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Evolution of Accounting in India

(In accordance with National Education Policy 2020)

(Implemented from the Academic Year 2025-26)

Unit 1

Evolution of Accounting in India

Objectives: (After studying this unit students will be able to:

1. Understand the History and Evolution of Accounting in India
 2. The concept of Ancient Accounting Practices in Indian History
 3. Contribution of Indian Scholars to Accounting System
 4. Evolution of Accounting Standards in India
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 - 2.3 Ancient Accounting Practices in Indian history
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1. Introduction

This topic aims to explore the historical roots and traditional practices of accounting in India, focusing on ancient texts and systems such as Bahi-Khata and Hundi. It covers the evolution of accounting in India, Ancient accounting practices in

Indian History, Contribution of Indian Scholars to accounting systems and Evolution of Accounting standards in India.

Accounting is a discipline which records, classifies, analyses and summarizes data and presents it in a convenient form to various stakeholders of the Company. Accounting is one of the oldest structured management information systems. Accounting is an information system concerned with identification, measurement, and communication of economic information of an organization to its users who may need the information for rational decision making.

The history of accounting dates back to the earliest days of civilization driven by the trade system of crops and products necessary for survival. The subject of Accountancy and its importance has a long history in India. In 'Kautilya's (also known as Chanakya) Arthshashtra' which is a treatise on economics and political science and has elaborate prescriptions on accounting and accountability aspects for a treasury and Government with features of universal utility. The earliest treatise on accounting is generally thought to be Pacioli's Summar of 1494. However, Bahikhata (a double-entry system of bookkeeping) predates the 'Italian' method by many centuries. Its existence in India prior to the Greek and Roman empires suggests that Indian traders took it with them to Italy, and from there the double-entry system spread through Europe, which then evolved itself to accrual from cash and gradually to present day, modern reporting. Hence, this chapter attempts to understand the Journey of Indian Accounting Practices and also collect evidence to prove the origin of double entry system in India.

1. Presentation of the subject matter

1.1 History of accounting

Many people think that accounting started with the industrial revolution. However, in recent times, a new specialization has emerged: Accounting Historians. These people have been digging up the past, side by side with Archaeologists. This topic tries to give an overview of their work.

The backbone of modern Accounting is the double-entry system of book-keeping. The present form of double-entry system has been around for an estimated 700 years. The story of double-entry book-keeping takes us back to an Italian monk during Renaissance.

1.1.1 1494 CE: Luca Pacioli



This system was first publicized by a Franciscan monk, Br. Luca Pacioli in 1494 CE. Luca Pacioli described the system in his book called “The Collected Knowledge of Arithmetic, Geometry, Proportion and Proportionality”. The book dealt mainly with Arithmetic and Geometry. Only a small chapter, added almost like a bonus or free gift, described double-entry Accounting. This book was printed on the new Gutenberg press and became an instant hit. Pacioli’s book caused this system to be widely adapted all over the world, over the next 500 years. Most of the system remains unchanged even today. This may be because accountants have not been very inventive or because the system itself was very robust to begin with. Br. Pacioli did not claim to be the inventor of double entry book-keeping. He gave credit for this to one Mr. Benedetto Cotrugli (Benedikt Kotruljevic of Dubrovnik, Croatia).

1.1.2 1458 CE: Benedetto Cotrugli



Mr. Cotrugli had written about double-entry system in his book called “Of Trading and the Perfect Trader”. This book was written around 1458 but not published for more than a hundred years. Modern Numerals and Accounting makes an interesting observation regarding development of double-entry accounting. It suggests that double-entry accounting became possible due to introduction of Arabic numerals to Europe, which were a big improvement over Roman numerals (I, II, V, IX...L, C..).

Arabic numerals:

The numerals (1,2,3, ...0) used throughout the world today are often called Arabic numerals. This is because Arabs introduced these numerals to Europe towards the end of first millennium CE¹⁰. However, the Arabs themselves call these as Hindu figures (Al-Arquan-Al-Hindu). There are also visual similarities between the current Devanagari¹¹ numerals and the modern numerals used internationally¹².

According to Mr. Ginsburg: “The Hindu notation was carried to Arabia about AD 770 by a Hindu scholar named [Shri] Kanka who was invited from Ujjain to the famous court of Baghdad by the Abbaside Khalif Al-Mansur. [Shri] Kanka taught Hindu Astronomy and Mathematics to the Arabian scholars and with his help, they translated into Arabic the Brahma Sphuta Siddhanta of [Acharya] Brahmgupta. The recent discovery by the French savant [Mr.] M. F. Nau proves that the Hindu numerals were well known and much appreciated in Syria about the middle of the seventh century AD¹³.”

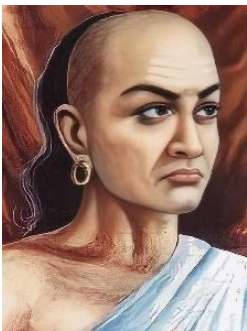
It is also believed that traders and bankers in Venice were using some concepts of double entry book-keeping a hundred years before Mr. Cotrugli wrote his book. Both Mr. Cotrugli and Br. Pacioli have described an existing system rather than having suggested or invented a new one. How did double entry concepts develop in Venice so quickly, though the modern number system had just reached Europe? Some scholars believe that Indian merchants may have taken this knowledge across. For instance, Mr. Alexander Hamilton F.R.S. wrote 200 years ago: “We would remark that the Bania's of India have been, from time immemorial, in possession of the method of book-keeping by double entry, and that Venice was the emporium of Indian commerce at the time at which Friar Lucas's (Pacioli's) treatise appeared.” This line of argument has been further developed by Shri B. M. Lall Nigam recently, when he called the bahi-khata system a precursor to Pacioli's double entry accounting.

a. The Bahi-Khata System: The Bahi-Khata system, used even today by Indian traders, is commonly referred as single entry system in all standard text-books. Modern accountants know very little about traditional Indian accounting. Curiously, the Bahi-Khata system makes a double-entry for all transactions affecting real or personal accounts. These transactions are first entered in the rokad-bahi (cash book), and then posted into the khata-bahi (ledger). The system also uses the concept of naam (debit) and jamaa (credit) for maintaining the books. It differs from the modern double-entry system in two significant aspects only:

1. Transactions, which affect nominal accounts, are not posted to the ledger. Thus, we cannot draw up a Profit and Loss Account.
2. A trial balance cannot be prepared, as double entry is not completed for all transactions.

It should be noted that most Indian traders follow cash basis of accounting. Credit sales are recorded by debiting personal accounts directly. The significance of a journal is, therefore, somewhat diluted.

b. Accounting and Arthashastra



About 2,400 years ago, the Prime Minister of the Maurya Empire wrote Arthashastra, literally, the 'Manual of Means'. Among other things concerned with administering the state, a section of the manual discusses state accounting also. Surprisingly, some of the concepts are very close to modern notions of accounting. This has been discussed in some detail by Shri Choudhury and Shri Bhattacharyya. Reviewing Shri Bhattacharyya's book, Mr. Mattessich comments: "...the Arthashastra is the very first treatise on accounting, as far as present historical documentation goes Arthashastra is a treatise dealing with theoretical accounting aspects and foreshadows concepts that were systematically dealt with only in the twentieth century.

Acharya Kautilya's Arthashastra provides more systematic treatment and has devoted a separate chapter to 'Budget, Accounts and Audit'. He also attempted a reconstruction of the form of accounts specified by Kautilya. These appear to be very similar to some of the modern accounting records.

c. Accounting Concepts in Mahabharat

The accounting trail does not stop with Arthashastra. We see references to it in Indian history as contained in Ramayan and Mahabharat. The Adi Parv of Mahabharat is particularly interesting and contains a clear illustration of the concept of 'nominal pricing'. This occurs in a dialogue between King Vasuman and King Yayati. Yayati refuses to accept a donation of good deeds from Ashtak and then again from King Pratardan. At this King Vasuman says: 'O King. I give all my worlds to you. If you are hesitating to take these as a donation, then you can buy these for a handful of grass.' King Yayati responds: 'This sale-purchase is a complete fiction. I have never entered into such transactions.

d. Token Accounting in Middle-East

Accounting historians take us back further to Mesopotamia. In Mesopotamia, archaeologists have discovered proto-cuneiform tablets containing distribution records of barley. On these tablets, debit entries appear on one side and the credit totals appear on the other side. This type of accounting appears to be a successor to something called token accounting, which evolved in the Middle-East from 8000 BCE to 3000 BCE. Token accounting used clay pouches (called bulla) to seal tokens, such as pebbles. Each token represented actual objects. For example, a pebble may mean ten goats or sheep. To record 50 goats, five tokens were placed inside the pouch, which was then closed and baked. To find out the number of goats in stock, you had to break open the pouch. Later on, the accountants started making impressions of the pebbles (tokens) outside the pouch as well, before baking it. The main benefit of this was that you did not have to break the pouch to check the accounts! This double representation (a pebble inside, and an impression outside) is currently believed to be the origin of double entry system of book-keeping.

1.1 Check your progress

Fill in the blanks

1. The present form of double-entry system has been around for an estimated - ----- years.
2. Accounting is a discipline which records, classifies, -----data and presents it in a convenient form to various stakeholders of the Company.
3. The story of double-entry book-keeping takes us back to an ----- during Renaissance.
4. This system was first publicized by a Franciscan monk, -----in 1494 CE
5. -----had written about double-entry system in his book called “Of Trading and the Perfect Trader ”.
6. The numerals -----used throughout the world today are often called Arabic numerals.
7. About 2,400 years ago, the Prime Minister of the -----wrote Arthashastra, literally, the ‘Manual of Means’.

8. The -----system, used even today by Indian traders, is commonly referred as single entry system in all standard text-books.
9. The Adi Parv of Mahabharat is particularly interesting and contains a clear illustration of the concept of ‘-----’.
10. Token accounting used (called bulla) to seal tokens, such as pebbles.

1.2 Evolution of Accounting in India:

The **Evolution of Accounting in India** has a long and rich history, shaped by ancient practices, colonial influence, and modern economic development. The **Evolution of Accounting in India** reflects the country’s rich history, colonial influences, economic transformations, and adoption of global standards. Accounting is a crucial aspect of business, has witnessed a remarkable transformation over the centuries. From the humble abacus to cutting-edge artificial intelligence (AI) systems, the field has evolved exponentially. In the Indian context, this evolution has significantly impacted the way financial records are maintained, analyzed, and utilized.

Following points explores concise yet comprehensive overview of its evolution, highlighting the key milestones through key phases:

1.2.1 Ancient Period (Before 1200 AD) Ancient India (Vedic to Mauryan Periods) :

The origins of accounting in India can be traced back to ancient times, when records were maintained through various methods, including barter systems, token systems, and the use of ledgers. Such practices were prevalent during the Vedic period and were based on principles of fairness, transparency, and accountability. These early forms of accounting laid the foundation for subsequent developments.

a. Vedic Period (1500–500 BCE): Early accounting practices were seen in Vedas, particularly the Rigveda and Manusmriti, which referenced financial record-keeping, loan records, and ethical business practices of the businessmen or trader. Accounting was focused on **agriculture, trade, taxation, and state revenue management**.

- **Kautilya’s Arthashastra** (4th century BCE): One of the earliest documented texts that described detailed financial administration, taxation, budgeting, and state accounting systems in Kautilya’s Arthashastra.

- **Bahi-Khata System:** Traditional Indian system of accounting using *Bahi* (ledger) and *Khata* (account) books, still used in some rural businesses today. Based on double-entry principles in a native format.

b. Mauryan Empire (321–185 BCE): The Mauryan Empire, established in 322 BCE, was the first major empire in the Indian subcontinent, spanning from 322 BCE to 185 BCE. Founded by Chandragupta Maurya, it was known for its centralized administration, vast geographical reach, and the reign of Emperor Ashoka, who left a lasting impact through his edicts. During this period Arthashastra provided a detailed treatise on economic governance, including:

- Record-keeping
- Budgeting and financial planning
- Treasury operations

1.2.2 Medieval Period (1200–1757): 8th to 18th Century: Accounting practices remained largely informal and customized for local trade guilds. Mughal rulers maintained royal accounts, known as **Daftar**, with a sophisticated bureaucracy, although it lacked standardization.

