Chapter **5**

VERIFICATION AND VALUATION OF CURRENT AND INTANGIBLE ASSETS

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Learning Objectives

- To understand the meaning, definition and classification of Current Assets and Intangible Assets.
- To know the procedure of Verification and Valuation of Individual Current Assets.
- To determine the procedure of Verification and Valuation of Individual Intangible assets.

POINTS TO RECALL

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

- Meaning and Differences between Verification and Valuation.
- Meaning and Various Categories of Fixed assets.
- Procedure of Verification and Valuation of Individual Fixed assets: Land, Buildings, Plant & Machinery, Furniture and Fixtures.
- Procedure of Verification and Valuation of Investments.
- Procedure of Verification and Valuation of Wasting and Fictitious Assets.

5.1 Introduction

This chapter provides an understanding about the various classifications of current assets and intangible assets. It also gives practical knowledge related to procedure of verification and valuation of current assets and intangible assets. This chapter also brings about the importance of generally accepted principles of accounting as determined by law, professional

pronouncements and prevailing practices for valuation and verification of current assets and intangible assets. It is very much helpful to show true and fair view of the financial position of the business enterprises.

5.2 Verification and Valuation of Current Assets

5.2.1 Meaning and Definition of Current Assets

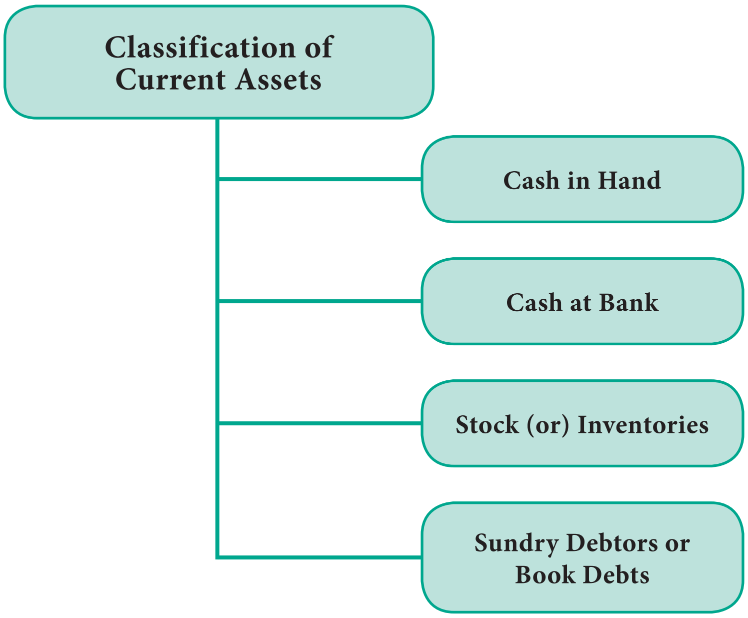
Operating assets that are used in the business and which can be converted into cash during a short duration are called 'Current Assets'. In other words, assets acquired through cash and easily convertible into cash during the normal course of business are termed as current assets. Current Assets are also known as floating or circulating assets. Current assets includes cash in hand, cash at bank, short-term marketable securities, short-term investments, bills receivables, sundry debtors, inventories, and prepaid expenses.

Current Asset is defined by various authors as -

- **Merriam Webster:** Assets of a short-term nature that are readily convertible to cash.
- **Collins Dictionary:** Current assets are assets which a company has which can convert it into cash within one year.
- **Accounting Dictionary:** A current asset, also called a short-term asset, is a resource expected to be used to benefit a company within a year or the current accounting period.

5.2.2 Classification of Current Assets

Current assets are assets which are utilized or converted into cash within one-year period. They are assets tangible with physical form. Based on their nature, currents assets are classified into following categories as: (1) Cash in hand (2) Cash at Bank (3) Stock or Inventories, and (4) Book Debts or Sundry Debtors.



5.2.3 Verification and Valuation of Individual Current Assets

Verification and valuation of current assets states that the Balance Sheet shows true and fair view of the financial position of business enterprise. The auditor must satisfy himself that various current assets disclosed in the Balance sheet have been valued according to the Generally Accepted Principles of Accounting.

