



## A person wearing a white shirt is using a magnifying glass to inspect a 'Profit and Loss Statement' on a wooden desk. A calculator and a pen are also visible on the desk. The document shows various financial metrics and percentages.

# Sultan Chand & Sons

# Principles and Practice of AUDITING

**DINKAR PAGARE**

Formerly, Reader in Commerce, Hans Raj College,  
University of Delhi

Assisted by:

**RAHUL PAGARE**

Chartered Accountant

**Thirteenth Revised & Updated (2020) Edition**



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## SULTAN CHAND & SONS

23, Daryaganj, New Delhi-110002

Tel.: 23266105, 23277843, 23247051, 23243183, 23281876

E-mail: sultanchand74@yahoo.com; info@sultanchandandsons.com

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**Author's Acknowledgement :** The writing of a Textbook always involves creation of a huge debt towards innumerable author's and publications. We owe our gratitude to all of them. We acknowledge our indebtedness in extensive footnotes throughout the book. If, for any reason, any acknowledgement has been left out we beg to be excused. We assure to carry out correction in the subsequent edition, as and when it is known.

# Preface

## Preface to the Thirteenth Edition (2020)

It gives me great pleasure to present to you, dear readers, the thirteenth thoroughly revised and updated edition of *Principles and Practice of Auditing*. The patronage showered on the book is indeed overwhelming and I really feel humbled by it.

The reason this edition had to be brought out was: One, incorporating the several amendments made to the Act in the past years. A fascinating feature of these amendments is that it remarkably enhances the ease of doing business in India, taking the country several notches above in the Index of Ease of Doing Business. Two, it is soft on companies which follow norms and procedures as prescribed.

Of special significance is the toning down of provisions prescribing punishment for violation of rules and procedures – ‘penalty’ has been replaced with ‘fine’, greater discretionary power has been given to enforcement authorities to help promote investment, particularly from foreign entities. However, the amended law comes down heavily on companies that short-circuit legal provisions to enable directors/relatives of major stakeholders to play with company assets. The statutory auditor is now under an obligation to report on directors taking loans from companies without timeline of repayment, replacing existing loans with fresh loans, proper utilization of funds raised through public issue or borrowings from banks and financial institutions or through preferential allotment or private placement. As if such provisions were not enough, the auditor is also required to critically assess the company management and report whether the company will be able to pay off its liabilities up to the expiry of six months from end of the financial year.

I hope and pray the book in its revised form comes up to readers’ expectations. As always, I assure them their comments and suggestions would be my precious treasure that would immensely help me cast the next edition.

**DINKAR PAGARE**

**Edited Excerpts from Preface to the First Edition**

Auditing is what a practicing auditor does, that is to say, examination of books of account and other information of the business as collected, Compiled and tested by him through sufficient proper evidence, and then express his opinion on the truth and fairness of assertions in the Financial Statements prepared by the management of business. The auditor, Like a doctor or a legal practitioner, is a professional; Properly qualified and offering his services to the general public. He performs the functions of watchdog, especially in business undertakings in which management and control of the business is vested by non-owners. (The Companies Act 2013 now even requires him to act as whistleblower and bring to the notice of Central Government wherever any managerial action is prejudicial to the interests of the company, its shareholders, other stakeholders and the public at large).

Even though the auditor belongs to the youngest of the professions that is still evolving and developing, he is unquestioningly relied upon by all Concerned because of his technical competence, integrity and independence. The Institute of Chartered Accountants has played vital Role in raising the profession to its current heights.

**DINKAR PAGARE**

# Syllabus

## Madras University

B.Com. (CBCS), CORE 25 : Practical Auditing

**Unit I: Introduction** – Definition – Utility of auditing – Types of audit, Objectives of audit

**Unit II: Planning and Conduct of Audit** – Audit Note Book – Audit Working Papers – Audit Files Internal Control – Characteristics – Evaluation. Internal check – Principles, Advantages & Limitations – Internal check for Cash, Purchases and Sales Internal Audit – Functions – Distinction and interface between internal and statutory auditor.

**Unit III: Audit Sampling** – Vouching of cash transactions – Vouching of Trading Transaction (Purchases, Purchase return, Sales, Sales return). Verification & Valuation of Assets & Liabilities.

**Unit IV: Company Auditor** – Qualification, Disqualification, Appointment, Rights, Duties, Ceiling Limit and Liabilities of an auditor. Professional Ethics.

**Unit V: Audit Report-characteristics** – Types of opinion – Preparation of report as per CARO rules. Latest Trends in Auditing – Information System Audit.

## Madras University

B.Com. – General, Core Paper XII – Practical Auditing

**Unit I: Introduction** – Meaning and Definition of Auditing – Distinction between Auditing and Accounting – Objectives – Advantages and Limitations of Audit – Scope of Audit – Classifications of Audit – Audit Planning – Meaning. Audit programme – Meaning – Objectives and Contents – Audit Note Book – contents, Usefulness of Audit Note Book – Audit working papers – Meaning. Ownership and Custody – Test checking and Routine checking – Meaning. Internal control – Meaning – Definition – Objectives – Technique for evaluation of Internal Control System. Internal check – Meaning – Objectives difference between Internal control, Internal check and Internal Audit.

