

III B.COM
PAPER 2: AUDITING

1. **INTRODUCTION:**– Classification of Audit –Audit Programme
 - a) Origin –Definition –Difference between Auditing and Accounting –Objects of Auditing –Merits and demerits – limitations.
 - b) Statutory, Government, Private and Internal Audit –Difference between internal and external audit –completed audit, continuous audit and their differences –cash audit, balance sheet audit, cost audit, interim audit, partial audit, management audit –differences between internal audit and interim audit.
 - c) Audit programme before and after –advantages and disadvantages of an audit programme –test check and routine checking –audit note book, audit working papers –purpose, ownership of working papers.

2. **INTERNAL CHECK AND INTERNAL CONTROL:**– principles of vouching and vouching of cash transactions:
 - a) Meaning, definition and objects of internal check and internal control –Internal auditor and independent control and internal audit –merits and demerits of internal check –internal check regarding cash transactions, receipts and payments, cash sales, sales over the counter, postal sales, sales payments by travelling agents etc., –Wages: Maintenance of wage records, Preparation of wage sheets, payment of wages –Purchase Requisitions, purchase order, Receipt book and Invoice –credit sales –stores –Test Checks; Merits and demerits of test checking.
 - b) Meaning, definition and importance of vouching –vouchers, points to be noted in vouchers, missing vouchers –vouching of cash transactions; receipts side and payments side (both capital and revenue items), auditor's duty.

3. **VOUCHING OF TRADING TRANSACTIONS –VERIFICATION OF ASSETS AND LIABILITIES:**
 - a) Vouching of trading transactions: Vouching of entries in purchases book, purchases returns book, bought ledger, auditors' duty. Vouching of entries in sales book, Goods sold on sale or return basis, consignment transactions, vouching of impersonal ledger; steps in vouching impersonal ledgers, outstanding assets and liabilities, prepaid expenses, accrued incomes, deferred revenue expenditure, unearned income, unpaid expense, audit fees, wages and salaries, freight and carriage, rent, rates and taxes and electricity etc., travellers and agents commission, interest on loans and debts and purchases, contingent assets, contingent liabilities.
 - b) Meaning and importance of verification and valuation –mode of valuation of fixed assets, current assets, wasting assets, intangible assets, auditor's position regarding valuation of assets, verification and valuation of different classes of assets –verification of different liabilities; auditors position regarding verification of liabilities.

4. DEPRECIATION –RESERVES AND PROVISIONS:

- a) Meaning and definition of depreciation –causes for depreciation –bases depreciation and maintenance –depreciation and replacement cost –depreciation and Companies Act –methods of providing depreciation, auditor’s duty and legal views regarding depreciation.
- b) Meaning and definition of reserves and provisions –difference between reserves and provisions –types of reserves, general and specific reserves –method of creating sinking fund reserve- Auditor’s duty, Reserve fund, capital reserve, auditor’s duty –meaning and definition of secret reserves, methods of creating secret reserves, objections to create secret reserves, auditor’s duty.

5. CAPITAL AND REVENUE –COMPANY AUDIT –GENERAL:

- a) Meaning and definition of capital and revenue expenditure, capital and revenue payments and capital and revenue receipts, auditor’s duty –deferred revenue expenditure, auditor’s duty.
- b) Qualifications and disqualifications of a company auditor, appointment of an auditor, appointment of first auditor, appointment and reappointment of retiring auditor by shareholders, appointment by central government, by special resolution, casual vacancies, defective appointment, rotation of auditors, removal of auditor, appointment of new auditor in place of retiring auditor, remuneration of an auditor, joint auditors, branch auditors, statutory auditor, and branch auditor, rights and powers of auditor, duties of an auditor, true and fair view, legal decisions on the duties and responsibilities of an auditor.

