# Proprietary Aspects of Audit Public Sector Undertakings &Government Enterprise and applicability of various Accounting Standard / Indian Accounting Standards to PSUs

**Meaning of Proprietary Audit :**

"Proprietary audit" means the auditors try to bring out cases of improper, avoidable, or infructuous expenditure even though the expenditure has been incurred in conformity with the existing rules and regulations.

**Why proprietary Audit is required?**

1. Proprietary audit is to avoid to identify wasteful use of funds.
2. Manage funds of public in effective and efficient way.

**General principles:**

(a) The expenditure should not, prima facie, be more than the occasion demands. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinaryprudence would exercise in respect of expenditure of his own money.

(b) No authority should exercise its power of sanctioning expenditure to pass an order which will be directly or indirectly to his own advantage.

(c) Public money should not be utilised for the benefit of a particular person or section of the community

(d) Employees or managerial personnel should not to take benefit part from their remuneration.

**Auditor's Role:**

1. Auditor's responsibility to check that expenditure incurred is prudent or not.

2. Auditor should check that necessity of expenditure.

3. Auditor should check the class receiving benefits.

4. Whether losses are reoccurring in nature or not
5. How far targets are achieved by the authorities

This proprietary audit also applicable to companies under companies act, 2013 under section 143(1)

# AS 9/IND AS 18* Revenue Recognization

1. **Meaning of Revenue:**
   "Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from the sale of goods, rendering of services & from various other sources like interest, royalties & dividends".
2. **Revenue recogization :**

| **Particulars** | **Treatment** |
| --- | --- |
| Sale of goods | Risk and rewards transferred to buyer |
| Rendering of services | As proportion of service completed |
| Dividend | When right to receive established |
| Interest | On the basis of time taking in to account rate and amount of outstanding |
| Royalty | As per agreement between lessor and lessee |
| Advertisement commission | When appear before pubic |
| Insurance commission | On commencement /renewal of policies |

3. **Other cases:**
   - Agriculture product can be recorded when crops grown by its net realizable value if there is forward contract or government guarantee.
   - Sale on approval: it can be recorded if goods are accepted or return time period lapsed
   - Consignment:It can be recorded when goods are sold to third party

- Installation expenses should be recorded at the time of sale

**Difference between AS 9 and IND AS 18**

| **AS 9** | **IND AS 18** |
|---|---|
| Interest is recorded on time basis | Interest is recorded on effective rate of interest |
| Services rendered recorded on completed service method and proportion completion method | Services rendered recorded on proportion completion method only |

*IND AS 18 is withdrawn.

# AS 10/IND AS 16 Property, Plant & equipment

1. **Non Applicability:**
   - Biological Assets like live animals or plants pertaining to agricultural activity other than bearer plants
   - Wasting assets

2. **Measurement of Recognition :**
   - Initial cost: Acquisition cost
   - Subsequent cost :Cost of bringing present location and condition,Dismantling and restoration cost

3. **Cost Model** :
   - **Cost Model :**

     Asset is recorded at cost less accumulated depreciation and impairment loss
   - **Revaluation model:**

     Asset is recorded at fair value which should be reviewed periodically.

     Journal entries

     1. Upward Revaluation

        Property, plant & equipment A/c DR

        To Revaluation reserve A/c
     2. Downward Revaluation :

        P & L A/c DR

        To Property, plant & equipment A/c

4. **Depreciation:**

   Depreciation is a charge of the asset on systematic basis over the useful life.

   It should be charged to P&L A/c

   Depreciation methods:

- Straight Line Method
- Reducing balance method
- Production unit method
- Annuity method

- Change in useful life or residual value is considered as change in Accounting estimate and accounted as per AS 5.

5. **Change in Dismantling & Restoration cost**:

-If Cost model followed......

Decrease in liability increase the asset than its carrying Amount than excess should be charged to P&L and

Increase in liability decreases the asset up to WDV ,

Excess should be charged to P&L

-If Revaluation model followed.....