- **Hundi system:**¹⁷ An indigenous financial instrument used for trade and credit – a precursor to modern bills of exchange.
- **Bahi-Khata system:** Traditional double-entry bookkeeping used by Indian merchants (banias), often in regional scripts like Modi or Mahajani.
- Practices were community-based and religiously influenced (e.g., Jain & Hindu traders).

1.2.3 Colonial Period (1757–1947): (Colonial Influence on Indian Accounting)

With the arrival of European traders and the establishment of British rule, Indian accounting practices underwent a significant change. The British introduced double-entry bookkeeping and standardized financial reporting methods, which were in line with the practices followed in Europe. These developments were essential in the context of British colonial administration and trade. The adoption of these accounting principles set the stage for modern accounting practices in India.

British Influence: Introduction of Western accounting practices and laws due to British influence.

- Establishment of **Companies Act 1857** (India's first corporate law) & **1913** established regulatory frameworks for corporate accounting.
- Formation of **joint-stock companies** and banks required formal accounting systems
- Adoption of **double-entry bookkeeping**.
- Emergence of large-scale industries and the need for systematic auditing and financial reporting.
- Introduction of **Chartered Accountancy** as a profession. Indian accountants often trained under British firms.
- **Institute of Chartered Accountants in England and Wales (ICAEW)** influenced early Indian accountants.

1.2.4 Post-Independence Period (1947–1990) Post-Independence Era and the Birth of Modern Accounting:

Following India's independence in 1947, the country embarked on a journey of economic development and industrialization. This period witnessed the establishment of statutory bodies like the Institute of Chartered Accountants of India (ICAI) and the Companies Act, 1956, which brought forth standardized accounting and auditing practices. The adoption of Generally Accepted Accounting Principles (GAAP) became a norm, enhancing transparency and reliability in financial reporting.

- Formation of the Institute of Chartered Accountants of India (ICAI) established in 1949 under the Chartered Accountants Act for regulating the profession.
- Adoption of uniform accounting standards. Nationalization of banks (1969) and expanding public sector increased the need for regulated financial reporting. Institutional Development
- Institute of Chartered Accountants of India (ICAI) developed Accounting standards locally. Focus on public sector enterprises and central planning.
- Government accounting followed cash-based systems, with limited accrual-based adoption.

1.2.5 Liberalization and Globalization (1991–2010): Liberalization and globalization are interconnected economic processes. Liberalization involves the removal of government regulations and restrictions on businesses and trade, while

globalization describes the increasing interconnectedness and interdependence of economies and cultures worldwide. Economic liberalization in 1991 led to:

- Rise of private enterprises and MNCs.
- Greater focus on transparency and international accounting norms. Shift towards International Accounting Standards (IAS).
- Economic reforms in 1991 triggered demand for transparent and standardized accounting.
- India introduced Accounting Standards (AS) through ICAI. ICAI started issuing Accounting Standards (AS) in line with global norms.
- Rise of audit firms, financial reporting, Growth of accounting software and ERP systems like Tally and SAP.

1.2.6 Contemporary Period-Modern Era (2010–Present)- Technological Advancements in Indian Accounting

The advent of computers and the digital revolution in the late 20th century transformed accounting practices in India. The introduction of accounting software and electronic spreadsheets automated various manual tasks, enabling faster and more accurate financial record-keeping. This technological shift significantly reduced the chances of human error and improved efficiency in the accounting process.

- Adoption of Ind AS (Indian Accounting Standards) in 2016, aligned with IFRS (International Financial Reporting Standards). Indian Accounting Standards (IND AS) mandatory for listed and large companies from 2016 onward.
- Implementation of GST (Goods and Services Tax) in 2017 created a unified tax structure requiring digital accounting.
- Technology Integration: Rise of automation, AI, cloud-based accounting, and block chain in accounting.
- Growing importance of forensic accounting, sustainability reporting, and data analytics.
- Use of cloud-based tools, e-invoicing, and GST compliance software.

- **Regulatory Bodies and Reforms** : Establishment of **NFRA** (National Financial Reporting Authority) in 2018. Corporate governance and auditing standards strengthened.
- **Startup Ecosystem**: New demands for venture capital reporting, valuation standards, and international taxation.
- **Key Institutions Shaping Indian Accounting** like **ICAI** (Institute of Chartered Accountants of India), **ICMAI** (Cost Accountants of India), **MCA** (Ministry of Corporate Affairs), **SEBI** (for listed companies' reporting standards)
- **The Rise of AI in Indian Accounting** : In recent years, the integration of artificial intelligence has revolutionized the field of accounting in India. AI-powered technologies such as machine learning, robotic process automation (RPA), and natural language processing (NLP) have streamlined data analysis, fraud detection, and financial forecasting. Automated systems can now extract valuable insights from large datasets, analyze trends, and generate real-time reports. Additionally, AI has facilitated the development of cloud-based accounting solutions, enabling remote access to financial information and enhancing collaboration between accountants and clients.
- **Impact on the Accounting Profession**: The evolution of accounting in India, driven by technological advancements, has reshaped the accounting profession. With routine tasks automated, accountants can focus on higher-value activities such as financial analysis, strategic decision-making, and providing advisory services. However, this transformation also demands accountants to upskill themselves in areas such as data analytics, AI, and cybersecurity to stay relevant in the digital era. The profession is shifting towards becoming more technology-driven, requiring accountants to adapt and embrace these changes.

Conclusion

The evolution of accounting in India from the represents a remarkable journey of progress and innovation. Technological advancements have not only improved the efficiency and accuracy of financial reporting but also reshaped the roles and responsibilities of accountants. As the digital landscape continues to evolve, embracing AI and other emerging technologies will be crucial for the accounting profession to thrive in the future.

Timeline Snapshot:

Period	Key Development
Vedic Period	Arthashastra outlines state finance & Accounting
16th-18th c.	Bahi-khata system and hundis in trade
1857	First Companies Act in India
1949	ICAI founded
1991	Economic liberalization begins
2006–2016	Ind AS developed and implemented
2018	NFRA established (National Finance Reporting Authority)

Check your Progress- Fill in the Blanks

1. The origins of accounting in India can be traced back to-----, when records were maintained through various methods, including barter systems, token systems, and the use of ledgers.
2. Early accounting practices were seen in Vedas, particularly the-----, which referenced financial record-keeping, loan records, and ethical business practices of the businessmen or trader.
3. One of the earliest documented texts that described detailed financial administration, taxation, budgeting, and state accounting systems in-----.
4. Mughal rulers maintained royal accounts, known as-----, with a sophisticated bureaucracy, although it lacked standardization.
5. establishment of statutory bodies like the Institute of -----and the Companies Act, 1956, which brought forth standardized accounting and auditing practices.

1.3 Ancient accounting practices in Indian history

Ancient accounting practices in Indian history date back thousands of years and played a crucial role in the administration of temples, trade, agriculture, and

governance. These practices evolved through religious, economic, and administrative needs. Here's an overview of ancient Indian accounting systems:

1.3.1 Vedic Period (1500–500 BCE)

Ancient India during the Vedic period (circa 1500-500 BCE) saw the emergence of rudimentary accounting practices based on principles of fairness, transparency, and accountability. These included barter systems, token systems, and the use of early ledgers, laying the foundation for future accounting developments. Temple administrators, for example, likely maintained detailed records of income, expenses, and inventories, potentially using a system similar to the "Bahi-khata," a precursor to double-entry bookkeeping.

- **References in Vedas:** The *Rigveda* and *Atharvaveda* mention weights, measures, and trade, which imply the need for bookkeeping and accountability.
- **Accountants:** Known as *Akshapatalas* (keepers of records), they maintained accounts orally or through basic tally systems.
- **Barter System:** The economy was primarily based on barter, and transactions were orally recorded or remembered. Early economies relied heavily on barter, where goods and services were exchanged directly without the use of currency. Records of these exchanges were likely maintained using simple methods, such as tokens or tally marks, to track the value of goods exchanged.
- **Token Systems:** As economies grew, token systems emerged, using objects like clay balls or tokens to represent quantities of agricultural goods or other valuable items. These tokens could be exchanged for goods or services, facilitating trade and record-keeping.
- **Ledger-like Systems:** The development of early ledgers involved maintaining records of income and expenses. These ledgers, possibly made from materials like parchment or clay tablets, would have been used to track transactions and maintain financial records.
- **Temple Records:** Temples, as important institutions in Vedic society, likely employed scribes to maintain detailed records of donations, expenses, and inventory. These records might have been organized in a

manner similar to the "Bahi-khata," a system of keeping separate accounts for different income and expense categories.

- **Principles of Accountability:** The Vedic period also emphasized the importance of fairness, transparency, and accountability in financial matters. This meant maintaining accurate records, ensuring that transactions were transparent, and holding individuals responsible for their financial dealings.

Evidence and Connections:

- **Manu Smriti and Arthashastra:**

These ancient Indian texts offer insights into accounting practices, including the concept of maintaining records and the importance of ethical financial behavior.

- **Bahi-Khata:**

Some scholars suggest that the "Bahi-khata," a traditional Indian method of bookkeeping, may have been developed around the same time as double-entry bookkeeping in Europe, suggesting an independent development of accounting principles in India.

- **Auditing and Verification:**

There are references to the existence of verification and auditing procedures during the Vedic period, including daily and periodic checks on financial records.

In conclusion, the Vedic period witnessed the development of early accounting practices based on principles of fairness, transparency, and accountability. These practices, which included barter systems, token systems, and early ledgers, laid the foundation for subsequent developments in accounting in India. The influence of Vedic principles on accounting continues to be evident in traditional Indian bookkeeping practices, such as the "Bahi-khata".

1.3.2. Mauryan Period (321–185 BCE) : During the Mauryan Period (321–185 BCE), accounting practices were primarily focused on managing revenue collection, taxation, and state finances. The Mauryan Empire, under Kautilya's guidance, implemented a comprehensive system for managing its vast territory and resources. Here's a closer look at the accounting practices:

a) Taxation:

- **Multiple Types:**The Mauryan administration implemented a variety of taxes, including land tax (Bali), agricultural produce tax (Bhaga), commercial tax (Kara), customs duty (Shulka), village tax (Pindakara), emergency tax (Pranaya), and fines (Dandakar).
- **Structured Collection:**Taxes were collected systematically with designated officials like Samaharta (tax collector) and local village officers (Gopa and Sthanikas).
- **Payment Methods:**Taxes were collected in various forms, including grains, cattle, or currency, depending on the region's economic conditions.
- **Records of Revenue:**Local officials maintained detailed records of tax collection, ensuring smooth operations.

b) State Finances:

- **Treasury Management:** The state maintained a treasury to manage revenue and expenses.
- **Detailed Record Keeping:** Temple administrators, likely with scribes, kept meticulous records of income, expenses, and inventories.
- **Potential for Double-Entry:** Some scholars theorize that the Mauryan accounting practices might have involved a system similar to the "Bahikhata," which could be considered an early version of double-entry bookkeeping.

c) Economic Activities:

- **Trade and Commerce:**The government regulated trade and commerce to ensure fair practices, and taxes were levied on trade and transactions.
- **Infrastructure Management:**The state likely maintained records related to the construction and maintenance of public works and infrastructure.

d) Evidence and Sources:

- **Arthashastra:**Kautilya's treatise, the Arthashastra, provides insights into the Mauryan administration, including its revenue system and management practices.

- **Archaeological Findings:** While specific accounting records may be scarce, archaeological evidence and textual sources offer clues about the economic and financial activities of the time.

1.3.3. Gupta Period (320–550 CE)

During the Gupta Period, accounting practices were well-developed, encompassing a range of financial records and mechanisms for revenue collection and management. The state maintained detailed accounts, including records of land revenue, taxes on trade, and various other levies, with officials like Gopasramin and Pustapala responsible for maintaining records and ensuring accountability. Additionally, there were practices like verification and auditing of accounts, with checks done daily and periodically.