**Unit II: Vouching and Verification** – Vouching – Meaning and Definitions – Objectives. Trading Transactions – Audit of Ledger – Scrutinizing of ledgers – Vouching of cash Receipts and Payments – Vouching of outstanding Assets and Liabilities – Verification – Meaning – Objectives and Process – Valuation of Assets and liabilities – Distinction between Verification and Valuation.

**Unit III: Audit and Accounting Standards** – Types of Audit – Statutory Audit – Concurrent Audit – Stock Audit – Cost Audit – Secretarial Audit – CAG Audit – Management Audit. Accounting Standards – Standards on Auditing – Standards on Internal Audit – Penal Provisions – Role of National Financial Reporting Authority (NFRA)

**Unit IV: Auditors and Audit Report** – Appointment – Procedures – Eligibility and Qualifications – Powers and Duties – Rotation and Removal of Auditors – Resignation of Auditors – Remuneration of Auditors – Audit report – Preparation and presentation. Auditor's Responsibilities and liabilities towards Shareholders, Board and Audit Committee. Restriction on other Services.

**Unit V: Recent Trends in Auditing** – EDP Audit – Meaning – Division of auditing in EDP environment. Impact of Computerization on Audit Approach – Online Computer System Audit – Types of Online Computer System Audit – Audit around with the Computers – Procedure of Audit under EDP system.

### **Bangalore University**

#### **Principles And Practice of Auditing – 6.2**

**Objective:**

This subject aims at imparting knowledge about the Principles and Methods of Auditing and their applications

**Unit 1: Introduction to Auditing (12 Hrs)** – Introduction – Meaning – Definition – Objectives – Differences between Accountancy and Auditing – Types of Audit – Advantages of Auditing – Preparations before commencement of new Audit – Audit Notebook – Audit Working Papers – Audit Program, Recent Trends in Auditing – Nature and Significance of Tax Audit – Cost Audit – Management Audit

**Unit 2: Internal Control (10 Hrs)** – Internal Control – Meaning and objectives – Internal Check- Meaning, objectives and fundamental principles – Internal Check as regards: Wage Payments – Cash Sales – Cash Purchases – Internal Audit: Meaning – Advantages and Disadvantages of Internal Audit – Differences between Internal Check and Internal Audit

**Unit 3: Vouching (12 Hrs)** – Meaning – Definition – Routine Checking and Vouching – Voucher – Types of Vouchers – Vouching of Receipts: Cash Sales, Receipts from debtors, Proceeds of the sale of Investments, Vouching of Payments: Cash Purchases, Payment to Creditors, Deferred Revenue Expenditure

**Unit 4: Verification and Valuation of Assets and Liabilities (12 Hrs)** – Meaning and Objectives of verification and valuation – Position of an Auditor as regards the Valuation of Assets – Verification and Valuation of different Items: Assets: Land & Building, Plant & Plant & Machinery, Goodwill – Investments – Stock in Trade – Liabilities: Bills Payable – Sundry Creditors – Contingent Liabilities

**Unit 5: Audit of Limited Companies and Others (10 Hrs)** – Company Auditor – Appointment – Qualification – Powers – Duties and Liabilities – Professional Ethics of an Auditor – Audit of Educational Institutions – Audit of Insurance Companies – Audit of Cooperative societies.

### **Mangalore University**

#### **III B.Com. – VI Semester, BCMCMC 386 : Auditing**

**Unit I: Introduction to Audit** – Meaning and definition of auditing, objects of Auditing, Differences between Accounting and auditing, Advantages and limitations of Auditing. Classification of audit- Statutory audit, Govt. Audit, Internal audit, Continuous audit and Annual Audit.

**Unit II: Audit Programme** – Audit Programme, advantages and disadvantages. Audit Notebook and Audit Working Papers. Audit of Computerized Accounts – Auditing in an EDP environment. General EDP controls, EDP Application Controls, Computer Assisted Audit Techniques (CAAT)

**Unit III: Internal Check** – Meaning, definition, objects and merits of Internal Check. Internal Check regarding cash sales, cash purchases, payment of wages and stores.

**Unit IV: Vouching** – Meaning, definition and objects, vouching of cash transactions – cash receipts and cash payments, credit purchases and credit sales. Verification – meaning and definition. Verification of Land and Buildings, Plant and Machinery, Stock –in- trade, Debtors, Goodwill and Creditors

**Unit V: Company Audit** – Qualifications and Disqualifications, Appointment and removal of auditor. Rights, Duties and liabilities of Company Auditor. Audit Report – Meaning and types, CARO report.

**Unit VI: Corporate Governance and Social Audit** – Meaning, definition, nature, factors influencing corporate governance, mechanisms, 4p's of corporate governance, Benefits. Social audit- Meaning, features, organization for social audit, audit programme, benefits.

#### **Osmania University**

##### **B.Com (CBCS), Faculty of Commerce, Paper : (BC 506) : Auditing**

**Unit-I: Introduction** – Auditing: Meaning – Definition – Evolution – Objectives – Importance – Types of Audit – Standards of Auditing – Procedure for issue of standards by AASB.