1. Cash in Hand

The main cash and petty cash in hand are to be physically verified at the closing hours on the last day of the financial year. The auditor has to be very careful while verifying cash-in-hand. Defalcation or embezzlement of cash has become a very common technique of committing fraud. In this regard, the auditor may conduct a surprise verification of cash at any time during the course of audit. Therefore, while verifying cash, the auditor should ensure the following:

1. That the cashier is present at the time of verification.
2. That the temporary advances and payments on suspense accounts are excluded.
3. Count the cash-in-hand at one sitting and compare it with the cashbook balance. Simultaneously a statement is prepared with details of denominations and number of currency notes and coins. Both the cashier and audit staff must sign this statement. The copy of this statement is handed over to the cashier and the auditor may retain the original statement for future reference purpose. If in case of non-agreement of cash balance, the auditor should demand explanation from respective cashier or accountant for non-agreement of physical cash balance and balance as per book.
4. Also count the petty cash book, stamps in hand and IOU's (I Owe You) slips for temporary advances made to the employees. If any discrepancy, he should get a certificate to that effect from the accountant.
5. As far as cash-in-transit is concerned, the auditor should verify this with the help of proper documentary evidences and correspondences.
6. Carryout verification of cash at the end of the year or by way of surprise check at any time during the year. The latter will enable the auditor to detect the embezzlement if any.
7. The practice of keeping large balance of cash on hand is not a sound practice and should be discouraged from the viewpoint of internal control.
8. To prevent difficulties of physically counting the cash, auditor should ask the client to deposit the entire cash Balance on balance Sheet date with a bank.
9. As per the guidelines of Institute of Chartered Accountants of India, the auditor should see whether duties are segregated among different persons to authorise cash transactions.
10. He should ensure that bank reconciliation is prepared periodically.

2. Cash at Bank

For the purpose of verification and valuation of cash at bank, the auditor should take following steps:

1. Compare the balances as shown in the passbook with that shown in the bank column of the cashbook.
2. Bank reconciliation statement is very helpful in detecting various types of frauds. Therefore, prepare a bank reconciliation statement as on the last day of the accounting year for ascertaining the current position of the cheques drawn by the company but not yet presented for payment or the cheques deposited by the concern but not yet cleared.
3. The auditor shall also carefully verify the post-dated cheques issued by the organisation before the end of the year and ensure that such cheques are not taken into account for the year under audit.
4. Examine that cheques issued for more than three months are treated as unpaid and the relative entries are reversed.
5. Obtain a certificate of balance in client's account as on the Balance Sheet date from the bankers.
6. When the organisation maintains accounts with more than one bank, the auditor should verify all the bank accounts individually.
7. Auditor should obtain separate certificates from the bank in respect of Fixed Deposit Account, Current Account, Savings Bank Account etc.
8. Scrutinise the fixed deposit receipts in respect of their date of issue, amount, rates of interest, date of maturity etc., and get interest accrued on deposits during the year duly adjusted.
9. If any charge created on the deposits or if the deposits made under any legal requirement, the auditor shall ensure that the fact is disclosed in the balance sheet.
10. Sometimes, due to legal restrictions one or more of the bank accounts of the organisation may be blocked. In such a case, the auditor shall ensure that the fact is disclosed in the balance sheet.

3. Stock

Stock-in-trade or Inventories is the life-blood of a business. Therefore, value of stock-in-trade has to be properly determined for ascertaining profit or loss for the year and also to disclose a true and fair financial position of the concern. Inventories or Stock-in-trade normally includes the following:

- **Raw-Materials:** Raw materials form a major input into the production. They are required to carry out production activities. For example, steel, copper, rubber, cotton, wool, timber, lime stone, coal etc.
- **Work-in-Progress:** The work in progress is that stage of stocks. Which are in between raw materials and finished goods. It means the total value of unfinished production at the end of each financial period. It is in the form of materials, which have absorbed varying amounts of labour and other overheads to reach the manufacturing stage at the time of counting of stock of work-in-progress. Work-in-progress should be shown in Balance Sheet separately and not as stock-in-trade.
- **Semi-Finished Goods:** Goods in a semi-finished condition on the date of Balance Sheet should be valued at cost of raw materials plus a reasonable proportion of factory overheads or

production overheads. The auditor should get a certificate from production manager about the portion of overheads related to semi-finished goods. He should also examine the method of absorption of overheads as a percentage of raw materials, labour and volume of production for fair allocation.

- **Finished Goods:** These are the goods, which are ready for the consumers. The stock of finished goods provides a buffer between the production and the market. If there is purchase of finished goods for resale, their valuation should be at purchase price and a reasonable proportion of direct expenses incurred on them, such as freight, duty, taxes etc., Whatever the method of valuation is adopted, the auditor must confirm that valuation of finished goods should never be at a rate higher than market price of identical goods in the market.
- **Consumable Stores and Spare Parts:** 'Spare' as the name suggests, refers to additional or extra to what is required for ordinary use. That purely means an item kept as standby, in case another item of the same type is lost, broken, or worn out. These are purchased for reducing the idle time of machineries and other auxiliary processes in case of sudden breakdowns or any other contingencies. The auditor should confirm the adequacy of spare parts according to plant capacity to reduce idle time by repairing the breakdown of machineries immediately, thereby increasing the production efficiency of concern. It is very helpful to reduce the idle time wages and increase the profitability position of the company.
- **Loose Tools:** These are part of current assets and will be typically found on any Balance Sheets that may be produced for the business. There is another definition of what qualifies as current assets and this is expected to be used within the next 12 months. In the context of verification of loose tools, the auditor should obtain a list of loose tools duly authorised by a responsible officer and examine the same. Revaluation of loose tools is the most appropriate method of valuation. The difference between the cost price and the current price should be treated as depreciation or loss to be charged to the profit and loss account.