- **Revenue Administration:** The Gupta Empire primarily relied on land revenue as a major source of income, supplemented by taxes on trade and commerce. The king collected taxes ranging from 1/4th to 1/6th of the agricultural produce.
- **Officials and their Roles:** Officials like Gopasramin, who served as Akshapataladhikrita, were responsible for maintaining account registers, recovering royal dues, checking embezzlement, and recovering fines for loss due to neglect or fraud. Pustapala (record-keeper) was responsible for verifying transactions before recording them.
- **Auditing and Verification:** The concept of continuous monitoring, periodical auditing, verification, and vouching of accounts existed during the Gupta period. Checks were conducted daily, periodically (five nights, weeks, months, four months, and the year), and attributes for verifying income and payment vouchers were used. There were also mechanisms for discovering fraudulent transactions and punishing accountants for misstating financial statements.
- **Various Taxes:** Besides land revenue, other taxes included Uparikara (levied on goods transported between cities), Sulka (commercial tax paid by traders' organizations), and Visthi (forced labor). There were also taxes in kind, such as gifts, flowers, woods, and fruits, known as Bhoga.
- **Temple Accounting:** Temples likely had a team of scribes to keep detailed records of income, expenses, and inventories, potentially using a system similar to "Bahi-khata," an early form of double-entry bookkeeping.

- Known as the "Golden Age" of India, trade and commerce flourished.
- More structured accounting evolved with increased use of **coinage** and **merchant guilds** (*Shrenis*).
- Use of **palm leaves** and **birch bark** as writing materials for accounting records.

1.3.4. Temple Economy and Accounting: In ancient India, temples weren't just for praying; they were also big business centers. They owned lots of land, got donations, and did things like farming and teaching. Keeping track of all this needed good records. The temple bosses had to know how much money came from land, donations, and other businesses

- Temples were major centers of economic activity and often functioned like banks.
- Maintained meticulous records of donations, land ownership, and expenses.
- Inscriptions on temple walls and copper plates record detailed financial transactions.

1.3.5. Jain and Buddhist Contributions: Ancient Jain and Buddhist practices included emphasizing ethical behavior and values, particularly regarding financial matters, in addition to their broader religious and philosophical contributions. While not explicitly "accounting" in a modern sense, these practices influenced record-keeping and financial management within their communities.

Jainism's Role in Ethical Finance:

- **Value-Based Business:** Jainism, through texts like the *Awashyak Sutra*, promoted ethical business practices and prohibited certain types of businesses.
- **Non-Violence (Ahimsa):** Jain principles emphasized non-violence, which extended to financial dealings, discouraging exploitation or unfair practices.
- **Non-Possession (Aparigraha):** The principle of non-possession encouraged a detachment from material wealth, influencing how Jains managed their finances.

Buddhism's Influence on Financial Ethics:

- **Eightfold Path:** Buddhism's Eightfold Path included right livelihood, emphasizing earning a living through honest and ethical means.

- **Monastic Accounting:** Buddhist monasteries maintained accounting records, reflecting their dependence on donations and the need to manage resources responsibly.
- **Social Welfare:** Buddhist teachings often encouraged charitable giving and supporting the community, influencing how wealthy individuals managed their wealth.
- **Influence on Economic Activity:** Both Jainism and Buddhism impacted the economic activity of their followers and society, promoting principles that influenced business and trade.
- **Emphasis on Morality:** Their emphasis on morality and ethical behavior had a lasting impact on Indian culture and values related to financial matters.
- **Foundation for Later Systems:** While not the origin of modern accounting, these practices laid the groundwork for later developments in financial record-keeping and management in India.
- Jain texts like the **Shreni Dharma** and Buddhist texts like **Vinaya Pitaka** describe rules for accounting in monastic and trade life.
- Emphasized ethical accounting, fair pricing, and maintenance of clear records.

Medieval India (Post-10th Century CE) : In Medieval India (post-10th century CE), accounting practices evolved alongside the growth of trade and commerce. While earlier forms involved barter systems and token systems, the period saw the development of more sophisticated methods, including the use of ledgers and what is believed to be an early version of double-entry bookkeeping called "Bahi-khata". These practices were influenced by both ancient Indian traditions and interactions with other cultures.

- **"Bahi-khata" and Double-Entry Bookkeeping:** The concept of "Bahi-khata" is believed to be an early form of double-entry bookkeeping, where separate books were kept for different types of income and expenses. This system, developed by Indian merchants, likely existed before the widespread adoption of double-entry bookkeeping in Europe. While the exact details of "Bahi-khata" are still being researched, it's clear that it was a significant step towards more organized financial record-keeping.
- **Influences and Development:** The growth of trade and commerce during this period spurred the need for more sophisticated accounting methods. Interactions

with other cultures, particularly those along trade routes, likely influenced accounting practices. The use of bills of exchange (hundi) and insurance (bima) further developed and supported the growth of business practices.

- **Early Forms of Accounting:** Prior to the development of more sophisticated systems, accounting in India likely involved barter systems, token systems, and the use of ledgers. These practices were based on principles of fairness, transparency, and accountability.
- **Legacy and Modern Relevance:** The historical practices of accounting in India, including the "Bahi-khata" system, highlight the long-standing interest in financial record-keeping and the development of organized business practices. These historical practices provide valuable insights into the evolution of accounting and its significance in modern business.

Key Features of Ancient Indian Accounting

Feature	Description
Double-entry hints	Though not formalized like in Europe, some evidence suggests a form of dual classification in accounts.
Indigenous scripts	Modi, Devanagari, Tamil, Grantha, and others used in different regions for bookkeeping.
Ahara-Vyaya	Concepts of income and expenditure often written in account books.
Auditing	Kings and temple trustees performed regular audits; embezzlement was punishable.

Check your progress

Q.1 Fill in the blanks

1. In Ancient India during the -----saw the emergence of rudimentary accounting practices based on principles of fairness, transparency, and accountability.

2. **The** -----mention weights, measures, and trade, which imply the need for bookkeeping and accountability
3. The-----, under Kautilya's guidance, implemented a comprehensive system for managing its vast territory and resources
4. -----were major centers of economic activity and often functioned like banks.
5. During the Gupta Period, accounting practices were well-developed, encompassing a range of financial records and mechanisms for -----
6. Inaccounting practices evolved alongside the growth of trade and commerce

1.4. Contribution of Indian scholars to accounting system

Indian scholars have made significant contributions to the evolution of accounting systems through ancient texts, administrative systems, and commercial practices. These contributions laid the groundwork for many principles that align with modern accounting. Here are some key figures and their contributions: This work outlines detailed record-keeping practices, emphasizes the importance of financial transparency and accountability, and even suggests the creation of independent audits.

1.4.1. Kautilya (Chanakya) – Author of the *Arthashastra*

Era: 4th century BCE

Key Work: *Arthashastra*

Kautilya, a 4th-century B.C.E. economist, described comprehensive accounting methods, including bookkeeping, periodic accounting, income statements, and independent audits, highlighting the importance of financial record-keeping for the state.

- **Early Evidence of Accounting Principles:** The Smriti literature, dating back to 700 BC, provides evidence of accounting regulations related to exchanging goods and services.
- **Double-Entry Bookkeeping:** Indian merchants developed a double-entry bookkeeping system, known as bahi-khata, early in the first millennium.

- **Focus on Public Sector:** Kautilya's work primarily focused on the accounting practices of the public sector due to the dominance of government business during his time.
- **Financial Inclusion:** Manu's conception of interest rates based on the Varna system led to financial inclusion, demonstrating the early understanding of financial concepts.
- **Emphasis on Audit and Fraud Risk Management:** Kautilya's work emphasized the importance of periodic audits and the creation of independent offices for treasurers and comptrollers to reduce conflicts of interest and fraud. Kautilya's insights shaped accounting practices within various kingdoms in India until the colonial era. The principles outlined in the Arthashastra served as a foundation for later accounting developments, particularly in the realm of public sector accounting. The development of bahi-khata, the Indian version of double-entry bookkeeping, demonstrates the early sophistication of accounting practices in the region.

Contributions:

- Developed a comprehensive system of financial administration for the Mauryan Empire.
- Outlined accounting procedures for taxation, revenue collection, treasury management, and public expenditure.
- Described the roles of accountants (*Akshapataladhikrita*), treasurers (*Sannidhata*), and auditors (*Auditors* were part of secret surveillance).
- Promoted principles of **internal control**, **auditing**, and **segregation of duties**, still relevant in modern accounting.

1.4.2. Thiruvalluvar – Author of the *Tirukkural*

Era: 1st century BCE–5th century CE

Key Work: *Tirukkural* (Tamil ethical text)

Thiruvalluvar, the renowned Tamil poet and philosopher, contributed to accounting systems through his teachings on wealth, taxation, and financial prudence. While not a formal system of accounting, his ideas emphasized the

importance of balanced budgets, planning, and ethical financial practices, which indirectly influenced the development of accounting principles.

Here's a more detailed look at his contributions:

- **Balanced Budget:** Thiruvalluvar advocated for a balanced budget, suggesting that revenues should be carefully managed to ensure expenditures remain within acceptable bounds. This aligns with the principle of financial sustainability and responsible resource management.
- **Importance of Planning:** He stressed the significance of thorough planning before embarking on any project or undertaking. This principle is crucial in accounting as well, as it forms the basis for forecasting, budgeting, and financial control.
- **Ethical Financial Practices:** Thiruvalluvar's teachings emphasized the importance of earning wealth through legitimate means and using it responsibly. He also advocated for fair taxation, suggesting that taxes should be collected with the consent of the people, not through coercion.
- **Understanding of Wealth:** He recognized that wealth is a tool for prosperity and happiness but also emphasized the importance of using it ethically. This understanding is fundamental to accounting, which aims to track and manage financial resources accurately.
- **Influence on Taxation:** While not a formal accounting system, Thiruvalluvar's ideas on taxation had a significant impact on the development of fiscal policies in Tamil Nadu.
- **Indirect Contribution:** Thiruvalluvar's emphasis on ethical behavior, responsible resource management, and the importance of planning indirectly influenced the development of accounting principles and practices. Thiruvalluvar's contribution lies not in a formal accounting system but in the foundational principles he laid for sound financial management and ethical conduct. His teachings on wealth, taxation, and responsible spending continue to be relevant in understanding the role of accounting in society. He has Emphasized ethics in business and accounting practices, advocated for integrity, transparency, and fairness in trade and financial dealings. Although not an accountant, his teachings guided moral principles that are foundational to ethical accounting.

1.4.3. Jain Scholars and Merchant Guilds (Shrenis)

Era: Various periods, mainly post-Mauryan to medieval

Jain scholars and merchant guilds (Shrenis) in ancient India significantly contributed to the development of accounting systems. Jain scholars, known for their emphasis on ethical business practices and record-keeping, likely influenced the way merchants and guild members maintained financial records. Shrenis, acting as early corporations, developed sophisticated financial management practices, including loaning and lending, which required meticulous accounting.

Contributions of Jain Scholars:

- **Ethical Principles:** Jainism's emphasis on non-violence, honesty, and truthfulness likely influenced the development of ethical business practices, including accurate record-keeping.
- **Record-Keeping:** Jain texts and teachings may have emphasized the importance of maintaining detailed accounts for financial transactions and property management.
- **Influence on Merchants:** Jain scholars, often merchants and traders themselves, played a role in shaping business ethics and practices within their communities.

Merchant Guilds (Shrenis):

- **Financial Management:** Shrenis acted as financial institutions, providing loans and managing funds for their members, requiring sophisticated accounting practices.
- **Trade Regulation:** They regulated trade practices, controlled prices, and ensured quality standards, which necessitated accurate record-keeping of transactions.
- **Economic Organization:** Shrenis organized and managed trade, skill development, and infrastructure projects, requiring meticulous financial planning and accounting.
- **Early Corporate Models:** Their well-structured governance and financial management predated Roman corporate models and influenced the development of modern business organizations.

- **Tax Collection:** Shrenis also collected taxes, requiring detailed accounting and record-keeping.
- **Dispute Resolution:** Shrenis played a role in resolving disputes, further emphasizing the need for accurate financial records.

Key Points

- Jain monks and laypersons documented complex financial dealings and religious endowments.
- Developed accounting systems to manage temple finances and trade accounts.
- Encouraged record-keeping, debt accounting, and ledger writing using scripts like **Saraswati Lipi** and **Mahajani**.
- Merchant communities developed the **Bahi-Khata system** (traditional Indian ledger system).

