Chapter 4

VERIFICATION AND VALUATION OF FIXED ASSETS

ANDVXA

Learning Objectives

- To determine the meaning of verification and valuation of assets.
- To describe the procedure of verification and valuation of various fixed assets.
- To explain the procedure of verification and valuation of investments.

POINTS TO BE RECALL

RECAP

The following points are to be recalled before learning Verification and Valuation of Fixed Assets:

- Meaning and Definition of Internal Audit.
- Objectives of Internal Audit.
- Advantages and Disadvantages of Internal Audit.
- Difference between Internal Check and Internal Audit.
- Difference between Internal Control and Internal Audit.

4.1 Verification

4.1.1 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'.

4.1.2 Definition

- **Spicer and Pegler** defines Verification as, "An inquiry into the value, ownership and title, existence and possession and the presence of any charge on the asset".
- **J. R. Batliboi** defines it as, "The auditor must satisfy himself that assets really existed at the date of the Balance Sheet and were free from any charge and that they have been properly valued".

- **The Institute of Chartered Accountants of India** defines verification as, "It aims at establishing (a) existence, (b) ownership, (c) possession, (d) freedom from encumbrances, (e) proper recording, (f) proper valuation".

4.1.3 Objectives

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.

4.1.4 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.

4.2 Valuation

4.2.1 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.

4.2.2 Definition

- **J.R.Batliboi**, "A company's Balance Sheet is not drawn for the purpose of showing what the capital would be worth if the assets were realized and liabilities paid-off, but to show how the capital stands invested".
- **Joseph Lancaster**, "The valuation of assets is therefore an attempt to equitable distribution of the original outlay on the period of the assets usefulness".

4.2.3 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 differences in the value of the asset as on the date of purchase and on the date of Balance Sheet.

4.2.4 Methods Of Valuation

Valuation of various assets can be made by using different methods of valuation of fixed assets. Some of the major methods are as follows:

1. **Cost Price Method**

   In this method, valuation of assets is made on the basis of purchase price of the assets. This price refers to the price at which an asset is acquired plus expenses incurred in connection with the acquisition of an asset. It is a very simple method of valuing assets.

2. **Market Value Method**

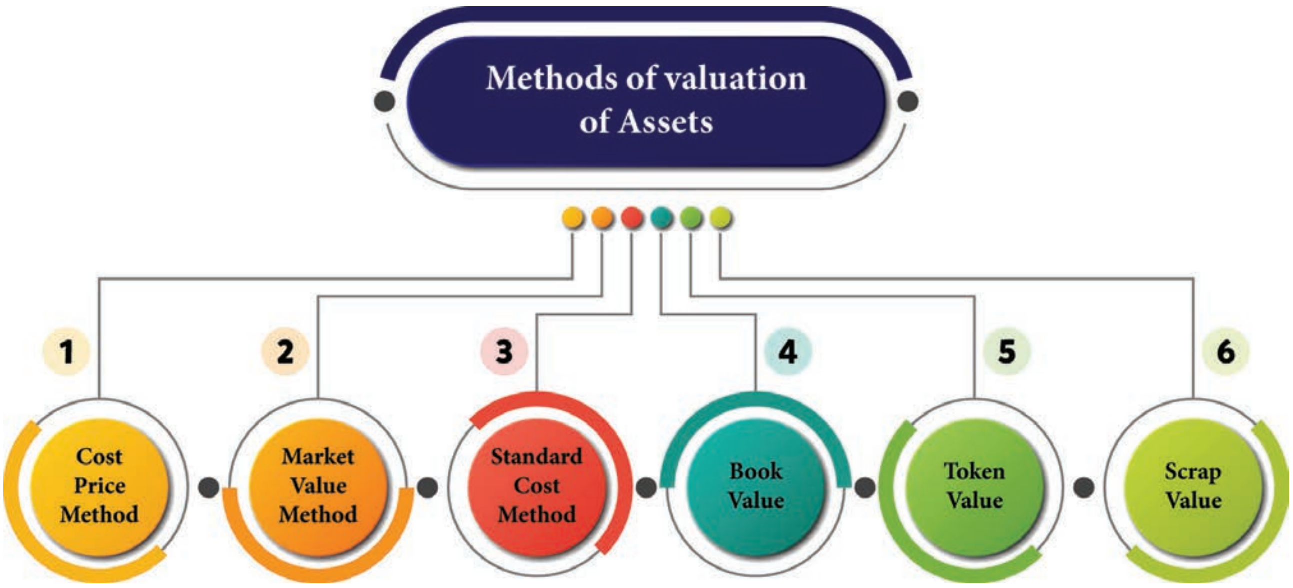
   Valuation of assets can be made on the basis of market price of such assets. But if same nature of assets is not available in the market, it is very difficult to determine the value of such assets. So, there are two methods related to it. They are:

