UNIT-4
VERIFICATION AND VALUATION OF ASSETS AND LIABILITIES

Meaning

Verification means the act of assuring the correctness of value of assets and liabilities in the organization. It refers to the examination of proof of title and their existence or confirmation of assets and liabilities on the date of Balance Sheet. It usually indicates verification of assets of any organization, which can be done by examination of values, ownership, existence, possession of any assets and also ensures that the assets are free from any charge. In simple words, verification means, 'proving the truth or confirmation'.

Definition

According to Spicer and Pegler, "The verification of assets implies an inquiry into the value, ownership and title, existence and possession and the presence of any charge on the assets".

Verification Principles/Objectives

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 owner ship of the asset rests with the organization. The auditor has to examine the documents relating to the 'OWNERSHIP' of the asset or liability.
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. Verification is a concept concerning the assets and liabilities and hence the focus is on the balance sheet of the company, As the balance sheet has to exhibit a true and fair view of the assets and liabilities, certain aspects relating to them have to be examined.
9. The value of asset or liability should be clearly exhibited on the face of the balance sheet. Hence, correct figures under appropriate headings have to be shown in the balance sheet.
10. The asset should be verified physically. Physical verification is essential to know whether the asset actually existed on the date of the balance sheet.

11. Regarding the liability, the nature and extent of liability has to be examined and find out that true position is exhibited on the face of the balance sheet.
12. To show the correct value of assets and liabilities.
13. To know whether the Balance Sheet exhibits a true and fair view of the state of affairs of the business.
14. To detect frauds and errors, if any while recording assets in the books of the concern.
15. To find out whether there is an adequate internal control regarding acquisition, utilization and disposal of assets.
16. To verify the arithmetic accuracy of the accounts.
17. To ensure that the assets have been properly recorded.

Auditor's Duty Regarding Verification

The auditor of a business is required to report in concrete terms that the Balance Sheet exhibits a true and fair view of the state of its affairs. In other words, he has to examine and ascertain the correctness of the money value of assets and liabilities appearing in the Balance Sheet and this examination is known as verification of assets and liabilities.

Therefore, an auditor has to keep in mind the following points while verifying the assets:

- Ensuring the existence of assets.
- Acquiring the assets for business.
- Legal ownership and possession of the assets.
- Ensuring the proper valuation of assets.
- Ensuring that the assets are free from any charge.

Advantages of Verification

1. **Use of Assets:** The merit of the verification is to check that management had used the assets of the business properly Through verification the auditor can find out if the management has misused the assets. By the verification the efficiency of the business is improve because it is used properly for the business purpose only.
2. **True and Fair View:** By the verification the auditor can show the facts of the business. For the report the auditor has to depend upon the verification technique as well as on the other techniques.
3. **Protection of Lenders:** For the lender also it is beneficial, because the auditor has to check the ownership, existence and the possession and valuation of the business assets. So, the tender can rely upon this report.
4. **Location of Assets**: Through the verification the correct view about the assets of the business can be find out. The auditor can visit the assets

personally. He can cheek that the assets are not stolen or destroyed. So the auditor beings the fair view about the assets.

5. **Performance of Management:** The verification is also very useful for the owners, because by the verification the auditor can check the performance of the management. So, the management can improve the efficiency of his work.
6. **Manipulation of Accounts:** The verification is also very useful to check that there is no manipulation of accounts and the figure are not altered. It is the moral check on the management, which shows the true position of the business.
7. **Embezzlement:** The merit of the verification is also that there is no embezzlement. The management cannot misuse the stocks or cash or any other asset and cannot use them for their personal use. So, the fair view of the statement can disclose.
8. **Recording of Assets:** The assets are recorded in a proper way and manners. For the writing of all the information of the sale, purchase and depreciation and other records. The GAAP (general accounting accepted principals) are used. The auditor has to check that the rules are followed.

VALUATION

Meaning

Valuation means finding out correct value of the assets on a particular date. It is an act of determining the value of assets and critical examination of these values on the basis of normally accepted accounting standard. Valuation of assets is to be made by the authorized officer and the duty of auditor is to see whether they have been properly valued or not.
For ensuring the proper valuation, auditor should obtain the certificates of professionals, approved values and other competent persons. Valuation is the primary duty of company officials. Auditor can rely upon the valuation of concerned officer but it must be clearly stated in the report because an auditor is not a technical person. Without valuation, verification of assets is not possible.