1.4.4 South Indian Temple Administrators and Scribes

Era: 7th–13th centuries CE

Regions: Tamil Nadu, Karnataka, Andhra Pradesh

South Indian temple administrators and their scribes significantly contributed to the development of accounting systems in India, particularly through detailed record-keeping and possibly the development of early forms of double-entry bookkeeping. They meticulously tracked income, expenses, and inventories, demonstrating a strong understanding of financial management.

Detailed Accounting Practices:

- **Record-Keeping:** Temple administrators and their scribes were responsible for maintaining comprehensive records of all financial transactions, including income from various sources (like land grants, donations, and offerings) and expenses related to temple operations (like maintaining infrastructure, salaries, and rituals).
- **"Bahi-Khata":** Some scholars suggest that temple record-keeping practices may have been similar to the "Bahi-khata" system, an early form of double-entry bookkeeping. This system involved maintaining separate accounts for different categories of income and expenses, potentially laying the foundation for more complex accounting methods.

- **Epigraphic Evidence:** Inscriptions and other records from South Indian temples provide insights into the structured nature of temple administration, including the roles of various officials and the types of records they kept. These records demonstrate a well-organized and efficient system for managing temple finances.
- **Land Grants and Revenue:** Temples often received land grants from rulers, which generated income from agricultural activities. Administrators and scribes would have been involved in managing these land grants, collecting revenue, and accounting for it.

Early Forms of Double-Entry Bookkeeping:

- **Possible Precursors to Modern Accounting:** The "Bahi-khata" system, potentially developed in South India, may have been a precursor to double-entry bookkeeping, a method credited to Luca Pacioli in 15th-century Europe.
- **India's Potential Contribution:** The existence of "Bahi-khata" suggests that India might have developed its own version of double-entry bookkeeping around the same time as Europe, challenging the traditional view of its origin.

Contributions:

- Maintained **granite inscriptions and palm-leaf records** of temple incomes, expenditures, and donations.
- Used systematic bookkeeping to manage large temple economies, sometimes rivaling state treasuries.
- Example: **Chola dynasty** records detail temple endowments and asset management.

1.4.5. Medieval Gujarati and Marwari Traders

Era: 12th–18th centuries CE

Medieval Gujarati and Marwari traders significantly impacted the development of accounting systems in India. The Marwari Parta system, a traditional accounting tool, is a notable example, demonstrating their focus on business performance and operational efficiency. Their involvement in extensive trading networks, including both domestic and international commerce, further highlighted the need for robust accounting practices.

Here's a more detailed look at their contributions:

- **The Marwari Parta System:** This system, developed long before modern financial tools, has been used by Marwari businesses for centuries, effectively monitoring and controlling business performance. Its focus on cost management and operational efficiency showcases a strong understanding of financial practices.
- **Early Booking Methods:** Historical accounts suggest that the Marwaris developed early booking methods, including written records dating back to 600 B.C. This indicates their early adoption of financial record-keeping practices.
- **Trading Networks and International Commerce:** The extensive trading networks of both Gujarati and Marwari traders, including international trade, necessitated the development of robust. Accounting practices to track transactions, manage risks, and ensure profitability.
- **Money lending and Financial Services:** In addition to trading, these merchant communities also played a significant role in providing financial services, including money lending, which further influenced the development of accounting practices.
- **Regional Variations:** While the Marwari Parta system is well-known, Gujarati traders also contributed to the evolution of accounting practices within their trading sphere.
- **Adaptability and Innovation:** The ability of these traders to adapt and innovate in their accounting practices, as evidenced by the long-standing use of the Marwari Parta system, demonstrates their practical and forward-thinking approach.

Contributions:

- Developed highly organized **double-sided Bahi-Khata ledgers** using *Modi* and *Mahajani* scripts.
- Introduced standardized methods for **credit-debit entries, interest calculations, and inventory records.**
- Their systems influenced **colonial-era banking and accounting** under British rule.

Summary of Contributions

Scholar/Group	Contribution	Significance
Kautilya	Formal state accounting, taxation, audits	Basis of public financial management
Thiruvalluvar	Ethical trade/accounting practices	Emphasis on fairness and integrity
Jain scholars	Ledger systems, merchant accounting	Spread of accounting in trade networks
Temple scribes	Systematic recordkeeping of wealth	Early nonprofit and trust accounting
Marwari/Gujarati traders	Ledger books (Bahi-Khata), scripts	Foundations of vernacular accounting

Check your progress Fill in the blanks.

1. -----a 4th-century B.C.E. economist, described comprehensive accounting methods, including bookkeeping, periodic accounting, income statements, and independent audits, highlighting the importance of financial record-keeping for the state.
2. -----the renowned Tamil poet and philosopher, contributed to accounting systems through his teachings on wealth, taxation, and financial prudence.
3. ----- in ancient India significantly contributed to the development of accounting systems
4. , a traditional accounting tool, is a notable example, demonstrating their focus on business performance and operational efficiency.
5. Some scholars suggest that temple record-keeping practices may have been similar to the-----

1.5 The Evolution of Accounting Standards in India: From AS to Ind AS

The landscape of accounting standards in India has undergone significant transformation over the past few decades. The shift from the traditional Accounting Standards (AS) to the **Indian Accounting Standards (Ind AS)** is a testament to the country's evolving approach to financial reporting and transparency. This transition, driven by global trends and the need for better alignment with international practices, has reshaped the way businesses report financial information. This point explores the journey of accounting standards in India, from AS to Ind AS, and highlights the importance of this evolution in improving financial clarity and boosting investor confidence.

The Rise of Accounting Standards (AS)

In the early years of India's financial reporting, accounting standards were largely based on British practices. However, over time, the need for standardized accounting principles became increasingly apparent. The Institute of Chartered Accountants of India (ICAI) took the initiative to develop **Accounting Standards (AS) in India**. The first set of AS was issued in 1977, primarily based on the International Accounting Standards (IAS) set by the International Accounting Standards Committee (IASC). This initial phase of accounting standards was crucial for establishing a uniform reporting framework for Indian businesses, especially as India's economy began to modernize and attract more foreign investment.

Accounting Standards in India under the ICAI were gradually introduced over time, with the aim of improving the quality and consistency of financial reporting. These standards were developed based on the needs and realities of the Indian economy, but they still had certain gaps compared to international practices. These gaps led to an increasing demand for a more robust accounting framework that could bring India closer to international financial reporting standards (IFRS).

The Need for Change: The Globalization of Financial Markets

As the Indian economy grew and integrated more with global markets, the limitations of the old AS framework became more evident. The globalization of financial markets, the rise of cross-border investments, and the need for consistent financial reporting across different jurisdictions called for the adoption of international standards. For India, this meant aligning its accounting practices with IFRS, which was widely accepted by developed economies.

The **International Financial Reporting Standards (IFRS)** were designed to improve transparency, accountability, and efficiency in financial markets worldwide. They provided a unified platform for financial reporting that could be understood and compared across borders. This was particularly important as Indian companies began to list on international stock exchanges, and foreign investors were keen to understand the financial health of Indian companies. IFRS was, thus, seen as a bridge between India's financial reporting system and the rest of the world.

The Transition to Ind AS: The Indian Version of IFRS

In 2015, India took a bold step forward by adopting Indian Accounting Standards (Ind AS), which were largely converged with IFRS. The transition to Ind AS was part of the government's broader efforts to integrate India with the global economy and attract more foreign investment. The new framework was designed to provide higher-quality financial reporting that adhered to global standards while addressing the specific needs and characteristics of the Indian economy.

The transition to Ind AS involved several key changes compared to the previous AS framework:

1. **Fair Value Measurement:** One of the most significant changes introduced by Ind AS was the emphasis on fair value accounting. Under Ind AS, companies are required to use fair value for a number of financial instruments, which helps to reflect the true market value of assets and liabilities. This was a departure from the historical cost model that was prevalent under AS.
2. **Consolidation of Financial Statements:** Ind AS introduced stricter rules on consolidation. It required businesses to present consolidated financial statements that included not only their own financial data but also the financial data of subsidiaries, joint ventures, and associates. This helps provide a clearer picture of a company's overall financial health.
3. **Revenue Recognition (Ind AS 115):** One of the key areas where Ind AS diverged from AS was the recognition of revenue. Ind AS 115, which deals with revenue from contracts with customers, provides a more detailed and comprehensive framework for recognizing revenue. It uses a five-step model that includes identifying contracts, performance obligations, and transaction prices, which offers more clarity and reduces inconsistencies in revenue reporting.

4. **Financial Instruments (Ind AS 109):** Another major change introduced by Ind AS was the accounting for financial instruments. Ind AS 109 requires companies to classify and measure financial assets and liabilities based on their business model and the cash flow characteristics of the instruments. This change aimed to bring India's financial reporting practices in line with global standards.
5. **Leases (Ind AS 116):** Ind AS 116 introduced new lease accounting rules that require companies to recognize most leases on the balance sheet as liabilities, with corresponding right-of-use assets. This is a significant departure from the previous AS, where operating leases were often not recorded on the balance sheet.

The Challenges of Transitioning from AS to Ind AS

While the shift from AS to **Ind AS** was a much-needed reform, it was not without its challenges. The adoption of Ind AS required companies to update their accounting systems, retrain their accounting professionals, and implement new processes for financial reporting. Some of the key challenges included:

- **System Changes:** Companies had to overhaul their accounting software and systems to accommodate the new standards. This required significant investment in technology and training.
- **Interpretation Issues:** The transition from AS to Ind AS involved interpreting and applying complex standards. This led to a learning curve for accounting professionals and created temporary uncertainties in financial reporting.
- **Impact on Taxation:** The adoption of Ind AS had implications for tax calculations, as some of the principles of financial reporting under Ind AS were different from those under AS. This created the need for adjustments in tax compliance processes.
- **Cost of Implementation:** Implementing Ind AS was an expensive process for many businesses, especially for small and medium enterprises (SMEs) that had limited resources. The cost of training, system upgrades, and consultancy services added to the burden.

Summary of Accounting Standards Evolution in India

Period	System	Key Features
Pre-1947	British system	No formal standards
1947–1977	ICAI, Companies Act	Domestic focus, no formal standards
1977–2000	AS (ICAI)	Domestic standards begin
2000–2015	Move to IFRS	Preparation for globalization
2015–Present	Ind AS	IFRS-converged system

The Future of Accounting in India: The Road Ahead

As India continues to grow as a global economic powerhouse, the role of accounting standards will only become more crucial. The transition to Ind AS was a major step forward, but there are still areas where further improvements can be made. One such area is the adoption of technology in accounting practices. With the advent of automation, artificial intelligence (AI), and blockchain technology, the future of accounting in India will be shaped by these innovations, which will bring more accuracy, efficiency, and transparency to financial reporting.

Furthermore, the continued alignment of India's accounting standards with global best practices will help the country attract more foreign investment and improve its position in global financial markets. It is expected that India will continue to evolve its accounting practices to meet the demands of a rapidly changing global economy.

Conclusion

The evolution from AS to Ind AS marks a significant milestone in India's journey towards better financial transparency and global integration. While the transition posed challenges, it also brought India closer to international accounting practices, improving the credibility and reliability of financial reporting. As businesses and accounting professionals adapt to the changes brought about by Ind AS, India's financial reporting landscape is poised for even greater sophistication and alignment with global standards.

This evolution in accounting standards is not just a regulatory shift; it is a critical step in India's journey to becoming a global leader in business and finance.

Check your progress

1. The shift from the traditional Accounting Standards (AS) to the -----
----- is a testament to the country's evolving approach to financial reporting and transparency.
2. -----introduced new lease accounting rules that require companies to recognize most leases on the balance sheet as liabilities, with corresponding right-of-use assets
3. In 2015, India took a bold step forward by adopting -----which were largely converged with IFRS.
4. The ----- were designed to improve transparency, accountability, and efficiency in financial markets worldwide.
5. The first set of AS was issued in ----- primarily based on the International Accounting Standards (IAS) set by the International Accounting Standards Committee (IASC).