   i. **Replacement Value Method**

   It represents the value at which a given asset can be replaced. This method of valuation of assets can be done only in the case of replacement of the same asset.

   ii. **Net Realizable Value**

   It refers to the price at which such asset can be sold in the market. But expenditure incurred at the sale of such asset should be deducted.



3. **Standard Cost Method**

   Some of the business organizations fix the standard cost on the basis of their past experience. On the basis of standard cost, they make valuation of assets and present in the Balance Sheet.

4. **Book Value**

   This is the value at which an asset appears in the books of accounts. It is usually the cost less depreciation written off so far.

5. **Historical Value or Conventional Value or Token Value**

   It is equivalent to the cost less a reasonable amount of depreciation written off. No notice is taken of any fluctuation in the price of the assets. Reason for this is that these assets are acquired for use in the business and not for resale.

6. **Scrap Value**

   This method shows the value realized from sale of an asset as scrap. In other words, it refers to the value, which may be obtained from the assets if it is sold as scrap.

4.2.5 Auditor's Duty as Regards Valuation

In a legal case against Kingston Cotton Mills Co: It was held that "although it is no part of an Auditor's' duty to value the assets and liabilities, yet he must exercise reasonable skill and care in scrutinizing the basis of valuation. He should test the accuracy of the values put by the officers of the business. In any case, the auditor cannot guarantee the accuracy of the valuation".

It is not an auditor's duty to determine the values of various assets. It has been judicially held that he is not a valuer or a technical man to estimate the value of an asset. But he is definitely concerned with values set against the assets. He has to certify that the profit and loss account shows true profit or loss for the year and Balance Sheet shows a true and fair view of the state of affairs of the company at the close of the year. Therefore he should exercise reasonable care and skill, analyse all the figures critically, inquire into the basis of valuation from the technical experts and satisfy himself that the different classes of assets have been valued in accordance with the generally accepted assumptions and accounting principles. If the market value of the assets are available i.e., in the case of share investment then he should verify the market value with the stock exchange quotations. If there is any change in the mode of the valuation of an asset, he should seek proper explanation for it. If he is satisfied with the method of valuation of the assets he is free from his liability.

4.2.6 Importance of Verification and 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 work 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

Importance of Verification and Valuation of Assets

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 signed / examined by auditor for public knowledge which increases the trust on the company. Hence, companies can easily obtain loan from financial Institutions.

7. **Easy to Get Compensation**

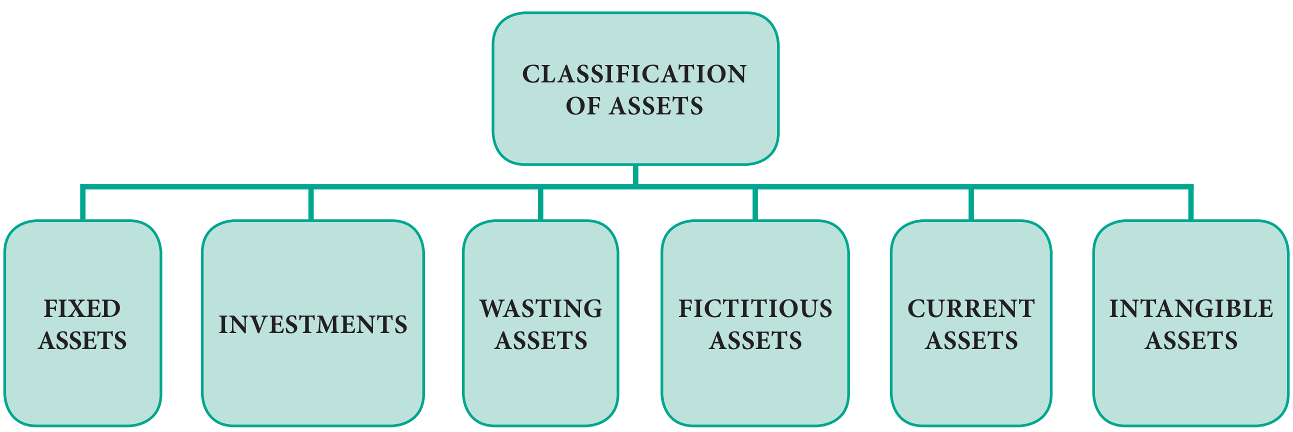
   Whenever the loss occurs due to any incident, insurance company provides compensation on the basis of valuation of assets. So, the company can easily get compensation.

