Skillshort

Self-Study Preparation Pack

CMA INTERMEDIATE

Paper 10: Corporate Accounting and Auditing (CAA)

Chapter-wise Detailed Notes

For the December 2026 term (Sun 13 Dec 2026, 2–5 pm) and June 2027 · ICMAI Syllabus 2022 · Companies Act 2013, Cost Records and Audit Rules and Ind AS as amended up to 31 May 2026 · Worked examples verified in Python

100 marks · 3 hours | Q1: 15 MCQs × 2 = 30 | Any 5 of Q2–Q8 × 14 = 70 | Accounting 50% · Auditing 50%

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This subject pack has 6 parts

1 Chapter-wise notes

2 Important topics & weightage

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Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

How to use these notes

These notes follow the **ICMAI Syllabus 2022 module order** – Section A Corporate Accounting (Chapters 1–6, 50%) and Section B Auditing (Chapters 7–9, 50%). Each chapter gives the provisions and formats examined, worked examples verified in Python, and the traps that cost marks.

Paper at a glance

Item	Detail
Marks / time	100 marks, 3 hours, 2:00–5:00 pm
Section A	Q1 – **15 MCQs × 2 marks = 30** (about 8 accounting, 7 auditing)
Section B	**Any 5 of Q2–Q8**, 14 marks each = 70
Typical Section B order	Q2 shares/buy-back/underwriting/redemption · Q3 **Schedule III financial statements** (14 marks) · Q4 bank + insurance (or electricity) accounts · Q5 Ind AS numericals + cash flow · Q6–Q8 auditing theory
ICMAI weightage	M1 Shares and debentures 10% · M2 Schedule III 10% · M3 Cash flow 10% · M4 Banking, electricity and insurance 10% · M5 Ind AS 10% · M6 Basics of audit 10% · M7 Company audit 30% · M8 Audit of different entities 10%

NOTE Applicability card - Dec 2026

Area	Applicable up to
Companies Act 2013 & Rules	**31-05-2026**
Cost Records & Audit Rules 2014	**31-05-2026**
Ind AS (comparison with AS)	**31-05-2026**
SAs / CARO 2020	As in Study Material 2026 VERIFY

- Source: ICMAI DoS clarification 15-09-2026.
- Note: **AS 22 Pillar Two amendment** (GSR 169(E), 10-03-2026) - temporary exception for deferred tax on Pillar Two income taxes VERIFY.

NOTE Company-law updates relevant to audit (to 31-05-2026)

- **ADT-4** e-form for fraud reporting by auditor (s.143(12)) revised w.e.f. 14-07-2025.
- Board's report: number of **POSH complaints** & **Maternity Benefit Act** compliance statement (Accounts Second Amendment Rules 2025) VERIFY.
- Small company limits: paid-up capital ≤ **₹10 crore**, turnover ≤ **₹100 crore** (G.S.R. 880(E), 1-12-2025) → affects CARO / rotation exemptions.

Chapter 1: Accounting for Shares & Debentures

In this chapter: Issue, forfeiture & re-issue of shares · Rights issue · Bonus issue · Sweat equity · ESOP & ESPS · Buy-back · Redemption of preference shares · Issue & redemption of debentures · Underwriting

1.1 Issue of shares – entries

Bank Dr → Share Application A/c → Share Application Dr → Share Capital (+ Securities Premium) → Allotment due: Share Allotment Dr → Share Capital → Calls: Share Call Dr → Share Capital → Receipts: Bank Dr → Allotment/Calls

- **Over-subscription**: reject or **pro-rata** allotment - excess application adjusted to allotment/calls.
- **Securities premium** s.52: use for bonus shares, preliminary expenses, issue expenses/discount, premium on redemption, buy-back.

1.2 Forfeiture & re-issue

On forfeiture = Dr Share Capital (called-up) ; Cr Calls in arrears ; Cr Forfeited Shares (amount received)

On re-issue = Dr Bank + Dr Forfeited Shares (discount) ; Cr Share Capital

Capital reserve = Forfeited amount on re-issued shares – discount on re-issue

- Discount on re-issue **cannot exceed** amount forfeited on those shares.
- If premium was received before forfeiture → not reversed.

1.3 Rights, bonus & sweat equity

Issue	Section	Key points
Rights	s.62(1)(a)	Offer to existing holders pro-rata; 7-30 days; renounceable
Bonus	s.63	From free reserves, securities premium, CRR; not revaluation reserve; fully paid
Sweat equity	s.54	To employees/directors for know-how/value addition; special resolution; lock-in 3 yrs VERIFY
Preferential	s.62(1)(c) & s.42	Special resolution; valuation report

1.4 ESOP & ESPS

- **ESOP**: option to buy shares at a future date at pre-determined price; grant → **vesting** (min 1 yr) → exercise.
- Accounting (Guidance Note / Ind AS 102): **fair value** (or intrinsic value under GN) of options recognised as **employee compensation expense** over vesting period.

Expense p.a. = Options expected to vest × Fair value ÷ Vesting period (true-up for forfeitures)

- Entries: Dr Employee comp. expense; Cr Stock Options Outstanding A/c → on exercise: Dr Bank + Dr SOO; Cr Share Capital + Securities Premium.
- **ESPS**: shares offered at discount; difference = employee cost.

1.5 Redemption of preference shares s.55

- Only **fully paid** shares; redeem out of **profits available for dividend** or **fresh issue** proceeds.

CRR = Nominal value redeemed – Proceeds of fresh issue (face value part) for redemption

- Premium on redemption: from **securities premium** or profits (for non-Ind AS companies) VERIFY.
- CRR may be used **only for fully paid bonus shares**.

1.6 Debentures – issue & redemption

- Issue at par/premium/discount; redeemable at par/premium → **loss on issue** written off over term.
- **DRR** (Rule 18(7)): not required for listed companies, NBFCs & HFCs; **10% of outstanding** value for other unlisted companies; **15% investment/deposit** of amount maturing in the year by 30 April VERIFY.
- Methods: lump sum, instalments (draw), purchase in open market (ex/cum interest), conversion, **sinking fund**.

1.7 Underwriting - net liability

Gross liability = Issue × underwriting %

Less: Marked applications = Credited to the respective underwriter

Less: Unmarked applications = Credited in **ratio of gross liability** (or as per agreement)

Net liability = Gross – marked – unmarked (if negative, re-distribute surplus)

- **Firm underwriting**: underwriter's own applications - treated as marked (or unmarked) per agreement VERIFY.
- Commission ceiling (s.40(6)/Rule 13): **shares 5%**, **debentures 2.5%** of issue price (or AoA if lower).

WORKED EXAMPLE Forfeiture illustration

- 1,000 shares of ₹10; application ₹2 paid; allotment ₹3 unpaid → forfeited.

Forfeiture = Dr Share Capital 5,000 ; Cr Allotment 3,000 ; Cr Forfeited Shares 2,000

- Re-issue **600** shares as ₹10 fully paid at **₹9**: Dr Bank 5,400; Dr Forfeited 600; Cr Share Capital 6,000.

Capital reserve = 600 × 2 – 600 = **₹600** (balance 800 stays in Forfeited Shares for 400 shares)

EXAM TIP FAQ - shares

- Calls in arrears - interest up to **10% p.a.** (Table F) VERIFY; calls in advance - interest up to 12% p.a.
- Bonus out of **revaluation reserve** - not permitted.
- Shares issued at discount - **void** except sweat equity (s.53).
- Buy-back & redemption both need **CRR** for amount from free reserves.

1.8 Worked examples – shares and debentures (verified)

WORKED EXAMPLE Pro-rata allotment, forfeiture and re-issue

10,000 equity shares of ₹10 issued at ₹12: application ₹3, allotment ₹5 (including premium ₹2), call ₹4. Applications for 12,000 shares; allotment pro-rata (10 : 12); excess application money adjusted against allotment. X, who applied for 720 shares (allotted 600), failed to pay allotment and call; his shares were forfeited. 400 of them were re-issued at ₹8 per share fully paid.

X paid 720 × 3 = **₹2,160**. Due on allotment 600 × 5 = 3,000 – excess 120 × 3 = 360 → unpaid **₹2,640**; call unpaid 600 × 4 = **₹2,400**.

Forfeiture entry	Dr ₹	Cr ₹
Equity share capital (600 × 10)	6,000	
Securities premium (600 × 2 – not received)	1,200	
To Share allotment		2,640
To Share first and final call		2,400
To Forfeited shares (amount received)		2,160

Re-issue: Bank Dr 3,200; Forfeited shares Dr 800; To Equity share capital 4,000.

Forfeited amount on 400 shares = 2,160 × 400/600 = 1,440 → **capital reserve = 1,440 – 800 = ₹640**; balance in forfeited shares = **₹720** (for 200 shares not yet re-issued).

WORKED EXAMPLE **Underwriting – net liability with surplus**

Issue of 1,00,000 shares underwritten A 40%, B 40%, C 20%. Applications 85,000: marked A 20,000, B 35,000, C 10,000; unmarked 20,000 (credited in the ratio of gross liability).

Particulars	A	B	C
Gross liability	40,000	40,000	20,000
Less: marked applications	(20,000)	(35,000)	(10,000)
Less: unmarked (40 : 40 : 20)	(8,000)	(8,000)	(4,000)
Balance	12,000	(3,000)	6,000
Surplus of B shared by A and C (40 : 20)	(2,000)	3,000	(1,000)
Net liability (shares)	**10,000**	**Nil**	**5,000**

Check: 10,000 + 5,000 = 15,000 = 1,00,000 − 85,000 ✓. Commission on shares is capped at **5%** of the issue price (Rule 13).

WORKED EXAMPLE **Redemption of preference shares with a fresh issue**

10,000 10% preference shares of ₹100 are redeemed at a 10% premium (₹11,00,000). The company issues 30,000 equity shares of ₹10 at ₹12 (₹3,60,000). Securities premium before the issue ₹50,000; general reserve ₹8,00,000.

- Premium on redemption ₹1,00,000 → from **securities premium** (50,000 + 60,000 new = 1,10,000 available).
- **CRR** = nominal value redeemed 10,00,000 − face value of fresh issue 3,00,000 = **₹7,00,000**, transferred from general reserve (s.55).
- Entries: Bank Dr 3,60,000 To Equity share capital 3,00,000 and Securities premium 60,000; Preference share capital Dr 10,00,000 + Premium on redemption Dr 1,00,000 To Preference shareholders 11,00,000; Securities premium Dr 1,00,000 To Premium on redemption 1,00,000; General reserve Dr 7,00,000 To CRR 7,00,000; Preference shareholders Dr 11,00,000 To Bank 11,00,000.