3. Terms to remember

- The Accounting system was first publicized by a Franciscan monk, Br. Luca Pacioli in 1494 CE. Luca Pacioli described the system in his book called “The Collected Knowledge of Arithmetic, Geometry, Proportion and Proportionality”.
- Double-entry accounting became possible due to introduction of Arabic numerals to Europe, which were a big improvement over Roman numerals (I, II, V, IX...L, C..).
- The Bahi-Khata system, used even today by Indian traders, is commonly referred as single entry system in all standard text-books
- The Gupta Empire primarily relied on land revenue as a major source of income, supplemented by taxes on trade and commerce. The king collected taxes ranging from 1/4th to 1/6th of the agricultural produce

- Ancient India during the Vedic period (circa 1500-500 BCE) saw the emergence of rudimentary accounting practices based on principles of fairness, transparency, and accountability.
- The advent of computers and the digital revolution in the late 20th century transformed accounting practices in India.
- The Institute of Chartered Accountants of India (ICAI) took the initiative to develop **Accounting Standards (AS) in India**. The first set of AS was issued in 1977, primarily based on the International Accounting Standards (IAS) set by the International Accounting Standards Committee (IASC).

4. Answer to check your progress

1.1 Answers

- | | | |
|---------------------|----------------------------|--------------------|
| 1. 700 | 2. analyses and summarizes | 3. Italian monk |
| 4. Br. Luca Pacioli | 5. Mr. Cotrugli | 6. (1,2,3, ...0) |
| 7. Maurya Empire | 8. Bahi-Khata | 9. nominal pricing |
| 10. clay pouches | | |

1.2 Answers

- | | |
|--|---------------------------|
| 1. ancient times | 2. Rigveda and Manusmriti |
| 3. Kautilya's Arthashastra | 4. Dafter |
| 5. Chartered Accountants of India (ICAI) | |

1.3 Answers

1. Vedic period (circa 1500-500 BCE)
2. Rigveda and Atharvaveda
3. Mauryan Empire
4. Temples
5. revenue collection and management.
6. Medieval India (post-10th century CE),

1.4 Answers

- | | |
|--------------------------------------|-------------------|
| 1. Kautilya, | 2. Thiruvalluvar, |
| 3. Jain scholars and merchant guilds | |

4. The Marwari Parta sy stem
5. "Bahi-khata" system

1.5 Answers

1. Indian Accounting Standards (Ind AS)
2. Ind AS 116
3. Indian Accounting Standards (Ind AS),
4. International Financial Reporting Standards (IFRS)
5. 1977,

5. Summary

The accounting trail does not stop with Arthashastra. We see references to it in Indian history as contained in Ramayan and Mahabharat. Accounting is a crucial aspect of business, has witnessed a remarkable transformation over the centuries. From the humble abacus to cutting-edge artificial intelligence (AI) systems, the field has evolved exponentially. In the Indian context, this evolution has significantly impacted the way financial records are maintained, analyzed, and utilized. The evolution of accounting in India from the represents a remarkable journey of progress and innovation. Technological advancements have not only improved the efficiency and accuracy of financial reporting but also reshaped the roles and responsibilities of accountants. As the digital landscape continues to evolve, embracing AI and other emerging technologies will be crucial for the accounting profession to thrive in the future. The evolution from AS to Ind AS marks a significant milestone in India's journey towards better financial transparency and global integration. While the transition posed challenges, it also brought India closer to international accounting practices, improving the credibility and reliability of financial reporting. As businesses and accounting professionals adapt to the changes brought about by Ind AS, India's financial reporting landscape is poised for even greater sophistication and alignment with global standards.

6. Exercise:

Short / Long Answer Questions

1. Define History of Accounting

2. Explain in detail the Evolution of Accounting in India
3. Which are the Ancient accounting practices used in Indian history
4. Contribution of Kautilya (Chanakya) to accounting system
5. Contributions of Jain Scholars to Accounting system
6. The Evolution of Accounting Standards in India
7. Write note on Future on Indian Accounting
8. Define the Accounting practices during vaidic period
9. Explain the Technological Advancements in Indian Accounting
10. Define the Challenges of Transitioning from AS to Ind AS

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Unit-2

Evolution of Audit in India

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- 2.0 Objectives
- 2.1 Introduction
- 2.2 Presentation of Subject Matter
 - 2.2.1. Meaning of Audit
 - 2.2.2 Definitions of Audit
 - 2.2.3 Traditional Audit Procedure in India
 - 2.2.4 Evolution of Auditing in India
 - 2.2.5 Separation of Accounts from Audit
 - 2.2.6 Comparative Study: Modern v/s Traditional Audit Practices
- 2.3 Summary
- 2.4 Terms to Remember
- 2.5 Answer to Check Your Progress
- 2.6 Exercise
- 2.7 Reference for Further Study

2.0 Objectives:

After Studying this Unit, you will be able:

1. To know basic roots of Indian Knowledge System.
2. To understand the traditional procedure of Audit in India.
3. To familiarize the evolution of Audit in India.
4. To recognize the difference between Audit and Accounting.
5. To differentiate traditional and modern Audit Practices in India.

2.1 Introduction:

People make economic decisions based on the information they have. For example, banks check a business's financial records before sanctioning a loan, because these records give the detail information about their respective business operations, debts, financial positions etc. Similarly, investors always look at these financial reports before investing because these reports declare the financial status of business and prospective returns.

If this information goes wrong, money can be wasted, and good opportunities might be lost. A bank could lose money by trusting incorrect reports, and another business that needed the loan might be missed out while investors may suffer losses. If financial information is confusing, people should use authentic information to avoid confusions and make better economic decisions. In order to get authentic information of any company, the role of auditor plays a vital role.

In the first unit we have studied the concept of accounting, which is related to recording, classifying and summarizing the financial transactions of an enterprise. The work of auditing starts, where the work of accounting ends. Auditing is an examination and verification of financial transactions of an enterprise. Auditors check financial records in detail to find out errors and frauds. It helps to prevent financial frauds and makes sure that financial information is true and fair, trustworthy, and clear. This builds confidence among investors, banks, and other related stakeholders.

But actually what is auditing, its origin, meaning, definition, evolution of auditing, how it is differ from accounting, traditional and modern audit practices, its role in practical life etc. Let's see in detail.

Auditing has been around for a long time. The word "audit" is derived from the Latin word *audire*, that means "to hear," because, in ancient times, auditors (hearer i.e. one who hears') listened to accountants read out financial records to check them. Many ancient civilizations, including Mesopotamia, Greece, Egypt, Rome, the U.K., and India, used auditing. In India, references of auditing can be found in the Vedas, while Kautilya wrote rules for financial auditing in his book *Arthashastra*.

Italian, Luca Pacioli, first evolved with the double entry book keeping system in 1494. Since then, several changes have been taken place in auditing. Thus the scope of audit has been increased in the last decade of 15th century. Industrial Revolution of England was another landmark in the history of trade and commerce in the 18th century. This led to great increase in the number of businesses and their operations, and ownership became separated from management. Shareholders, who have owned companies, needed experts to authenticate financial statements prepared by accountants/managers. This changed the focus of auditing from simply catching errors to ensuring financial statements were true and trustworthy.

In India, the Companies Act made audits compulsory for businesses. As companies grew bigger and financial transactions became more complex, the goal of auditing shifted to check whether financial records were *true and fair* rather than *true and correct*. This meant, that auditors have to focus on the overall accuracy and fairness of reports instead of just looking for mistakes in calculations.

Over the time, auditing became more structured, and qualifications for auditors were introduced. Organizations like the International Accounting Standards Committee and the Institute of Chartered Accountants of India have helped and set the rules to guide accountants and auditors. Recently, auditing has evolved with technology, as computers now play a major role in checking the financial records.

2.2 Presentation of Subject Matter

2.2.1 Meaning of Audit

The word audit were confined merely to a cash audit i.e. an auditor had to ascertain whether the person is responsible for the maintenance of accounts had properly accounted or not for all the cash receipts and payments. But the word audit has wide usage and now it means a thorough scrutiny of the books of accounts and its ultimate aim is to verify the financial position disclosed in the balance sheet and the profit and loss account of the company.

2.2.2 Definitions of Audit

According to **Spicer and Pegler**, “An audit may be said to be such an examination of the books, accounts and vouchers of a business as will enable the auditor to satisfy himself that the Balance Sheet is properly drawn up, so as to give a true and fair view of the state of the affairs of the business and whether the Profit and Loss Account gives a true and fair view of the profit or loss for the financial period according to the best of his information and the explanations given to him and as shown by the books, and if not, in what respects he is not satisfied.”

As per the opinion of **Montgomery** “Auditing is a systematic examination of the books and records of a business or other organization, in order to ascertain or verify and to report upon the facts regarding its financial operation and the result thereof.”

R. K. Mauts defined “Auditing is concerned with the verification of accounting data, and with determining the accuracy and reliability of accounting statements and reports.”

According to **R. B. Bose** “Audit may be said to the verification of accuracy and correctness of the books of accounts by an independent person qualified for the job and not in any way connected with the preparation of such accounts.”

The **Institute of Chartered Accountants of India** defined auditing that “It is a systematic and independent examination of data, statements, records, operations and performances (financial or otherwise) of an enterprise for a stated purpose. In any auditing situation, the auditor perceives and recognizes the propositions before him for examination, collects evidence, evaluates the same and on this basis formulates his judgment which is communicated through his audit report”.

J. R. Batliboi has defined auditing as “an intelligent and a critical scrutiny of the books of account of a business with the documents and vouchers from which they are written up, for the purpose of ascertaining whether the working results for a particular period, as shown by the Profit and Loss Account, as also the exact financial condition of that business, as reflected in the balance sheet are truly determined and presented by those responsible for their compilation.”

In short, Auditing is an independent examination of financial records of an organization to ensure its true and fair financial position.

After studying above definitions, here are some key features of an audit-

1. Step-by-step process – Audits follow a structured method to check financial records properly.
2. Independent experts – Auditors must be impartial and not influenced by the organization.
3. Checks financial records – He verifies financial transactions, in the form of Balance sheet and Profit and loss account.
4. Based on evidences – Auditors check recordings, bills, vouchers, and bank statements as evidences to crosscheck the transactions.
5. Follows standards – Auditors must follow Auditing Assurance Standards framed by ICAI.
6. Express an Authentic opinion – Auditor shares his honest opinion, whether the financial records are correct or not after inspection of every accounting details with unbiased approach.
7. Uses critical thinking – Auditors must analyze and raise questions to find mistakes or fraud.
8. Keeps data private – Auditors must maintain confidentiality in report and not share any sensitive financial details to outsiders.
9. Helps to prevent mistakes and fraud – Auditing helps to prevent errors and fraudulent activities in the financial records.

For Example: Suppose ABC Ltd., company sells electronic appliances. Every year, an independent auditor reviews ABC Ltd. company's financial records to ensure everything is correct. An auditor verifies bills, records, evidences through-

1. **Sales Records:** Do the recorded sales match actual transactions or not?
2. **Expenses:** Are all purchases and sales properly documented or not?
3. **Tax Compliance:** Has the company paid the exact amount of taxes?

4. **Bank Statements:** Do the recorded bank balances match actual account figures or not?
5. **Inventory:** Are the number of products in stock correctly reported or not?

After the audit, the auditor provides a report confirming if the financial statements are accurate or pointing out any mistakes or fraud. This helps to ensure transparency and trust among investors, customers, and the government.

➤ **Check your progress - I**

A) Choose the Correct Alternative from the alternatives given below-

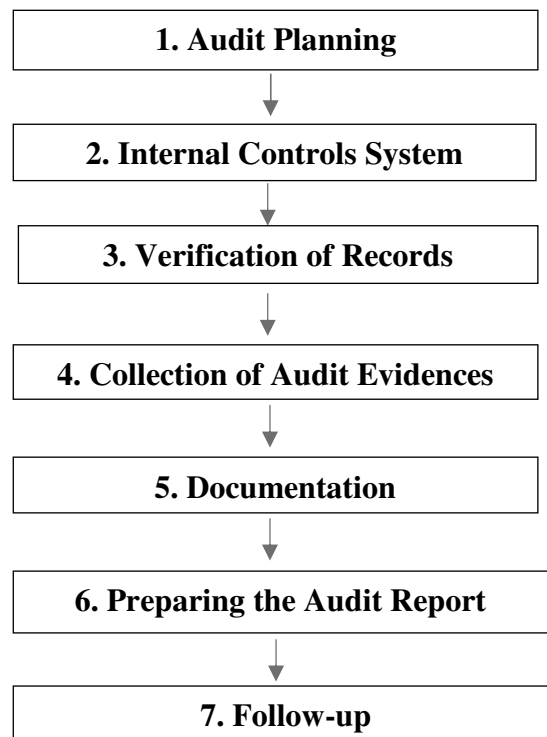
1. The word 'audit' is derived from the Latin word _____
(a) audire (b) dicere
(c) auditaion (d) auditorium
2. _____ is not a part of the audit process.
(a) Preparation of balance sheet (b) Examining of vouchers
(c) Discussions with staff (d) Preparation of Audit report
3. The main objective of audit shifted to ascertaining whether accounts were —
(a) True and correct (b) True and fair
(c) Only correct (d) only true

B) **State whether the following statements are True or false.**

1. The word 'audit' is derived from the Latin word audire. Here audire means to see.
2. Mauts defined "Auditing is concerned with the verification of accounting data, and with determining the accuracy and reliability of accounting statements and reports." .
3. Auditors must follow Auditing Assurance Standards framed by ICAI .

