

PEARSON
Education



AUDITING PRINCIPLES & TECHNIQUES



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Model Questions and Answers

A. SHORT AND PRACTICAL QUESTIONS

Q. 1. Define the term 'audit'.

Answer: The word 'audit' is derived from the Latin word 'audire', which means, "to hear". In olden times, whenever the owners of a business suspected fraud, they appointed certain persons to check the accounts. Such persons sent for the accountant and 'heard' what they had to say in connection with the accounts.

The dictionary meaning of audit is official examination of accounts. Obviously, the person who examines the accounts must be a person who knows what to examine, how to examine and to whom his examination report and observations are to be submitted. In brief, it can be said that auditing is the process by which competent independent individuals collect and evaluate evidence to form an opinion and communicate his opinion to the person interested through his audit report.

Montgomery, a leading American accountant, defines auditing as: "Auditing is a systematic examination of the books and records of a business or other organisations, in order to check or verify and to report upon results thereof."

The ICAI has defined auditing in its AAS-1 as: "An audit is the independent examination of financial information of any entity, whether profit oriented or not and irrespective of its size or legal form, when such an examination is conducted with a view to express an opinion thereon."

From the above definitions, it is seen that an auditor has not only to see the arithmetical accuracy of the books of accounts but has to go further and find out whether the transactions entered in the books of original entry are correct or not. It is possible to perform this function by inspecting, comparing, checking, reviewing, scrutinising the vouchers supporting the transactions in the books of accounts and examining the correspondence, minute books of the shareholders' and directors' meeting, Memorandum of Association and Articles of Associations, etc.

Q. 2. State the social objective of auditing.

Answer: Audit is a social science which has certain social objectives. It should make contributions towards the fulfilment of social purposes. Auditing work, to be effectively performed, have to function for the following.

1. Protection of shareholders interest:

Auditors are the representatives of the shareholders. Naturally, it is the duty of an auditor to see whether the interest of the shareholders are protected or not. The shareholders' interest can be protected by ensuring stable solvency, profitability and efficiency position of the company form of organisation.