WORKED EXAMPLE **ESOP expense over the vesting period**

500 employees get 100 options each (50,000 options); fair value ₹30 per option; vesting 3 years. Expected to vest: end of year 1 – 90%; year 2 – 88%; actual at year 3 – 85%.

Year	Cumulative expense	Expense for the year
1	50,000 × 90% × 30 × 1/3 = 4,50,000	**4,50,000**
2	50,000 × 88% × 30 × 2/3 = 8,80,000	**4,30,000**
3	50,000 × 85% × 30 = 12,75,000	**3,95,000**

Entry each year: Employee compensation expense Dr To Stock options outstanding; on exercise, the SOO balance moves to share capital and securities premium.

Chapter 2: Buy-back of Securities

In this chapter: s.68-70 · Sources · Limits & three tests · Debt-equity ratio · Entries · CRR s.69

2.1 s.68 essentials

- Sources: **free reserves**, **securities premium**, proceeds of an **earlier issue of different kind** of shares/securities (not same kind).
- Authorised by **Articles**; **Board resolution** if ≤ **10%** of paid-up equity + free reserves; else **special resolution** (≤ **25%**).
- Equity buy-back ≤ **25% of total paid-up equity capital** in a FY.
- Post buy-back **debt ≤ 2 × (paid-up capital + free reserves)** (higher ratio if notified for a class VERIFY).
- Only **fully paid** securities; gap of **1 year** between buy-backs; complete within **1 year** of resolution.
- Extinguish/physically destroy within **7 days** of completion; no fresh issue of same kind for **6 months** (except bonus/conversion of existing obligations) – s.68(8).

2.2 Three tests (do all, take lowest)

1. Shares outstanding test = 25% × existing equity shares (number)

2. Resources test = 25% × (Paid-up capital + free reserves) ÷ buy-back price

3. Debt-equity test = Max equity reduction = Present equity – (Debt ÷ 2); shares = reduction ÷ price

- Equity for tests usually = paid-up capital + free reserves (incl. securities premium; exclude revaluation reserve); treatment of CRR in post-buy-back equity as per study material VERIFY.

2.3 Journal entries

Sell investments (if needed): Bank Dr / Investment / P&L → Equity share buy-back a/c Dr To Bank (at buy-back price) → Equity share capital Dr (face value) + Premium (Securities premium/free reserves) Dr To Equity share buy-back a/c → Free reserves Dr To **Capital Redemption Reserve** (face value bought back out of free reserves/premium) (s.69)

COMMON MISTAKE Mistakes in buy-back

- Using **revaluation reserve** or **CRR** as free reserve - not allowed.
- Forgetting the **10%/25%** approval distinction and the **debt-equity** test → wrong maximum.
- Not transferring nominal value to **CRR** when funded from free reserves.
- s.70: **no buy-back** through subsidiary/investment company, or if **default** in deposits/debentures/term loans/dividend (allowed 3 years after default remedied).

EXAM TIP Frequently asked

- Buy-back **out of proceeds of fresh issue** of preference shares → no CRR needed for that portion.
- Securities premium can be used for **premium** portion of buy-back.
- MCQ: max buy-back allowed when debts exceed 2:1 limit → **nil**.

WORKED EXAMPLE **Worked illustration: maximum buy-back**

- Equity capital ₹1,000 lakh (100 lakh shares of ₹10); free reserves ₹1,500 lakh (incl. securities premium); debt ₹3,000 lakh; buy-back price ₹30.

Test	Working	Shares (lakh)
Shares outstanding	25% × 100	25.00
Resources	25% × 2,500 = 625 ÷ 30	**20.83**
Debt-equity	Min equity 3,000 ÷ 2 = 1,500; reduction 2,500 − 1,500 = 1,000 ÷ 30	33.33

- Maximum = **lowest = 20.83 lakh shares** (resources test). Needs **special resolution** (> 10%).

WORKED EXAMPLE **Entries for the above (say 20 lakh shares bought)**

- Equity share buy-back A/c Dr 600 To Bank 600
- Equity share capital Dr 200 + Securities premium Dr 400 To Equity share buy-back A/c 600
- General reserve Dr 200 To **Capital Redemption Reserve** 200 (s.69)
- (₹ in lakh; premium ₹20 × 20 lakh = 400 from securities premium/free reserves.)

2.4 Worked example – buy-back financed partly by a fresh issue

WORKED EXAMPLE **Buy-back with a preference-share issue (pattern of June 2025)**

Paid-up equity ₹20,00,000 (2,00,000 shares of ₹10); securities premium ₹2,50,000; general reserve ₹8,00,000. The company buys back 50,000 shares at ₹15 (₹7,50,000) and issues 20,000 12% preference shares of ₹10 at par for the purpose.

Limits: shares – 25% × 2,00,000 = 50,000 ✓; funds – 25% × (20,00,000 + 2,50,000 + 8,00,000) = 7,62,500 ≥ 7,50,000 ✓ (special resolution needed as it exceeds 10%).

Entry	Dr ₹	Cr ₹
Bank To 12% Preference share capital	2,00,000	2,00,000
Equity share buy-back A/c To Bank	7,50,000	7,50,000
Equity share capital (50,000 × 10)	5,00,000	
Securities premium (50,000 × 5)	2,50,000	
To Equity share buy-back A/c		7,50,000
General reserve To Capital redemption reserve	3,00,000	3,00,000

CRR = nominal value bought back 5,00,000 − proceeds of fresh issue 2,00,000 = **₹3,00,000** (s.69). Proceeds of an issue of the **same kind** (equity) could not have been used.

Chapter 3: Presentation of Financial Statements (Schedule III)

In this chapter: Schedule III Division I - Balance Sheet & Statement of P&L · Notes & additional disclosures · Introduction to Division II (Ind AS)

3.1 Schedule III (Division I) - Balance Sheet skeleton

Part	Heads (Division I)
Equity and liabilities – 1 Shareholders' funds	Share capital; reserves and surplus; money received against share warrants
2 Share application money pending allotment	–
3 Non-current liabilities	Long-term borrowings; deferred tax liabilities (net); other long-term liabilities; long-term provisions
4 Current liabilities	Short-term borrowings; trade payables (MSME / others); other current liabilities; short-term provisions
Assets – 1 Non-current assets	PPE and intangible assets (PPE, intangibles, CWIP, intangibles under development); non-current investments; deferred tax assets (net); long-term loans and advances; other non-current assets
2 Current assets	Current investments; inventories; trade receivables; cash and cash equivalents; short-term loans and advances; other current assets

- **Current** if: realised/settled in **operating cycle** (assume **12 months** if not identifiable), held for trading, due within 12 months, or **no unconditional right to defer** settlement ≥ 12 months.

NOTE Additional disclosures (amended Schedule III)

- **Shareholding of promoters** & % change; **ageing** of trade receivables (< 6 m, 6 m-1 yr, 1-2, 2-3, > 3 yrs) & trade payables (< 1, 1-2, 2-3, > 3 yrs; MSME/others; disputed).
- **CWIP & intangibles under development** ageing + overdue completion schedule.
- Title deeds not in company's name; **benami** property; **wilful defaulter**; relationship with **struck-off** companies; charges pending; layers of companies.
- **Ratios** (current, D/E, DSCR, ROE, inventory TO, receivables TO, payables TO, net capital TO, net profit, ROCE, return on investment) with explanation if change **> 25%**.
- **CSR** spent/unspent; **crypto/virtual currency**; undisclosed income surrendered; loans to promoters/directors/KMP.

3.2 Dividend (s.123) & Free reserves

- Out of **current year profit** (after depreciation), **previous years' undistributed profits**, or both; transfer to reserves **optional**.
- Out of free reserves (inadequate profits): rate ≤ **average of 3 preceding years**; withdrawal ≤ **10% of paid-up capital + free reserves**; first set off **current year losses**; balance reserves ≥ **15% of paid-up capital**.
- Unrealised gains, revaluation, FV changes **can't** be used for dividend.
- Dividend deposited in separate bank a/c within **5 days**; paid within **30 days**.

3.3 Schedule III - Statement of Profit & Loss (Part II)

Line	Content
I	Revenue from operations
II	Other income
III	Total income (I + II)
IV	Expenses: cost of materials consumed; purchases of stock-in-trade; changes in inventories of FG, WIP & stock-in-trade; employee benefits; finance costs; depreciation & amortisation; other expenses
V-VI	Profit before exceptional & extraordinary items & tax → exceptional items

Line	Content
VII-IX	Extraordinary items → PBT → Tax (current, deferred)
X-XV	Profit from continuing ops; discontinuing ops (AS 24) & tax; profit for the period
XVI	EPS - basic & diluted

3.4 Division I vs Division II

Point	Div I (AS)	Div II (Ind AS)
Statement of changes in equity	Not required	Required
OCI	No	Yes - items that will/won't be reclassified
Equity section	Shareholders' funds	Equity share capital + other equity
Financial assets	Not separate	Separate line items

- **Division III** for NBFCs under Ind AS.

3.5 Schedule III – exam rules

- Figures rounded per turnover: < ₹100 cr → hundreds/thousands/lakhs/millions or decimals; ≥ ₹100 cr → lakhs/millions/crores.
- **Proposed dividend** → disclosed in notes (not liability).
- Debit balance of P&L → shown under **reserves & surplus** as negative.
- Unpaid dividend → other current liabilities.

EXAM TIP FAQ

- Current maturities of long-term debt → **short-term borrowings** (Div I amended).
- Cheques on hand → cash & cash equivalents; earmarked balances → bank balances other than cash.
- Capital advances → long-term loans & advances (not CWIP).

3.6 Worked example – balance sheet as per Schedule III

WORKED EXAMPLE **From balances to a Schedule III balance sheet**

Balances on 31 March 2026 (₹): equity share capital (50,000 shares of ₹10) 5,00,000; general reserve 1,00,000; securities premium 50,000; surplus (opening) 80,000; profit after tax for the year 1,85,000; 10% debentures (repayable 2030) 2,00,000; trade payables 1,20,000; bank overdraft 30,000; provision for tax 40,000; unpaid dividend 5,000; interest accrued on debentures 10,000; land and building 6,50,000; plant (net) 2,40,000; long-term investments 1,00,000; inventories 1,20,000; trade receivables 1,40,000; cash and bank 60,000; prepaid expenses 10,000. Transfer ₹20,000 to general reserve.

