

CHAPTER 9 - AUDIT OF ITEMS OF FIANNCIAL STATEMENTS

Q	Reference	Question (HOW WILL YOU VOUCH/VERIFY THE FOLLOWING)	Answer
1	ICAI Module	Goods sent out on Sale or Return Basis	<p>(i) Check whether a separate memoranda record of goods sent out on sale or return basis is maintained.</p> <p>(ii) See that price of such goods is unloaded from the sales account and the trade receivable's record.</p> <p>(iii) Ensure that the goods in respect of which the period of approval has expired at the close of the year either have been received back subsequently or customers' accounts have been debited.</p> <p>(iv) Confirm that the inventory of goods sent out on approval, the period of approval in respect of which had not expired till the close of the year lying with the party, has been included in the closing inventory.</p>
2	ICAI Module	Borrowing from Banks.	<p>(i) Reconcile the balances in the overdraft or loan account with that shown in the pass book(s) and confirm the last mentioned balance by obtaining a certificate from the bank showing the balance in the accounts as at the end of the year.</p> <p>(ii) Obtain a certificate from the bank showing particulars of securities deposited with the bank as security for the loans or of the charge created on an asset or assets of the concern and confirm that the same has been correctly disclosed and duly registered with Registrar of Companies and recorded in the Register of charges.</p> <p>(iii) Verify the authority under which the loan or draft has been raised. In the case of a company, only the Board of Directors is authorised to raise a loan or borrow from a bank.</p> <p>(iv) Confirm, in the case of a company, that the restraint contained in Section 180 of the Companies Act, 2013 as regards the maximum amount of loan that the company can raise has not been contravened.</p>

3	ICAI Module	Goods sent on consignment	<p>(i) Verify the accounts sales submitted by the consignee showing goods sold and inventory of goods in hand.</p> <p>(ii) Reconcile the figure of the goods on hand, as given in the last accounts sales, with the Performa invoices and accounts sales received during the year.</p> <p>(iii) Obtain confirmation from the consignee for the goods held on consignment on the balance sheet date.</p> <p>(iv) Ensure that the quantity of goods in hand with the consignee has been valued at cost plus proportionate non-recurring expenses, e.g., freight, dock dues, customs due, etc., unless the value is lower. In case net realisable value is lower, the inventory in hand of the consignee should be valued at net realisable value. Also see that the allowance has been made for damaged and obsolete goods in making the valuation.</p> <p>(v) See that goods in hand with the consignee have been shown distinctly under inventories.</p>
4	ICAI Module	Foreign travel expenses	<p>(i) Examine Travelling Allowance bills submitted by the employees stating the details of tour, details of expenses, etc.</p> <p>(ii) Verify that the tour programme was properly authorised by the competent authority.</p> <p>(iii) Check the T.A. bills along with accompanying supporting documents such as air tickets, travel agents bill and hotel bills with reference to the internal rules for entitlement of the employees and also make sure that the bills are properly passed</p>
5	ICAI Module	Receipt of capital subsidy	<p>(i) Refer to application made for the claim of subsidy to ascertain the purpose and the scheme under which the subsidy has been made available.</p> <p>(ii) Examine documents for the grant of subsidy and note the conditions attached with the same relating to its use, etc.</p> <p>(iii) See that conditions to be fulfilled and other terms especially whether the same is for a specific asset or is for setting up a factory at a specific location.</p> <p>(iv) Check relevant entries for receipt of subsidy. (v) Check compliance with requirements of AS 12 on “Accounting for</p>

			Government Grants” i.e. whether it relates to specific amount or in the form of promoters’ contribution and accordingly accounted for as also compliance with the disclosure requirements.
6	ICAI Module	Provision for income tax	<p>(i) Obtain the computation of income prepared by the auditee and verify whether it is as per the Income-tax Act, 1961 and Rules made thereunder.</p> <p>(ii) Review adjustments, expenses, disallowed special rebates, etc. with particular reference to the last available completed assessment.</p> <p>(iii) Examine relevant records and documents pertaining to advance tax, self assessment tax and other demands.</p> <p>(iv) Compute tax payable as per the latest applicable rates in the Finance Act.</p> <p>(v) Ensure that overall provisions on the date of the balance sheet is adequate having regard to current year provision, advance tax paid, assessment orders, etc.</p> <p>(vi) Ensure that the requirements of AS 22 on Accounting for Taxes on Income have been appropriately followed for the period under audit.</p>
7	ICAI Module	payment of taxes	<p>(i) Payment on account of income-tax and other taxes consequent upon a regular assessment should be verified by reference to the copy of the assessment order, assessment form, notice of demand and the receipted challan.</p> <p>(ii) Payments or advance payments of income-tax should also be verified with the notice of demand and the receipted challan acknowledging the amount paid.</p> <p>(iii) The interest allowed on advance payments of income-tax should be included as income and penal interest charged for non-payment should be debited to the interest account.</p> <p>(iv) Nowadays, electronic payment of taxes is also in trend. Electronic payment of taxes means payment of taxes by way of internet banking facility or credit or debit cards.</p> <p>(v) The assessee can make electronic payment of taxes also from the account of any other person. However, the challan for making such payment must clearly indicate the Permanent Account Number (PAN) of the assessee on whose behalf the payment is made.</p>

8	ICAI Module	Advertisement Expenses	<p>(i) Verify the bill/invoice from advertising agency to ensure that rates charged for different types of advertisement are as per contract.</p> <p>(ii) See that advertisement relates to client's business.</p> <p>(iii) Inspect the receipt issued by the agency</p> <p>(iv) Compare the statement of account with the ledger account.</p>
9	ICAI Module	Sale of Scrap	<p>(i) Review the internal control as regards generation, storage and disposal of scrap.</p> <p>(ii) Check whether the organization is maintaining reasonable record for generation of Scrap.</p> <p>(iii) Analyze the raw material used, production and generation pattern of scrap and compare the same with figures of earlier year.</p> <p>(iv) Check the rates at which scrap has been sold and compare the rate with previous year.</p> <p>(v) Vouch sales, with invoices raised, advertisement for tender, rate contract with scrap dealers.</p>