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UDHNA

TYBCOM SEM-V

Advanced Accounting & Auditing-V

Unit 5 Vouching, Verification & Valuation of Assets and Liabilities

Q1) What is verification? State the objectives of Verification.

Spicer and Pegler, Verification is “An enquiry into the Value, Ownership, Title, Existence, possession and presence of any charge on the assets”.

Verification means the inspection of assets appearing in financial statements, whether the assets are according to legislation or not. Verification of assets and liabilities are done to confirm the following –

- Existence
- Ownership
- Proper valuation
- Possession
- Freedom from encumbrances
- Proper recording

Objectives of Verification

Following are the objectives of Verification –

- Confirmation about the existence of assets through physical verification.

- Legal and official documents relating to assets are checked to confirm the ownership of assets.
- It is confirmed that assets are free from any charge of lien.
- Proof regarding proper valuation of assets.
- To confirm that assets are properly accounted for in the books of accounts.
- To verify that all assets and liabilities are properly shown in balance sheet according to companies Act 2013 and rules 2014.

Q2) Discuss Importance/Advantages of Verification.

Advantages of verification are as under:-

1. It avoids manipulation of accounts.
2. It guards against improper use of assets.
3. It ensures proper recording and valuation of assets.
4. It exhibits true and fair view of the state of affairs of the company.
5. It guides Members and prospective investors for investment plan.

Q3) General principles regarding verification

1. Confirm that the assets were in existence on the date of the balance sheet.
2. Ascertain that the assets had been acquired for the purpose of the business and under proper authority.
3. Confirm that ownership of the asset rests with the organization.
4. Ascertain that no charge has been created on the asset.
5. Ensure that the current book value of the asset is determined after providing correct amount of depreciation for various years.
6. Ensure that values reflect current physical condition of the asset.
7. Ensure that disclosures regarding assets are adequate.

8. Auditor should ascertain the type of asset during verification.
9. He should ascertain the method of valuation used for different assets.
10. He should satisfy himself that the provisions of companies act have been compiled.

Q4) Procedures of Verification of Assets

1. The auditor should verify the records (accounting books) with reference to the documentary evidence. Physical verification of fixed assets is the primarily the responsibility of the management.
2. The opening balance is to be verified from schedule of fixed assets, ledger or fixed asset register.
3. Assets acquired during the year or improvements done during the year should be verified on the basis of purchase orders, invoices, material receipt notes, and title deeds.
4. Capital assets built inside (self-constructed fixed assets) and capital work-in-progress should be verified by reference to work-order records, contractor bills.
5. For fixed assets fully depreciated during the year of acquisition, the auditor has to examine whether they were recorded in the fixed assets register.
6. In the case fixed assets registered, the auditor should examine (i) the authorisation procedure (ii) sales process (calling for quotations etc.) (iii) adjustments to the account of the asset (iv) accounting for the proceeds of the sale and (v) adjustment for the gain or loss on the sale.
7. Ownership of assets such as land and buildings should be verified by examining the title deeds. In case the title deeds are with other parties such as bankers (mortgages or safe custody) and solicitors, confirmation should be

obtained directly by the auditor through a request mailed to the concerned persons signed by the client.

8. Physical verification is the responsibility of the management and they need to ensure that it is carried out at appropriate intervals in order to ensure assets are in existence. The auditor has to ensure that physical verification was done. For this purpose, he should observe the verification being conducted. He should examine the instructions given by the management for physical verification and working papers of physical verification. It is to be ascertained that the persons carrying out the physical verification has the necessary competence.

Q5) Distinguish between Vouching and Verification:

Basis for comparison	Vouching	Verification
Meaning	Vouching means checking the accuracy of the transactions recorded in the books of accounts.	Verification means a process to substantiate the validity of assets and liabilities appearing in the Balance Sheet.
Basis	Documentary Evidence	Observation and Documentary Evidence
Examination of	Items of Profit & Loss account	Items of Balance Sheet
Carried out by	Audit clerks	Auditor
Time Horizon	Year-round	At the end of the financial year.