6. COMPANY AUDIT –SPECIFIC AUDITOR REPORT:

- a) Audits of share capital, issue of shares for cash and for consideration other than cash, issue of shares at a premium, at discount –forfeited shares, bonus shares, guidelines for issue of bonus shares, calls in arrears and calls in advance, issue and redemption of preference shares, auditor’s duty –share transfer audit –transmission of shares, audit of under-writing commission, audit of brokerage –issue of debentures, audit of debentures, re-issue of redeemed debentures, auditor’s duty –mortgages and charges –preliminary expenses, auditor’s duty –The audit of interest paid out of capital, public deposits, the statutory audit and statutory report –profits prior to incorporation, auditor’s duty –appointment of directors, qualification and disqualification of directors, guidelines regarding managerial remuneration, remuneration of directors, loans to directors, managing director, manager, auditor’s duty –final and interim dividends, dividend on preference shares, unclaimed dividends, payment of dividend, auditor’s duty –alteration of capital, auditor’s duty regarding increase of capital and reduction of capital –audit of private company, privileges and exemptions of a private company.
- b) Meaning and importance of auditor’s report, contents, entries subsequent to the date of balance sheet –kinds of audit report i.e. clean report and qualified report, their drafting –distinction between report and certificate.

7. DIVISIBLE PROFITS –LIABILITIES OF A COMPANY AUDITOR:

- a) Divisible profits: meaning and definition of profit, determination of profits and its problems, effects of wrong evaluation of profits, distinction between profit and divisible profit –law relating to dividend and source of dividend –rules for transfer to reserve, provisions for depreciation in relation to divisible profits –capital profit and distribution of dividend, can profit be distributed without making good-loss of fixed assets, can profit be distributed without providing for depreciation on wasting assets –treatment of profit or loss prior to incorporation in relation to divisible profits, auditor’s duty regarding divisible profits.
- b) Liabilities of an auditor of a private concern and an auditor appointed under Companies Act –civil liabilities for negligence, liability for misfeasance, criminal liability, legal cases –liability for unaudited accounts, liability under Indian penal code, liability to third parties, liability of an honorary auditor, liability of joint auditors, liability of local auditors, legal cases.

8. AUDIT OF DIFFERENT INSTITUTIONS –INVESTIGATION:

- a) Approach and method of audit into the accounts and auditor’s duties and liabilities with regard to the following:
 - 1) Co-operatives
 - 2) Schools, colleges and universities
 - 3) Clubs
 - 4) Hotels
 - 5) Hospitals
 - 6) Cinema Houses
 - 7) Charitable institutions
 - 8) Executors and trustees.
- b) Meaning and definition of investigation –difference between audit and investigation –different classes of investigations i.e. investigation on behalf of a person who intends to join an established business or on behalf an incoming partner, on behalf of a purchaser to ascertain the earning capacity of the proposed business, in case of suspense fraud, on behalf of a lender, on behalf of a prospective shareholder, investigation under the Indian Companies Act, statutory investigation, legal cases on the duty of the investigator.

9. COST AND MANAGEMENT AUDIT –RATIO ANALYSIS –CRITICISMS OF PUBLISHED ACCOUNTS –AUDITING OF MECHANISED AND EDP SYSTEMS:

- a) Introduction to cost audit, definition, objectives and advantages, types of cost audit, distinction between financial audit and cost audit , objectives and advantages of management audit, approach to management audit, work and duties of management auditor.
- b) Introduction to mechanised and EDP systems, computers, input devices, storage devices, output devices, other devices, problems in the case of audit of

computerised accounts, EDP and internal control, need for review — around computer, auditing through computer, data online, real time systems.

**10. PROFESSIONAL ETHICS AND REGULATION –FUTURE TRENDS
AUDITING –SOCIAL AUDIT:**

- a) Introduction to professional ethics and professional misconduct –Charter Accountants Act of 1949, ethical standards of professional accountants –enquiry into the misconduct.
- b) Future trends, price level adjusted statements and their audit –financial forecasts and their audit –human resources accounting –audit committees –reporting on financial sickness.
- c) Social audit.

References:

1. Stettler : Auditing principles (Delhi, Prentice Hall of India)
2. Saxena, R.G: Principles of auditing (theory and practices) Bombay, Himalaya Publishing House)
3. Gupta, Kamal : Contemporary auditing (Delhi, McGraw Hill)
4. Prakash, T: Auditing principles & practice (Ludhiana Kalyani publishing house)
5. Howard : Auditing (Delhi, S. Chand)