2.2.3 Traditional Audit Procedure in India:

Auditing is the process of checking a company's financial records to ensure they are accurate and comply with legal standards. In India, traditional audit procedures follow well-established steps to examine financial statements and identify mistakes or fraud. Before modern technology like automated audit tools, auditors relied on manual processes and documentation. Let's travel the steps of a traditional audit in a simple way.



1. **Audit Planning (AAS 8):** Before starting an audit, an auditor needs to prepare a systematic plan. This stage is like making a roadmap for the audit process.
 - **Understanding the Business:** Before checking financial records, auditors must understand the company's structure, operations, and financial processes. This helps them identify potential risks.
 - **Risk Assessment:** Auditors have to analyze where mistakes, fraud, or errors might happen in financial statements. This allows them to focus more on risky areas.

- **Audit Program:** An auditor creates a detailed plan, deciding what to check, how to check it, and when to do it. This plan helps auditors to stay organized during the audit.
2. **Internal Controls System (AAS 6):** Every business has its own internal control system, which involves rules and systems designed to prevent mistakes and fraud. Auditors must assess whether these controls are effective or not.
- **Reviewing Internal Controls:** Auditors have to study respective companies internal control system and identify how the company ensures accurate records and prevents financial fraud.
 - **Testing Controls:** Auditors conduct compliance tests to check if these systems work correctly or not. If any faults are found, auditors suggest improvements to prevent such mistakes.
 - **Documentation:** Any issues found in internal controls are documented for future references. This documentation help them for better improvements to work better than before.
3. **Verification of Records (Practical Testing):** Auditors examine financial transactions in detail to ensure they are correct and match with supporting documents.
- **Vouching:** It involves checking each transaction to confirm its authenticity. Auditors inspect invoices, receipts, and bank statements to verify receipts, payments and expenses.
 - **Verification:** It means Physical checking of items like inventory, cash, and fixed assets helps to confirm their existence, ownership and possession. For example, an auditor may visit a warehouse to confirm stock levels.
 - **Valuation:** It means determining the proper values of assets and liabilities.
 - **Reconciliation:** Auditors compare company records with third-party statements, such as bank statements, to ensure whether all figures match correctly.
 - **Analytical Procedures:** after above processes auditors examine financial ratios and trends which help them to detect suspicious patterns or errors in accounts.

4. **Collection of Audit Evidences (AAS 5):** In order to verify, examine and form a conclusion, auditors need a solid proof/evidences. Various methods help them to collect reliable audit evidence. Evidences can be collected by them through-
- **Inspection:** Auditors are checking physical assets, documents, vouchers and records to validate financial transactions.
 - **Observation:** through continuous observing company's actual operations (like handling cash or stock management) helps to ensure, they are following procedures correctly.
 - **Inquiries:** auditors raise questions to the employees or management to understand financial transactions in superior way.
 - **Confirmations:** Directly contacting external parties (like debtors or creditors) to confirm outstanding amounts.
 - **Recalculations:** Auditors redo calculations on financial records to check accounting errors if any.
5. **Documentation (Maintaining Working Papers) :** After all verifications, cross calculations auditors must maintain records of their audit findings in written form. These records are called as "working papers or documentations". It includes all the details of transactions checked, essential facts and the conclusions drawn. This helps the auditor to refer these papers later or during the course of his audit. It works as proof that, audit was conducted properly and transparent records were mentioned. Incomplete documentation may put an auditor in difficult situations. Therefore he should preserve these papers properly.
6. **Preparing the Audit Report :** Once the audit is complete, auditors prepare a report that presents their findings.
- **Drafting the Audit Report:** This report includes important details, highlighting whether financial statements are correct and having coverage of auditing standards.
 - **Final Audit Opinion (remark):** As per the section 227(2) of the Companies Act 1956 auditor is required to submit an official opinion on the company's financial health through audit report. There are four main types of audit opinions:

1. **Unqualified Opinion:** Financial statements are accurate with no major issues. It means, an auditor mentions positive opinion in his report.
2. **Qualified Opinion:** Some concerns exist, but overall, the financial statements are mostly correct. It means, an auditor mentions an opinion in his report with some reservations.
3. **Adverse Opinion:** Major issues or frauds are found; the financial statements do not reflect the true financial position. It means, an auditor mentions negative opinion in his report.
4. **Disclaimer of Opinion:** The auditor is unable to express the opinion due to insufficient, unreliable, improperly maintained financial data or lack of cooperation. It means, an auditor is unable to mention his opinion in the report.
7. **Follow-up :** In some cases, auditors conduct follow-up to ensure that a company has fulfilled past recommendations.
 - For internal audits or continuous audits, auditors check whether recommendations from previous audits were fulfilled or not.
 - Follow-ups help businesses to improve their financial systems and ensure that they can comply rules and regulations.

Applicable Laws and Standards

In India, audits follow strict rules to ensure financial integrity. Some key legal frameworks i.e. standards include:

- **Auditing and Assurance Standards (AAS):** Guidelines issued by the Institute of Chartered Accountants of India (ICAI) to standardize auditing procedures.
- **Companies Act, 2013:** This act defines statutory audit requirements that has to be complied by the Indian companies.
- **Income Tax Act 1961:** It Governs tax audit to ensure businesses correctly report taxable income.
- **Other Regulatory Requirements:** SEBI (Securities Exchange Board of India), RBI (Reserve Bank of India), GST (Goods and Service Tax), and other financial authorities have set some additional rules for audits for specific industries.

In nutshell, Traditional auditing in India follows a structured process to check a company's financial health and compliance. While modern technology has improved

its efficiency, but still these traditional steps remain crucial for ensuring accuracy and transparency in financial reporting.

➤ **Check your progress - II**

A) Choose the Correct Alternative from the alternatives given below-

1. Statutory audit in India is conducted under _____
(a) Income Tax Act (b) Companies Act, 2013
(c) Partnership Act (d) GST Act
2. Audit evidence is gathered through _____
(a) Inquiry (b) Observation
(c) Inspection (d) All of the above
3. _____ issues auditing standards in India.
(a) ICAI (b) RBI
(c) SEBI (d) CAG
4. _____ is not a type of audit opinion.
(a) Unqualified (b) Qualified
(c) Disclaimer (d) Confirmed

B) State whether the following statements are True or false.

1. Audit Planning is the first step of audit procedure.
2. Vouching involves checking each transaction to confirm its authenticity.
3. Verification means determining the proper values of assets and liabilities.

2.2.4 Evolution of Auditing in India –

Auditing in India has changed a lot over the years. It started with basic checking and has now become a highly professional and technology-driven process. The reason for this evolution is the scope of businesses organizations enhanced, increasing complexity in business operations, the introduction of new laws, regulations and advancements in technology. Following are the key phases that help

to understand how auditing has developed in India over the time passed from Vedic era, Chanakya's legacy to right now.

1. Auditing Concept in the Vedic Era and Ramayana: In Valmiki's Ramayana, there are instances when Bharata meets Rama in exile in the forest, the latter asks the former about the income and expenditure of the state. In Mahabharata, King Yudhishtira orders his brother Nakul to look after the army's accounts. Discussions in the RigVedas on matter like the system of land, tenure, currency trade and various economic rights indicate that a system of record keeping existed at that time.

Today, an audit is usually seen as a careful examination of financial records to make sure everything is true and fair. In the Vedic times, people did not call it "audit," they practiced similar ideas like checking records, being honest, and taking responsibility. Their methods focused on being truthful and ensuring that all resources were used rightly.

I) Vedic Values that Resemble Auditing

- **Dharma (Doing Right Thing):** In Vedic times, everyone especially leaders was bound by Dharma. It means leaders were expected to act with fairness, honesty, and responsibility. Leaders were like the auditors of their society by making sure things were done correctly.
- **Rita (Universal Order and Truth):** The idea of Rita focused that there is a natural order and truth in the world. If someone did something dishonest, it would disturb this balance. This is similar to modern audits where any deviation from the truth (like fraud) is sought out and corrected.
- **Rigveda (Move together, speak together, let your minds be in harmony):** Ancient philosophies often laid the basic principles we now take it for granted. The Rigveda's encouragement of moving, speaking, and thinking together is not just about physical unity, but intellectual and ethical alignment. It focused on Collective rational decision-making and harmony imply transparency.
- **Proper Record-Keeping in Rituals (Yajnas):** The Vedic rituals, called Yajnas (sacrifices), required that everything has be done perfectly. Every item like grains, ghee, or other products if used was recorded and monitored carefully. These detailed records ensured that nothing was wasted or misused, similar like how modern audits check every entry from ledger.

Audit practices were used in the Vedic age:

- **Before the Ritual:** All items (grains, ghee, livestock, etc.) were measured and recorded. Think of this as making a checklist.
- **During the Ritual:** The resources were used as planned in the religious ceremony.
- **After the Ritual:** The records were checked against what was actually used. This verification ensured every item was accounted for.

II) Responsibility of Leaders : In ancient India, kings were seen as guardians of public wealth. They had the duty to maintain proper records of income and expenses and to be accountable for any misuse of resources. Texts like the **Manusmriti** focused that, rulers who misappropriated state funds would be severely punished. This shows an early idea similar to holding leaders accountable through audits.

III) Post-Vedic Developments: They introduced more explicit methods for recording finances:

- Officials such as accountants and auditors were responsible for keeping daily and annual records.
- Surprise checks were done to make sure the money and resources were properly managed.
- There were strict penalties for anyone caught cheating or hiding information.
- This systematic approach is very much like the modern audit process, with detailed checks and balances to ensure fairness.

IV) Ethical Foundations and Continuity (Upanishadic Teachings)

Ethics and Self-Examination: *Upanishad's* (Satyam vada, Dharmam chara - Speak the truth. Act according to Dharma) and other Vedic texts encouraged individuals to check their own actions, being honest with oneself was very important. In the same way, an audit is a process of checking and ensuring that everything is done according to the rules.

2. Auditing in Ancient India: Chanakya's Legacy : Auditing in India has a long history, starting from the Mauryan Empire, where the Arthashastra, written by Kautilya (Chanakya) more than 2,000 years ago, is one of the oldest books on economics, governance, and financial management. Kautilya's Arthashastra covered accounting principles and standards, role and responsibilities of accountants and auditors, the methodology of accounting, auditing and fraud risk management and

the role of ethics in managing financial activities. Even though it was written a long ago, many of its thoughts are still used in modern auditing. Let's travel around working mechanism of auditing in ancient India.

I. Maintenance of Accounts

The financial year was set from July to June, and there was a complete process to close the accounts and audit the same. This process included combining financial records from different government departments to calculate the overall income and expenses. Accountants had to submit the finalized accounts at every year by mid-July. If they delayed or failed to do so, they faced financial penalties.

II. Role of the Auditor (Akshapataladhikrita)

Kautilya introduced a special government officer called the “Akshapataladhikrita”, who acted like today's auditors.

- Auditor kept track of all financial transactions (i.e. income and expenses) and checked if government money was used properly or not.
- Auditor checked whether the public funds were used properly or not.
- Auditor Reported fraud and mistakes without fear to maintain transparency and honesty.
- Kautilya made sure auditors were independent, it means they could easily identify financial problems and report them without being influenced by powerful officials.
- Kautilya suggested good salaries to accountants and auditors as high income would keep them ethical. Accountants would be more likely to commit fraud if they earned very little.
- The fascinating part of Kautilya's approach was that, he recognized conflict of interest between finance and auditing functions. He categorically stated that, the head of finance and head of audit should independently and separately report to the king. He recognized the possibility of collision between the two.

