

## Editor's Pen

With immense pleasure we present the twentieth edition of our much awaited Quarterly newsletter, "ECHO", the Voice of JVR.

We take this opportunity to congratulate Team JVR who had bagged the Second prize in Encore 2016 for Chorale (Group Song) and who had actively participated in it.

Yes, yet another tax audit season is round the corner. Let's gear up to face the new challenges.

Best wishes to our colleagues who have done the May 2016 exams and are eagerly waiting for the results.

And of course, Welcome aboard all the young aspirants who have joined the JVR family.

Turn over the pages for the articles on Comparison of AS 6 & AS 10 with AS 10 (Revised), Importance of Audit Documentation and the Ifthar party.

"Some people dream of success while others WAKE UP AND WORK HARD at it."

So dear JVRites,

Arise, awake and stop not till the goal is reached...

Happy reading!

## JVRites in Action



Abhishek Rao @  
National Convention for CA Students at Baroda



Encore 2016 Team



## COMPARISON OF AS 6 & AS 10 WITH AS 10 (REVISED)

AS 10 (Revised) - Property, Plant and Equipment	AS 6 - Depreciation Accounting & AS 10 - Accounting for Fixed Assets
AS 10 (Revised) does not exclude real estate developers from its scope and clearly makes the standard applicable to bearer plants (e.g. Rubber trees, grape wine).	AS 10 had specifically excluded accounting for real estate developers from the scope of the standard whereas new standard does not exclude such developers from its scope.
Apart from defining the term Property, Plant and Equipment revised standard also lays down a recognition criteria for recognizing an item of Property, Plant and Equipment.	AS 10 does not lay down any specific recognition criteria for recognition of a fixed asset.
AS 10 (Revised) requires an entity to choose either the cost method or the revaluation method as its accounting policy and to apply that policy to an entire class of Property, Plant and Equipment.	AS 10 does not give any measurement base such as cost or revaluation model. Enterprise can choose any one of such method as its accounting policy.
AS 10 (Revised) does not specifically deal with jointly owned assets.	Existing AS specifically deals with fixed assets owned jointly with others.
AS 10(Revised) requires that the residual value and useful life of an asset be reviewed at the end of each financial year.	Under AS 6, such a review is not obligatory since it simply provides that useful asset of an asset may be reviewed periodically.
AS 10 (Revised) requires that the depreciation method applied should be reviewed at least at the end of each financial year and pattern and the change should be treated as a change in accounting estimate.	AS 6 recognises change in depreciation method as a change in accounting policy. Method can be changed only if it is required by any AS or statute or for better preparation and presentation of financial statements.
AS 10 (Revised) is based on component approach.	Existing AS does not mandatorily require full adoption of the component approach.
This Standard requires Initial costs as well as the subsequent costs are evaluated on the same recognition principles to determine whether the same should be recognised as an item of property, plant and equipment.	Subsequent expenditures related to an item of fixed asset are capitalised only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance, e.g. an increase in capacity.
This Standard requires that spare parts, standby equipment and servicing equipment are recognised in accordance with this Standard when they meet the definition of property, plant and equipment.	Stand-by equipments and the servicing equipments are normally capitalised. This Standard requires that only those spares are to be capitalised which can be used only in connection with an item of fixed asset and their use is expected to be irregular.
This Standard requires that the cost of major inspections should be capitalised with consequent derecognition of any remaining carrying amount of the cost of the previous inspection.	This Standard does not deal with this aspect.
This Standard requires that the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located should be included in the cost of the respective item of property, plant and equipment.	This Standard does not contain any such requirement
This Standard provides that the revaluation surplus included in owners' interests in respect of an item of property, plant and equipment may be transferred to the revenue reserves when the asset is derecognised.	Neither existing AS 10 nor existing AS 6 deals with the transfers from revaluation surplus.



## IMPORTANCE OF AUDIT DOCUMENTATION

Robert H Montgomery, a noted authority in auditing, in his book, "Montgomery's auditing (1912)" said, "The skills of an accountant can always be ascertained by an inspection of his working papers." More than a century has gone by but his words have not lost their relevance. On the contrary, over the years, given the amount of litigation that the auditors have faced the world over, these words have gained significance.

Documentation is considered the backbone of an audit. The work that the auditor performs, the explanations given to the auditor, the conclusions arrived at, are all evidenced by documentation. Poor documentation depicts poor performance in an audit.

As per SA 230(Revised) - Audit Documentation, the objective of the auditor, is to prepare documentation that provides:

- A sufficient and appropriate record of the basis for the auditor's report; and
- Evidence that the audit was planned and performed in accordance with SAs and applicable legal and regulatory requirements.

Documentation is essential because:

- It helps in planning an audit
- It assists supervision and review
- It results in better conceptual clarity, clarity of thought and expression
- It facilitates better understanding and helps to avoid misconception
- It supports and evidences work performed and compliance with standards.

Audit documentation serves a number of additional purposes, including the following:

- Enabling the engagement team to be accountable for its work.
- Retaining a record of matters of continuing significance to future audits.
- Enabling the conduct of quality control reviews and inspections in accordance with SQC 1
- Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

The form and content of audit documentation should be designed to meet the circumstances of the particular audit. It depends on various factors such as the size and complexity of the entity, risk assessment, materiality, sampling methods etc.

The audit documentation shall be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: The nature, timing, and extent of the audit procedures performed to comply with the SAs and applicable legal and regulatory requirements; The results of the audit procedures performed, and the audit evidence obtained; and Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

Working paper may be

- Audit Programme
- Analyses
- Audit Observation
- Summaries of Significant Matters
- Letters of Confirmation and Representation
- Correspondence concerning significant matters
- Checklists

In general, a working paper should contain the following: Risk and controls relevant to the area, assertions to be tested and satisfied, substantive and analytical procedures performed, persons performing/reviewing the work, Dates on which the work was performed/reviewed, extent of review, documents prepared by client.

Audit documentation may be in the form hard copy or soft copy.

The documentation requirement is not relevant only in the cases where:

- The entire SA is not relevant [for example, if an entity does not have an internal audit function, nothing in SA 610 (Revised) is relevant]; or
- The requirement is conditional and the condition does not exist (for example, the requirement to modify the auditor's opinion where there is an inability to obtain sufficient appropriate audit evidence, and there is no such inability).

The retention period for audit documentation, as per SQC 1, ordinarily is no shorter than seven years from the date of the auditor's report, or, if later, the date of the group auditor's report.

The timely preparation of sufficient and appropriate audit documentation helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.



## *A memory to hold - Ifthar*



Ramadan is the ninth month in the Islamic calendar which is considered holy and blessed. And in this month, during which it is believed that the holy Quran was revealed, Muslims across the world fast during the day and practise charity and self discipline. Ifthar is the evening meal when Muslims end their Ramadan fast at sunset. Muslims break their fast at the time of the call for the evening prayer.

In honour of this blessed month, our firm organised an Ifthar on 24th June. The arrangements for the same were taken care by the students whose efforts are well appreciated. Along with the whole office, few of our clients were invited too. After a brief introduction by Jomon Sir, Ifthar began at sunset. Delicious snacks were distributed to everyone. With prayers and well wishes, the Ifthar came to an end by 7:30 whereby everyone bid goodbyes to a wonderful time spent together. With sincere hopes that everyone enjoyed the evening, we wish you all a Ramadan Kareem and an Eid Mubarak!

**Dana Abdul Rahim**

## *JVR @ Encore '16*



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