

Class: B.Com (Hons) Semester III

Subject : BCH 3.1 AUDITING AND CORPORATE GOVERNANCE

6.Topic: Valuation of Assets and Liabilities, Components of Valuation, Basis of Valuation, Verification and Valuation of Fixed Assets (PART B)

6.5: Verification and valuation of various assets and liabilities:

6.5 B: Verification and Valuation of Current Assets

We will now discuss the verification and valuation of a few important current assets, cash and bank balance and sundry debtors.

6.5.1: Cash-in-hand

Cash-in-hand is verified by actual counting of cash. Cash-in-hand should be verified at the close of the business or on the date of the balance sheet. Counting of cash must be done in the presence of cashier. If physically verification of cash is not feasible for an Auditor due to branch located abroad or in remote area, the Auditor should ask the cashier to deposit all his Cash-in-hand in bank account on the last date.

It is the primary duty of an Auditor to verify the cash-in-hand and in case of non verification, the Auditor will be held responsible for breach of his duty. If there is heavy cash balance in hand at any time, the Auditor should immediately inform the management beforehand.

If the cashier is made accountable for payment to employees or others, the Auditor should carefully verify the same.

6.5.2: Cash at Bank

The Auditor needs to consider the following points for verification of cash at bank –

- The Auditor should prepare a bank reconciliation of account as on date. With the help of it, the Auditor will clearly come to know the status about the cheque issued but not yet presented in the bank and cheques deposited in the bank but not yet cleared. There are many kinds of frauds which are detectable through preparation of bank reconciliation of account.
- The Auditor should obtain different certificates from banks for different types of accounts like current account, fixed deposit account, savings account, overdraft account or cash credit account, etc.
- The Auditor should obtain a letter of confirmation of bank balances directly from banks.
- The Auditor should compare the bank balance as per the bank book and the pass book.
- If payments are deposited in foreign banks under exchange control regulation it should be verified by the Auditor.

6.5.3: 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.

6.6: Verification and Valuation of Fictitious Assets

We will now discuss the verification and valuation of the following fictitious assets –

6.6.1:Preliminary Expenses

Preliminary expenses are incurred at the time of formation and commencement of company. These expenses are of capital nature and include stamp duties, registration fees, cost of printing, legal costs, etc. These expenses are shown in the balance sheet. These expenses are written off during a span of time of 3 to 10 years. The Auditor should verify that un-written amount is shown in the balance sheet.

6.6.2: Discount on Issue of Shares/Debentures

The Auditor should see that the discount on issue of shares/debenture should be written off as early as possible and the balance amount should be shown in the balance sheet.