4.2.7 Differences Between Verification and Valuation

Verification and valuation are interlinked and interdependent. It is a combined process by which the position of different assets appearing in the Balance Sheet is examined. However, the following are the differences between the two terms.

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 experts 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 asset 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.

4.3 Classification of Assets



1. **Fixed Assets**

   Fixed assets are utilized to create incomes.

2. **Investments**

   Investments are expected to fetch income from external agencies.

3. **Wasting assets**

   Wasting assets are of a fixed nature but depleted or consumed gradually.

4. **Fictitious Assets**

   Assets, which have no market values, are known as fictitious assets. They are shown in the Balance Sheet on the asset side of it under the head “Miscellaneous Expenditure”.

5. **Current Assets.**

   Current assets are those which are utilized or converted into cash within one year period.

6. Intangible Assets

They are long-term resources of an entity, but have no physical existence. They derive their value from intellectual or legal rights, and from the value they add to the other assets.

LEGAL DECISIONS

Case Study: The duty of the auditor with regard to the verification of assets came before the court in the famous case of:

The London Oil Storage Co. Ltd.

Vs.

Seear Hasluck and Co. (1904)

It was then held that it is the duty of the auditor to verify the existence of assets stated in the balance sheet; and that he (Auditor) will be liable for any damage suffered by the client if he fails in his duty.

4.4 Verification and Valuation of Fixed Assets

Fixed assets are a permanent nature with which the business is carried on and which are held for earning income and not for re-sale in the ordinary course of the business. It is a long-term tangible property that a firm owns and uses in its operations to generate income. Fixed assets are not converted into cash or consumed within a year. They are also called as Capital Assets. Example: land and buildings, plant and machinery, furniture etc. These assets are to be valued at cost price less total depreciation in their value by constant use. Additions by way of purchase and deletions by way of sales should be taken into account.The mode of valuation of different types of assets differs depending upon the nature of the business and the purpose for which the assets are held. Verification of Fixed Assets can be explained as follows:

FIXED ASSETS

- **LAND AND BUILDINGS**
  - Freehold Property
  - Leasehold Property
- **PLANT AND MACHINERY**
- **FURNITURE, FIXTURES AND FITTINGS**

4.4.1 Land and Buildings

Land means a long-term asset that refers to the cost of real property exclusive of the cost of any constructed assets on the property. The value of land has an appreciated value and is not subject to depreciation. A building is a noncurrent or long-term asset which shows the cost of a building (excluding the cost of the land). Buildings will be depreciated over their useful life of the asset.

- **Classified into two types**

Land and Buildings can further be classified as –

A Freehold property.

B Leasehold property

(A) Freehold Property

A property which is free from hold (Possession/Rights) is called as freehold property. This means that the property is free from the hold of anybody besides the owner who enjoys complete ownership.

Auditor's Duty

1. Where Freehold property has been purchased, the auditor should examine the title deeds e.g., purchase deed, certificate of registration, the broker's note and auctioneer's account etc., to verify the correct position.
2. When the property has been mortgaged, the auditor should obtain a certificate from the mortgagee regarding the possession of title deed and outstanding amount of loan.
3. When the property has been acquired in the current year, then the cost may be verified with the help of the bank passbook. He should vouch all the payments made in this connection.
4. He should see that the property account should be shown in the Balance Sheet at cost price including the legal and registration charges less depreciation up-to-date.
5. He should also see that whether a separate account for building and land on which it is constructed is maintained. It is necessary because depreciation is provided for building and not for the land.

