compliance:** Verify the compliance of financial statements with the relevant statutory authorities.
- 8. Disclosure:** Examine whether the information in financial statements is disclosed properly as per accounting principles.
- 9. Truth and Fairness:** Check whether financial statements represent a true and fair view of profit or loss and of assets and liabilities of the business concern.



## STUDENTS ACTIVITY

Meet a practicing Chartered Accountant and collect information about him and his auditing experience.



### 1.8.3 Qualities of an Auditor

QUALITIES OF AN AUDITOR	
Professional Qualities	General Qualities
1. Knowledge of accounting principles and concepts.	1. Tactful and honest.
2. Knowledge of principles and techniques of auditing.	2. Ability to work hard.
3. Knowledge of Company and Mercantile Law.	3. Reasoning.
4. Knowledge of Cost accounts.	4. Vigilant, cautious and accurate.
5. Knowledge of Management accounts.	5. Communication skill
6. Knowledge of mathematics and statistics.	6. Impartial
7. Knowledge of Economics.	7. Ability to trace out facts and figures.
8. Knowledge of technical details and production process.	8. Methodical.
	9. Ability to maintain secrecy.
	10. Well-behaved.
	11. Courage.
	12. Common sense.
	13. He must be a watch dog but not blood hound.





### **Who is a Chartered Accountant?**

Chartered Accountant is a person who deals with the management of money and provides financial advice.

### **What work they do?**

- Financial Accounting, Auditing, Cost Accounting, Tax Management and Consulting.
- Liaisoning with business concerns and provide financial information and advice.
- Undertaking financial audits, reviewing the company's system and analysing risk.
- Guide and counsel business concerns to improve their area of operation.

### **Skills required for a Chartered Accountant**

- General business interest
- Strong analytical and problem solving skills
- Strong communication and interpersonal skills
- Self-motivation and commitment, in order to combine study while working.

### **Education Pathway**

Level I - Foundation: Student from any stream who has appeared for XII Standard can appear for the exam.

Level II - Intermediate: Student who has passed Foundation or any Graduate with 55% of marks is eligible.

Level III - Final: Pass in Intermediate with 3 years of articleship training with a practicing Chartered Accountant is eligible.

### **E-Resources:**

<https://www.icai.org>

<https://cacourse.net/ca-course-details/>

<https://www.charteredclub.com>

<https://superprofs.com>

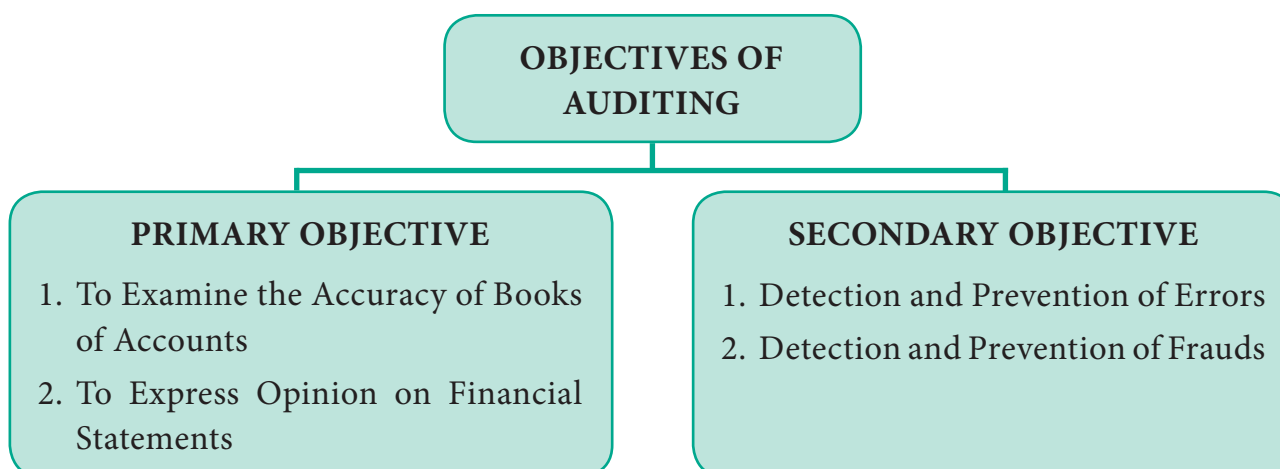
- Members of the Institute of Chartered Accountants of India (ICAI) are known as Chartered Accountants.
- ICAI had 270,000 registered members as on April 2017.
- Comptroller and Auditor General (CAG) of India is an authority, established by the Constitution under Constitution of India, who audits all receipts and expenditure of the Government of India and the state governments.



## 1.9 Objectives of Auditing

The objective of an audit is to express an opinion on financial statements. The auditor has to verify the financial statements and books of accounts to

certify the truth and fairness of the financial position and operating results of the business. Therefore, the objectives of audit are categorized as primary or main objectives and secondary objectives.



### 1.9.1 Primary Objectives

The primary or main objective of audit is as follows:

#### 1. To Examine the Accuracy of the Books of Accounts

An auditor has to examine the accuracy of the books of accounts, vouchers and other records to certify that Profit and Loss Account discloses a true and fair view of profit or loss for the financial period and the Balance Sheet on a given

date is properly drawn up to exhibit a true and fair view of the state of affairs of the business. Therefore the auditor should undertake the following steps:

- Verify the arithmetical accuracy of the books of accounts.
- Verify the existence and value of assets and liabilities of the companies.
- Verify whether all the statutory requirements on maintaining the book of accounts has been complied with.

#### Meaning of Books of Accounts

- Books of Accounts mean the financial records maintained by a business concern for a period of one year. The period of one year can be either calendar year i.e., from 1st January to 31st December or financial year i.e., from 1st April to 31st March. Usually, business concerns adopt financial year for accounting all business transactions.
- Books of accounts include the following: ledgers, subsidiary books, cash and other account books either in the written form or through print outs or through electronic storage devices.



## 2. To Express Opinion on Financial Statements

After verifying the accuracy of the books of accounts, the auditor should express his expert opinion on the truthness and

fairness of the financial statements. Finally, the auditor should certify that the Profit and Loss Account and Balance Sheet represent a true and fair view of the state of affairs of the company for a particular period.

### ➤ Meaning of Financial Statement

Financial Statement means the statements prepared at the end of the year taking into account the business activities that took place for a year, for example, transactions that takes place in a business concern from 1st April to 31st March.

### ➤ Components of Financial Statement

Financial Statement includes the following:

1. Trading and Profit and Loss Account, and
2. Balance Sheet.

### ➤ Elements of Financial Statements include the following:

1. **Assets:** Assets include cash and bank balance, value of closing stock, debtors, bills receivable, investments, fixed assets, prepaid expenses and accrued income.
2. **Liabilities:** Liabilities include capital, profit and loss balance, creditors, bills payable, outstanding expenses and income received in advance.
3. **Revenue:** Revenue includes sales, collection from debtors, rent received, dividend, interest received and other incomes received.
4. **Expenditure:** Expenditure includes purchases, payment to creditors, manufacturing and trade expenses, office expenses, selling and distribution expenses, interest and dividend paid.

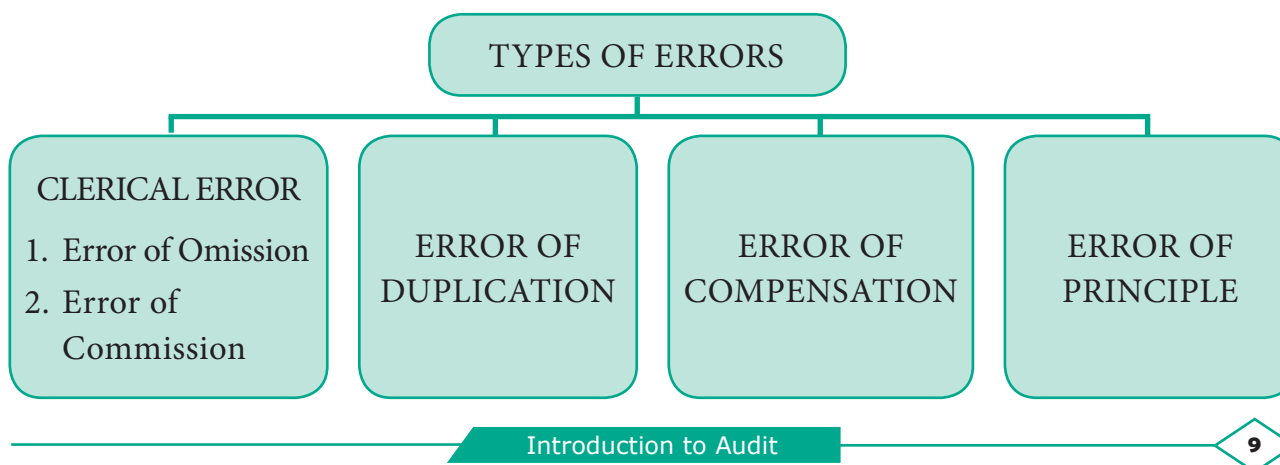
## 1.9.2 Secondary Objectives

The secondary objectives of audit are: (1) Detection and Prevention of Errors, and (2) Detection and Prevention of Frauds.

### Detection And Prevention of Errors

The Institute of Chartered Accountants of India defines an error as, “an unintentional

mistake in the books of accounts.” Errors are the carelessness on the part of the person preparing the books of accounts or committing mistakes in the process of keeping accounting records. Errors which take place in the books of accounts and the duty of an auditor to locate such errors are discussed below:



## 1. CLERICAL ERROR

Errors that are committed in posting, totalling and balancing of accounts are called as Clerical Errors. These errors may or may not affect the agreement of the Trial Balance.

### Types of Clerical Errors:

#### (A) Errors of Omission:

When a transaction is not recorded or partially recorded in the books of account is known as Errors of Omission. Usually, it arises due to the mistake of clerks. Error of omission can occur due to complete omission or partial omission.

- (1) **Error of Complete Omission:** When a transaction is totally or completely omitted to be recorded in the books it is called as “Error of Complete Omission”. It will not affect the agreement of the Trial Balance and hence it is difficult to detect such errors.

**Example – 1:** Goods purchased on credit from Mr. X on 10.5.2016 for ₹20,500, not recorded in Purchases Book.

**Example – 2:** Goods sold for cash to Ram for ₹10,000 on 1.7.2016, not recorded in Cash Book.

- (2) **Errors of Partial Omission:** When a transaction is partly recorded, it is called as “Error of Partial Omission”. Such kind of errors can be detected easily as it will affect the agreement of the Trial Balance.

**Example – 1:** Credit purchase from Mr.C for ₹45,000 on 10.12.2016, is entered in the Purchases Book but not posted in Mr.C’s account.

**Example – 2:** Cash book total of ₹1,10,100 in Page 5 is not carried forward to next page.

#### (B) Errors of Commission:

Errors which are not supposed to be committed or done by carelessness is called as Error of Commission. Such errors arise in the following ways:

- (1) Error of Recording,
- (2) Error of Posting,
- (3) Error of casting, or Error of Carry-forward.

- (1) **Error of Recording:** The error arises when any transaction is incorrectly recorded in the books of original entry. This error does not affect the Trial Balance.

**Example – 1:** Goods purchased from Shyam for ₹1000 wrongly recorded in Purchases Day Book as ₹100.

**Example – 2:** Goods purchased from Ram for ₹1,000, instead of entering in Purchase Day Book wrongly entered in Sales Day Book.

- (2) **Error of Posting:** The error arises when a transaction is correctly journalised but wrongly posted in ledger account.

**Example – 1:** Rent paid to landlord for ₹10,000 on 1.5.2016 is wrongly posted to debit side of Repairs account instead of debit side of Rent account.

**Example – 2:** Rent paid to landlord for ₹10,000 on 1.5.2016 is wrongly posted to credit side of Rent account instead of debit side of Rent account.

- (3) **Error of casting, or Error of Carry-forward:** The error arises when a mistake is committed in carrying forward a total of one page on the next page. This error affects the Trial Balance.

**Example – 1:** Purchases Book is totalled as ₹10,000 instead of ₹1,000.

**Example – 2:** Total of Purchases Book is carried forward as ₹1,000 instead of ₹100.

## 2. ERROR OF DUPLICATION

Errors of duplication arise when an entry in a book of original entry has been made twice and has also been posted twice. These errors do not affect the agreement of trial balance, hence it can't be located easily.

**Example:** Amount paid to Anbu, a creditor on 1.10.2016 for ₹75,000 wrongly accounted twice to Anbu's account.

## 3. ERROR OF COMPENSATION (or) COMPENSATING ERRORS

When one error on debit side is compensated by another entry on credit side to the same extent, it is called as Compensating Error. They are also called as Off-setting Errors. These errors do not

affect the agreement of trial balance and hence it cannot be located.

**Example:** A's account which was to be debited for ₹5,000 was credited as ₹5,000 and similarly B's account which was to be credited for ₹5,000 was debited for ₹5,000.

## 4. ERROR OF PRINCIPLE

An error of principle occurs when the generally accepted principles of accounting are not followed while recording the transactions in the books of account. These errors may be due to lack of knowledge on accounting principles and concepts. Errors of principle do not affect the trial balance and hence it is very difficult for an auditor to locate such type of errors.

**Example – 1:** Repairs to Office Building for ₹32,000, instead of debiting to repairs account is wrongly debited to building account.

**Example – 2:** Freight charges of ₹3,000 paid for a new machinery, instead of debiting to Machinery account wrongly debited to Freight account.



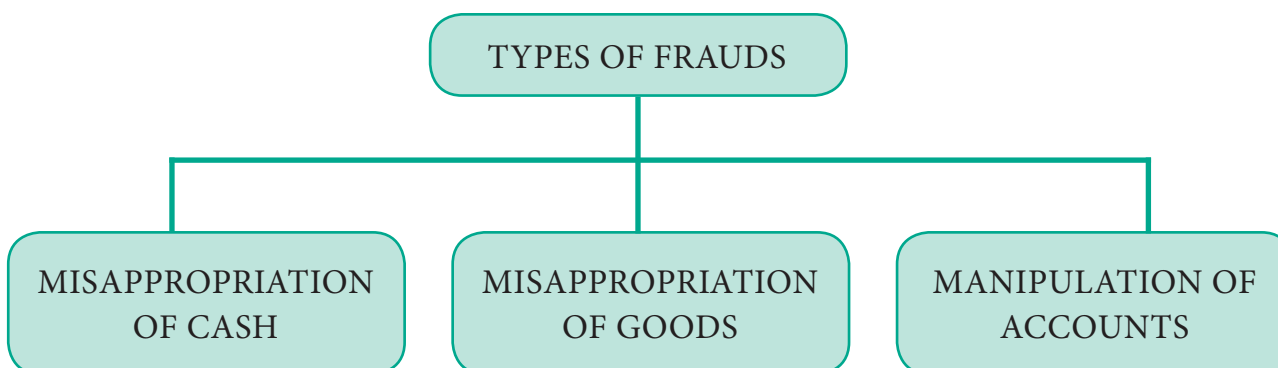
### STUDENTS' ACTIVITY

Collect novelist experiences about errors come across by a nearby Auditor.

## Detection and Prevention of Frauds

Fraud is the intentional or wilful misrepresentation of transactions in the books of accounts by the dishonest

employees to deceive somebody. Thus detection and prevention of fraud is of great importance and constitutes an important duty of an auditor. Fraud can be classified as:



### 1. MISAPPROPRIATION OF CASH

This is a very common method of misappropriation of cash by the dishonest employees by giving false representation in the books of accounts intentionally. In order to detect and prevent misappropriation, the auditor should verify the system of internal check in operation and by making a detailed examination of records and documents. Cash may be misappropriated in the following ways:

(1) By omitting to enter cash which has been received.

**Example:** Cash received on account of cash sales for ₹35,000 is not accounted in the debit side of the cash book.

(2) By accounting less amount on the receipt side of cash book than the actual amount received.

**Example:** Cash received on account of cash sales for ₹35,000 is accounted in the debit side of the cash book as ₹25,000. The difference of ₹10,000 may be defrauded by the cashier.

(3) By recording fictitious entries on the payment side of cash book.

**Example:** Cash book is credited for ₹44,000 as amount paid to Mr.X for goods purchased on credit but actually no amount is paid. Hence, cashier misappropriates ₹44,000 of cash as paid to Mr.X.

(4) By accounting more amount on payments side of cash book than the actual amount paid.

**Example:** Amount paid to Gopal for ₹5,000 is accounted on the credit side of cash book as ₹15,000. The difference of ₹10,000 may be defrauded by the cashier.

(5) Teeming and Lading of Fraud which means cash received from one customer is misappropriated and remittance received from another debtor is posted to the first debtors account.

## 2. MISAPPROPRIATION OF GOODS

Fraud which takes place in respect of goods is Misappropriation of Goods. Such a type of fraud is difficult to detect and usually takes place where the goods are less bulky and are of high value.

- By showing less amount of purchase than actual purchase in the books of accounts.
- By showing issue of material more than actual issue made.
- By showing good materials as obsolete or poor line of goods.
- By showing fictitious entries in the books of accounts.

**Example – 1:** Goods purchased amounting to ₹58,000 is wrongly accounted in Purchases Book as ₹50,000. Hence, showing less amount of purchases than the actual and misappropriating goods worth ₹8,000.

**Example – 2:** Goods issued from stores for 1000 units is wrongly accounted in the Ledger accounts as 3000 units issued. The difference of 2000 units may be misappropriated by the storeskeeper.

**Example – 3:** Entries in the Purchases Book may be suppressed or inflated to show more or less profit.

Detection of Misappropriation of goods is a difficult task for an Auditor. Only through efficient system of inventory control, periodical stock verification, internal check system and adequate security arrangement the scope for such frauds can be eliminated or minimized.

Auditor has to thoroughly scrutinize the inward and outward registers, invoices, sales memos, audit notes, etc., to detect the goods-related frauds.

## 3. MANIPULATION OF ACCOUNTS

There is a very common practice almost in every organization, some dishonest employees have intention to commit this type of fraud. Manipulation of accounts is the procedure to alter books of accounts in such a way that there will be an increase or decrease in the amount of profit to achieve some personal objectives of the high officials. It is very difficult for the auditors to identify such frauds which may be due to manipulation of accounts.

### Causes of Manipulation of Accounts

There are different reasons for manipulation of accounts. The reasons are:

- To get more commission calculated on profit
- For evasion of income tax and sales tax
- To get huge loan from financial institutions by showing more profit in the books of accounts.
- To declare more dividend to the shareholders.
- By showing more profit than actual to get confidence of the shareholders.
- To make secret reserves by showing less income or by showing more expenses in the books of accounts.



### STUDENTS ACTIVITY

Collect any one company's details which involved in accounting frauds identified through auditing.



## Ways of Manipulation of Accounts

Manipulation of accounts may be made in the following ways:

- By showing more or less amount on fixed assets,
- By showing over valuation or under valuation of stock,
- Over or under valuation of liabilities,
- Creation of over or under provision for depreciation,
- Charging capital expenditure as revenue expenditure or vice versa,
- By making more or less provision for bad debts and for outstanding liabilities,
- By showing advance income or expenditure in the current year accounts.

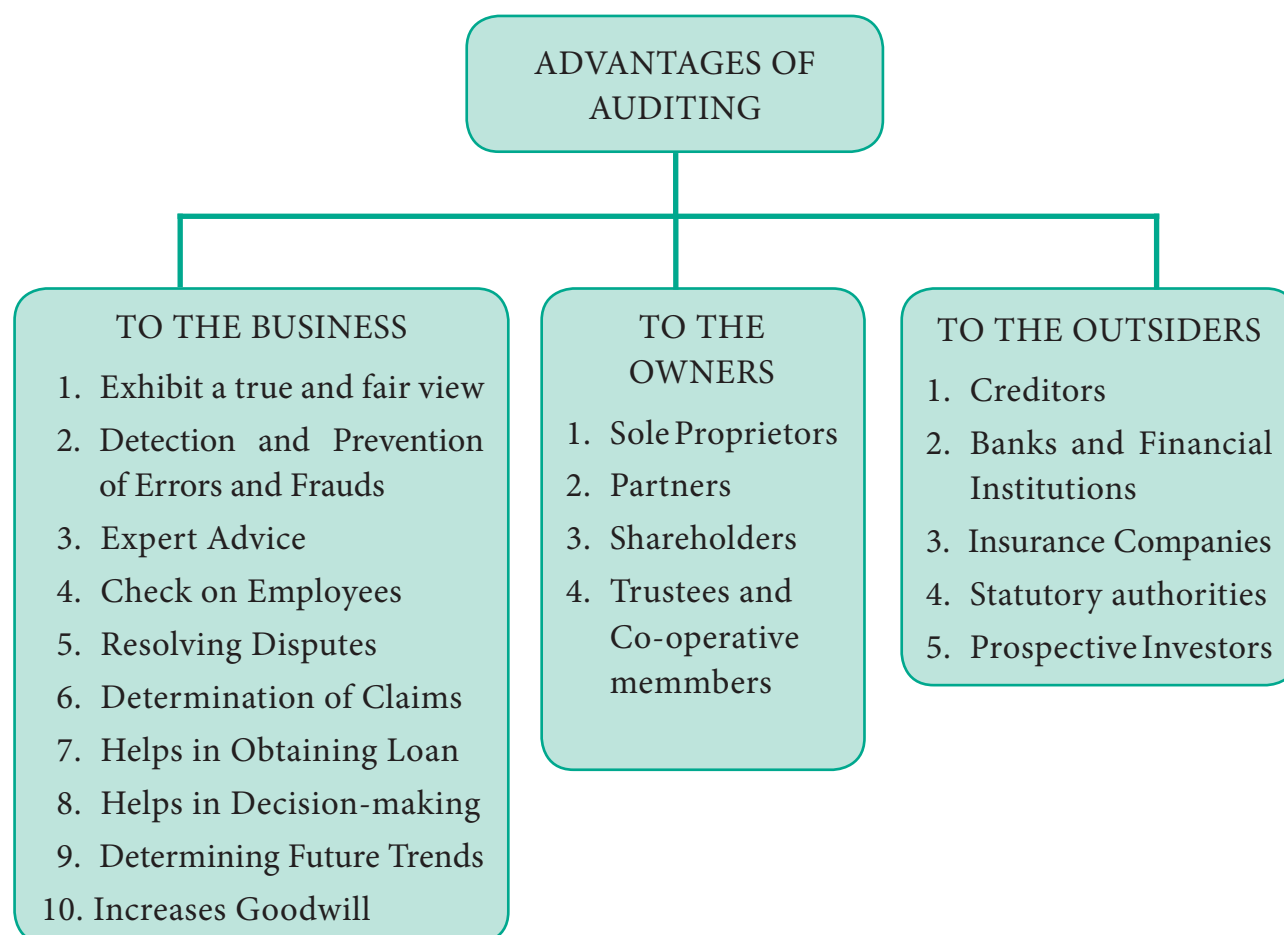
## Objectives of Manipulation of Accounts

The objectives of Manipulation may be window dressing or creation of secret reserves.