Auditor's Duty in Verification

1. **Evaluation of Accounting and Internal Control System:** The auditor should study and evaluate the accounting system and internal controls relating to inventories. This would facilitate him in determining the nature, timing and extent of substantive procedures to be carried out by him. The auditor should review the following aspects of internal controls over stock–in-trade.
   - **Custody**: There must be provision of adequate controls to guard the stock from loss through pilferage, exposure to weather and other hazards. The storage of various items of inventories should be sound enough to protect them against damage, deterioration, etc.
   - **Records:** There should be adequate records of all stock movements, periodically reconciled with accounts and costing records.
   - **Authorization:** All stock movements should be properly authorized.

Authorities for giving purchase orders and receipts of goods should be clearly laid down. Issues from stores should be made only against proper requisition notes approved by authorized managers.

- **Insurance:** Different items of inventory should be adequately insured against fire, theft, etc. Insurance Premium should be paid in time and insurance policies should be kept in proper custody.
- **Slow-Moving Stock:** There should be a regular review to identify and take action to get rid of slow-moving, obsolete or defective stock.

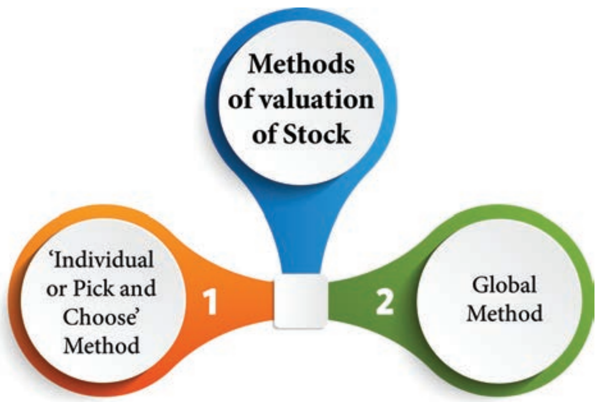
2. **Examine Existence of Stock:** Auditor should verify the existence of stock by exercising physical stock verification as on the date of Balance Sheet. While undertaking physical stock taking or verification the following points should be borne in mind:
   - Ensuring that staffs involved are both knowledgeable about the stock and independent of the day-to-day handling or recording of the stock.
   - Issue of written stock taking instructions regarding counting procedures and clearly defining the responsibilities of all staff involved.
   - Computing and checking calculations and additions on stock sheets.
   - Continuous or periodic agreement of physical checks with records, and all material differences investigated.
3. **Verify Stock Records**: He should ensure that stock records are properly maintained and must verify receipts and issues of materials. He must also verify that Inspection Reports and Stock Sheets are authorised by a responsible person.

Auditor's Duty in Valuation

Stock-in-trade is a Current Asset and the auditor should ensure that stock-in-trade is valued at cost price or market price whichever is lower. The Institute of Chartered Accountants of India Accounting Standards - 2 (AS 2) "Valuation of Inventories" states that, stock of material is valued at cost or market price (Net Realizable Value) whichever is lower on the date of Balance Sheet.

Methods of Valuation of Stock

Valuation of stock-in-trade is ordinarily at cost price or market price whichever is less. Auditor generally adopts either of the two methods in valuing stock such as: (1) Pick and Choose Method (2) Global Method.



1. **'Individual or Pick and Choose' Method:** According to this method, the lower of cost price or market price is the basis in respect of each individual item and the total of the same is the value of the inventory.
2. **Global Method:** Under this method, first the cost of all items is determined and aggregated. Then, the market price of all the items is ascertained and aggregated. The lower of these two valuations is the value of the stock.