Particulars	Note	₹
I. EQUITY AND LIABILITIES		
Shareholders' funds – share capital	1	5,00,000
Shareholders' funds – reserves and surplus	2	4,15,000
Non-current liabilities – long-term borrowings (10% debentures)		2,00,000
Current liabilities – short-term borrowings (bank overdraft)		30,000
Current liabilities – trade payables		1,20,000
Current liabilities – other current liabilities (unpaid dividend 5,000 + interest accrued 10,000)		15,000
Current liabilities – short-term provisions (tax)		40,000
Total		**13,20,000**
II. ASSETS		
Non-current – PPE (6,50,000 + 2,40,000)		8,90,000
Non-current investments		1,00,000
Current – inventories		1,20,000
Current – trade receivables		1,40,000
Current – cash and cash equivalents		60,000
Current – other current assets (prepaid expenses)		10,000
Total		**13,20,000**

Note 2 – Reserves and surplus: securities premium 50,000; general reserve 1,00,000 + 20,000 = 1,20,000; surplus = 80,000 + 1,85,000 − 20,000 = 2,45,000; **total 4,15,000**. Note 1 shows authorised, issued, subscribed and paid-up capital, the reconciliation of shares and shareholders holding more than 5% and promoters' holding.

Chapter 4: Cash Flow Statement

In this chapter: AS 3 / Ind AS 7 - classification · Direct & indirect method · Cash & cash equivalents · Non-cash transactions

4.1 AS 3: Cash & cash equivalents

- **Cash equivalents** = short-term, **highly liquid**, readily convertible to known cash, **insignificant risk** of change in value.
- Rule of thumb: original maturity **<= 3 months from date of acquisition**.
- Equity shares are **not** cash equivalents (except redeemable pref. shares near maturity).
- Bank overdraft repayable on demand: part of cash management - treatment per AS 3/practice VERIFY.

4.2 Classification of interest & dividend

Item	Financial ent.	Others
Interest paid	Operating	Financing
Interest received	Operating	Investing
Dividend received	Operating	Investing
Dividend paid	Financing	Financing
Income tax	Operating (unless specifically identified with investing/financing)	same

4.3 Indirect method (operating activities)

Net profit before tax & extraordinary items → + Depreciation, amortisation, impairment, interest exp., loss on sale → − Interest/dividend income, profit on sale of investments/PPE → = Operating profit before WC changes → ± Changes in inventories, receivables, payables → − Income tax paid → = Net cash from operating activities

4.4 Investing & Financing

- **Investing**: purchase/sale of PPE, intangibles, investments (non-cash-equivalent), loans to others.
- **Financing**: issue/redemption of shares & debentures, borrowings, dividend paid, interest paid (non-financial).
- **Non-cash transactions** (e.g., asset acquired by issuing shares, conversion of debt) → **excluded**, disclosed separately.
- Foreign currency cash flows at **rate on date of cash flow**; unrealised exchange diffs on cash shown separately in reconciliation.

EXAM TIP Exam points

- Direct method is **encouraged** but indirect used in practice; Schedule III cos. normally indirect.
- Extraordinary items' cash flows → classify & disclose separately.
- Purchase of PPE on credit = not a cash flow until paid.

WORKED EXAMPLE **Cash from operations – indirect**

Item	₹'000
Net profit before tax	500
+ Depreciation	120
+ Interest expense	40
– Profit on sale of asset	(20)
– Dividend income	(15)
Operating profit before WC changes	625
– Increase in receivables	(60)
+ Increase in payables	35
– Increase in inventory	(40)
Cash generated	560
– Income tax paid	(130)
Net cash from operating	**430**

4.5 AS 3 vs Ind AS 7

Point	AS 3	Ind AS 7
Bank overdraft	Financing	Part of cash & CE if repayable on demand
Extraordinary items	Separately	No such concept
Changes in liabilities from financing	Not required	Reconciliation required

- Interest/dividend paid by non-financial entity: **financing** (both).

EXAM TIP **Cash flow traps**

- Proposed dividend for current year - **not** a cash outflow.
- Purchase of asset on credit / conversion of debt to equity - **non-cash**, disclose only.
- Tax paid → operating unless specifically identified.

4.6 Worked example – complete cash flow statement (indirect method)

WORKED EXAMPLE **Cash flow statement for 2025-26**

Profit before tax ₹6,00,000 after depreciation 1,50,000, loss on sale of machine 20,000, debenture interest 60,000 and dividend received 30,000. Inventory increased 50,000; receivables decreased 30,000; payables increased 25,000; tax paid 1,40,000. Machinery bought 5,00,000; machine with book value 80,000 sold for 60,000; investments bought 1,00,000. Equity issued 3,00,000; debentures redeemed 2,00,000; dividend paid 1,20,000. Opening cash and cash equivalents ₹90,000.

Particulars	₹	₹
A. Operating activities – profit before tax	6,00,000	
Add: depreciation 1,50,000; loss on sale 20,000; interest expense 60,000	2,30,000	
Less: dividend received	(30,000)	
Operating profit before working-capital changes	8,00,000	
Inventory (50,000) + receivables 30,000 + payables 25,000	5,000	
Cash generated from operations	8,05,000	
Less: tax paid	(1,40,000)	**6,65,000**
B. Investing activities – machinery (5,00,000); sale 60,000; investments (1,00,000); dividend received 30,000		**(5,10,000)**
C. Financing activities – equity 3,00,000; debentures redeemed (2,00,000); interest (60,000); dividend paid (1,20,000)		**(80,000)**
Net increase in cash and cash equivalents		75,000
Opening cash and cash equivalents		90,000
Closing cash and cash equivalents		**1,65,000**

Chapter 5: Accounts of Banking, Electricity & Insurance Companies

In this chapter: Banking companies - Third Schedule Forms A & B, statutory reserve, NPA income recognition & provisioning, rebate on bills · Electricity companies - double account system, replacement · Insurance companies - life & general, IRDAI formats, reserve for unexpired risk, claims

5.1 Banking company accounts

- **s.29 Banking Regulation Act 1949**: FS in **Third Schedule** - **Form A** (Balance Sheet) & **Form B** (P&L) with **18 schedules** (1-12 BS; 13-16 P&L; 17 accounting policies; 18 notes).
- **Statutory reserve s.17**: transfer **≥ 25%** of profit (RBI direction) before dividend.
- **Income recognition**: interest on **NPA** recognised only on **realisation**.
- **Rebate on bills discounted** (unexpired discount) - liability; Dr Interest & Discount, Cr Rebate on bills discounted.

5.2 NPA provisioning (IRAC)

Asset	Provision
Standard	0.25-1% (0.40% general) VERIFY
Sub-standard (≤ 12 m)	15% (unsecured 25%)
Doubtful D1 (≤ 1 yr)	25% secured + 100% unsecured
Doubtful D2 (1-3 yrs)	40% secured + 100% unsecured
Doubtful D3 (> 3 yrs)	100%
Loss	100%

- NPA = interest/instalment overdue **> 90 days**.

5.3 Electricity companies

- Historically **double account system**: (1) Receipts & expenditure on **capital account**; (2) **general balance sheet**; (3) revenue account; (4) net revenue account.
- **Replacement**: current cost of replacing like asset charged to **revenue**; excess (improvement) capitalised; old material/scrap credited to revenue.
- Tariff now regulated under **Electricity Act 2003** by CERC/SERCs; accounts under Companies Act Sch III VERIFY.

5.4 Insurance company accounts

- Formats under **IRDAI regulations** VERIFY: Life - Revenue A/c (**Policyholders' A/c**, Form A-RA), P&L (**Shareholders' A/c**, A-PL), BS (A-BS); General - **B-RA** (separately fire, marine, miscellaneous), B-PL, B-BS.
- Life: **valuation balance sheet** by actuary → surplus allocated to policyholders (bonus) & shareholders.
- General: premium earned = premium received − reinsurance ceded + accepted ± change in **reserve for unexpired risk** (UPR).

5.5 General insurance - key computations

Net premium = Direct premium + RI accepted − RI ceded

UPR (old rule of thumb) = Fire/misc 50%; marine cargo 50%; marine hull 100% of net premium VERIFY

Claims incurred = Paid + outstanding at end − outstanding at beginning + claim expenses − RI recoveries (+ IBNR)

Commission (net) = On direct + on RI accepted − on RI ceded

EXAM TIP FAQ – special companies

- Bank: "money at call & short notice" is an asset (Schedule 7) VERIFY; acceptances, endorsements → contingent liabilities.
- Bank cash reserve (CRR) with RBI vs SLR investments - not to be confused with statutory reserve.
- Insurance: claims include legal & survey expenses; IBNR estimated by actuary.

5.6 Worked examples – bank and insurance (verified)

WORKED EXAMPLE NPA provisioning

Asset class	Balance ₹	Working	Provision ₹
Standard	50,00,000	0.40%	20,000
Sub-standard (secured)	10,00,000	15%	1,50,000
Doubtful D1 (security ₹3,00,000)	4,00,000	25% × 3,00,000 + 100% × 1,00,000	1,75,000
Doubtful D2 (security ₹5,00,000)	6,00,000	40% × 5,00,000 + 100% × 1,00,000	3,00,000
Doubtful D3	2,00,000	100%	2,00,000
Loss	1,00,000	100%	1,00,000
Total			**9,45,000**

The unsecured portion of a doubtful asset always needs **100%** provision.

WORKED EXAMPLE Rebate on bills discounted

A bill of ₹3,65,000 was discounted at 10% p.a. on 1 March 2026 and falls due on 31 May 2026. Discount relating to 1 April – 31 May (61 days) is unearned at 31 March: 3,65,000 × 10% × 61/365 = **₹6,100**. Entry: Interest and discount A/c Dr 6,100 To Rebate on bills discounted 6,100 (shown under other liabilities – Schedule 5).

WORKED EXAMPLE Life insurance – valuation surplus

Life assurance fund on 31 March 2026 ₹50,00,000; net liability per actuarial valuation ₹42,00,000; interim bonus paid during the inter-valuation period ₹1,00,000. Surplus is shared 95% policyholders, 5% shareholders.

Surplus = 50,00,000 − 42,00,000 = 8,00,000 + interim bonus 1,00,000 = **₹9,00,000**. Policyholders 95% = 8,55,000 − interim bonus already paid 1,00,000 = **₹7,55,000** payable as bonus; shareholders 5% = **₹45,000** transferred to the shareholders' (P&L) account.

Chapter 6: Ind AS – Conceptual Framework, Ind AS 1, 2, 10, 19, 33, 37 (vs AS)

In this chapter: Conceptual Framework · Ind AS 1 Presentation of FS · Ind AS 2 Inventories · Ind AS 10 Events after the reporting period · Ind AS 19 Employee benefits · Ind AS 33 EPS · Ind AS 37 Provisions · Comparison with corresponding AS

6.1 Conceptual Framework

- Objective: useful information for **investors, lenders & other creditors**.
- **Fundamental** qualitative characteristics: **relevance** (incl. materiality) & **faithful representation**; **enhancing**: comparability, verifiability, timeliness, understandability.
- Elements: asset, liability, equity, income, expenses; measurement bases - historical cost, current value (fair value, value in use, current cost).
- Going concern = underlying assumption.