- **Window Dressing:** In window dressing, accounts are manipulated in such a manner to reveal a much better and sound financial position of the business than what actually it is, in order to mislead the outsiders by inflating the profit.
- **Secret Reserves:** Accounts are prepared in such a manner that they disclose a worse financial position than the real. The real picture of the business is concealed and a distorted one is revealed.

## 1.10 Advantages of Auditing:

Auditing provides benefits to the business, owners and to the outsiders in the following ways:



## I. Benefits to the Business

1. **Exhibits a True and Fair View of the Financial Statements:** Audited accounts enables to reveal that the Profit and Loss Account and Balance Sheet of the business concern shows a true and fair view of the state of affairs of the business concern.
2. **Detection and Prevention of Errors and Frauds:** When books of accounts are audited, errors and frauds can be detected and necessary action can be taken to prevent it.
3. **Expert Advice:** Auditors who possess professional outlook provide expert advice to the company on various aspects such as tax matters, internal check, internal control and submission of various reports to the statutory authorities, preparation of project reports etc.
4. **Check on Employees:** When accounts are audited it creates a moral pressure on the employees to be very cautious and regular in their work, as a result the chances of errors and frauds will be minimized.
5. **Helps in Resolving Disputes:** Audited accounts provides a basis for settling disputes and conflicts among the partners in the case of partnership firm and to settle disputes with regard to bonus, wages etc. in the case of companies.
6. **Helps in Determination of Claims:** An insurance company settles claims to the companies for the loss due to damage of business property only on the basis of audited accounts.
7. **Helps in Obtaining Loan:** Loans can be easily borrowed from banks and other financial institutions on the basis of audited accounts, as the

audited accounts authenticate the truthfulness of the books of accounts and financial statements.

8. **Helps in Decision-Making:** Audited accounts are relied upon for the purpose of decision-making by the management.
9. **Helps to Determine Future Trends:** By comparing the audited accounts with past years, the trend of financial activities can be determined. On the basis of review, weaknesses are found out and policies for the future period can be determined.
10. **Increase in Goodwill:** Audit of business on a regular basis increases confidence to the interested parties and general public, as a result goodwill of the business can be enhanced.

## II. Benefits to the Owners

1. **Benefits to the Sole Proprietors:** Audited accounts provide assurance to the proprietor about the accuracy of accounts maintained by his employees and also enables to know the financial performance of the business. It further enables the proprietor to obtain loan and in computation of income tax liability.
2. **Benefit to the Partners:** In case of partnership business, audited accounts help the partners in settlement of accounts among the partners at the time of admission, retirement or in the case of death of a partner.
3. **Benefit to the Shareholders:** Shareholders are the owners of the company. With the help of audited accounts, they get a real picture of the financial position of the company and that

directors and managing directors have not taken any undue advantage of their position.

4. **Benefit to Trust, Co-operative Societies:** Audit of accounts of co-operative societies and Trusts provide evidence that the interest of the beneficiaries and members are properly protected.

### III. Benefits to the Third Parties

1. **Bank and Financial Institutions:** Banks and other financial institutions grant loan to the business concern on the basis of audited financial statements.
2. **Creditors:** Creditors who supply goods to the business may assess the solvency and liquidity position of the business on the basis of audited accounts.

3. **Insurance Companies:** For settlement of insurance claims, insurance companies can rely on audited accounts.

4. **Statutory Authorities:** Statutory authorities like income tax, sales tax, wealth tax etc. accept audited statements for determining the liability which arises due to income, sales and wealth.

5. **Prospective Investors:** Prospective investors who wish to invest money in shares and debentures of a company rely on audited accounts.

### 1.11 Limitations of Auditing

The limitations or disadvantages of auditing are as follows:



1. **Gives Opinion:** After the completion of audit, an auditor gives only the opinion regarding true and fair view of the books of accounts and financial

position of the business. Therefore, an auditor is not an insurer; he does not give guarantee regarding financial reflections of the business.



2. **Chances of Undisclosed Errors and Frauds:** An Auditor has to depend on many financial data and statements supplied by the management which may be wrong or misleading. Therefore, there may be some undisclosed errors and frauds in the books of accounts.
3. **Lack of Proper Care and Skill:** Often it is seen that an Auditor does not apply proper care and skill to verify the books of accounts and take it as a routine matter. As a result, the books of accounts do not reflect true and fair view of the financial position of the business.
4. **No Evaluation of Managerial Efficiency:** An Auditor is not an advisor, therefore, he cannot give his opinion regarding managerial efficiency because every concern has its own policy, procedures and practices.
5. **Not Preventive:** Audit is a post-mortem examination. The work of audit starts after the completion of transactions recorded in the books of accounts. Therefore, audited accounts can prevent the future activities but not the past.

## 1.12 Investigation

### MEANING

Investigation is a detailed examination of accounts and enquiry into the state of affairs of the business or for a specific purpose. It involves the process of analysing, collecting and presenting facts in a manner which enables the parties to know the essential facts regarding

the matter under enquiry. Investigation covers more than one financial period and the programme depends on each type of investigation.

**Example:** Investigation is conducted in deduction of suspected fraud and theft, to identify causes for continuous loss and low productivity and to evaluate the credit worthiness of business.

### DEFINITION

- According to **Spicer and Pegler**, “The term investigation implies an examination of records for some special purpose”.
- **Taylor and Perry**, “Investigation involves and enquiry into the fact beyond the books of accounts into the technical, financial and economic position of the organisation”.

### OBJECTIVES

The following are the objectives of Investigation:

1. To ascertain the financial position and the earning capacity of the concern.
2. To investigate when fraud is suspected by the proprietor.
3. To investigate on behalf of Income Tax authorities for tax liability.
4. To investigate for the purpose of lending money to a concern.
5. To investigate for claims under insurance policy covering losses.


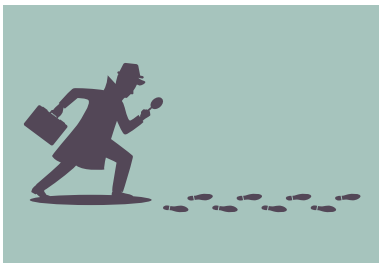


### STUDENTS ACTIVITY

Collect any one company's accounts investigation report.

## 1.13 Differences between Auditing and Investigation

The point of difference between auditing and investigation can be explained as follows:

			
S. No.	Basis of Difference	Auditing	Investigation
1	Meaning	Auditing is concerned with examining the accounts and reporting on financial statements.	Investigation is the examination of accounts of a business for special purpose.
2	Objective	The objective of Auditing is to express an opinion on the financial statements of the concern.	Investigation is done for some specific purpose.
3	Compulsion	It is compulsory in case of Joint stock companies.	It is not compulsory
4	Period	Auditing is done at the end of the financial year.	Investigation can be done over a period of years.
5	Conduct	Audit is conducted on behalf of the owners of the company	Investigation is conducted on behalf of outsiders and owners at some times.
6	Scope	It is has a narrow scope	It has a wide scope
7	Appointment	An auditor is appointed by the shareholders or directors or by Government.	An investigator is appointed by the outsider.
8	Report	Auditor has to give a report about the true and fair view of the final accounts.	The Investigator gives a report on the basis of conclusion and enquiries. Expression of the opinion is not necessary.
9	Qualification	Only Chartered Accountants are qualified to conduct audit of companies.	An investigation need not be conducted by a Chartered Accountant.
10	Process of Work	Investigated accounts are not audited in ordinary course.	Generally audited books of accounts are taken up for investigation.

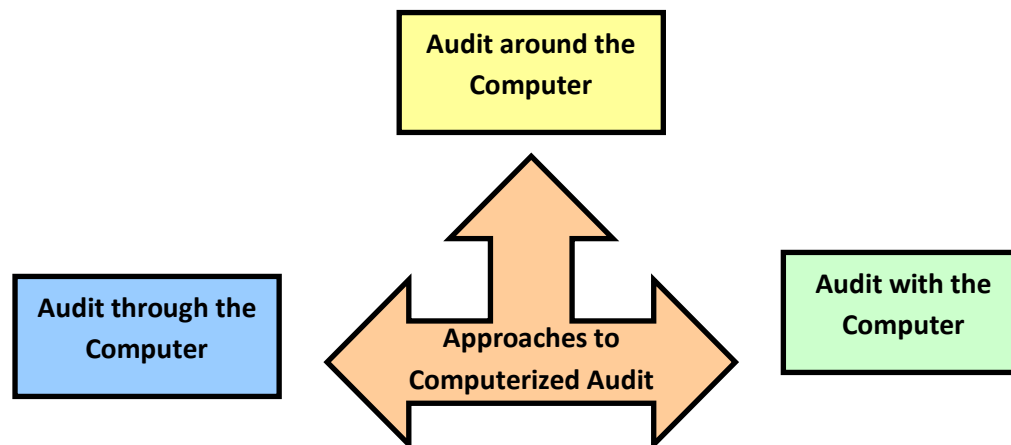
## 1.14 Auditing in a Computer Based Environment

### 1.14.1 Introduction

Information Technology (IT) is integral to modern accounting and management information systems. It is, therefore, essential that auditors should be aware of the impact of IT on the audit of a client's financial statements. Information Technology auditing (IT auditing) began as Electronic Data Process (EDP)

auditing and developed largely as a result of the rise in technology in accounting systems. The last few years have been an exciting time in the world of IT, auditing as a result of the accounting scandals and increased regulations. Regardless of the computer systems used, the audit objectives and approach will remain largely unchanged from that if the audit was being carried out in a non-computer environment.

### 1.14.2 Audit Approach in Computerized Environment



1. **Auditing Around the Computer:** It is the type of auditing done in a traditional method. The auditor summarises the input data and ignores the computer's processing but ensures the correctness of the output data generated by the computer, this approach is generally referred to as "auditing around the computer". This methodology was primarily focused on ensuring that source documentation was correctly processed and this was verified by checking the output documentation to the source documentation
2. **Auditing Through the Computer:** Due to the "real time" computer environments, there may only be a limited amount of source documentation or paperwork hence the auditor may employ an approach known as "auditing through the computer". In this approach, the reliability and accuracy of the results are analysed through the computer. This involves the auditor to perform tests on the information technology controls to evaluate their effectiveness like Compliance test, Test Packs, Reprocessing.
3. **Auditing with the Computer:** The utilization of computer by the auditor for some audit work and he uses some general software for the purpose of calculating depreciation, printing letters, and duplicate checking and files comparison.

The computer is not used for all the audit work and it is done manually.

### 1.14.3 Audit Process for Computerized Accounting System

The audit process for a computerized accounting system involves the following five major steps:

**1. Conducting Preliminary Survey:**

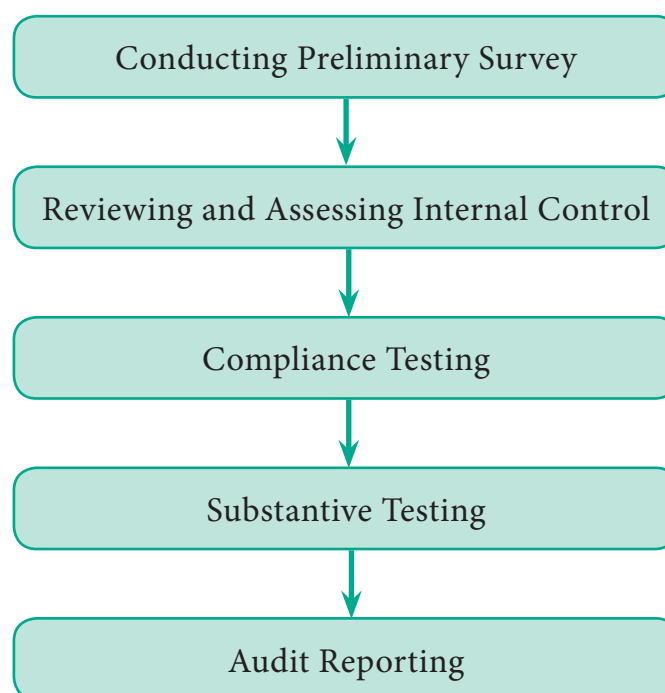
This is a preliminary work to plan how the audit should be conducted. The auditors gather information about the computerized accounting system that is relevant to the audit plan. This includes an understanding of how the computerized accounting functions are organized, identification of the computer software used, understanding accounting application processed by computer and identification applicable controls.

**2. Reviewing and Assessing Internal Controls:** There are two types of controls namely general controls and application controls.

- **General Controls:** General controls are those that cover the organization, management and processing within the computer environment. They should be tested prior to application controls, because if they are found to be ineffective, the auditor will not be able to rely on application controls. General controls include proper segregation of duties, file backup, use of labels, access control, etc.

- **Application Controls:** Application controls relate to specific tasks performed by the system. They include input controls, processing controls, and output controls. They should provide reasonable assurance that the initiating, recording, processing and reporting of data are properly performed.

**3. Compliance Testing:** Compliance testing is performed to determine whether the controls actually exist and function as intended. This can be performed by comparing the results to predetermined results or by processing dummy transactions.



**4. Substantive Testing:** This is performed to determine whether the data is real. Substantive tests are tests of transactions and balances and analytical procedures designed to substantiate the assertions. Auditors must obtain and evaluate evidence concerning management's assertions about the financial statements. The auditor must obtain sufficient competent evidential

matter to provide a basis for an opinion regarding the financial statements under audit. If sufficient competent evidence cannot be obtained then an opinion cannot be issued.

**5. Audit Reporting:** The audit report will contain detailed information on various aspects of their findings in the process of audit in a computerized environment.

## SUMMARY

### Auditing - Meaning

- Auditing is a detailed and critical examination of books of accounts by an independent and qualified person to ascertain the true and fair view of state of affairs of the business.

### Advantages of Auditing

- Auditing is useful to owners, company and outsiders. The advantages of auditing include detection and prevention of errors and frauds, weaknesses of control system, to have moral check on employees, professional advice, to resolve disputes, insurance claims, settle wages and bonus and to determine tax amount.

### Objectives of Auditing

- Objectives of auditing are classified as primary, secondary and other objectives. The primary objective of an auditor is to examine the accuracy of the books of accounts and to express his opinion on the financial statements.
- The secondary objective of auditing is to detect errors and frauds. Errors are unintentional mistake in the books of accounts and may arise in the following ways: (1) Clerical error i.e., error of omission and commission, (2) Error of principle, (3) Compensating error, and (4) Error of Duplication.

### Fraud

- False representation or entries made intentionally in the books to defraud somebody are called as fraud. Frauds take place in the form of (1) Misappropriation of cash, (2) Misappropriation of goods, and (3) Manipulation of accounts.

### Investigation

- Investigation means an enquiry or examination of books of accounts for some specific objectives. It involves the process of analysing, collecting and presenting

facts in a manner which enables the parties to know the essential facts regarding the matter under enquiry.

### **Auditing in Computerised Environment**

- Auditing in a computerised environment is EDP (Electronic Data Processing) audit which is processing of data by the computer and its program in an environment involving electronic communication.

## **KEY TERMS**

- **Auditing:** It is a detailed and critical examination of books of accounts by an independent and qualified person to ascertain the true and fair view of state of affairs of the business.
- **Auditor:** The person who checks the accuracy of the books of accounts and expresses an opinion on the financial statements of the business concern.
- **Investigation:** Investigation is a detailed examination of accounts and enquiry into the state of affairs of the business or for a specific purpose.
- **Error:** Errors are unintentional mistakes in the books of accounts.
- **Fraud:** False representation or entries made intentionally in the books to defraud somebody.
- **Clerical Error:** Errors that are committed in posting, totalling and balancing are called as Clerical Errors.
- **Error of Principle:** When a transaction is recorded in contravention of accounting principles is known as Error of Principle.
- **Compensating Error:** An error when committed on debit side is compensated by another error on credit side to the same extent is called as Compensating Error.
- **Error of Duplication:** Error of duplication arises when the transaction is recorded twice in the books of accounts or posted twice in the ledger.
- **Misappropriation of Cash:** Fraud which takes place by misappropriating cash.
- **Misappropriation of Goods:** Fraud in respect of misappropriating the goods.
- **Manipulation of Accounts:** Manipulation of accounts is the procedure to alter the books of accounts in such a way that there will be an increase or decrease in the amount of profit to achieve some personal objectives of the high officials.



- **Window Dressing:** It is manipulating the accounts with a view to present better picture of the state of financial affairs than the actual.
- **Teeming and Lading of Fraud:** Teeming and Lading of Fraud means cash received from one customer is misappropriated and remittance received from another debtor is posted to the first debtors account.
- **EDP Audit:** EDP (Electronic Data Processing) is processing of data by the computer and its program in an environment involving electronic communication.



## EVALUATION



### I. Multiple Choice Questions

- The term "Audire" literally means \_\_\_\_\_.  
a. to hear  
b. to check  
c. to prevent  
d. to inform
- The term audit is derived from \_\_\_\_\_.  
a. Latin  
b. French  
c. Greek  
d. Japanese
- Primary object of auditing is to \_\_\_\_\_.  
a. Detect fraud  
b. Detect error  
c. Prevent fraud and error  
d. Verify of accounts and statement
- Transposition of figure is an error of \_\_\_\_\_.  
a. Principle  
b. Omission  
c. Commission  
d. Compensation
- Incorrect addition, wrong postings and entries are errors of \_\_\_\_\_.  
a. Commission  
b. Duplication  
c. Principle  
d. Omission
- Accounts seem to indicate much better and sound financial position of the business enterprises \_\_\_\_\_.  
a. Amortization  
b. Teeming and lading  
c. Secret reserve  
d. Window dressing
- The wrong allocation of amount between capital and revenue is an error of \_\_\_\_\_.  
a. Compensation  
b. Principle  
c. Commission  
d. Omission

8. Fraud in respect of goods is \_\_\_\_\_ .  
 a. Misappropriation of cash  
 b. Misappropriation of goods  
 c. Manipulation of accounts  
 d. All the above
9. If any transaction is recorded twice in the books, this type of error is \_\_\_\_\_ .  
 a. Compensation  
 b. Principle  
 c. Duplication  
 d. Commission
10. The effect of window dressing results in \_\_\_\_\_ .  
 a. Deflating profit  
 b. Inflating profit  
 c. Deflating and inflating profit  
 d. Curtaining the loss.
- [Answers: 1.(a), 2.(a), 3.(d), 4.(c), 5.(a), 6.(d), 7.(b), 8.(b), 9.(c), 10.(b)]**

## II. Very Short Answer Questions.

- What is the literal meaning of "audire"?
- Define Auditing.
- What are the primary objectives of Auditing?
- What is an Error?
- What is Fraud?
- What is Window dressing?
- What is Teeming and lading?
- Define Investigation.
- What is EDP Audit?

## III. Short Answer Questions.

- Enumerate the various clerical errors.
- Who is an Auditor?
- State the meaning of Auditing?
- Explain various audit approaches in computerised audit.
- What are the disadvantages of Auditing?

## IV. Essay Type Questions.

- What are the differences between Accountancy and Auditing
- Explain the various objectives of Auditing.
- What are the advantages and disadvantages of Auditing?
- Distinguish between Auditing and Investigation.
- Explain the steps involved in audit of computerised accounting.

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## Learning Objectives



- Classification of Audit
- Meaning, Advantages and Disadvantages of Continuous Audit, Periodical Audit and Interim Audit
- Meaning of Balance sheet Audit, Special Audit, Cost Audit, Special Audit, Occasional Audit, Standard Audit, Post and Vouch Audit
- Difference between Continuous Audit and Annual Audit
- Difference between Interim Audit and Continuous Audit

## TO BE RECALLED



In the previous Unit we have studied Meaning, Definition, Objectives, advantages and disadvantages of Auditing, Types of Frauds and Errors, Auditor's Duty in relation to Errors and Frauds, Meaning and Definition of Investigation and Difference between Auditing and Investigation.

## 2.1 Introduction

Auditing is a multi-dimensional and comprehensive technique. An effective insight into the nature of auditing can be obtained by understanding the various types of audit, which together constitute the auditing discipline. Auditing can be classified from various view points. In this chapter, the detailed classification of audit will be discussed.

## 2.2 Classifications of Audit

- Continuous Audit
- Periodical Audit
- Interim Audit
- Occasional Audit
- Standard Audit
- Balance sheet Audit
- Post and Vouch Audit

## 2.3 Continuous Audit

Continuous audit implies a detailed examination of all the transactions by the auditor continuously throughout the year. In other words, when the accounts of a client are checked continuously throughout the whole year or at intervals during the financial period is called as Continuous Audit. At the end of the financial period, the auditor checks the correctness of the financial statements and submits a report without much loss of time.

### 2.3.1 Features or Characteristics

1. It involves detailed examination of all transactions by the auditor.
2. The auditor visits the business concern at frequent intervals, say weekly or

fortnightly or monthly during the period of audit.

3. Continuous audit is done simultaneously with the preparation of accounts.
4. The auditor is constantly engaged in checking the accuracy of the accounts during the whole accounting period.
5. At the end of the financial period, the auditor checks the correctness of the financial statements and submits a report.

### 2.3.2 Advantages

1. **Easy Detection of Errors and Frauds:** The detailed checking involved in continuous Audit can discover errors and frauds easily and quickly.
2. **Quick Presentation of Accounts:** Since the accounts are checked throughout the year, it is possible to present the audited accounts to the shareholders soon after the close of the financial year.
3. **Proper Planning:** The regular visits performed by the auditor makes the clerks alert in maintaining day to day accounts. It also enables the auditor in timely completion of the audit work.
4. **Moral Check on the Employees:** As the auditor pay surprise visits to the business in continuous audit, it has a considerable moral check on the clerks as they are not aware when the auditor comes.
5. **Detailed Examination:** As the auditor visits his clients at regular intervals

throughout the year, a detailed and exhaustive checking of accounts is possible.

6. **Preparation of Interim Accounts:** Continuous audit helps in quick preparation of interim accounts and helps the board of directors to declare interim dividend.
7. **Valuable Suggestions:** Regular visit of an auditor helps the auditor to understand the technical issues of business. This enables the auditor to make suggestions for the improvement of business.