If the valuation of assets is not correct, both the financial statements such as Balance Sheet and Profit and Loss Account cannot be correct. Hence, the auditor must take utmost care while valuing the assets to show true and fair view of the state of affairs of the financial position of the concern.

Valuation Process

The valuation process includes:

- ✓ Obtaining all the necessary information regarding valuation.
- ✓ Analysing all the figures available.

✓ Confirming the fact that the valuation i8s being determined on the basis of generally accepted conventions and accounting principles.
✓ Ensuring the consistency of the methods followed for the valuation from year to year and
✓ Obtaining an opinion regarding the accuracy of valuation

Principles/Objectives for Valuation

1. **Transparency:** The basis & methods of valuation must be transparent & to be known to all concerned parties.
2. **Consistency:** The same techniques or methods should be used every time; and, the valuation should be reproducible by a third party.
3. **Independence:** For banks and other large financial institutions, the back office should "own" the valuations. For smaller financial institutions, "verifiability" of the valuations can provide functional independence.
4. **Ascertain Correct Financial Position of Company:** Valuation of assets helps in knowing the real financial position of the firm. It examines all the assets and liabilities of a business to derive its true value. This way it carries out a detailed analysis on the company's balance sheet which determines the accurate financial picture of the organization.
5. **Determine The Goodwill of Concerned Firm:** Goodwill of firm has an effective role in deciding its long-term existence among customers. Asset valuation determines the health of business by knowing its owned assets and outstanding liabilities. A business enterprise whose value of assets is more than its liabilities is able to enjoy high goodwill. It will enable it to pay off its debts timely thereby ensuring good relations with creditors and suppliers.
6. **Calculation Of Right Taxes:** Tax computation requires consideration of all range of assets which comes under company control and generates revenue for it. There are numerous properties which are owned by firm such as production plants, sale store, R&D centre and many more. Asset valuation takes into account all of these properties which ease down the whole process of tax calculation.
7. **Evaluate Right Price of Company:** Asset valuation serve as a key tool of knowing the real price of company at time of acquisition. The acquirer can easily take decisions to buy a firm at price determined by officials carrying out valuation process.
8. **Making Decisions of Buying or Selling Stock:** A decision regarding buying and selling a company's stock is taken by investor based on its financial performance and value of assets held by it. Analysts while doing an asset valuation employs fundamental approach in order to know the

fair market price of shares. This helps in making buying and selling decisions quickly in smooth manner.

Importance /Advantages Valuation of Assets

Assets and liabilities are very important aspects of every business concerns. To show the exact financial position of the concern, one of the main works of an auditor is to verify the assets and liabilities. An auditor should satisfy himself about the actual existence of assets and liabilities appearing in the Balance Sheet is correct. If Balance Sheet incorporates incorrect assets, both Profit and Loss account and Balance Sheet will not present a true and fair view. So, verification and valuation of assets is very important for business and their importance is highlighted below.

1. **Showing the Actual Financial Position**: Balance Sheet is prepared to show the actual financial position of a business. If proper valuation is not made, such Balance Sheet does not provide true and fair information. So, to provide information about the real financial position, verification and valuation of assets are essential.
2. **Ascertaining the Real Position of Profit or Loss:** Depreciation and other expenses on assets will be incorrect if proper valuation of assets is not made. So, to calculate the actual amount of profit or loss, proper valuation of assets and liabilities is necessary.
3. **Increase Goodwill**: Proper valuation gives fair information about profitability and financial position of a business. So, people can get information which creates positive attitude towards company. The positive attitude of public can increase the goodwill of the concern.
4. **Assures Safe Investment to Shareholders**: Verification and valuation provide actual information about assets and liabilities to the shareholders which assure safety of their investment.
5. **Easy for Sale**: At the time of sale of the company, it can be sold at the price which is enlisted in the Balance Sheet, but the assets whose valuation is not made need valuation before selling the company.
6. **Easy to Get Loan**: Companies disclose the Balance Sheet proved by auditor for public knowledge which increases the trust of the company. Hence, companies can easily obtain loan from financial Institutions.
7. **Easy to Get Compensation**: Whenever the loss occurs due to any incident, insurance company provides compensation on the basis of valuation of assets. So, the company can easily get compensation.

