

Audit of Items of FS Notes

Features:

- ✓ All key words in **RED**
- ✓ Topics asked in recent RTPs, MTPs & Past exams **highlighted for special focus**.
- ✓ All topics discussed in detail on Youtube.
Link to playlist:
https://youtube.com/playlist?list=PLjURe7IJQG-rNz_k-_1cK7IIOXD72rrED&si=gt2e_Prgyr7nFYLr
- ✓ **Handwritten charts** also shared for mind mapping & better retention on **telegram channel**.
Link: <https://t.me/clearcainterwithsk>
(You can also scan & join the channel for all inter audit updates)



Balance Sheet Items

Share Capital (SC)

Audit Procedures:

- Tally period-end share capital balance- authorised, issued & paid up, to PY audited FS.
- If no change during the year, obtain written confirmation/ representation from CS that there were no changes to entity's capital structure during the year.
- In case there's any change, verify whether paid up capital at period-end within limits of authorised capital. Authorized capital should be verified by examining MOA.
- Obtain certified copies of relevant resolutions passed at meetings of BOD, shareholders authorising increase/decrease in authorised share capital, if required, or paid up share capital.
- In case of Fresh issue made in CY, check compliance of Companies Act 2013 w.r.t Return of Allotment, Minimum Subscription, minimum application money to be collected, maintenance of separate Bank a/c, payment of underwriting commission as per Sec 40
- No shares have been issued at Discount (Sec. 53 of Companies Act)
- Check if Shares are issued for cash or for Consideration other than cash. (Eg: To promoters for their services, underwriters for commission payable to them etc.)
- Compliance with SEBI regulations and Guidelines.
- Obtain & verify copies of forms filed with Ministry of Corporate Affairs (MCA) (Form SH-7, notice to Registrar of any alteration of share capital, Form PAS 3 company making allotment of shares/ securities required to file a return of allotment to the Registrar) and with RBI (Form FCGPR in case of Foreign Direct Investment (FDI) by a Non-resident shareholder) & verify no. of securities issued along with issue price.
- In case of increase in share capital, verify whether Co. has accurately calculated fee & stamp duty payable to MCA.

Shares Issued at Premium [ICAI SM]

If Co. issued shares at a premium, Co. shall transfer premium amount to securities premium a/c & state purpose for which amount can be applied. No restriction for issue of shares at premium.

Application of securities premium account

Securities premium a/c may be applied by Co. for following purposes:

- towards issue of unissued shares of Co. to members of Co. as fully paid bonus shares
- for purchase of its own shares or other securities under Section 68. (Buyback)
- in writing off preliminary expenses of Co.
- in providing for premium payable on redemption of any redeemable preference shares or debentures of Co.
- in writing off expenses, or commission paid or discount allowed on, any issue of shares or debentures of Co.

Auditor needs to verify

- whether premium recd. trfd to a "securities premium a/c" &
- whether application of "securities premium a/c" is only for purposes mentioned above.

Shares issued at a discount [May'24]

As per Sec 53 of Cos Act, 2013,

- Co. shall not issue shares at discount, except sweat equity shares u/s 54 of Companies Act, 2013.
- any share issued by a Co. at a discounted price shall be void.

Exception:

Co. may issue shares at a discount to its creditors when its debt is converted into shares in pursuance of any statutory resolution plan or debt restructuring scheme as per any RBI guidelines.

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Penalty:

Co. & every officer in default liable to a penalty

- Amount raised through issue of shares at discount or ₹5 lakh, whichever is less, &
- Co. also liable to refund all monies received with interest @ 12% p.a. from date of issue of such shares to persons to whom such shares have been issued.

Auditor needs to check

- (i) movement in SC during year and wherever there is any issue,
- (ii) Verify that Co. hasn't issued any shares at discount by reading minutes of meeting of directors & SH authorizing issue of SC & issue price.
- (iii) Also verify whether Co. has issued shares at a discount to its creditors when debt is converted into shares in pursuance statutory resolution plan or debt restructuring scheme as per RBI guidelines.

Issue of Sweat Equity Shares (SES)

As per Sec 54 of Cos Act, 2013, employees may be compensated in form of 'Sweat Equity Shares'.

It mean equity shares issued by Co. to employees or directors at a

- i. discount or
- ii. for consideration other than cash for providing know-how or making available right in nature of intellectual property rights or value additions, by whatever name called.

Auditor needs to verify that SES issued by Co. are of class of shares already issued & following conditions complied:

- a) issue is authorized by SR passed by Co.
- b) resolution specifies no. of shares, CMP, consideration, if any, & class or classes of directors or employees to whom such equity shares are to be issued
- c) omitted
- d) where equity shares of Co. are listed on a recognised stock exchange, SES are issued as per SEBI regulations & if unlisted, as per prescribed rules.
- e) Further, rights, limitations, restrictions & provisions of SES holders same as equity shareholders.

[ICAI SM + Nov'22]

Reduction of Capital

Accumulated business losses, assets of reduced or doubtful value or paid up capital in excess of requirements of Co. or surplus capital which can't be employed gainfully, require corrective measures to keep financial health of Co. in a reasonably well position. Accordingly, Co. may find necessary to reduce its share capital.

Sec 66 deals with reduction of share capital. Auditor needs to examine whether company has followed requirements of Sec 66.

Auditor shall undertake the following audit procedures: MTP Oct'20

1. Verify the meeting of shareholders to pass SR was properly convened & proposal was circularized in advance to all shareholders
2. Verify that AOA authorises reduction of capital
3. Verify that MOA of Co. has been suitably altered.
4. Examine that there has been no default w.r.t repayment of deposits accepted by Co. or payment of interest on such deposits. Reduction of capital shall not be affected if such default exists.
5. Examine order of Tribunal confirming reduction & verify that copy of order & minutes registered & filed with ROC
6. Check Registrar's Certificate as regards to reduction of capital
7. Vouch a/c entries recorded to reduce capital & write down assets w.r.t resolution of shareholders & other documentary evidence; also check whether presentation as per Schedule III, Part I

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8. Confirm whether **revaluation of assets properly disclosed** in B.S.
9. Co. may reduce capital by reduction in unpaid capital or cancellation of lost capital or paying off excess paid up capital. Verify adjustment made in members' a/cs in Register of Members & confirm that either paid-up amount shown on old share certificates been altered or new certificates issued in lieu of old, & old ones been cancelled
10. Confirm that **words "and reduced"**, if required by Tribunal order been added to name of Co. in BS.
11. Check if Co. **complied with all T&Cs** imposed by tribunal while confirming reduction of SC.

Exemption to Buy-Back: This section doesn't apply to buyback of own securities u/s 68.

Disclosures:

For each class of share capital (different classes of preference shares to be treated separately):

- a) No. & amount of shares **authorised**
- b) No. of shares **issued, subscribed & fully paid**, & subscribed but **not fully paid**
- c) **par value** per share
- d) a **reconciliation** of no. of shares o/s at beginning & end of reporting period
- e) **rights, preferences & restrictions** attaching to each class of shares including restrictions on distribution of dividends & repayment of capital
- f) **shares** in respect of each class in Co. **held by** its holding Co. or ultimate holding Co. including shares held by or by subsidiaries or associates of holding Co. or ultimate holding Co. in aggregate
- g) shares in Co. held by each shareholder holding **more than 5%** shares specifying no. of shares held
- h) shares **reserved** for issue under options & contracts / commitments for sale of shares / disinvestment, including terms & amounts
- i) for period of 5 years immediately preceding BS date:
 - (A) Aggregate no. & class of shares allotted as fully paid-up pursuant to contract(s) without payment recd. in cash.
 - (B) Aggregate no. & class of shares allotted as fully paid-up by way of **bonus shares**.
 - (C) Aggregate no. & class of shares **bought back**.
- j) **terms of any securities convertible** into equity/preference shares issued along **with earliest date of conversion in descending order** starting from farthest such date
- k) **calls unpaid** (showing aggregate value of calls unpaid by Directors and officers)
- l) **forfeited shares** (amount originally paid-up).
- m) Co. shall **disclose Shareholding of Promoters*** as below: **Nov'22**

Shares held by promoters at end of year				% change during year***
S No.	Promoter Name	No. of shares	% of total shares**	

**Details shall be given separately for each class of shares

***Percentage change computed w.r.t no. at beginning of year or if issued during year for 1st time then w.r.t the date of issue.

Where securities issued for a **specific purpose**, whole or part of **amount not used for the specific purpose at B.S. date**, indicate by way of **note how such unutilised amounts have been used or invested**.

Reserves & Surplus

Reserves are amounts appropriated out of profits that are **not intended**

- to meet any liability,
- contingency,
- commitment or
- diminution in value of assets known to exist at BS Date.

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Reserves can be segregated as revenue or capital reserves.

Revenue reserves represent profits that are available for distribution to shareholders or below purposes such as:

- ✓ to supplement divisible profits in lean years,
- ✓ to finance an extension of business,
- ✓ to augment working capital of business or
- ✓ to generally strengthen Co's financial position.

Capital Reserve represents a reserve not free for distribution. They can be utilized only for certain limited purposes.

Example Securities premium, capital redemption reserve, revaluation reserve on revaluation of assets. ICAI SM

Note: If a Co. appropriates revenue profit for being credited to asset replacement reserve to be used for a capital purpose, such a reserve shall also be in nature of a capital reserve.

- ✓ Created from capital profits through sale of capital assets such as sale of fixed assets, profit on sale of shares.
- ✓ Can be utilised for writing down fictitious assets or losses or (subject to AOA) for issuing bonus shares if it's realized.
- ✓ But securities premium or capital redemption reserve can be utilised only for purposes specified in Sec 52 & 55 of Companies Act, 2013, respectively.

Audit Procedures

Existence: Trace & tally opening balance of reserves and surplus to PY audited FS.

Completeness & Valuation:

For addition/utilization in current year, in case of:

Profit and Loss balance –

- Trace movement to surplus/ deficit as per Statement of P&L for year under audit.
- Movement should be traced in Statement of Changes in Equity.
- Verify BOD resolution regarding recommendation of dividend, resolution passed by shareholders declaring dividend.

Note: As per AS-4 (Revised) or IND AS 10, if equity dividends proposed or declared after BS date, don't recognize those dividends as a liability as at BS date. However, disclose amount of dividends proposed or declared after BS date, but before FS were approved for issue.

- Securities Premium - Obtain & verify BOD resolution passed by BOD for issue of shares at premium.
- Utilisation of securities premium a/c could be done only for limited purposes; auditor needs to ensure the same. (Sec 52 of Cos Act 2013)

Disclosure MTP May'22

(i) Reserves and Surplus shall be classified as:

- a) Capital Reserves
- b) Capital Redemption Reserve
- c) Securities Premium
- d) Debenture Redemption Reserve
- e) Revaluation Reserve
- f) Share Options Outstanding a/c
- g) Other Reserves– (specify the nature and purpose of each reserve and the amount in respect thereof);

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h) Surplus i.e., balance in Statement of Profit & Loss disclosing allocations & appropriations such as dividend, bonus shares & transfer to/ from reserves, etc.; (Additions and deductions since last balance sheet to be shown under each of the specified heads);

(ii) A reserve specifically represented by **earmarked investments** shall be termed as a “fund”.

(iii) **Debit balance** of statement of P&L shall be shown as a **negative figure** under head “Surplus”.

Similarly, balance of “Reserves & Surplus”, after adjusting negative balance of surplus, if any, shall be shown under the head “Reserves & Surplus” even if resulting figure is negative.

