

# **Audit of Financial Statements of Private Companies for FY 2018-19 and its Audit Report**



**CA. PRAMOD JAIN**

**B. COM (H), FCA, FCS, FCMA, LL.B, MIMA, DISA, IP**

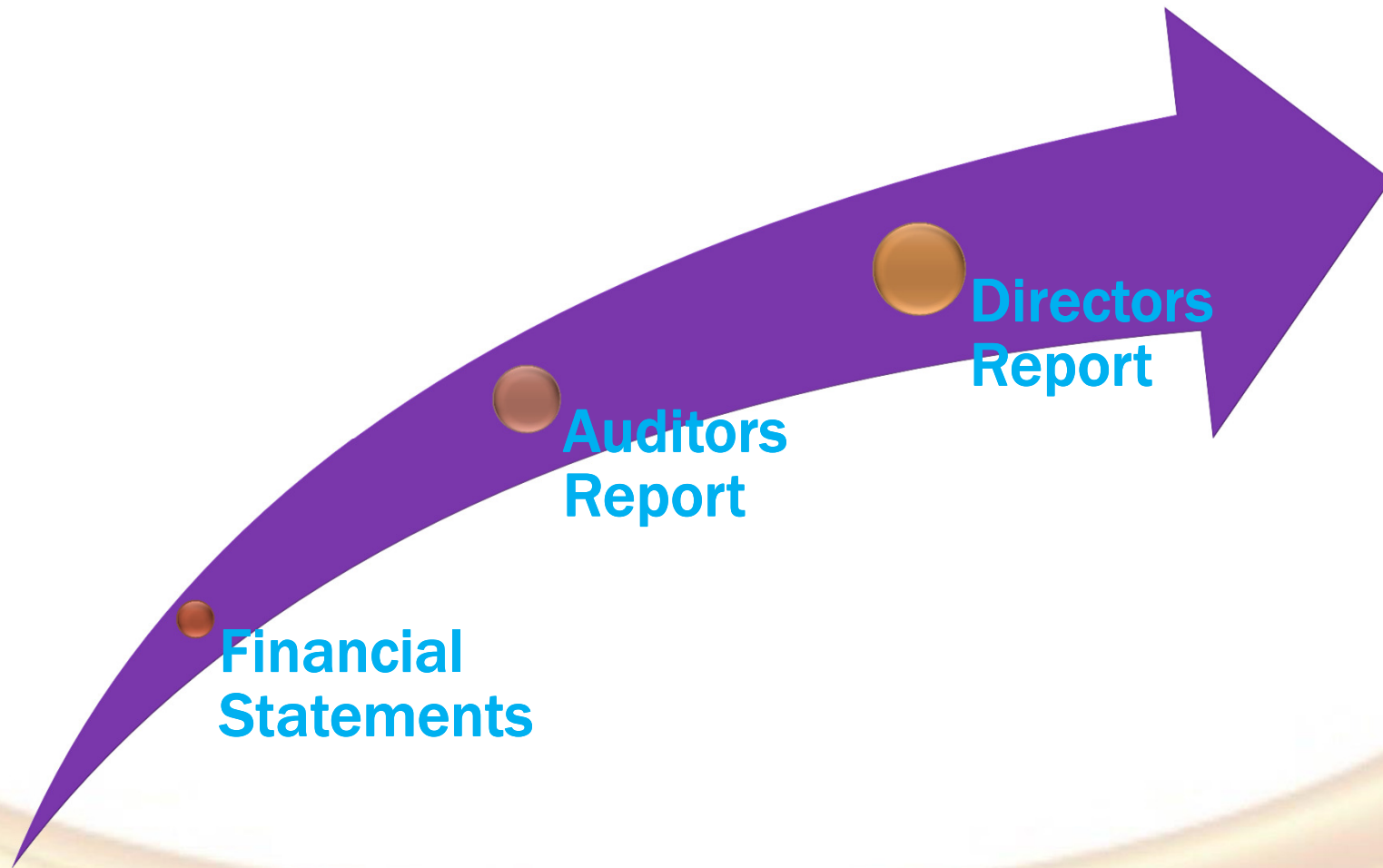
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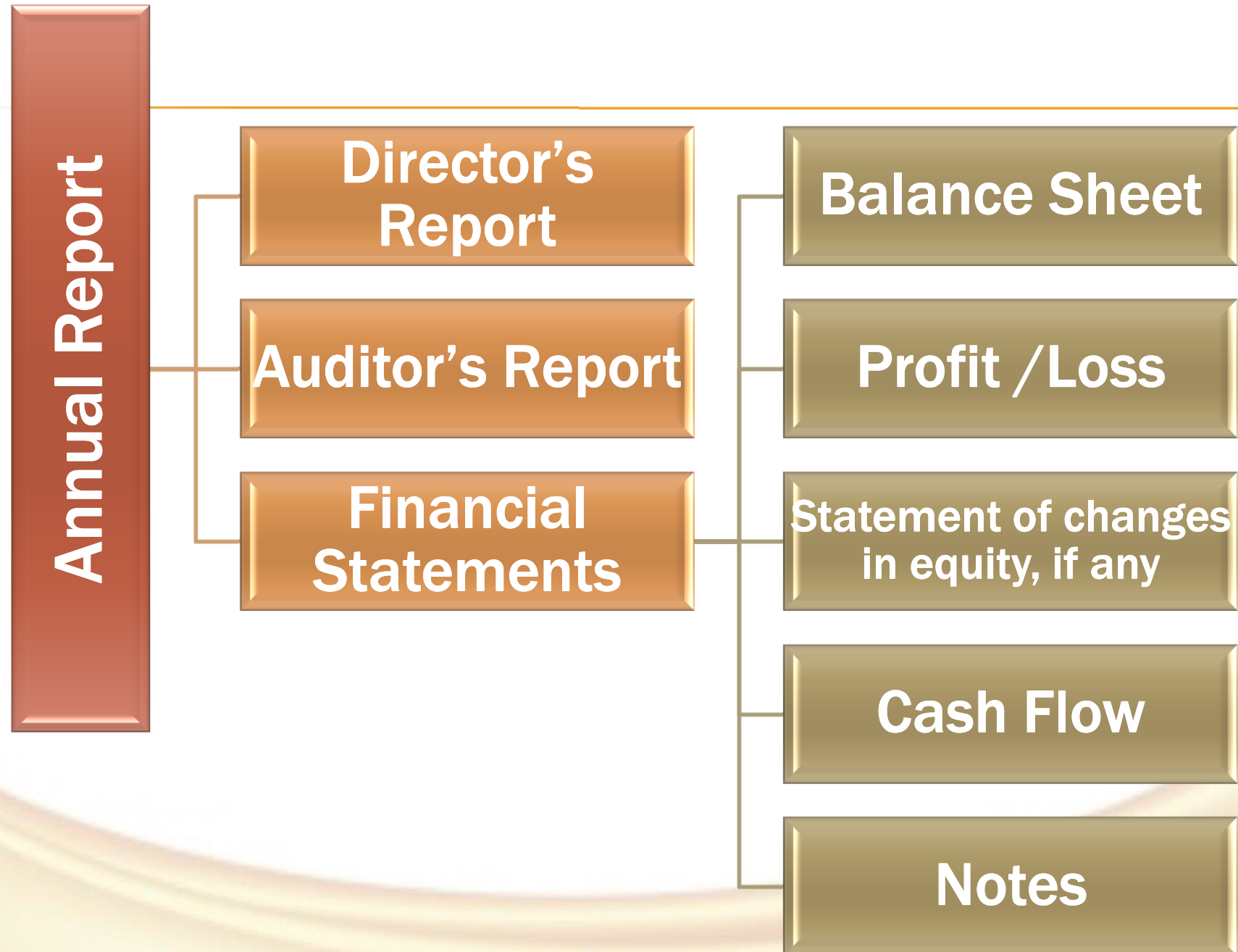
**Pusa Road CPE Study Circle of NIRC of ICAI**

