# Scrutiny of Financial Statements and General Ledger

Vaibhav Jain

Partner, M/s Mehra Goel & Co, Chartered Accountants

+91-9711310004, 9868144380

vaibhavjain@mehragoelco.com

# FINANCIAL STATEMENT INCLUDE:

- Balance Sheet
- Profit and Loss Account
- Schedules of the Balance Sheet and Profit and Loss Account
- Significant Accounting Policies
- Notes to Accounts

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-BALANCE SHEET ITEMS

## SHARE CAPITAL-Whether increase in Share Capital ?

If Yes ➡ Verify followings:

Authorized Share Capital

- Board Resolution passed
- Memorandum of Association –Authorized Capital Limit
- Approval in EGM/AGM

Paid up Share Capital

- Board Resolution for allotment of shares
- Return of allotment
- List of allotees
- If preferential allotment –Approval of Sec 81
- Whether money received or share issued for other than cash

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-BALANCE SHEET ITEMS

## VERIFICATION OF SECURED LOAN

- Power of the Board of Director to borrow - whether within the limit of AOA.
- In case of Public Company-Approval of the company, in case amount borrow, together with money already borrowed , will exceed the paid up capital and free reserve. {Sec 293(1)(d)}
- Sanction letter from the banks.
- Disbursement of loan –reconcile with actual inflow with bank statement.
- Securities Charged as per sanction letter – Certificate of Registration of Charge (Sec 132).
- Disclosure of Securities Charged in the Balance Sheet.
- Amount borrowed has been utilized for the purpose it has been obtained {CARO-Clause 4 (XVI)}

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-BALANCE SHEET ITEMS

## VERIFICATION OF UNSECURED LOAN

- Terms and Condition of the Unsecured Loans
- If from related parties –Disclosure as per AS-18
- Verify whether  it would fall with in the definition of Deposits u/s 58A.

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-BALANCE SHEET ITEMS

## VERIFICATION OF FIXED ASSETS (AS-10)

Addition to the Fixed Assets

- Original bills are in the name of the company.
- Date of put to use
  - Plant and Machinery-Date of installation, whether actual production started on not
  - Other Assets-Generally date of receiving of the assets/bill date

Sale/Deletion of the Fixed Assets

- Actual realisation of sale proceeds
- Depreciation charged up to the date of sale
- Calculation of Profit/loss on sale of fixed assets

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-BALANCE SHEET ITEMS

## VERIFICATION OF DEPRECIATION (AS-6)

- Rate of depreciation as per Schedule XIV of the Companies Act or higher rate.
- Depreciation from the date of put to use of assets.
- 100% depreciation on Assets valuing less than Rs.5000.

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-BALANCE SHEET ITEMS

## VERIFICATION OF CAPITAL WORK IN PROGRESS

- Ageing of the Capital WIP-whether outstanding since long
- Document/supporting etc. w.r.t. payment made for Capital WIP
- Physical verification of Capital WIP.
- Check for impairment-AS-28 (specially if outstanding for a long period)

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-BALANCE SHEET ITEMS

## VERIFICATION OF INVESTMENT (AS-13)

- Cost of the Investment-inclusive of brokerage and other transaction charges.
- Securities purchased-Cum Interest/Ex Interest, adjustment in cost of investment if Cum Interest.
- Amortization of premium paid on purchase of securities having fixed maturity value.
- Classification of Investment-Long term/short term, quoted/unquoted etc.
- Valuation of Investment at year end
  - long term investment-at cost, unless diminution in the value is of permanent in nature.
  - Short term investment-at cost or market value which ever is lower

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-BALANCE SHEET ITEMS

## VERIFICATION OF DEBTORS

- Debtors ageing – sufficiency of provision for doubtful debts.
- Scrutiny of debtors sub-ledger.
- Reconciliation of debtors sub ledger with general ledger.
- Payments receive for current bills but no receipts against old outstanding.
- Balance confirmation from debtors (specially for major debtors) and reconciliation in case balances are not tallying.

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-BALANCE SHEET ITEMS

## VERIFICATION OF LOANS AND ADVANCES

- Ageing of loans and advances-provision for old and doubtful advances
- Reasons for advances given-supporting documents
- Non settlement of advances, though goods/services have been received
- Inter Corporate Loans- Compliance and Limit of Sec 372A

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-BALANCE SHEET ITEMS

## INVENTORY

- Physical verification of inventory
- Ageing of inventory to identify slow/non moving items-provision for slow/non moving and obsolete items
- Valuation of inventory as per AS-2
- Also disclosure in the accounting policy-the basis of determining cost –FIFO or Weighted Average.

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-BALANCE SHEET ITEMS

## CASH AND BANK BALANCE

- Physical verification cash and management certificate for cash balance on the balance sheet date.
- Bank reconciliation as on balance sheet date
  - Scrutiny of entries in the bank reconciliation
  - Clearing of reco entries in the subsequent period
  - Abnormal entries in the reco at year end to manipulate the accounts-Debtors/Creditors
- Balance confirmation from bank-directly from the banks.
- Verification of original Fixed Deposits Receipts-Cross verify with TDS Certificates from Bank.

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-BALANCE SHEET ITEMS

## CURRENT LIABILITIES

- Scrutiny of Creditor's Sub-Ledger, old outstanding balance- whether advances outstanding against old dues
- Reconciliation of Creditor's sub ledger with general ledger
- Advances to supplier - to shown under Loan and advances

## PROVISIONS

- Provision for taxation to be netted off with advance payment of taxes/T.D.S.
- Adjustment of Provision and Advance Taxes on completion of assessment.
- Deferred Tax Entries (AS-22).

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-PROFIT AND LOSS ITEMS

## VERIFICATION OF SALES (AS-9)

- Cut off date
- Verification from Excise and Vat return
- Analysis of increase/decrease in prices – industry norm, raw material prices
- Ratio analysis-comparison with cost of sale
- Abnormal increase/decrease in sale near cut off date.
- Sales return/debit notes related with previous year.

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-PROFIT AND LOSS ITEMS

## VERIFICATION OF PURCHASE AND COST OF PRODUCTION

- Cut off date
- Reconciliation of goods received in stock ledger with purchase booked in accounts.
- Analysis of Cost of Production
  - Input output ratio
  - Increase/decrease in raw material prices
  - Increase/decrease in Margin over material as compared to previous year

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-PROFIT AND LOSS ITEMS

## VERIFICATION OF EMPLOYEE COST

- Details of new appointment and retirement/employees left
- Appointment letter of new joinees
- Average increase in the salaries of employees
- Reconciliation of total no. of employees as per attendance records with no. of employees' salary processed.
- Actuary valuation for Gratuity and Leave encashment-verification of data furnished for Actuary valuation and assumption used by Actuary.

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-PROFIT AND LOSS ITEMS

## FIANACIAL COST

### VERIFICATION OF INTEREST ON TERM LOAN

- Amount outstanding during the year-as per sanction letter, actual disbursement of loan and repayment schedule
- Interest rate from sanction letter and revision of interest rate letter received from banks.
- Cross verification of interest calculation with interest charged by bank.

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-PROFIT AND LOSS ITEMS

## VERIFICATION OF PROFESSIONAL EXPENSES

- Proper supporting with the vouchers
- Period of the services rendered
- Enquire the purpose of engagement- whether need provide any liability for claim against company.

# VERIFICATION OF FINANCIAL STATEMENT AND LEDGER SCRUTINY-PROFIT AND LOSS ITEMS

## VERIFICATION OF STAFF WELFARE EXPENSES

- Proper supporting with the vouchers
- Whether expenses of personal nature has been charged to revenue