3/8/2020
Monday

PRACTICAL AUDITING

ASSINGMENT - II

1. Different 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 expert 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 assets 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.

2. What are the classification of Assets?

Classification of Assets:

1. Fixed Assets
2. Current Assets
3. Intangible Assets
4. Wasting Assets
5. Fictitious Assets.

The aforesaid types of should be valued in keeping with Accounting Principles, Business conditions, Principles of Valuation and auditing consideration

1. Fixed Assets:

These are Assets bought for the permanent use of Business enterprise. They are Used for Production of goods/services. Fixed Assets may be sub classified into two of groups.

(i) Non-Depreciable assets are valued at cost price which includes even the cost of acquisition like broken

Commission. Registration fees. lawyer fees, levering and cleaning Expenses.

(ii) Depreciable Assets and Valued at cost of purchase reduced By reasonable amount of Depreciation. The cost of purchase includes all incidental payments Incurred to bring the assets To Working Order

Assets Which are Not subject to Depreciation eg. Land, Assets, Which are subject to Depreciation eg. Plant Machinery, Furniture, Loose tools. etc. Assets Which are Subject to depletion eg. Mines Oil, wells, and Quarries.

2. Current Assets:

These assets connote circulating or liquid Assets. They cannote be put be constant are. These assets are convertible into liquid Assets. In other Words, They add to liquidity of the Assets. (eg). Bills, Receivables, Debtors, Stock, Bank of the Balance, cash, Prepaid expenses and Metable securities

3. Intangible Assets:

Intangible Assets are such assets Which do Not have physical form or physical existance. But they do have Their Realibility value (eg) Good will, Patent, copyright and Trade Marks.

4. Wasting Assets :

Wasting Assets like Oil wells, Mines, Quarries etc, are fixed Nature. Just like fixed assets which diminish in value due to wear and tear. Wasting assets decline in value due to Exhausting or depletion. Besides Wasting assets are Irreplaceable.

5. Fictitious Assets :

They do Not Have physical from like intangible assets. They are different from tangible assets in that fictitious assets are Not realisable in cash. (eg) Preliminary Expenses, Research and Development Expenses, loss, Debenture Discount, etc.

PRACTICAL AUDITING.

ASSINGMENT - IV.

1. Valuation of goodwill and Verification of Goodwill

Verification	Valuation
Checking in balance sheet : Auditor should verify its existence in the balance sheet	Auditor should confirm himself that goodwill has not been shown in excess of its cost price.
Goodwill running business: Auditor should persue the contract between the client and the Vendor to ascertain the terms regarding goodwill in the event of purchasing a running business.	He should examine that sum paid for goodwill does not far exceed the total purchase consideration and the Value of ~~net~~ net tangible assent
Current Expenditure : He should object to the practice of capitalising the current expenditure	He should ascertain the Value of goodwill from the partnership deed, purchase or agreement
Reraising goodwill Written off : Auditor should enquire into the reasons for bringing back the goodwill Once Written off to write off debit balance in P/L account.	He should see that it is valued as per method stated in Partnership deed, Purchase or agreement.

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(ii) Patent of Verification and Valuation

Verification	Valuation.
He should Verify the patent register towerity its inclusion	It should be Valued at cost less depriciation and it should be spread over the life patent Where commercial life of patent is shorter.
Legal life of Unexpired patent : He should confirm that legal life of Patent has not expired.	Valuation of Obsolete Patent : Where the patent has become Obsolete, auditor should see that it is Written off before the actual Expiry thereof.
Latest renewal certificates : He should Verify the latest renewal certificaties	Valuation of expired Patent : He should see that patents which have expired are written off. The cost of Patent is written off. ~~that~~ cost of Patent is written off over its life span
Inspection of patent Agreement : He should inspect the agreement between Owner of patent and the client who purchased it.	

iii) Copy right

Valuation	Verification
Schedule of copy rights : He should insist on a schedule of copyrights obtained where there are many copyrights not have any value where copyright does not command sale of any book, it should be written off in the year.	inspection of agreement He should inspect the agreement between the author and the publisher. Exhibition in balance sheet : The balance sheet copyright should be shown at cost less amount written off from time to time
Verification of legal life : Auditor should ensure that legal life of the copyright has not expired.	
Charging royalty to P/L A/c : If it is purchased on a royalty basis, amount of royalty paid is debited to P/L account as ~~off~~ operating expenses.	

(iv) Trade Mark

Verification	Valuation
Method of Valuation: He should look into the Method of valuation of trade Mark.	Registration in client's Name: He should verify whether they are registered in client's Name and the latter is the Owner.
Payment on acquisition: Auditor should check the payment Made of the seller in respect of trade Mark where it is purchased.	Correctness of allocation: He should check the correctness of distinction between capital and revenue. Expenditure in this connection.
Capitalisation of acquisition cost of trade Mark. Auditor should see whether all cost of registration of trade Mark has been capitalised eg. registration fees, payment to artists, Salaries and Overheads attribut-able to time spent in developing design, etc.	Verification of renewal fees: He should perusee the deed duly endorsed by the Office of the registrar of trade Mark. He should see whether renewal fee is paid every year promptly and treated as revenue Expenses. Amount of Expreciation: He should check the amount of Depreciation.