Position of an Auditor as Regards the Valuation of Assets

- It is an important duty of an auditor to see that assets and liabilities are reasonably valued.
- The accuracy of the Balance Sheet and Profit and Loss Account entirely depends upon the correct valuation of assets and liabilities. Balance Sheet will not disclose the true financial state of affairs if the assets are in appropriately valued.
- Though valuation is done by the responsible officers of the concern, auditor must use his common sense in finding out if the assets have been valued on the basis of some scientific principles.
- An auditor cannot be taken to be an expert in valuation. In the work, auditor can rely on the valuations put by the responsible officers of the business or to the certificates of component persons such as valuers, surveyors etc.
- The auditor would do well to disclose the basis of valuation of assets in the Balance Sheet.
- The auditor is more concerned in checking the values of the assets to see that they represent their real worth to the business as a going concern on the date of Balance Sheet.
- The auditor must impress upon the business that assets should be valued on some reasonable basis and scientific principles.

Difference between Verification and Valuation

Basis	Verification	Valuation
Meaning	Verification means checking whether the assets shown in the balance sheet are in the name of business, whether they exist or not, whether there is any charge on it etc.	Valuation means determining the proper values of assets and liabilities shown in the balance sheet
Nature of Work	Verification examines the assets & liabilities shown in balance sheet	Valuation examines the entries relating to the transactions recorded in the

		account book
Time	Verification is made at the end of the financial year	Valuation is done for the whole years transactions
Purpose	The purpose of verification is to check existence, ownership and possession of assets.	The purpose of valuation is to determine the proper values of assets as per generally accepted principles.
Basis	The basis of verification is the type of assets, and liabilities. There is not fixed method of verification	. The basis of valuation of assets is the types of assets are valued on different basis
Vouching	Verification includes vouching.	Valuation does not include vouching
Scope	The scope of verification is wide. It includes checking of many things like existence, ownership, possession etc.	The scope of valuation is limited. Here only values of assets and liabilities are determined and checked

Difference 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.
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.

VERIFICATION OF LAND AND BUILDINGS

In case of land and buildings, the auditor should verify the title deeds. If he is doubtful about it then may refer the matter to the solicitors of the company. If the property is mortgaged then he should take the certificate from the mortgagee to that effect. To verify the value of land cost price should be considered and to know the original cost of the property, he should verify the transfer deed. In case of building valuation, builder's receipts and depreciation should be considered.

A. Verification of Freehold Land and Buildings:

- Auditor should verify the title deeds first. He should check that building is in the name of the client.
- He should vouch the addition made during the year in the building or land. If any land or building is sold during the year, he should vouch such sales.
- He should also verify that profit or loss on such sale is recorded correctly.
- He should also check the depreciation of the property.

B. Verification of leasehold land and buildings:

- Auditor should verify the leasehold property by verifying the lease terms. He should note down the conditions of lease and check the property physically if possible.
- He should also verify the amount of debt received against the mortgage property and the duration period.

- Lease rental should be debited to the revenue account. He must verify the last receipt of the rent payment.
- In case of lease, repairs on building & depreciation etc. should be debited to revenue account.

<u>The following are the main way by which the auditor can verify the land and building:</u>

1. **Title Deed:** The auditor has to check the title agreement/deed to examine the ownership and purchase price of land and buildings.
2. **Confirmation:** The auditor can also verify it by the consult of the lawyer. the auditor can determine the title of ownership, because it can be sold by the power of attorney or any other way. the auditor has to determine the true ownership of assets.
3. **Purchases:** The Management Can purchase the land and building for the expansion of the business activities. the auditor has to verify the agreement and payment vouchers for this purchase.
4. **Sale Of Buildings**: In the same way the management can also sell the land or buildings. the auditor should examine the sale deed, the amount received and the also the date of sale. in the same line, he has to check the entry of sale of land and buildings in books of accounts.
5. **Profit Or Loss:** the sale of land and buildings may result in gain or loss. the auditor has to check that these details are correctly recorded or not.
6. **Construction Cost**: Sometimes the management can construct any additional building. the cost of material, labour and overhead are added in the value of building. in this case also, the auditor has to examine the vouchers thoroughly so that the actual amount can be determined.
7. **Leased Building**: Sometimes the management can get building from the owners at lease for a specific time period. the agreement of lease is made and the amount is also settled. the auditor has to check the period and amount of lease.
8. **Depreciation:** The auditor has to verify that the amount of depreciation charged is according to the provisions of relevant act.
9. **Expenses Of Improvement:** when the management is made any expenses, which are related to the improvement of the land and building, it is added in the cost of such assets. in this case, the auditor has to verify that such types of expenses are really capital in nature.
10. **Certificate Of Mortgage:** Sometimes when the management is in need of loan for the survival of business, he can arrange loan against the land and buildings. in this case, a mortgage deed is signed by the borrower with the lender. while verifying the auditor can ask for the mortgage certificate, from the banker.