Borrowings

All borrowings on BS represent <u>valid claims</u> by banks or other 3rd parties. (EXISTENCE) RTP Sep'24	All borrowings have <u>been accounted</u> for in books of Co. on a timely basis. (COMPLETENESS)
<ul style="list-style-type: none"> ✓ Review board minutes for approval of lending agreements. Ensure loan agreements or bond issuances were authorized. Ensure significant debt commitments approved by BOD. ✓ Agree details of loans recorded (intt rate, nature & repayment terms) to loan agreement. Verify that borrowing limits of agreements not exceeded. ✓ Roll out & obtain independent balance confirmations (SA 505) for all borrowings from lender. ✓ Agree details of leases & hire purchase creditors recorded to underlying contracts/agreements. ✓ In case of Debentures, examine trust deed for terms & dates of redemption, borrowing restrictions & compliance with covenants. ✓ When debt is retired, ensure that a discharge is received on assets securing debt. ✓ Obtain WR that all liabilities recorded represent a valid claim by lenders. 	<p>1. Obtain schedule of ST & LT borrowings (including debts o/s at end of PY & any new debt or renewal of debt) showing beginning & ending balances & borrowings taken & repaid during year & perform following:</p> <p>a) Consider evidence of additional debt obtained by examining minutes of BOD, significant contracts, confirmations from banks /lenders, subsequent cash disbursements(when testing payables) etc.</p> <p>b) Trace closing balances as per schedules to GL.</p> <p>2. Review subsequent transactions after period end to determine if there are unrecorded liabilities at year end & transactions are recorded in correct period. (Eg: Fresh loan taken near BS date)</p> <p>3. Direct confirmation procedures Roll out & obtain independent balance confirmations for all borrowings from lender (banks/ financial institutions etc.) & perform following:</p> <p>a) Ask for all relevant info. related to debt & intt. balances (e.g., applicable intt. rates, due dates, collateral & security interests).</p> <p>b) Send reminders for non-replies.</p> <p>c) Compare balances as per confirmations to books of a/c. Ask for reconciliations, if any differences & test supporting documents for reconciling items on test check basis.</p>

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Liability is recorded at correct amount. (VALUATION)

- Determine that **a/c policies & methods** are appropriate & applied consistently.
- Agree loan balance & loan payables to **loan agreement**.
- **Recompute** intt & discount or premium on redemption, if any.
- Check **computation of amortization** of premium or discount, if any.
- For **foreign currency loans**, check closing exchange rate(s) used & verify restatements of foreign currency balances o/s at year end. (As per AS 11)

Just Read

- **Read provisions in loan & debt agreements** and perform following:
 - a) Test **compliance** with loan **covenants** & other significant provisions of agreements.
 - b) If any provisions with which entity is **NOT in compliance**, determine whether debt should be classified as **current**. If enforcement of provisions has been **waived** by lender in case of breach of any covenant by entity, obtain **confirmation of waiver** from lender.
- Examine **due dates** on loans for **proper classification** between long-term & short-term.
- Where **instalments** of LT loans due **within next 12 months** have been disclosed in FS (e.g. in parentheses or by way of a footnote), verify correctness of amount of such instalments.
- Examine debt agreements for any **restrictive covenants**. Review restrictive covenant & provisions relating to default & ensure disclosure in FS.
- Examine **important terms** in loan agreements & documents, if any, **evidencing charge** in respect of such loans & advances. Examine whether **statutory requirements** regarding creation & registration of charges been **complied with including proper disclosure**.
- In case **value of security falls below amount of loan outstanding**, examine whether loan is classified as secured only to extent of **market value of security**.
- Examine **hire purchase agreements** for purchase of assets by entity & ensure correctness of amounts shown as outstanding in a/cs & also examine security aspect.
- He should carefully review borrowings from **related parties** & ensure compliance with **AS 18** or IND AS 24.
- Verify whether liabilities towards bank in respect of bills discounted, bills negotiated, cheques discounted, etc. are correctly reflected & disclosed in FS.
- Also verify amount borrowed is **within borrowing powers** laid down by **AOA & MOA**.
- Verify that Co. hasn't **contravened restrictions laid down by Sec 180** (related to Restrictions on Powers of Board) in respect of borrowings of Co. Also, check compliance of Sec 185 (related to Loans to Directors, etc.) & 186 (related to Loan and Investment by Co) of Companies Act, 2013.
- Examine **purpose** for which amount is borrowed & ensure that amount is not used against interest of Co.
- Where entity has **accepted deposits**, examine whether directives issued by RBI complied with.

Disclosure

Long- Term Borrowings

- i) Long-term borrowings shall be **classified** as:
 - a) Bonds/debentures
 - b) Term loans:
 1. from banks.
 2. from other parties.
 - c) Deferred payment liabilities
 - d) Deposits
 - e) Loans and advances from related parties
 - f) Long term maturities of finance lease obligations

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- g) Other loans and advances (specify nature)
- ii) Borrowings shall further be sub-classified as secured & unsecured. Nature of security shall be specified separately in each case.
- iii) Where loans have been guaranteed by directors or others, agg. amt of such loans under each head shall be disclosed.
- iv) Bonds/debentures (along with rate of intt and particulars of redemption or conversion, as case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as case may be. Where bonds/debentures are redeemable by instalments, date of maturity for this purpose must be reckoned as date on which first instalment becomes due.
- v) Particulars of any redeemed bonds/debentures which Co. has power to reissue shall be disclosed.
- vi) Terms of repayment of term loans & other loans shall be stated.
- vii) Period & amount of continuing default as on B.S. date in repayment of loans & interest, shall be specified separately in each case.

Other Long term Liabilities

Other Long term Liabilities shall be classified as:

- (a) Trade Payables;
- (b) Others

Short Term Borrowings: RTP May'24

- i) Short-term borrowings shall be classified as:
 - (a) Loans repayable on demand;
 - (A) from banks.
 - (B) from other parties.
 - (b) Loans and advances from RPs
 - (c) Deposits
 - (d) Other loans and advances (specify nature).
- ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
- iii) Where loans have been guaranteed by directors or others, agg. amt of such loans under each head shall be disclosed.
- iv) Period & amount of default as on B.S. date in repayment of loans and interest, shall be specified separately in each case.
- v) Current maturities of Long term borrowings shall be disclosed separately.

Notes:

Working capital Loans

Where Co. has borrowings from banks/FIs on basis of security of current assets, it shall disclose the following:-

- a) whether quarterly returns or statements of current assets filed by the Co. with banks or FIs are in agreement with the books of a/cs.
- b) if not, summary of reconciliation & reasons of material discrepancies, if any to be adequately disclosed.

Existence

- Check whether **controls** in place to ensure that any purchase/ expense **invoice NOT recorded more than once** & payable balances are automatically recorded in GL at time of recording of expense.
- Obtain **a/c payable ageing report** & trace its balances to **GL**. If any differences, investigate reconciling items. Journal entries specially for large amounts should be carefully examined.

Direct confirmation procedure

Contact vendors directly/independently & ask them to confirm amounts of a/c payable at end of reporting period under audit. This should **necessarily** be done for **all significant a/c payable balances** as at period-end & for **parties from whom material purchases** made during period **even if period end balance** of such parties is **not significant**.

- Employs direct confirmation procedure with **consent of entity**. Mgt may request auditor to not seek confirmation from certain trade payables. Consider whether there are **valid grounds**. May also need to **reconsider NTE of audit procedures** including degree of planned **reliance on WRs**.
- **Date**: Trade crs may be requested to confirm balances either **(a) as at BS date**, or **(b) as at any other selected date** reasonably close to BS Date. Date should be decided by auditor in consultation with Co.
- **Form of requesting confirmation** may be either **(a) form with balance** as at year end wherein creditor is requested to respond whether or not he is in agreement with balance shown, or **(b) form with no balance** wherein creditor is requested to respond balance as per his records. Use of form with no balance is preferable.
- **Method of selection** of creditors should **not be revealed to Co.** until **trial balance** of trade payables' ledger is **handed over to auditor**. List of trade creditors selected for confirmation should be given to entity for preparing **request letters** which should be properly addressed. Auditor should **maintain strict control** to ensure correctness & dispatch of request letters. In **alternative**, may **request client** to furnish **duly authorised confirmation letters** & auditor may **fill in names, addresses & amounts** relating to creditors selected by him & **mail the letters directly**. Ensure that **confirmations & any undelivered letters** are **returned to auditor & not to client**.
- **Any discrepancies** revealed by confirmations or additional tests, may have a bearing on other accounts not included in original sample. Entity should be asked to **investigate & reconcile the discrepancies**.
- Where **no reply** is received, perform **additional testing** regarding the balances.
This testing could include:
 - ✓ Testing of **subsequent payments** for trade payables to whom confirmations were sent but no replies received
 - ✓ Agreeing details of respective balance to underlying vendor **invoices**
 - ✓ Preparing a **detailed analysis** of balance, ensuring it consists of identifiable transactions & confirming that these purchases/ expense transactions actually occurred. (examination in depth)
- If there are any **related party payables**, review whether they were properly **authorized** & **value** of such transactions were **reasonable & at arm's length**.
- Review a **trend line** of purchases/ expenses & a/c payable, or a comparison of the two over time, to see if there are any unusual trends. Make inquiries about reasons for changes in trends from mgt.

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COMPLETENESS

Trade payables & liability balances that were supposed to be recorded have been recognized in FS.

- Auditor needs to perform following **cut off procedures**:
 - ✓ For **last 5 invoices** received/ recorded at end of reporting date (cut off date) & which have been included in trade payables; **goods** should have been **received/ risk & rewards** of ownership in goods should have been **transferred** in favour of entity;
 - ✓ All **goods received prior to period/ year- end** should have been booked in form of **purchases & included in trade creditors**.
- **Test purchases/ expenses** on a sample basis selecting same from **a/c payable ledgers** & checking their **supporting documents** to ensure that purchases were recorded at **correct amounts & correct dates**.
- **Match purchase invoice dates to gate entry (inward) dates** to check whether purchases recorded in correct **a/c period**. This can include examination of purchase/ expense **invoices received subsequent to period** being audited, to see if they should have been included in period under audit.
- Review **subsequent expense vouchers**. Review all material expense vouchers recorded post BS date to see if they relate to transactions within audit period.
- For **advance received from customers/ revenue received in advance**, obtain customer wise listing along with its ageing & nature. Enquire from entity's mgt if there's any dispute with customer & if there is any additional liability to be recorded. Verify underlying documentation based on which entity had recd advance.
- In relation to **statutory dues** liability like withholding tax (TDS) payable, GST payable, PF & ESI payable etc., **prepare a reasonability** w.r.t sales/ purchases/ employee benefit expenses.

Example-

- ✓ **GST liability** for last month may be calculated by applying applicable rate to **sales** made & in case of any variance with GST liability recorded by entity, reasons for variance requested from client & if satisfactory, include as part of audit documentation.
 - ✓ Similarly, **Provident Fund liability** for last month may be calculated by applying applicable rate to **employee benefit expense** & in case of any variance with liability recorded by entity, reasons for variance should be requested from client & if found satisfactory, include as part of audit documentation.
 - ✓ Further, **obtain & verify challans for deposits made subsequent to period-end for all statutory liabilities as at BS date** & also analyse reasons, if any, in consultation with mgt for any variance between amounts deposited subsequently vis-à-vis liability recorded in books of a/c.
- He shall prepare a **complete list of all statutory dues** & consider his reporting requirements under **CARO,2020**.

Valuation

- Review **process** followed by Co. to identify if any **old creditor balance/ liability** needs to be written back. This will include a **consistency comparison with method** used in PY & determining whether method is **appropriate** for underlying business environment.
- Obtain **ageing of payable balances, & list of vendors** with whom Co. has **disputes & claims** from customers, under litigation & compare with PY.
- Check **write backs** in liability balances assessed as no longer payable **approved by senior mgt**, for eg. CEO/MD.
- Check **restatement of foreign currency trade payables** done properly as per AS 11.

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- Understand mgt's process to identify **principal amount & intt due** thereon (if any) remaining unpaid to any Micro, Small & Medium Sized Enterprises suppliers at end of a/c year. Test check mgt process to assess if auditor could rely on mgt process.

Disclosures

Details relating to micro & small enterprises:

- principal amount & intt due** thereon (to be shown separately) remaining unpaid to any supplier at end of each a/c year.
- amount of **intt paid by buyer** in terms of **Sec 16** of MSME Development Act, 2006, along with amount of payment made to supplier beyond appointed day during each a/c year.
- amount of **intt due & payable** for period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding intt specified under MSME Development Act, 2006.
- amount of **intt accrued & remaining unpaid** at end of each a/c year.
- amount of **further intt remaining due & payable** even in succeeding years, until such date when intt dues above are actually paid to small enterprise, for purpose of disallowance of a deductible expenditure u/s 23 of MSME Development Act, 2006.

Trade Payables Ageing Schedule

Particulars	O/s for following periods from due date of payment				Total
	< 1 year	1-2 years	2-3 years	> 3 years	
i) MSME					
ii) Others					
iii) Disputed dues- MSME					
iv) Disputed dues- others					

similar info. shall be given where no due date of payment is specified in that case disclosure shall be from date of transaction.

Unbilled dues shall be disclosed separately.