6.2 Ind AS 1 vs AS 1

Point	Ind AS 1	AS 1 (and Sch III)
Scope	Presentation of complete FS	Disclosure of accounting policies only
Complete set	BS, P&L with OCI, SOCE, cash flow, notes, 3rd BS on restatement	BS, P&L, cash flow, notes
Extraordinary items	Prohibited	Allowed (AS 5)
Departure from Ind AS	Permitted in extremely rare cases with disclosure	Not specified
Going concern assessment	≥ 12 months from reporting date	Not detailed

6.3 Ind AS 2 vs AS 2

Point	Ind AS 2	AS 2
Cost formulas	FIFO, weighted average (no LIFO)	Same
Reversal of write-down	Required	Not dealt
Inventories of service providers	Covered	Not specified (excluded WIP of service providers)
Deferred settlement	Interest element separated	Not dealt

- Measured at **lower of cost and NRV** (both).

6.4 Ind AS 10 vs AS 4

Point	Ind AS 10	AS 4
Adjusting events	Conditions existing at BS date	Same
Dividend declared after BS date	Not a liability - disclose	Same (after 2016 amendment)
Breach of loan covenant	Classify as current if no waiver before reporting date (Ind AS 1)	Not specific
Going concern deteriorates	FS not on going-concern basis	Similar

6.5 Ind AS 19 vs AS 15

Point	Ind AS 19	AS 15
Actuarial gains/losses (DBO)	Remeasurements in **OCI**	In **P&L** immediately

Point	Ind AS 19	AS 15
Discount rate	Market yields on govt bonds (high-quality corporate bonds if deep market)	Govt bond yields
Past service cost	Recognised immediately	Vested immediately; unvested over vesting period
Method	**Projected unit credit**	Same

- Categories: short-term, post-employment (DC/DB), other long-term, termination benefits.

6.6 Ind AS 33 vs AS 20

Point	Ind AS 33	AS 20
Applies to	Listed / to-be-listed entities	All entities (SMC relief)
EPS on consolidated	Parent presents in consolidated & separate	Consolidated where prepared
Dilutive potential shares	Same - anti-dilution ignored; options by treasury stock method	Same
EPS for extraordinary items	Not applicable	Required (with & without)

Basic EPS = (Profit attributable to equity – preference dividend) ÷ Weighted average equity shares

6.7 Ind AS 37 vs AS 29

Point	Ind AS 37	AS 29
Obligation	Legal or **constructive**	Present obligation (constructive generally not) VERIFY
Discounting	**Required** if material	**Not** permitted (except decommissioning under AS 10) VERIFY
Contingent asset	Disclosed when inflow **probable**	Disclosed in approving authority's report (not FS)
Onerous contracts	Provision for unavoidable costs	Similar

- Recognise provision if: **present obligation + probable outflow + reliable estimate**.

EXAM TIP Ind AS FAQ

- Ind AS applicable: listed/net worth ≥ ₹250 crore companies (phased) & their holding/subsidiary/JV/associates VERIFY.
- Ind AS 1: current/non-current classification mandatory (no liquidity order unless more relevant).
- Ind AS 33: bonus issue/share split adjusted retrospectively for all periods.
- Ind AS 19: actuarial gains in OCI are **never reclassified** to P&L.

6.8 Worked examples – Ind AS 33, 19 and 2 (verified)

WORKED EXAMPLE Basic and diluted EPS with convertible debentures (Ind AS 33)

Profit after tax ₹4,00,00,000; equity shares 2,00,00,000; 4,00,000 12% convertible debentures of ₹100, each convertible into 10 shares; tax rate 30%.

Basic EPS = 4,00,00,000 ÷ 2,00,00,000 = **₹2.00**. Interest saved after tax = 4,00,00,000 × 12% × 70% = 33,60,000; potential shares = 40,00,000.

Diluted EPS = (4,00,00,000 + 33,60,000) ÷ (2,00,00,000 + 40,00,000) = **₹1.81** – dilutive, so reported.

WORKED EXAMPLE **Rights issue – adjustment factor**

Profit 2024-25 ₹30,00,000 (2023-24 ₹20,00,000); 10,00,000 shares; rights issue 1 for 4 at ₹15 on 1 October 2024; fair value before the rights ₹25.

Theoretical ex-rights price = (10,00,000 × 25 + 2,50,000 × 15) ÷ 12,50,000 = ₹23

Adjustment factor = 25 ÷ 23 = 1.087

Weighted shares 2024-25 = 10,00,000 × 1.087 × 6/12 + 12,50,000 × 6/12 = 11,68,478 → EPS = **₹2.57**. Restated EPS 2023-24 = 2.00 ÷ 1.087 = **₹1.84**.

WORKED EXAMPLE **Profit-sharing bonus (Ind AS 19 – short-term benefits)**

A company pays 3% of profit to employees in service for the whole year. Profit ₹10 crore; 5% of employees are expected to leave during the year without receiving the bonus. Liability and expense = 10,00,00,000 × 3% × 95% = **₹28,50,000**, recognised when there is a present legal or constructive obligation and a reliable estimate.

WORKED EXAMPLE **Cost of inventories (Ind AS 2)**

Purchase price ₹2,00,000; non-refundable import duty 20,000; inward freight 10,000; trade discount 5,000; GST recoverable 36,000; storage after purchase 4,000; abnormal wastage 3,000. NRV ₹2,30,000.

Cost = 2,00,000 + 20,000 + 10,000 − 5,000 = **₹2,25,000** (recoverable GST, later storage and abnormal wastage are excluded). Inventory = lower of cost and NRV = **₹2,25,000**.

Chapter 7: Basics of Audit

In this chapter: Nature, objective & scope · SAs - introduction · Audit engagement, programme, documentation & evidence · Audit note book · Audit risk · Internal check, internal control & internal audit · Risk-based internal audit · IFC & ICFR · Audit sampling · Audit techniques & analytical procedures · Technology & audit trail

7.1 SA 200 – overall objectives

- Obtain **reasonable assurance** whether FS as a whole are free from **material misstatement** (fraud or error) → express **opinion** whether prepared in accordance with **applicable financial reporting framework** (AFRF).
- Report on FS & communicate as required by SAs.
- **Reasonable assurance** = high but **not absolute** level; **limited assurance** in review engagements.
- Auditor must comply with **ethical requirements**, maintain **professional skepticism**, exercise **professional judgment**, obtain **sufficient appropriate evidence**.

7.2 Inherent limitations

Source	Example
Nature of financial reporting	Estimates & judgments (provisions, fair values)
Nature of audit procedures	Management may withhold info; **collusion**/forgery in fraud; no legal power to search
Timeliness & cost-benefit	Reasonable period & cost; can't test 100%
Other	Testing (sampling), internal control limitations, evidence persuasive not conclusive

7.3 Skepticism vs judgment

- **Skepticism**: questioning mind; alert to contradictory evidence, unreliable documents, fraud indicators; doesn't assume dishonesty or unquestioned honesty.
- **Judgment**: applying training, knowledge & experience - materiality, audit risk, nature/timing/extent, evaluating evidence, conclusions.
- Audit does **not** guarantee future viability or efficiency of management.

7.4 Types of audit

Basis	Types
Law	Statutory (Companies Act, Banking Regulation, Co-op), non-statutory (voluntary - firms, proprietors)
Timing	Interim, final, continuous, balance-sheet audit
Scope	Complete, partial, special purpose (SA 800/805)
Area	Internal, tax (s.44AB), cost (s.148), GST, Govt (C&AG), management, forensic

7.5 Standard-setting

- **AASB** (Auditing & Assurance Standards Board of ICAI) formulates SAs, SREs (2000 series), SAEs (3000), SRSs (4000).
- **NFRA** (s.132 Companies Act): recommends accounting & auditing standards for **approval of Central Govt**; monitors compliance; investigates misconduct for specified classes of companies (listed, large unlisted, banks, insurers).
- Audit relates to: accounting (data), law, economics, statistics (sampling), behavioural science, IT.

MEMORY TRICK **SA 200 auditor duties – "ESJ-SE"**

ESJSE – E Ethics; S Skepticism; J Judgment; S Sufficient appropriate evidence; E Express opinion (reasonable assurance)

Note: Audit ≠ investigation: investigation is in-depth, specific purpose, may be for third parties.

7.6 Audit vs review vs compilation

Engagement	Assurance	Standard	Conclusion
Audit	Reasonable (high)	SAs (100-999)	Positive opinion ("present fairly")
Review	Limited (moderate)	SREs (2000-2699)	Negative ("nothing has come to our attention")
Agreed-upon procedures	None	SRS 4400	Factual findings
Compilation	None	SRS 4410	No assurance

EXAM TIP FAQ

- Is auditor responsible for preparation of FS? **No** - management (s.134); auditor expresses opinion.
- Qualities of an auditor: integrity, independence, technical knowledge, tact, skepticism, communication.
- Advantages of audit: credibility, detection of errors/fraud, loans & tax purposes, moral check on staff, settlement of claims.

7.7 SA 300 - planning

- **Overall audit strategy** - scope, timing, direction: characteristics of engagement, reporting objectives, timing & communications, significant factors (materiality, high-risk areas), resources.
- **Audit plan** - more detailed: nature, timing & extent of **risk assessment procedures**, **further audit procedures** (SA 330), other procedures.
- Planning is **continuous & iterative**; engagement partner & key team involved.
- Initial engagement: communicate with **predecessor auditor**, opening balances (SA 510), quality control acceptance procedures.

7.8 Materiality SA 320

- Misstatement material if it could **reasonably be expected to influence economic decisions** of users.
- Determine **materiality for FS as a whole** using benchmark × % (e.g. 5% of profit before tax; 1-2% of revenue/total assets) VERIFY - professional judgment.
- **Performance materiality**: lower amount to reduce probability that aggregate uncorrected + undetected misstatements exceed materiality.
- Specific materiality for particular items (related party transactions, directors' remuneration).
- **Revise** during audit if new information.

7.9 Strategy vs plan vs programme

Item	Nature	Prepared by
Audit strategy	Broad approach	Engagement partner
Audit plan	Detailed procedures	Team under partner
Audit programme	Written list of procedures with steps, staff, time; evidence of work done	Senior/manager

- **Advantages of programme**: clear instructions, uniformity, record of work done, fixing responsibility; **disadvantages**: mechanical, rigid, initiative suppressed.