PLANT AND MACHINERY

This item is also verified by reference to the original invoices, correspondence, etc. The auditor should see that plant and machinery is properly depreciated and all relevant details are recorded with documentary evidence from time to time.

Verification procedure:

1. **Physical Existence**: For the verification of the plant and machinery, it is necessary that the auditor should verify the physical existence of the asset and confirm with the quantity and quality of the machinery installed at the factory.

2**. Purchases:** The auditor can also check the vouchers to know the purchases of plant and machinery. It is helpful to check the nature of machinery, date of purchases, its amounts and also its entry in the books of accounts.

3. **Ownership:** The auditor can also check the ownership of the machinery by checking the vouchers/invoices and other related documents.

4. **Buying Authority:** The management can only buy the machinery for the business purpose by the approval of general manger or the owner of business. Hence, the auditor should check the purchase policy and other relevant details to ensure that these assets are acquired accordingly.

5. **Additional Purchase:** The management can also purchase the additional plant and machinery. It must be recorded in the book of accounts and in the register of the plant and machinery. The auditor has to check the vouchers, date of purchase and also the amount etc.

6. **Sale of Machinery:** The management can sell the plant & machinery under certain situations. In this case, the auditor has to check the register of plant and machinery, vouchers of sale of plant, their amount and also the date.

7. **Manufacture the machinery:** Sometimes, the management may Manufacture the machinery at its premises. Then, the cost of material, labour and overhead is added in the machinery. The auditor has to check the vouchers, which determine the cost of machinery manufactured.

8.**Checking of Balance**: The auditor has to check the opening and the closing balances of plant & machinery accounts with the help of previous year and current year books of accounts.

9.**Profit or Loss**: When the management sells the plant and machinery, there may be some profit or loss. The auditor has to check that this is written in the books of accounts accurately, 10.**Depreciation:** The auditor has to check that the rate and method of depreciation is done according to the legal provisions from year to year.

VERIFICATION AND VALUATION OF INVESTMENTS

Verification and Valuation of Investments In carrying out an audit of investments, the auditor should aim at collecting sufficient audit evidence in order to assure himself about the existence. ownership, valuation and possession of investment in favour of the client.

The following aspects are important in this respect:

1. **Schedule of securities:** Investments may consist of certain securities like Government loan bonds or Company's bonds, shares and stocks. Where investments are in large number, the auditor should obtain schedule of securities certified by a senior officer of the company. He must compare the statement with the records in the books of accounts of the client. (The statement must include the name of the investment, the book value, the market price, date on which the investment was acquired, rate of interest, date of payment of interest, date around which dividend is normally declared and tax deducted etc.)
2. **Existence:** The auditor should verify that investments shown in the balance sheet really exist on the date of the balance sheet.
3. **Ownership:** The auditor should assure himself that investments shown in the balance sheet are owned by the enterprise.
4. **Accounting Records**: He should check the transactions of acquisitions, disposal, etc., of the investments during the accounting period in order to verify as to whether they are properly recorded in the books of accounts.
5. **Valuation:** He should confirm that investments are stated in the balance sheet at appropriate amount in accordance with the recognised accounting principles.
6. **Disclosure:** He should also confirm that investments are properly classified and disclosed in the financial statements in accordance with the recognised accounting principles and relevant statutory requirements.
7. **Examination of Various Documents:** If the securities are with the Trustees on behalf of the concern the auditor should examine the Trust Deed. In case they are under the safe custody of the banker then he should obtain the certificate from the banker stating the total number of securities held and that they are free of charge. If investments are with the brokers, then the certificates from the brokers should be obtained.
8. **Internal Control:** The auditor should evaluate the internal control procedures relating to investments in order to determine the nature, timing and extent of the procedural aspects.

VERIFICATION AND VALUATION OF GOOD WILL

1. Goodwill is defined as the monitory value attached to the reputation of a business or as the difference between the purchase price and the net assets which are purchased and the excess amount so paid. It is an invisible or intangible asset.
2. The valuation of Goodwill depends upon the earning capacity of the business and fluctuations of the business. Its value will increase with rise in profits and will decrease with fall in profits.
3. It is not subject to depreciation or depletion. However, it can be written off as it cannot be shown in balance sheet for long time.
4. Auditor should ensure that the goodwill is never appreciated in the books.
5. In case the directors have debited the profit and loss account and credited the amount to the goodwill account, the auditor should abject to this step especially when the action taken is likely to prejudice the interest on any class of shareholders. He should mention this fact in his report to the shareholders if such a step has been taken. He should see that the goodwill is never appreciated in the books.
6. The value of goodwill is recorded in the books at cost less any amount written off, and the auditor should ensure that no improper items are added to the goodwill account or that goodwill is never overstated on the balance sheet.