Other Current Liabilities

Whether amount disclosed under OCL are classified as below:

- Current maturities of finance lease obligations
- Interest accrued but not due on borrowings
- Interest accrued and due on borrowings
- Income received in advance
- Unpaid Dividends
- Application money received for allotment of securities & due for refund & interest accrued thereon.**
T&Cs, no. of shares proposed to be issued, amount of premium, if any, & period before which shares shall be allotted shall be disclosed. It shall also be disclosed whether Co. has sufficient authorised capital. Further, period for which share application money has been pending beyond the period for allotment as mentioned in document inviting application for shares along with the reason for such share application money being pending shall be disclosed. Share application money not exceeding issued capital & to the extent not refundable shall be shown under the head Equity & share application money to the extent refundable, i.e., the amount in excess of subscription or in case the requirements of minimum subscription are not met, shall be separately shown under "Other current liabilities"
- Unpaid matured deposits/debentures and interest accrued thereon
- Unpaid matured debentures and interest accrued thereon

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- Others (specify nature).

Provisions and Contingent Liabilities

Provision is a **liability** which can be measured only by using a substantial degree of estimation. A provision is recognised when:

- i. an entity has a **present obligation** (legal or constructive) as a result of a past event
- ii. **probable that an outflow of resources** embodying economic benefits will be required to settle the obligation &
- iii. **reliable estimate can be made** of amount of obligation.

If above conditions not met, no provision recognised.

Example Provision may include provision for litigation, provision for warranties etc.

A contingent liability is:

(i) a **possible obligation** that arises from past events & whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(ii) a **present obligation** that arises from past events but is not recognized because:

- it is **not probable** that an **outflow of resources** embodying economic benefits will be required to settle the obligation or
- the **amount** of the obligation **cannot be measured** with sufficient reliability.

Audit Procedures

- **Obtain a list** of all provisions & **compare with** balances in the **ledger**.
- Inspect underlying **agreements** like agreement with customers to assess warranty commitments, any legal and other claims on the entity i.e. litigations.
- Obtain underlying **working & basis** for each of the provisions made, from mgt & verify whether same is complete & accurate.
- Wherever required, obtain **expert's report, calculation & underlying working** for provision amount.

Examples:

1. For warranty involving **complex calculations**, entities get that valued through an actuary. Request mgt to share actuarial valuation report.
2. If matter under **legal dispute**, request for assessment made by a legal expert in relation to likelihood of a liability devolving on entity i.e. whether probable or possible or remote. Verify underlying assumptions used by expert with data shared by mgt.

As per **SA 500** when using work of a management's expert, audit evidence that the auditor should obtain include:

- Evaluate **competence, capabilities & objectivity** of that expert:
 - ✓ Whether expert is **employed** by entity or outside party.
 - ✓ Whether expert is **independent** in respect of the entity.
 - ✓ Auditor's **previous experience** of work of the expert.
 - ✓ **Knowledge** of expert, his **qualification**, membership of a professional body or industry association, etc.
- Obtain an **understanding** of work of that expert:
 - ✓ Whether auditor has **expertise** to evaluate work of expert.
 - ✓ Evaluating **assumptions & methods** used by the mgt.
 - ✓ Evaluating **nature of internal or external data** used by expert.

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- Evaluate **appropriateness of his work as audit evidence** for the relevant assertion:
 - ✓ Relevance & reasonableness of expert's **findings or conclusions**
 - ✓ Evaluating relevance, completeness and accuracy of the **source data** used by the expert.
- Obtain **WR** from mgt that it has made all provisions required to be made as per recognized a/c principles.

Disclosure:

Long-term provisions

Amounts shall be classified as:

- (a) Provision for employee benefits;
- (b) Others (specify nature).

Short-term provisions

Amounts shall be classified as:

- (a) Provision for employee benefits.
- (b) Others (specify nature).

Contingent liabilities and commitments (to the extent not provided for)

Contingent liabilities shall be classified as:

- (a) Claims against the company not acknowledged as debt;
- (b) Guarantees;
- (c) Other money for which the company is contingently liable.

(ii) Commitments shall be classified as:

- (a) Estimated amount of contracts remaining to be executed on capital account and not provided for;
- (b) Uncalled liability on shares and other investments partly paid; (c) Other commitments (specify nature).

In terms of AS 29, "Provisions, Contingent Liabilities and Contingent Assets", ensure following disclosures made:

- For each class of provision, disclose [Movement]:
 - ✓ carrying amount at **beginning & end** of period
 - ✓ **additional** provisions made in period, including increases to existing provisions
 - ✓ amounts **used** (i.e. incurred & charged against provision) during period
 - ✓ **unused** amounts **reversed** during period.
- Disclose following for each class of provision [Details of Nature & Timing of outflows] :
 - ✓ brief **description** of **nature** of obligation & expected **timing** of any resulting **outflows** of economic benefits
 - ✓ an indication of **uncertainties** about **amount** or **timing** of outflows. Where necessary, disclose major assumptions concerning future events and
 - ✓ amount of any **expected reimbursement**, stating amount of any asset that has been recognized for that expected reimbursement.
- Unless possibility of outflow is remote, disclose for each class of contingent liability at BS date **MTP Mar'21**
 - ✓ a brief **description of nature** of contingent liability &, where practicable:
 - ✓ **estimate of its financial effect**



Audit of Items of FS

- ✓ indication of **uncertainties** relating to any outflow &
- ✓ possibility of any **reimbursement**.

Where any info. required by above para isn't disclosed because it isn't practicable, fact should be stated.

Assets

Property, Plant & Equipment

Recognition Criteria for PPE (Cost of an item of PPE should be recognised as asset only if)

- (a) It is probable that **future economic benefits** associated with item will flow to enterprise, and
- (b) **Cost of item can be measured reliably**.

These costs include costs incurred:

- a) **initially** to acquire or construct PPE &
- b) **subsequently** to add to, replace part of, or service it.

Measurement at Recognition: Item of PPE that qualifies for recognition as asset should be **measured at its cost**.

Elements of Cost

Cost of PPE **comprises**:

- a. its **purchase price**, including **import duties & non –refundable** purchase taxes, after deducting trade discounts & rebates.
- b. any **costs directly attributable** to bringing asset to **location & condition** to be capable of operating in manner intended by mgt.
- c. **initial estimate** of costs of **dismantling, removing** the item & **restoring** the site on which it is located, referred to as decommissioning, restoration & similar liabilities', obligation for which an enterprise incurs either when item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Examples of directly attributable costs are:

- a. costs of **employee benefits** (as defined in AS 15, Employee Benefits) arising directly from construction or acquisition of item of PPE
- b. costs of **site preparation**
- c. **initial delivery and handling costs**
- d. **installation and assembly costs**
- e. costs of **testing** whether asset is **functioning** properly, after **deducting net proceeds** from selling any items produced while bringing asset to that location and condition (eg. samples produced when testing equipment) &
- f. **professional fees**.

Examples of costs that are not costs of PPE are: [ICAI SM + May'24]

- a) costs of opening a new facility or business, such as, **inauguration costs**
- b) costs of introducing a new product or service (including costs of **advertising and promotional activities**)
- c) costs of conducting business in a new location or with a new class of customer (including costs of **staff training**) &
- d) administration and other **general overhead costs**.

Note: Revenue expense like regular repairs on assets have to be charged off to Statement of P&L.

Audit Procedures

Existence

- Review entity's plan for physical verification of PPE i.e. whether performed by own staff or by a 3rd party & policy regarding periodicity i.e. whether physical verification on annual basis or once in 2/ 3years.
- Evidence of appropriate supervision of those performing physical verification of PPE should be examined.
- Obtain PPE physical verification report backed by working sheets from entity & perform following procedures:
 - ✓ Assess if all items are properly tagged & carry identification marks/ nos. & physical verification work papers do capture asset identification numbers for assets physically verified.
 - ✓ Reconciliation of items physically verified with fixed asset register maintained by entity. Specifically verify if PPE additions have been updated in fixed asset register.
 - ✓ Verify discrepancies based on physical verification & manner in which discrepancies dealt in books & FS.
For eg, any identified shortages/ assets not in working condition &/or active use should be accounted as deletions post approvals by entity's mgt & depreciation should cease to be charged after date of deletion.

Physical Verification (Plan/Who/When) → Supervision → Report (Tags/Reconciliation/Discrepancy)

Completeness

[Additions to PPE during period under audit have been recorded in FS & don't include any PPE that belong to 3rd parties but does include PPE owned & controlled by entity although lying with a 3rd party]

- Verify movement in PPE schedule (asset class-wise like building, Plant & machinery etc.) compiled by mgt i.e. Opening balances + Additions during period – Deletions during period = Closing balances. Tally closing balance to entity's books of a/c.
- Check arithmetical accuracy of movement in PPE schedule.
 1. Tally opening balances to PY audited FS.
 2. For additions, obtain listing of all additions from mgt & perform following procedures:
 - ✓ For all material additions, verify if expenditure meets criteria of PPE as per AS 10. These costs include costs incurred initially to acquire or construct PPE & subsequently to add, replace part of, or service it. Verify that cost is as per AS 10.
 - ✓ Items such as spare parts, stand-by equipment & servicing equipment are recognised as per AS 10 when they meet definition of PPE. Otherwise, classified as inventory. Ensure that entity is not recognizing costs of day-to-day servicing in carrying amount of PPE.
 - ✓ Test purchase invoice, installation certificate or report or other similar documentation maintained by entity to verify date of addition, for all additions samples of PPE.
 - ✓ Verify PPE additions have been approved by authorized personnel.
 - ✓ Verify proper internal processes & procedures like inviting competitive quotations/ floating tenders etc. were followed prior to finalising vendor for procuring items of PPE/ awarding work contract for capital projects by checking supporting documents of samples selected.
 3. In relation to deletions to PPE,
 - Understand from mgt reason & rationale for deletion (eg. could be new purchase of similar asset once old asset was no longer fit to be used in production process) & manner of disposal.
 - Obtain mgt approval & discard note authorising disposal of asset from active use.
 - Verify process followed for sale of discarded PPE, for eg - inviting competitive quotes, tenders & basis of calculation of sales proceeds.

Audit of Items of FS

- Verify that mgt has accurately recorded deletion of PPE (original cost & accumulated depreciation up to date of disposal) & resultant gain/ loss on disposal of PPE item in entity's books of a/c.

Valuation MTP Sep'24

Value of fixed assets/ PPE depreciates due to efflux of time, use & obsolescence. Diminution of the value represents cost to entity for earning revenue during a given period. Unless this cost is charged to a/cs, P&L would not be correctly ascertained & values of PPE would be shown at higher amounts.

Auditor should:

- Verify that entity has charged depreciation on all items of PPE unless any item of PPE is non- depreciable like freehold land
- Assess that depreciation method reflects pattern in which asset's future economic benefits to be consumed by entity. Eg. Straight line method, diminishing value method, unit of production method, as applicable.
- Auditor should also verify whether management has done an impairment assessment to determine whether an item of PPE is impaired as per requirements of AS 28 - Impairment of Assets.

Rights MTP Sep'24

- In addition to procedures undertaken for verifying completeness of additions, also verify that all PPE purchase invoices are in name of entity.
- For all additions to land & building, check conveyance deed/ sale deed to verify whether entity is legal & valid owner or not.
- Verify original title deeds for all immovable properties held as at BS date.
- In case entity has given such immovable property as security for any borrowings & original title deeds are not available with entity, request entity's mgt for obtaining a confirmation from respective lenders that they are holding original title deeds of immovable property as security.
- Also verify register of charges, available with entity to assess any charge created against PPE.

Disclosures

- i. Classification shall be given as:
 - a. Land
 - b. Buildings
 - c. Plant and Equipment
 - d. Furniture and Fixtures
 - e. Vehicles
 - f. Office equipment;
 - g. Others (specify nature).
- ii. Assets under lease shall be separately specified under each class of asset.
- iii. A reconciliation of gross and net carrying amounts of each class of assets at beginning & end of reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to revaluation (if change is 10% or more in aggregate of net carrying value of each class of PPE) & other adjustments & related depreciation & impairment losses/reversals shall be disclosed separately.
- iv. Where sums have been written-off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every subsequent BS shall show reduced or increased figures as applicable & shall by way of a note also show amount of reduction or increase as applicable together with date thereof for first 5 years subsequent to date of such reduction or increase.

Audit of Items of FS

Intangible Assets (comprising Goodwill, Brand/ Trademarks, Computer Software etc.)