EXAM TIP FAQ

- Benefits of planning (SA 300): attention to important areas, timely resolution, properly organised, team selection, direction & supervision, coordination with experts.
- Factors in audit programme: nature of business, size, internal control, accounting system, applicable framework, reporting requirements.
- **Joint audit (SA 299 revised)**: division of work in writing; each joint auditor responsible for own work; common report; disagreement → separate report VERIFY.

WORKED EXAMPLE **Materiality illustration**

- PBT ₹4 cr; revenue ₹80 cr; total assets ₹60 cr. Auditor chooses **5% of PBT = ₹20 lakh** as overall materiality; performance materiality **75% = ₹15 lakh** VERIFY; clearly trivial threshold **5% of materiality = ₹1 lakh**.
- Misstatement ₹12 lakh in revenue cut-off + ₹10 lakh unrecorded liability → aggregate ₹22 lakh > materiality → request correction; else **qualified**.

EXAM TIP **Audit programme - contents**

- Columns: procedure, assertion, reference to working paper, performed by, date, reviewed by.
- Programme should be **flexible**; updated for changes in internal control/risk.
- Audit plan covers **risk assessment procedures**, **further procedures** and **other procedures** (SA 300).

7.10 Benefits of audit planning (SA 300)

- Devote **appropriate attention to important areas**; identify & resolve potential problems on a timely basis.
- Properly **organise & manage** the engagement - effective & efficient.
- Select team members with appropriate capabilities; **direction, supervision & review** of team.
- Coordinate work of **component auditors & experts**.
- Planning is a **continual & iterative** process - not a discrete phase.

7.11 Planning activities sequence

Preliminary engagement activities (SA 220 quality, ethics/independence, terms SA 210) > Establish **overall audit strategy** (scope, timing, direction) > Develop **audit plan** (nature, timing, extent of risk assessment & further procedures) > Update strategy & plan as audit progresses > Document changes & reasons

7.12 Audit programme - advantages vs disadvantages

Advantages	Disadvantages
Clear instructions; uniform work	Mechanical approach
Evidence of work done; fixes responsibility	Rigid - ignores changes in business
Helps review & progress tracking	May kill initiative of staff
Basis for future audits	Not a substitute for judgment

- Develop programme after **understanding entity**, internal control & risk assessment; review periodically.

7.13 Audit risk model

Audit risk = Inherent risk × Control risk × Detection risk

- **RMM** (risk of material misstatement) = IR × CR - entity's risk, assessed by auditor.
- **Detection risk** - auditor controls through nature/timing/extent; **inverse** relationship with RMM.
- High RMM → more substantive procedures, closer to period-end, larger samples.
- Risk at **FS level** (pervasive) and **assertion level**.

7.14 SA 315 – risk assessment procedures

- Procedures: **inquiries** of management & others, **analytical procedures**, **observation & inspection**.
- Understand: industry, regulatory & external factors; nature of entity; accounting policies; objectives, strategies & business risks; measurement & review of performance; **internal control**.
- Identify **significant risks** (non-routine, judgmental, fraud risk, revenue recognition presumption).
- Revised SA 315 - spectrum of inherent risk, IT general controls emphasis (effective date VERIFY).

7.15 Internal control components (COSO)

Component	Examples
Control environment	Integrity, ethical values, governance, HR policies
Entity's risk assessment process	Identify & respond to business risks
Information system & communication	Accounting system, IT, reports
Control activities	Authorisation, segregation of duties, reconciliations, physical controls
Monitoring of controls	Internal audit, periodic review

7.16 Tests of control vs substantive

Basis	Tests of controls	Substantive procedures
Purpose	Operating effectiveness of controls	Detect material misstatements at assertion level
When	When relying on controls / substantive alone insufficient	**Always** for material classes (SA 330 para 18)
Types	Inquiry + observation, inspection, re-performance	Tests of details, substantive analytical procedures

- **SA 330**: responses at FS level (emphasise skepticism, experienced staff, unpredictability) and assertion level.

7.17 SA 265 & internal audit

- **SA 265**: communicate **significant deficiencies** in internal control **in writing** to **those charged with governance (TCWG)** on timely basis; other deficiencies to management.
- **SA 610 (using work of internal auditors)**: evaluate objectivity, competence, systematic & disciplined approach; can't use for significant judgments; **direct assistance** - not where prohibited by law VERIFY.
- **Internal check**: arrangement of duties so work of one checked automatically by another (segregation, rotation, leave).
- **s.138 Companies Act**: internal auditor mandatory for listed cos., unlisted public (paid-up ≥ 50 cr / turnover ≥ 200 cr / loans ≥ 100 cr / deposits ≥ 25 cr), private (turnover ≥ 200 cr / loans ≥ 100 cr) VERIFY.

7.18 Fraud SA 240 & laws SA 250

Point	Detail
Fraud types	**Fraudulent financial reporting**; **misappropriation of assets**
Responsibility	**Primary** - TCWG & management; auditor - reasonable assurance FS free from material misstatement due to fraud
Presumed risks	**Revenue recognition** (rebuttable); **management override** (not rebuttable)
SA 250	Category 1: laws with direct effect on FS (tax, pension) - obtain evidence; Category 2: other laws - limited procedures (inquiry, inspect correspondence)
s.143(12)	Fraud **≥ ₹1 crore** by officers/employees → report to **Central Govt** (ADT-4); below → Audit Committee/Board & disclose in Board's report

7.19 IT environment & data analytics

- **General IT controls**: access security, change management, data centre & network operations, backup; **application controls**: input, processing, output.
- Risks: unauthorised access, data loss, improper changes, inability to access data.
- **CAATs / data analytics**: test entire population, trend analysis, duplicate payments, journal entry testing, three-way match.
- Audit trail - Rule 3(1) of Companies (Accounts) Rules (edit log) reported under Rule 11(g).

EXAM TIP FAQ

- Relationship between audit risk components - explain with table; give example of high inherent risk (cash, complex estimates).
- Internal control limitations: cost-benefit, human error, collusion, management override, routine transactions focus.
- Steps to evaluate internal control: understand → document (narrative, **flowcharts**, **questionnaires**, checklists) → walk-through → evaluate → test.

7.20 Documenting internal control

Method	Feature	Best for
Narrative	Written description	Small entities
Flowchart	Graphic flow of documents & controls	Complex processes; spotting gaps
Internal control questionnaire (ICQ)	Yes/No questions - "No" signals weakness	Standardised, large audits
Checklist	Instructions to be ticked	Routine checks

EXAM TIP Internal check vs internal audit vs internal control

- **Internal control** = whole system (policies & procedures) adopted by management.
- **Internal check** = part of control - automatic check by division of work.
- **Internal audit** = independent review function (by staff or outside firm) evaluating controls; mandatory for specified cos. u/s 138.
- **IFC (s.134(5)(e) & 143(3)(i))**: directors' responsibility (listed cos.) & auditor's report on adequacy & operating effectiveness (exemption for small/OPC/private with turnover < 50 cr & borrowings < 25 cr VERIFY).

7.21 Sufficiency & appropriateness

- **Sufficiency** = quantity (depends on RMM & quality); **appropriateness** = quality - **relevance & reliability**.
- Reliability ↑ when: from **independent external source**; generated under effective controls; obtained **directly by auditor**; **documentary** (paper/electronic); **original** documents (vs photocopies).
- Information produced by entity (IPE) - evaluate accuracy & completeness.

7.22 Assertions

Classes of transactions	Account balances	Presentation
Occurrence	**Existence**	Occurrence & rights
Completeness	Completeness	Completeness
Accuracy	Valuation & allocation	Accuracy & valuation
Cut-off	Rights & obligations	Classification & understandability
Classification	-	-

MEMORY TRICK Procedures – "AI ORC RIO"

AIO – A Analytical procedures; I Inspection; O Observation

RCRI – R Recalculation; C (external) Confirmation; R Re-performance; I Inquiry

Note: Inquiry **alone** is not sufficient evidence.

7.23 SA 501 & SA 505

- **SA 501 Inventory**: attend **physical counting** (if material) - evaluate instructions, observe, inspect, test counts; if not possible on date → alternative date + roll-forward; if impracticable → alternative procedures (subsequent

sale) else modify opinion.

- **Litigation & claims**: inquiry, minutes, legal expense review; **direct communication with entity's lawyer** (letter prepared by management, sent by auditor).
- **Segment info**: understand methods, analytical procedures.
- **SA 505 External confirmation**: auditor controls requests; **positive** (reply in all cases) vs **negative** (reply only if disagree - only when RMM low, large population of small homogeneous balances); management refusal → inquire reasons, alternative procedures, communicate to TCWG.

7.24 SA 510, 520, 550, 620

- **SA 510 (initial engagements)**: opening balances free of misstatements materially affecting current period; read prior FS & report; **predecessor's working papers** review; consistency of policies. Not able → **qualified/disclaimer** for opening balances.
- **SA 520**: analytical procedures - **substantive** (when relationships plausible & predictable) & **near end** (overall conclusion) - mandatory near end; investigate fluctuations.
- **SA 550**: identify related parties, transactions outside normal course; **arm's length** assertion requires evidence; s.188 Companies Act.
- **SA 620**: auditor's expert (valuer, actuary) - evaluate competence, capabilities & objectivity; agree scope in writing; auditor retains **sole responsibility**; no reference in unmodified report.

7.25 SA 530 Audit sampling

- Sampling: applying procedures to **< 100%** items such that all items have chance of selection.
- **Statistical** (random, systematic, monetary unit) vs **non-statistical** (haphazard, block - block not appropriate generally).
- **Sampling risk**: risk conclusion differs from 100% test - for TOC: risk of **over-reliance** (effectiveness) / under-reliance (efficiency); for test of details: **incorrect acceptance** / incorrect rejection.
- **Non-sampling risk**: wrong procedure, misinterpretation.
- Tolerable misstatement, tolerable rate of deviation; **projection** of misstatements.
- Stratification for heterogeneous populations.

EXAM TIP FAQ

- Debtor confirmation not replied → alternative: **subsequent receipts**, shipping documents, sales invoices.
- Inventory held by third party → **confirmation** or inspection (SA 501).
- Using **management's expert** (SA 500) - evaluate competence & understand work.
- Is inquiry of management sufficient for related-party identification? **No** - also review minutes, records, registers (s.189).

COMMON MISTAKE Common mistakes

- Saying negative confirmation gives strong evidence - it is **weaker**.
- Referring to auditor's expert in **unmodified** report - not allowed (unless law requires).
- Treating analytical procedures as optional at final stage - **mandatory near end** (SA 520).
- Block sampling as statistical method - it is **not**.

