



# **PRINCIPLES AND PRACTICE OF AUDITING**

**6<sup>TH</sup> SEMESTER B.COM**

**BANGALORE UNIVERSITY**

**MODULE 4**

**VERIFICATION AND VALUATION  
OF ASSETS AND LIABILITIES**

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## DEFINITION OF VERIFICATION



**Verification is an inquiry into the value, ownership & title, existence & possession & the presence of any charge on the assets**

## OBJECTIVES OF VERIFICATION OF ASSETS

- Verify the value of assets shown in balance sheet are valued as per GAAP
- Verify evidence of proper accounting of the assets
- Verify that his client is the owner of assets through legal & official documents examination
- Verify existence of assets through physical examination
- If an auditor fails to perform his duty of verification of assets properly, he will be liable for damages



## OBJECTIVES OF VERIFICATION OF LIABILITIES



- All liabilities of the client's business are disclosed in the financial statements
- Verify the value of liabilities shown in balance sheet are valued as per GAAP
- Ensure that all the fictitious liabilities are not disclosed in the financial statements
- The auditor will be liable for the non disclosure of certain liabilities in the balance sheet

## ADVANTAGES OF VERIFICATION

- **Avoids manipulation of accounts**
- **Guards against improper use of assets**
- **Ensures proper recording & valuation of assets**
- **Exhibits true & fair view of the state of affairs of the company**



# TECHNIQUES OF VERIFICATION



## OBJECTIVES OF VALUATION

- To show actual financial position
- To increase goodwill
- To assure shareholders
- To ensure easy for sale
- Easy to get loans
- Easy to get compensation



$$\begin{array}{r} \text{ASSETS} - \text{LIABILITY} \\ \hline = \text{NET WORTH} \end{array}$$


## VERIFICATION AND VALUATION OF ASSETS AND LIABILITIES





# 1. LAND AND BUILDING

- Freehold lands are shown at cost & freehold buildings are shown at cost less depreciation in the balance sheet
- Leasehold property is shown at cost less depreciation written off to date
- The title deeds relating to freehold lands & buildings must be in the name of the client
- Examine lease deeds to ascertain the terms & conditions of the lease
- If land & building is mortgaged, the auditor must get a certificate from mortgagee stating that title deeds are in his possession
- Ensure that there is no 2<sup>nd</sup> mortgage on the freehold property
- Leasehold cannot be mortgaged to others but can be sub – let to others



## 2. PLANT AND MACHINERY

- Valued at cost less depreciation written off to date
- Obtain a certificate from technically qualified persons for its valuation
- If method of depreciation is changed, then disclosure must be made along with monetary impact
- Conduct spot inspection for physical existence of P/M on random basis
- If mortgaged or charge on P/M, the auditor must examine details given in the plant register



### 3. PATENTS



- Valued at cost less depreciation
- If any fall in value of patents, the depreciation is debited to P/L account
- Patents are registered in the name of the client
- If business holds a number of patents, the auditor should call for a schedule of patents duly signed by a responsible official of the business

## 4. INVESTMENTS



- If business holds a number of investments, the auditor should call for a schedule certified duly signed by a senior officer of the company
- If investments are held as FA, they must be valued at cost price
- If investments are held as CA, they must be valued at cost price or market, whichever is less
- Investments are registered in the name of the client
- If a trustee on behalf of company holds investments, examine trust deed
- If entrusted to a bank for safe custody, then get a certificate from bank

## 12. CONTINGENT LIABILITIES

- Obtain a list of CL duly certified from management that has been disclosed
- Examine accounts books, minutes' book, correspondence, share certificates
- If any provisions for CL, then examine resolutions to confirm the provision
- CL must be properly disclosed in balance sheet



## 11. BILLS PAYABLE



- Obtain a schedule of bills payable & verify for all the details
- Check total of schedule of bills payable with bills payable account & cashbook
- Examine returned bills payable, which can be taken as an evidence for the payment made for matured bills
- Bills payable already paid are not shown as outstanding
- Check bills payable after the balance sheet but before the date of audit with entries made in cashbook

