B. Com IIIrd Lecture - IInd by Dr. S. K. Sharma

Need of Auditing :→

Auditing is not needed in case of small business but where the ownership and management are seprate, i.e in case of Joint Stock Company audit is essential. Audit is needed because of the following reasons:-

1. Following of rules or regulations.
2. To find out true profit or loss.
3. Realibility of accounts.
4. Efficiency of employees.
5. To know real position of business.
6. Issue of Capital and raising of loans.
7. Compensation from Insurance Company.
8. Increasing goodwill
9. Aid to determination of tax.
10. Declaration of Dividend and Bonus.

Functions of Auditing

The examinations of books of accounts on the basis of vouchers, documents, informations and classifications is the main function of an audit. He can also take help of inspection test checking and samples.

The following are the main function of auditing:-

1. Checking airthmetical accuracy of the books of accounts
2. To examine the system of accounting and internal control.

(3) Proper investigation.
(4) Reviewing System and procedure.
(5) To Show whether the books of Accounts Show a true and fair position.
(6) Checking authenticity and validity of transaction
(7) To Examine the books of Accounts.

Book-Keeping, Accountancy And Auditing.

(i) The aspect of recording transactions, i.e the practical part (Known as 'Book-Keeping');
(ii) The Constructive part i.e the Theoritical part (Commonly known as 'Accountancy proper'); and
(iii) The Critical aspect i.e the analytical part (Known as 'Auditing').

This is probably the briefest and the simplest distinction that can be made between these three terms. There was a time when no proper demarcation could be made between the duties of a book-keeper and an accountant. But in the present industrial age, Book-Keeping and Accountancy have become separate functions.

The following table makes the distinction clear :-

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(a) Book-Keeping
1. Journalizing
2. Posting and ledger
3. Totalling of different accounts in the ledger; and
4. Balancing.

(b) Accountancy
5. Checking the work of Book-Keeper
6. Preparation of Trial Balance
7. Preparing of Trading and Profit & loss - Account.
8. Preparation of Balance Sheet and
9. Passing entries for rectification of errors and making adjustments.

(c) Auditing
10. Checking the work done by Accountant.