7.26 Evidence reliability ladder

More reliable	Less reliable
From independent external source	Internally generated
Obtained directly by auditor (observation, recalculation)	Obtained indirectly / by inference
Documentary form (paper/electronic)	Oral representation
Original documents	Photocopies, fax, scanned
Generated under effective controls	Weak control environment

EXAM TIP **SA 530 – sample design steps**

- Define objective & population → choose sampling unit → determine **sample size** (tolerable misstatement, expected misstatement, risk) → select items (random/systematic/MUS/haphazard) → perform procedures → evaluate deviations/misstatements → **project** to population → conclude.

7.27 SA 540 accounting estimates & SA 600

- Estimates: provisions, fair values, impairment, warranty, useful lives, expected credit loss.
- Auditor tests **method, significant assumptions & data**; develops point estimate/range; reviews **outcome of prior estimates**; watches for **management bias**.
- **SA 600 (using work of another auditor)**: principal auditor considers professional competence of other auditor, communicates requirements, may review work; reports **sole responsibility** except where law permits reliance (s.143(8) branch audit).

EXAM TIP **Analytical procedures – examples**

- Gross margin trend vs prior year/industry; payroll = headcount × average salary; interest = average borrowings × rate; depreciation = asset base × rate; debtor days; inventory turnover.
- Unexpected fluctuation → inquire management, corroborate with evidence, extend procedures.

7.28 Audit note book & audit trail

- **Audit note book**: record of queries, explanations, important points noted during audit (part of working papers).
- **Audit trail / edit log** (Rule 3(1) Accounts Rules): books in accounting software must record **every change**; cannot be disabled; preserved **8 years**; auditor reports u/r 11(g) Audit & Auditors Rules.
- Technology: CAATs, data analytics, continuous auditing.

7.29 RBIA & IFC/ICFR

- **Risk-based internal audit**: focus on high-risk areas; risk register → audit plan → testing → reporting.
- **IFC (s.134(5)(e))**: policies & procedures for orderly & efficient conduct - directors' responsibility (listed).
- **ICFR**: auditor reports on adequacy & operating effectiveness of IFC over financial reporting **s.143(3)(i)** (not for OPC/small/private exempted).

EXAM TIP **FAQ – basics**

- Internal check: division of work so that one person's work is automatically checked by another.
- Internal audit: s.138 - mandatory for listed & prescribed companies.
- Analytical procedures (SA 520) at planning, substantive & final review stages.

Chapter 8: Company Audit under Companies Act 2013

In this chapter: Eligibility, qualification & disqualification · Appointment, rotation, removal & resignation · Rights, duties & liabilities · Branch & joint audit · Audit committee · Cost audit · Secretarial audit · Audit of items (inventory, PPE) · Audit report & certificate · CARO 2020 · Reporting on IFC · NFRA

MEMORY TRICK **Fundamental principles - "I-O-P-C-P"**

IOPCP – I Integrity; O Objectivity; P Professional competence & due care; C Confidentiality; P Professional behaviour

Note: Conceptual framework: **identify** threats → **evaluate** → **address** (eliminate/safeguards/decline).

8.1 Threats & examples

Threat	Example
Self-interest	Financial interest in client; fee dependence; contingent fee
Self-review	Auditor prepared the accounts/designed IT system now audited
Advocacy	Promoting client's shares; representing client in dispute
Familiarity	Long association; close relative is director/CFO
Intimidation	Threat of dismissal; pressure to reduce work/fee

8.2 Safeguards

Created by	Examples
Profession/legislation	Education, CPE, ethics standards, peer review, quality review, disciplinary process
Work environment (firm)	Quality control policies, rotation of senior staff, independent partner review, separate teams
Entity	Audit committee approval, ethics culture, independent directors

8.3 SA 210 - terms of engagement

- **Preconditions**: acceptable **financial reporting framework**; management acknowledges responsibility for FS, internal control, providing access & information.
- **Engagement letter**: objective & scope, responsibilities of auditor & management, AFRF, expected form & content of report, statement that report may differ.
- **Recurring audits**: revise if indication of misunderstanding, revised terms, change in management/ownership, nature/size change, legal changes.
- **Change to lower assurance** (audit → review) - only with **reasonable justification**; otherwise refuse & consider withdrawal.
- Limitation on scope imposed by management leading to disclaimer → **don't accept**.

8.4 Appointment s.139

- **First auditor**: Board within **30 days** of registration; failing → members in EGM within **90 days**.
- Govt company: **C&AG** within **60 days**; failing → Board 30 days → members 60 days.
- **Subsequent**: at **first AGM** for term of **5 years** (till 6th AGM); Govt company by C&AG within 180 days of FY start.
- **Rotation** (listed + specified unlisted public/private cos.): individual - **1 term of 5 yrs**; firm - **2 terms of 5 yrs**; **cooling-off 5 years**.
- **Casual vacancy**: Board within 30 days; if due to **resignation** → also approved in GM within **3 months**.

8.5 Removal, resignation & remuneration

- **s.140(1) Removal before term**: **special resolution** + **Central Govt approval** (application in ADT-2 within 30 days); auditor given reasonable opportunity of being heard.
- **s.140(2) Resignation**: file **ADT-3** with company & ROC within **30 days**; penalty ₹50,000 - 5 lakh.

- **s.140(4) Not re-appointing retiring auditor**: special notice (14 days) - representation by auditor.
- **s.142 remuneration**: fixed by members in GM (Board for first auditor); includes expenses.
- **s.145**: sign report; **s.146**: entitled to attend GM; **s.147**: punishment - company ₹25,000 - 5 lakh; auditor ₹25,000 - 5 lakh (wilful - imprisonment up to 1 yr VERIFY).

8.6 s.141 disqualifications

Not eligible
Body corporate (other than LLP); officer or employee of company
Partner/employee of officer or employee
Person (or relative/partner) holding security/interest in company or group > **₹1 lakh** face value (relative)
Indebted to company > **₹5 lakh**; given guarantee/security > **₹1 lakh** for third party debt
Business relationship with company/group (other than ordinary course)
Relative is **director or KMP**
Full-time employment elsewhere; auditor of > **20 companies** (excl. OPC, dormant, small, private < ₹100 cr paid-up VERIFY)
Convicted of fraud (within **10 years**); providing s.144 services to company/holding/subsidiary

8.7 s.144 prohibited services

Services auditor can't render (directly/indirectly)
Accounting & book-keeping
Internal audit
Design & implementation of financial information system
Actuarial services
Investment advisory services
Investment banking services
Rendering outsourced financial services
Management services

- Other services - approval of **Board/Audit Committee**.

EXAM TIP FAQ

- Difference between **self-review** & **self-interest** threats with examples.
- Can an auditor provide tax audit to audit client? **Yes** (not in s.144 list) - approval from Board/AC.
- **Joint auditors** - each must comply with s.141; rotation applies to each.

WORKED EXAMPLE More company-audit scenarios

- **Auditor's brother is CFO of the company** → relative is **KMP** → disqualified u/s 141(3)(f).
- **Firm is auditor of 25 companies (all public)** → exceeds 20-company limit → ineligible for new appointments.
- **Auditor is indebted to company for ₹6 lakh** (housing loan in ordinary course? not exempt) → > ₹5 lakh → disqualified u/s 141(3)(d)(ii) VERIFY.
- **Listed company reappoints individual auditor for 6th consecutive year** → violates rotation (s.139(2)) - max 5 years.

8.8 SA 220 & SQC 1 / SQM 1 VERIFY

- **Engagement partner** takes overall responsibility for managing & achieving quality: leadership, ethics & independence, acceptance & continuance, resources, engagement performance (direction, supervision, review, **consultation**, differences of opinion), monitoring.
- **Engagement quality review (EQCR)** for listed entities & others per firm policy - before report date.

- Firm-level: **SQC 1** elements (leadership, ethics, acceptance, HR, engagement performance, monitoring) → **SQM 1** risk-based quality management; **SQM 2** EQ reviews - applicability date per ICAI VERIFY.

8.9 Independence - specific situations

Situation	Threat	Response
Loan from audit client (non-bank)	Self-interest	Prohibited/eliminate
Senior staff joins client as CFO	Familiarity/intimidation	Modify plan, review team
Fee from client > significant % of firm fees	Self-interest	Disclose to TCWG; pre/post-issuance review VERIFY
Valuation service affecting FS	Self-review	Not for audit client where material
Gifts & hospitality (more than trivial)	Self-interest/familiarity	Decline

8.10 Vouching vs verification

Basis	Vouching	Verification
Focus	Transactions (P&L, cash book)	Assets & liabilities (balance sheet)
Assertions	Occurrence, accuracy	Existence, rights, valuation
Time	During year	At year end
Evidence	Vouchers, invoices	Physical inspection, confirmations, titles

8.11 Revenue & expense audit

Item	Key procedures
Revenue (Ind AS 115/AS 9)	Cut-off testing, dispatch docs, credit notes after year end, revenue recognition policy, analytical review of margins
Purchases	PO-GRN-invoice match, cut-off, related-party purchases
Employee benefits	Payroll records, attendance, statutory dues (PF/ESI), AS 15 actuarial valuation
Depreciation	Rates as per Schedule II useful lives, component approach
Finance costs	Borrowing agreements, AS 16 capitalisation
Other expenses	Vouch authorisation, capital vs revenue, prior-period items

8.12 Asset & liability procedures

Item	Key procedures
PPE	Additions vouching, title deeds (**CARO 3(i)(c)**), physical verification, impairment (AS 28), disposals
Investments	Broker notes, demat statements, valuation (AS 13 / Ind AS 109), classification
Inventories	Attend count (SA 501), valuation **lower of cost & NRV** (AS 2), slow-moving
Receivables	Ageing, **confirmations** (SA 505), provision for doubtful debts, subsequent receipts
Cash & bank	Cash count (surprise), **bank confirmations**, bank reconciliation
Share capital	MOA/AOA authorised, allotment returns PAS-3, share register
Borrowings	Agreements, charges registered (CHG-1), covenants, confirmations
Contingent liabilities	Lawyer letters, minutes, AS 29

EXAM TIP FAQ

- Audit of **inventory held at multiple locations** - plan attendance at material locations, rotate others, confirmations for third-party.
- **Capital vs revenue** examples: repairs vs improvement increasing life/capacity.
- Contingent liability vs provision: present obligation + probable outflow + reliable estimate → provision (AS 29).