### 2.3.3 Disadvantages

1. **Possibility of Alteration:** Records and figures in the books of accounts which have already been checked by the auditor may be altered after the audit is over.
2. **Dislocation of Client's Work:** The frequent visit made by the auditor may dislocate the work of his client and cause inconvenience to them.
3. **No Continuity in Work:** In continuous audit, the auditor conducts audit work at intervals. Hence he loses continuity and fails to seek clarifications of the queries arising in the previous visit.
4. **Creation of Unhealthy Relationship:** The frequent visits of the auditor may establish unhealthy relationship between him and the clerks.
5. **Expensive:** It is a very expensive form of audit.

#### SUITABILITY OF CONTINUOUS AUDIT

- When final accounts are to be presented immediately after the close of the financial year.
- When the volume of the transaction is very large.
- When the system of internal check is not satisfactory.
- When the management insist the statement of accounts to be presented at the end of every month or quarter.



Summary of Advantages and Disadvantages of Continuous Audit	
Advantages	Disadvantages
1. Easy Detection of Errors and Frauds	1. Possibility of alteration
2. Quick presentation of accounts	2. Dislocation of client's work
3. Proper planning	3. No continuity in work
4. Moral Check on the Employees	4. Creation of unhealthy relationship
5. Detailed examination	5. Expensive
6. Preparation of interim accounts	
7. Valuable suggestion	

## 2.4 Periodical or Final or Complete Audit

Annual or Periodical audit is conducted after closing the books of accounts and preparing the financial statements. In such a case, the auditor visits the clients only once in a year and checks the accounts in one visit. The auditor makes a detailed or random check of the transaction which has taken place in the books of accounts and examines the correctness and fairness of the financial statements. This type of audit is free from the defects of continuous audit and carries other advantages with it, but detailed checking is not possible. Hence, errors and frauds cannot be detected easily and quickly.

### 2.4.1 Features or Characteristics

1. Periodical audit work is done and completed in a continuous session.
2. The auditor visits the clients only once in a year and checks the accounts in one visit.
3. Auditor makes a detailed or random check of the transactions and examines the correctness and fairness of the financial statements.
4. Detailed checking is not possible and hence errors and frauds cannot be detected easily and quickly.
5. Periodical audit is suitable in case of small business concerns where there are only limited transactions.



## 2.4.2 Advantages

1. **No Inconvenience and Dislocation in Work:** The work of audit does not present any inconvenience and dislocation in the work of the concern as the auditor comes only once in a year.
2. **Less Expensive:** Periodical audit is less expensive and more useful for small business concerns than continuous audit.
3. **Quick Finalisation of Accounts:** In periodical audit, the work of the auditor can be finished quickly and within a reasonable time. The auditor ensures quick completion of work in one session due to continuity.
4. **No Chance of Collusion:** In periodical audit there is no undue collusion between the auditor and the clerk as in the case of continuous audit.
5. **No Chance of Tampering Books:** The possibility of tampering with the books of accounts during the audit is reduced as the audit work starts only after the books are closed.
6. **Time Effectiveness:** The auditor uses statistical sampling methods and techniques which lead to time effectiveness.

## 2.4.3 Disadvantages

1. **Detailed Checking not Possible:** In periodical audit, detailed checking of accounts is not possible and hence there are chances of errors and frauds which remain undetected.
2. **Delayed Presentation of Audited Financial Statements:** The work of an auditor starts only after the close of the financial period, therefore there is undue delay in finalising the financial statements and in preparing the audit report.
3. **Difficulty in Fixing Responsibility:** Another major drawback is that all the errors and frauds are found at the end of the accounting year, which makes it very difficult to fix responsibility for defalcations.
4. **No Moral Check on Clients Staff:** There is no sense of moral check on the employees in clients organisation as the auditor visits the company only after the end of the financial period.
5. **Unsuitable:** For big concerns, periodical audit is rarely practicable and it is not much popular for them.

Summary of Advantages and Disadvantages of Periodical Audit	
Advantages	Disadvantages
1. No Inconvenience and Dislocation in work	1. Detailed checking not possible
2. Less expensive	2. Delayed Presentation of Audited Financial Statement
3. Quick finalisation of accounts	3. Difficulty in fixing responsibility
4. No chance of collusion	4. No moral check on clients staff
5. No chance of tampering books	5. Unsuitable
6. Time effectiveness	



## 2.5 Interim Audit

Interim audit is an audit which is conducted in between two annual audits to find out interim profits to enable the company to declare an interim dividend. It involves complete and detailed examination of transactions and review of records and accounts upto the date of interim audit. It is an audit which is conducted in between two balance sheet audits. It is conducted for a specific period with an object of declaring interim dividend or to determine value of shares at a certain date.

### 2.5.1 Features or Characteristics

1. It is an audit which is conducted in between two annual audits i.e., audit for a period of six months or half yearly audit.
2. It involves complete and detailed examination of transactions and accounts upto the date of interim audit.
3. It is conducted for a specific period with an object of declaring interim dividend

or to determine value of shares at a certain date.

4. The objective of conducting interim audit is to know the reliability and accuracy of financial statements of a business for a part of the year.

### 2.5.2 Advantages

1. **Quick Detection of Errors and Frauds:** Errors and frauds can be detected quickly and easily.
2. **Helps in making Improvement:** It helps the management to assess the financial position of business for a part of the year. Any deficiency noticed during first part of the year can be rectified during later part of the accounting year.
3. **Helps in Publication of Interim Results:** Interim audit helps in finalisation of interim results for the purpose of declaring interim dividend.
4. **Early Completion of Annual Audit:** It helps the auditor to complete the annual audit within a short period and submit the report as early as possible.





### 5. Review Internal Control System:

It enables the external auditor to review the internal control system in detail as to their effectiveness and continuity.

### 6. Moral Check on Clients Staff: It helps in exercising moral check on the staff of the client.

## 2.5.3 Disadvantages

#### 1. Increase in Work load of Audit Staff:

Interim audit involves finalisation of accounting statements for some specific period of time which increases the work load of audit staff.

#### 2. Possibility of Alteration of Accounts:

An inherent danger of interim audit is alteration of figures that are already checked and finalised.

#### 3. Erosion of Capital: Wrong assessment of profit may lead to erosion of capital through interim dividend.

## 2.6 Occasional Audit

Occasional audit is conducted as a special event, normally in those organisations when routine audit are not taken place. For example, audit conducted in a partnership firm on admission or on retirement of a partner. Occasional audit is also performed when Government orders for a special audit to investigate into certain matters.

## 2.7 Standard Audit

Standard Audit refers to detailed checking and analysis of certain transactions only and the remaining transactions are subjected to sample checking provided there is a good and effective system of internal check in operation. In other words, it is a sample checking after a satisfactory and detailed checking of some of the items.

### Summary of Advantages and Disadvantages of Interim Audit

Advantages	Disadvantages
1. Quick detection of errors and frauds	1. Increase in work load of audit staff
2. Helps in making improvement	2. Possibility of alteration of accounts
3. Helps in publication of interim results	3. Erosion of capital
4. Early completion of annual audit	
5. Review internal control system	
6. Moral check on clients staff	

## AUDITS BASED ON FUNCTION

- **External Audit:** Audit which is undertaken by an individual person who is appointed by the shareholders and not by the management is External Audit.
- **Internal Audit:** Audit which is conducted internally i.e., on behalf of the management of the company is Internal Audit.

It is defined as, “ a complete check and analysis of certain items and contingent upon effective check, an appropriate test check on remaining items, the whole of the work being in accordance with general audit standards quite adequate to justify an unqualified person.”

## 2.8 Balance Sheet Audit

The term “Balance sheet Audit” is an American contribution. It is more popular in U.S.A. It is very rarely used in India and other countries. In balance sheet audit, the auditor verifies the balance sheet items such as capital, liabilities, reserves and provisions, assets and other items given in the balance sheet. The auditor checks only those documents, which are related to the items given in the balance sheet and does not review other items which are not connected with the Balance Sheet.

Although, Balance Sheet Audit concentrates on the items of Balance Sheet, it does not exclude audit of other business operations. As the balance of Profit and Loss Account itself is part of the Balance Sheet, it will invariably include the examination of the items recorded in the Profit and Loss Account. It is similar to an annual audit. In India, no distinction is made between Balance Sheet Audit and Annual Audit.

In this audit, a backward process is followed to audit the balance sheet. First the item is located in Balance Sheet, and then it is located in the original records for the purpose of verification. This audit is based on the assumption that there exists a reliable system of internal control. It presumes that auditor is highly skilled and experienced.

## 2.9 Post and Vouch Audit

Post and Vouch audit refers to verification of all transactions from book of original entry and its posting in the ledger. The auditor uses different ticks for each aspect of examination like posting, totalling, balancing etc. In conduct of this audit, the auditor verifies the effectiveness of internal control system, if satisfied, he will resort to test checking of various types of transactions.

This type of audit is suitable for small business organisations and is not advisable for business concerns with large volume of transactions. Practically, this system of audit is no longer conducted due to vast increase in business transactions or due to introduction of merchandised system of accounting or when there is a good system of internal check in operation.

### AUDITS BASED ON SUBJECT MATTER

- **Cost Audit:** Audit which is conducted to check the cost accounts, techniques and methods as per the provisions of Cost and Work Accountants Act, 1939.
- **Special Audit:** Special Audit is a type of audit conducted by the Central Government for some special objectives.

*(continued)*

- **Management Audit:** Audit which is conducted to review the past performance with the predetermined objectives, plans and policies and suggests steps to overcome the inefficiencies.
- **Social Audit:** Audit conducted to protect the interests of consumers, employees and all those who are affected by the decisions of the company. Now this audit is receiving worldwide acclaim and is declared all over the world.
- **Operational Audit:** Audit which is conducted to make a detailed examination of various operations or functional areas of the business.

## 2.10 Difference between Continuous Audit and Annual Audit

S.No	Basis	Continuous Audit	Annual Audit
1.	Frequency of Auditors Visit	In case of Continuous Audit, auditor frequently visits and checks the accounts of the business.	In case of Annual Audit, auditor visits the business only once after the close of the year.
2.	Conduct of Audit	Audit is conducted periodically throughout the financial year.	Audit is commenced only after the close of the financial year.
3.	Regularity of Audit Staff	Client's staff becomes more efficient and regular.	It may not be so because client's staff knows well that audit work will start only after the close of financial year.
4.	Verification of Transactions	Each and every transaction is verified immediately after it is recorded.	Audit staff checks and verifies the transactions only after the close of the year.
5.	Cost involved in the Audit	It is very much expensive	It is less expensive and economical.

## 2.11 Difference between Continuous Audit and Interim Audit

Basis	Continuous Audit	Interim Audit
1. Objective	The main object is to detect errors and frauds.	The main object is to determine the profit or loss for the purpose of declaration of dividend to shareholders.
2. Duration of Audit	Audit is conducted up to any date according to the convenience of the auditor and his clients.	Audit work is done up to a definite date according to the instructions of the client.



3. Preparation of Trial Balance	Trial balance is not prepared but the totals of certain accounts are noted.	Trial Balance must be prepared at the end of the period.
4. Verification of assets and liabilities	Assets and liabilities are verified after the preparation of the balance sheet at the end of the accounting year.	Assets and liabilities are verified when the audit work is conducted.

## SUMMARY

The present unit discussed about the types of audit with their advantages and disadvantages. It also presented the difference between Continuous Audit and Annual Audit and Interim Audit and Continuous Audit.

## KEY TERMS

- **Continuous Audit:** Continuous audit implies a detailed examination of all the transactions by the Auditor continuously throughout the year. At the end of financial period, the auditor checks the financial accounts.
- **Annual or Periodical audit:** Annual or Periodical audit is done at the close of financial period after the final accounts are prepared.
- **Interim Audit:** Interim audit is conducted between two annual audits to find out interim profits to enable the company to declare an interim dividend.
- **Occasional Audit:** Occasional audit is conducted as a special event, normally in those organisations when routine audit are not taken place.
- **Standard Audit:** Standard Audit refers to detailed checking and analysis of certain transactions only and the remaining transactions are subjected to sample checking provided there is a good and effective system of internal check in operation.
- **Balance Sheet Audit:** Auditor verifies the balance sheet items such as capital, liabilities, reserves and provisions, assets and other items given in the balance sheet.
- **Post and Vouch Audit:** Post and Vouch audit refers to verification of all transactions from books of original entry and its posting in the ledger.



## EVALUATION



### I. Multiple Choice Questions:

1. All the transactions verified by the auditor continuously throughout the year is \_\_\_\_\_.
  - a. Interim audit
  - b. Continuous audit
  - c. Balance sheet audit
  - d. Special audit
2. Audit is done at the close of the financial year is called \_\_\_\_\_.
  - a. Periodical audit
  - b. Continuous audit
  - c. Balance sheet audit
  - d. Special audit
3. Periodical audit is called \_\_\_\_\_.
  - a. Special audit
  - b. Continuous audit
  - c. Balance sheet audit
  - d. Annual audit
4. Audit conducted in between two annual audits is called as \_\_\_\_\_.
  - a. Special audit
  - b. Continuous audit
  - c. Interim audit
  - d. Annual audit
5. The term balance sheet audit is \_\_\_\_\_ contribution.
  - a. India
  - b. China
  - c. England
  - d. America
6. A \_\_\_\_\_ audit is a type of audit conducted by the Central Government for some special objectives.
  - a. Special audit
  - b. Continuous audit
  - c. Interim audit
  - d. Annual audit
7. \_\_\_\_\_ audit is now receiving world wide acclaim and is declared all over the world.
  - a. Interim audit
  - b. Continuous audit
  - c. Balance sheet audit
  - d. Social audit
8. Contribution of a company to the society is reviewed under \_\_\_\_\_.
  - a. Cost audit
  - b. Management audit
  - c. Social audit
  - d. Operations audit
9. Verification of all transactions from book of original entry and its posting into the ledger is called as \_\_\_\_\_.
  - a. Occasional audit
  - b. Standard audit
  - c. Balance sheet audit
  - d. Post and Vouch audit
10. \_\_\_\_\_ is suitable in case of small business concerns where there are only limited transactions.
  - a. Continuous audit
  - b. Periodical audit
  - c. Interim audit
  - d. Occasional audit

[Answers: 1.(b), 2.(a), 3.(d), 4.(c), 5.(d), 6.(a), 7.(d), 8.(c), 9.(d), 10.(b)]



## II. Very Short Answer Questions

1. What are the different kinds of Audit?
2. What is meant by Continuous Audit?
3. What is Periodical Audit?
4. State the purpose of conducting Interim Audit?
5. What is Balance sheet Audit?

## III. Short Answer Questions

1. State the features of Continuous audit?
2. Briefly explain the features of Periodical audit?
3. Explain the scope and characteristics of Interim audit?
4. What are the disadvantages of Interim Audit?

## IV. Essay Type Questions

1. Explain briefly the various kinds of Audit?
2. What do you understand by Continuous Audit? Explain its advantages and disadvantages.
3. What do you understand by the term Periodical Audit? State the advantages and disadvantages.
4. What do you understand by Interim Audit? Discuss its merits and demerits.
5. Write explanatory note on:
  - Balance sheet Audit
  - Special audit
  - Management audit
  - Operational audit
6. Write explanatory note on:
  - Cost audit
  - Social audit
  - Post and Vouch audit
  - Standard audit
7. Distinguish between Continuous audit and Annual or Periodical audit.
8. Bring out the differences between Interim audit and Continuous audit.

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## Learning Objectives

- After studying this chapter, you will be able to understand the classification of audit on the basis of organization structure namely Sole Proprietorship, Partnership, Joint stock company and trust.



## TO BE RECALLED



In the previous unit we have studied the types of Audit and its advantages and disadvantages. We also studied the differences between Continuous Audit and Annual Audit and differences between Interim Audit and Continuous Audit.

## 3.1 Introduction

In this chapter we are going to have a detailed discussion about the classes of Audit. Auditing can be classified from various viewpoints. In this chapter, the detailed classes of audit like Sole Proprietor, Partnership, Joint Stock Company and Trust will be discussed.



Sole proprietor decides upon auditing the accounts and decides upon the scope of audit and appointment of auditor. There is no legal compulsion for audit of accounts of a sole proprietor but usually business concerns get audited especially when the volume of transaction is large. Before conduct of audit, the auditor should obtain an agreement from the proprietor stating the scope, conduct and any specific instructions of audit. The rights and duties of an auditor will depend upon the terms of agreement with the client. In future when the auditor is charged for negligence, he can protect himself by producing the agreement of audit.

## 3.2.1 Advantages

The sole proprietor get several benefits from audited accounts. Some of them are as follows:

- 1. Accuracy of Accounts:** Audited accounts reveal the truthness and

## 3.2 Audit of Accounts of Sole Proprietor

Sole Proprietor or trader is a person who solely owns, manages and controls a business.

correctness of transactions and provide an assurance that accounts are properly maintained.

2. **Detection and Prevention of Errors and Frauds:** It helps in detecting and preventing errors and frauds in the books of accounts.
3. **Provides Assurance of Proper Accounting:** The trader is assured that his incomes are properly accounted and expenditures are properly vouched.
4. **Discovery of Defalcations:** He is also assured of not being defrauded by any of his employees or agents, as the defalcations are discovered by the auditor.
5. **Helps in Comparing Accounts:** The presentation of accounts on a uniform basis helps comparison of various classes of expenditure from year to year. In case the expenditure crosses the budgeted targets, causes for the same may be ascertained and remedial measures may be taken.
6. **Relied by Statutory Authorities:** The audited accounts are the reliable document of sole proprietor for income tax and wealth tax purposes.
7. **Helps in Settlement of Claims:** Audited accounts may also facilitate the settlement of various kinds of claims.
8. **Moral Check on Employees:** It enables to have a moral check among employees especially among dishonest staff.

### 3.3 Audit of Accounts of Partnership Firm

The Indian Partnership Act, 1932 does not require audit of a partnership firm. It is only optional and upto the interests of the partners. Considering the benefits of audit

many firms get their accounts audited by a qualified auditor. The scope and conduct of audit and rights and duties of the auditors are determined on the basis of the agreement between the firm and auditor. While conducting audit of partnership firm the auditor must refer to the Deed of partnership.



#### 3.3.1 Advantages

The following are some of the benefits in auditing the accounts of a partnership firm:

1. **Proper Maintenance of Accounts:** When accounts are audited, it provides an assurance that the books of accounts are maintained properly and financial statements give a true and fair view of state of affairs of the business.
2. **Detection of Errors and Frauds:** An audited accounts helps in quick and easy detection of errors and frauds.



3. **Easy Settlement of Accounts:** Audited accounts ensure easy settlement of accounts and valuation of goodwill on admission, retirement or death of a partner. Audit of accounts is advisable to avoid any financial dispute among the partners.
4. **Grant of Loans and Advances:** Firm can obtain easily loans and advances from various financial institutions based on audited accounts.
5. **Taxation Purpose:** The firm can use audited accounts for the purpose of taxation or for improvements in operations.

### 3.4 Audit of Accounts of Joint Stock Company

Companies formed and registered under the Companies Act, 1956 have to compulsorily audit its books of accounts as the owners (shareholders) and the management of the company is different. The company auditor's rights, duties, appointment, remuneration etc. are governed by the provisions of the Companies Act. This type of audit is called as Statutory Audit and the person who conducts the audit is called as Statutory Auditor.

The main objective of external or statutory audit is to examine the accuracy that the financial statements reflect a true and fair view of the state of affairs of the business. In other words, the company auditor has to verify that the books of accounts and certify that the books of accounts and financial statements exhibit a true and fair view of the state of affairs of the business concern in the form of a report to the shareholders of the company.



#### 3.4.1 Characteristics or Features

1. The main objective of external or statutory audit is to examine the accuracy that the financial statements reflect a true and fair view of the state of affairs of the business.
2. The scope of work is determined by the Companies Act and the auditor possesses an independent status and the management has no control over the auditor.
3. Auditor should be a qualified Chartered Accountant as laid down in the provisions of the Companies Act.
4. Statutory auditor is appointed and removed by the shareholders of the company.
5. The powers and duties of statutory audit are determined by the Companies Act.
6. Statutory or Company auditor is liable both to shareholders and to the third parties.
7. After audit of accounts of a company, auditor has to submit a audit report to the shareholders at annual general meeting in prescribed format.
8. Company or statutory auditor is responsible to shareholders and acts as a watch-dog for the shareholders.

### 3.4.2 Advantages

The following are the advantages of auditing the accounts of a Joint Stock Company.

- 1. Verification of Accuracy of Books of Accounts:** Audit of accounts helps to verify the correctness of the financial transactions and accuracy of books of accounts.
- 2. Detection and Prevention of Errors and Frauds:** Audit helps in detecting and preventing both errors and frauds and also exhibits a true and fair view of state of affairs of the company to the shareholders who are the owners of the company.
- 3. Moral Check on the Management:** Audit of accounts enables to have a moral check on the management in order to protect the interests of the shareholders.
- 4. Safeguards Interests of Shareholders:** When accounts are audited by an independent and a qualified auditor, the interests of the shareholders and third parties are protected and safeguarded against any frauds committed by the directors, promoters or managers.
- 5. Valuable Suggestions:** Besides the above advantages, auditor who is in touch with the company operations can provide valuable suggestions.

### 3.4.3 Preliminaries Before Conduct of Audit

A company is an artificial judicial person and has separate legal entity. The shareholders of the company are interested to know the financial position of the company. Hence, the audit of books of accounts for the limited company is compulsory. The auditor has to produce a report on the books examined by him and express a true and fair view of the profit and loss account

prepared by the client. Before commencing the audit work, the auditor has to undertake certain preliminary steps. They are:

1. Examining the validity of his appointment
2. Inspection of Documents, Contracts and Registers
3. Other Information.

#### Examining the Validity of Appointment



#### Inspection of Documents, Contracts and Registers



#### Other Information

#### 1. Examining the Validity of his Appointment

The auditor has to check that his appointment has been made as per the provisions of Companies Act. He has to ensure that his appointment has been validly made based on the different provisions for the appointment of auditor under Companies Act. The following are the various circumstances of appointment of auditor:

- Where he is appointed as first auditor, get a copy of the resolution by the directors about his appointment;
- Where he is appointed in the place of retiring auditor, he should enquire from the retiring auditor in writing, whether due notice was given to him and also the circumstances under which he retired, and also if the retiring auditor has any objection to his accepting the



appointment. Failure on the part the auditor shall be treated as a breach of professional ethics.