III. System of recording financial transactions

Just like today, the Mauryan government had bookkeeping systems to record financial transactions.

- Every amount received or spent by government officials had written down carefully.
- Government officials maintained proper ledgers and registers (like today's financial reports) to keep track of financial activities.
- Strict rules were ensured to prevent altering or fraud in financial records.
- Accurate financial documentation helped the government to track money flow and avoid losses.
- Kautilya recognized the concept of risk in financial matters. He suggested that loans with uncertain returns, such as foreign trade loans, should carry higher interest rates to compensate for the increased risk. This shows that even in ancient times, there was a refined understanding of financial management and risk.

IV. Verification and Auditing of Accounts

The concept of continuous monitoring, periodical auditing, verification and vouching existed in ancient times. Checking was done daily and periodically (five nights, *pakshas*, months, four-months, and the year). The attributes used in the present day for verifying receipts and payment vouchers were also used in earlier times. Interestingly, each department had secret agent to provide information and report about wrong doing to the seniors. There was a complete process for discovering fraudulent transactions and punishing accountants for misstating financial statements.

V. Audit Practices and Procedures

- Kautilya made sure regular inspection of accounts was done to find errors or fraud, while audits were done regularly to maintain financial transparency and control.
- Revenue expected by the government was compared with actual collections to check for missing money.

VI. Types of Audits in Arthashastra

Kautilya divided auditing into various categories, similar with today's audit system:

- Revenue Audit –Revenue audit covered the collection of all taxes and government income.

- Expenditure Audit – This type of audit was related with public funds were spent only for approved purposes.
- Stock Verification – It Checked government storehouses like warehouses and armories to prevent theft or mismanagement.
- Performance Audit – This audit type evaluated government officials based on honesty and efficiency in managing money.

These audits helped in ensuring financial discipline in government.

VII. Penalties for Fraud and Mismanagement

Kautilya enforced strict punishments against auditor if he prepared wrong audit reports or misused public money for personal gain or had bribery and corruption in government accounts etc. He charged heavy penalties in the form of fines or Loss of government job and even imprisonment for serious crimes against auditor. These penalties ensured government officials remained honest and followed financial rules and helped to prevent financial misconducts. He proposed measures to build ethical climate in the kingdom. He invented a system of reward for good work and punishment to ensure compliance to rules and regulations.

In a nutshell, Kautilya's auditing methods were advanced at his time and helped to create a system of financial accountability in governance. Many of his concepts such as Auditors must be separate from accountants to avoid manipulation (Independent audits), Ensuring financial statements show the truth (Financial transparency), Detecting financial crimes before they cause damage (Fraud prevention) are still used in modern auditing today. His thoughts reminds us, good financial management is essential for a successful and honest government and keep business free from fraudulent.

In short, the State revenue and expenditure were well managed in time of Mauryan Empire and other Hindu king. In his classic work, Arthashastra, Kautilya gave details of state finance. According to him, all undertakings depend on finance. Hence, foremost attention shall be paid to the treasury. In his work, he classified the major & minor heads of accounts of the government and listed forty kinds of fraud and misappropriation and also prescribed punishments for the same. Historians are unanimous in their opinion that the office of the chief accountant of the Mauryan Empire was well organized.

There is evidence that a well administered accounts & audit existed during the Gupta period. The Gupta rules could levy a tax on profits instead of one on capital.

In India, the Sultans in Delhi authorized Mushrifs and Mustaufis for keeping up accounts and audit for the state. A similar arrangement was maintained under the Mughals.

3. Pre-Independence Era (Before 1947): Basic Book-keeping

Traditionally Indian Companies Act was framed following the British model. The Joint stock Companies Act of 1857 contained provisions which were optional for annual audit of company accounts. In the Act of 1882, regarding audit of accounts it was stated in every report that, the auditor shall state whether balance sheet is prepared as per regulations and with satisfactory explanations or information as provided by the management so as to exhibit a true and fair view of the state of affairs. The auditor shall examine copy of balance sheet with supporting vouchers and accounts as supplied by the management. The Companies Act of 1913 made audit of company accounts compulsory. This Act contained specific provisions for the preparation and presentation of proper books of accounts including contents of the balance sheet and its authentication. It also laid down provisions for the qualification, appointment, power and duties of the auditor. 'According to Section 144 of the Act only a person holding a certificate from the local government or a member of an association or institute recognized for this purpose could act as an auditor. The Act also provides that the auditor shall have right of access at all times to books of accounts and vouchers and shall be supplied with such information and explanations by the directors and officers of the company as may be necessary in the conduct of audit of financial statements.

In 1918, the Government of Bombay initiated a scheme for the training of entrants to accounting profession. Accordingly, a qualifying examination (known as Government Diploma in Accountancy, GDA) and an articleship of three years were proposed. This scheme was approved by Government of India as a qualification to grant 'unrestricted certificates' issued to holders to practice throughout British India.

In 1932 Central Government, set up Indian Accountancy Board under the Auditor's Certificate Rules 1932. Under this rule, persons to be qualified accountant had to obtain Registered Accountants (RA) Certificate. The Companies Act of 1936 added that, the auditor's report should state in addition, whether or not books of accounts have been kept as required by Section 130.

In Short, this phase shows that early auditing was all about carefully checking every detail to stop fraud, without the advanced techniques we use today. During the

pre-independence period the audit system was very simple in India. Auditor's main focus was on checking of accounts and detecting mistakes.

Example : The East India Company, which ruled parts of India before independence, used basic audits to check tax collections and expenses in their territories. These audits were mostly done to make sure officials were not stealing money.

4. Post-Independence to 1990s:Structured Auditing

With the growing importance and increasing number of professional accountants in India, the demand for an autonomous body to regulate and control the accounting profession was observed. In 1949, The Chartered Accountants Act was passed. Now, the profession evolves its own standards of education, training, professional expertise, ethics and discipline under overall supervision of the central government. The Constitution of India (1950) gave an independent status and special powers to Comptroller and Auditor General of India(C&AG) In 1971, the Comptroller & Auditor General (Duties, Power and Conditions of Service) Act was passed to regulate the duties and powers of C&AG to audit the Government accounts.

The Companies Act 1956 and its subsequent amendments in 1960, 1965, 1966 and Companies (amendment) Act 1988,1999 and 2000, 2013 have further developed and elaborated the provisions regarding qualification, appointment and remuneration of statutory auditor and also the scope of annual accounts and audit report. In his report he will also give some narrative details concerning one or more aspects of management presentations including the mode of supply of information and explanation necessary for his audit, the nature of maintenance of books of accounts by the management.

In 1959, The Cost and Works Accounts Act was passed to recognize a profession specialized in Cost Accounting. According to Section 233B of the Companies Act 1956, the practicing member of the Institute of Cost and Works Accountants of India (ICWAI) are qualified to carry out cost audit.

In 1984, Income Tax Act was amended for the purpose of conducting compulsory audit of accountants of certain assesses. In 1985, The Reserve Bank of India (RBI) issued a circular to the commercial banks that their large borrowers should get their accountants audited. Some states of India have also modified their sales tax laws providing for audit of accounts of certain assesses.

Example : Great Indian companies, like the Birla Group, had to follow the standards of Companies Act, 1956. Auditors checked their financial records to make sure they were accurate and followed legal requirements.

5. 1990s – The Liberalization Era :(Global Standards)

By the 1990s, auditing had become a competitive industry, with firms providing both financial verification and business advice. New Economic Policy in 1991 (LPG) has changed a lot in fast-growing global economy. In 1991, economic reforms, allowed more foreign investments and privatization. This led to the need for better auditing standards and the introduction of internal audits, tax audits, and cost audits.

Audits now go beyond just checking financial statements, they also focus on business risks. The idea is that if a company doesn't manage its risks well, it could impact on financial reports. By understanding these risks, auditors can spot important issues early. Auditors have taken focus on detecting fraud and ensuring companies follow proper corporate governance rules. This led to risk-based auditing, which meant focusing on the areas most likely to have mistakes or fraud. Businesses started focusing on transparency and governance to gain investor trust.

Example : Infosys, an esteemed IT company in the 1990s, started using internal control audits to improve governance and attract foreign investors. This helped them to become globally recognized company for their strong financial reporting systems.

6. 2000s – Professionalization and Globalization

During this time, businesses used computers for financial records, and auditors began using digital tools to ease audits. Technology started playing a major role in auditing, with data analysis and audit software. Auditors also started offering advisory services, helping companies to improve financial systems. Auditing standards became more professional, aligning with global standards. The Institute of Chartered Accountants of India (ICAI) introduced Auditing and Assurance Standards (AAS) to bring consistency in auditing. Regulatory audits for SEBI-listed companies became stricter to protect investors.

Example : The Satyam Computers scandal in 2009 exposed falsified financial reporting. This led to stricter audit regulations and the creation of the National Financial Reporting Authority (NFRA) to ensure transparency in auditing and reporting.

7. 2010s – Present: Digital and Regulatory Transformation

Auditing today focuses more on risk-based audit, forensic audits, and compliance audits. GST audits, data-driven audits, and AI-powered auditing tools are now widely used. The Companies Act, 2013, introduced stricter rules to ensure accountability and corporate governance.

Example : Reliance Industries uses ERP- (Enterprise Resource Planning) integrated audit system software that automates audit to improve efficiency and follow complex financial laws. This helps them to maintain transparency and comply with the latest rules and regulations.

Conclusion

When we see the journey of auditing from Ancient to Modern period these ideas evolved over time. Although in the Vedic scriptures though they do not used the word ‘audit’, they laid down the ideas of honesty, transparency, and accountability. In ancient texts (Kautilya’s Arthshastra) leaders were expected to be ethical and accurate in their record-keeping. There were clear rules for recording and verifying public funds. Today’s audit practices, both internal and external, still rely on these core principles.

In short, Auditing in India has evolved from simple Book-keeping to a highly professional and technology-driven system. Today’s audits focus on accuracy, transparency, true and fair, investor protection, and fraud prevention.

➤ Check your progress - III

A) Choose the Correct Alternative from the alternatives given below-

1. The evolution of auditing in India was significantly influenced by _____
(a) Industrial Revolution (b) French Revolution
(c) Green Revolution (d) None of these
2. In Vedic period, _____ the Ritual the records were checked against what was actually used.
(a) After (b) before
(c) during (d) None of the above

3. The first Companies Act in India was passed in_____

- (a) 1850 (b) 1866
(c) 1913 (d) 1956

B) State whether the following statements are True or false.

1. Auditing in India has evolved from manual to computerized systems.
2. Data-driven and AI-powered auditing tools are now widely used.

2.2.5 Separation of Accounts from Audit –

Some of the writers on the subject of the opinion that Book-keeping, Accounting and Auditing are the three aspects of the term Accountancy itself, in its widest sense, -

- a) The aspect of recording transactions, i.e., the practical part (known as ‘Book-keeping’);
- b) The constructive aspect, i.e. the theoretical part (commonly known as ‘Accountancy’ Proper); and
- c) The critical aspect, i.e. the analytical part (known as ‘Auditing’).

This is probably the briefest and the simplest distinction that ease to understand the said terms.

The separation of accounts from audit is a basic rule in financial management. It means that the people who prepare financial statements should be different from the people who audit them. This ensures honesty, accuracy, and independence in financial reporting. The scheme for the separation of accounts from audit in the Government of India was approved in 1975.

Ex. Suppose the same performance evaluated by the teacher who taught a student, he/she might overlook mistakes or unfairly favor the respective student. In the same way if an accounting and auditing is done by the same expert, the results may be unfair. That's why auditing must be separate from accounting to maintain fairness and trust. Let's understand how the account is separated from audit.

- **Accounts (Accounting Process)**

Accounting starts after Book-keeping. It means that an accountant comes into the picture only when the book-keeper has finished his work. Accounting is the process of recording financial transactions (sales, purchases, expenses, incomes etc.)

and prepare summary in the form of Trial Balance and make analysis after preparing the Balance Sheet and Profit and Loss Account. An accountant is expected to be an expert in the accounting procedures and organizing financial data as he has to examine analytically the final accounts.