VERIFICATION AND VALUATION OF STOCK-IN-TRADE

1. The auditor should examine the internal check system in operation.
2. The accuracy of a company's profit and loss statement is heavily reliant on the accuracy of the stock value it had on hand at the end of the period. As a result, the auditor must not only confirm the stock's existence but also ensure that its value is determined in accordance with generally accepted accounting rules.
3. The auditor should compare the prices with the original and independent data. Discounts, duties, freight and insurance should also be taken into consideration.
4. Check to see if damaged, out-of-date, or slow-moving product has been fairly valued. He needs to look into any significant changes in the inventory between the beginning and the end of the year.
5. The auditor must have definite idea about the cost price and the market price in order to value the closing stock properly. The following are the different methods of finding out the cost price of the stock of goods:

- Unit cost method or actual cost method.
- Average Cost method.

- First-in- First- out (FIFO) Method.
- Last-in- First- out (LIFO) Method.
- Base Stock Method.
- Standard Cost Method.

6. Physical verification of Stock: Auditor's presence during the stock physical verification will enable auditor to evaluate the efficiency and adequacy of stocks.
7. Examination of records: The auditor should verify all the records related to stocks such as, the totals, balances, and extensions of stock sheets, Stock Sheets with the Stock Registers (Inward and Outward registers), Purchases, Sales, Purchase Return and Sales Return etc.,
8. Conformation from the third parties: The auditor should Verify and confirm from third party that if any stocks lie in their hand.
9. The Auditor has to Ensure about the ownership over the Stock.
10. He should see whether all the goods purchased during the year included in the stock.

VERIFICATION AND VALUATION OF LIABILITIES

The auditor's duties with regard to liabilities:

1. To verify and value the existence of liabilities shown in the balance sheet and that these are genuine obligations of the company.
2. To verify and value the correctness/accuracy of the money amount of such liabilities.
3. To verify and value the appropriateness of the description given in the accounts and the adequacy of the disclosure.
4. To verify and value that all existing liabilities are completely included in the accounts.
5. To verify all the liabilities are related to the business are authorized and adequate.

VERIFICATION AND VALUATION OF DIFFERENT KINDS OF LIABILITIES

Verification of liabilities is also as important as the verification of assets. If the labilities are overstated or understated the balance sheet shall not represent a true and fair view of the state of affairs of company. Similarly, the profit and loss accounts will be incorrect.

Bills Payable

Bills payable are acknowledgements of debts payable. These are short-term liabilities payable within a period of one year.

1. To verify and value this liability, the auditor should see that bills paid have been cancelled and the liability in respect of those outstanding has been correctly ascertained and disclosed.
2. The auditor should vouch payments made to retire bills on their maturity or earlier, and see that the relevant bills have been duly cancelled.
3. He should compare the bills payable book and the bills payable account, and make sure that all the entries in the bills payable book have been posted to the bills payable account
4. The auditor should examine the Cash Book if the Bills payable is already paid.
5. To see the genuineness of the bills payable in hand on the date of balance sheet, the auditor should check the cash book of the succeeding year as to whether any payment has been made in respect of such bills.
6. In case of any doubts or if he needs further clarifications, he may request the drawer of outstanding bills (Client/Holder) to provide related details.
7. He should prepare a schedule of bills payable outstanding at the end of the year, and see that the total in the schedule agrees with the balance in the bills payable account.

Sundry Creditors

1. The auditors should ask for schedule of the creditors and check it with the purchase ledger which in turn may be checked with the books of original entry with the Purchase invoices, Credit Notes, Goods Inward Books, Return Outward Book, Bill Payable Book, and Cash Book.
2. The Auditor should see that all Purchase during the year have been included in the purchases book.
3. Special attention and he has to carry out test checking especially for the purchases made at the beginning and ending of the year.
4. He may also ask a statement of account from creditors to check the accuracy of accounts and to see that amount actually payable to them is not misappropriated.
5. Take a statement of balances of trade creditors duly signed by the authorised officer of the organization and he should verify these balances with the Bought Ledger or the Purchase Ledger.
6. He may also obtain confirmatory statements from the creditors.
7. Examine the invoices as sent by the suppliers, and an 'Inward Goods Book' if it is maintained. For any purchase’s returns, he should examine the 'Returns Outward Book' and verify them with the help of the credit notes as sent by the supplier.
8. Compare the percentage of the gross profit with that of the previous year. If there are material deviations the reason should be enquired into.