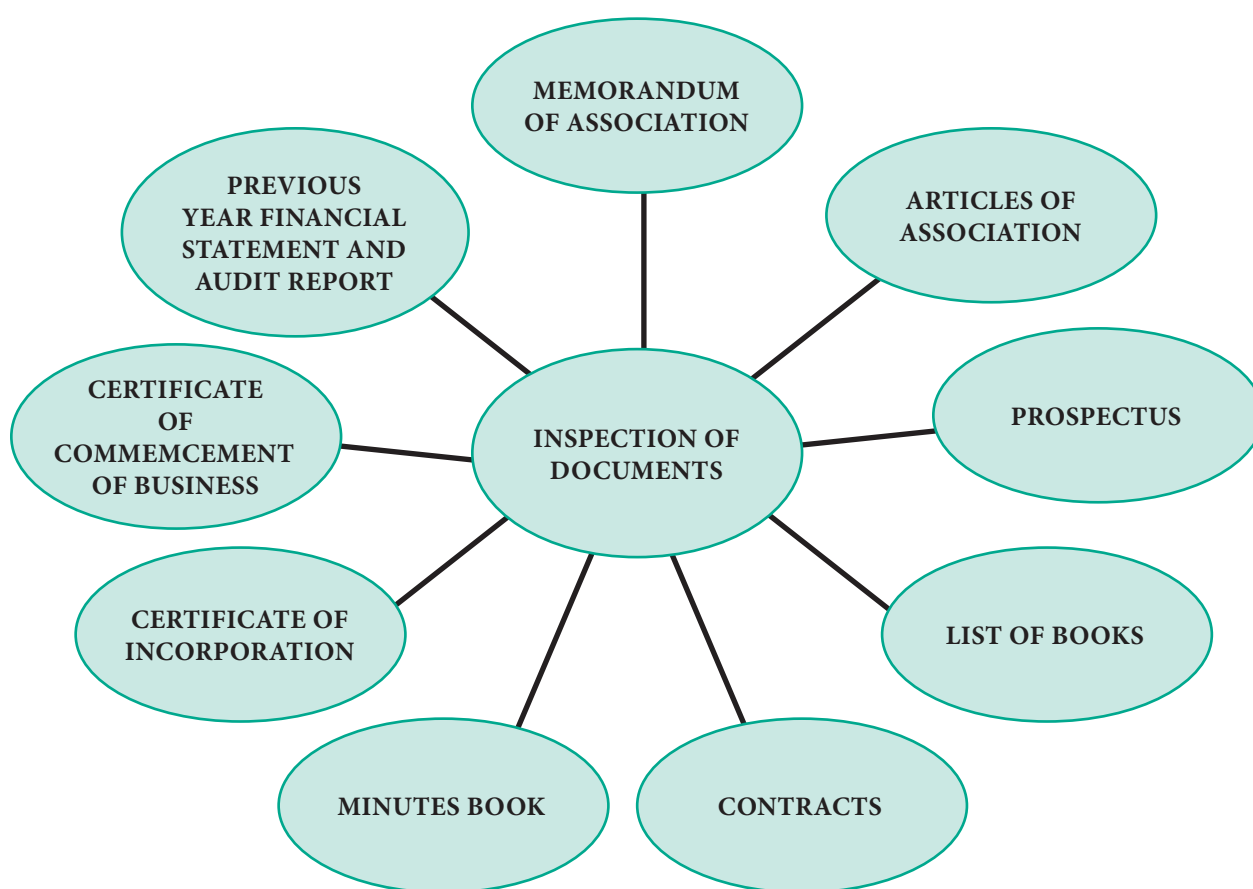
- Where his appointment is made by the shareholders in annual general meeting, he should procure a copy of the shareholders resolution regarding his appointment, and inform the Registrar within 30 days whether he is accepting the appointment.
- Where he is appointed in a casual vacancy, by the directors, he should obtain a copy of the director's resolution to this effect.

## 2. Inspection of Documents, Contracts and Registers

He should obtain a certified list of all the books used in the company and examine the records, documents and registers with reference to the following:

(a) **Memorandum of Association:** The Memorandum of Association is the basic document of the company. It authorizes a company to engage in specific activities. Therefore, it is necessary for the auditor to examine the scope and powers of the company. The auditor should have a complete study of Memorandum of Association in the following aspects:

- Whether the transactions carried by the company is subject to the clauses in the Memorandum of Association, if not the transactions of the company become ultravires.
- The auditor has to check the share capital issued is within the authorized capital.
- He should scrutinize the object clause and borrowing powers of the company.
- He has to check other provisions,



which are likely to affect the accounts of the company.

(b) **Articles of Association:** The Articles of Association deals with rules and regulations of the internal management of the company. The auditor has to examine the following particulars in the Articles of Association:

- Issue, allotment and forfeiture of shares and declaration of dividend.
- Appointment and removal of directors and officers of the company and the provisions relating thereto.
- Provisions regarding meeting and voting rights of share holders.
- Borrowing powers of company.
- Payment of interest on capital, underwriting commission and brokerage.
- The auditor has to make thorough study of the Articles of Association and he has to apply his skill and knowledge on various transactions of the company.

(c) **Prospectus:** A Prospectus is an invitation to the public to subscribe for shares and debentures of the company. It holds all the rules and regulations for the issue of shares. Normally all the matters which are in the articles of association are also found in the prospectus. The auditor should make a detail study in the following matters:

- He should verify the name, addresses, remuneration of directors and other statutory officers whose particulars are specified in the prospectus.
- He should see that all the statements made in the prospectus are true.
- He should examine in the prospectus that the amount payable at the time of allotment and call.

- He has to examine that any material contract made by the company within two years from the date of issue of prospectus.

(d) **List of Books:** Auditor should ask the company to submit a list of all the books of accounts, statistical and statutory books maintained by the company. Important books are kept at the Registered Office of the company.

(e) **Contracts:** The auditor has to check the date of agreement or contracts made by the company with other parties, like vendors, underwriters, promoters or brokers etc. Further, the auditor should verify whether the agreements are made by the authorized person of the company. He should see that entries relating to contracts are recorded correctly.

(f) **Minutes Book:** Every company has to maintain a book in order to record the proceedings in the general meetings, meetings of board of directors and committee of the board. They are in the form of a bound note book. The auditor has to verify that the chairman has certified the minutes book with date and signature. The audit of the Minutes Book helps the auditor in vouching various transactions e.g., adoption of the annual accounts, calls on shares, directors fees and expenses, appointment of first auditor and his remuneration and authorization of capital expenditure etc.

(g) **Certificate of Incorporation:** Certificate of Incorporation is an important document which brings the company into legal existence.

The auditor has to check that all legal official procedures have been fulfilled subject to the provisions of the Companies Act.

(h) **Certificate of Commencement of Business:** A public company has to get Certificate of Commencement of business before it commences its business. The auditor should examine the Certificate of Commencement of business in case of a public company.

(i) **Previous Year Balance Sheet, Profit and Loss Account and Audit Report:** The auditor has to verify the last year Balance Sheet and ensure that the balances are correctly recorded in the current books. He has to check the minutes book of the share holders about the adoption of the accounts. Moreover, he has to get the copies of last year's Profit and Loss Account and Balance Sheet which is required for conduct of his audit work. He should ensure that the objections or qualifications raised in the previous audit report have been duly met by the company. He should examine the Directors report to the members containing the recommendations of the Directors in respect of the appropriations of profits made last year.

### LEGAL DECISIONS

In a case between *State Steel Trust Co. Vs. Ernst.*, a client raised a loan on the basis of audited accounts, it was held that the auditors duty of reasonable care and skill extends not only to the client but also to third parties who relied on the audit report.

### 3. Other Information

- (a) **System of Accounting:** The auditor has to study the accounting system followed in the company and has to observe the inefficiencies.
- (b) **List of Officers:** The auditor has to obtain the list of officers in the company with their specimen signature.
- (c) **Evaluation of Internal Check and Control System:** The auditor has to obtain detailed information about the internal check and internal control system in the company. This will enable him to identify the defects in the accounting system. Further, he has to verify the recommendations, if any, made in the last year audit report.



### 3.5 Audit of Trusts

Trusts are formed under the Indian Trusts Act for charitable and religious purposes. Trustee is a person who manages trust property and executes the business of the trust. His duty is to work for the benefit of beneficiary and distribute income of the trust to the beneficiaries. The operations of trusts are governed by a Trust Deed. Very commonly it is found





that beneficiaries are being defrauded by the trustee. Hence audit of trust accounts helps to protect the beneficiaries against unscrupulous trustees. The provisions of the Public Trust Act and Trust Deed provide that accounts of trusts should be audited by a qualified auditor.

It is the duty of the auditor to verify the transactions and books of accounts of trusts

and certify the truthness and fairness of the working of the trusts. When trusts are audited by a qualified auditor, it will help both the trustees as well as the beneficiaries. Trustees will be benefited because there will be no unnecessary criticisms against them. The beneficiaries will also be benefited because they will be assured that the accounts have been properly maintained and that there has been no misappropriation of trust money or fraud.



## SUMMARY

- **Audit of Sole Proprietor:** Sole Proprietor or trader is a person who solely owns, manages and controls a business. There is no legal compulsion for audit of accounts of a sole proprietor but usually business concerns get audited especially when the volume of transaction is large.
- **Audit of Partnership Firm:** The Indian Partnership Act, 1932 does not require audit of a

partnership firm. Considering the benefits of audit many firms get their accounts audited by a qualified auditor. The scope and conduct of audit and rights and duties of the auditors are determined on the basis of the agreement between the firm and the auditor.

- **Audit of Joint Stock Companies:** Companies formed and registered under the Companies Act, 1956 have to compulsorily audit its books of accounts as the owners (shareholders) and the management of the company is different. The company auditor's rights, duties, appointment, remuneration etc. are governed by the provisions of the Companies Act.
- **Audit of Trusts:** The provisions of the Public Trust Act and Trust Deed provide that accounts of trusts should be conducted by a qualified auditor. It is the duty of the auditor to verify the transactions and books of accounts of trusts and certify the truthfulness and fairness of the working of the trusts. Audit of trust helps both the trustees and beneficiaries.



## EVALUATION



### I. Multiple Choice Questions:

1. Audit is compulsory for \_\_\_\_\_.
  - a. Sole proprietor
  - b. Partnership firm
  - c. Joint Stock Company
  - d. Trusts
2. Audit conducted for the benefit of beneficiaries is \_\_\_\_\_.
  - a. Sole proprietor
  - b. Partnership firm
  - c. Joint Stock Company
  - d. Trusts
3. \_\_\_\_\_ audit helps in settlement of claims and in resolving disputes among partners.
  - a. Sole proprietor
  - b. Partnership firm
  - c. Joint Stock Company
  - d. Trusts
4. \_\_\_\_\_ audit is conducted based on the Indian Trust Act and Deed.
  - a. Sole proprietor
  - b. Partnership firm
  - c. Joint Stock Company
  - d. Trusts
5. \_\_\_\_\_ is a person who solely owns, manages and controls a business.
  - a. Sole proprietor
  - b. Partner
  - c. Director
  - d. Trustee
6. Audit of accounts is not compulsory but optional for \_\_\_\_\_.
  - a. Sole proprietor
  - b. Partnership firm
  - c. Joint Stock Company
  - d. (a) & (b)
7. Person who conducts audit according to the provision of the Companies Act is called as \_\_\_\_\_.
  - a. Internal Auditor
  - b. External Auditor
  - c. Government Auditor
  - d. Cost Auditor

8. External or Statutory audit are determined by \_\_\_\_\_.

- a. Indian Partnership Act
- b. Limited Liability Partnership Act
- c. Companies Act
- d. Public Trust Act

9. \_\_\_\_\_ is the basic document of the Company.

- a. Partnership Deed
- b. Memorandum of Association
- c. Articles of Association

d. Trust Deed

10. An invitation to the public to subscribe for shares and debentures is \_\_\_\_\_

- a. Memorandum of Association
- b. Articles of Association
- c. Prospectus
- d. Contracts

[Answers: 1.(c), 2.(d), 3.(b), 4.(d), 5.(a), 6.(d), 7.(b), 8.(c), 9.(b), 10.(c)]

## II. Very Short Answer Questions

- 1. Who is a Sole proprietor?
- 2. What are Trusts?

- 3. Why audit of Joint Stock Companies made compulsory?
- 4. Explain the term beneficiary.

## III. Short Answer Questions

- 1. What are the advantages of auditing the accounts of a Sole proprietor?
- 2. Write a note on audit of Trusts.

- 3. Explain briefly as how an auditor verifies his appointment.

## IV. Essay Type Questions.

- 1. What are the advantages of auditing the accounts of a partnership firm?
- 2. Discuss the principal objects of audit of accounts of the following:
  - Partnership firm
  - Joint Stock company
  - Sole proprietor
  - Trusts

- 3. Write a short note on: (a) Audit of partnership firm (b) Audit of Joint Stock Company.
- 4. Briefly explain the benefits of auditing the accounts of a Joint Stock company.
- 5. "An auditor is expected to study various documents before commencing audit of a company" – Discuss.
- 6. Explain the general procedure and preparation for an audit.

## References

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## Learning Objectives



- To understand the meaning, benefits and factors affecting audit planning.
- To understand the meaning, features, objectives, contents, advantages and disadvantages of audit programme.
- To understand the meaning, advantages and disadvantages of auditing in-depth.
- To understand the meaning, applicability, factors to be considered, advantages and disadvantages of test checking.
- To understand the auditor's duty regarding test checking.

## TO BE RECALLED



In the previous lesson, we have studied meaning and advantages of audit of the accounts of the Sole Proprietor, Firm, Joint Stock Company and Trust.

## 4.1 Audit Planning

### 4.1.1 Introduction

An audit is a professional service to a client. The review of accounting, financial and other operations form a basis of such service. Before commencing audit, an auditor must prepare himself well. Preparation for an audit relates to audit planning, preliminary preparations by the auditor, audit programme, audit note book, audit working papers, audit evidence, commencement of a new audit, test checking, and routine checking.

### 4.1.2 Meaning of Audit Planning

Planning is required to complete the audit effectively within the specified time. Audit planning is a process of deciding in advance what is to be done, who is to do it, how it is to be done and when it is to be done by the auditor in order to have efficient and effective completion of work.

Audit planning can be done only when, the auditor is having knowledge of the business of the client. It helps in accomplishment of objectives of audit and enables the auditor



to cover different aspects of audit work in a systematic manner within a preset time frame. It enhances the quality of audit work. Audit plans should cover knowledge about client's accounting systems and policies, internal control procedures and coordinating the work to be performed. Plans should be flexible so that they can be developed or revised as and when required by the auditor.

### 4.1.3 Benefits or Advantages of Audit Planning

An efficient and effective audit plan provides the following benefits:

1. **Accomplishment of Objectives:** Audit plan ensures that it provides right means to accomplish audit objectives. Further it also ensures that appropriate attention is devoted to important areas of audit.
2. **Identification of Problems:** A well drawn and established audit plan helps in identifying potential problems.
3. **Timely Completion of Work:** It ensures that work is completed properly within the specified time and no important area is left out. It also ensures that all important areas of management receive attention.
4. **Facilitates Coordination:** It facilitates coordination of the audit work done by auditors and other experts.
5. **Better Audit Work:** It helps in improving the quality of audit work and provides promptness and perfection in audit performance.

### 4.1.4 Factors Affecting Audit Planning

The following factors should receive due consideration while planning:

- Size of the company and nature of its operations.
- Accounting system, internal control and adherence to standard.
- Environment in which the company operates.
- Previous experience with the client; and
- Knowledge of client's business.



## 4.2 Audit Programme

### 4.2.1 MEANING

An audit programme is a detailed, written statement designed by the auditor indicating the work to be performed by the audit assistants, specifying the time limit for completion of work, instructions and guidance to the audit staff. In short, it is a tool for planning, directing and controlling the audit work.

An audit programme is a detailed plan of the auditing work to be performed. It specifies the procedures to be followed in the conduct of audit more efficiently. The auditor outlines the whole procedure of audit from beginning till the finalization of audit report. Audit programme is generally contained in the audit notebook.

### 4.2.2 Definition

**Prof. Meigs** defines an audit programme as, “an audit programme is a detailed plan of the

auditing work to be performed, specifying the procedures to be followed in verification of each item and the financial statements and giving the estimated time required.”

### 4.2.3 Features or Characteristics of an Audit Programme

The features of an audit programme are as follows:

1. It is a set of procedures to be adopted to conduct the audit more efficiently.
2. It is a written scheme designed by the auditor.
3. It is a blue print of the audit work.
4. It facilitates delegation of work, based on the capabilities of audit staff.
5. It acts as evidence in future for the audit work being performed.
6. It specifies the work to be done by the audit staff, the manner and time limit for completion of the work.

### 4.2.4 Objectives of Audit Programme

The following are the objectives of audit programme:

1. To provide clear instructions to the audit assistants specifying the nature of work to be performed and fixing the time span for completion of each work.
2. To facilitate coordination among various parts of audit work.
3. To ensure uniformity in the performance of audit work and to avoid duplication and repetition of work.
4. To attain a fair allocation of work among the audit team.
5. To fix responsibility and accountability of each audit assistant.

6. To serve as a guide for planning the audit work in future.
7. To serve as evidence in future showing the date of completion of audit work, methods or procedures undertaken, persons involved in completion of audit work etc.

### 4.2.5 Contents of an Audit Programme

The following are the details of an audit programme:

1. Name of the client.
2. Nature of operations and business of client.
3. Review of system of internal check.
4. Date of commencement of audit work.
5. Duration of audit work.
6. Accounting system followed in client organization.
7. Review the report of the previous auditor.
8. Review the remarks, instructions or objections raised in the previous audit report.
9. Examine the various ledger accounts and subsidiary books.

#### TYPES OF AUDIT PROGRAMME

##### 1. General or Fixed Audit Programme:

It refers to an audit programme which contains general guidelines common for all audits.

##### 2. Specific or Flexible Audit Programme:

It refers to an audit programme designed for certain specific functional areas like purchases, stores, inventory control, production control etc.

10. Examine the statutory books and registers, profit and loss account, and balance sheet.

#### 4.2.6 Advantages of an Audit Programme

An audit programme can give the following advantages:

- 1. Helps in Estimation and Division of Work:** Audit Programme helps in estimating the quantum of audit work in advance and also helps in dividing the work among the audit assistants based on their capabilities.
- 2. Helps in Fixation of Responsibility:** It enables to fix responsibility on the audit assistants by clearly defining the scope of work.
- 3. Helps in Future Planning:** Audit programme serves as a basis for planning the audit work for subsequent year.
- 4. Serves as a Guide:** It serves as a valuable guide for the audit staff in execution of the audit work for succeeding years.
- 5. Valuable Evidence:** It serves as an evidence for the work done as initials of those who have done the particular work are appended to it. The auditor can produce the audit programme as a proof when a charge of negligence being brought upon him.
- 6. Uniformity:** It provides for uniformity in audit work as the same work will be done every year.
- 7. Continuity:** When an audit staff goes on leave others can continue the work by referring to the audit programme, hence, audit programme provides for continuity of work.

- 8. Coordination:** It facilitates coordination and helps in supervising the work of the audit staff.

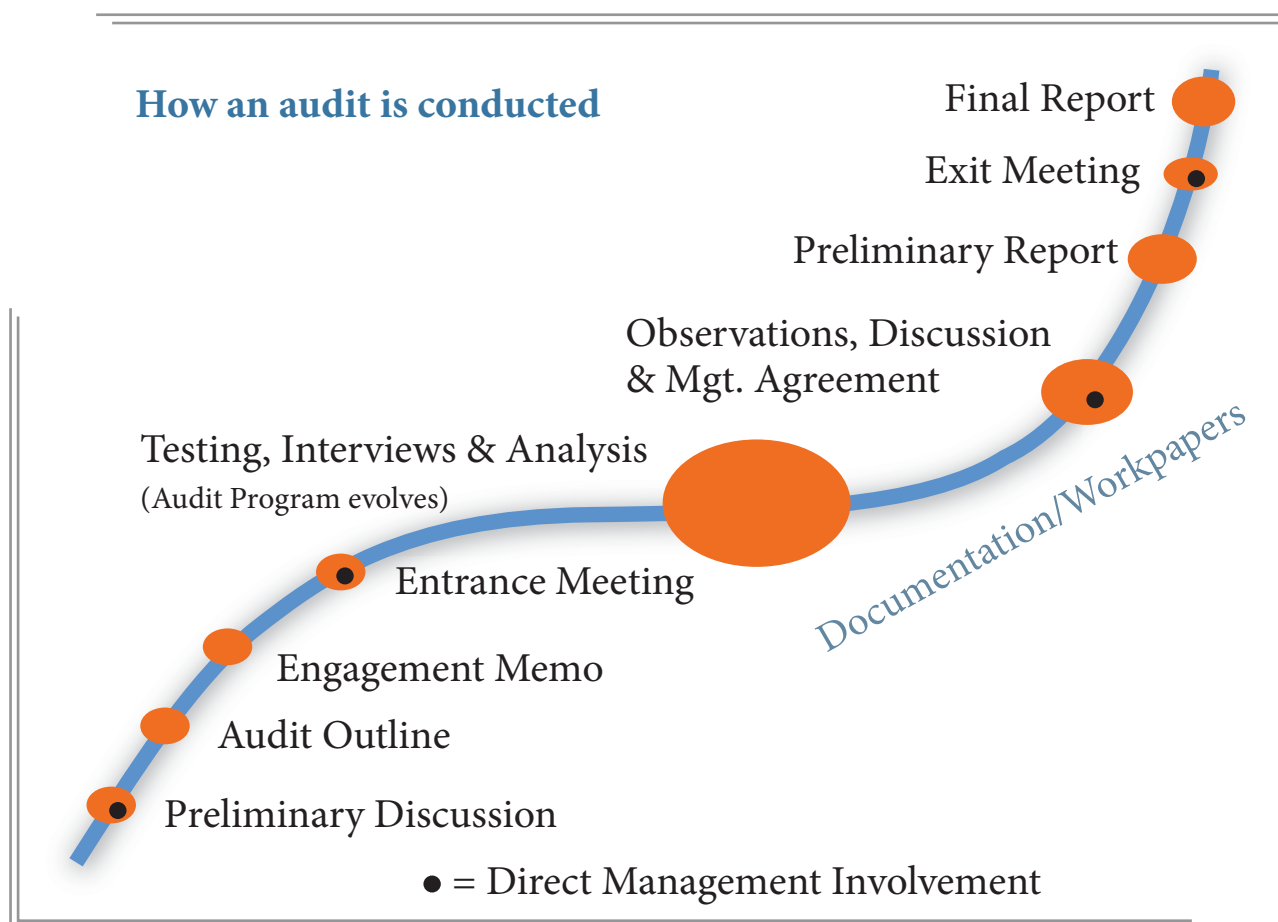
#### 4.2.7 Disadvantages of an Audit Programme

The disadvantages that may be experienced by conducting audit as per predetermined audit programme are -

- 1. Mechanical:** When audit work is conducted mechanically every year based on the audit programme, it causes monotony and boredom to the auditor and audit staffs.
- 2. No Quality in Work:** The audit staff will be more interested to complete the work in time rather than to maintain any standard in the work.
- 3. Loss of Initiative:** Audit staff cannot take their own decisions and they are compelled to comply with the audit programme. Hence, an efficient audit clerk loses his initiative and interest as he cannot make any suggestions.
- 4. Rigidity:** A rigid and inflexible audit programme cannot be laid for all types of business. During the course of audit, new areas to be verified may come to the notice of the audit staff. Unless the audit programme is revised, such areas may escape from auditing.
- 5. Shelter for Inefficient Staff:** Inefficient audit staffs conceal their mistakes or weakness on the basis of audit programme. Hence, it provides shelter for inefficient audit staff.
- 6. Unsuitable:** Pre-determined audit programme is not suitable for small business organizations.



