

Principles of Accounting Department of Commerce

Department of Commerce

Principles of Accounting

Code: CPZ5B

Semester

Prepared By

M. KAMALADEVI

Assistant Professor

INTRODUCTION

- The word ‘Audit’ has its origin from a Latin word ‘audire’ which means “to hear”. In the middle ages, the owners of business appointed an auditor to check the accounts whenever they suspected fraud. The auditor hears the explanation given by the person responsible for financial transaction.
- Later, in 1464 an Italian named Luca Pacialo published a double entry system of bookkeeping and also described the duties and responsibilities of an auditor.

MEANING AND DEFINITION

- **MEANING:** Auditing is a detailed and critical examination of accounts by an independent and qualified person to ascertain the true and fair view of the financial position of the business concern. After verifying the accuracy of the accounts, the auditor has to submit a report to the management that the financial statement represents a true and fair view of the statement of affairs of the business.

- **DEFINITION:** *Spicer and Pergler* defines auditing as, “such an examination of the books, accounts, and vouchers of a business as well enable the auditor to satisfy the Balance Sheet is properly drawn up so as to give a true and fair view of the state of affairs of the business, whether the Profit and Loss account gives a true and fair view of the profit and loss for the financial period, according to the best of his information and explanation given to him as shown by the book, and if not, in what respect he is not satisfied.”

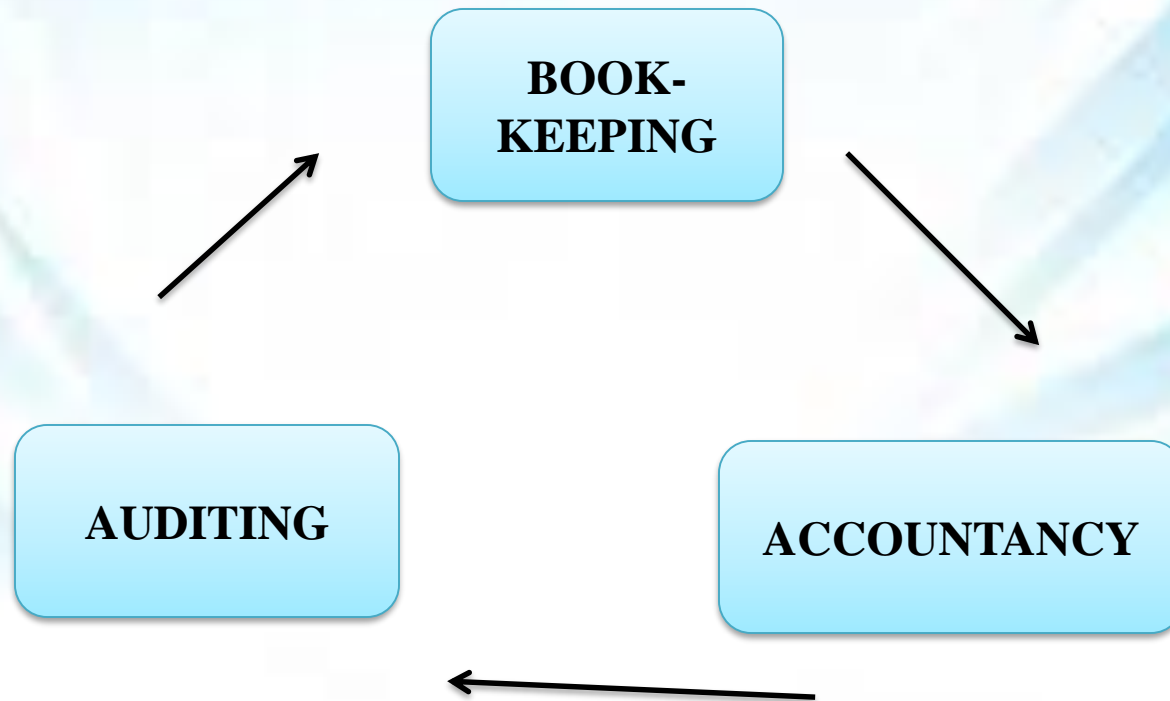
FEATURES OF AUDITING

- It is a systematic and independent examination of financial information of a concern.
- Its main motive is to detect errors and frauds in the books of accounts and financial statement.
- It involves use of special techniques, standards and procedures.
- It is conducted either by independent or body of persons who possess in depth knowledge and extensive practical training.