WORKED EXAMPLE **Item audit - quick answers**

- **Cash in hand ₹15 lakh at year end** (unusually high) → surprise count, verify cash book, management explanation; consider Rule 3 cash limits VERIFY.
- **Capital WIP for 3 years** → check progress reports, impairment, borrowing cost capitalisation stop if active development suspended.
- **Investments in subsidiary** → board resolution s.179/186 limits, valuation (cost less permanent diminution - AS 13).
- **Trade payables with debit balances** → reclassify; confirm; check advances to suppliers.

MEMORY TRICK **Verification focus - "E-R-V-P"**

ERVP – E Existence; R Rights & obligations; V Valuation; P Presentation & disclosure

Note: Vouching checks **authority, accuracy, occurrence** of each transaction.

8.13 Audit of key items - procedures map

Item	Key assertions	Procedures
Revenue	Occurrence, cut-off, accuracy	Vouch invoices/despatch notes; cut-off test; analytical review; credit notes after year-end
Purchases	Occurrence, completeness	GRN-PO-invoice matching; unrecorded liabilities search
Inventory	Existence, valuation	Attend count (SA 501); NRV test; slow-moving
Receivables	Existence, valuation	Confirmations (SA 505); ageing; subsequent receipts
PPE	Existence, rights, valuation	Physical verification; title deeds; depreciation; capex vouching
Borrowings	Completeness, obligations	Loan agreements, bank confirmations, charges with ROC
Share capital	Accuracy, presentation	Register of members, MOA authorised capital, allotment returns

8.14 Audit of expenses - focus points

- **Salaries & wages**: payroll controls, attendance, statutory deductions (PF, ESI, TDS), ghost employees, segregation of duties.
- **Rent / repairs**: agreements, capital vs revenue distinction.
- **Advertisement, travel, legal**: authorisation, supporting bills, business purpose.
- **Depreciation**: method & rates per Schedule II (companies), useful life review, componentisation.
- **Payments to related parties**: AS 18 disclosure, s.188 approvals.

EXAM TIP **Item audit FAQ**

- Cut-off errors - test transactions **just before & after** year-end.
- Contingent liabilities - inquire legal counsel (SA 501), board minutes, bank confirmations for guarantees.
- Investments - physical/demat statements, valuation as per AS 13, income received.
- Cash in hand - surprise count, at year-end along with other liquid assets.

8.15 Report structure (SA 700 revised)

Title "Independent Auditor's Report" → Addressee (members) → **Opinion** → **Basis for opinion** (SAs, independence, evidence) → Material uncertainty - going concern (if any) → **Key Audit Matters** (listed - SA 701) → Other information (SA 720) → Responsibilities of management & TCWG → Auditor's responsibilities → Report on other legal & regulatory requirements (s.143(3), CARO) → Signature, membership no., **UDIN**, place, date

8.16 Modified opinions SA 705

Nature of matter	Material, not pervasive	Material & pervasive
FS materially misstated	**Qualified**	**Adverse**
Unable to obtain sufficient appropriate evidence	**Qualified**	**Disclaimer**

- **Pervasive** = not confined to specific elements, or represents substantial proportion, or fundamental to users' understanding.
- Management-imposed limitation before acceptance that would lead to disclaimer → **do not accept** engagement.

8.17 EOM vs OM vs KAM

Para	Purpose	Example
Emphasis of Matter SA 706	Matter **appropriately presented/disclosed** in FS, fundamental to understanding	Major catastrophe, uncertainty of litigation, early application of new standard
Other Matter SA 706	Matter **not presented** in FS, relevant to users' understanding of audit/report	Prior period FS audited by predecessor, restriction on distribution
KAM SA 701	Most significant matters in audit (communicated with TCWG) - **listed** entities & when required	Impairment, revenue recognition, IT systems

Note: A KAM is **not** a substitute for modified opinion.

8.18 s.143 reporting

- **s.143(1)**: enquire into loans & advances security, book entries prejudicial, sale of investments below cost, loans shown as deposits, personal expenses charged, cash shares.
- **s.143(3)**: (a) info & explanations obtained; (b) proper books; (c) branch audit reports; (d) agreement with books; (e) **compliance with AS**; (f) adverse observations; (g) **director disqualified u/s 164(2)**; (h) qualification on accounts; (i) **adequacy & operating effectiveness of IFC**; (j) Rule 11 matters.
- **Rule 11**: (a) pending litigations disclosed; (b) foreseeable losses on long-term contracts & derivatives; (c) delay in IEPF transfer; (d) & (e) funds to/from intermediaries & ultimate beneficiaries; (f) dividend compliance s.123; (g) **audit trail (edit log)** feature operated throughout year & preserved.
- **s.197(16)**: managerial remuneration per s.197.

8.19 CARO 2020 - not applicable to

Excluded companies
Banking company; insurance company; **s.8 company**; **One Person Company**; **small company**
Private company (not holding/subsidiary of public co.) with paid-up capital + reserves ≤ **₹1 cr**, borrowings ≤ **₹1 cr** at any point, **revenue ≤ ₹10 cr**

- Applies to **standalone** FS (except clause 3(xxi) - CFS).

8.20 CARO 2020 - 21 clauses

Clause	Area
(i)	PPE & intangibles - records, physical verification, **title deeds**, revaluation, benami
(ii)	Inventory - verification (discrepancy ≥ **10%**), WC limits > **₹5 cr** - quarterly returns agree
(iii)-(iv)	Loans, guarantees, investments; **s.185/186**
(v)-(vi)	Deposits; cost records s.148
(vii)-(viii)	Statutory dues; unrecorded income surrendered in tax
(ix)-(x)	Defaults on loans, wilful defaulter, end-use; IPO/preferential allotment funds
(xi)-(xii)	**Fraud** & whistle-blower; Nidhi company
(xiii)-(xiv)	Related party **s.177/188**; internal audit system
(xv)-(xvi)	Non-cash transactions with directors **s.192**; RBI registration s.45-IA

Clause	Area
(xvii)-(xviii)	**Cash losses** (current & preceding yr); **resignation** of statutory auditor
(xix)-(xxi)	Material uncertainty on paying liabilities; **CSR** unspent; qualifications in group cos. (CFS)

MEMORY TRICK **SA 705 matrix - "Q-A-Q-D"**

QAQD – Q Misstatement material → Qualified; A Misstatement pervasive → Adverse; Q Evidence lacking material → Qualified; D Evidence lacking pervasive → Disclaimer

Note: Report date: not earlier than date of sufficient appropriate evidence (incl. FS approved by board).

EXAM TIP **FAQ**

- Auditor unable to attend inventory count of ₹10 cr (40% of assets), no alternative → **disclaimer**? Material & possibly pervasive → **qualified or disclaimer** depending on pervasiveness - justify.
- Company didn't provide for gratuity ₹2 cr (material, not pervasive) → **qualified opinion** "except for".
- UDIN generation mandatory for audit reports & certificates.

8.21 Opinion wording - quick reference

- **Unmodified**: "...give a **true and fair view** in conformity with the accounting principles generally accepted in India..."
- **Qualified**: "**except for** the effects of the matter described in Basis for Qualified Opinion..."
- **Adverse**: "...because of the significance of the matter... **do not give a true and fair view**..."
- **Disclaimer**: "We **do not express an opinion**... we have not been able to obtain sufficient appropriate audit evidence..."

EXAM TIP **Report FAQ**

- Who signs company audit report? Engagement partner with firm name, FRN, membership no., UDIN.
- Branch auditor's report - forwarded to company's auditor (s.143(8)), who deals with it in his report.
- Other information (SA 720) - read annual report; material inconsistency → communicate; report in "Other Information" section.

8.22 Cost audit – s.148 & CRA Rules 2014

- Applicability (Rule 4): regulated sectors - turnover **≥ ₹50 crore** (all products) & **≥ ₹25 crore** (individual product); non-regulated - **≥ ₹100 crore** & **≥ ₹35 crore** VERIFY.
- Cost auditor: **CMA in practice**, appointed by Board on Audit Committee recommendation (**CRA-2** within 30 days / 180 days of FY start); remuneration ratified by members.
- Cost audit report **CRA-3** to Board within **180 days** of FY end; company files **CRA-4** (XBRL) with CG within **30 days** of receipt.
- Cost records **CRA-1**; maintained 8 years.

8.23 Secretarial audit – s.204

- Applies to: every **listed** company; public company with paid-up capital **≥ ₹50 crore** or turnover **≥ ₹250 crore**; company with borrowings **≥ ₹100 crore** (Rule 9).
- By **company secretary in practice** - report in **MR-3** annexed to Board's report.
- Board to explain qualifications in its report.

8.24 Audit committee s.177 & NFRA s.132

- Audit committee: listed & prescribed public companies; **min 3 directors, majority independent**; chairperson & majority financially literate.

- Functions: recommend auditor appointment & remuneration, review independence, examine FS, approve RPTs, evaluate IFC, vigil mechanism.
- **NFRA**: recommends standards; monitors compliance; **oversees quality**; investigates misconduct of auditors of listed & large unlisted companies; penalty up to 5× fees (individual) / 10× (firm).

8.25 Branch audit, joint audit & report vs certificate

Item	Key points
Branch audit s.143(8)	Company's auditor or other qualified person; branch auditor reports to company auditor
Joint audit	Division of work; joint & several responsibility for common areas (SA 299)
Audit report	Opinion - reasonable assurance
Certificate	Confirms factual accuracy - higher degree of certainty

EXAM TIP FAQ – company audit

- Rotation s.139(2): individual **1 term of 5 yrs**; firm **2 terms of 5 yrs**; cooling-off 5 years.
- Casual vacancy s.139(8): Board fills within 30 days (resignation - approve in GM within 3 months).
- Removal before term s.140(1): **special resolution + CG approval**.
- Auditor's liability: civil (s.245 class action), criminal (s.147), professional.

8.26 Exam-ready answer frames – company audit

QUESTION Rights of a statutory auditor (asked June 2025)

1. **Access to books and vouchers** at all times, wherever kept, including at branches – s.143(1).
2. **Information and explanations** from officers that he considers necessary.
3. **Access to records of subsidiaries and associates** for consolidation – s.143(1) proviso (holding company auditor).
4. **Visit branches** and access branch auditor's report – s.143(8).
5. **Receive notice of, attend and be heard at general meetings** – s.146.
6. **Make written representation** when proposed for removal or not reappointed – s.140(4).
7. **Remuneration** fixed under s.142, and right to sign the report and documents.

QUESTION Procedure to remove an auditor before expiry of term – s.140(1)

1. Board resolution approving the proposal; application to the **Central Government in ADT-2 within 30 days** of the Board resolution.
2. Auditor given a **reasonable opportunity of being heard**.
3. After CG approval, a **special resolution** in general meeting **within 60 days** of the approval.
4. New auditor appointed in the same meeting; ADT-1 filed within 15 days.