**Unit-II: Auditor and Execution of Audit** – Appointment – Qualification and Disqualification – Qualities – Remuneration – Removal – Rights – Duties – Civil and Criminal Liabilities of Auditors – Commencement of Audit – Engagement Letter – Audit Program – Audit Note Book – Audit Workbook – Audit Markings.

**Unit-III: Internal Control, Internal Check and Internal Audit** – Meaning and Objectives of Internal Control – Internal Check and Internal Audit – Internal Check Vs. Internal Audit – Internal Control vs. Internal Audit.

**Unit-IV: Vouching** – Meaning – Objectives – Types of Vouchers – Vouching of Trading Transactions – Vouching Cash Transaction – Auditing in an EDP Environment.

**Unit-V: Verification and Valuation of Assets** – Meaning and Definition – Distinction – Verification and Valuation of various Assets and Liabilities – Audit Committee – Role of Audit Committee – Audit Reports.

#### **Tumkur University**

##### **B.Com., VI Semester, 6.3 Principles and Practices of Auditing**

**Unit I: Introduction (10 Hrs.)** – Meaning and definition of Auditing, objectives of auditing, types of errors and frauds, differences between accounting and auditing. Classification of Audit – Meaning of different types of audit, merits and demerits of continuous audit, annual audit and interim audit. Preparations before the commencement of new audit.



**Unit II: Audit Programme (14 Hrs.)** – Auditors note book—Audit working papers—Internal control, Internal check – Internal audit, Meaning and definition, Objectives, Fundamental principles of Internal Checks, Internal checks regarding payment of wages and cash sales. Internal Audit—meaning, features, merits, demerits, differences between Internal check and Internal Audit, Differences between Internal audit/ External audit.

**Unit III: Vouching, Verification and Valuation of Assets and Liabilities (14 Hrs.) – Vouching:** Meaning and definition, objects of vouching – importance, Routine checking and Differences between routine checking and vouching, Vouching of receipts from Debtors and payments to creditors.

**Verification and Valuation** – Meaning, Definition, Objectives, General principle of Verification, Differences between Vouching and Verification. Verification and Valuation of Goodwill, patent right, Freehold and leasehold land and building, Plant and machinery, Furniture, Investments, Stock in trade (general procedure) creditors, B/P, Contingent liabilities.

**Unit IV: Company Auditor (10 Hrs.)** – Appointment, Qualifications, Disqualifications, Removal, Duties, Rights, Liabilities of company Auditor. Audit report-features, auditors certificate, features, preparation of clean and qualified audit reports. Professional Ethics: – Meaning only.

**Unit V: Audit of Different Organizations and Institutions (8 Hrs.)** – 1. Partnership firms; 2. Educational institutions; 3. Co-operative society.

**Unit VI: Recent Trends in Auditing (4 Hrs.)** – Auditing Standards – Meaning, a brief mention of SAPs issued by ICAI. Auditing under computerized environment – Uses and constraints of computerized audit.

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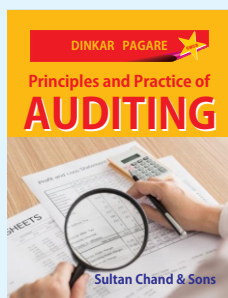


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## About the Book



The present thoroughly revised edition of this book extensively covers the syllabus of Commerce and Management courses of various Universities. It also meets the requirements of various professional and commercial courses. The topics like (i) Principles and Methods of Auditing; (ii) Difference between Accounting and Auditing; (iii) Internal checks and auditing; (iv) Vouching; (v) Verification and Valuation of Assets; (vi) Audit of Limited Companies; (vii) Skill Development, have been presented in very simple and lucid manner. The students will find the book very useful.

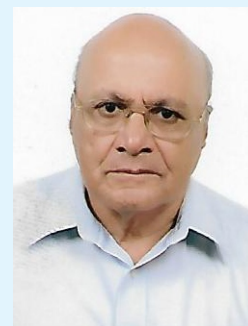
## Salient Features

- The current edition gratefully acknowledges and acts on the comments and suggestions of esteemed readers.
- It incorporates all amendments made to the Act in the past years.
- It gives importance to amendments that cast special obligation on the auditor to report on company's viability, financial health, observance of prescribed rules and procedures and management's capacity and capability to provide good governance.
- The language of the book is simple and crisp; to quote a reader, "it is as the author is speaking from behind a curtain".
- The book is well equipped with nearly 250 Objective Type Questions, 180 Short Answer Questions & 250 Essay Type Questions properly graded for practice by students.

## About the Author

**Dinkar Pagare** is an acclaimed author, having authored over 15 book titles spanning all aspects of Commerce, Management, Auditing and Commercial Taxation – both Direct and Indirect. His books are prescribed and recommended by renowned Universities, Professors and experienced teachers across Asia.

He was a part of Commerce faculty of the prestigious Hansraj College at Delhi University for 41 years, first as a teacher and then as Vice Principal. His students include the best and brightest corporate honchos, entrepreneurs and celebrities. He is now retired and lives with his family in Delhi.



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