**12<sup>th</sup> August 2019**

# THE PROCESS

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**Financial  
Statements**

A graphic illustration featuring the text "Financial Statements" in a bold, blue, sans-serif font. The text is positioned on a white rectangular background. To the left of the text, a portion of a silver calculator with black buttons is visible. To the right, a pair of black-rimmed glasses with gold-colored temples and a black pen with a gold-colored tip are shown. The entire graphic is set against a blue background with a subtle grid pattern. The graphic is tilted slightly to the right and is placed on a larger white background with a yellow and orange wavy border at the bottom.

# **FINANCIAL STATEMENTS**

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- **Financial Year – 31<sup>st</sup> March**
- **Cash Flow for all except:**
  - **OPC**
  - **SC**
  - **DC**
  - **Start up Company w.e.f. 13<sup>th</sup> June 2017**
- **FS to be in Schedule III**
  - **Amended w.e.f. 4.9.15 to include MSMED details under Trade Payable**

# **BASICS – CURRENT VS. NON-CURRENT**

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- ✗ **Current Asset - satisfies any of following criteria;**
  - + **In the company's normal operating cycle it is;**
    - ✗ **Intended for sale; or**
    - ✗ **Intended to be consumed; or**
    - ✗ **Expected to be realized.**
  - + **Held primarily for the purpose of being traded; or**
  - + **Expected to be realized within 12 months after reporting date; or**
  - + **Cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after reporting date.**

# **BASICS - CURRENT LIABILITY**

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- ✖ **Current liability if it satisfies any of the following criteria; if it is :**
  - + **Expected to be settled in the company's normal operating cycle; or**
  - + **Held primarily for the purpose of being traded; or**
  - + **Due to be settled within 12 months after reporting date; or**
  - + **The company does not have an unconditional right to defer settlement of liability for at least 12 months after reporting date. Terms of a liability that could, at option of counterparty, result in its settlement by issue of equity do not affect its classification.**

# GENERAL

- ✖ **Balance Sheet Title – ‘as at’ or ‘as on’ 31st March**
- ✖ **PL Title - Statement of Profit & Loss / I & E**
- ✖ **Rounding off based on turnover.**
  - + **< Rs. 100 Crores - To the nearest hundreds, thousands, lakhs or millions or decimal thereof**
  - + **Rs. 100 Crores or more - To the nearest lakhs or millions or crores or decimal thereof**
- ✖ **Comparative figures required to be disclosed for the last reporting period**

# GENERAL

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- ✖ **Linking of notes with B/S & PL**
- ✖ **B/s & PL on letterhead of Auditors ??**
- ✖ **Date of signing**
- ✖ **Payment to shareholders for 2(22)(e)**
- ✖ **Issues in Sole Proprietorship / Partnership Firm Financials:**
  - + **Significant Accounting Policies**
  - + **Accounting Standards**

# FORM OF BALANCE SHEET (PART 1)

<i>Particulars</i>	<i>Note No.</i>	<i>Figures as at the end of the CRP</i>	<i>Figures as at the end of the PRP</i>
<b>I. EQUITY AND LIABILITIES</b>			
(1) Shareholders' Funds			
(a) Share capital	1		
(b) Reserve and Surplus	2		
(c) Money received against share warrants			
(2) Share application money pending allotment	3		
(3) Non-current Liabilities			
(a) Long term borrowings	4		
(b) Deferred tax liabilities (net)	5		
(c) Other long term liabilities	6		
(d) Long term provisions	7		
(4) Current Liabilities			
(a) Short term borrowings	8		
(b) Trade payables			
(c) Other current liabilities	9		
(d) Short term provisions	10		
<b>TOTAL</b>			

# **SHARE CAPITAL & RESERVES**

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- ✖ **Authorized / Paid up Capital – Check with Master Data**
- ✖ **Reconciliation of no of shares outstanding at beginning and at end of reporting period.**
- ✖ **Rights, preference & restrictions attaching to each class of shares etc.**
- ✖ **Is conversion of loans into shares in event of default in repayment – Non-cash?**
- ✖ **Share Premium A/c??**

# BORROWINGS

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- ✖ Long Term vs. Short Term
  - + Directors??
  - + CC Limits?? Demand Loans??
- ✖ Secured /unsecured – nature of security to be stated & guaranteed by directors to be shown separately.
- ✖ Term of repayment of term loans to be given
  - + Period of maturity with respect to B/S date
  - + Number of installments due; Amt of installments due
  - + Applicable rate of interest
- ✖ Period & amount of default in payment of principal & interest as on B/S date

# **OTHER CURRENT LIABILITIES**

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- ✖ **The amount shall be classified as:**
  - + **Current maturities of long term debts**
  - + **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**
  - + **Share Application money due for refund and interest accrued thereon (including advances for allotment of share Capital)**
  - + **Unpaid matured deposit and interest thereon**
  - + **Unpaid matured debentures and interest thereon**
  - + **Other payables**

# **OTHER CURRENT LIABILITIES**


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**✕ Others payable may include:**

- + Statutory obligations like, ESI, PF, VAT, CST, etc.**
- + Liability for purchase of fixed assets**
- + Contractually reimbursable expenses**
- + Interest accrued on trade payables**
- + Expenses Payable.**
- + TDS Payable**
- + Trade / Security Deposit**
- + Mark-to-market loss on forward and option contracts**
- + Retention Monies**
- + Accrued salaries and benefits**