2. Valuation:

Valuation of assets is an indispensable part of verification. Verification is a fundamental duty of an auditor. Verification of assets is a process by which the auditor feels not merely the existence of assets as stated in the existence of assets as stated in the balance sheet but also their proper valuation.

Objectives of valuation:

1. To assess the correct financial position of the concern.

2. To enquire about the mode of investment of the capital of the concern.

3. To assess the goodwill of the concern.

4. To evaluate the difference in the value of the assets on the date of purchase and on the date of balance sheet

3. Actual cost:

Actual cost refers to the amount of money was paid to acquire a product or assets. This could be the historical, past or present day cost of the product. This is not the budgeted or forecasted costs that Management has anticipated as they might include vendor expense like the costs of delivery. Set up and testing. The costs also reflect factor like vendor discounts or price increases.

4. **Average cost Method:**
Where goods bought at different points of time are blended together, stock remaining unsold is valued at average cost price of various consignments eg: Oil, Petrol, diesel, flour, etc.

5. **Standard cost:**
Under this Method, stock is value at predetermined price in terms of specific factors influencing the price.

6. **Adjusted selling price Method:**
Estimated cost is found by Pricing the Unsold stock at the prevailing selling price Minus a normal margin of Profit plus estimated selling expenses including Overhead charge.

7. **Base stock Method:**
A Minimum Quantity of stock is kept as base stock for meeting emergency situation. This is treated as fixed asset. Materials over and above the base stock can be valued at LIFO or FIFO Principle. The base stock as supposed to be created out of the first consignment and therefore is valued at the price at which earlier one was received.

8. Depreciation

The term depreciation is commonly used in a wide sense, covering diminution in the value of assets caused by outside functions in realizable and replacement values, and also the amortization of the cost of an assets over the period of its use.

9. Sinking Fund:

A sinking fund is a from a specific reserve set aside for the redemption of a long - term debt or the replacement of a wasting or a depreciating assets.

10. Secret Reserve.

A reserve which "is not apparent on the face of the balance sheet" is a secret reserve.

ASSINUMENT- V

1. What is Mean liabilities ? What are there?

Liabilitys :

A liability is something a person or company owes, usually a sum of money recorded on the right side of the balance sheet, liabilities includes loans, accounts payable, Mortgages, deferred revenues, bonds, warranties, and accrued expenses.

Liabilities Example :

1. Loans from other banks
2. Creditors or goods supplied
3. Bills payable
4. Outstanding Expanses.
5. Bank Overdraft
6. Capital

2. How do verified by bank Overdraft ?

Bank Overdraft :

A bank overdraft is the limit you can borrow from an account when repaying you must pay a service charge.

~~Use~~

Verified by bank Overdraft :

* The auditor should see Memorandum of association for borrowing power and limitation of company.
* He should examine the term and condition of Overdraft has been from the agreement between bank and

company.

* The auditor should examine the interest on overdraft has been paid or not.

* Confirm or check the amount limit sanctioned by bank.

* Check if any security was offered as terms of agreement.

3. How do verified share capital and loans.

Share Capital :

* Share capital it mean a particular amount of money subscribed by the share holders for the purposes of the company.

* the capital share is collected by a joint stock company for its business operation.

* Capital share is the amount of capital collected from its share holder for achieving the common goal of the company as stated in memorandum of association.

Verified by share capital :

* An auditor can verify the issued capital from balance sheet of the previous year.

* If there is any increase in the number of shares due to loans of shares or conversion of debentures, the same has to be verified whether all

the formalities were as per law.

Loan:

* A loan is a form of debt incurred by an individual or other entity.
* The lender - usually a corporation, financial institution, or government - advances a sum of Money to the borrower.
* In return, the borrower agrees to a certain set of terms including any finance charges, interest, repayment date, and Other conditions.

Verified by loan:

* Generally, banks have a Verification team of their Own.
* A representative from the team is sent to the borrower's place of residence to verify the address in person.
* They also visit the borrower's Workplace and verify if the customer Works With them.

4. Discuss the rules for bills payable?

Bills Payable:

* In Other Words, bills Payable is the Money a bank borrows, Mainly on a Short-term basis, and Owes to Other banks.
* Banks borrow this Money in Order to Maintain adequate liquidity levels.

Rules for bills payable:

* Prevent paying a fraudulent invoice
* Prevent paying an inaccurate invoice
* Prevent paying a vendor invoice twice
* be certain that all vendor invoices are accounted for.

5. What you mean by loans? What are there types?

Loan:

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Loans types:

1. Personal loan
2. Home loan
3. Cash loan credit
4. loan against insurance Policies
5. Vehicle loan
6. Loan against bank FDs
7. Loan against Mutual Funds or shares
8. Overdraft
9. Agriculture loan
10. Croad loan

3. What you mean by Verification of Objects?

<u>Objects</u> :

The Objectives of verification are as follows.

1. To show the correct value of assets and liabilities.

2. To know whether the balance sheet exhibits a true and fair view of the state of affairs of the business.

3. To find out the ownership, possession and title of the assets appearing in the balance sheet.

4. To find out whether assets are in existence.

5. To detect frauds and errors if any while recording assets in the books of the concern.

6. To find out whether there is an adequate internal control regarding acquisition, utilization and disposal of assets.

7. To verify the arithmetic accuracy of the accounts.

8. To ensure that the assets have been properly recorded.