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ICAI

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BHUBANESWAR BRANCH OF EASTERN INDIA REGIONAL COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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EDITORIAL



Dear Esteemed Members,

As we look back on the month of **July**, it is heartening to observe the extraordinary zeal and enthusiastic involvement that have marked the endeavours of the ICAI Bhubaneswar Branch. The month has been characterised by enriching educational opportunities, thoughtful discussions, and genuine involvement from our members and students, reinforcing our collective dedication to professional distinction and continuous learning.

In a constantly changing professional environment, the necessity to stay updated, flexible, and prepared for the future has never been more significant. With this objective, our Branch continues to arrange programmes that promote knowledge development, skill building, and cooperative learning, while reinforcing the ties within our professional community.

Moving forward, we remain dedicated to launching further initiatives that highlight hands-on learning, leadership growth, innovation, and enhanced member involvement. The ongoing advancement of our Branch mirrors the combined efforts and steadfast backing of our members, students, faculty, and volunteers. I urge each of you to take an active part in our forthcoming programmes and help cultivate a dynamic, forward-thinking, and inclusive professional community.

I offer my sincere gratitude to our Managing Committee Members, respected faculty, volunteers, and every member whose commitment and assistance have been vital to the successful implementation of our initiatives. Together, with a common vision and steadfast resolve, I am certain that we will keep reaching new landmarks and preserve the values of our profession.

As we proceed ahead, I wish you all lasting success, good health, and abundant opportunities for learning, development, and professional distinction.

Warm regards,

CA (Dr.) Goutam Lenka

Chairman, ICAI Bhubaneswar Branch

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Members' area of Interest

Observations related to SA 450, Evaluation of Misstatements Identified During the Audit.

Observation 1:

The auditor should have documented uncorrected errors and if there were no such errors it should have been documented.

What is the issue?	AASB Suggested Guidance	Technical Literature
What are the requirements of SA 450 regarding uncorrected misstatements?	SA 450 requires the auditor to evaluate the effect of uncorrected misstatements on the financial statements to determine whether they are material to the financial statements, either individually or in aggregate. SA 450 also requires the auditor to obtain written representation from the management and, where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation. SA 450 also contains documentation requirements regarding uncorrected misstatements. Considering the above, the auditor should document all the misstatements identified during the audit. In order to evaluate the cumulative impact of misstatements and also to include them in management representation, it is imperative for the auditor to accumulate these misstatements in a single working paper. In case there are no identified misstatements, the auditor should document the same in audit working papers to support the auditor's opinion. The auditor may also include this fact in management representation.	**Para 5 of SA 450:** The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial. (Ref: Para. A2-A3) **Para 8 of SA 450:** The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation. The auditor shall request management to correct those misstatements. (Ref: Para. A7-A9) **Para 9 of SA 450:** If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement. (Ref: Para. A10) **Para 10 of SA 450:** Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SA 320 to confirm whether it remains appropriate in the context of the entity's actual financial results. (Ref: Para. A11-A12) **Para 11 of SA 450:** The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider: a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial

		statements as a whole, and the particular circumstances of their occurrence; and (Ref: Para. A13-A17, A19 A20) b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. (Ref: Para. A18) **Para 12 of SA 450:** The auditor shall communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation. The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected. (Ref: Para. A21-A23) **Para 13 of SA 450:** The auditor shall also communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. **Para 14 of SA 450:** The auditor shall request a written representation from management and, where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation. (Ref: Para. A24) **Para 15 of SA 450:** The audit documentation shall include: (Ref: Para. A25) a) The amount below which misstatements would be regarded as clearly trivial (paragraph 5); b) All misstatements accumulated during the audit and whether they have been corrected (paragraphs 5, 8 and 12); and c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion. (Paragraph 11) **Para 5 of SA 320:** The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. (Ref: Para. A1)

		Para 6 of SA 320: In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material. These judgments provide a basis for: a) Determining the nature, timing and extent of risk assessment procedures; b) Identifying and assessing the risks of material misstatement; and c) Determining the nature, timing and extent of further audit procedures. The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality. Although, it is not practicable to design audit procedures to detect misstatements that could be material solely because of their nature, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.

Article on-

Basics of Accounting: Single Entry System – A Way to Deal with Problems of Small Shopkeepers

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Single Entry System may consist (Types of Single Entry Books):

a) Double entry in respect of certain transactions e.g. Debtors and Creditors (Personal Accounts only) etc and single entry for all remaining transactions.,
b) Double Entry in respect of almost all transactions and Single entry in respect of certain transactions e.g Single entry for cash book transactions only.
c) No entry for certain transactions and Single or Double entry for all other transactions.

"Single Entry System is a system of book keeping in which as a rule only record of cash and personal accounts are maintained. Volume of Incomplete Double Entry varies with the circumstances."