[Intangible Asset → IA]

It's an **identifiable non-monetary asset**,

- without physical substance,
- held for use in the production or supply of goods or services, for rental or administrative purposes.

Notes:

- As per AS 26, internally generated goodwill should not be recognized as an asset.
- Some IAs may be contained in/on a physical substance such as a **compact disk** (for **computer software**), **legal documentation** (for licence or patent) or **film** (for **motion pictures**). **Cost of physical substance** containing IAs is usually **not significant**. Accordingly, physical substance containing an IA, though tangible in nature, is commonly **treated as a part of IA** contained in or on it.

Existence

- Since IA is identifiable non-monetary asset, **without physical substance**, for establishing existence, verify whether it's **in active use** in production or supply of goods/services, for rental or administrative purposes.
- **Example-** for verifying existence of software, verify whether such software is in active use by entity & for purpose i.e. verify sale of related services/ goods during period under audit, in which such software has been used. For verifying existence of design/ drawings, verify production data to establish if such products for which design/ drawings were purchased, are being produced & sold by entity.
- In case IA **not in active use**, **deletion recorded** in books of a/c **post approvals** by entity's mgt & **amortization charge cease** beyond date of deletion.

Completeness **MTP Sep'22**

- Verify **movement** in **IAs schedule** (asset class wise like software, designs/ drawings, goodwill etc.) compiled by mgt i.e. Opening + Additions – Deletions = Closing. Tally closing balances to books of a/c.
- Check **arithmetical accuracy** of movement in IAs schedule. For **additions**, obtain **listing of all additions** & undertake following procedures:

Additions

For all material additions, verify whether such expenditure meets criteria for recognition as per AS 26.

- Ensure that **no intangible asset arising from research** (or research phase of internal project) recognised. **Expenditure on research** (or research phase of internal project) **recognised as expense** when incurred.
- Check **certificate or report** maintained by entity to **verify date of use** of IA which could be **linked to date of commencement** of commercial production/ economic use to entity, for all additions to IAs.
- Verify whether **additions** (acquisitions) **approved** by appropriate entity's personnel.
- Verify whether **proper internal processes** like inviting competitive **quotations/ proper tenders** etc. followed prior to finalizing vendor for procuring item of IAs by testing documents on sample basis.

Deletions

- Understand from mgt **reason & rationale** for deletion & **manner of disposal**.
- Obtain **mgt approval & disposal note** authorising disposal of asset from active use.
- Verify **process followed for sale** of discarded asset, eg inviting quotes, tenders & calculation of sales proceeds.
- Verify mgt has **accurately recorded deletion** of IA (original cost & accumulated amortization upto date of disposal) & **resultant gain/ loss on disposal** in entity's books of a/c

Audit of Items of FS

Valuation July'21

Value of IAs may diminish due to efflux of time, use &/ or obsolescence. **Diminution of value is cost to entity for earning revenue** during given period. Unless amortization is charged to P&L a/c, P&L would not be correctly ascertained & values of IA would be shown at higher amounts.

Auditor should:

- Verify that entity has charged **amortization on all IAs**
- Verify that **amortization method** reflects pattern in which asset's future economic benefits expected to be consumed by entity.
- Also verify whether mgt has done **impairment assessment** to determine whether IA is impaired. For this purpose, verify whether entity has applied **AS 28 - Impairment of Assets** for determining manner of reviewing carrying amount, recoverable amount of asset to determine impairment loss, if any.

Rights

In addition to procedures for verifying completeness of additions, also verify **all expense invoices/ purchase contracts** are in **name of entity** that entitles legal title of ownership to entity.

Disclosures

(i) Classification shall be given as: (a) Goodwill; (b) Brands /trademarks; (c) Computer software; (d) Mastheads and publishing titles; (e) Mining rights; (f) Copyrights, and patents and other intellectual property rights, services and operating rights; (g) Recipes, formulae, models, designs and prototypes; (h) Licences and franchise; (i) Others (specify nature).

(ii) A reconciliation of gross & net carrying amounts of each class of assets at beginning & end of reporting period showing additions, disposals, acquisitions through business combinations, amount of change due to **revaluation** (if **change is 10% or more in aggregate of net carrying value of each class of intangible assets**) & other adjustments & related depreciation & impairment losses or reversals shall be disclosed separately. [Same as PPE]

(iii) Where sums written-off on reduction of capital or revaluation of assets or sums added on revaluation of assets, every subsequent BS shall show reduced or increased figures as applicable & by way of a note also show amount of reduction or increase as applicable together with date thereof for first 5 years subsequent to date of such reduction or increase. [Same as PPE]

Trade Receivables (T/R)

It Is Important to carry out Test of Controls for checking effectiveness of Internal control over sales as a part of the debtors' audit procedure. What points to consider? **MTP May'24**

- Only **bona fide sales** lead to trade receivables.
- All such sales are made to **approved customers**.
- All such sales are **properly recorded** in books of a/c.
- Once recorded, debtors can be **settled** only by receipt of cash or on authority of a responsible official.
- **Segregation of duties** at every point in sales transaction. (accounting for debtors, collecting payments, sending reminders etc.)
- Debtors are **collected on time**.
- In case debtors are **not collected in time**, sending reminders & taking legal actions if required.
- Balances are **regularly reviewed**.
- Proper **system of follow up & adequate provision for bad debt** made by preparing ageing schedule of debtors.

Audit of Items of FS

Existence ICAI SM

- Check whether **controls in place** to ensure that **invoices can't be recorded more than once** & receivable balances are automatically recorded in general ledger from original invoice.
- Ask for a period-end **a/c receivable ageing report** & trace balance as per report to general ledger.
- Check whether **realization is recorded invoice-wise or not**. If not, check that money received from debtors is adjusted chronologically invoice-wise & on FIFO basis i.e. previous bill is adjusted first. If realization is made on account, verify whether Co. has obtained confirmations from debtors in respect of the same.
- If any **large balance is due for a long time**, ask for **reasons & justification**.

Direct confirmation procedures [DCP]

- Contact customers directly & ask them to confirm amounts of unpaid a/cs receivable at end of reporting period. Should be done for **all significant a/c balances** at period- end & certain **random customers** having smaller o/s invoices should **also be selected**.
- Auditor employs DCP with **consent** of entity. Mgt may request not to seek confirmation from certain T/R. In such cases, consider whether there are valid grounds. May also need to reconsider NTE of audit procedures including degree of planned reliance on mgt's representations.
- [DATE] T/Rs may be requested to confirm balances either **(a) at BS date**, or **(b) any other selected date** reasonably close to BS date. Date should be decided by auditor in consultation with Co.
- Form of requesting confirmation may be either **(a) form with balance o/s amount** as per the Co., wherein T/R is requested to respond whether or not he is in agreement with balance, or **(b) form without any balance mentioned**, wherein T/R is requested to respond with balance o/s as per his records. Use of form without any balance is preferable.
- Method of selection of T/R should **not be revealed to Co. until trial balance of T/R' ledger is handed over to auditor**. List of T/Rs selected for confirmation should be given to entity for preparing request letters for confirmation which should be properly addressed. Auditor should maintain strict control to ensure correctness & proper despatch of request letters. Ensure that **confirmations & any undelivered letters returned to auditor & not to client**.
- Any **discrepancies** revealed by confirmations recd or additional tests may have a bearing on other a/cs not included in original sample. Co. should be asked to investigate & reconcile the discrepancies, if any.
- Where no reply recd, perform **alternate procedures** regarding balances.
This could include:
 - Agreeing balance to cash received subsequently;
 - Preparing a detailed analysis of balance, ensuring it consists of identifiable transactions & confirming that these revenue transactions actually occurred. (examination in depth for those balances)
- If any **related party receivables**, review them for collectability & whether they were properly authorized & value of such transactions were reasonable & at arm's length.
- Check that receivables for other than sales or services are not included in the list.
- Review **trend line of sales & a/cs receivable**, or comparison of two over time, to check if any unusual trends i.e **perform analytical procedures**. This will enable auditor to **check reasonableness of balances**. Also, measure **avg collection period**. Make **inquiries about reasons** for changes in trends with mgt & document work papers.

Audit of Items of FS

Completeness **MTP Sep'24**

(All Trade receivable balances that were supposed to be recorded have been recognized in FS.)

- Cut off Procedures **Nov'22**

Auditor needs to satisfy himself of cut-offs. Without a cut-off, sales could be understated or overstated, hence a need to perform following cut off procedure:

- For **invoices issued during last few days (last 5 days of reporting year)** i.e. cut-off date & included in debtors; check that goods have been dispatched & not lying with Co.
 - Ensure that **all goods dispatched prior to period/ year-end** have been invoiced & included in debtors on a test check basis
 - Ensure that no goods dispatched after year- end been invoiced & included in debtors for period under audit.
- Ageing Report: **Test invoices** listed in T/R report. Select few invoices from T/R ageing report & compare to **supporting documentation** to see if they were billed with **correct amounts, customers & dates**.
 - Shipment: **Match invoices to shipping/ dispatch log. Match invoice dates to shipment dates**, to see if sales recorded in **correct a/c period**. This can include an **examination of invoices issued subsequent to audit period**, to see if they should have been included in period under audit.
 - Bill & Hold Sales: Assess bill and hold sales. If there is a situation where Co. is billing customers for sales despite still retaining goods on-site (known as “bill & hold”), examine **supporting documentation** to determine whether sale has **actually taken place or not**.
 - Receiving Log: Review receiving log to see if Co. has recorded an inordinately **large amount of customer returns** after audit period, which would suggest that Co. may have **shipped more goods near period end** than what customers had authorized **to inflate profits**.
 - Discounts/Incentives: Review **process** of giving discounts/ incentives & whether given as per **Co's policy/ general industry trends**.
 - Credit Memos: Review credit memos, on a sample basis, issued during audit period to see if they were **properly authorized & issued in correct period**. Also, review credit memos issued after period end to see if they relate to transactions belonging to audit period. Where any deduction made against a bill, check reason & correspondence for the same.

Valuations **MTP Sep'24**

- Review **process** of Co. to derive allowance for doubtful a/cs. This will include consistency **comparison with method** used in **PY** & determination of whether method is **appropriate** for underlying business environment.
- Obtain **ageing report** of a/cs receivable (both Dr/Cr balance).
- Also, obtain list of debtors under **litigation** & compare with **PY**.
- **Scrutinize analysis & identify those debtors which appear doubtful**; discuss mgt about **reasons** as to why these debtors **not included in provision for bad debts**. Perform **further testing** where any **disputes exist**.
- Check if **provisions made at appropriate rates** considering recoverability of amounts due.
- Prepare **schedule of movements of bad debts** – Provision a/cs & debts written off & compare proportion of bad debt expense to sales for CY in comparison to PYs to see if current expense appears reasonable.
- Check that **write-offs** of receivable balances have been **approved by appropriate authority** i.e. BODs in case of Co.

Audit of Items of FS

Disclosure

- Check that **restatement** of foreign currency trade receivables been done properly as per **AS 11**.
- Proper disclosure of **Related Party Transactions** regarding receivables have been made as per AS 18 or IND AS 24.
- Ensure that **transactions with parties covered u/s 189** (Register of Contracts or Arrangements in which Directors are interested) of Companies Act, 2013 are reported properly in CARO,2020.

Disclosures:

(i) Ageing schedule **MTP May'24**

Particulars	O/s for following periods from due date of payment #					Total
	Amt (in ₹)	Less than 6 months	6 Months- 1 year	1-2 years	2-3 years	
(i) Undisputed T/R –considered good						
(ii)Undisputed T/R – Considered doubtful						
(iii) Disputed T/R Considered good						
(iv) Disputed T/R Considered doubtful						

similar info. shall be given where no due date of payment specified, in that case disclosure shall be from date of transaction. Unbilled dues shall be disclosed separately.

(ii) Trade receivables shall be **sub-classified** as:

- Secured**, considered good
- Unsecured**, considered good
- Doubtful**

(iii) **Allowance for bad & doubtful debts** shall be disclosed under the relevant heads separately.

(iv) Debts due by

- **directors or other officers of Co.** or any of them either severally or jointly with any other person or
- **firms or pvt Cos.** respectively in which any **director is a partner/director/member** should be separately stated.

Loans & Advances (L&As) & Other Current Assets

L&As include L&As to RP(s), security deposits, capital advances, amounts recoverable in cash or in kind or for value to be received, e.g., rates, taxes and insurance paid in advance/ prepaid.

Other current assets primarily include balances with statutory/ government authorities etc.