- **Audit (Auditing Process)**

Auditing begins where accounting ends. It is an independent checking of financial statements. An auditor has to verify the accounting transactions and financial statements prepared by accountant. He examines the accounts to detect errors, fraud, or false transactions. For this he verifies the accounts with the help of vouchers, documents and the information given to him. Unlike an accountant, an auditor has to make thorough scrutiny of accounts and check whether the recorded transactions are true and fair or not and submit the report to his respective client.

Accountants prepare the company's financial statements in the form of profit and loss account and balance sheet. Auditors (i.e. Chartered Accountant) are appointed to audit the financial records prepared by the accountants. If the same auditor prepares and audits the company's financial statements, their independence would be compromised, the results drawn by him become unfair and the audit report would be less truthful. Financial statements reviewed by an independent auditor are more trustworthy for investors, business owners, and regulators. For this purpose accounting and auditing functions are separated.

No auditor can dream of certifying a Balance Sheet is true and fair by simply acting as an accountant, because auditing is based on accountancy but accountancy is not based on auditing. An auditor must be well familiar with the principles and practical aspects of accountancy but it is not necessary for an accountant to be an expert in the audit work.

An accountant is not required to possess a specific professional qualifications. Experience and knowledge of the basic principles of accounting is sufficient. On the other hand, an auditor must be a qualified Chartered Accountant, and an associate fellow member of The Institute of Chartered Accountants of India. An accountant has no liabilities, whereas the auditor's liabilities are enumerated by the Companies Act and ICAI.

An accountant is an employee of the business. He draws his monthly salary regularly from the business itself and usually a permanent employee of the business. An accountant is neither expected to have a knowledge of auditing nor need to submit his report on the financial statements prepared by him. While an Auditor is an

independent outsider. He can be changed from year to year that's why he does not get regular salary. He received remuneration agreed between him and his client. He has to possess thorough knowledge of accountancy. An auditor has to prepare and submit separate report on the basis of financial transactions of the respective business with his certificate.

Accounting is performed as per accounting standards while an auditing is performed as per auditing standards. Accounts are prepared prior to get them audited and auditing is performed after the preparation of financial statements. Accounting completes by preparation of financial statements while auditing completes an audit report having opinions on the financial statements.

Example: Case Study on Satyam Computers Scandal (2009)

Satyam Computers, a leading IT firm, falsified its financial statements by inflating profits of ₹ 7,000 crores. The company's internal finance team created false reports through bogus invoices, misleading cash balances, and so on. Their external auditor, failed to detect the fraud for years. Auditors are expected to independently verify financial statements to ensure accuracy and prevent fraud. When they rely entirely on Satyam company's provided data without questioning disagreements, it damages their integrity and reliability. This kind of negligence has led to major financial scandals of Satyam Computers.

After this incident the Indian government introduced strict audit rules. The NFRA (National Financial Reporting Authority) was set up to strengthen audit oversight. Businesses are required to strictly separate accounting and auditing for honest and fair financial reporting. Independent audit helps to detect fraud and prevent financial manipulation. Companies Act, 2013 and ICAI (Institute of Chartered Accountants of India) Guidelines helps to protect businesses from accounting fraud and build trust with investors.

➤ Check your progress - IV

A) Choose the Correct Alternative from the alternatives given below-

1. Auditing begins where accounting _____
 - (a) ends
 - (b) starts
 - (c) begins
 - (d) None of the above

2. The scheme for the separation of accounts from audit in the Government of India was approved in year_____
 - (a) 1971
 - (b) 1975
 - (c) 1976
 - (d) 1977
3. _____ is a key principle of audit after separation.
 - (a) Preparation of books
 - b) Independent examination
 - (c) Approval of payments
 - d) None of the above

B) State whether the following statements are True or false.

1. Accounting and auditing have the same functions.
2. The auditor prepares the financial statements of a company.
3. Auditors express opinions on the accuracy of accounts prepared by others.

2.2.6 Comparative Study: Modern v/s Traditional Audit Practices –

Auditing is the process of checking a company's financial records to ensure they are accurate, trustworthy, and follow legal rules. Over time, auditing has evolved from manual and paper-based methods to digital and automated techniques.

Let's compare traditional audit practices (older methods) and modern audit practices (technology-driven methods) to understand how audits have been changed over the time.

Sr.	Points	Modern Audit Practices	Traditional Audit Practices
1	Approach	It uses a risk-based approach, which means auditors focus more on areas where errors or fraud are likely to be done. Instead of checking every record manually, auditors analyze large amounts of data by using technology.	It focuses on compliance (checking whether laws and rules are followed or not followed). Auditors examine all records and transactions manually.

2	Role of Technology	This practice uses audit software, AI, and data analytics to detect errors or frauds quickly. Examples: AI-powered tools like IDEA (Interactive Data Extraction and Analysis) and ACL (Audit Command Language) help to analyze thousands of financial transactions within a minutes.	In Traditional audit practice, auditors mostly used manual checking of receipts, vouchers, and ledgers. It means use of technology is very limited/minimal.
3	Audit Tools Used	It uses ERP (Enterprise Resource Planning) systems, cloud platforms, and digital dashboards to access financial records instantly.	It uses Paper-based records such as physical vouchers, handwritten ledgers, printed financial reports etc.
4	Scope of the Audit	This practice covers more areas like business processes, IT systems, compliance, and risk management. It helps to improve companies internal control system and governance.	This practice focuses mainly on financial records i.e. income, expenses, and tax reports.
5	Sampling Methods	It uses statistical and analytical models to make audit professionally by reducing human errors.	It uses judgment based sampling, where auditors manually pick a sample of transactions to check financial transactions.
6	Speed & Efficiency	The speed of modern auditing is faster than traditional method of audit. Real-time auditing is possible using	Traditional method of audit is time-consuming process. It verifies financial records manually that proceeds weeks

		digital tools.	or months.
7	Evidence Collection	This practice uses digital trails, electronic confirmations, and automated reconciliations, results in making audits more reliable and transparent.	This practice relies on physical vouchers, receipts, and manual reconciliations to verify financial transactions.
8	Risk Management	Proactive auditors use continuous analysis and monitoring financial performance of the company to detect risks as early as possible.	Reactive auditors find errors after they occur in company's financial transaction.
9	Documentation	In modern audit, all reports are stored digitally, using cloud-based audit systems with electronic signatures. It helps to keep secure all records.	In traditional audit, audit reports and related documents are stored in physical files. There is possibility of manipulation or loss of documents.
10	Audit Track	Robust digital tracking about every transaction is stored, that makes easy to verify old record.	Here it is very difficult to track manual records if it lost or altered.
11	Role of the Auditor	Modern auditor works as a strategic advisor that helps the companies to improve their financial controls and governance and helps to prevent error to be occur in future.	Traditional auditor works like a detective. He is searching about the errors or frauds after they occur.
12	Compliance &	It is integrated with corporate governance and risk management, ensuring long	It focuses mainly on statutory compliance (making sure

	Regulations	term financial health.	financial reports follow laws).
13	Example	Using an ERP system to detect unusual transactions in real time.	Manually checking cash payments in a physical ledger.
14	Useful for	Modern audits are useful for big businesses. It provides better reliability, faster results, and deeper insights that helps the businesses to follow global standards and prevent fraud effectively.	Traditional audits are still useful for small businesses and manual setups, but they are slow and have some limitations.

➤ **Check your progress - V**

A) Choose the Correct Alternative from the alternatives given below-

- Modern audit practices commonly use _____
 - Only manual checking
 - Only physical verification
 - Automated tools and data analytics
 - None of the above
- _____ is a limitation of traditional audit methods.
 - High efficiency
 - Time-consuming and less efficient
 - Automated fraud detection
 - Real-time error flagging
- _____ approach is generally faster in identifying issues.
 - Traditional audit
 - Modern audit
 - Both equally
 - Neither

B) State whether the following statements are True or false.

1. Traditional audits rely more on physical verification than modern audits.
2. Risk-based auditing is a feature of modern audit practices.
3. Modern audits place greater emphasis on internal controls.

2.3 Summary

Audit is the systematic examination of an organization's ledgers, accounts, documents, and vouchers, profit and loss account and balance sheet. Its main purpose is to verify that the financial statements accurately, complying with applicable laws and standards. It serves to confirm financial integrity, detect errors or frauds, and assess the effectiveness of internal controls.

Audit Procedures in India involves a well-defined set of procedures that guide auditors in gathering sufficient evidence to proceed their opinions. The process begins with planning, which includes understanding the business and identifying potential risk areas. Then it moves to evaluating the effectiveness of internal controls, followed by detailed substantive testing of transactions and balances. Analytical procedures, involving data comparison and trend analysis, enhance the process, which concludes with comprehensive documentation and authentic reporting that covers the opinions ranging from unqualified to adverse.

The audit landscape in India has evolved significantly over the time. In India, Pre- Vedic and Vedic literatures (including Ramayana, Mahabharata and also in Rig-Veda's) include numerous references indicating accounting practices existed in the ancient India. Accounting in a more matured state was found in Arthashastra by Kautilya wherein a detailed study was made about the State finance System. Professional accounting in India emerge on the enactment of Joint stock Companies Act in 1857. The Companies Act of 1913 made audit of company accounts compulsory. Economic liberalization in the 1990s shifted the focus toward performance and internal audits, and recent corporate scandals, such as the Satyam case, have led to stricter corporate governance norms and the adoption of digital tools under the Companies Act 2013.

The accounting function is responsible for preparing daily financial records and compiling financial statements, while the auditing function make independently evaluations of these records to check accuracy and compliance. This clear separation

helps to ensure objectivity and prevents conflicts of interest. In short accounting prepares the financial statements while auditing verifies, evaluates companies records minutely and gives an opinion through audit report authentically. This separation actually helps to prevent errors and frauds. If we not separated accounting and auditing functions, shareholders can't understand true and fair financial position of the business organization.

Traditional audits typically followed manual process with an emphasis on periodically verifying financial records and detecting errors or fraud. Modern audits have risk-based and strategic approach, using advances in technology such as artificial intelligence, data analytics, and automation. They not only examine financial records but also span broader areas including IT systems, ESG (Environmental, Social and Governance) factors, and overall compliance, delivering dynamic, real-time insights rather than static periodic reports.

The journey of auditing has been one of significant evolution from a simple method to detect mistakes to a sophisticated, technology-driven function that plays a crucial role in risk management and corporate governance. The clear separation between accounting and auditing functions fosters an environment from unbiased financial verification, ensuring that stakeholders receive a complete, accurate, true and fair opinion about the financial health of an organization.

2.4 Terms to Remember

1. **Auditing:** Auditing is a systematic independent examination of the books and records of a business to verify and to report its true and fair financial position.
2. **Internal Controls System:** Business has its own internal control system, which involves rules and systems designed to prevent mistakes and fraud.
3. **Vouching:** It involves checking each transaction to confirm its authenticity.
4. **Valuation:** It means determining the proper values of assets and liabilities.
5. **Tradition Audit Practices:** Auditors examine all records and transactions manually.
6. **Modern Audit Practices:** Instead of checking every record manually, auditors verifies financial transactions by using technology.

2.5 Answer to check your progress

Check your progress - I

- A) 1. (a) 2. (a) 3. (b)
B) 1. False 2. True 3. True

Check your progress - II

- A) 1. (b) 2. (d) 3. (a) 4. (d)
B) 1. True 2. True 3. False

Check your progress - III

- A) 1. (a) 2. (a) 3. (c)
B) 1. True 2. True

Check your progress - IV

- A) 1. (a) 2. (b) 3. (b)
B) 1. False 2. False 3. True

Check your progress - V

- A) 1. (c) 2. (b) 3. (b)
B) 1. True 2. True 3. True

2.6 Exercise

1. Explain the steps involved in the traditional audit procedures in India.
2. Explain how the concept and practice of auditing evolved in India over the time.
3. Elaborate how the concept of auditing and accounting are separate from each other.
4. What are the main differences between traditional and modern audit practices in India?
5. **Write Short Notes on:**
 - (a) Concept of Audit
 - (b) Audit Evidences
 - (c) Evolution of Audit in Vedic Period

- (d) Auditing in Ancient India
- (e) Traditional audit practices in India
- (f) Modern audit practices in India

2.7 References for Further study

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