# **LIABILITIES ??**

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- ✖ **Current / Non-Current Loans**
  - ✖ **Trade payables – Ageing**
  - ✖ **GST input credit reversal**
- 

# FORM OF BALANCE SHEET (PART 2)

Particulars	Note No.	Figures as at the end of the CRP	Figures as at the end of the PRP
<b>II. ASSETS</b>			
<b>(1) Non-current assets</b>			
(a) Fixed assets	11		
(i) Tangible assets	12		
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development	13		
(b) Non- current investments			
(c) Deferred tax assets (Net)	14		
(d) Long term loans and advances	15		
(e) Other non-current assets			
<b>(2) Current assets</b>			
(a) Current investments	16		
(b) Inventories	17		
(c) Trade receivables			
(d) Cash and cash equivalents	18		
(e) Short term loans and advances	19		
(f) Other current assets	20		
<b>TOTAL</b>			

# FIXED ASSETS

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- ✖ **Fixed Asset on the face of the Balance Sheet has to be classified as follows:**
  - + **Tangible Assets**
  - + **Intangible Assets**
    - ✖ **Software**
  - + **Capital work-in-progress**
  - + **Intangible assets under development**
- ✖ **Capital advances to be grouped as Capital Work-in-Progress or loans and advances? Long term or short term?**

# INVENTORIES


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## ✖ Classification into:

- + Raw Materials
  - + Work-in-progress
  - + Finished goods
  - + Stock-in-trade (trading goods)
  - + Stores and spares
  - + Loose tools
  - + Others (specifying nature)
- 
- ✖ Finished goods should include all goods except acquired for trading purposes
  - ✖ Goods-in-transit -disclose under relevant sub-head

# **ASSETS??**

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- ✕ Investment Property**
  - ✕ Inventories**
  - ✕ Cash**
  - ✕ Debtors – Ageing / Provisioning**
  - ✕ Miscellaneous Expenditure**
- 

# FORM OF STATEMENT OF PROFIT AND LOSS

Particulars	Note No.	Figures for the CRP	Figure for the PRP
I. Revenue from operations	21		
II. Other income	22		
<b>III Total Revenue (I + II)</b>			
IV. Expenses	23		
<b>V. Profit before exceptional and extraordinary items and tax (III - IV)</b>			
VI. Exceptional items	24		
<b>VII. Profit before extraordinary items and tax (V-VI)</b>			
VIII. Extraordinary items	25		
<b>IX. Profit before tax (VII-VIII)</b>			
X. Tax Expenses	26		
<b>XI. Profit (loss) for the period from continuing operations (IX-X)</b>			
XII Profit (Loss) from the discontinuing business	27		
XIII Tax expenses of discontinuing operations	28		
<b>XIV. Profit (Loss) from discontinuing operations (after tax) (XII-XIV)</b>			
<b>XV. Profit (Loss) for the period (XI+XIV)</b>	29		
XVI. Earnings per equity share			

# **REVENUE FROM OPERATIONS**

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- ✖ **For companies other than finance company:**
  - + **Sale of Products**
  - + **Sale of Services**
  - + **Other Operating Revenues**
- ✖ **For Finance company:**
  - + **Interest**
  - + **Other Financial services**
- ✖ **Recognition of Revenue as per AS 9 / 7 for Service Contracts / Construction Contracts**

# OTHER INCOME

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- ✖ **To be classified as:**
  - + **Interest income (other than for finance company)**
  - + **Dividend**
  - + **Dividend from subsidiary company**
  - + **Net gain / loss on sale of investments**
  - + **Other non-operating income**
- ✖ **Interest, dividend, etc. to be disclosed separately for Current as well as Non Current Investments**

# EXPENSES

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**Disclosure on face of the PL:**

- × **Cost of material consumed**
- × **Purchase of stock-in-trade**
- × **Changes in inventories of finished goods  
Work-in-progress and stock in trade**
- × **Employee benefit expenses**
- × **Finance cost**
- × **Depreciation and amortization expenses**
- × **Other expenses.**

# FINANCE COST

## ✖ Interest expense

- + Interest on borrowings, debentures, bonds, etc.
- + Finance charges on finance lease are in nature of interest

## ✖ Other borrowing costs

- + Commitment charges
- + Loan processing charges
- + Guarantee charges
- + Loan facilitation charges
- + Discounts/ premium on borrowings
- + Other ancillary costs