Continue...

- It ensures the correctness and reliability of accounting information.
- It ensures the correctness of Trading, Profit and loss account and balance sheet whether it reflects a true and fair view of the state of affairs of the business.
- It further ensures that the financial statements follow the accounting standards.
- Its scope extends beyond the purview showing the truthfulness of financial statements like assessing tax liability, filling of returns, marketing, management, social activities etc.

BOOK-KEEPING, ACCOUNTANCY AND AUDITION



MEANING AND DEFINITION OF INVESTIGATION

- **MEANING:** Investigation means an enquiry or examination for some specific objectives, for example, detection of suspected fraud and theft, causes for continuous loss, low productivity or to evaluate the credit worthiness of business.
- **DEFINITION:** *Spicer and Pegler* defines investigation as, “The term investigation implies an examination of records for some special purpose”.

OBJECTIVES

- To ascertain the financial position and the earning capacity of the concern.
- To investigate when fraud is suspected by the proprietor.
- To investigate on behalf of Income Tax authorities for tax liability.
- To investigate on behalf of the liquidator of a company where the directors are suspected of fraud.
- To investigate for claims under insurance policy covering consequential losses.

ADVANTAGES OF AUDITION

TO THE COMPANIES

1. Detection and Prevention of Errors.
2. Check on Employees.
3. Professional Advice
4. Obtaining Easy Credit.
5. Resolve Disputes
6. Determination of Purchase Consideration.