Summary of Advantages and Disadvantages of Audit Programme	
Advantages	Disadvantages
1. Helps in estimation and division of work	1. Mechanical
2. Helps in fixation of responsibility	2. No quality in work
3. Helps in future planning	3. Loss of initiative
4. Serves as a guide	4. Rigidity
5. Valuable evidence	5. Shelter for inefficient staff
6. Uniformity	6. Unsuitable
7. Continuity	
8. Coordination	



## SPECIMEN OF AUDIT PROGRAMME

**M/s. Ramani & Co. Ltd.,**

Date of Commencement of Audit .....  
 Date of Completion of Audit .....  
 Any special information from previous audit .....  
 Nature of organization .....

Month	Cash Book Balanced	Bank Book Balanced	Cash & Bank Book Vouched	Bought Ledger Vouched	Sales Ledger Vouched	Returns Vouched	Stores Ledger Vouched	Journal Examined	Ledger Checked	Trial Balance Checked	Profit & Loss A/c Checked
Jan.											
Feb.											
Mar.											
Apr.											
May											
June											
July											
Aug.											
Sept.											
Oct.											
Nov.											
Dec.											

**Note:** Each Audit assistant has to put his initials in the relevant column after he has checked an item.

### 4.3 Auditing in-depth

Auditing in-depth refers to an examination of a few selected transactions from the beginning to the end through the entire flow of the transaction. While auditing in depth, the auditor reviews all the accounting and operational aspects of the transaction from the origin to the end.

This enables the auditor to have an overall view and evaluate the procedures through selected transactions. In other words, it is a method of auditing under which a few selective transactions are thoroughly examined to arrive at accuracy of the accounting data. The auditor adopts this technique to evaluate the operation of internal control and internal check system.

Summary of Advantages and Disadvantages of Auditing in-depth	
Advantages	Disadvantages
1. Quick completion of audit work	1. Possibility of wrong selection of items
2. Saves cost and time	2. Unsuitable for small business concerns
3. Safeguards against manipulation of accounts	3. No objective method
4. Helpful in planning the audit	4. Based on intuition

### 4.4 Test Checking

#### 4.4.1 Meaning

Test checking is a process of selecting and checking of a few transactions from a large volume of transactions. If the entries checked are found to be correct then the auditor assumes that the remaining entries are also correct. The technique is based on the theory of sampling which is commonly used as a statistical method. Checking each and every transaction that occurs during the year is both redundant and uneconomical for the auditor. Therefore, the auditor verifies and examines a few representative transactions in order to obtain sufficient appropriate audit evidence to base his opinion. Test checking reduces the volume of work of the auditor, if, in test checking, the auditor

finds that the records checked by him are correct then no further detailed checking is carried out.

#### 4.4.2 Applicability of Test Checking

Test checking can be applied in the following situations:

1. When there are large volumes of identical or routine transactions.
2. When transactions are large.
3. When the auditor has to certify the accounts quickly after the close of the accounting period.
4. When the auditor has past experience about the nature of transactions of the clients organisation.
5. When a satisfactory system of internal control and check system exist.



### 4.4.3 Advantages of Test Checking

Test checking can give the following advantages:

- 1. Reduces Volume of Work:** The work of an auditor is reduced considerably as he checks only few transactions, extra time available can be utilised for concentrating on areas of considerable importance.
- 2. Reduces Time and Cost:** Test checking is one of the technique which reduces time, cost and energy of both the auditor and the client.
- 3. Quick Completion of Audit Work:** Test check enables the auditor to complete the work quickly as the auditor checks only a few or limited transactions.
- 4. Effective means of Checking:** Test checking can be effective if the auditor selects the transaction to be checked carefully.
- 5. Scientific Assessment of Risk:** The risk of material misstatement in the financial statement is assessed by the auditor in a scientific manner by drawing samples and studying them in detail.
- 6. Serves as a Guide:** It serves as a guide for the auditor to arrive at conclusion regarding the true and fair view of the state of affairs of business.

### 4.4.4 Disadvantages of Test Checking

Test checking can give the following disadvantages:

- 1. No Scientific Approach:** It is a traditional auditing technique where no scientific approach is used in selecting the samples, hence the results drawn on it tends to be incorrect.
- 2. Risk cannot be measured:** It is not possible to measure the amount of risk involved.
- 3. Complicated Transactions are not Checked:** The audit assistants select only simple transactions for checking and complicated transactions are left omitted.
- 4. Carelessness of the Client's Staff:** The client's staff is aware that the auditor will not check all their work hence they become careless.
- 5. Possibility of Errors and Frauds Remain Undetected:** When test check is adopted by the auditor there are possibility of errors and frauds left undetected.
- 6. Unsuitable when there is no System of Internal Check:** The auditor cannot adopt test check when there is no proper system of Internal check and control in operation.
- 7. Unsuitable for Small Business Concerns:** Test checking is not suitable for small business concerns as the number of transactions involved is not large.

#### Summary of Advantages and Disadvantages of Test Checking

Advantages	Disadvantages
1. Reduces volume of work	1. No scientific approach
2. Reduces time and cost	2. Risk cannot be measured
3. Quick completion of audit work	3. Complicated transactions are not checked
4. Effective means of checking	4. Carelessness of the client's staff
5. Scientific assessment of risk	5. Possibility of errors and frauds remain undetected
6. Serves as a guide	6. Unsuitable when there is no proper system of internal check
	7. Unsuitable for small business concerns

#### 4.4.5 Auditor's Duty Regarding Test Checking

The following are the auditor's duty or precautions to be taken by an auditor while adopting test check:

1. Entries selected for test checking must be representative of all transactions and entries on random basis should be selected for checking.
2. Auditor should select the test independently without regard to the suggestions of the client's staff.
3. Entries selected for test check should be chosen by the auditor cautiously by applying his intelligence and professional skill.
4. Test check should not be adopted in vouching the entries in the cash Book and bank Pass book.
5. The auditor should not adopt test check while checking the entries of first and last month of the year and all the entries must be thoroughly checked.
6. Test check should be so devised that a sizeable portion of the work done by each employee is checked.
7. Auditor should consider his past experiences in selecting the nature and size of the samples for checking.

### SUMMARY

- **Audit Planning** enables an auditor to cover different aspects of audit work in a systematic manner within a preset time frame.
- **Good planning** brings promptness and perfection in audit performance.
- **Audit Programme** is a written scheme prepared by the auditor to distribute work to be followed during the audit.
- **Auditing in-Depth** is a technique which facilitates test checking.
- **Test Checking** is examining a selected number of items. It is based on the Law of Statistical Inertia which means the selection and checking of a representative number of entries for each class of transaction.

### KEY TERMS

- **Audit Planning** – The audit plan is the description of the activities and arrangements for an audit.
- **Audit Program** – An audit program includes all the activities necessary for planning, organizing, and conducting audits. The program typically includes an annual schedule of audits.
- **Auditing in-depth** – Audit in depth implies a detailed and step by step examination of transactions through its process of the activity from origin to conclusion.
- **Test Checking (or Selective Verification)** – Test checking is a substitute for detailed checking. It involves only a partial checking, verifying the entries at random.



## EVALUATION



### I. Multiple Choice Questions:

1. Which of the following is considered as a blue print for the process of carrying out the audit.
  - a. Audit note book
  - b. Audit memorandum
  - c. Audit planning
  - d. Audit programme
2. A written plan containing the details regarding the conduct of a particular audit is known as \_\_\_\_\_.
  - a. Audit programme
  - b. Audit note book
  - c. Audit working papers
  - d. Audit evidence
3. A sample of transactions of representative character is checked under \_\_\_\_\_.
  - a. Walk through test
  - b. Rotational test
  - c. Test checking
  - d. Routine checking
4. Examination of a selected transaction from journal entry to end is called
  - a. Test checking
  - b. Audit in depth
  - c. Audit planning
  - d. Audit programme
5. What is the name of process of examining a few transactions of representative character to arrive at conclusion \_\_\_\_\_.
  - a. Test checking
  - b. Routine checking
  - c. Sample checking
  - d. In-depth checking
6. Which document discloses the detailed plan of work, auditing techniques and procedures to be applied to a given audit?
  - a. Audit file
  - b. Audit planning
  - c. Audit note book
  - d. Audit programme
7. Audit programme is prepared by \_\_\_\_\_.
  - a. the auditor
  - b. the client
  - c. the audit assistants
  - d. the auditor and his audit assistants
8. Typically, an audit planning memorandum would contain the following sections except:
  - a. Objective of the audit
  - b. Audit approach
  - c. Background information
  - d. Assessment of business risk.
9. \_\_\_\_\_ is a plan of action of an Auditor.
  - a. Audit Programme
  - b. Audit Working Papers
  - c. Audit note book
  - d. Audit files.
10. Test checking is also known as \_\_\_\_\_.
  - a. Sampling process
  - b. Selective process
  - c. Verification
  - d. Both (a) and (b)

[Answers: 1.(c), 2.(a), 3.(c), 4.(b), 5.(a), 6.(d), 7.(d), 8.(d), 9.(a), 10.(d)]



## II. Very Short answer Questions

1. What is audit planning?
2. What is audit programme?
3. What is auditing in depth?
4. What is test checking?

## III. Short answer Questions

1. State the factors influencing audit planning.
2. Bring out the objectives of audit planning.
3. Outline the salient features of audit programme.
4. State the objectives of audit programme.
5. Point out the contents of audit programme.
6. Indicate the cases where test checking is applied.

## IV. Essay Type Questions.

1. Discuss the benefits of audit planning.
2. Explain the advantages and disadvantages of audit programme.
3. Discuss the advantages and disadvantages of auditing in depth.
4. What is test- checking? What are its advantages and disadvantages?

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## Learning Objectives



After going through this unit, the students will be able to,

- State the meaning and importance of documentation
- Explain the meaning and advantages of audit note book
- Describe the advantages of audit note book
- State the meaning and importance of Audit working papers

## TO BE RECALLED



- Audit procedures
- Audit program
- Works entrusted to audit staff
- Period allotted for completion of audit work

## 5.1 Introduction

## 5.1.1 Documentation – Meaning

In the process of audit, the auditor should document matters which are important in providing sufficient evidence that the audit was carried out in accordance with the basic principles governing an audit. The records maintained and preserved in the audit process are called as Documentation. Documentation in this connection refers to audit note book and audit working papers. Working papers are prepared or obtained by the auditor. It may be in the form of extracts, photocopy of documents, representation and explanation from the management.

## Audit Documentation includes:

1. Audit Programme
2. Analysis
3. Issues memorandum
4. Summaries of significant matters
5. Letters of confirmation and representation
6. Checklists
7. Correspondences concerning significant matters.

## 5.1.2 Importance of Documentation

Documentation is important in the course of audit work due to the following:

1. **Fixation of Responsibility and Accountability:** Documentation helps

## Overview of audit activities



Planning and scheduling audit



Conducting document review



Preparing for on-site activities



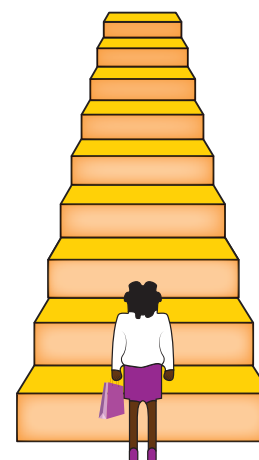
Conducting audit



Prepare audit report



Conducting follow-up



in determining and fixation of responsibility among the audit staff. It further creates accountability for the work performed by the audit staff.

2. **Permanent Record:** Documentation is a permanent record, it acts as a manual of reference for planning the audit for future and also in similar types of new audit engagements.
3. **Documentary Record:** Documentation acts as documentary evidence when a charge of negligence is charged against the auditor.
4. **Helps in Preparing Audit Report:** Adequately documented plan and control of audit work evidences the practices, procedures followed in audit and important things. It further helps in preparation of audit report.

### SA-230 on Audit Documentation issued by ICAI state the factors that determine Audit Documentation

1. The size and complexity of the entity.
2. Nature of audit procedures to be performed.
3. The identified risks of material misstatement.
4. The significance of the audit evidence obtained.
5. The audit methodology and tools used.

## 5.2 Audit Note Book

### 5.2.1 Meaning

Audit Note Book is a register maintained by the audit staff to record important points observed, errors, doubtful queries,



explanations and clarifications to be received from the clients. It also contains definite information regarding the day-to-day work performed by the audit clerks. In short, audit note book is usually a bound note book in which a large variety of matters observed during the course of audit are recorded. The note book should be maintained clearly, completely and systematically. It serves as authentic evidence in support of work done to protect the auditor against any legal charge initiated against him for negligence. It is of immense help to the auditor in preparing audit report. It also acts as a valuable guide for conducting future audits.

#### Example:

Following are the queries made in the Audit Note Book:

1. Voucher No.75 Paid towards advertisement expenses for ₹3,50,000.
2. Voucher No.170 Rent paid ₹22,000.
3. Voucher No.98 Material purchased and received in Stores for ₹58,375
4. Voucher No.245 Machinery purchased for ₹7,28,000.

## 5.2.2 Contents of Audit Note Book

The following matters should have been incorporated in an Audit Note Book.

1. A list of the account books normally used and maintained.
2. Names of the principal officers, their duties and responsibilities.
3. Nature of business carried on and important documents relating to the constitution of business like Memorandum of Association, Articles of Association, Partnership deed etc.,
4. Extracts of minutes and contracts affecting the accounts.
5. Extracts of correspondence with statutory authorities.
6. Copy of audit programme.
7. Accounting methods, internal control and internal check system in operation.
8. Routine queries like missing receipts and vouchers etc.
9. Details of errors and frauds discovered during the course of audit.
10. Points to be included in audit report.
11. Details of all important information to be used as reference for future audits.
12. Date of commencement and completion of audit.

### SPECIMEN OF ENTRIES IN AUDIT NOTE BOOK

Voucher	Account Debited	Amount ₹	Query	Solution to Query
75	Advertisement	3,50,000	Managing directors sanction required	Sanction obtained
170	Rent	22,000	Rent bill and receipt required	Receipt and bill obtained
98	Stores	58,375	Invoice required	Copy of invoice obtained
245	Machinery	7,28,000	Board sanction required	Sanction obtained verified with minutes of meeting

### 5.2.3 Advantages of Audit Note Book

1. **Facilitates Audit Work:** It facilitates the work of an auditor as all important details about the audit are recorded in the note book which the audit clerk cannot remember everything at all the time. It helps in remembering and recalling the important matters relating to the audit work.
2. **Preparation of Audit Report:** Audit note book helps in providing required data for preparing the audit report. An auditor examines the audit note book before preparing and finalizing the audit report.
3. **Serves as Documentary Evidence:** Audit note book serves as a documentary evidence in the court of law when a suit is filed against the auditor for his negligence.
4. **Serves as a Guide:** When a audit assistant is changed before the completion of audit work, audit note book serves as a guide in completion of balance work. It also acts as a guide for carrying on subsequent audits.
5. **Evaluating Work of Audit Staff:** It helps to assess the work performed by the audit staff and helps in evaluating their level of efficiency.
6. **Fixation of Responsibility:** Audit note book helps in fixing responsibility on concerned clerk who is responsible for any undetected errors and frauds in the course of audit.
7. **No Dislocation of Audit Work:** An audit note book contains all important details about audit hence any change in the audit staff will not disturb or dislocate the audit work.

### 5.2.4 Disadvantages of Audit Note Book

1. **Fault-finding Attitude:** It leads to development of a fault-finding attitude in the minds of the staff.
2. **Misunderstanding:** Very often maintenance of audit note book creates misunderstanding between the client's staff and the audit staff.
3. **Improper Preparation:** Since it serves as evidence in the court of law, it needs to be prepared with great caution. When the note book is prepared without due care it cannot be used as evidence against the auditor for negligence.
4. **Adverse Effects on Subsequent Audits:** Since audit note book is used in performing subsequent audits, any mistakes in the note book may have adverse impacts on the next audit.

#### Guidelines and Standards issued by The Institute of Chartered Accountants of India (ICAI)

1. AS – Accounting Standards
2. AAS – Auditing and Assurance Standards
3. International Standards on Auditing (ISA) was issued by the International Auditing and Assurance Standards Board (IAASB) which was later modified as Standard Auditing Practices (SAP) by the Institute of Chartered Accountants of India.

## 5.3 Audit Working Papers

### 5.3.1 Meaning

Papers and documents which contain important facts about accounts which are

under audit are called as Audit Working Papers. Working papers provide the basis of conclusions and summarizations of the report prepared by the auditor at the end of the audit work. As per SA-230 “Audit Documentation” audit working paper refers to the documents prepared or obtained by the auditor and retained by him in connection with the performance of his audit.

The term ‘audit working paper’ mean the written paper and document containing details about accounts which are under audit, analysis, summaries and comments built up by an auditor during the course of a particular audit engagement.

Thus, all the documents gathered or prepared by auditors during the course of an audit constitute audit working papers, but broadly these are two types:

- Working papers **prepared** by the auditor himself, like audit note book, audit program, details of queries made and their explanations thereof.
- Working papers **collected** by the auditor from the client, like schedule of debtors and creditors, management representations, confirmations etc.,

### 5.3.2 Definition

- **Institute of Chartered Accountants of India** defines audit working paper as, “working paper must include audit program, queries, explanations given for the queries, schedules for the important items like depreciation, inventories, confirmation from third parties, certificates issued by the management, banks, etc..”.
- **Prof. Meigs**, “the term working paper is a comprehensive one and includes all

the evidences gathered by the auditor to show the work he has done, the methods and procedures he has followed and the conclusions he has developed”.

### Guidelines of Audit Working Papers as specified in SA-230, Audit Documentation

Working Papers prepared or obtained by the auditor in connection with the performance of audit are the property of auditor and it is the duty of the auditor to retain and preserve the working papers for a period of 7 years.

- **According to A.W. Johnson**, “Audit working papers are written, private material which the auditor prepares for each audit. They describe the accounting information used, his conclusions (and reasons thereof) and the financial statements.”

### 5.3.3 Contents of Audit Working Papers

The documents obtained in the conduct of audit constitute the audit working papers. The content of audit working papers varies depending on the type and scope of audit. Auditing and Assurance Standards (AAS 3) issued by the Institute of Chartered Accountants of India states working papers should record the auditors plan, the nature, timing and extent of the audit procedure performed and the conclusions obtained from the evidence.

In general audit working papers consists of the following:

1. Schedule of Debtors, Creditors and bank statement.
2. Correspondences and balance confirmations from Debtors, Creditors and bankers.
3. Correspondences from legal advisors and statutory authorities.
4. Certificates of officials with regard to bad debts.
5. Certificate from valuers for valuing stock-in-trade and investments.
6. Certificate confirming cash balance.
7. Certificate from authorized person with regard to outstanding assets and liabilities, contingent assets and liabilities etc.
8. Bank Reconciliation statement.
9. Adjusting entries.
10. Copies of the minutes of the meeting of directors and shareholders.

### 5.3.4 Objectives of Audit Working Papers

1. **Planning and Organizing Audit Work:** Working papers provide a means of planning, organizing and reviewing the audit work. They are the evidence for conducting the audit work against the generally accepted Auditing Standards and Practices.
2. **Support for Auditor's Opinion:** Working papers provide support for the report of the auditor. When the auditor's opinion on financial statement or recommendations given by the him is questioned, working papers support the opinion or recommendations given by the auditor.
3. **Division of Labour:** Working papers help in dividing the audit work among

the audit staff so that each staff is responsible for his work to the auditor.

4. **Use as a Permanent Record:** Working papers are the permanent record of the auditing procedure employed and the financial records examined during the conduct of audit.
5. **Basis for Evaluation and Training of Audit Staff:** Working papers provide a means to test whether the auditor and his staff have done their job as per the standards. Training to the staff can be provided by reviewing the working papers of previous years.

### 5.3.5 Importance (or) Advantages Of Audit Working Papers

1. **Planning the Audit Work:** It acts as the process of planning for the auditor so that he can estimate the time that is required for conducting the audit work.
2. **Helps in Fixing Responsibility:** It helps in fixing responsibility and to measure the work being performed by the audit assistants.
3. **Helps in Drawing Conclusions:** Working papers are necessary to draw conclusions from the evidence obtained.
4. **Helps in Preparing Audit Report:** The auditor prepares and finalises the audit report taking into account the informations or extracts contained in the working papers.
5. **Documentary Evidence:** It is a valuable documentary evidence in the Court or Tribunal of law when a charge of negligence is brought against the auditor.
6. **Permanent Record:** Working papers are the permanent record of the work done by the auditor during a particular period of time.



## FORMAT OF AUDIT WORKING PAPER

XYZ & Co.

Chartered Accountants

AUDIT WORKING PAPER

Page No.....

CLIENT .....

ACCOUNTING YEAR .....

WORKING PAPER TITLE/HEAD OF ACCOUNT .....

SAMPLE/DATA CHECKED .....

AUDIT TESTS DONE .....

AUDIT QUERIES .....

AUDIT FINDINGS .....