## ✖ Applicable net loss on foreign currency transactions to the extent they are regarded as adjust to interest cost

## ✖ Interest on Tax???

# OTHER EXPENSES

- ✗ All other expenses will be grouped here. Following to be disclosed separately:
  - ✓ Consumption of stores and spares
  - ✓ Power and fuel
  - ✓ Rent
  - ✓ Repairs to buildings
  - ✓ Repairs to machinery
  - ✓ Insurance
  - ✓ Rates and taxes, excluding taxes on income
  - ✓ Miscellaneous expenses
- ✗ Any expenditure which exceeds 1% of revenue from operations or Rs.1 L whichever is higher - separate

# Notes to the Accounts



# ACCOUNTING STANDARDS



**Entities that are to follow AS**

**Companies**

**Other than Companies**

**Companies  
(Accounting  
Standards)  
Rules, 2006**

**Ind AS**

**ICDS**

**AS issued  
by ICAI**

**ICDS**

# AS DISCLOSURES IN NOTES

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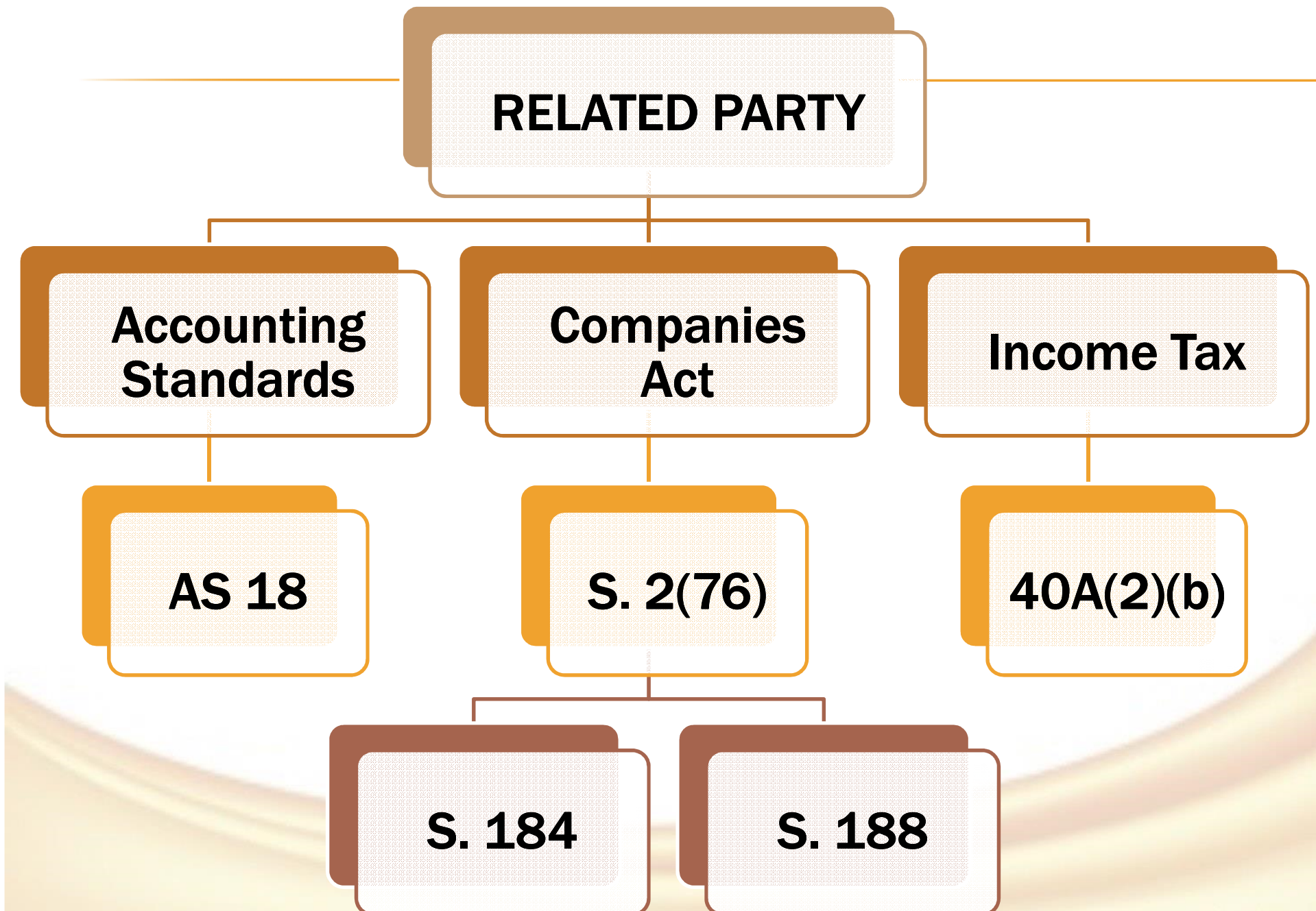
- ✖ SMC / Non- SMC
- ✖ AS 1
- ✖ FS to be prepared in compliance of AS
- ✖ FS has to be AS compliant:
  - + FS to disclose deviation from AS
  - + Reason for deviation
  - + Financial effect arising of deviation

