## 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.

## Components of Valuation

Methods of valuation of assets are as hereunder −

- **Cost Price** − This is the cost price paid at the time of acquisition of assets plus the freight charges, octroi charges, and commissioning and installation charges, etc. to bring that asset in usable condition.
- **Book Value** − This is the value as appearing in the books of accounts; the cost price less depreciation.
- **Realizable Value** − A Value which can be realized from the sale of assets.
- **Market Value** − A value which the asset can fetch at the time of sale.
- **Replacement Value** − A value on which an asset can be replaced.
- **Conventional Value** − It means the cost price less depreciation written off ignoring any kind of fluctuation in the price.
- **Scrap Value** − If the asset is not in working condition and sold as scrap, then the sale value of asset is scrap value.

## Basis of Valuation

Auditor should ensure that the basis of valuation is correct and reliable. He should keep in mind the process of valuation which is as follows −

- Original cost
- Expected working hours of the assets
- Wear and tear expenses
- Scrap value
- Chances of asset become obsolete

Fixed asset is valued at cost price less depreciation and current assets should be valued at cost or market price whichever is less.

## Verification and Valuation of Fixed Assets

We will discuss the verification and the valuation of different fixed assets −

**Verification of Freehold Land and Building**

- Auditor should examine the title deed of the land and building.
- Land and building shown in the books should be according to the title deed.
- Profit or loss on sale of it should be duly adjusted in the account.
- Any addition to it should be carefully examined by the Auditor.

**Verification of Mortgage Property**

- The Auditor should confirm that there should be no second or third mortgage on it.
- The Auditor should obtain certificate from mortgagee that title deed is in his possession.
- The Auditor cannot be held responsible if there is any defect of title. The Auditor can only verify that title deed apparently in order and in the name of client.
- If Auditor feels necessary he can obtain certificate from legal advisor about the validity of title deed of the client.

**Valuation of Building**

- Building should always be valued at *cost less* depreciation.
- Although the market value of building may be much higher than the cost, still depreciation on building should be provided.
- Depreciation will be provided even if building is not in use.
- Market or releasable value should not be taken into account because both are fluctuating.

**Verification of Freehold Land**

- Freehold land is a non-depreciable asset, hence it will be shown at cost.
- Cost includes legal charges, registration fees, purchase price and broker commission, etc.

**Payment made to improvement trust or Municipal Corporation for water, sewerage, road, development charges, etc. it will also be included in the cost of the freehold land.**

***Plant and Machinery:***

**The auditor should:**

(1) Inspect directors' minute book authorising capital expenditure on this account ;

(2) Examine the cost details when such plant is erected by the company's own men, or the invoices for the purchases and the bills for erection by outsiders ;

(3) Check up the profit or loss on the sale of any plant and its accounting treatment;

(4) Scan the plant register and physically inspect some of the major plants by a visit to the works;

(5) Obtain from the company management certificate about the verifications of all items as required under Companies (Auditor's Report)

(6) Check the adequacy of the amount of depreciation ; and

(7) Finally ensure appropriate disclosure of all information in the balance sheet as required by the company law.

## Sundry Debtors

The Auditor is concerned with obtaining sufficient audit evidence to corroborate the management's assertion regarding the following −

- All amounts are recorded in respect of outstanding debtors as at date of Balance sheet.
- Valuation of debtors is appropriate and properly applied.
- That all the debtors are disclosed, classified and described in accordance with recognize accounting policies and practices.

The verification process of the debtors involves the following −

### Examination of Records

- Auditor should satisfy himself about the validity, accuracy and recoverability of debtors' balance.
- Excessive discount allowed or bad debts written off should be verified.

### Direct Confirmation Procedure

- Direct communication with debtors is the best way to ascertain whether the balances are accurate, genuine and undisputed.
- Debtors from whom confirmation of balances is required, the method of requesting confirmation is to be determined by the Auditor.
- Confirmation procedure may be carried out within a reasonable period from the end of the year.
- Replies received from debtors should be carefully gone through and in case, where balances do not agree, client should be asked to investigate.
- The Auditor must pay special attention to those balances for which confirmation is not received. They might be fictitious or made to conceal a fraud.

**Steps for Verification**

- Book debts can be verified by the books of accounts and those should be supported by sale documents.
- Book balances should be sent to debtors directly for confirmation. It will establish the existence of book debts.
- Ownership of book debts can be verified with the sales documents and the sales ledger.
- Debtors should enquire about any type of dispute with customers about discount, claim etc.

**Steps for Valuation**

- Debtor's ledger should be supported by sales ledger.
- Auditor should obtain list of book debts, bad debts written off and for provision for doubtful debts.
- Sundry debtors should be valued at realizable value.
- Confirmation of balances shows that valuation of debtors is correct.

**Verification and Valuation of Liabilities**

Let us now understand the verification and valuation of liabilities −

**Trade Creditors**

Auditor should take the following important steps for the verification and valuation of Trade Creditors −

- Auditor should collect schedule of creditors and that should tally with ledger balances.
- Purchase ledger should be checked and verified with purchase register, purchase invoices and debit notes etc.
- Auditor should verify the discount received or receivable from creditors.
- Auditor should minutely check the purchase of first month and last month of the financial year to avoid any possibility of booking purchases of current year to next year or last year purchase to current financial year.
- Auditor should pay special attention on any unpaid amount stands in ledger of creditor since long. It might be possible that amount has misappropriated by the any official and balance stands as it is in books of accounts.
- Confirmation of balances should be done directly by the Auditor and if there is any kind of discrepancy that might be sorted out.
- Auditor should carefully study the hire purchase agreement to verify the purchases made on the basis of Hire-Purchase.