Existence

Direct confirmation procedures, similar to a/c receivable with only difference that **in addition to principal amount, interest receivable**, if any, as per agreed terms b/w parties, **may also be included** as part of balance confirmation.

Completeness

- Obtain **list of all advances & other current assets** & compare with balances in ledger.
- Verify **loan agreements & acknowledgements** of parties in respect of o/s loans. L&A, if material, is granted only if authorised by MOA & AOA in case of Co. In addition, confirm that loans advanced by competent persons, directors in case of Co., partners in case of a firm & trustees in case of trust.
- Inspect the **minutes of meeting of BOD** to confirm if all material loans & advances were approved by BOD.
- Verify that **loan acknowledged by the party** & in addition, **inspect if any security** has been deposited against due repayment of loan. Ascertain if loans are **recovered regularly** as per agreed instalments.
- If any **Related Party L&As**, review whether authorized & value of such transactions reasonable & at arm's length.

Audit of Items of FS

- In relation to balances with statutory authorities like **GST input credit**, prepare a **reasonability w.r.t purchases/ expenses** by applying applicable rate to purchases/ expenses & in case of variance with asset recorded, reasons should be requested from entity.
- Further, obtain **statutory returns filed** with authorities like **GST returns** & verify whether amount as per books of a/c tallies with claim made with authorities.

Valuation **MTP May'20**

- **Assess allowance** for doubtful a/cs. Review **process followed** by Co. to derive allowance for doubtful a/cs. This will include **consistency comparison** with **method** used in PY & determination of whether method is **appropriate** for underlying business environment.
- Obtain **ageing report** of L&As.
- Also, obtain list of L&As **under litigation** & compare with PY.
- **Scrutinize the analysis & identify those L&As that appear doubtful**; discuss with mgt about **reasons** as to why these L&As **not included in provision** for doubtful balances.
- Assess bad L&As **write-offs**. Prepare **schedule of movements on Bad loans/ advances** – Provision A/cs & loans/ advances written off.
- Check that **write-offs or other reductions** in recoverable balances have been **approved by authorised & appropriate senior authority**
- Check **restatement of foreign currency L&As / other current assets** done properly as **per AS 11**.

Disclosures

Long Term loans & Advances

(i) Long-term loans and advances shall be classified as:

- Capital Advances;
- Loans and advances to related parties (giving details thereof);
- Other loans and advances (specify nature).

(ii) The above shall also be separately subclassified as:

- (a) Secured, considered good;
- (b) Unsecured, considered good;
- (c) Doubtful.

(iii) Allowance for bad and doubtful loans & advances shall be disclosed under relevant heads separately.

(iv) Loans and advances due by

- Directors or other officers of the company or any of them either severally or jointly with any other persons or
- amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

Short-term loans and advances

(i) Short-term loans and advances shall be classified as:

- (a) Loans and advances to related parties (giving details thereof);
- (b) Others (specify nature).

(ii) The above shall also be sub-classified as:

- (a) Secured, considered good
- (b) Unsecured, considered good
- (c) Doubtful.

Audit of Items of FS

(iii) Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.

(iv) Loans and advances due by

- directors or other officers of the company or any of them either severally or jointly with any other person or
- amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

To be disclosed as Additional Regulatory Information

Loans or Advances in nature of loans granted to promoters, Directors, KMPs and related parties either severally or jointly with any other person, that are: **ICAI SM + May'24**

- repayable on demand or
- without specifying any terms or period of repayment

Type of borrower	Amt of loan or advance in nature of loan o/s	Percentage to the total Loans and Advances [han wohi]
Promoters		
Directors		
KMPs		
Related Parties		

Inventories

Inventories are assets:

- held for sale in ordinary course of business,
- in the process of production for such sale or
- in form of materials or supplies to be consumed in production process or in rendering of services.

As per AS 2 – “Valuation of Inventories”, Inventory is valued at lower of cost & net realisable value. Basis for valuation shall be applied consistently year on year. Any change in a/c policy shall have adequate disclosures in FS.

Existence

- Review entity's plan for performing inventory count.
- Ensure that consigned goods have been segregated.
- Auditor should participate in inventory count with mgt.
- Test counts of inventory by auditor should include:
 - ✓ observing employees are adhering to the agreed plan.
 - ✓ assuring that there is appropriate supervision on the count procedure.
 - ✓ assuring that all items are properly tagged.
 - ✓ observing that proper amounts are shown on tags.
 - ✓ determining that tags & summary sheets are controlled & reconciled.
 - ✓ reconciliation of test counts with tags & summary sheets & discrepancies noted, if any, are summarized & agreed with client person.
 - ✓ staying alert all times & being cautious about empty boxes, etc. and obsolete items.
 - ✓ performing cut-off testing by documenting last 5-10 receiving reports & shipping documents at period end.
 - ✓ ensuring exclusion of 3rd party stock and damaged or obsolete stock.
 - ✓ ensuring accounting of all stock sheets.

Audit of Items of FS

- ✓ investigating any **significant differences** b/w physical stock take & stock records as per books. Further, ask entity's personnel to sign all stock count sheets & agree variances observed, if any, to avoid any conflicts.
- When entity uses **periodic system** for inventory count, it should be undertaken at **end of period**. If entity uses **perpetual system** with proper & adequate records, inventory may be counted **at interim dates**.
- **Confirm or investigate** any inventory of entity **lying with a 3rd party** (specifically relevant for cases where entity gets **job work done** in its process of production).

Completeness MTP Sep'24

(Only inventories held by entity have been recorded in FS & don't include any inventories that belong to 3rd parties but does include inventories owned by entity & lying with a 3rd party)

- Perform **analytical procedures** (comparison tests with industry averages, budgets, prior years, trend analysis, etc.).
 - Compute **inventory turnover ratio** (COGS/ average inventory)
 - Perform **vertical analysis** (inventory/ total assets)
 - Compare **budgetary** expectations vis-à-vis actuals
- Examine **non-financial information** related to inventory, such as weights and other measurements.
- Perform **purchase & sales cut-off tests**. Trace shipping documents (bills of lading & receiving reports, warehouse records, & inventory records) to a/c records immediately before & after year-end.
- W.r.t **tagged inventory**, perform tests for omitted transactions and tests for invalid transactions.
- Verify the **clerical & arithmetical accuracy** of inventory listings.
- **Reconcile physical inventory amounts with perpetual records**.
- Reconcile physical counts with **general ledger control totals**.
- Reconcile inventories of client but **held with 3rd parties** like transporters, warehouses, port authorities etc.
- **Goods received on a consignment basis** have been properly segregated from other items of inventory.

Rights ICAI SM+ MTP Nov'23

(Entity has valid legal ownership rights over inventories held by entity & recorded in FS)

- Vouch recorded purchases to **underlying documentation** (purchase requisition, purchase order, receiving report, vendor invoice and cancelled cheque or payment file).
- Examine **invoices** for evidence of ownership i.e. the invoices shall be in the name of the client.
- Review **material purchase commitment agreements**.
- Evaluate the **consigned goods**.
- Review **consignment agreements**.
- Examine **client correspondence**, sales & receivables records, purchase documents.
- Determine existence of **collateral agreements**.
- Auditor shall obtain **confirmation** for significant items of inventory.
- For inventory **held by 3rd party**, insist on obtaining declaration from 3rd party on its business letterhead & signed by authorized person of that 3rd party confirming that items of inventory belong to entity & held by 3rd party on behalf of & for benefit of entity under audit.

Valuation

- Depending on how business operates, mgt may value inventory using **First-in first-out (FIFO) or weighted average basis**. Consider reasonableness of method adopted.
- For Raw materials and consumables
 - ✓ Ascertain what **elements of cost are included** e.g. carriage inward, nonrefundable duties etc.

Audit of Items of FS

- ✓ If **standard costs** are used, enquire into **basis of standards**; how these are **compared with actual costs** & how **variances** are analyzed & accounted/ treated in a/c records.
 - ✓ Test check **cost prices with purchase invoices** recd. in month(s) prior to counting.
 - ✓ Follow up **valuation of all damaged or obsolete inventories** noted during observance of physical counting to establish a realistic net realizable value.
- For Work in progress **MTP Sep'24 + Jan'21**
 - ✓ Ascertain how various **stages of production/ value additions** measured & in case of estimates, understand basis for such estimates.
 - ✓ Ascertain what **elements of cost are included**. If overheads are included, ascertain basis on which they are included & compare such basis with available costing & financial info. maintained by entity.
 - ✓ Ensure that material costs **exclude any abnormal wastage factors**.
 - For Finished goods and goods for resale **MTP May'20**
 - ✓ Enquire what **costs are included**, how are these established & ensure overheads included **based on normal costs & reasonable** in relation to info. in FS.
 - ✓ Ensure inventories **valued at NRV if lower than cost**. For such items, also verify if WIP & raw materials also written down.
 - ✓ **Follow up for items that are obsolete, damaged, slow moving** & ascertain **possible realizable value** of such items. Carefully examine valuation of obsolete & damaged inventory. For this, request client to provide inventory ageing split & follow up for inventories which at time of observance of physical counting noted as being damaged or obsolete.
- Compare **recorded costs with replacement costs**.
 - Examine **vendor price lists** to determine if recorded cost is less than current prices.
 - Calculate **inventory turnover ratio**. Obsolete inventory may be revealed if ratio is significantly lower.
 - In manufacturing environments, test overhead allocation rates & ensure only direct labor, direct material & overhead have been included.
 - Verify correct application of **lower of Cost or NRV** principles.

Disclosures

- Whether inventory has been classified as:
 - Raw materials
 - Work-in-progress
 - Finished goods
 - Stock-in-trade (goods acquired for trading)
 - Stores and spares
 - Loose tools
 - Others (specify nature).
- Whether **goods-in-transit** have been disclosed separately under each sub-head of inventories. **ICAI SM**
- Mode of valuation shall be stated.

Cash and Cash Equivalents

Existence & Completeness

- **Surprise Checks:** Special care necessary in verification of cash. Unless checked by surprise, no certainty that cash produced for inspection was in fact held by custodian. So, cash should be checked not only on last day of year, but also after close of year without giving notice of auditor's visit to entity or staff.

Audit of Items of FS

- If **more than one cash balances**, e.g., when there's cashier, petty cashier, branch cashier &, in addition, imprest balances with employees, **all should be checked simultaneously**, as practicable so that shortage in one balance is not made good by transfer of amount from others.
- Desirable for **cashier to be present while cash is counted & sign statement** prepared containing details of cash balance counted with denomination of cash. If absent, may hold auditor responsible for shortage, if any, in cash.
- If any **rough Cash Book or details** of daily balance are separately kept, test entries from rough Cash Book with those in Cash Book to prove that entries in Cash Book are correct.
- If auditor finds any **slip, chit or I.O.U.s** in respect of temporary advances paid to employees included as part of cash balance, check whether **approved by authorized official & recorded** in appropriate a/cs.
- Also perform **cash sensitivity analysis** by compiling a summary of **cash receipts & payments each month & analyzing trends** to see if there have been variations in any specific month & request brief descriptions from mgt.
- Obtain **bank reconciliation statements (BRS)** for all **bank a/cs** maintained by entity as at reporting period & **understand client's process & periodicity** of making the BRS. Ensure that BRS is **signed by authorized personnel** so that he is able to assign responsibility in case of any errors.
- Verification of BRS shall entail the following: **MTP Sep'24**
 - Tallying **balance as per bank book to bank confirmation/ statement**.
 - Checking of all **material reconciling items** included under **cheques issued but presented for payment to underlying bank book** forming part of books of a/c. In addition, request for **bank statements of subsequent period & verify** if cheques issued **subsequently cleared** by bank. For all cases where cheques have become stale i.e. **3 months or more have lapsed** since issue date, same should not appear in BRS & should instead be **taken back to liabilities**.
 - Checking of all **material reconciling items** included under **cheques deposited but not credited by bank** by requesting for **bank deposit slips**, duly acknowledged by bank & verifying if balances were **credited by bank subsequently** by tallying to bank statement of subsequent period. **cheques not cleared beyond reasonable time**, seek brief descriptions from mgt & in case explanations found unsatisfactory, verify **revenue recognition** related to such parties was **in order & as per Co's revenue recognition policy**.
 - Checking of all **material reconciling items** included under **amounts or charges debited/ credited by bank but not accounted for** by requesting for **bank statements** for period under audit & tallying the same. If amounts found to be **material**, ensure that **mgt records adjustments** for the same in its books of a/c. If mgt **doesn't adjust**, auditor shall **qualify his report**.