Basis for comparison	Vouching	Verification
Objective	To examine the correctness, validity and completeness of the transactions.	To confirm the ownership, possession, existence, valuation and disclosure of the items appearing on the Balance Sheet.

Q6. What is Valuation of Assets and Liabilities

Valuation means estimation of various assets and liabilities. It is the duty of Auditor to confirm that assets and liabilities are appearing in the balance sheet exhibiting their proper and correct value. In the absence of proper valuation of assets and liabilities, they will exhibit either overvalued or under-valued.

It is therefore required for an Auditor to exercise reasonable care and skill to analyze the basis of valuation from technical experts and satisfy himself that assets shown in Balance-sheet are properly valued accordance with the generally accepted conventions and accounting principles.

R. Batliboi, “A company’s Balance Sheet is not drawn for the purpose of showing what the capital would be worth if the assets were realized and liabilities paid -off, but to show how the capital stands invested”.

Joseph Lancaster, “The valuation of assets is therefore an attempt to equitable distribution of the original outlay on the period of the assets usefulness”.

Q7) Explain difference between Verification and Valuation:

S. No.	Basis	Verification	Valuation
1.	Meaning	Verification establishes existence, ownership and acquisition of assets.	Valuation certifies correctness of the value of assets and liabilities.
2.	Evidence	The title deed, receipt for payments constitutes documentary evidence for verification.	The Certificate offered by the owner or directors or experts is the documentary evidence for valuation.
3.	Checking	The auditor is required to verify whether the value ascertained is fair one or not.	Critical examination of the value of assets and comparative analysis of different assets.
4.	View	Verification includes apart from valuation, the examination of ownership right, the existence of the asset in the business and its freeness from any sort of charge.	Testing the exact value of an asset on the basis of its utility.
5.	Work	Verification is a final work.	Valuation is the initial work and it need to be verified subsequently.
6.	Personnel	Verification is the work of auditor.	Valuation is the work of concerned authority or board(company).
7.	Time	Verification is made at the end of the year.	Valuation is made throughout the year.

Q8. Compare : Vouching, Verification and Valuation

In vouching, accounting entries are checked with the bona-fide vouchers.

- Verification proves the **existence, ownership** and **title** of assets.
- Valuation certifies the **correct value of asset**.
- Vouching is done after **original entry** in the books of accounts.
- Verification and valuation are done at the **end of the financial year**.
- Vouching is done by **Senior Auditor** and **Audit Clerk**.
- Verification and valuation are done by the **Auditor** himself.

- Bonafide vouchers are sufficient **evidence** for vouching
- For Valuation Auditor has to depend upon **certification**.
- Verification is done by physical verification, title deeds and receipt of payment, etc.

Q9) Classification of assets:

1) Non Current Assets:

A) Fixed Assets:

i) Tangible Assets

ii) Intangible Assets

iii) Wasting Assets

B) Other Non-Current Assets (Fictitious Assets except preliminary expenses)

2) Current Assets

Q10) Auditors Duties regarding Valuation:

It is the duty of the auditor not only to verify the physical existence and ownership of the asset, but also its valuation as shown in the Balance Sheet. He should not only check the arithmetical accuracy of the assets appearing in the Balance Sheet but should also make inquiries through information and explanation to know the correct state of affairs.

The auditor has to be very careful and cautious while examining the valuation of various assets especially the current assets such as inventory, bills receivable, accounts receivable etc. As far as fixed assets are concerned, the same are valued on the basis of their historical costs less proper amount of depreciation.

An auditor may rely on the directors of the company or on the certificates of other professional in respect of valuation of the assets, provided he uses reasonable care and skill. In matters relating to valuation of assets the auditor must adhere to the generally accepted principles of valuation, commercial practices and accounting standards.

The auditor should ensure that adequate depreciation has been charged on assets before determining the current value. The auditor should state the basis of valuation of assets in the Balance Sheet as certified by the directors or other professionals as the case may be.

Q Verification and Valuation of Assets:

Steps for Verification and Valuation:

1. Physical existence
2. Ownership/Title
3. Possession
4. Charge on assets
5. Business purpose
6. Presentation in balance sheet
7. Valuation