

VERIFICATION AND VALUATION OF ASSETS AND LIABILITIES

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verification

Means establishing the actual facts are in agreement.(providing of truth)

Meaning and definition of verification

- ▶ Spicer and Pegler, is “An enquiry into the Value, Ownership, Title, Existence, possession and presence of any charge on the assets”.
verification is a function of examining assets & liabilities to check (i) Value (2) Ownership (3) Title(4) Existence (5) Possession and (6) to see whether the assets are free from any charge or encumbrance etc

London oil co v/s Hasluck co

- ▶ Verify existence of assets & liabilities.
- ▶ Liable for damages suffered

Objectives of verifications

- ▶ **(i) To know whether the Balance-Sheet exhibits a true and fair view of the State of affairs of the business.**
- ▶ **(ii) To find out whether the assets were in existence**
- ▶ **(iii) To find out the ownership and title of the assets**

- ▶ **(iv) To show correct valuation of assets and liabilities**
- ▶ **(v) To verify the arithmetical accuracy of the books of accounts**
- ▶ **(vi) To ensure that the assets have been recorded properly**
- ▶ **(vii) To detect frauds & errors, if any**

- ▶ **(viii) To find out whether there is an adequate internal control regarding acquisition, utilization and disposal of assets.**
- ▶ **To find out whether there is proper classification of asset & liabilities.**

Verification of asset

- ▶ Value
- ▶ Ownership
- ▶ Title
- ▶ Existence
- ▶ Possession(charge)

Step involved in verification

- ▶ Comparing
- ▶ Verification
- ▶ Enquiring
- ▶ Ensuring(encumbrance)
- ▶ satisfying

Objective of asset verification

- ▶ Existence of asset(physical or documentary)
- ▶ Ownership &title(legal & official document)
- ▶ Actual or constructive purpose
- ▶ free from charges, pledge hypothecation
- ▶ Proper accounting(book value)
- ▶ Properly classified
- ▶ B/S exhibits true &fair view.

Verification & valuation of fixed asset

- ▶ Plant & machinery.
- ▶ Motor vehicle
- ▶ Furniture & fitting
- ▶ Loose tools
- ▶ Lease hold property & free hold property.

Verification of plant and machinery

- ▶ **As in case of industrial concern out of total assets 20% to 50% cost is that of Plant & Machinery and hence the auditor is required to take much more precaution while verifying the Plant and Machinery and for this he should give attention to following points -**

Verification of plant and machinery

precaution while verifying the Plant and Machinery and for this he should give attention to following points -

- ▶ (i) He should get the detailed list of all Plant and Machineries and asset wise accumulated depreciation.
- ▶ (ii) He should trace the opening balance in the Plant & Machinery register with the help of last year's audited balance sheet.

- ▶ iii) He should verify quotations, invoices, cost etc., in connection with Purchase of Plant & Machinery.
- ▶ (iv) If there are sales of Plant & Machinery in audit period he should verify the invoice to that effect.
- ▶ (v) He should check the Board Resolution authorizing Purchases of Plant & Machinery.
- ▶ (vi) If any machinery is disposed off and sold as scrap during the audit period, he should check the authorization and valuers report in that connection

- ▶ (vii) He should check the rates and calculation of depreciation and ensure these are according to the provision of Section 205 of the Companies Act, 1956.
- ▶ (viii) He should check whether related expenses incurred on purchases of machinery are duly capitalized.

- ▶ ix) He should check whether proper accounting of profit earned or loss suffered on Sale of Machinery, during the audit period, is done.
- ▶ (x) If any machine is manufactured by the client itself, auditor should verify that capitalization of material, labour and other expenses is properly done.
- ▶ (xii) He should scan the Plant register and physically inspect some of the major plants by visiting to the works

- ▶ xiii) He should, finally, ensure appropriate disclosure of all information on the balance sheet as required by the Companies Act.
- ▶ (xiv) He should obtain a certificate from the local auditor to that effect, if Plant and Machinery is kept abroad at a distant place.

