Class: B.Com (Hons)   Semester III

Subject : BCH 3.1 AUDITING AND CORPORATE GOVERNANCE

6.Topic: Verification and Valuation of liabilities (PART C)

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.

6.7: 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.

Loans

The Auditor should verify the following important points for verification and valuation of Loans −

- The Auditor should verify the amount of loan, type of loan, rate of interest and repayment terms, etc.
- He should collect and examine the agreement and certificate from bank in case loan is granted by any Bank or financial institutions.
- He should obtain balance confirmation from party from whom loan is accepted by the organization other than bank.
- Interest calculation should be duly checked by the Auditor according to agreement.

- Amount of interest due but not paid during the current financial year should be duly accounted for in books of accounts and should be shown as current liabilities.
- In case of company, the Auditor examines the borrowing power, register of charges and created charge should be registered with the Registrar of Companies.

Capital

Capital of a partnership firm can be verified through partnership deed, Bank book, cash book, etc. Capital of a company can be verified through following −

First Audit

- In case of first audit, Memorandum of Association and Article of Association should be examined to know the maximum authorized capital.
- To verify the classes, number of shares issued, amount due on calls, amount received and pending amount of calls, the Auditor should examine the minute book, cash book and bank book.
- Examining of vendor agreement if shares are allotted to vendors.

Subsequent Audit

The Auditor should consider the following points for subsequent audits −

- Any addition in capital by fresh issue should be according to Sections 61, 64 and 66 of the Companies Act-1956.
- Authorized capital to be shown separately in the balance sheet.

- Issued and subscribed capital should be shown separately according to each class of shares.
- Shares allotted of each class as bonus shares along with source of issue.
- Amount of unpaid calls from Directors and others.
- Capital account should be shown as Equity Capital, if only one class of share is issued.
- Ascertain the amount called up in respect of each class of shares.
- The number of shares being allotted without payment being received in pursuant to contract.
- Date of redemption should be clearly shown with the earliest date of redemption, where company has issued redeemable preference shares.
- If any amount received earlier against forfeited shares that should be shown separately after adding it to share capital.
- Capital profit on issue of forfeited shares should be transferred to capital reserve account.

****