.....

.....

CONCLUSION .....

RECOMMENDATION .....

.....

SIGNATURE OF THE AUDITOR

REVIEWED BY

### Ownership of Audit Working Papers

In the case of Sockockinsky vs. Bright Grahm and Co. (1938) in England and Chantrey Martin & Co. Vs. Martin (London 1953), whether the auditor has a right to retain the working papers as his own property even after payment of audit fee. The Court gave judgement in favour of the auditors on the ground that the auditors conduct audit on his independent capacity and not as an agent of the client. Hence, it is considered that the working papers prepared by the auditor or his assistants to carry on the audit work are the property of the auditor and the client has no claim on the papers.



## CASE STUDY

M/s. Health Zone, a partnership firm, running a nursing home have decided to discontinue you as an auditor for the next year and requests you to handover all the relevant working papers of the previous year.

**Analysis:** The working paper being the property of auditor he is under no obligation to hand them over to M/s. Health Zone. However the auditor may at his discretion, make proportions of working paper available to M/s. Health Zone.

## SUMMARY

1. **Document:** Important papers related to auditing
2. **Documentation:** Preserving documents for reference.
3. **Audit Note book:** Book maintained for recording the audit remarks.
4. **Working Papers:** Summaries of audit works, statements and reports collected from the client.

## KEY TERMS

1. **Documentation:** Preserving the Documents.



## EVALUATION



### I. Multiple Choice Questions:

1. A written plan prepared by the auditor to determine the period, distribution of work among the audit staff etc., is named as \_\_\_\_\_.
  - a. Audit Programme
  - b. Audit Note Book
  - c. Schedule
  - d. Audit Plan.
2. The book which helps the auditor, for conducting his audit work is \_\_\_\_\_.
  - a. Audit Note Book
  - b. Audit Working Plan
  - c. Audit Plan
  - d. Audit Report.
3. The reports, queries made and explanations received during the audit are called \_\_\_\_\_.
  - a. Audit Report
  - b. Audit Working Papers
  - c. Audit Note Book
  - d. Audit Program
4. Records maintained and preserved in the audit process is called \_\_\_\_\_.
  - a. Audit Program
  - b. Audit Note Book
  - c. Audit Working Papers
  - d. Documentation





5. Trial balance, statement of debtors and creditors, list of investments etc., obtained from the client are examples of \_\_\_\_\_.
  - a. Audit Program
  - b. Audit Note Book
  - c. Audit Working Papers
  - d. Audit Report
6. The document which can be produced as evidence \_\_\_\_\_.
  - a. Audit Program
  - b. Audit Note Book
  - c. Audit Working Papers
  - d. Both (b) and (c)
7. Audit working papers are to be preserved for a period of \_\_\_\_\_ by the auditor.
  - a. 2 years
  - b. 4 years
  - c. 8 years
  - d. 7 years
8. The period of commencement and completion of audit are specified in \_\_\_\_\_.
  - a. Audit Note Book
  - b. Audit Working Papers
  - c. Audit Report
  - d. Audit Program
9. The owner of working paper is \_\_\_\_\_.
  - a. Client
  - b. Auditor
  - c. Audit staff
  - d. None of the Above
10. This book helps in evaluating the efficiency of audit staff \_\_\_\_\_.
  - a. Audit Note Book
  - b. Audit Working Papers
  - c. Audit Report
  - d. Audit Program

[Answers: 1.(a), 2.(a), 3.(b), 4.(d), 5.(c), 6.(d), 7.(d), 8.(a), 9.(b), 10.(a)]

## II. Very Short answer Questions

1. What is a document?
2. What do you mean by documentation?

## III. Short answer Questions

1. What is audit note book?
2. What do you understand by audit working papers?
3. State the contents of an audit note book?
4. What are the advantages of audit working papers?

## IV. Essay Type Questions.

1. Prepare a model audit note book.
2. As an auditor comment on audit working papers.

## References

1. Principles and Practice of Auditing – Dinkar Pagare, Sultan Chand & Sons.1. Practical auditing – Dr. B.N.Tandon
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## Learning Objectives



- To understand the meaning and definition of vouching
- To be acquainted with the meaning of vouchers and its types.
- To acquire knowledge on the objectives of vouching
- To explain the procedure in regard to vouching the debit side of the cash book
- To enlighten on some aspects of vouching of cash transactions

## TO BE RECALLED



From the previous unit, the following can be understood

- Meaning of Documentation.
- Importance of Documentation
- The meaning of Audit Note Book
- Advantages of Audit Note Book
- Meaning and importance of Audit Working Papers.

## 6.1 Vouching

## 6.1.1 Meaning

The process of examining the documentary evidence to ascertain the accuracy and authenticity of entries in the books of accounts by the auditor is called as 'Vouching'. Vouching means a careful inspection of all original evidences supporting the transaction e.g. invoices, statements, receipts, etc., in order to ascertain the real accuracy, authenticity and validity of the transactions. It confirms that the amount specified in the voucher has been posted to an appropriate account which will disclose the nature of the transaction. Therefore, vouching is referred

as the very essence of auditing. It helps an auditor in establishing the truth of entries appearing in the books of accounts.

## 6.1.2 Definition

- According to **Ronald A Irish** – "Vouching is a technical term which refers to the inspection of documentary evidence supporting and substantiating a transaction".
- According to **J.R. Batliboi** – "Vouching means testing the truth of the terms appearing in the books of original entry".
- **Dicksee** defines vouching "as an act of comparing entries in the books of accounts with documentary evidence in support thereof".

### 6.1.3 Objectives of Vouching

The main objectives of vouching are:

1. To examine that all transactions and entries have been properly accounted for in the appropriate books of accounts.
2. To ensure that adequate documentary evidence exist to all the transactions.
3. To ensure that the transactions and entries relate to the business and to the period under audit.
4. To ensure that there is no omission of any record.
5. To evaluate the collected evidence and vouchers by determining the authenticity and validity of the documentary evidence.
6. To ensure that the transactions and entries are properly authenticated by the responsible officer.

## 6.2 Voucher

### 6.2.1 Meaning

Documentary evidence in support of any business transaction is called as a Voucher. It may be a receipt, invoice, bill, cash memo, bank pay-in-slip, counterfoil of a cheque, correspondences, agreements, resolutions

passed in the meeting etc. Voucher gives information about the nature and source of the transaction, its value and authority. It substantiates the entries in the book of accounts and confirms the genuineness of the transaction. All vouchers relating to the business transactions should be carefully preserved and properly filed.

### 6.2.2 Types of Voucher

There are two types of Voucher. They are -

1. Primary Voucher
  2. Collateral Voucher
1. **Primary Voucher:** Primary voucher refers to the written evidence in original. Examples of primary voucher are purchase invoice, cash memo, bills, confirmation of balances, bank statements, contracts, etc.
  2. **Collateral Voucher:** When the original voucher is not available, copies thereof are produced in support or as subsidiary to remove suspicion and to satisfy the auditor, such a voucher is known as Collateral Voucher. Examples of collateral voucher are copies of sales invoice, receipts, copy of resolution passed in a meeting etc.

Voucher	
XY Pvt. Ltd., Canal Bank Road, Adayar, Chennai.	
Voucher No. _____	Date: _____
Particulars	Amount (₹)
Credit:	
Being the	
Total	
Sd/- Manager	Sd/- Accountant

### Examples of Vouchers

The following are some of the examples of vouchers.

**Cash Receipts:** Vouchers regarding cash receipts include - carbon copies of receipts, contracts, minutes, correspondences, counterfoils, etc.

**Cash Payments:** Vouchers in connection with cash payments include - invoices, bills, demand notes, wage sheets, salary register, counterfoils, agreements etc.

**Purchases:** Invoices, Goods inward book, Copies of orders placed, Correspondence, etc. can be cited as examples of vouchers for purchases.

**Sales:** Copies of invoice, Orders received, Goods Outward Book, Correspondence, etc., are some of the examples of vouchers related to sales.

## 6.3 Missing Vouchers

While vouching vouchers or supporting documentary evidences are not available for the entries made in the books of accounts, such non-availability of vouchers is called as missing vouchers. It may be deliberate (purposeful or indicative of a big fraud) or accidental (innocent misplacement).

In this case, the auditor should obtain proper explanation and enquire reasons for missing vouchers. If he is not satisfied with the explanation, he should mention the fact in his report. Further, he should obtain a certificate from the competent official stating all the missing vouchers.

## 6.4 Vouching of Cash Transactions

All transactions whether it is cash receipts or payments should be accounted in the cash book. It is an important financial book of a business concern. While vouching, the auditor should verify and satisfy himself that vouchers in the form of receipts, bills, invoices, cash memos etc., correspond with the entries in the cash book. Further, he must go behind the books and establish accuracy and correctness of the entries after thoroughly examining all the original documentary evidences. Therefore, the auditor should ensure that all receipts have been recorded in cash book and no fictitious payments appear on the payment side of cash book.

### 6.4.1 Auditors Duty in Vouching Cash Transactions

The procedures in regard to vouching the transactions of various items which appear in the debit side of the cash book are discussed below:

1. Auditor should see that all the vouchers are properly filed, serially numbered and arranged date wise. He should also obtain duplicates of lost or missing vouchers.
2. He should pay attention to the dates, which must correspond with the cash book, name of the party to whom the voucher is issued, the name of the party issuing the voucher and the amount, etc.
3. The transactions must be in conformity with the nature of the client's business.

All unusual transactions must be carefully enquired into.

4. Missing vouchers should be carefully noted and brought to the knowledge of the owner of the business.
5. All vouchers must be checked and passed for payment by some responsible official. Similarly any alteration in the vouchers must also be supported by a responsible official.
6. All the receipts of the day should be deposited in the bank at the end of the day or the next morning.
7. Bank reconciliation statement should be prepared frequently by the cashier to verify the bank balance with cash book and pass book. He should also examine the reasons for the difference between the bank balance as per pass book and that in the cash book.
8. All payments as far as possible, except for petty cash, should be made by cheques or online. If large amounts appear to have been paid in cash, contrary to the usual practice of the business, auditor must ascertain the circumstances in which it was considered necessary.
9. Auditor should ascertain that the vouchers have been correctly posted to the appropriate accounts and distinction has thoroughly been observed between capital and revenue expenditure.
10. Auditor should ascertain that the cashier do not sanction any payments of special nature without proper approval from the directors.

## LEGAL DECISIONS

- In a case between Leeds Estate Building & Investment Co. Vs. Shepherd, it was held that the auditor was liable for negligence for not verifying the true and fair view of Balance Sheet and accurate representation of affairs of the company.
- In a case between London Oil Storage Co. Ltd. Vs. Sears, Hasluck & Co., it was held that the auditor is liable for any damage sustained because of his omission to verify the existence of assets stated in the Balance Sheet of a company.

## 6.5 Vouching of Debit Side of Cash Book (or) Cash Receipts

Cash book is one of the most important books of accounts. The auditor has to ensure that all receipts have been accounted for. Errors and frauds usually arise in connection with cash receipts. Hence, the auditor should vouch all the cash transactions as far as possible and should ensure that all receipts have been accounted. He has to ensure that there are no omissions of cash receipts and the auditor has to rely considerably on the internal check system in operation. Some of the important cash receipts which usually appear on the debit side of the cash book and the duty of an auditor in that connection are given below:



<b>Cash Receipt</b>	
Receipt Number _____	
Date _____	
Received From _____ the amount of ₹ _____	
For _____	
Current Balance: ₹ _____	
Payment Amount: ₹ _____	
Balance Due: ₹ _____	
Received By: _____	

### 6.5.1 Opening balance

Opening balance of the current year refers to the closing balance of last year. It should be compared with the balance shown in the duly audited balance sheet of the

previous year. This is done to ensure that actual balance has been brought down.

**Documents to be Vouched:** Audited Balance Sheet of last year.

#### Example:

An auditor should vouch Opening Cash balance in the following manner:

1. Balance Sheet of last or previous year, and
2. Cash account for the current year.

#### Balance Sheet as on 31.3.2016

Liabilities	Amount ₹	Assets	Amount ₹
		Cash Balance	10,000

#### Cash Account for the year 2016–2017

Dr.

Cr.

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016 Apr 4	To Balance b/d (ope. balance)		10,000				





## 6.5.2 Cash Sales

The auditor should be very careful in verifying cash sales as there are greater chances of fraud. Firstly, the auditor should verify the system of internal check in operation with regard to cash sales. Secondly, he should verify cash sales invoices with the entries in the summary of daily cash sales with regard to name of the customer, date, quantity, rate, discount, tax, rounding off etc. Thirdly, the summary of daily cash sales should be compared and tallied with the sales which are accounted in the cash book. Fourthly, the auditor should counter check the entries of cash sales in the cash book with the carbon copies of cash memos. Lastly, the auditor should ensure that all cash received on account of cash

sales is deposited in the bank on the next day itself. Fraud may take place in respect of cash sales, when salesmen sell goods and do not make entries in the cash book and misappropriate the money. In order to overcome such type of fraud, salesmen should be instructed not to receive cash from customers. The auditor should compare the dates on the cash memos and the cash book. If cash discount has been allowed on sales, he should see that a uniform policy and rate of discount has been followed.

**Documents to be Vouched:** Sales Invoice, Duplicate cash Memo, Summary of daily cash sales, Rough cash book and main cash book.

### Example:

On 10.4.16, XY Co. sold goods worth Rs.60,000 for cash.

### Vouching of Cash Sales:

Auditor should vouch the genuineness of the transaction in the following manner:

1. Verify Sales Invoice with regard to date of sale and sale value.
2. Verify entry in Cash Book with respect to date and amount.
3. Verify entry in Sales Account with respect to date and amount.

**Sales Invoice**  
**XY Co.**  
**Dealers in Textiles**  
**Golden Plaza, Ring Road, Chennai.**

**Invoice Number:**

**Date: 10/4/16**

Particulars	Quantity	Rate ₹	Amount ₹
Sarees	48	1250	60,000
Total			60,000



### Cash Book

Dr.				Cr.			
Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016 Apr 10	To Sales a/c		60,000				

### Sales Account

Dr.				Cr.			
Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
				2016 Apr 10	By Cash a/c		60,000

### 6.5.3 Receipts from Debtors

When cash is received from customers, a cash memo is issued to the customer and a carbon copy of cash memo is retained by the clerk. Fraud can take place by accounting lesser amount than what is actually received. Sometimes, fraud may occur when payment received from a customer is misappropriated without making entry in the account and later on when cash is received from another customer. This practice is called as “Teeming and Lading of Fraud.”

Auditor to overcome such type of fraud, he should verify the sales invoices and counterfoils of the receipt to ensure the amount received against the invoice.

Cash received from a customer should be compared with the entries in the cash book and in the customers account. At frequent intervals, the auditor should obtain statement of accounts and confirmation of balances from the debtors and cross check with the entries and balances in the debtors account. He should also ensure that all cash received on account of cash sales should be deposited in the bank on the next day.

**Documents to be Vouched:** Sales invoices, Counterfoils of cash receipts, Statement of accounts from debtors, Correspondences and confirmations from the debtors and bank statement.

#### Example:

On 25.10.2016, Received cash from Gopal Bros. for ₹25,000 towards sale made on 20.10.2016.



### Vouching of Cash received from Debtors.

Auditor should vouch the transaction in the following manner:

1. Verify Cash receipt or memo with respect to date of receipt, amount and name of customer from whom received.
2. Verify entry in Cash Book with reference to date, name of debtor or customer and amount.
3. Verify entry in Debtor or Customers Account with reference to date and amount.

**Specimen of Cash Receipt**  
**ABC Ltd.,**  
**Paper Mills Road, Chennai.**

**Receipt No. 1513**

**Date: 25.10.2016**

**Received with thanks from Gopal Bros., a sum of ₹25,000\ - (Rupees Twenty five thousand only) by cash on account of Invoice No.216 dated 20.10.2016.**

**Authorised Signatory**

Dr. Cash Book				Cr.			
Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016 Oct 25	To Gopal Bros.		25,000				

**Gopal Bros. (Debtors/Customers ) Account**

Dr.				Cr.			
Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
				2016 Oct 25	By Cash a/c		25,000

### 6.5.4 Income from Interest and Dividend

Interest income may arise from loans granted, bills of exchange accepted by customers, debentures, deposits, bonds and other investment securities. Vouching of interest received should be from

instruments carrying interest bearing obligation. The auditor should ensure that accrual/receipt of interest is in accordance with terms of the instrument concerned, and properly recorded in the books of accounts. For example, interest received on account of Fixed Deposits in the bank should be vouched with the Bank Pass book.

He should also verify the accuracy of the interest calculation. Vouching of interest received on securities should be vouched from the securities or from the Investment ledger as to the date of the receipt of interest, amount, rate of interest etc. Interest received for any particular fund like Provident Fund should be credited to that fund and not to the revenue account. Further, the auditor should obtain confirmations from the parties owing interest payment and should check with the entries in the interest received account and cash book.

**Documents to be Vouched:** Loan agreement or Fixed deposit receipts, Counterfoil of cash receipts, Bank pass book.

Vouching of dividends should be done by referring the relevant dividend warrants, shares, and securities. The auditor should ensure that the client has indeed received and properly recorded all dividends that are due to it. When dividend is collected through bank, amount received should be verified with the bank pass book. He should check the rate of dividends, amount of gross and net dividends and the tax deducted at source. He should also check the actual receipts either from the cash book or bank pass book.

**Documents to be Vouched:** Dividend warrants, Counterfoils of cash receipts and Passbook.

### 6.5.5 Sale Of Investments

Sale of investments should give rise to capital receipt except in the case of broking or investment firms for whom

the proceeds will be revenue receipts. The amount received on account of the sale of investments should be vouched with broker's sold note. When investments are sold through bank, then bank advice should be verified. At frequent intervals, the auditor should compare the securities on hand with the amount realised on sale of securities with investment accounts.

**Documents to be Vouched:** Bank advice and Broker's Sold note.

### 6.5.6 Sale of Fixed Assets

The auditor should examine the minutes book of directors to ensure that the sale of fixed assets is properly approved by the Board of Directors in the meeting. He should verify the sale agreement and correspondences and ascertain the sale value of fixed assets. He should check the entry in the cash book for sale consideration received and cross check the entry in the bank statement to confirm that the amount received is deposited in bank. When investments are sold through broker, auditor should vouch Brokers sold Note and auctioneers statement should be verified when sold in an auction. He should verify the calculation of profit or loss on sale of fixed assets and that the amount is treated as capital profit and is transferred to capital reserve.

**Documents to be Vouched:** Sale Deed or Agreement, Minutes book of directors, Fixed Assets Register, Bank statement, Auctioneer's sold note or Broker's sold note and correspondences.

### Example

On 12th December 2016, sold office furniture for ₹11,000 for cash which costs ₹96,000.

### Vouching of Sale of Fixed Assets.

Auditor should vouch the transaction in the following manner:

1. Verify entry in Cash Book with reference to date, amount and nature of asset sold.
2. Verify entry in Asset Account with respect to date and sale amount.
3. Verify entry in Fixed Assets Register with respect to date, invoice number, cost, rate of depreciation and specification or description of asset sold.

#### Cash Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount ₹	Date	Particulars	L.F.	Amount ₹
2016 Dec 12	To Office Furniture a/c		11,000				

#### Office Furniture Account

Dr.				Cr.			
Date	Particulars	L.F.	Amount ₹	Date	Particulars	L.F.	Amount ₹
				2016 Dec 12	By Cash a/c		11,000

#### Fixed Assets Register

Name of the Asset	Date of Sale	Invoice No.	Quantity	Rate of Depreciation	Cost ₹	Sale Price ₹	Specification
Office Furniture	12.12.2016	356	12	5%	96,000	11,000	



## SUMMARY

- **Missing Vouchers** – While vouching if a number of vouchers or supporting documentary evidences are not available for the entries made in the books of account, such non-availability of vouchers is called as missing vouchers.
- **Vouching** – It is the technique used by the auditor to examine documentary evidence to ascertain the authenticity of entries in the books of accounts.
- **Voucher** – Documentary evidence in support of any business transaction disclosing the nature, source, its value and authority. It may be in the form of a receipt, bill, invoice, counterfoils, memos, agreements or resolutions of a meeting.
- **Vouching of Cash Book** – All transactions whether it is cash receipts or payments should be accounted in the cash book. The auditor should verify the correctness of the entries by examining the original documentary evidences. Therefore, the auditor should ensure that all receipts have been recorded in cash book and no fictitious payments appear on the payment side of cash book.
- **Vouching Receipts Side of Cash Book** – Errors and frauds usually arise in connection with cash receipts. Hence, the auditor should vouch all the cash transactions as possible and should ensure that all receipts have been accounted. The receipt side or debit side of cash book contains transactions such as opening balance, cash sales, cash received from debtors, interest and dividend received, sale of fixed assets and investments.



## EVALUATION



### I. Multiple Choice Questions:

1. Vouching \_\_\_\_\_.
  - a. Involves verification of transactions
  - b. Unearths fraud
  - c. Examines the documentary evidence in support of the transactions
  - d. All the above
2. \_\_\_\_\_ is a documentary evidence in support of a transaction.
  - a. Vouching
  - b. Voucher
  - c. Verification
  - d. All the above
3. Routine checking is a part of \_\_\_\_\_.
  - a. Vouching
  - b. Documentation
  - c. Application of knowledge
  - d. Verification of transactions
4. Vouchers are of two types, namely \_\_\_\_\_.
  - a. Primary and duplicate
  - b. Primary and Collateral
  - c. Collateral and Secondary
  - d. None of the above
5. Voucher which is produced in support of entries in the absence of an original Voucher, is called as a \_\_\_\_\_.
  - a. Primary Voucher
  - b. Collateral Voucher
  - c. Missing Voucher
  - d. Valid Voucher







6. Voucher which denotes written evidence in original is known as \_\_\_\_\_
- Primary Voucher
  - Collateral Voucher
  - Missing Voucher
  - Valid Voucher
7. While vouching, if a number of vouchers or supporting documentary evidences are not available for the entries made in the books of account, such non-availability of vouchers called \_\_\_\_\_
- Primary Voucher
  - Collateral Voucher
  - Missing Voucher
  - Valid Voucher
8. Vouchers to be vouched in case of sale of fixed assets are \_\_\_\_\_
- Counterfoil, Dividend warrants and Passbook
  - Counterfoils, Correspondence, etc
  - Bank Advice and broker's Sold Note
  - Pass Book, Agreement, and Counterfoils
9. Vouchers to be vouched in case of income from dividend warrants \_\_\_\_\_
- Counterfoil, Dividend warrants and Passbook
  - Counterfoils, Correspondence, etc
  - Bank Advice and broker's Sold Note
  - Pass Book, Agreement, and Counterfoils
10. Vouchers to be vouched in case of receipts from debtors \_\_\_\_\_
- Counterfoil, Dividend warrants and Passbook
  - Counterfoils, Correspondence, etc
  - Bank Advice and broker's Sold Note
  - Pass Book, Agreement, and Counterfoils
- [Answers: 1.(d), 2. (b), 3.(a), 4.(b), 5.(b), 6.(a), 7.(c), 8.(c), 9.(a), 10.(b)]**

## II. Very Short Answer Questions

- Define Vouching.
- What is a Voucher?
- What is a Missing Voucher?
- What is a Primary Voucher?
- What is a Collateral Voucher?

