Auditing – B. Com III

Introduction :– In pre-industrial revolution stage, the production was on small scale. It was done manually. The organisational structure was simple. As the transactions were limited, there was no need of keeping elaborate (in detail) accounts. The owner himself used to keep the accounts. There was no need of checking the accuracy of the accounts.

In other words before industrial revolution, the size of the business was very small, requiring little amount of capital. As a result, the individual owner of the business could manage the business and maintain the accounts himself. Hence, there was no ~~necessety~~ necessity of getting the accounts checked from some other party.

But the industrial revolution changed all this. The use of machines started. The production was on large scale. With the company form of organisation the management was separated from ownership. Due to all these changes, it became necessary to have an independent review of the accounts by an expert. This independent expert person was the auditor.

– An audit means a careful examination of the books of accounts. The person conducting such an examination is called an "Auditor" The word 'Audit' has been derived from Latin word 'Audire' which means 'to hear'. In old days, a person who has written the accounts was required to be present before the auditor with explanations about the accounts written by him. The auditors used to

'hear' what the accountant had to say about the accounts and from this came the word "Audit"

Definitions

① According to Spicer & ~~Pofo~~ Pegler:—

"An audit is such an examination of the books, accounts and vouchers of a business, as will enable the auditor to satisfy himself that the Balance sheet is properly drawnup, so as to give a true and fair view of the state of the affairs of the business, and whether the Profit and Loss A/c gives a true and fair view of the profit ~~and~~ or loss for the financial period."

② R.B. Bose "Audit may be said to be verification of the accuracy and correctness of the books of accounts by independent persons qualified for the job and not in any way connected with the preparation of such accounts."

③ Robert E "auditing as "a systematic examination of financial statements and records related to business".

In simple words it can be said that—

i) audit is the examination of the books of accounts

ii) audit is the examination of vouchers or documents of the business in a systematic manner in order to ascertain whether the profit and loss Accounts and the Balance sheets show a "true and fair view of the state of affairs of the business.

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Objects of Auditing

Financial audit means an independent audit of the financial statements. (i.e balance sheet and profit and loss A/c) of a concern.

(main) 1. Basic Object - True and Fair view.
मुख्य उद्देश

The basic object of financial audit is to enable an auditor to express an opinion on the financial statements. The auditor gives an opinion on whether the final accounts give a true and fair view of the affairs of the concern. i.e. whether - i) the balance sheet gives a true and fair view of the financial position of the business as at the end of the year

ii) whether the profit and loss A/c gives a true and fair view of the profit or loss for the year.

It means financial position or the net worth is disclosed is neither overstated nor understated.

To confirm the final accounts are prepared as per recognised Accounting principles and Auditing standards laid down by Institute of Charstered Accountants of India.

Subsidiary or Secondary objects

2. Incidental Object - Detection of Errors and Frauds चुका आणि घोटाळे, निदर्शनास आणणे
अनुषंगिक, अप्रत्यक्ष
अप्रासंगिक उद्देश

Generally it is said that the main object of an audit is the detection of errors and frauds. but this is only an incidental object of audit. If the accounts are to be true and fair they must be free from errors

and frauds. The final accounts are based on the books of accounts, the incidental objective of audit is to ensure that the final accounts tally with the books of account. while conducting the audit the auditor has to vouch the transactions, verify the assets and liabilities and study the internal control. He should advise to the management regarding accounting system and internal control system to prevent such errors or frauds in future.

3. Other Objects

To examine the accounts are properly maintained. and to ensure that assets of the business are ~~safeguar~~ ~~of~~ Safeguarded Income of the concern is computed as per the provisions of the Income-tax act.

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Advantages / Importance of Auditing: –

The statement "accountancy is a necessity, while auditing is a luxury" may have a grain of truth in case of a business having 'one man show' but it is absolutely false in case of large business, where number of employees are engaged and especially where management and ownership are separate. The audit is not nowadays luxury but it has turned into necessity. it is a must. The advantages accrued from the audit can be stated in brief as under.

1. Certifies the financial state of affairs: –

The auditor certifies whether the financial statements show true and fair view of the state of affairs of a business. Thus it gives accuracy regarding financial records maintained by the business.

2. Assists in raising of capital

Audited financial statements of the companies create confidence among the investors in capital market. Audited financial statements helps in issuing shares and debentures

3. Raising of Loans: –

Financial agencies demand audited statements of accounts for sanctioning loans for business.

3. Helps in Taxation :- (Tax Audit)

Government authorities accept audited statements as true and fair view for the purpose of taxes like Sales Tax, income tax etc.

4. Help in Settlement of Insurance Claim :-

Audited accounts are helpful in early settlement of insurance claims of business houses as the insurance companies rely on audited accounts. i.e.

5 Control of Errors, misappropriations and Frauds :-

Audit helps in detection of errors, misappropriations and manipulations of accounts. As a result it maintains moral check on employees to be sincere & honest. ~~and~~

6 Up-to-date accounts :-

The auditing makes ~~the~~ to the clerks, alert, careful and vigilant in maintaining books of accounts. The books of accounts are kept up-to-date and as a result any desired information can be obtained by the mgt. without any loss of time.

7 Reputation of Business :-

The business itself enjoys better reputation if its accounts are audited by an independent auditor.

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8. Creates mutual trust among partners: —

Audit of partnership accounts ensures accuracy and authenticity of financial matters recorded in books. This leads to creation of mutual trust among the partners. It avoids any disputes among the partners at a later stage. It helps in admission, retirement or death of a partner.

9. Helps in valuation of Business: —

The audited reports helps in valuation of business in case of mergers, take-overs etc. of business. If a business is to be sold off, purchase consideration can be easily calculated on the basis of audited balance sheet.

10. Benefits sole traders: —

Audit is not compulsory in case of sole trader. But audit assures such sole traders about the accuracy of accounting records maintained by the staff by revealing the errors and frauds. Audited accounts are take as accurate for tax purposes.

Conclusion In the light of above discussion, it can be concluded that auditing is necessity and not a luxury. For economical and efficient operation of business activities, auditing is most essential. Hence, both accounting and auditing are equally important activities of any kind of business.