Free hold property

- ▶ Refers to land & building which are absolutely the property of the business.

Verification of freehold land and building

- ▶ He should see that Freehold Land and Buildings are shown separately and not mixed with lease hold or other assets.
- ▶ He should see that separate accounts for land and for buildings are mentioned because on land usually no depreciation is provided.
- ▶ He should see that the balance shown on Balance Sheet is directly traceable from respective ledger account.

- ▶ He should examine the title deeds of the property and see that the asset is in the name of the client and in the free and fair possession of the client.
- ▶ He should examine that the title deed is genuine.
- ▶ The Purchases during the year to be examined with the related correspondence, broker's note, auctioneer's note.

- ▶ In case of construction of the building auditor should examine the various certificates such as Builder's certificate, Contractor's certificates, Architect's certificate, Local authority certificate where needed.
- ▶ He should verify the sale, if a part of property has been sold during the period under audit

- ▶ He should obtain a certificate from mortgagee if the property has been mortgaged and the deeds are with the mortgagee to verify the property.
- ▶ Title deed is in name of the client.
- ▶ Land is not subject to depreciation but see that proper depreciation is provided on building as per the provision of Sec 205 of the Companies Act,1956.

- ▶ See that the fluctuation in the value is not to be considered on Balance Sheet but if it has been considered then see that this is properly disclosed on Balance Sheet.
- ▶ Auditor should physically verify the existence of asset.
- ▶ Clarify and consult with concerned lawyer about the property.
- ▶ Legal expenses incurred should be checked.
- ▶ If mortgaged - deed in possession
- ▶ No second mortgaged
- ▶ Check Addition to property

- ▶ See that repair & renewal charged to revenue not to freehold a/c.
- ▶ Adequacy of provision for depreciation.
- ▶ No depreciation on land.
- ▶ Provide depreciation for building.

Verification of leasehold property

- ▶ Acquired by business for a fixed period on lease.

- ▶ (i) He should see that the leasehold property account is separately maintained in the books.
- ▶ (ii) See that the property is in possession of client.
- ▶ (iii) Examine the lease deed to find out its value & period.

- ▶ (iv) See that the lease deed is properly registered with the Registrar. Because a lease exceeding one year is invalid unless it has been granted by a registered document.
- ▶ (v) See whether sublease is valid as per sublease agreement, in case it is granted by referring to lease agreement

- ▶ (vi) Ascertain those conditions, the failure of which might result in the forfeiture or cancellation of lease and see whether they have been properly complied with.
- ▶ (vii) See that the lease rent and other expenses like insurance etc., regularly paid.
- ▶ (viii) In case any provision is required to be made for dilapidation (Payment on the expiry of the term of lease) see that the same is properly and continuously provided and amortized over the period of the lease.
- ▶ (ix) See that the depreciation on lease is provided by Straight line method including that of land too.

Verification of motor vehicle

- ▶ i) Ensure whether the concern is maintaining proper and separate register giving full particulars of vehicles.
- ▶ (ii) Check up whether opening balances have been properly traced in the register or not.
- ▶ (iii) Check up whether the entries regarding new purchases and sales of old vehicles have been properly recorded or not.

- ▶ (iv) Check up various documents such as agreement, invoices bills, orders, authorizations etc., relevant to purchases & sales.
- ▶ (v) Check the auctioneer's statement, valuer's report etc., in case of sale of vehicle as scrap.
- ▶ (vi) See profit earned or loss suffered on sale is properly accounted.
- ▶ (vii) Verify whether fair depreciation on vehicles is provided or not

- ▶ (viii) Verify registration & license to see all the vehicles are in the name of the auditee or not.
- ▶ (ix) Verify physically all the vehicles by inspecting their registration numbers.
- ▶ (x) Check the certificate from lender in case R/C book of any vehicle is lying with the lender.
- ▶ (xi) See whether proper insurance on vehicles are paid or not