(B) Leasehold Property

Leasehold is an accounting term for an asset being leased. The asset is typically property such as a building or space in a building.

- The property which is on lease (rent).
- The property (plot/flat/villa/mall/factories) which is leased by the landlord for a certain period of time to the lessee (tenant /leaseholder/renter/occupant/dweller).
- The (tenants) have been given the right to use during that specified time by the landlord.
- The ownership of the property returns to the landlord when the lease comes to an end.

Comparison between Leasehold and Freehold property

Leasehold Property	Freehold Property
Land belongs to the state, leased to owner for a certain number of years	Land belongs to the owner
At the end of the lease period, owners must pay to extend the lease	Ownership is indefinite
Requires state consent (obtained at the land office) to transfer ownership	Does not require state consent to transfer ownership (except in certain specially earmarked properties)

Auditor's Duty

1. The auditor should verify this by inspecting the lease agreement or contract to find out value and duration. He should see that the terms and conditions of lease are properly complied with.
2. In case property has been mortgaged, the auditor should obtain a certificate from the mortgagee regarding the possession of title deed.
3. Where the leasehold property has been sub-let, the counter part of the tenant's agreement should also be examined.
4. The auditor should physically inspect the properties.
5. The auditor should also note that proper provision has been made for depreciation of lease problem and for any possible claims arising there under.

4.4.2 Plant and Machinery

A plant is an asset with a useful life of more than one year that is used in producing revenues in a business's operations. Plant is recorded at cost and depreciation is reported during their useful life.

Auditor's Duty

1. When the machines are purchased in the current accounting period, the invoices and the agreement with the vendors should be verified.
2. The auditor should ` examine the plant register in which particulars about the cost, records about sales, provision for depreciation, etc., are available.
3. He should prepare a list of each machine from the plant register and should get the list certified by the works manager as he is not a technical person and therefore he has to depend upon the advice of the works manager regarding their valuation, etc.
4. He should see that plant and machinery account is shown in the Balance Sheet at cost less depreciation after making proper adjustment for purchases and sales during the year under audit.
5. In case any plant and machinery has been scrapped, destroyed or sold, he should ascertain that the profit or loss arising thereon has been correctly determined.

A proforma of plant & machine register is given below

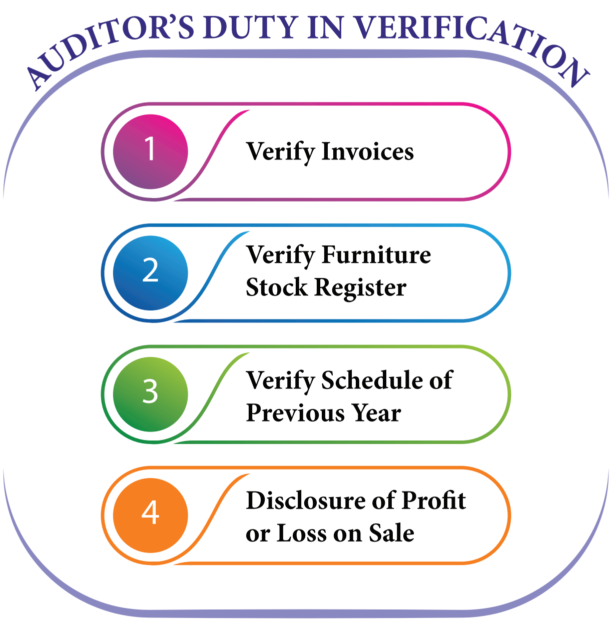
Name of the plant/asset ______					Location ______				
Description					Method of Depreciation				
Original Cost					Rate of Depreciation				
Estimated Life									
Date	Particulars	Opening value	Additions during the year	Gross value	Disposal or sale during the year	Net value	Depreciation for the year	WDV as on the close of the year	Repairs during the year

4.4.3 Furniture, Fixtures and Fittings

They are items of movable equipment that are used to furnish an office. Examples are chairs, desks, shelves, book cases, filing and other similar items.