# AS APPLICABILITY

AS No.	Short Title	Companies		Other than Companies		
		Non-SMC	SMC	Level I	Level II	Level III
1	Accounting Policies	Y	Y	Y	Y	Y
2	Inventories	Y	Y	Y	Y	Y
3	Cash Flow	Y	N	Y	N	N
4	Events after Balance Sheet date	Y	Y	Y	Y	Y
5	Prior Period Items & Policies	Y	Y	Y	Y	Y
6	Depreciation (Omitted w.e.f. 30.3.16)	NA	NA	NA	NA	NA
7	Construction	Y	Y	Y	Y	Y
9	Revenue	Y	Y	Y	Y	Y
10	Property, Plant & Equipment	Y	Y	Y	Y	Y
11	Foreign Exchange	Y	Y	Y	Y	Y
12	Government Grants	Y	Y	Y	Y	Y
13	Investments	Y	Y	Y	Y	Y
14	Amalgamations	Y	Y	Y	Y	Y
15	Employee Benefits	Y	Partly	Y	Partly	Partly

# AS APPLICABILITY

16	<b>Borrowing Cost</b>	Y	Y	Y	Y	Y
17	<b>Segment</b>	Y	N	Y	N	N
18	<b>Related Party</b>	Y	Y	Y	Y	N
19	<b>Leases</b>	Y	Partly	Y	Partly	Partly
20	<b>Earning Per Share</b>	Y	Partly	Y	Partly	Partly
21	<b>Consolidation</b>	Y (listed)	N	Y (listed)	N	N
22	<b>Deferred Taxes</b>	Y	Y	Y	Y	Y
23	<b>Consolidated Statements</b>	Y (listed)	N	Y (listed)	N	N
24	<b>Discontinuing Operation</b>	Y	Y	Y	Y	N
25	<b>Interim Reporting</b>	Y (listed)	N**	Y (listed)	N**	N**
26	<b>Intangible Assets</b>	Y	Y	Y	Y	Y
27	<b>Interest in Joint Ventures</b>	Y (listed)	N	Y (listed)	N	N
28	<b>Impairment</b>	Y	Partly	Y	Partly	Partly
29	<b>Contingency</b>	Y	Partly	Y	Partly	Partly



# **IMPORTANT NOTES**

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- ✖ **Contingent Liabilities / Commitments (to the extent not provided for)**
- ✖ **Broad Heads – RM , Income, Purchases**
- ✖ **Value of imports made during the year on CIF basis:-**
  - + **Raw Materials**
  - + **Components (intermediaries & components) & Spare Parts (for capital equipment)**
  - + **Capital Goods**

# IMPORTANT NOTES

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- ✖ **Expn. in foreign currency (accrual basis) on:**
  - + **Royalty**
  - + **Know-how**
  - + **Professional & consultation fee**
  - + **Interest**
  - + **Others**
- ✖ **Dividend if paid in FC (cash Basis):**
  - + **Total amount remitted during the year in FC**
  - + **Total no. of non-resident shareholders**
  - + **No. of shares held by them on which dividend due**
  - + **Year to which dividend relates**

# IMPORTANT NOTES

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- ✖ **Foreign Exchange Earnings (Accrual basis):**
  - + **Export of goods (calculated on F.O.B. basis)**
  - + **Royalty, know how, professional and consultation fees**
  - + **Interest and dividends**
  - + **Other income (indicating the nature thereof)**

# **OTHER DISCLOSURES IN NOTES**

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- ✗ **To disclose in FS full particulars of:**
  - + **Loan given;**
  - + **Investment made;**
  - + **Guarantee given; or**
  - + **Security Provided.**
  - + **Purpose for which loan or guarantee or security is proposed to be utilised by recipient of loan or guarantee or security [186(4)]**
- ✗ **Contribution during year to National Defence Fund**