Direct confirmation procedure **RTP Nov'20**

- **Contact banks/ financial institutions directly** & ask them to confirm amounts held in current, deposit, EEFC, cash credit, restrictive use a/cs like dividend, escrow accounts as of end of reporting period. This should necessarily be done **for all a/c balances as at the period-end**.
- Co. should be asked to **investigate & reconcile the discrepancies**, if any, including seeking written explanations/ clarifications from the banks/ financial institutions on any unresolved queries.
- Emphasize for **confirmation of 100% of bank a/c balances**. In remote situations, where **no reply is received**, perform **additional testing** regarding the balances.

This testing could include:

- Agreeing balance to bank statement received by Co. or online login to a/c in auditor's personal presence
- Sending audit team member to bank branch with the entity's personal to obtain balance confirmation from bank directly.

Valuation

Audit of Items of FS

In addition to above procedures, ensure that all bank a/cs holding **foreign currency** have been restated at closing exchange rates as per applicable FRF.

Disclosures [MTP May'24 + ICAI SM]

- i) Cash and cash equivalents shall be **classified** as:
 - a) Balances with **banks**
 - b) **Cheques**, drafts on hand
 - c) **Cash** on hand
 - d) **Others** (specify nature)
- ii) **Earmarked balances** with banks (for eg, for unpaid dividend) shall be separately stated.
- iii) Balances with banks held as **margin money or security** against borrowings, guarantees, other commitments shall be disclosed separately.
- iv) **Repatriation restrictions**, if any, in respect of cash & bank balances shall be separately stated.
- v) **Bank deposits with more than 12 months' maturity** shall be disclosed separately

Statement of Profit & Loss

Sale of Products & Services

Auditors test sales transactions & ICs to ensure that entity is not materially misstating its revenues or a/c receivable. Obtain a clear understanding about organisation & its revenue centres.

Eg. Type of services or products entity provides, demand for services or products, major selling product/service, introduction of new products/service line, discontinuance of products/services, major customers, sales term (Credit or cash sales).

1. Obtain an understanding of mgt control (internal control) in respect of **sales process**.

Eg. Whether **segregation of duties** exist,

- ✓ **who checks credit limit** (if applicable),
- ✓ **who authorizes** sales orders,
- ✓ **who raises sales invoice**,
- ✓ **when & how goods are delivered/despached** or services are provided,
- ✓ **who collects & records amounts received from debtors**,
- ✓ **who ensures risks & rewards are transferred** to customer, how sales have been recognised in system.

2. **Test controls for sales cycle** to determine **how strong & reliable** they are. If strong & operating effectively, can reduce extent of substantive testing. Any deficiencies in IC communicated as per SA 265.

Eg. Common ICs over sales cycle include pre -numbered sales invoices, proper authority for approval of orders, execution of sales order, customer PO authorization over a certain limit & authorization over receivables write-offs.

3. Auditor **selects a random sample of transactions** & examines related customer POs, invoices & customer statements to ensure that control being tested is a numbered sales invoice. This helps to determine NTE of substantive procedures.

Eg. Auditor ensures all numbers in a section are accounted for & none are missing.

4. Performing **substantive audit procedures** is a must. Substantive analytical procedures will consist of **sales trend analysis**, **comparison with previous a/c period**, **category-wise sales analysis**, any relevant analysis & most important, **building a sales expectation** & comparing with client's sales records.

Auditor will need to know sales prices of products or services over the year, monthly average sales price per product or service, discount policy. **ICAI SM**

Audit of Items of FS

Eg. For a manufacturing Co., if average sales price of product X is ₹10 & 1,500 units were sold in that month, expected sales will be ₹15,000. Compare this with client's data. Discuss any variances (if there were discounts or sales wrongly booked) b/w his expectations & client's records. Also identify & understand how entity accounts for their sales discounts & sales return & how those affect gross sales.

Occurrence

(Recorded sales represent goods shipped/ services performed during the period)

- Ensure revenue is not overstated by performing following audit procedures: **MTP May'24**
 - ✓ Check whether a **single sales invoice is recorded twice** or a cancelled sales invoice could also be recorded.
 - ✓ Test check **few invoices** with their relevant entries in sales journal.
 - ✓ Obtain **confirmation from few customers** to ensure genuineness of sales transaction
 - ✓ Whether **any fictitious customers & sales** have been recorded.
 - ✓ Whether **any shipments done without consent & agreement of customer**, especially at year end to inflate sales figure
 - ✓ Whether **unearned revenue recorded as earned**.
 - ✓ Whether any substantial **uncertainty exists about collectability**.
 - ✓ Whether **customer obligations are contingent** on other actions (financing, resale, etc.).
- Review **sequence of sales invoices**
- Review journal entries for **unusual transactions**
- Calculate **ratio of sales return to sales & compare with PY** & enquire for reasons for increase/ decrease.
- Check **sales return** with sales invoice, challan, credit note, stock register, etc.

Completeness

(All sales made during the period were recorded & no understatement or overstatement.)

- Perform **cut-off procedures** to ensure revenues are recognised in current a/c period & sales not tampered towards period end.
- **Cut-off errors** usually arise when Cos. recognise revenue based on date on which sales invoices are generated rather than date on which risks & rewards are transferred to buyer. In order to perform a robust sales cut-off test, understand & consider specific cut-off error risk of each engg.
- Also **verify credit notes issued after a/c period**. Sometimes sales team or sales personnel can make fictitious sales before year end to meet performance target & cancel out those sales with a post year end credit note.
- Trace from **shipping documents to sales journal**.
- Check whether quantity is appearing in sales register or not & check reconciliation of total sales/goods dispatched as per stock records & financial records & statutory records like GST.
- Review **GST tax & GST returns & reconcile with revenue** reported in p&l a/c. Verify **reasonability of GST** by applying applicable rate to gross sales value & compare amount of GST as per statutory returns & analyze reasons for variance, if any.

Measurement **MTP Nov'22**

(All sales are accurately measured as per applicable a/c standards & correctly journalized, summarized, and posted)

- Trace a few transactions **from inception to completion**. (Examination in depth)
E.g: Take few sales transaction, & check from receipt of sales order to payment of receivable balance, every underlying document to ensure it's properly recorded & measured accurately considering all incentives, discounts, if any. Recognition shall be as per revenue recognition policy of entity.

Audit of Items of FS

- Auditor must understand client's operations & related GAAP issues e.g. point of sale revenue recognition vs. percentage of completion.
- if client engaged in export sales, then compliance with AS 11 shall be ensured.
- Compare rate of sales affected with related parties & review for collectability, & whether properly authorized and value reasonable & at arm's length.

Disclosure MTP Mar'21

(A) In respect of a Co. other than finance Co. revenue from operations shall disclose separately revenue from—

- (a) Sale of products;
- (b) Sale of services;
- (ba) Grants or donations received (relevant in case of Sec 8 companies only),]
- (c) Other operating revenues;
- Less: (d) Excise duty.

(B) In respect of a finance Co., revenue from operations shall include revenue from—

- (a) Interest; and
- (b) Other financial services.

Revenue under each of above heads shall be disclosed separately by way of notes to a/cs to extent applicable.

- Whether brokerage & discount on sales other than usual trade discount has been disclosed.
- Whether transactions with related parties are appropriately disclosed in notes to a/cs.

Other Income comprising interest income, dividend income, Gain/ Loss on sale of investments etc.

- Interest income on FDs is recognized on time proportion basis taking into account amount outstanding & intt rate.
- Dividends are recognised in statement of p&l only when:
 - i. entity's right to receive payment of dividend is established
 - ii. it is probable that economic benefits associated with dividend will flow to entity and
 - iii. amount of dividend can be measured reliably.
- Gain/(loss) on sale of investment in mutual funds is recorded as other income on transfer of title from entity & is determined as difference between redemption price & carrying value of investments. Jan'21

Occurrence/Completeness/Measurement

- For verifying intt. income on fixed deposits: Nov'20
 - ✓ Obtain listing of FDs opened during period with applicable intt rate & no. of days for which deposit was outstanding during period.
 - ✓ Verify arithmetical accuracy of intt. calculation made by entity by recomputing i.e. multiplying deposit amount with applicable rate & no. of days during period under audit.
 - ✓ For deposits still outstanding as at period- end, trace same to direct confirmations obtained from respective bank/ financial institution.
 - ✓ Obtain a confirmation of intt. income from bank & verify that intt. income as per bank reconciles to calculation shared by entity.
 - ✓ Also, obtain a copy of Form 26AS (TDS withholding by bank/ financial institution) & reconcile interest reflected therein to calculation shared by client.

Audit of Items of FS

- For Dividends, verify it's recognised in statement of p&l only when entity's right to receive payment of dividend is established.
- Verify that Gain/(loss) on sale of investment in mutual funds is recorded as other income only on
 - ✓ transfer of title from entity AND
 - ✓ is determined as difference between redemption price & carrying value of investments. For the purpose, obtain mutual fund statement & trace gain/loss recorded in books of a/c to gain/loss reflected in statement.

Disclosure

- Interest Income (in case of a company other than a finance Co.)
- Dividend Income
- Net gain/loss on sale of investments
- Other non-operating income (net of expenses directly attributable to such income).

Undisclosed income

Co. shall give details of

- any transaction not recorded in books of a/c
- that has been surrendered or disclosed as income during the year in tax assessments under Income Tax Act, 1961 (such as, search or survey or any other provisions of Income Tax Act, 1961), unless there is immunity for disclosure under any scheme &
- also shall state whether previously unrecorded income & related assets have been properly recorded in the books of a/c during the year.

Purchases

Obtain a clear understanding about organisation & its production centres e.g. type of services or products they procure used in production/ rendering of services, sources of procurement whether domestic or overseas, general availability & T&Cs of purchase of service/products, major vendors, credit period, quality checks, purchase terms (Credit/cash purchase) etc.

1. Identify control points over purchases

e.g. Whether segregation of duties exist, whether competitive quotes invited, whether purchase committee exists who authorises purchase price, issues & authorizes POs, when & how goods are received & acknowledged, who checks quality, quantity & specifications of goods received & prepares Goods Receipt Note (GRN), who approves vendor invoice, whether a 2 / 3 way match process exists (i.e. tally between purchase order, GRN & vendor invoice), how purchases recognised in system.

2. Auditor tests controls entity has set up for purchase cycle to determine whether they are effective or not. If controls are effective, reduce extent of substantive testing.

Common ICs over purchase cycle include inviting competitive quotations for shortlisting vendors, numbered POs, PO authorization over a certain limit, generation of GRN on receipt of goods, quality inspection of goods, 2 way/ 3-way match, authorization of purchase invoices, appropriate authority to recognise purchases in the system.

3. Select a random sample of transactions & examine related POs, GRN, purchase invoices, inward gate entry register & vendor reconciliation/ statements.

4. Performing substantive audit procedures is must. Substantive analytical procedure will consist of purchase trend analysis, comparison with previous a/c period, category wise purchases, any relevant analysis & most important setting

Audit of Items of FS

a **purchase expectation** & compare with client's purchase records. Auditor would need to know purchase prices of products/services over the year, monthly avg purchase price per product/service etc.

E.g: If purchase price is 100 & 15000 units received during year, auditor expects purchases to be 15,00,000. If there's a variance with books, check for additional details like discounts received, change of purchase price for few orders due to excess demand etc.

Occurrence

Ensure purchases are **not understated/ overstated** by performing following audit procedures:

- Whether **any fictitious vendors** booked or purchases recorded by reviewing vendor selection process followed by entity & also ensure existence of vendors.
- Whether goods **recd. at factory gate** & there exists **entry in security gate inward register**
- Whether a **goods receipt note** was prepared & signed by appropriate client personnel.
- Whether **quality inspection** of goods was done.
- Whether **purchase invoice was approved** as per delegation of authority & whether a 3/2-way match was done.
- Whether **stock record updated** by stores personnel.