Auditor's Duty

1. **Verify Invoices:** When assets have been acquired during the current accounting period, the auditor should examine the purchase invoice of the dealers.
2. **Verify Furniture Stock Register:** He should verify furniture stock register and ask the management to prepare an inventory to reconcile it with the stock register.
3. **Verify Schedule of Previous Year:** He should compare furniture schedule of previous year with that of current year to ascertain the existence, purchase or sales of asset during the year.
4. **Disclosure of Profit or Loss on Sale:** He should examine that any profit or loss on sale of furniture during the year is properly disclosed in books of accounts.



VALUATION OF FIXED ASSETS

1. **Valuation of Land:** Land which does not have depreciated value, is valued at cost price.
2. **Valuation of Other Fixed Assets:** Other fixed assets like Buildings, Plant, machinery, office equipment, furniture and fixtures should be valued at going concern value.
3. **Depreciation:** Auditor should ensure that adequate amount of depreciation has been provided, taking into account the working life and usage of the asset.
4. **Disclosure in Balance Sheet:** He should verify that furniture, fittings and fixtures are disclosed in Balance Sheet at cost less depreciation.

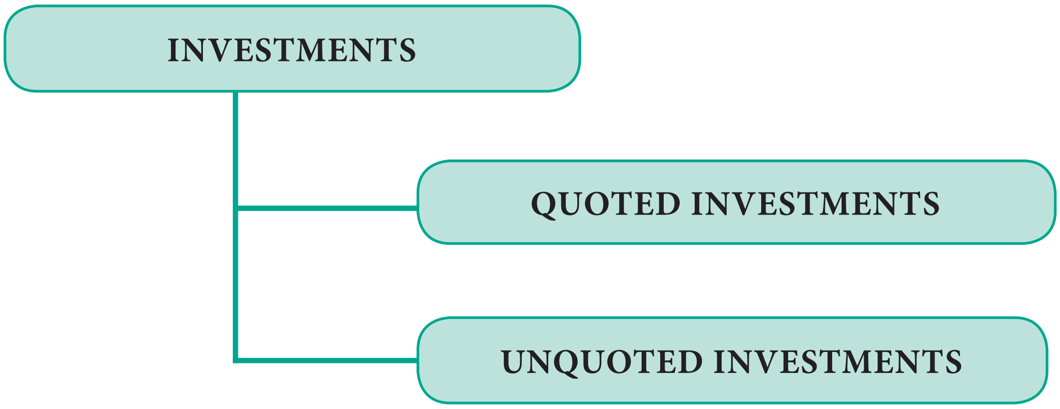
4.5 Verification and Valuation of Investments

An investment is a monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit. Investments include Government securities, shares, debentures, etc. When the number of investments is very large, the auditor should ask for a schedule of investments held by the client containing various particulars like name of the securities, date of purchase, nominal value, cost price, market price, etc., and examine the same. He should ensure that the investment asset has been shown separately in the Balance Sheet.

The auditor should verify the existence of investments by personal inspection. At the same time, he should also ensure that the investments are registered in the name of the client and they are free from any charge. He should rely on the relevant vouchers and certificates to do so.

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 and examine the same. If they are with the broker, he should examine the certificate received from the broker.

Having verified the securities, the auditor has to find out that the investments are properly valued. Generally, investments are valued at cost price or market price whichever is lower. In case there is a temporary fall in the price of the shares,



it should be ignored. But where such a fall is permanent, depreciation must be provided. Actually, the basis of valuations of investment will depend upon the purpose for which they are held. For instance, in case of trust company, the sole purpose of which is to earn interest and dividend, then such investment must be treated as fixed asset. In such cases, even the permanent fall in their value should be ignored.

The investments are classified as – (1) Quoted Investments, and (2) Unquoted Investment

4.5.1 Quoted Investment

A company's share is said to be "listed", or "Quoted" if its share can be traded on a stock exchange, i.e., Public Limited Companies.