# **OTHER DISCLOSURES IN NOTES**

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- × **Public Companies:**

- + **Money received from director**

- × **Private companies**

- + **Money received from director**

- + **Money received from relative of director**

# AUDIT

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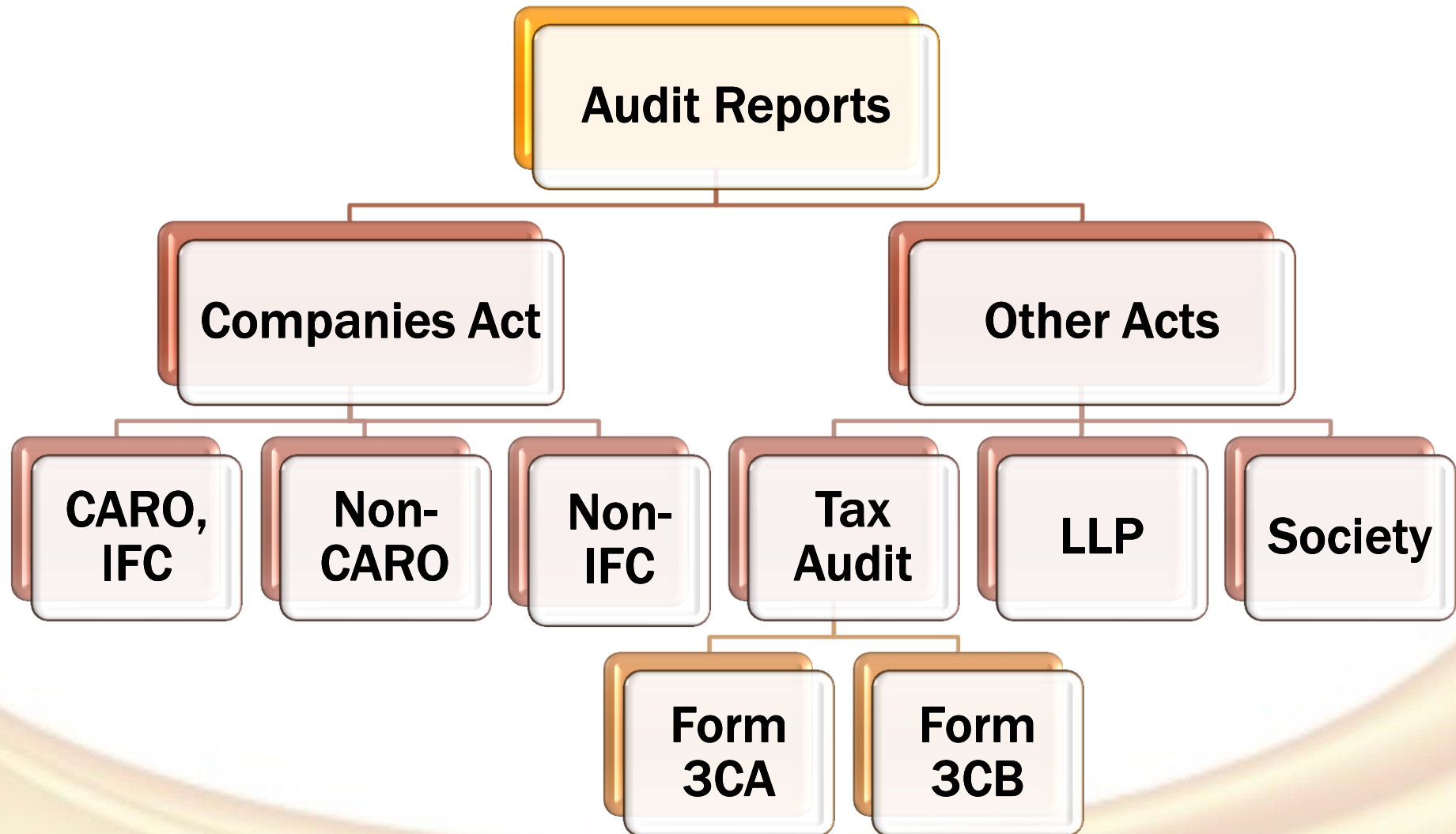
# AUDIT PROCEDURE



# AUDITING STANDARDS

- Auditor to comply with auditing standards
- NFRA to notify auditing standards. Till NFRA does – as by ICAI
- Total 38 SAs