## III. Short Answer Questions:

- What do you mean by Vouching?
- What are the objectives of Vouching?
- Write short notes on vouching of cash transactions.
- Why Vouching of cash receipts is necessary? Illustrate.



#### IV. Essay Type Questions

1. Define Vouching. What are its Objectives?
2. Explain the procedure with regard to vouching debit side of the cash book.
3. As an auditor of a business concern, how will you vouch cash receipts.
4. Write a note on (i) Vouching (ii) Vouchers (iii) Missing vouchers.
5. How would you vouch the following?  
(a) Sale of investments (b) Interest received (c) Dividend received

#### References

1. A Handbook of Practical Auditing – B.N. Tandon, S. Sudharsanam and S. Sundharabahu-S. Chand and Company Limited, New Delhi.
2. Practical Auditing - Dr. Radha – Prasanna Publications
3. Practical Auditing – Dr. G.Anitha & Dr.J.Sankari, Sai Selva Publishers Distributors.



## Learning Objectives



- After going through this unit the students will be able to describe the procedure in regard to vouching the credit side of the cash book.

## TO BE RECALLED



In the previous lesson, we have studied the meaning of vouching and vouchers, and procedure in regard to vouching the debit side of the cash book. The debit side items such as Opening balance, cash sales, receipts from debtors, income from interest and dividend, sale of investments and sale of fixed assets.

**7.1 Vouching of Credit Side of Cash Book (or) Cash Payments**

The auditor vouches cash payments with an objective to ensure that all cash payments pertaining to business activities are genuine and properly authorized. The auditor in vouching cash payments or credit side of Cash Book should ensure that payments are made for the purpose of business, payment relates to the period under audit, payment is properly sanctioned and recorded, payment has been made to the right person, and payment is properly supported by a voucher and same as entered in Cash Book.

**7.2 Auditors Duty in Vouching Cash Payments**

The auditor should pay special attention to the following points while vouching cash payments.

1. The auditor should evaluate the effectiveness of Internal check and control system for cash payments.
2. He should ensure that all the vouchers are made in the name of the business concern and payments are made pertaining to business.
3. He should ensure that vouchers have been correctly posted to the appropriate accounts and properly distinguished between capital and revenue expenditure.
4. He should ensure that all cash payments are within the period under audit.
5. When cash payments are made in excess of certain amount the auditor should enquire the circumstances for making such a payment and the same made through bank cheque.
6. He should also compare the rough cash book with the cash book to identify the fictitious payments.

## LEGAL CASE STUDIES

- In a case between **Irish Woollens Co. Ltd. Vs. Tyson** and others, it was held that auditor was negligent for not verifying the liabilities. He was liable to pay damages for the loss suffered by the client.
- In another case, **Arthur E. Green & Co. Vs. General Advance and Discount Corporation**, it was held that the auditor was liable for accepting the schedule of debtors without verifying thereof.

## 7.3 Cash Paid To Creditors

While vouching cash payment to creditors, the auditor should examine the system of Internal control in existence. He should check the entries in the cash book with the receipts issued by creditors or counterfoils of cheque book and bank statement. He should compare the ledger balances of creditors with statement of accounts sent by them. Further, the auditor should ensure that all payments made to creditors are properly authorized by a responsible official. When payment was made as full and final settlement, auditor should verify whether the company has been availed any discount and is accounted as discount received.

**Documents to be Vouched:** Receipts issued by creditors, Invoices, Statement of accounts of creditors, Bank statement.

### Example

On 12.3.17, Paid cash to Rakesh Rs.22,000 being supplier of goods.

### Vouching of Cash paid to Creditors.

Auditor should vouch the transaction in the following manner:

1. Verify entry in Cash Book with respect to date, name of creditor or supplier and amount paid.
2. Verify entry in Creditor or Supplier Account with reference to date and amount.

### Cash Book

Dr.

Cr.

Date	Particulars	L.F.	Amount ₹	Date	Particulars	L.F.	Amount ₹
				2017 Mar 12	By Rakesh a/c		22,000

Rakesh (Creditors) Account							
Dr.				Cr.			
Date	Particulars	Folio	Amount ₹	Date	Particulars	Folio	Amount ₹
2017 Mar 12	To Cash a/c		22,000				

## 7.4 Wages

Vouching of payment of wages is an important duty of an auditor as there are many chances of misappropriation of cash. The following are some of the duties of an auditor in vouching wage payments.

1. The auditor should verify the effectiveness of the system of Internal check in operation with regard to the preparation of wage sheet, maintenance of records and payment of wages.
2. He should verify the arithmetical accuracy in calculation of wages.
3. He should verify the attendance register of the employees and vouch it with the wage sheet to ensure that the wages has been correctly calculated only for the days worked by the employee.
4. Auditor should carefully scrutinize the wage sheet to identify that no dummy workers or ex-employees are included in the wage sheet.
5. Auditor should vouch the entries in the cash book with the wage sheet. He should also vouch the entries in the cash

book with the bank statement to ensure that correct amount is withdrawn for payment of wages.

6. The auditor should compare the signature or thumb impression of the workers with previous months to check the genuineness of the person receiving the payment.
7. He should ensure that unclaimed or unpaid wages has been deposited in the bank. He should vouch the unpaid amount in the wage sheet with the entry in the bank statement. Payment for unpaid wages should be made only against authorization signed by a responsible official.
8. Auditor should verify that there is a proper system of wage payment to casual labourers.

**Documents to be vouched:** Attendance register, Time or piece records, Leave register, Overtime register, Wage sheet, Bank statement, Register of casual labourers.

**Example:**

On 5/7/2016, Paid wages by cash for ₹8,000.

**Vouching of Payment of Wages**

Auditor should vouch the transaction in the following manner:

1. Verify entry in Cash Book with respect to wages paid amount and date of payment.
2. Verify entry in Wages Account with regard to date and amount of payment.
3. Verify entries in Wage Sheet.
4. Verify entries in Pay Roll.

**Cash Account****Dr.****Cr.**

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
				2016 July 5	By Wages a/c		8,000

**Wages Account****Dr.****Cr.**

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016 July 5	To Cash a/c		8,000				

**Specimen of Wage Sheet**

No.-----

Week ending -----

Job No.10			Job No.11			Job No.12			Job No.13		
Clock No.	Hrs.	Amt. ₹	Clock No.	Hrs.	Amt. ₹	Clock No.	Hrs.	Amt. ₹	Clock No.	Hrs.	Amt. ₹
<b>Total</b>			<b>Total</b>			<b>Total</b>			<b>Total</b>		

Prepared By -----

Checked By -----



Specimen of Payroll													
Name	No. of worker	Rate	Total Hrs.	OT Hrs.	Wages	DA	Gross Wages	Deductions				Total Deductions	Net Wages
								ESI	PF	IT	Others		
		₹			₹	₹	₹	₹	₹	₹	₹	₹	₹
Total													

Prepared By ----- Checked By -----

DEBIT OR PAYMENT VOUCHER	
<p align="center"><b>Vinodh &amp; Sons (P) Ltd., Gandhi Road, Chennai.</b></p>	
Voucher No. _____	Date: _____
Particulars	Amount ₹
Debit Account:	
Being the	
Total	
Sd/- Manager	Sd/- Accountant

## 7.5 Capital Expenditure

Capital expenditure is the amount spent on acquisition of fixed assets which include purchase of (1) Land and Buildings, (2) Plant and Machinery, (3) Motor Vehicles, (4) Investments and (5) Patents and copyrights. The procedures in vouching various items of capital expenditure are as follows:

### 7.5.1 Purchase of Land and Buildings

Auditor should examine the title deeds and sale agreements of the property purchased.

When assets are purchased on leasehold basis, lease agreement should be verified with regard to lease rent, period, terms etc. In case of purchase of freehold asset, auditor should examine the correspondence directly from the seller. He should ensure that all expenses incurred in connection with purchase of a asset like auctioneers commission, brokerage, architects fees, registration fees and legal charges, are capitalized. He should also vouch all such payments with reference to receipts. When asset is purchased through broker, the auditor should verify the brokers note. When asset is purchased in auction, the account submitted by the auctioneer should be examined. Similarly,

auditor should ensure that all expenses incurred in connection with construction of a building like materials purchased, wages paid, cartage has been capitalized. In case of construction of a building, auditor should examine the construction contracts and architects certificate.

**Documents to be Vouched:** (1) Title Deeds, Sale Agreements, (2) Lease Agreement, (3) Correspondences with Seller, (4) Auctioneers Statement, (5) Architects Certificate, (6) Contractors Agreement, (7) Receipts.

### Example

On 20<sup>th</sup> April 2016, purchased a piece of land for Rs.1,00,000 and paid cash.

### Vouching of Purchase of Land and Buildings

Auditor should vouch the transaction in the following manner:

1. Verify entry in Cash Book with respect to date of purchase, cost, and nature of asset purchased.
2. Verify entry in Land and Buildings Account with regard to date and amount of purchase.

#### Cash Account

Dr.				Cr.			
Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
				2016 Apr 20	By Land and Buildings a/c		1,00,000

#### Land and Buildings Account

Dr.				Cr.			
Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2016 Apr 20	To Cash a/c		1,00,000				

### 7.5.2 Purchase of Plant and Machinery / Furniture And Fixtures

When plant and machinery are purchased, auditor should vouch the invoices and receipts received from the vendors. He should ensure that all incidental charges connected with the asset are capitalized and added with the cost of asset. He should also carefully scrutinize that expenses in connection with repairs and maintenance are not capitalized. When the asset is purchased on Hire purchase, he should verify the Hire purchase agreement and related vouchers. When the asset is purchased on Auction, Auctioneers statement of account should be verified. In case of purchase of imported machinery, any import duty and clearing charges should be debited to asset account.

#### Documents to be Vouched:

- (1) Invoice from Vendors, (2) Receipts,
- (3) Auctioneers Statement of Account,
- (4) Hire Purchase Agreement.

### 7.5.3 Purchase of Motor Vehicles

Contract of purchase, invoice, broker's note, payee's acknowledgement, asset receiving report and the registration book showing the ownership in the name of the client should be examined.

#### Documents to be Vouched:

- (1) Invoice, (2) Contract of purchase,
- (3) Registration book, (4) Brokers note and (5) Payees acknowledgement.

### 7.5.4 Purchase of Investments

Auditor should vouch payments made for purchase of Investments with the Brokers Bought Note. He should verify that investments purchased are properly authorized and registered in the name of the company. He should physically examine the actual investment held by the company. In case of new issue of securities, auditor should examine letters of allotment, bank receipt for installments paid, share certificates etc. If investments are purchased cum-dividend, auditor should verify that the expenditure has been properly apportioned between capital and revenue. In case of inscribed stock, certificate from the bank in whose books the stock is inscribed should be obtained.

#### Documents to be Vouched:

- (1) Brokers Bought Note, (2) Schedule of Investments, (3) Share certificate, (4) Letters of Allotment and Bank Receipt,
- (5) Bank Certificate for Inscribed Stock.

### 7.5.5 Purchase of Patents and Copyrights

Patent is an exclusive right or privilege to make or produce something and copyright is a right to produce an item of a particular design. In case of purchase of patents and copyrights, auditor should obtain the patents and copyrights list from the client and examine it with reference to registration number, date, name of the seller, consideration paid etc. He should verify the registration certificates, certificates for grant of patent, documents of assignment, copyright agreements and receipt for renewal fees. When patent is purchased through broker, brokers commission should be

accounted as capital expenditure and should be included in the cost of patent. Similarly, when patents are received through research, research expenses should also be capitalised. On the other hand, he should ensure that renewal fees paid should not be capitalized but instead should be treated as revenue expenditure. He should also ensure that lapsed patents have been written off from the books of accounts.

**Documents to be Vouched:**

(1) List of Patents and Copyrights, (2) Patent and Copyright Agreement, (3) Registration Certificates, (4) Document of Assignment, (5) Receipts.

## 7.6 Bills Payable

The auditor should vouch the entries in the Bills Payable Book and the Bank Pass Book if payment is made by bank. He should ensure that bills when honoured on the date of maturity and returned by the payee after receiving the payment should be properly cancelled after payment.

**Documents to be Vouched:**

(1) Bills payable book, (2) Pass book and (3) Receipts.

## 7.7 Bills Receivable Discounted and Dishonoured

Sometimes the bills receivable discounted with the bank is dishonoured by the drawee. In such a case, the amount of bill has to be paid to the bank. If the account is maintained with the same bank, bank may debit the account of customer instead

of receiving payment. Auditor should obtain a schedule of bills discounted dishonoured and examine the same. He should verify dishonor of bills discounted from bank's advice. The bank also returns the bill. The payment side of the cash book can be checked for the dishonor of such bill with bank's advice and amount of bill plus any charges incurred thereon. The auditor should verify entries for dishonour passed in the parties account. He should confirm whether bank charges, noting charges etc. have been debited to concerned customers account.

**Documents to be Vouched:**

(1) Bank advice, (2) Dishonoured bill, and (3) Pass book.

## 7.8 Directors Fees

Directors of a company are paid fees for attending the Board meetings, they are known as Directors fees or Sitting fees. Directors are entitled to get remuneration only when the Articles of Association of the company provide. Hence the auditor should examine the Articles and the resolution passed by the shareholders in the general meeting. Auditor should check the attendance register which will provide the name of directors who attended the board's meetings and the minutes of the Board meeting to confirm the presence of the directors for payment of remuneration. He should ensure that amount paid towards fees or remuneration to directors is shown separately in the Profit and Loss account.

**Documents to be Vouched:**

Articles of association, Minutes book, Attendance register, Resolution passed by shareholders.

## FORM OF CASH BOOK IN TALLY

**Universal Enterprises**  
Plot No. 113 & 114,  
Industrial Estate, Hongasandra  
Bangalore

### Cash Book

1-Apr-2008 to 30-Apr-2008

Date	Particulars		Vch Type	Vch No.	Debit	Credit
2-04-2008	To	HDFC Bank	Contra	1	20,000.00	
	By	(as per details)	Purchase	3		832.00
		Purchase @ 4 %				
		Input VAT @ 4 %				
					800.00 Dr	
					32.00 Dr	
3-04-2008	By	(as per details)	Purchase	4		12,480.00
		Purchase @ 4 %				
		Input VAT @ 4 %				
					12,000.00 Dr	
					480.00 Dr	
5-04-2008	To	HDFC Bank	Contra	2	50,000.00	
6-04-2008	By	Travelling & Conveyance	Payment	1		1,500.00
10-04-2008	By	New Era Computers	Payment	3		2,920.00
15-04-2008	By	Travelling & Conveyance	Payment	5		630.00
16-04-2008	By	Subscriptions	Payment	6		350.00
17-04-2008	To	Travelling & Conveyance	Receipt	7	610.00	
19-04-2008	By	Travelling & Conveyance	Payment	10		72.00
30-04-2008	By	Postage & Telegraph	Payment	13		420.00
	To	Supreme Computers Peripherals	Receipt	9	1,00,000.00	
					1,70,610.00	19,204.00
	By	Closing Balance				1,51,406.00
					<b>1,70,610.00</b>	<b>1,70,610.00</b>

## SUMMARY

### Vouching of Cash Payments

- Cash Payments should be vouched to ensure that the payments made were exclusively and wholly for the business and are a proper business charge.

### Auditors Duty

- Vouching of cash payments should be made to determine that the payments are supported by the required documentary evidence. The name of client, date in the payee's acknowledgement, authorization by competent person, revenue stamp should be verified with respect to cash payments.

### Cash Paid to Creditors

- The Cash Paid to Creditors should be vouched using statement of accounts, receipts issued by creditors, invoices and goods inward book.

### Wages

- Wages should be vouched using wage book, wages sheets, wage records, job cards, etc.

### Capital Expenditure

- Capital Expenditure should be vouched by verifying invoice, agreements, letter of contract, receipts, etc.

### Bills Payable

- Bills Payable should be verified using bills payable register, payee's acknowledgement and pass book.
- Bills Receivable discounted and dishonoured should be vouched by verifying pass book, dishonoured bill, noting charges, and discount account.

### Directors' Fees

- Directors' Fees should be verified using Articles of Association, receipts, minutes book, special resolution and attendance register.

## KEY TERMS

- **Bills Payable:** Bills accepted for goods or services received on credit.
- **Bills Receivable:** Receivable against sale of goods/service provided to the customer.
- **Capital Expenditure:** Money spent by a business or organization on acquiring or maintaining fixed assets, such as land, buildings, and equipment.
- **Cash Payments:** Payments made in cash for various business transactions.



- **Creditors:** The person or a company to whom the money owes.
- **Director's Fees:** Fees paid to the Company Director for attending the meeting.
- **Wages:** Remuneration paid by the employer to the worker for the work done.



## EVALUATION



### I. Multiple Choice Questions.

- Vouching implies \_\_\_\_\_.
  - Inspection of receipts
  - Examination of vouchers to check authenticity of records
  - Surprise checking of accounting records
  - Examining the various assets
- Payment for goods purchased should be vouched with the help of \_\_\_\_\_.
  - Creditors statement
  - Correspondence with suppliers
  - Cash memos
  - Ledger accounts
- Payment for wages should be vouched with the help of \_\_\_\_\_.
  - Working hours statement
  - Wage sheets
  - Minute book
  - Bank pass book
- Payment for building purchased should be vouched with the help of \_\_\_\_\_.
  - Title deed
  - Correspondence with Brokers
  - Building account
  - Cash book
- Process of checking the evidence of the entries called \_\_\_\_\_.
  - Verification
  - Observation
  - Vouching
  - Inspection
- Voucher should be addressed to the \_\_\_\_\_.
  - Auditor
  - Client
  - Employee
  - Worker
- Serial number of vouchers should be \_\_\_\_\_.
  - Colored
  - Continuous
  - Even number
  - Odd number
- Which of the point is not to be considered while checking a voucher?
  - Name of party
  - Serial number of voucher
  - Credit period of payment
  - Accounting entry

9. Checking the date of voucher helps the auditor to obtain evidence that \_\_\_\_\_.  
 (a) The transaction relates to current year  
 (b) The transaction has taken place  
 (c) The transaction is genuine  
 (d) The transaction is legal.
10. The auditor does not have to check the following while auditing wages:  
 (a) Calculation of the salary  
 (b) Whether the calculation was verified by department heads  
 (c) Whether dues like PF, PT, TDS have been deducted and deposited  
 (d) Payment has been made to all the employees on first of the month

**[Answer: 1(b); 2(a); 3(b); 4(a); 5(c); 6(b); 7(b); 8(c); 9(a); 10 (d)]**

## II. Very Short Answer Questions.

1. What do you mean by vouching of bills payable?
2. What are the documents to be verified while vouching wages?
3. What are the important items covered under capital expenditure?
4. What is meant by patent?
5. How the vouching of motor vehicle purchases can be made?

## III. Short Answer Questions.

1. Discuss the objects of vouching cash payments.
2. What are the points to be carefully considered while examining the evidence of payments?
3. How the vouching of payments to creditor can be made?
4. What are the steps to be followed in vouching the director's fee?
5. Explain in short the procedure for vouching bills payable?

## IV. Essay Type Questions.

1. Explain the procedure for vouching wages.
2. Discuss the steps involved in vouching capital expenditure.
3. Discuss the duties of an auditor and steps to be taken while vouching the cash payments.

## References

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4. Tandon B.N, Sudharsanam S, and Sundharabahu S, A Handbook of Practical Auditing, S.Chand & Co., New Delhi, 2006.



## Learning Objectives



- After going through this unit the students will be able to describe the procedure in regard to vouching of credit purchases, credit sales and goods sent on sales or return system.

## TO BE RECALLED



The students learnt the auditing procedure in regard to vouching the credit side of the cash book (payment to creditors, wages, capital expenditure, bills payable, bills receivable – discounted and dishonoured and director's fee) from the previous lesson.

### 8.1 Vouching of Trading Transactions - Introduction

After having completed the vouching of cash transactions, the auditor should proceed to examine the trading transactions. Trading is a business process starting with the

purchase of goods and ending with sale. The major trading transactions are purchase, purchase returns, sales and sales returns. The main objective of vouching trading transactions is to detect misappropriation of goods. Therefore, the auditor should take great care in vouching trading transactions to prevent misappropriation of goods.



## 8.2 Vouching of Credit Purchases

Transactions relating to credit purchases are recorded in Purchase Book. The main objective of vouching purchase book is to ensure that all the goods purchased during the year are being received and the client makes payment only for the goods being delivered by the supplier. The auditor before vouching the purchase book should satisfy himself about the effectiveness of the Internal check and control system relating to purchases.

### Auditors Duty

While vouching purchase book the auditor should consider the following points:

1. The auditor should carefully check the entries in the Purchase Book with the purchase invoices. While examining the purchase invoice the auditor should pay attention to the following points:-
  - a. Invoices are in the name of the client.
  - b. The date of the invoice should relate to the period under audit.
  - c. The name of the creditor in the invoice agrees with the name entered in the purchases book.
  - d. Orders should be placed by a responsible officer and there should be another responsible officer to pass the invoice for payment.
  - e. Invoice should be initialed by the Invoice clerk as being checked.
2. The auditor should vouch the entries in the Purchase Book with the invoices, copies of orders placed, Goods Inward Book and delivery notes.
3. He should ensure that only credit purchases are recorded in the Purchases Book.
4. He should also ensure that purchase of capital goods, i.e., purchase of plant and machinery or any capital asset are not entered in Purchase Book. But instead they should be accounted in fixed assets account.
5. Auditor should check the totalling and casting of the purchases book and ensure that all taxes, octroi and freight are added to the purchases and trade discount allowed are deducted.
6. When directors or partners purchase goods for personal use, auditor should ensure that such purchases are charged to their personal accounts.
7. Auditor should compare the Gatekeepers Goods Inward Book and the stock sheets with the purchases book to ensure that all goods taken into stock have been entered in the purchases book.