Decrease in liability first adjusted against any amount Previously charged to P&L then against Revaluation Reserve. Increase in liability first adjusted Revaluation Reserve then against P&L

6. **Disclosure :**
   - Method of depreciation
   - Rate of depreciation ,useful life of asset
   - Accumulated depreciation and Carrying Value
   - Additions and Disposal during the year
   - Measurement base

# AS 16/IND AS 23 Borrowing cost

1. **Non Applicability :**
   Imputed cost of owner's equity including preference share

   Not recorded as liability

2. **Borrowing cost:** includes
   - Short term /long term debt cost
   - Any discount /premium
   - Ancillary cost(project report preparation payment
   - In Finance Lease finance cost
   - Foreign exchange fluctuation loss

3. **Qualifying asset:**

Substantial time for ready for sale or intended use(normally 12 months)It can be more in some industries if reasons are justified (Ex.Liquar)

4. **Capitalization :**
   Borrowing cost can be capitalized if debt is due to acquisition, construction, production
5. **Commencement of capitalization: 3 conditions satisfied**
   If expenses incurred on asset
   If borrowing cost incurred
   If necessary activities undertaken for intended use of asset
6. **Suspension :**
   When temporary delay in production
7. **Cessation :**
   When qualifying asset is completed or
   Loan is repaid

   IND AS 23 requires disclosure of capitalization rate also

## 8. **Calculation**:

-In case of general borrowings weighted average rate should be found and applied to all qualifying asset in which debt is used

-In case of specific borrowing , cost is to be capitalized in that specific asset only

# AS 22 /IND AS 12 accounting for taxes on income

There are 2 types of differences between account and taxation for tax on income

1. **Permanent difference:**
   This difference is such that never to be deducted by tax
   EX. cash donation
2. **Timing difference:**
   This difference is such that it can be deducted by tax
   After some time
   EX.Depreciation, Preliminary expense, Carry forward of losses

**Journal entries**

1. For deferred tax asset :
   Deferred tax asset A/c DR
   To P & L A/c
2. For deferred tax liability :
   P & L A/c DR
   To Deferred tax liability A/c

**MAT concept**

This concept is introduced for the companies paying high dividends and claiming huge deductions

Calculation:

Tax is payable: Higher of

MAT rate on Book profit

Normal rate on tax liability

MAT credit is also available for 15 years

AS 22 followsp & l approach while IND AS 12 follows Balance sheet approach

| EX. 1 | Accounting profit | Tax profit |
|---|---|---|
| | 100 | 100 |
| Depreciation | (10) | (8) |
| After Depreciation | 90 | 92 |

Deferred Tax Asset

| EX.2 | Accounting profit | Tax profit |
|---|---|---|
| | 100 | 100 |
| Depreciation | (8) | (10) |
| After Depreciation | 92 | 90 |

Deferred Tax Liability

**Tax expenses=Current tax +deferred tax charged to P & L**

# AS 4/IND AS 10 Contingencies and events occurring after balance sheet

There are 2 types of events:

1. Adjusting events
2. Non adjusting events

**Adjusting events**

Events that show indicators on the balance sheet date
Adjustment is required
Provision is required to be made if amount can be estimated
EX. Suit filed by competitor on 23/3/2020

**Non Adjusting events**

Events that do not show indicators on the balance sheet date
Adjustment is not required if going concern is not affected
EX. Fall in market price

- Contingent gain should not be recorded.
- Contingent loss should be recognized if amount can ascertained and liability is certain and loss is not remote
- Dividends declared should be adjusted

# AS 5 /IND AS Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies and estimates

1. **Net profit /loss for the period:**
   -Ordinary activities:
   That is normal course of business like sale of goods, rendering Services should not required to disclose separately
   -Extra ordinary activities:
   EX. sale of fixed asset,loss due to theft,fire etc should requied to be disclosed separately
2. **Prior period items:**

Any error or omission happens in prior period and reveled in current period should be recognized as prior period items separately as per AS 5 but not required as per IND AS 10.

As per AS 5 prospective effect is given and as per IND AS 10 retrospective effect is given

3. **Change in accounting estimates:**
   1. change in useful life of asset
   2. change in NRV of inventories
   3. Change in residual value etc

   Should not required to disclose separately

4. **Change in accounting policies:**

Policies can be changed if

Required by law

Better presentation

Required by standards

Should be disclosed separately

# AS 29 / IND AS 37 provisions,contingent liability and contingent asset

**Definitions:**

A **provision** is a liability which can be measured only by using a substantial degree of estimation.

A l**iability** is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

A **contingent liability** is: (a) a possible obligation that arisesfrom past events and the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the enterprise; or

(b) a present obligation that arises from past events but is not recognized because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) a reliable estimate of the amount of the obligation cannot be made.

A **contingent asset** is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the enterprise.

PROVISION:

A provision is required to be made if

-liability is certain from past events

-Amount can be estimated

Contingent asset:

It is not required to be recognized

Contingent liability:

It should be recorded if

Reliable estimate can be made
Outflow is not remote

Provision should be reviewed in each year and if provision is not required then it is reversed

Provision should be used against expenses