SA. No.	Sub-division	No.
100-199	Introductory Matters	0
200-299	General Principles & Responsibilities	9
300-499	Risk Assessment and Response to Assessed Risks	6
500-599	Audit Evidence	11
600-699	Using Work of Others	3
700-799	Audit Conclusions and Reporting	6
800-899	Specialized Areas	3



# **COMPANY'S AUDIT REPORT**

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- **Inquiry u/s 143(1) – 6 points**
  - **To be reported when comments required**
- **Report to also include:**
  - **Matters specified u/s 143(3) - 9 points**
  - **Matters specified in Rules - 3 points**
  - **Any order made u/s 143(3) for specified Companies in consultation with NFRA – CARO 2016 – 16 points**

# **IFC APPLICABILITY W.E.F. 13.7.2017**

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**✕ Not applicable to Private company which:**

**+ Is OPC; or**

**+ Is Small Company; or**

**+ Has:**

**✕ Turnover less than Rs. 50 crores as per latest audited financial statement ;and**

**✕ Aggregate borrowings at any point of time during the FY less than Rs. 25 crore from:**

**✕ Banks or**

**✕ Financial Institutions or**

**✕ Any body corporate**

CARGO 2016

# CARO 2016 – APPLICABILITY

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- ✖ **Applicable to all including Foreign Co. for a/cing period after 1.4.15 except:**
  - + **Banking Co. / Insurance Co.**
  - + **Section 8 Co.**
  - + **OPC**
  - + **Small Co.**
  - + **Not applicable on CFS**
  - + **Branch auditor also covered, if applicable to co.**

# CARO 2016 – APPLICABILITY

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× Pvt. Co **not being subs. or holding of Pub. Co.** whose:

+ Paid up Capital & Reserves < **1 Cr** as at B/s date; and

- × Bonus, Pref. shares to be included
- × Share Application money !!
- × All reserves to be included including revaluation reserve

# CARO 2016 – APPLICABILITY

× Pvt. Co **not being sub. or holding of Pub. Co.**

whose:

+ Outstanding Loans - Bank or FIs < **1 Cr during FY**; and

× All borrowings included – non fund based – to extent devolved, invoked guarantees & devolved LCs

× TL – interest accrued & due only to be considered

× CC – balance on any day as per books

× OD against FD included

× Outstanding due of Credit card also included

× Foreign banks covered - FIs include NBFC

# CARO 2016 – APPLICABILITY

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× Pvt. Co not being sub. or holding of Pub.

Co. whose:

+ Total Revenue (including from discontinuing operations) < 10 crores as per Financial Statements as per Schedule III

× Other income included



# **AUDIT REPORT FOR FY 2019-20**

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- ✖ **SA 700, 705, 706, 720 revised**
- ✖ **SA 701 – Key Audit matters applicable for:**
  - + **Listed entities**
  - + **Circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report**

# AUDIT REPORT FOR FY 2019-20

## × Revised 700–Illustrations of Auditor's Report on Financial Statements of:

1. A **listed entity** prepared in accordance with a fair presentation framework
2. A **listed company** prepared in accordance with a fair presentation framework
3. An **Unlisted Company** Prepared in Accordance with a Fair Presentation Framework
4. A **Non-Corporate Entity** Prepared in Accordance with a Fair Presentation Framework
5. A **Non-Corporate Entity** Prepared in Accordance with a **General Purpose Compliance Framework**

# **PRIVATE COMPANIES AR**

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**✖ Illustration 3 would be applicable. Few assumptions:**

- + Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570 (Revised)**
- + The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SA 701.**

# **PRIVATE COMPANIES AR**

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✖ It's a Report on the Audit of the Standalone Financial Statements. Paras sequence changed

1. Opinion
2. Basis for Opinion
3. Responsibility of Management for Standalone Financial Statements
4. Auditor's Responsibilities for the Audit of the FS
5. Other Matter
6. Report on Other Legal and Regulatory Requirements


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DOCUMENTED  
IS  
AUDIT NOT DONE**




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- Audit & Assurance and Accounting Standards (208)
- Bank / Insurance / Stock / Debtors Audit (60)

#### Recent Questions

Question added 1 hour ago Goods and Services Tax (GST) By Kaustubh Ram Karandikar, Other Professional, Thane

1 answer

Q. Eligibility of input tax credit of CESS on Coal

Answered By CA Raman Khatuwala

8 views

Question added 1 hour ago Income Tax By Vijay Kumar, CA, New delhi

0 answers


Q. How I file income tax return

11 views

Ask a question:

Next

Concept by CA Pramod Jain



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# Thank You!



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