To appoint someone other than the retiring auditor (s.140(4)): **special notice** by members; copy sent to the retiring auditor, who may make written representations to be circulated or read out at the meeting.

QUESTION Characteristics of a good audit report (asked June 2026)

Clear title and addressee · expresses an **opinion** (unmodified, qualified, adverse or disclaimer) with basis · refers to the SAs and the reporting framework · states management's and the auditor's responsibilities · covers the **statutory matters** of s.143(3) and CARO 2020 · concise, objective and unambiguous · signed with membership number, **UDIN**, place and date.

Chapter 9: Audit of Different Entities

In this chapter: Audit of educational institutions, healthcare, hospitality (hotels), banks, cooperative societies, local self-government

9.1 Government audit

- **C&AG**: **Art. 148** appointment by President; **Art. 149** duties & powers - DPC Act 1971; **Art. 150** form of accounts; **Art. 151** reports to President/Governor → laid before Parliament/Legislature.
- Types: audit **against provision of funds**, audit of **sanctions**, audit **against rules & orders**, **propriety audit** (wisdom, economy, faithfulness), **performance audit** (economy, efficiency, effectiveness - 3E).
- Govt companies: auditor appointed by **C&AG** (s.139(5)); supplementary audit s.143(6) - comments within **60 days**.

9.2 Other entities

Entity	Special points
Local bodies (municipalities, panchayats)	State audit/Examiner of Local Fund Accounts; budget compliance, grants utilisation, property tax revenue
NPO / trust / NGO	Registration (12AB, 80G, FCRA), donations - receipt books, utilisation per objects, restricted funds, FCRA account
Educational institution	Fee receipts vs students register, grants, scholarships, hostel, fixed deposits, recognition
Hospital	Patient billing vs records, pharmacy stock, medical equipment, free beds
Club	Subscriptions vs members register, entrance fees, bar & canteen
Cooperative society	State Co-op Act; audit classification (A-D); loans to members, overdue, bye-laws
LLP	LLP Act 2008 & Rule 24: audit if turnover > **₹40 lakh** or contribution > **₹25 lakh** VERIFY; Form 8 & 11
Partnership firm	Partnership deed - capital, interest, salary, profit-sharing; s.44AB
Sole proprietor	Engagement terms, personal vs business expenses, tax audit

EXAM TIP Small entity considerations

- Characteristics: concentration of ownership & management, few sources of income, simple records, limited internal controls, few personnel.
- Approach: more **substantive** procedures; owner-manager override risk; documentation can be simpler.
- Propriety audit question - "Is the expenditure justified? Was it the wisest course?".

9.3 Govt audit approaches

Approach	Question asked
Audit against provision of funds	Was expenditure within **budget/appropriation**?
Audit of sanctions	Was expenditure **authorised** by competent authority?
Audit against rules & orders	Was it per **financial rules**?
Propriety audit	Was it **wise, faithful, economical**? (public interest)
Performance audit	Were programmes **economic, efficient, effective**? (3E)

9.4 Audit of NGOs / NPOs - checklist

Area	Points to check
Registration & objects	Trust deed / MOA, registration (s.12A/12AB, 80G) VERIFY
Receipts	Donations, grants - **receipt books**, FCRA for foreign contributions
Utilisation	As per grant conditions & objects; utilisation certificates

Area	Points to check
Expenses	Approvals, programme vs admin ratio
Assets	Fixed asset register, assets purchased from grants
Compliance	Income-tax, FCRA returns, statutory registers

9.5 Educational institution & hospital audit

Educational institution	Hospital
Fee receipts vs students register & rules	Bills vs patients register & rates
Scholarships, concessions approved	Free beds / concessions authorised
Grants - utilisation certificates	Medicines & stores - stock registers
Hostel / mess accounts	Equipment register, maintenance
Capital expenditure approvals	Medical staff salaries, TDS

9.6 Cooperative societies & clubs

- **Co-operative societies**: governed by State Co-op Societies Acts / **MSCS Act, 2002** (multi-state); audit by auditors from panel of Registrar; special report on irregularities, overdue debts, misappropriation; audit classification (A, B, C) VERIFY.
- **Clubs**: subscriptions vs member register; entrance fees treatment; canteen/bar trading results; capital receipts (life membership).
- **Partnership firm & sole proprietor**: engagement terms with partners; partnership deed - capital, profit-sharing, interest, salary; tax audit if applicable.

9.7 NPA classification (IRAC)

Facility	NPA when overdue
Term loan	Interest/instalment overdue **> 90 days**
CC/OD	**Out of order > 90 days**
Bills purchased/discounted	Overdue > 90 days
Agriculture - short duration crops	**2 crop seasons**
Agriculture - long duration crops	**1 crop season**

Category	Provision VERIFY
Standard	0.25%-1% (general 0.40%)
Sub-standard (≤ 12 months NPA)	**15%** (unsecured exposure 25%)
Doubtful D1 (≤ 1 yr)	100% unsecured + **25%** secured
D2 (1-3 yrs)	100% unsecured + **40%** secured
D3 (> 3 yrs)	**100%**
Loss	**100%**

9.8 Advances audit

- Examine sanction, documentation (security, guarantees, charge registration), disbursement, end-use, **stock statements** & drawing power, inspection reports, renewal/review.
- Check **asset classification** via system (CBS) - auto-NPA tagging; upgradation only on payment of entire arrears.
- **Restructured** accounts, fraud accounts, wilful defaulters; **income recognition** - no income on NPA unless realised.
- Large advances - statutory central auditors; branch auditors for branches.

9.9 LFAR & appointment

- **LFAR** (Long Form Audit Report) per RBI format - for branches & bank as whole; covers cash, balances with RBI, investments, advances, deposits, internal control, inspection.
- **Appointment**: statutory central auditors with **RBI approval** (RBI guidelines 27-4-2021) - tenure 3 years; banks' **CBS** - audit through/around the computer.
- **CRR/SLR** compliance, KYC/AML, priority sector lending, frauds reporting.
- Bank audit: special care for **suspense accounts**, inter-branch reconciliation, sundry assets.

EXAM TIP FAQ

- CC account: limit ₹10 lakh, DP ₹8 lakh, outstanding ₹9 lakh continuously for 95 days → **out of order → NPA**.
- Interest credited to NPA account → **reverse** unrealised interest.
- Revenue audit: interest income recalculation (sample), commission, locker rent; expenses - interest on deposits, staff costs.

WORKED EXAMPLE NPA provisioning illustration

- Loan ₹50 lakh; NPA since 15 months (i.e. sub-standard 12 months → doubtful D1 for 3 months); realisable security ₹30 lakh.

Provision = Unsecured 20 lakh × 100% + secured 30 lakh × 25% = **₹27.5 lakh** VERIFY

- If still sub-standard: 15% × 50 lakh = **₹7.5 lakh**.

EXAM TIP Bank audit - areas

- **Deposits**: KYC compliance, dormant/inoperative accounts, interest accrual.
- **Investments**: HTM/AFS/HFT classification (revised framework VERIFY), valuation, custody (SGL).
- **Cash & balances with RBI/banks**: physical verification, reconciliation, CRR/SLR.
- **Other assets/liabilities**: suspense, sundry, inter-branch, bills payable.

9.10 CBS & bank audit techniques

- **CBS (Core Banking Solution)**: centralised data - auditor uses system reports (NPA, exceptions, overdue, DP), access rights, parameter settings (interest rates, auto-NPA).
- Audit **through the computer**: test application controls, **CAATs**; **around**: compare input & output.
- **Concurrent audit** (internal) for large branches; **stock audit** for large borrowers; **revenue leakage** checks.
- Reporting: branch audit report + LFAR + memorandum of changes (MOC) for adjustments VERIFY.

9.11 Hospitality & local bodies

Entity	Special audit points
Hotel	Room revenue vs occupancy register, F&B consumption ratios, inventory of linen/crockery, cash & card receipts, guest ledger, commissions to agents
Local self-govt	Budget compliance, grants utilisation, property tax demand-collection register, works & contracts, statutory audit by local fund auditor / C&AG

EXAM TIP FAQ - entities

- Educational institution: fee receipts vs students register, scholarships, grants, hostel.
- Hospital: patient billing vs medical records, medicine stock, equipment maintenance, TPA claims.
- Co-operative society: audit under State Co-op Societies Act; classification (A-D) by auditor.

9.12 Exam-ready answer frames – special audits

QUESTION Audit of municipalities and panchayats (asked December 2025)

- Authority: State **Local Fund Audit / Examiner of Local Fund Accounts**; C&AG gives technical guidance and supervision.
- Check **budget** sanction and re-appropriation; collection of property tax, water charges, licence fees against demand registers.
- Vouch expenditure against tenders, work orders and measurement books; compare with sanctioned estimates.
- Grants from State and Finance Commission: utilisation as per conditions; **utilisation certificates**.
- Loans raised, sinking-fund maintenance, investments and deposits; stores and asset registers.
- Report irregularities, losses, wasteful expenditure and surcharge cases.

QUESTION Audit of a nursing home (asked June 2026)

- Patient registers vs bills issued and cash received; room, theatre and doctor charges as per rate card.
- Credit to patients/TPA/insurance – approvals and outstanding follow-up.
- Medicines and consumables – purchase, stock registers, issue to wards, expiry write-offs; physical verification.
- Doctors' fees and retainers against agreements; TDS compliance.
- Equipment – asset register, AMC, depreciation; licences (pollution control, biomedical waste, clinical establishment registration).

Last-Day Revision Sheet

In this chapter: Accounting numbers · Audit numbers · Answer checklist

Accounting chips

Forfeited ≥ discount on re-issue · CRR for preference redemption · Buy-back ≤ 25% (paid-up + free reserves), D/E ≤ 2:1 · Underwriting commission 5% / 2.5% · DRR 10% (unlisted) · Statutory reserve 25% (banks) · NPA 90 days · SS 15% · UPR fire 50%, hull 100% · Ind AS 19 remeasurement → OCI · Ind AS 37 discounting · Ind AS 33 listed

Audit chips

Rotation 5 + 5 yrs (firm) · s.141 disqualifications · s.144 prohibited services · ADT-1 15 days · Fraud ≥ ₹1 cr → CG (ADT-4) · CARO 2020 - 21 clauses · ICFR s.143(3)(i) · Cost audit CRA-2/3/4 · Secretarial audit MR-3 · Audit committee min 3, majority ID · NFRA s.132 · SA 700/705/706 · SA 230 documentation 60 days