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FOR-LNMU -B.com part - 3Rd Paper-viii – Principles of Auditing Lecture no-14 Unit- 4 Audit investigation

❖ Audit of Accounts of partnership Firms

- ✓ **To avoid any misunderstanding and doubt, partnership firms recognize the advantage of audit of financial statements.**
- ✓ **Partnership deed on mutual agreement between the partners may provide for audit of financial statements.**
- ✓ **Auditor is appointed by the mutual consent of all the partners.**
- ✓ **Rights, duties and liabilities of the auditor are defined in the mutual agreement and can be modified by partners.**
- ✓ **It will be in the interest of the auditor to get in writing the nature and scope of his work to avoid any dispute later on.**
- ✓ **While conducting the audit of partnership firm the auditor must refer to the deed or Partnership Act 1932.**
- ✓ **It is not legally compulsory to get accounts of partnership audited. The possibilities of mistrust and dissatisfaction are greater incase of partnership. An independent Auditor's view on the correctness of**

accounts is desirable in case of partnership concerns. Usually the partnership deed provides for the audit of accounts.

❖ When partnership is silent, the following provisions of Partnership Act, 1932 will apply and auditor will take care of following points:

- 1. All partners will share profit or loss equally.**
- 2. None of the partners will be entitled to receive any salary or remuneration.**
- 3. Interest payable to partner on his capital, if any, shall be payable out of profits.**
- 4. A partner contributing moneys in excess of agreed amount of capital will get interest at the rate of 6% p.a**
- 5. The partners shall use the property of the firm exclusively for the purposes of business.**
- 6. A new partner can be admitted only with the consent of all partners.**
- 7. Every partner has the right of access to the books of accounts and obtain a copy of the same.**
- 8. A minor can be admitted to a firm for profits only.**
- 9. When the other partners carry on the business after a partner ceases to be a partner due to death or for any other reasons without settlement of accounts between them, the outgoing partner or heirs of the deceased partner are entitled to either such share of profits attributable to his share in the property of the firm or interest at the rate of 6 % on his share in the property of the firm.**

10. While settling the accounts of the firm on its dissolution, the goodwill of the firm will be considered as one of the assets of the firm. This goodwill may be sold separately or along with the other assets of the firm. Anyone or more partners will have the right to bid for the purpose of this goodwill.

11. On the dissolution of the firm, while settling the accounts, losses(including deficiencies Of capital) shall be paid in the following order:

a. Firstly, out of profits

b. Secondly, out of capital and

c. Lastly, by the partners individually in their profit sharing ratio.

12. On the dissolution of the firm, its assets, including any sums contributed by the Partners to make up deficiencies, shall be applied in the following:

a. Firstly, in paying debts of the firm to third partners.

b. Secondly, in paying off proportionately to the partners their loans.

- c. Thirdly, if there is any balance, in paying proportionately to the partners Towards their capital, and***
- d. Fourthly, the balance, if any, shall be divided among the partners in their Profit sharing ratio.***

❖ Advantages of audit of partnership firms:

- 1. It helps in detection and prevention of frauds or frauds or errors, and verification of Correctness of accounts.***
- 2. Any dispute between the partners relating to accounts can be settled by presenting Independently audited accounts.***
- 3. The periodical visits and suggestions by the auditor may prove to be helpful in Improvement of management of the firm.***
- 4. In case of admission, retirement or death of a partner, audited accounts are acceptable To all to adjust the accounts between the partners.***
- 5. The audited accounts are helpful for income-tax assessment or for borrowing from the Banks.***

❖ Consideration before the commencement of audit

- 1. He should have a contact with the client in writing. He should also have all the Instructions and scope of audit in writing.**
- 2. He should obtain a copy of partnership Deed. In case of no implied or expressed Agreement between the partners regarding accounts, the provisions of Indian Partnership Act, 1932 relating to accounts will be applicable.**
- 3. Before planning the audit programme, he should study the internal control system in Operation.**
- 4. He should study the system of accounting in operation and list of books maintained by The firm.**
- 5. He should obtain list of members of staff, their duties, powers, and responsibilities.**
- 6. He should make study of technicalities of the business of the firm to perform his job Efficiently.**