TO THE OWNERS

1. Sole Proprietors.
2. Partnership Firm
3. Joint Stock Company.
4. Trust.
5. Co-operative Societies.

TO THE OUTSIDER

1. Banks and Financial Institutions.
2. Insurance Companies.
3. Statutory authorities.

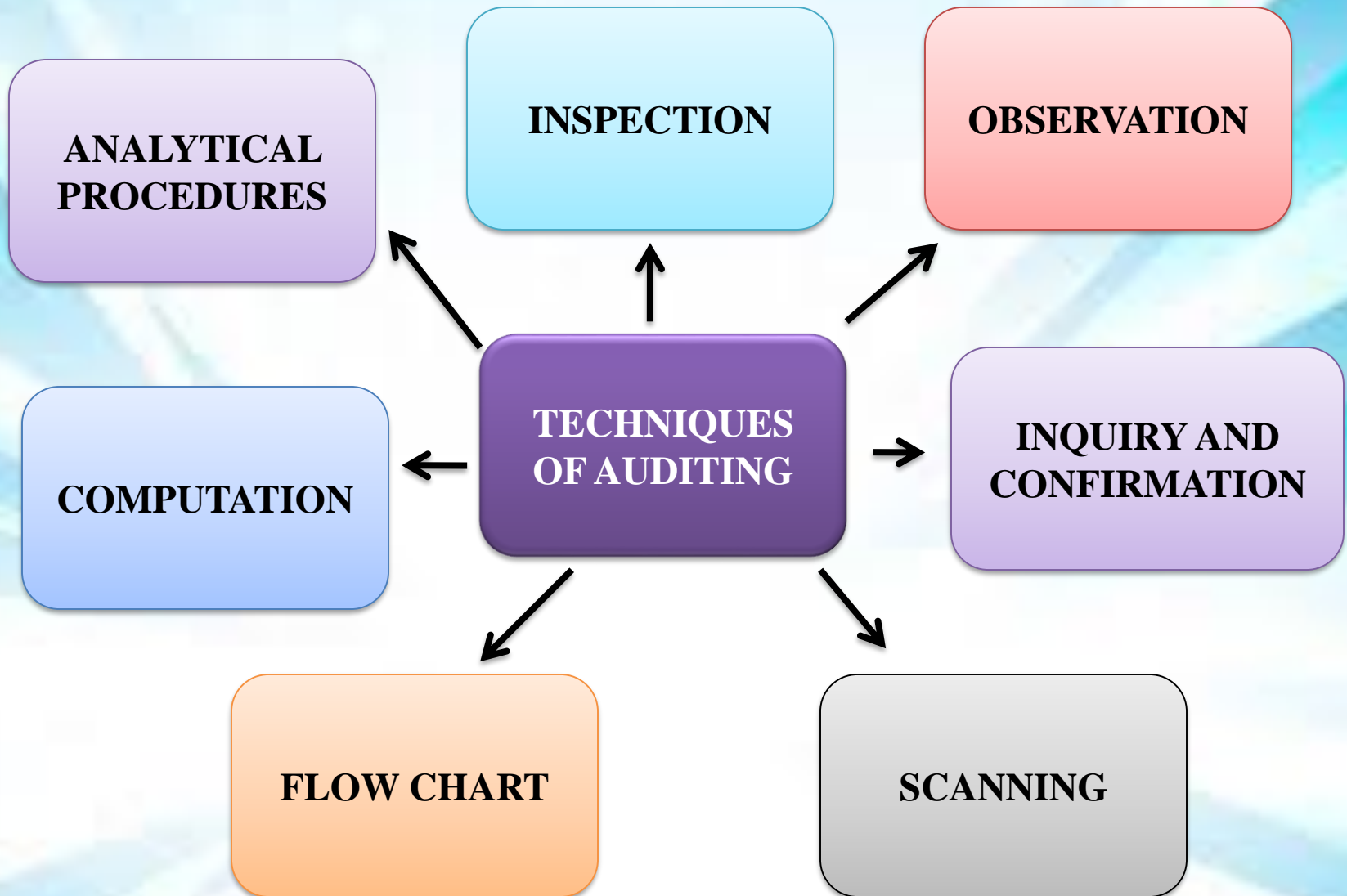
LIMITATIONS OF AUDITING

- Undetected Errors
- Undetected Frauds
- Faulty or Inadequate Information Provided within the Business
- Faulty or Inadequate Information Provided from Outside Source
- Inappropriate Audit Technique

SCOPE OF AUDIT

- Legal requirements
- Entity aspects
- Reliability information
- Proper communication
- Evaluation
- Test
- Comparison
- Judgements

TECHNIQUES OF AUDITING



QUALITIES OF AN AUDITOR

PROFESSIONAL QUALITIES

- Knowledge of Accounting Principles and Concepts.
- Knowledge of Principles and Techniques of Auditing.
- Knowledge of Company and Mercantile Law.
- Knowledge of Cost Accounts.
- Knowledge of Management.
- Knowledge of Mathematics and Statistics.
- Knowledge of Economics.
- Knowledge of Technical Details and Production Process.

Continue...

GENERAL QUALITIES

- Tactful and Honest
- Ability to Work hard
- Reasoning
- Vigilant, Cautions and Accurate
- Communication Skill
- Impartiality
- Ability to Trace out Facts and Figures
- Methodical
- Ability to maintain secrecy
- Well-Behaved
- Courage and Ability
- Common Sense

AUDIT CONCLUSION AND REPORTING

- The goal of an audit is to form and express an opinion on financial statements.
- The audit is performed to get reasonable assurance on whether the financial statements are free of material misstatement.
- An audit also includes assessing the accounting principles used and the significant estimates made by the management.
- Audit conclusions and reporting are one of the principles governing an audit.
- Reporting is the last procedure of the process of an audit.



Thank you

<https://www.patriciancollege.ac.in/>