In our day to day life when we deal with accounts specially of small shopkeepers we may encounter any of the above situations. It's upto an experienced/qualified Accountant or CA how he makes incomplete records complete & how he transforms books maintained on single entry basis to double entry. Knowledge of Single Entry System is useful to an accountant right from accounting, ITR filing to representation in search and survey proceedings.

Features of Single Entry System (Generally maintained by Small Shopkeepers):

a) Maintenance of transactions related with personal accounts on double entry basis and maintenance of transactions related with real and nominal accounts on single entry basis.
b) Maintenance of Cash Book with mixed transactions. Normally both personal and business transactions are mixed in cash book,
c) Completion of records depends on availability of Original Vouchers like Insurance Premium Receipts, Purchase Invoices of Assets, Invoices of Sales and Purchases of goods etc.
d) Form and Accounting Accuracy of Single Entry system differ from firm to firm.
e) Incomplete Records (Single Entry System) is suitable (Can be suggested) to Small businesses/ Proprietary Concerns/ Partnership Firms.

Fundamental Equations which are basis of Incomplete Records:

I. **Assets – Liability = Equity**

and

II. **Income = Savings + Expenditures**

We all know that both these equations are widely used in Income Tax Search cases where whole of the pleading on behalf of assessee is pleaded on the satisfaction of these accounting equations. It has to be emphasized here that these equations are equally useful during the accounting & book keeping and similarly at the time of ITR filing and assessment proceedings other than raid cases.

Net Worth Method:

Under net worth method Profit/Loss is deduced from Networth or in other words Capital of two different dates.

Example:

Rs. Figures in '000

Date	Assets	Liabilities	Equity
01.04.2021	5,00,000	3,00,000	2,00,000
31.03.2022	7,00,000	1,50,000	5,50,000

Profit earned during the period is: Equity as on 31.03.2022 – Equity as on 01.04.2021

Or 5,50,000 – 2,00,000 = 3,50,000

Adjustments in Profit Figures:

Adjustment for Drawings: Under Net worth method drawing has to be added back in the profit figure arrived as above.
Adjustment for Capital Introduced: For profit calculation capital introduced has to be reduced from the profit derived as above.

Statement of Affairs Vs Balance Sheet:

Statement of Affairs is simply a list of Assets and Liabilities which is not balanced which is prepared from Incomplete Accounting Information. On the contrary Balance Sheet is complete information of Assets & Liabilities prepared on double entry system basis and which is balanced.

A. Balance Sheet is prepared from Trial Balance and Statement of Affairs is prepared directly from cash book, Ledger and other additional information.
B. Balance Sheet is assumed as true and Statement is not so assumed.
C. Omissions from Balance Sheet are difficult to trace and omissions from Statement of Affairs are difficult to trace.

How statement of affairs can be prepared in Single entry system of book keeping:

I. Cash Book may provide certain Information Like information as to
   a. Cash and Bank Balances,
   b. Purchases/Sale of Assets,
   c. Payment/incurrence of Liabilities and
   d. Capital Introduction and Withdrawals.

II. Information out of Vouchers:- Assets and stock etc. purchased or sold. Details of Investments can be derived from account statements.
III. Debtors/ Creditors Ledgers:- As normally personal accounts are maintained on double entry basis their list can be prepared from Ledgers.
IV. Stock value is derived from physical verification.
V. Outstanding and Accrued: Information of Outstanding and Accrued is obtained from Previous year figures.

Partnership Firms:

I. Balances in capital A/c of all the partners taken on collective basis for profit figure.
II. Under Fixed Capital System profit figures are arrived from variable capitals of the partners on collective basis.

Methods of Accounting in Single Entry System of Book Keeping:

I. Conversion Method:

Under this method Single Entry Accounts are converted into Double Entry Accounts. After preparation of Statement of Affairs following exercise is performed:-

A. Figures of Sales and Purchases are derived from total Debtors and Creditors Accounts maintained (Entries made from Personal Ledgers).
B. Figures of Expenditure and Incomes are deduced from Receipt and Payment (Cash Book) and other Additional Information.
C. After completing entries on both sides (Dr. and Cr.) Trial Balance can be prepared.
D. Any other Information which was not expected by the accountant may arise on preparation of trial balance.

II. Abridged Conversion Method:

No efforts are made to transform Single Entry into Double Entry. Accounts are not opened in the Ledger nor trial is prepared. Only Information necessary to prepare Trading and P & L is collected.

Glimpses of Events

ICAI Bhubaneswar Branch Commemorates Chartered Accountants' Day, Emphasising Excellence, Ethics and Leadership































#Chartered Accountants' Day #ICAI #ICAIBhubaneswarBranch #CAStudents #FutureCAs #Learning #Leadership #ProfessionalExcellence

"Infinity – Beyond Boundaries": CA National Conference 2026 Brings Together Profession's Brightest Minds

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