9. If debts have not been paid for a long time, he should enquire into the situation in detail, Sometimes, instead of paying to creditor, the amount might have been misappropriated by the officials.

Contingent Liability

Contingent liabilities are those liabilities, which may or may not arise in the future for payment. The auditor should ensure that all known and unknown liabilities have been accounted in the books of accounts and have been shown in the Balance Sheet.

The following are the examples of Contingent Liabilities:

- Liabilities on Bills Receivable discounted and not matured.
- Liability on account of partly paid calls.
- Liability on arrears of dividend on Cumulative Preference Shares.
- Liability under a guarantee.
- Liability for penalties under forward contracts
- Liability that arises on account of litigation in respect of labour suits, trademarks, copyrights etc.

Auditor's Duty in Verifying Contingent Liabilities

1. **Ensure Creation of Adequate Provision:** The auditor should ensure that proper provision has been made for certain liabilities, for example, liability which arise on account of litigation and if he is not satisfied, the fact should be stated in the report.
2. **Disclosure in Balance Sheet:** In respect of certain liabilities for which no provision has been made in the books, for example, Bills Receivable which has been discounted, arrears of accumulated fixed dividend etc. The auditor should verify that such liabilities are disclosed as foot note in the Balance Sheet.
3. **List of Contingent Liabilities**: The Auditor should obtain the list of all the contingent liabilities and certificates from the management that all contingent liabilities have been disclosed. He should obtain a certificate from the management to that all contingent liabilities are disclosed in the financial statement and be sure they may materialize in future.
4. **Disclosure**: According to the relevant provisions of the companies act, disclosure of contingent liability need only be made through a foot-note in the position statement specifying the amount involved. The existence should be disclosed by appropriate foot-note in the position statement.
5. From the point of view of auditing, contingent liabilities are divided into two broad categories,

(a) liabilities in respect of which a provision has been made and

(b) those not provided for by the management.

- The example of the first type may be, claims which in the opinion of directors are likely to become legal obligation and as such provisions have to made for such claims.
- The examples of the second type for which no provision has been made are, bills of exchange discounted, claims against company not acknowledged as debit etc.

6. The auditor should check the various contingent liabilities named above. There may be some such liabilities for which no provision has been made in the books.
7. While preparing the balance sheet such liabilities should be shown under the heading 'contingent liabilities not provided for' and the amount should be shown in the inner column.
8. The auditor should note down such liabilities while auditing the various books of accounts of a company. He should then make enquiries regarding such liabilities and if they have not been shown in the balance sheet, he should mention the fact in his audit report.

Assignment Questions

2 Marks Questions

1. What is verification?
2. What is valuation?
3. What is verification of assets?
4. What is valuation of assets?
5. What are bills payable?
6. Define goodwill
7. Write any two positions of an auditor as regards the valuation of assets.
8. Mention two methods of valuation.
9. Write any two principles of verification.
10. Write any two principles of valuation.
11. Write any two advantages of verification.
12. What objectives of verification?
13. Give the meaning of Contingent Liabilities.

5 Marks Questions

1. What is difference between verification and vouching?
2. Distinguish between valuation and verification.
3. How is verification and valuation of goodwill done?
4. How is verification and valuation of sundry creditors done?
5. How is verification and valuation of land and Building is done?
6. How is verification and valuation of plant and Machinery is done?
7. How is verification and valuation of Investments is done?

8. How is verification and valuation of Bills Payable is done?
9. How is verification and valuation of Contingent Liabilities is done?
10. Write the general principles of verification.
11. Write the general principles of valuation.
12. What is the position of an auditor as regard to the valuation of assets?

15 Marks Questions

1. How do you verify and value the following items?
a. Goodwill
b. Contingent Liabilities
c. Plant and Machineries
2. How do you verify and value the following items?
a. Land and Building
b. Bills Payable
c. Stock-In-Trade
3. What is the procedure of verification and valuation of the following items?
a. Investments
b. Sundry Creditors
c. Land and Building