#### Books and Documents to be Vouched:

(1) Purchase Invoice, (2) Purchase Book, (3) Suppliers ledger account, (4) Gatekeepers Goods Inward Book.

**Example:**

On 5.1.2017, X Ltd. purchased 30 cotton shirts @ Rs.150 each worth Rs.4,500 from Goyal Mills, Ahmedabad on credit.

**Vouching of Credit Purchases**

Auditor should vouch the transaction in the following manner:

1. Verify entry in Purchase Day Book with respect to date of purchase, invoice number, name of supplier and amount of purchase.
2. Verify entry in Suppliers Account with regard to date and amount of purchase.

**Purchase Day Book**

Date	Purchase Invoice No.	Name of the Customer	L.F.	Details Qty	Amount ₹
2017 Jan. 5	210	Goyal Mills, Ahmedabad		30	4,500

**Goyal Mills (Creditor/Supplier), Ahmedabad Account****Dr.****Cr.**

Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
				2017 Jan. 5	By Purchases		4,500

**8.3 Vouching of Purchase Returns**

Goods returned by the client to the suppliers due to poor quality, defective goods and goods not according to the sample are recorded in the Purchase Returns Book. When the goods are returned, the supplier's account should be debited. The debit is made through the purchase returns book on the basis of a

Debit Note. The supplier, on receipt of the debit note issues a Credit Note indicating the acceptance of the debt.

**Auditors Duty**

Auditor before vouching purchase returns, should ascertain that a proper system of internal check is in existence and should ensure that full credit is obtained for all goods returned. Further, the auditor

should proceed to vouch purchase returns in the following manner:

1. When goods are returned, auditor should verify whether it is properly recorded in the Purchase Returns Book or Returns Outward Register.
2. Auditor should verify the debit note issued by the client to the supplier or the credit note issued by the supplier.
3. He should vouch the quantity returned with the Purchase Returns Book, Gatekeepers Outward Register, storekeepers record and credit notes received from the supplier.

4. The auditor should verify the purchase returns of the first and last month of the year to avoid manipulation of accounts.
5. The auditor should ensure that current year's returns are not accounted in the subsequent year.

**Books and Documents to be Vouched:** (1) Debit Note, (2) Purchase Returns Book or Returns Outward Register, (3) Suppliers Account, (4) Gatekeepers Outward Register.

### Example

On 15.1.2017, X Ltd. returned 10 damaged cotton shirts to Goyal Mills, Ahmedabad.

### Vouching of Purchase Returns

Auditor should vouch the transaction in the following manner:

1. Verify debit note which is issued to the creditor or supplier for goods returned.
2. Verify entry in Purchase Returns Book with respect to debit note, date of return, name of supplier and amount of return.
3. Verify entry in Creditors or Suppliers Account with regard to date and amount of return.

**Debit Note**  
**X Ltd.**  
**224, Jawaharlal Nehru Road,**  
**Chennai.**

Debit Note No.22

Date: 15th January, 2017

Particulars	Amount ₹
Goods Returned to Goyal Mills, Ahmedabad as per Delivery Challan No 39 towards damaged goods of 10 cotton shirts, vide Invoice No.210 dated 5/1/2017.	1,500

Signature of Manager





Purchase Returns Book					
Date	Debit Note No.	Name of the Supplier	L.F.	Details Qty	Amount ₹
2017 Jan.15	22	Goyal Mills, Ahmedabad		10	1500

Goyal Mills, Ahmedabad Account (Creditor)							
Dr.				Cr.			
Date	Particulars	L.F	Amount ₹	Date	Particulars	L.F	Amount ₹
2017 Jan. 15	To Purchase Returns A/C		1500				

## 8.4 Vouching of Credit Sales

In Sales Book, only credit sales of goods are recorded. Auditor before vouching the sales book should check the effectiveness of the system of internal check and control in operation.

### Auditors Duty

The auditor should carry out vouching of credit sales in the following manner:

1. The auditor should verify the efficiency of the system of Internal check in operation by test checking the transactions.
2. Auditor should vouch Sales Book with the copy of the invoices, Orders Received Book and Goods Outward Book and ensure that all sales made are accounted.
3. He should check the casts, postings and carry forwards of the Sales Book.
4. He should see whether there is any omission or inflation of sales.
5. Auditor should ensure that sale of capital assets are not considered as ordinary sales and accounted in Sales Book.
6. Trade discounts allowed to customers should be checked and differences if any observed should be enquired.



7. Auditor should check that cancelled invoices are properly cancelled and kept separately.
8. To detect fraud, the auditor should prepare a statement of accounts of the customers and send it to the customers to confirm the accuracy of the balance.
9. Auditor should carefully vouch the entries made in the sales book of the last few weeks to ensure sales belonging to

the next financial period are not treated as current year's sales or fictitious sales not being recorded in the books which will inflate the profit.

**Books and Documents to be Vouched:** (1) Sales Invoice, (2) Sales Book, (3) Customers ledger account, (4) Goods Outward Book.

**Example:**

On 5.2.2017, X Ltd. sold 20 shirts for Rs.200 each to Ram & Co., Bangalore on credit.

**Vouching of Credit Sales**

Auditor should vouch the transaction in the following manner:

1. Verify entry in Sales Day Book with respect to date of sale, invoice number, name of customer and sale amount.
2. Verify entry in Debtors or Customers Account with regard to date and amount of sale.

**Sales Day Book**

Date	Sales Invoice No.	Name of the Customer	L.F.	Details Qty	Amount ₹
2017 Feb. 5	112	Ram & Co., Bangalore		20	4,000

**Ram & Co. (Debtors / Customers) Account**

**Dr.**

**Cr.**

Date	Particulars	L.F.	Amount ₹	Date	Particulars	L.F.	Amount ₹
2017 Feb. 5	To Sales A/C		4,000				

## 8.5 Vouching of Sales Return

Goods which have been sold when return by the customer on account of poor quality, defectiveness or due to other reasons are accounted in Sales Returns Book. The auditor should bear in mind the following points while vouching them:

1. The auditor should vouch the entries in the Sales Returns Book with the Gatekeepers Returns Inwards Book and Stock Register.
2. Auditor should verify the copy of the Credit Note issued to the customer and ensure that the credit note is properly authorized and signed by a responsible officer.

3. He should check the postings from the Sales Returns Book to the Sales Returns Account and Customer Ledger.
4. He should verify the returns from the customers at the beginning and end of the year.
5. He should ensure that goods returned by the customers are included in closing stock and are valued at cost or market price whichever is less.

**Books and Documents to be Vouched:** (1) Sales Returns Book, (2) Credit Note, (3) Customers ledger, (4) Gatekeepers Returns Inwards Book, (5) Stock Register.

### Example:

On 8.2.2017, Ram & Co. returned 10 shirts @ ₹ 200 each to X Ltd.

### Vouching of Sales Returns

Auditor should vouch the transaction in the following manner:

1. Verify credit note which is issued to the creditor or supplier for goods returned.
2. Verify entry in Sales Returns Book with respect to credit note, date of return, name of customer and amount of return.
3. Verify entry in Debtors or Customers Account with regard to date and amount of return.

**Credit Note**  
**X Ltd.,**  
**224, Jawaharlal Nehru Road,**  
**Chennai.**

Credit Note No.18

Date: 8<sup>th</sup> February, 2017

Particulars	Amount ₹
Goods Returned by Ram & Co. as per Delivery Challan No. 147 towards return of 10 cotton shirts, vide Invoice No.112 dated 5/2/2017.	2,000

Signature of Manager



### Sales Returns Book

Date	Credit Note No.	Name of the Customer	L.F	Details Qty	Amount ₹
2017 Feb. 8	18	Ram & Co.		10	2,000

### Ram & Co. (Debtors), Bangalore Account

Dr.

Cr.

Date	Particulars	L.F	Amount ₹	Date	Particulars	Folio	Amount ₹
				2017 Feb. 8	Ram & Co.		2,000



## 8.6 Goods Sent on Sale or Return Basis

When goods are delivered to a customer on condition that if goods are not approved within a particular period the customer can return the goods. Such a type of sale is called as Goods on sale or return basis.

### Auditors Duty

The auditor should vouch sale on return basis by considering the following points:

1. Auditor should verify that a separate sale or return journal with necessary columns for sale price of goods, value
2. Auditor should vouch the goods on sale-or-return journal with invoices, correspondences with the client or other documentary evidences available with the client.
3. The auditor should ensure that goods sold on approval should not be treated as complete sale unless the customer approves the sale.
4. He should check that until the goods are approved it should be shown as goods with customers in closing stock in Balance Sheet. If this is not done, the profit of the concern will be inflated and will not show the correct financial position.

### Vouching of Goods Sent on Sale or Return Basis

Auditor should vouch the transaction in the following manner:

1. Verify entries in the Goods sent on Sale Day Book with respect to date, invoice number, name of customer and amount at which goods are sent for sale.
2. Verify entries in Goods on Return Inward Book with regard to date and value of goods returned and retained.
3. Verify entries in Goods on Sale or Return Account with regard to date and amount of goods returned and retained.

#### Goods Sent on Sale Day Book

Date	Invoice No.	Name of Customer	L.F	Amount ₹

Goods on Return Inward Day Book					
Date	Proforma Credit	Name of Customer	L.F.	Retained ₹	Retained ₹

Goods on Sale or Return Account							
Dr.				Cr.			
Date	Particulars	L.F.	Amount ₹	Date	Particulars	L.F.	Amount ₹

## 8.7 Internal Check as regards to Stores

Stores is a place where different kinds of materials, consumables, spare parts are kept under the control of a person known as a storekeeper. The storekeeper maintains and has control over the materials kept in stores. He maintains a ledger known as Stores Ledger where he accounts quantity and value of materials received, issued to production department and maintains balance of materials left in the stores. Every



organization has to maintain the stores of different kinds of materials like, finished goods, semi-finished goods and raw materials in a proper way. Stock of goods kept in the Stores Department should be properly protected against pilferage, theft or misappropriations. Hence a proper system of internal check in relation to stores must be given careful attention.

The system of internal check to be introduced in respect to materials is as follows:

1. **Location of Stores:** Stores should be located at a convenient place and should have proper facilities so that goods may not be misplaced, misused or wasted.
2. **Receipt of Stores:** The Stores Department on receiving the goods in stores should prepare a Goods Received Note in triplicate. One copy of the note should be sent to the Purchase Department, second



copy to the Accounts Department and the third copy will be retained by the Stores Department. The particulars of the goods received should be entered in the note.

**3. Preservation of Stores:** Stores should be properly preserved; the following are the points to be noted in this regard.

- A separate place should be earmarked for each type of stores.
- All items in stores should be serially numbered and the place where they are to be kept also should be numbered.
- Entries relating to stores, such as, receipts, issues and balance of stores should be recorded in the bin cards. Such bin cards should be kept hanging on the places where stores are reserved.
- A responsible officer at frequent intervals should check the stores and should also compare the bin cards with the stores ledger.
- At regular intervals stocktaking should be conducted. Differences if any noticed between the actual stock and the balance of stock as shown by the books should be properly adjusted after obtaining sanction from the higher officials.

**4. Issue of Stores:** The following system should be adopted for issuing stores:

- Stores should be issued only against proper requisition slip received from the department. The requisition slip should be signed by the responsible person of the department.

- Issue of stores should be made only by an authorized person. The Stores officer should be seated near the gate so that all the issues should be made under his supervision.

- When materials or stores are returned from the job or department, it should be properly accounted in the Materials Return Note.

- When materials or stores are transferred from one department or job to another entry should be made through the Materials Transfer Note.

- Proper instructions should be given to the gate-keeper not to allow any materials out of the factory without obtaining permission from the storekeeper.

**5. Recording:** When materials are issued under the material requisition slip from the department, the requisition slip should be sent to the stores accounts section for recording. At frequent intervals the bin cards should be checked and compared with the entries in the stores records.

**Books and Documents to be Vouched:** (1) Bin Card, (2) Stores Ledger, (3) Goods Received Note, (4) Material Requisition Slip, (5) Material Transfer Note, (6) Material Return Note.

**Records to be verified by the Auditor**

Auditor should check entries relating to stores with the following records:

1. Bin Card: Maintained by the Storeskeeper in Stores Department.
2. Stores Ledger Account: Maintained by Accountant in Accounts Department.

**Example**

On 5<sup>th</sup> July 2016, received 1000 units at Rs.10 each vide Goods Received Note No.121

On 15<sup>th</sup> July 2016, issued 100 units vide Material Requisition No.78

**BIN CARD**  
**ABC Company**

Receipts			Issues			Balance	Remarks
Date	GRN No.	Qty.	Date	MR No.	Qty.	Qty.	
5-7-2016	121	1000	-	-	-	1000	
-	-	-	15.7.2016	78	100	900	

**STORES LEDGER**  
**ABC Company**

Date	Particulars	Receipts			Issues			Balance		
		Qty.	Rate ₹	Amt. ₹	Qty.	Rate ₹	Amt. ₹	Qty.	Rate ₹	Amt. ₹
5-7-2016	GRN No.121	1000	10	10,000	-	-	-	1000	10	10,000
15-7-2016	MR No.78	-	-	-	100	10	100	900	10	9,000

**SUMMARY**

- Trading transactions involve credit purchases and credit sales of transactions, purchases and sales returns etc. The main objective of vouching trading transactions is to detect misappropriation of goods. The following are some of the books vouched under audit of trading transactions, namely, purchases book, purchase returns book, sales book, sales returns book, goods sent on sale or return basis and stores lodger. Vouching of such transactions involves scrutinizing the efficiency of the internal check system to be followed by the client in respect of these items and examining the relevant vouchers, correspondence, etc.
- While vouching the credit purchases and purchase returns, the auditors have to carefully examine the invoices, the credit notes and the goods received books, and ensure that correct entries have been made in the purchase book. Similarly, while vouching the credit sales and sales returns, he must examine the orders received book, the invoice book, the goods outwards book and the sales book.

## KEY TERMS

- **Purchase Book:** Transactions relating to credit purchases are recorded in Purchase Book. The main objective of vouching purchase book is to ensure that all the goods purchased during the year are being received and the client makes payment only for the goods being delivered by the supplier.
- **Sales Book:** Transactions relating to credit sales are recorded in Sales Book.
- **Credit Note:** Document authorizing deduction of amount from the amount receivable from the customer for goods returned.
- **Debit Note:** Document authorizing deduction of amount from the amount payable to the supplier for goods returned.
- **Purchase Invoice:** Document containing description of goods purchased, quality, rate, amount payable, name of the supplier, date of purchase etc.
- **Sales Invoice:** Document containing description of goods sold, quantity, rate, amount receivable, name of the customer, date of sale etc.
- **Goods Sent on Sale or Return Basis:** When goods are delivered to a customer on condition that if goods are not approved within a particular period the customer can return the goods. Such a type of sale is called as Goods on sale or return basis.
- **Stores Ledger:** Stores is a place where different kinds of materials, consumables, spare parts are kept under the control of a person known as a storekeeper. The storekeeper maintains a ledger known as Stores Ledger where he accounts quantity and value of materials received, issued to production department and balance quantity of materials remains in the stores.



## EVALUATION



### I. Multiple Choice Questions:

1. Purchases book records \_\_\_\_\_
  - (a) Credit purchases only
  - (b) cash purchases only
  - (c) both cash and credit purchases
  - (d) none of the above
2. Which one of the following is a relevant voucher for vouching of 'Sales Return'?
  - (a) Debit Note issued by us
  - (b) Debit Note issued by opposite party
  - (c) Credit Note issued by opposite party
  - (d) Bank column of cash book
3. Payment for goods purchased should be vouched with the help of \_\_\_\_\_
  - (a) Creditors statement
  - (b) Correspondence with suppliers
  - (c) Cash memos
  - (d) Ledger accounts
4. Purchases returns should be vouched with the help of \_\_\_\_\_
  - (a) Bought Notes
  - (b) Credit Notes
  - (c) Goods inward Book
  - (d) Cash Book



5. Verification refers to
  - (a) Examination of journal and ledger
  - (b) Examination of vouchers related to assets
  - (c) Examining the physical existence and valuation of assets
  - (d) Calculation of value of assets
6. Which of the following statements is correct?
  - (a) Valuation is a part of verification
  - (b) Verification is a part of valuation
  - (c) Valuation has nothing to do with verification
  - (d) Auditor is a valuer
7. The store keeper maintains a ledger called \_\_\_\_\_.
  - (a) Store ledger
  - (b) Stock ledger
  - (c) Materials ledger
  - (d) Materials issued ledger
8. Debit Note is raised by the \_\_\_\_\_.
  - (a) Trader who returns the goods
  - (b) Trader who receives back goods
  - (c) Trader who sells goods
  - (d) The Transporter
9. Credit Note is raised by the \_\_\_\_\_.
  - (a) Trader who returns the goods
  - (b) Trader who receives back goods
  - (c) Transporter
  - (d) Stores incharge
10. Materials transformed from one department to another department is entered through the document called \_\_\_\_\_.
  - (a) Materials transfer Note
  - (b) Materials received Note
  - (c) Goods inward Register
  - (d) Goods outward Register

[Answers: 1.(a), 2.(b), 3.(a), 4.(b), 5.(c), 6.(a), 7.(a), 8.(a), 9.(b), 10.(a)]

## II. Very Short answer Questions

1. Explain the auditor's duty with regard to credit purchases?
2. How will you vouch purchase day book?
3. What is Purchase invoice?
4. What is sales invoice?
5. Who is a Storekeeper?
6. What is meant by Stores ledger?

## III. Short Answer Questions

1. Explain the auditor's duty with regard to purchase returns?
2. Write short notes on 1. Debit note  
2. Credit note
3. Explain the points you would keep in view while vouching credit sales?
4. How would you vouch a sales book and sales returns book?



#### IV. Essay Type Questions

1. Explain the points you would keep in view while auditing credit sales and returns?
2. Discuss the procedure relating to vouching of - (a) Credit Purchases; (b) Purchase Returns and (c) Sales Returns.
3. How will you vouch the following:
  - (i) Purchases day book
  - (ii) Invoices
  - (iii) Sales return
  - (iv) Goods sent on sale or return basis
4. Write a note on internal check with regard to stores ledger?

#### References

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2. Auditing: Principles and Practice, Ravinder Kumar and Virender Sharma, PHI Learning Private Limited, Delhi, Third Edition, 2015.
3. Auditing Principles & Techniques, S.K.Basu, Pearson Education, New Delhi, 2007
4. Auditing: Theory and Practice, Arun Kumar and Rachana Sharma, Atlantic Publishers & Dist.

## GLOSSARY



Articles of Association	நடைமுறை விதிகள்	
Audit Note Book	தணிக்கைப் புத்தகம்	
Audit Planning	தணிக்கை திட்டமிடல்	
Audit Programme	தணிக்கை செயல்திட்டம்	
Audit Working Papers	தணிக்கை வரைவுத் தாள்கள்	
Auditing	தணிக்கையியல்	1
Auditing In-depth	விரிவான தணிக்கையியல்	52
Auditor	தணிக்கையாளர்	5
Balance Sheet Audit	இருப்பு நிலை குறிப்புத் தணிக்கை	31
Capital Expenditure	முதலினச் செலவுகள்	83
Cash Transactions	ரொக்க பரிவர்த்தனைகள்	68
Certificate of Commencement of Business	தொழில் தொடக்க சான்றிதழ்	42
Certificate of Incorporation	கூட்டுருவாக்கச் சான்றிதழ்	41
Clerical Error	எழுத்தர் பிழை	10
Collateral Voucher	துணைச் சான்றுச் சீட்டு	67
Compensating Error	ஈடு செய் பிழை	11
Continuous Audit	தொடர் தணிக்கை	25
Contracts	ஒப்பந்தங்கள்	41
Counter foils	இரசீதுகளின் மறுபாதி / எதிரிதழ்கள்	
Credit Note	வரவுக் குறிப்பு/வரவுச் சீட்டு	93
Credit Purchases	கடன் கொள்முதல்	92
Credit Sales	கடன் விற்பனை	95
Debit Note	பற்று குறிப்பு/பற்றுச் சீட்டு	93
Documentation	ஆவணப்படுத்துதல்	57
EDP Audit	மின்னணு தகவல் வழி தணிக்கை	19
Error	பிழை	9
Error of Duplication	இரட்டிப்பு பிழை	11
Error of Principle	விதிப் பிழை	11



Fraud	மோசடி	
Goods on Sale or Return Basis	விற்பனை அல்லது திருப்ப அடிப்படையில் சரக்குகள் அனுப்புதல்	
Interim Audit	இடைக்காலத் தணிக்கை	
Investigation	புலனாய்வு	
Manipulation of Accounts	பொய் கணக்கு புனைதல்	
Memorandum of Association	அமைப்பு முறையேடு	
Minutes Book	நிகழ்ச்சிக் குறிப்பு புத்தகம்	
Misappropriation of Cash	ரொக்க கையாடல்	
Misappropriation of Goods	சரக்கு கையாடல்	13
Occasional Audit	சிறப்பு நிகழ்ச்சித் தணிக்கை	30
Periodical Audit	கால முறைத் தணிக்கை	27
Post and Vouch Audit	பிந்தைய மற்றும் சான்றாய்வு தணிக்கை	31
Primary Voucher	முதன்மை சான்றுச் சீட்டு	67
Prospectus	தகவல் அறிக்கை	40
Purchase Book	கொள்முதல் ஏடு	92
Purchase Invoice	கொள்முதல் இடாப்பு	92
Purchase Returns	கொள்முதல் திருப்பம்	93
Sales Book	விற்பனை ஏடு	95
Sales Invoice	விற்பனை இடாப்பு	96
Sales Returns	விற்பனைத் திருப்பம்	97
Sole Proprietor	தனி வாணிகர்/தனி உரிமையாளர்	36
Standard Audit	நிலையானத் தணிக்கை	30
Stores	சரக்ககம்	100
Teeming and Lading	பெற்றதை கையாடி மற்றதை மாற்றல்	12
Test Checking	சோதனை சரிப்பார்ப்பு	52
Trading Transactions	வியாபார பரிவர்த்தனைகள்	91
Trusts	அறக்கட்டளைகள்	42
Voucher	சான்றுச் சீட்டு	67
Vouching	சான்றாய்வு	66
Window Dressing	புறச் சோடனை	14

# Higher Secondary – Class XI – Auditing Practical

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