Auditor's Duty in Verification

1. Verify the authorization for purchase of investment. Auditor should review board minute book (book which record the conclusion of meeting) for authorization.
2. Vouch the entries in brokers contract note, share certificate and cash book.
3. Examine the share certificate to ensure that the type of security and number of share agrees with investment account and that the share held in the company with its name.
4. Verify that the investments are properly classified and disclosed as stated in Companies Act.

Auditor's Duty in Valuation

1. The auditor should satisfy himself that the investment has been valued in the financial statement in accordance with recognized accounting policies and practices and relevant statutory requirements.
2. The auditor should examine whether in computing the cost of investment, expenditure incurred on account of transfer fees, stamp duty, brokerage etc., is included in the cost of investment.

4.5.2 Unquoted Investments

A company share is said to be "unlisted" or "unquoted" if its stocks that are not listed on a stock exchange and so have no publicly stated price. Here, Investments are difficult to value, for example, shares that have no stock exchange listing i.e. Private Company etc.

Auditor's Duty in Verification

1. Audition hould verify the Memorandum of Association to ensure authority for purchase such investment.
2. Where investments are in large numbers, the auditor should obtain the schedule of securities certified by a senior officer of the company.
3. Obtain the schedule of investment comprises for information about the name of the securities / investment, date of their acquisition, nominal/ face value, cost price, book value, paid up value market value, rate of interest applicable, dates of interest due, tax deduction, etc., at the date of Balance Sheet.

Auditor's Duty in Valuation

1. The Auditor should examine the method adopted by the organization for determining the market value of such securities.
2. The Auditor should examine whether the method of valuation of securities by entity is one of the recognized methods of valuation viz., breakup value method, capitalization of yield method, yield to maturity method etc.

4.6 Verification and Valuation of Other Fixed Assets

Verification and valuation of other fixed nature assets are classified into two categories such as wasting assets and fictitious assets.

The wasting assets are also known as depleting assets and it has both physical and legal existence. The fictitious asset does not have market value but it has legal existence. The procedure for verification and valuation of both these assets are discussed below.

4.6.1 Wasting Asset

It is also known as depleting assets, wasting assets are of a fixed nature but depleted or consumed gradually. The process of earning income causes depletion or exhaustion in the value of the assets. Mines, Oil wells, Quarries are some of the examples of wasting assets.

There is a difference between fixed assets and wasting assets.

1. The Fixed assets are replaceable, whereas wasting assets is irreplaceable after its useful life is over.
2. The value of fixed assets decreases due to normal wear and tear, i.e.,

depreciates with time and use or due to obsolescence while the value of wasting assets declines as a result of gradual exhaustion or reducing stock.

Auditor's Duty

The auditor should confirm in this regard, the value of the wasting assets in the Balance Sheet is reduced by the estimated amount of yearly depletion. In other words, a wasting asset appears in the Balance Sheet as its estimated diminished value.

4.6.2 Fictitious Asset

The assets which do not have physical existence are called as Fictitious Asset. Examples of fictitious assets are - Preliminary Expenses incurred at the time of formation of the company, Development Expenses, Debenture Discount, Amount spent on special advertisement campaign, Brokerage, Underwriting Commission and deferred revenue expenditure.

Auditor's Duties

1. Auditor should verify that expenses incurred are properly authorised by a responsible person.
2. He should ensure that fictitious assets are treated as deferred revenue expenditure. Deferred Revenue Expenditure means temporary capitalization of revenue expenditure with the ultimate object of spreading the amount over several future years to which benefit of such expenditure will be available.
3. The auditor should confirm that the asset is disclosed in the Balance Sheet at the amount of expenditure incurred less amount written off.

LEGAL DECISIONS

- In Kingston Cotton Mills Co., it was held that "although it is not part of an auditor's duty to value the assets and liabilities, yet he must exercise reasonable skill and care in scrutinizing the basis of valuation. He should test the accuracy of the values put by the officers of the business. In any case, the auditor cannot guarantee the accuracy of the valuation".
- The London Oil Storage Co. Ltd. Vs. Seear Hasluck and Co. (1904), it was then held that it is the duty of the auditor to verify the existence of assets stated in the balance sheet; and that he (Auditor) will be liable for any damage suffered by the client if he fails in his duty.