Special considerations during audit of purchases:

- Purchase **invoice recd should be "Original" copy** (& not photocopy/carbon copy) against which entity has recorded purchase in books of a/c.
- Purchase invoice be booked **only once risk & reward has been trfd.** to entity. Specific consideration where delivery terms agreed with vendor are F.O.B., C.I.F. etc.
- Purchase invoice should be **in name of entity.** If different branches, should be addressed to appropriate branch.
- **Input tax component** should be booked in **input tax ledger.** Obtain **tax returns** filed with authorities & tally input tax reflected in books to amount disclosed in returns.
- For purchases from **related parties** or allied & associated concerns, verify if **approval from BODs** obtained & **verify selected samples & perform analytical procedures** to confirm arm's length price charged.
- Review whether purchases be **capitalized or expensed off** in Statement of P&L as per his professional judgement.
- Review **journal entries for unusual transactions.**

Completeness & Measurement

In addition to procedures for establishing occurrence, auditor should:

- Perform **cut-off test** to ensure purchases are recognised in correct a/c period. For this, examine **material inward records, say, last 5 transactions at period end** to check that all corresponding invoices have been duly entered in Purchases book & none have been omitted.
- Ensure **correct a/c treatment of goods – in – transit** as per agreed terms with vendor regarding transfer of risk & reward of ownership in goods.
- Obtain **written representation** from mgt that all purchases during year have been properly recorded in books.
- Perform **analytical procedures** to obtain audit evidence as to **overall reasonableness of purchase quantity & price** which may include: **ICAI SM + May'24**
 - ✓ Consumption Analysis: **Scrutinize raw material consumed** as per manufacturing a/c & **compare with PYs** with closing stock & ask for reasons from mgt, if any significant variations are found.
 - ✓ Stock Composition Analysis: **Collect reports from mgt for composition of stock i.e. raw materials as a percentage of total stock** & compare with PY & ask for reasons from mgt in case of significant variations.
 - ✓ Ratios: **Compare creditors turnover ratios & stock turnover ratios** of CY with PYs.
 - ✓ Auditor should **review quantitative reconciliation** of closing stocks with opening stock, purchases & consumption

Audit of Items of FS

Disclosures:

- Whether **purchases of stock-in-trade** have been specifically disclosed.
- Whether **changes in inventories** of finished goods, stock-in-trade & work- in-progress have been specifically disclosed.
- Whether **transactions with related parties** are appropriately disclosed in notes to a/cs.

Employee Benefits Expenses

Obtain clear understanding about organisation & its hiring, appraisal & retirement process in following manner:

1. Auditor **tests controls** around employee benefit **payment process** to determine **how effective** they are. If **effective**, **reduce substantive testing**.
Common internal controls over payment cycle includes maintaining of **attendance records**, **employee master**, **authorisation & approval** of monthly payroll processing & disbursement, computation of **employee deductions like payroll taxes**, other benefits like gratuity, leave encashment, bonus etc.
2. Select a **random sample of transactions** & examines related **appointment letters**, **appraisal letters**, **attendance records**, HR policies, employee master etc.
3. Performing **substantive audit procedures** is must. Substantive **analytical procedure** will consist of **monthly expense reasonability**, **comparison with previous a/c period**.

Audit Procedures [Occurrence, Completeness & Measurement]

- Obtain **understanding of entity's process** of capturing **employee attendance**. There's always a risk that entity could record expense for fictitious employees. To address this risk, auditor may choose to meet employees in person, on a sample basis. Further, may choose to select a sample of employees & ask payroll department to share their bank details/ identity proofs of employees.
- Obtain a **list of employees as at period- end** along with **monthly movement split between new hires, leavers and continuing employees**.
- For a sample (selected randomly) of **new hires**, obtain **appointment letter** & verify whether **salary** for first month and subsequent months was **processed as per agreed terms**.
- For a sample (selected randomly) of **resigned employees**, obtain their **full & final computation** & verify whether all their dues including postretirement benefits like gratuity, leave encashment have been paid & whether respective employee's acknowledgement on final computation has been obtained.
- Obtain **monthly salary registers for all 12 months**. Compile a monthly payroll reasonability by calculating average salary per employee per month & compare with PY & preceding month & analyse reasons for variance which could be due to annual increments, employee at senior level joining/ leaving entity, bonus pay-out etc.
- Verify if **accrual/ provision** made for all **employee benefits & obligations** like bonus, gratuity, etc.
- In case **provident fund (PF)**, **employee state insurance (ESI)** are applicable to entity, **compile a reasonability by applying rate to basic wages & comparing to amount recorded in books** & analyse reasons for variance, if any. Also, obtain **monthly deposit challans** to verify if month on month liability was subsequently deposited with authorities & within defined timelines.
- Perform **analytical procedures** to assess **overall reasonableness of employee benefit expenses** which may include **production per employee analysis**. Auditor should analyse units produced per employee & compare with previous years & present industry trends & ask for reasons from mgt, if any significant variations are found.

Disclosure

- i. salaries and wages,
- ii. contribution to provident and other funds,
- iii. expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP),
- iv. staff welfare expenses

Attributes Jan'21 + MTP Nov'23

Auditor needs to consider following attributes while verifying depreciation & amortisation expenses:

- Obtain understanding of entity's a/c policy related to depreciation & amortisation.
- Ensure Co. policy for charging depreciation & amortisation is as per relevant provisions of Companies Act/ applicable a/c standards.
- A/c policy has been applied consistently year on year. Any change in a/c policy has been adequately disclosed.
- Whether depreciation has been calculated after making adjustment of residual value from cost of assets.
- Whether depreciation & amortisation charges are valid.
- Whether depreciation & amortisation charges are accurately calculated & recorded.
- Whether all depreciation & amortisation charges are recorded in appropriate period.
- Whether each part of PPE with a cost significant in relation to total cost of item been depreciated separately.
Example: Maybe appropriate to depreciate separately airframe & engines of aircraft, whether owned/subject to finance lease.
- Whether most appropriate depreciation method for each separately depreciable component has been used.

Audit Procedures

- Obtain understanding of entity's process of charging depreciation & amortization.
- Obtain fixed asset register (FAR) maintained by entity.
 - ✓ Always a risk that entity could capitalize revenue expense to increase its profit or charge capital expenditure directly in income & expense statement to reduce profit. To address this, check nature of asset from FAR &
 - ✓ further, always a risk that fake asset capitalized in books & to mitigate this risk, physically verify MATERIAL fixed assets. Obtain list of all additions/deletions with their proper approval from authorised person.
- Select sample of material assets from Fixed Assets Register & verify rates & calculations of depreciation.
- Obtain list of all components identified by mgt.
- Ensure Intangible assets like patents, goodwill, copy rights have been properly amortized over the period.
- Ensure depreciation is charged on assets from date when it's ready to use & not from date of actual usage. In other words, depreciation begins when asset is available for use, i.e., when it's in location & condition necessary for operating in manner intended by mgt. ICAI SM
- Ensure depreciation on revalued amount been properly accounted from revaluation reserve.
- Depreciation computation as per Income tax Act, 1961- Ensure that additions are tallying with additions as per Companies Act & opening WDV to Tax audit schedule for AY preceding the PY under audit.
- Perform analytical procedures to assess overall reasonableness of depreciation & amortisation expense - check arithmetical accuracy of records & perform independent calculations.
For eg.- Re-compute depreciation expense for the year.
- Ensure depreciation & amortization charged as per useful lives of PPE & intangible assets.
- Ensure that residual values been properly verified as that impacts computation of depreciation.
- Ensure depreciation & amortization computed prospectively whenever any change in useful lives of PPE & intangible assets.

Disclosures:

- A/c policy for depreciation & amortization.
- Useful lives of assets as per Schedule II to the Companies Act, 2013.
- Residual value of assets.
- Depreciation method.

Other Expenses

Attributes: Dec-21 +MTP Oct-21 + Nov-22

While auditor may choose to analyse monthly trends for expenses like rent, power & fuel, auditor generally prefers to vouch for other expenses to verify following attributes:

- Whether the expenditure was in relation to entity's business & not a personal expenditure.
- Whether expenditure had valid supporting documents like travel tickets, insurance policy, 3rd party invoice etc.
- Whether expenditure has been classified under correct expense head
- Whether expenditure qualified as a revenue & not capital expenditure
- Whether expenditure pertained to current period under audit
- Whether expenditure was authorised as per delegation of authority matrix

Rent expense MTP Nov'22

- Obtain a month wise expense schedule with rent agreements.
- Verify if expense recorded for all 12 months & whether rent amount as per underlying agreement.
- Specific consideration should be given to escalation clause in agreement to verify if rent was required to recorded on a straight-line basis during period under audit.
- Also, verify if agreement is in name of entity & premises used for business operations of entity.

Power and fuel expense MTP Nov'21

- Obtain a month wise expense schedule with power bills.
- Verify if expense has been recorded for all 12 months.
- Also, compile a month wise summary of power units consumed & applicable rate & check arithmetical accuracy of bill raised on monthly basis.
- In relation to units consumed, analyse monthly power units consumed by linking it to units of finished goods produced & investigate reasons for variance in monthly trends.

Insurance expense –

- Obtain a summary of insurance policies with their validity period.
- Verify whether expense correctly classified b/w prepaid & expense for the period based on no. of days.

Legal and professional expenses MTP Mar'23

- Obtain a month-wise & consultant-wise summary.
- In case of monthly retainership agreements, verify whether expenditure for all 12 months recorded correctly.
- For non- recurring expenses, select a sample & vouch for attributes discussed above.
- Be cautious while vouching legal expenses as same may highlight a dispute for which entity may not have made any provision & matter may also not have been discussed/ highlighted to auditor.

Travel, repair and maintenance, printing and stationery, miscellaneous expenses –

- Auditor should select a sample & vouch for attributes discussed above.
- Wherever possible, prepare summary of expenditure on monthly basis & then analytically compare the trends.
- Perform analytical procedures to assess overall reasonableness of other expense which may include expenditure per unit of production analysis.
- Auditor should analyse expense per unit produced & compare with PYs & present industry trends & ask for reasons from mgt, if any significant variations are found.

Important Disclosures

Corporate Social Responsibility (CSR) MTP May'24 + May'22

For Co. covered u/s 135 of Cos act:

- a) amount required to be spent by Co. during the year,
- b) amount of expenditure incurred,
- c) shortfall at the end of the year,
- d) total of previous years shortfall,
- e) reason for shortfall,
- f) nature of CSR activities,
- g) details of related party transactions, e.g., contribution to a trust controlled by the Co. in relation to CSR expenditure as per relevant A/c Std,
- h) where a provision is made w.r.t a liability incurred by entering into a contractual obligation, the movements in the provision during the year should be shown separately.

Round-off

(i) Depending upon Total Income of Co., figures appearing in the F.S. shall be rounded off as:

Total Income	Rounding off
(a) less than ₹100 Cr	To nearest hundreds, thousands, lakhs or millions, or decimals thereof.
(b) ₹100 Cr or more	To the nearest lakhs, millions or crores, or decimals thereof.

(ii) Once a unit of measurement is used, it should be used uniformly in the FS.

Details of Benami Property held May'22 +RTP May'24

Where any proceedings have been initiated or pending against Co. for holding any benami property under Benami Transactions (Prohibition) Act, 1988 & rules made thereunder, Co. shall disclose the following:

- a) Details of such property, including year of acquisition,
- b) Amount thereof,
- c) Details of Beneficiaries,
- d) If property is in books, then reference to item in BS,
- e) If property is not in books, then fact shall be stated with reasons,
- f) Where proceedings against Co. under this law as an abetter of transaction or as transferor then details shall be provided,
- g) Nature of proceedings, status of same & company's view on same.

Relationship with Struck off Companies

Where Co. has any transactions with companies struck off u/s 248 of Companies Act, 2013 Co. shall disclose following details:

Name of struck off Co.	Nature of Transactions with struck off Co.	Balance outstanding	Relationship with Struck off Co., if any, to be disclosed
	Investments in Securities		
	Receivables		
	Payables		
	Shares held by struck off Co.		
	Other o/s balances		

Audit of Items of FS

Ratios to be disclosed RTP May'24

- (a) Current Ratio,
- (b) Debt-Equity Ratio,
- (c) Debt Service Coverage Ratio,
- (d) Return on Equity Ratio,
- (e) Inventory turnover ratio,
- (f) Trade Receivables turnover ratio,
- (g) Trade payables turnover ratio,
- (h) Net capital turnover ratio,
- (i) Net profit ratio,
- (j) Return on Capital employed,
- (k) Return on investment.

Debt (E/SCR) → Current (R) Inventory (t/o)
Trade (R/P) → Net (Cto/P) Return (CE/OI)

- Co. shall explain items included in numerator & denominator for computing above ratios.
- Further explanation provided for any change in ratio by MORE THAN 25% as compared to preceding year.