## 10.CREDITORS

- **Verify that the schedule contains all the details about sundry creditors**
- **Obtain statement of accounts from the creditors to check accuracy of creditors ledger account**
- **Check goods inwards book to ensure that all goods are received & recorded in purchase book**
- **If any debit balance in creditors ledger, they must be shown on the asset side of balance sheet**



## 9. STOCK



- The basis of valuation has been consistently adapted from year to year to facilitate comparison of profits of different years
- Valued at cost price or market price, whichever is less
- Check the values in stock sheets with their corresponding invoice prices & current selling price
- Calculations, additions, castings in stock sheets must be proper
- A responsible person signs the stock sheets
- Goods with consignees or customers are valued at cost price & not at selling price
- Verify slow – moving, obsolete, damaged goods have been listed separately & properly valued



## 8. DEBTORS

- Obtain & examine schedule of debtors, duly signed by responsible officials, containing names & amounts due from debtors
- Balance of debtors must be checked with sales ledger, sales returns book & cashbook
- Verify the accuracy with confirmation letters received from debtors
- Book debts are shown in balance sheet at their realizable value
- If any doubtful debts, ensure that adequate provision is made against them



## 7. GOODWILL



- If goodwill purchased along with running business from vendors, verify purchase agreement & amount of goodwill
- If raised goodwill account by writing up the value of its assets, examine the basis on which the assets have been revalued
- With partnership deed verify the amount of goodwill created in the books of partnership firm on admission, retirement or death of a partner
- The valuation of goodwill, a matter of financial policy, to be decided by the management

## 5. CASH IN HAND

- Count cash in hand by attending the business premises on the last day of financial year
- Must not only count the currency notes & coins, but also the stamps & IOUs in hand as they must be shown in balance sheet
- Count physically the stocks of unsold canteen tickets, lunch coupons as they must be converted into cash
- An auditor must take all the vouchers & books in his possession till the entire cash balance is duly verified



## 6. CASH AT BANK



- In case there are accounts with more than one bank, verify them individually
- Obtain separate certificates for fixed deposit, current account, SB account from the bank to verify the balances of different bank accounts
- Ensure that it is bank balance as per the cashbook & not the bank balance as per passbook that is shown in balance sheet
- Make enquiries if cheques are more than 6 months old
- In case money is kept with other agencies, it must be disclosed in audit report
- Where large amount are held in foreign banks, which are blocked under exchange control regulations, must be disclosed in audit report

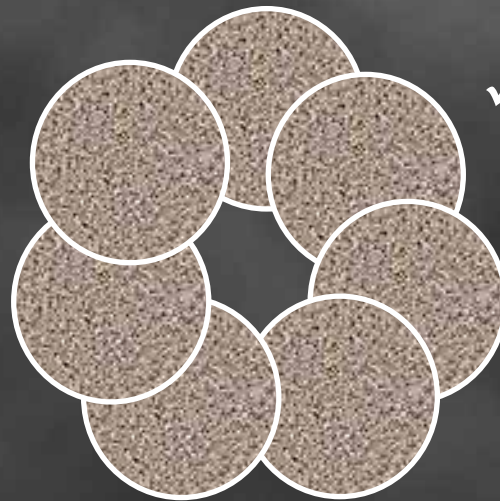
# METHODS OF VALUATION OF ASSETS

**Cost method**

**Market value method**

- ✓ Replacement value method
- ✓ Net realizable method

**Scrap value method**



**Average cost method**

**Base stock method**

**Standard cost method**



## VALUATION OF ASSETS DURING INFLATIONARY PERIOD

- FA must be valued at replacement cost
- FA must be written up according to market price of assets prevailing on balance sheet date
- The stock – in – trade must be valued at market price & depreciation must be provided on the value of stock so arrived at
- The index method of adjusting the accounts to reflect the changes in the purchasing power of money must be followed





**THANK YOU**