STUDENTS ACTIVITY

1. Visit the Auditor's office. Discuss and verify a plant register maintained in a company.
2. Ascertain various fixed assets of your educational institution and classify them. Prepare a chart.
3. Prepare a chart of tangible assets and intangible assets of an industry and discuss various documents to be verified for valuation.
4. Arrange for a guest lecture of a bank manager and discuss operation of mutual funds

Why is goodwill not a fictitious asset?

SUMMARY

The proper verification and accurate valuation of these assets is a paramount importance to show true and fair view of the financial position of the business concern. If there is incorrect valuation of fixed assets, it affects the company's life. The profits by improper valuation of fixed assets would falsify and distort the financial statements and affects the true financial position of the firm, by which the primary objective of auditing is "expression of independent opinion by the auditor on correctness and reliability of financial statements" cannot be achieved. Therefore, the auditor should take maximum care regarding verification and valuation of fixed assets.

KEY TERMS

- **Verification:** Verification is the act of assuming the correctness of value of assets and liabilities, title and their existence on the date of Balance Sheet in the organization.
- **Valuation:** Valuation is the act of determining the value of assets and critical examination of these values based on normally accepted accounting standard.
- **Fixed assets:** A fixed asset is a long-term tangible property that a firm owns and uses in its operations to generate income. Fixed assets are not easily converted into cash within a year.
- **Freehold property:** A freehold is the common ownership of real property, or land and all immovable structures attached to such land.
- **Leasehold property:** It is method of owning property for fixed term possession of the property will be subject to the payment of an annual ground rent. When the lease expires, ownership of the property reverts to the freeholder.
- **Investments:** It is the process of investing money for profit.

EVALUATION

BXPJZL

I. Multiple Choice questions:

1. Verification means ______________.
   a. Proof of existence
   b. Exact value of assets
   c. Estimates
   d. Accuracy

2. Valuation means ______________.
   a. Accretion of wealth
   b. Correctness of value
   c. Critical examination of the value
   d. All of these

3. Plant and machinery fall under the category of:
   a. Current Assets
   b. Liquid Assets
   c. Intangible Assets
   d. Fixed Assets

4. Which one of the following is not an example of fixed assets?
   a. Land & Buildings
   b. Inventory
   c. Plant & Machinery
   d. Furniture & Fixtures

5. Furniture and Fixtures are shown in Company's Balance Sheet under the head:
   a. Current Assets
   b. Fixed Assets
   c. Intangible Assets
   d. Fictitious Assets

6. The price in which a fixed asset can be sold in the market is known as:
   a. Replacement Value
   b. Realizable Value
   c. Scrap Value
   d. Book Value
7. The method of valuation of assets made on the basis of purchase price of the assets is called as:
   a. Cost Price Method
   b. Market Value Method
   c. Book Value Method
   d. Going Concern Value Method
8. Going concern value of assets is also known as:
   a. Historical Value
   b. Conventional Value
   c. Token Value
   d. All of these
9. Fixed assets should be valued at __________.
   a. Cost price less depreciation
   b. Annuity method
   c. Sinking fund method
   d. Cost Price
10. Freehold property is the __________.
   a. Immovable property
   b. Movable property
   c. Structures
   d. Intangible asset
11. Leasehold property means __________.
   a. Owner of holding
   b. Possession of property
   c. Owning for fixed term
   d. None of these
12. In the Balance Sheet, generally fixed assets must be shown at:
   a. Cost Price
   b. Market Price
   c. Cost or Market Price whichever is less
   d. Written Down Value
13. Quoted Investment of shares refers:
   a. Listed on RBI
   b. Listed on SEBI
   c. Listed on Stock Exchange
   d. Listed on SBI
14. Unquoted Investment of shares refers:
   a. Not listed on RBI
   b. Not listed on SEBI
   c. Not listed on Stock Exchange
   d. Not listed on SBI
15. Verification of assets is generally made at:
   a. the beginning of the year
   b. half year end
   c. throughout the year
   d. the end of the year
16. For valuation of plant and machinery, the auditor should depend upon the advice of:
   a. Managing Director
   b. Board of Directors
   c. Works Manager
   d. Company Secretary
17. Ownership is indefinite in case of:
   a. Leasehold Property