Details of Crypto or Virtual Currency Nov'22

Where Co. has traded or invested in Crypto or Virtual Currency during FY, following shall be disclosed:

- a. profit or loss on transactions involving Crypto currency or Virtual Currency
- b. amount of currency held as at reporting date,
- c. deposits or advances from any person for trading or investing in Crypto / virtual currency.

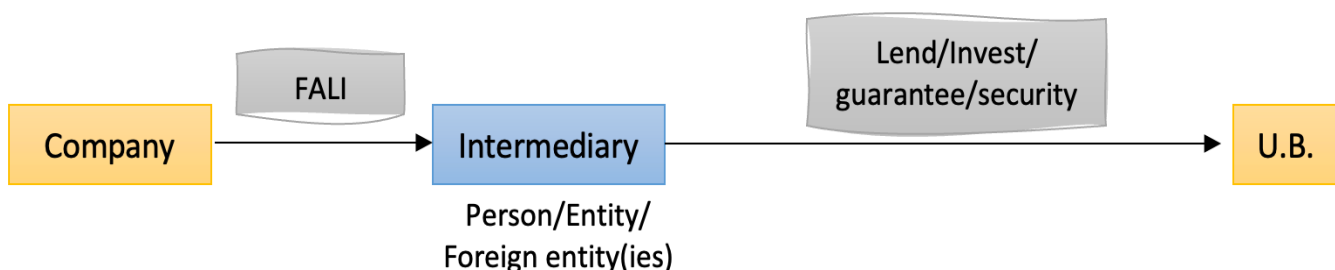
Utilisation of Borrowed funds and share premium

(A) Where Co. has advanced or loaned or invested funds (either borrowed funds or share premium or any other sources or kind of funds) to any other person(s)/entity(ies), including foreign entities (Intermediaries) with understanding (whether recorded in writing/otherwise) that Intermediary shall

- i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Co. (Ultimate Beneficiaries) or
- ii) provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries

Co. shall disclose following:-

- I. date & amount of fund advanced or loaned or invested [FALI] in Intermediaries with complete details of each Intermediary.
- II. date & amount of fund further advanced or loaned or invested by such Intermediaries to other intermediaries or UBs along with complete details of UBs.
- III. date and amount of guarantee, security or like provided to or on behalf of UBs
- IV. declaration that relevant provisions of FEMA, 1999 and Companies Act has been complied with for such transactions and transactions are not violative of PMLA, 2002



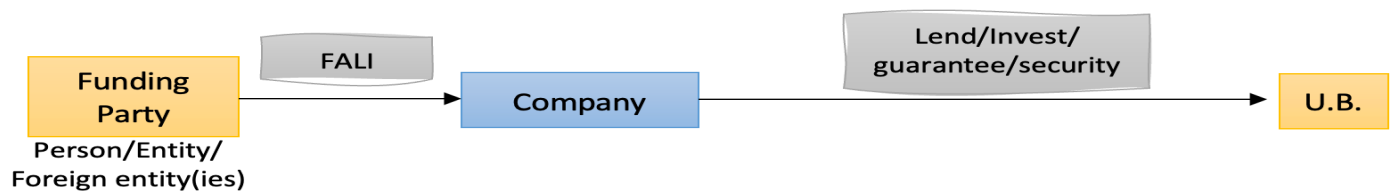
Audit of Items of FS

(B) Where a Co. has received any fund from any person(s)/entity(ies), including foreign entities (Funding Party) with understanding (whether recorded in writing/otherwise) that Co. shall

- i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (Ultimate Beneficiaries) or
- ii) provide any guarantee, security or the like on behalf of the UBs,

Co. shall disclose the following:

- I. date & amt of fund received from FPs with complete details of each FP.
- II. date & amount of fund further advanced/loaned/invested other intermediaries or UBs along with complete details of other intermediaries or UBs.
- III. date & amt of guarantee, security or the like provided to or on behalf of UBs
- IV. declaration that relevant provisions of FEMA, 1999 & Companies Act has been complied with for such transactions and transactions are not violative of PMLA, 2002.



[UB: Ultimate Beneficiary & FP: Funding Party]

Wilful Defaulter*

Where a Co. is a declared wilful defaulter by any bank/FI or other lender, following details shall be given:

- a) Date of declaration as wilful defaulter,
- b) Details of defaults (amount and nature of defaults),

* wilful defaulter" here means a person or an issuer who or which is categorized as a wilful defaulter by any bank or financial institution as per the RBI guidelines on wilful defaulters.

Registration of charges or satisfaction with Registrar of Companies

Where any charges or satisfaction yet to be regd with ROC beyond statutory period, details & reasons shall be disclosed.

Title deeds of Immovable Property not held in name of the Co.

Co. shall provide details of all immovable property (other than properties where Co. is lessee & lease agreements are duly executed in favour of lessee) whose title deeds are not held in name of Co. in format given below & where such immovable property is jointly held with others, details are required to be given to the extent of Co's share.

Relevant line item in B.S.	Description of property	Gross carrying value	Title deeds held in name of	Whether title deed holder is a promoter, director or relative of promoter/ director or employee of promoter/ director	Property held since which date	Reason for not being held in name of Co.**
						**Indicate if any dispute

Audit of Items of FS

(ii) Where Co. has revalued its PPE, it shall disclose as to whether revaluation is based on valuation by a registered valuer.

Capital-Work-in Progress (CWIP) ICAI SM

(a) For CWIP, following ageing schedule shall be given:

CWIP ageing schedule

CWIP	< 1 Year	1-2 years	2-3 years	> 3 years	Total
Projects in Progress					
Projects temporarily suspended					

For CWIP, whose completion is overdue or exceeded its cost compared to original plan, following CWIP completion schedule shall be given:

	To be completed in:				Total
	< 1 year	1-2 years	2-3 years	> 3 years	
Project 1					
Project 2					

(Details of projects where activity has been suspended to be given separately)

(vii) Similar schedules to be given for Intangible Assets under Development

Other Topics given in ICAI SM QB

Q. How will you vouch/verify?

- a. Goods sent out on Sale or Return Basis.
 - i) Check whether separate memoranda record of goods sent out on sale or return basis maintained. Party accounts are debited only after goods sold & sales a/c is credited.
 - ii) Verify that price of such goods is unloaded from sales a/c & debtors record. Check memoranda record to confirm that on receipt of acceptance from each party, his a/c has been debited & sales a/c correspondingly credited.
 - iii) Ensure that goods in respect of which period of approval has expired at end of year, have either been received back or customers' a/cs been debited.
 - iv) Confirm that inventory of goods sent out on approval, period of approval had not expired till end of year lying with party, has been included in closing inventory.

- b. Borrowing from Banks: May be in form of overdraft limits or term loans.
 - i) Reconcile balances in overdrafts or loan a/cs with pass book(s) & confirm last mentioned balance by obtaining a certificate from bank showing balance in a/cs at end of year.
 - ii) Obtain independent balance confirmation from bank showing balances, particulars of securities deposited with bank as security for loans or charge created on asset & confirm the same has been correctly disclosed & duly registered with Registrar of Companies & recorded in Register of charges.
 - iii) Verify authority under which loan or draft has been raised. In case of a Co., only Board of Directors is authorised to raise a loan or borrow from bank.
 - iv) Confirm, in case of a Co., that restraint contained in Sec 180 of Companies Act, 2013 as regards maximum amount of loan that Co. can raise has not been contravened. Ascertain purpose for which loan raised & manner in which utilised & it has not prejudicially affected the entity.

c. Goods Sent on Consignment:

- i) Verify a/cs sales submitted by consignee showing goods sold & in hand.
- ii) Reconcile figure of goods on hand, as given in the last a/cs sales, with Performa invoices & a/cs sales received during year. If any consignment inventory was in hands of consignee at beginning of year, same should be taken into account in reconciliation.
- iii) Obtain confirmation from consignee for goods held on consignment on BS date. Verify terms of agreement between consignor & consignee to check commission and other expenses debited to consignment a/c & credited to consignee's a/c. Accounts sales also must be correspondingly checked.
- iv) Ensure that quantity of goods in hand with consignee has been valued at cost plus proportionate non-recurring expenses, e.g., freight, dock dues, customs due, etc., unless value is lower. In case NRV is lower, inventory in hand of consignee should be valued at NRV. Also see that allowance has been made for damaged & obsolete goods in making valuation.
- v) See that goods in hand with consignee have been shown separately under the head inventories.

d. Foreign Travel Expenses:

- i) Examine Travelling Allowance bills submitted by employees stating details of tour, details of expenses, etc.
- ii) Verify that tour programme was properly authorised by competent authority.
- iii) Check T.A. bills along with accompanying supporting documents such as air tickets, travel agents bill & hotel bills w.r.t internal rules for entitlement of employees & also make sure that bills are properly passed.
- iv) See that tour report accompanies T.A. bill. Tour report will show purpose of tour. Satisfy that purpose of tour as shown by tour report conforms to authorisation for tour.
- v) Check RBI's permission, if necessary, for withdrawing foreign exchange. For a Co. amount of forex spent is to be disclosed separately in accounts as per requirement of Schedule III to Companies Act, 2013 & AS 11 "The Effects of Changes in Foreign Exchange Rates".

e. Receipt of Capital Subsidy:

- i) Check application made for claim of subsidy to ascertain purpose & scheme under which subsidy made available.
- ii) Examine documents for grant of subsidy & note conditions attached with same relating to its use, etc.
- iii) Ensure that conditions to be fulfilled & other terms especially whether it's for a specific asset or for setting up a factory at a specific location.
- iv) Check relevant entries for receipt of subsidy.
- v) Check compliance with AS 12 on "Accounting for Government Grants" i.e. whether it relates to specific amount or in form of promoters' contribution & accordingly accounted & disclosed.

f. Provision for Income Tax:

- i) Obtain computation of income & income tax & verify whether it's as per Income tax Act, 1961 & Rules.
- ii) Review adjustments, expenses, disallowed special rebates, etc. w.r.t last available completed assessment.
- iii) Examine relevant records & documents pertaining to advance tax, self-assessment tax and other demands.
- iv) Compute tax payable as per latest applicable rates in Finance Act.
- v) Ensure that overall provisions on BS date is adequate w.r.t CY provision, advance tax paid, assessment orders, etc.
- vi) Ensure that requirements of AS 22 on Accounting for Taxes on Income appropriately followed.

Audit of Items of FS

g. Payment of Taxes:

- i) Payment on account of income-tax & other taxes consequent upon a regular assessment should be verified by reference to copy of assessment order, assessment form, notice of demand & receipted challan.
- ii) Payments or advance payments of income-tax should also be verified with notice of demand & receipted challan acknowledging amount paid.
- iii) Interest allowed on advance payments of income-tax should be included as income & penal interest charged for non-payment should be debited to interest a/c.
- iv) Nowadays, electronic payment of taxes is in trend. It means payment of taxes by way of internet banking facility or credit or debit cards.
- v) Entity can make electronic payment of taxes also from a/c of any other person. However, challan for making such payment must clearly indicate PAN of assessee on whose behalf payment is made. This should be checked by auditor.
- vi) It isn't necessary for entity to make payment of taxes from his own a/c in authorized bank. While vouching such e-payment, cross verify payments of taxes through receipted challan along with PAN No /TAN No. etc.

h. Sale Proceeds of Scrap Material:

- i) Review internal control on scrap materials, as regards its generation, storage and disposal and see whether it was properly followed at every stage.
- ii) Ascertain whether organisation is maintaining reasonable records for sale & disposal of scrap materials.
- iii) Review production & cost records for determination of extent of scrap materials that may arise in a given period.
- iv) Compare income from sale of scrap materials with corresponding figures of preceding three years.
- v) Check rates at which different types of scrap materials been sold & compare with rates in preceding year.
- vi) See that scrap materials sold have been billed & check calculations on invoices.
- vii) Ensure there exists a proper procedure to identify scrap material & good quality material is not mixed up with it & sold as scrap
- viii) Make overall assessment of value of realisation from sale of scrap materials as to its reasonableness

i. Advertisement Expenses:

- i) Verify bills/invoices from advertising agency to ensure that rates charged for different types of advertisement are as per contract.
- ii) See that advertisement relates to client's business.
- iii) Inspect receipt issued by agency.
- iv) Ascertain nature of expenditure – revenue or capital expenditure & see that it has been recorded properly.
- v) Ascertain period for which payment is made & see that prepaid amount, if any, is carried to BS.
- vi) See that all outstanding advertisement bills been provided for.