b. Freehold Property

c. Both

d. None of these

18. They are also referred to as capital assets:

a. Current assets

b. Fixed assets

c. Floating Assets

d. Circulating Assets

19. A monetary asset purchased with the idea that the asset will provide income in the future or will later be sold at a higher price for a profit is known as:

a. Machinery

b. Furniture

c. Loose Tools

d. Investments

20. The Certificate offered by the proprietor is the documentary evidence for:

a. Verification of Assets

b. Valuation of Assets

c. Verification of Expenses

d. Valuation of Expenses

21. Valuation of assets is the part of:

a. Assessment

b. Evaluation

c. Appraisal

d. Verification

22. Which of the following are the objectives of verification of assets?

a. To show correct valuation of assets

b. To find the ownership (title) of assets

c. To ensure that the assets have been recorded properly

d. All of these

23. Which of the following are the main advantages of verification of assets?

a. Avoids manipulation of accounts

b. Guards against improper use of assets.

c. Ensures proper recording and valuation of assets

d. All of these

24. Wasting assets are also known as:

a. Depreciating assets

b. Depleting assets

c. Appreciating assets

d. Inflating assets

25. Which one of the following is not an example of wasting asset?

a. Oil Wells

b. Mines

c. Quarries

d. Patent rights

26. All are fictitious assets written off except:

a. Preliminary expenses written off

b. Discount on issue of shares written off

c. Goodwill written off

d. Discount on issue of debentures written off

27. Fictitious assets are treated as:

a. Current Assets

b. Deferred Expenditure

c. Fixed Assets

d. Intangible Assets

28. Which one of the following is an example of fictitious asset?

a. Land

b. Goodwill

c. Underwriting Commissions

d. Buildings

29. The amount spent on special advertisement campaign is treated as:
    a. Fictitious Assets
    b. Current Assets
    c. Depleting Assets
    d. Fixed Assets

30. Pick the odd one out:
    a. Expenses on Formation of Companies
    b. Research and Development Expenses
    c. Brokerage and Underwriting Commission
    d. Plant and Machinery

Answers 1.(a), 2.(c), 3.(d), 4.(b), 5.(b), 6.(b), 7.(a), 8.(d), 9.(a), 10.(a) 11.(c) 12.(b) 13.(c) 14.(c) 15.(d) 16.(c) 17.(b) 18.(b) 19.(d) 20.(b) 21.(d) 22.(d) 23.(d) 24.(b) 25.(d) 26.(c) 27.(b) 28.(c) 29.(a) 30.(d)

II. Very Short Answer Questions

1. Define the term 'Verification'.
2. What is Valuation?
3. What is the process of Verification?
4. What do you mean by 'Fixed Assets'?
5. What is Freehold property?
6. What is Leasehold property?
7. What is the position of auditor while verifying assets?
8. What is an investment?
9. What is fictitious asset? Give examples.
10. What is wasting asset? Give examples.
11. What is meant by Deferred Revenue Expenditure.

III. Short Answer Questions

1. Enumerate the various Fixed Assets.
2. State the differences between Freehold property and Leasehold property.
3. What is the position of Auditor while valuing assets?
4. Briefly mention the importance of Verification.
5. State the points to be examined by the auditor in verifying 'Plant and Machinery.
6. Differentiate fixed assets from wasting asset.
7. What is the general procedure for valuing the land and buildings?
8. State briefly, how the furniture and fixtures of a business are verified and valued for Balance Sheet purpose.
9. Explain the procedure for valuation of quoted investment and unquoted investments.
10. What is verification? How would you verify (a) Fictitious assets; (b) Wasting assets.

IV. Essay type questions

1. What are difference between Verification and Valuation?
2. Explain the important factors considered for verification and valuation of assets.
3. Discuss the various methods of Valuation of Assets.
4. Define verification of assets. Explain the objectives of Verification.
5. Examine the role of Auditor on Verification and Valuation of Fixed Assets.
6. Write an essay on the valuation of investments for Balance Sheet purpose and examine the auditor's position in this respect.

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