Illustration of Valuing Stock in-Trade at Individual and Global Method

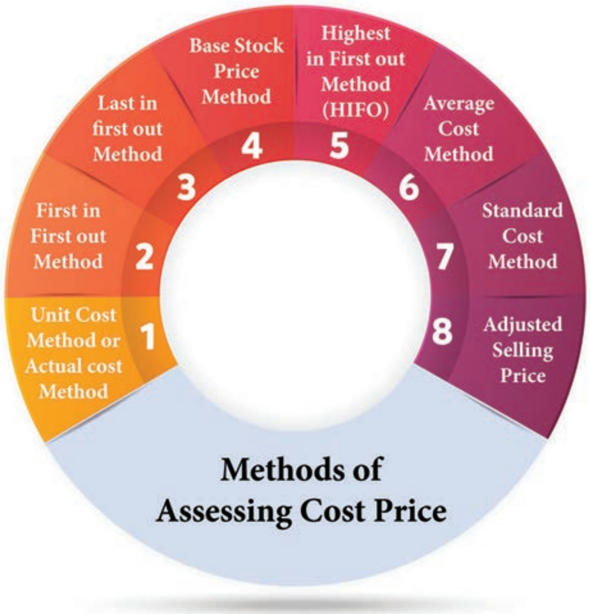
Items of Stock	Cost ₹	Market Price ₹	Lower of Cost or Market Price ₹
1	250	300	250
2	400	350	350
3	550	520	520
4	650	775	650
Valuation	**1850**	**1945**	**1770**

- Value of Stock at Individual Method is ₹ 1,770/- which is the total of individual item valued at cost or market price whichever is less.
- Value of Stock at Global Method is ₹ 1,850/- which is valued at the lower of the aggregate value of cost price and market price.

However, the following methods are used in determining cost price and market price of stock.

Methods of Calculating Cost Price: In the context of valuation of inventories, any one of the following methods is adopted to determine the cost price of stock.

1. **Unit Cost Method or Actual Cost Method:** In this method, each item or batch of goods is valued at the actual price at which it was purchased. This method can only be applied where goods have been purchased in different lots. The cost price of unsold stock will be the cost price at which such a lot is acquired.
2. **First in First Out Method (FIFO):** In this method, issues are priced in the order of the purchase lots. The price of the first lot is taken first, and when that lot is exhausted, the price of the next lot is taken and so on. Hence, items issued are valued at the earliest price or cost. As materials purchased at earlier rates are charged first, the value of closing stock is more or less nearer to the current market price.
3. **Last in First Out Method (LIFO):** In this method, issues are priced in the reverse order of purchase. The price of the last lot is taken first, and when that lot is exhausted, the price of the previous lot is taken and so on. Hence, items issued are valued at the latest price or cost. The inventory in hand remaining unsold is assumed to be out of the earliest lot and valued at the earliest price paid or cost incurred for the same.



4. **Base Stock Price Method:** Under this method, a minimum quantity of stock known as base stock or safety stock is always held at fixed price. The fixed price is kept below the original cost of the 'base stock'.
5. **Highest in First Out Method (HIFO):** This method is based on the assumption that issues are priced at the highest value of available consignments in the store. The closing stock of materials should always remain at the minimum value. The method is not popular as it always undervalues the stock, which amounts to creating secret reserves.
6. **Average Cost Method:** When large volumes of materials are available in stores with largely varied prices, pricing based on actual cost may be difficult. In such cases average price methods can be followed. Following are the different average price methods which is used to value material issues.
   (a) **Simple Average Price Method:** According to this method, items issued are priced at average of the prices of the different lots in stores, on the day of issue regardless of the quantity of each lot. It is assumed that materials received first are issued first, at the simple average price. Stock is valued at average of the prices of different lots in stores.
   (b) **Weighted Average Price Method:** In this method, the items issued are valued at weighted average price, which is calculated by taking into consideration both the quantities of items and the cost of the items. The costs of all items are added and the total cost is divided by the total quantity of items available. It is the most commonly used method for valuation of Inventories.
7. **Standard Cost Method:** In this method stock is valued at some predetermined cost per unit called the Standard Cost.
8. **Adjusted Selling Price:** In this method, the unsold stock is valued at the prevailing price out of which the normal profit plus the estimated cost of disposal, i.e., selling expenses and overhead expenses are deducted.

Methods of Calculating Market Price: Market price of stock is determined by following any of the two methods:

1. **Net Realisable Value:** It refers to the estimated price at which stock of goods can be sold in the market after deducting cost of marketing, selling and distribution expenses etc.
2. **Replacement Cost:** It represents the cost of replacing the stock of identical items at the date of balance sheet.

4. Book Debts (or) Sundry Debtors

Sundry debtors fall in the category of current assets. The task of verifying this asset would be reduced largely in case there is an efficient internal check system for recording sales and writing off the sales ledger. According to the Companies Act, 2013 the book debts of a company should be shown as under:

1. Debts considered good in respect of which the company is fully secured.
2. Debts considered good for which the company holds no security other than the debtor's personal security.
3. Debts considered doubtful or bad.

The object of verification in case of Book Debts is to ascertain-

(A) Correctness or Accuracy of the amount of book debt.

(B) Validity or Confirmation of claims against recorded debtors.

(C) Collectability and determination of realisable value.

(D) Appropriate disclosure in accordance with legal provisions and professional pronouncements.

For verification and valuation of debtors or book debts, an auditor should carefully examine the following points:

(A) Accuracy of the amount of Book Debts or Debtors: Accuracy of the book debts amount or debtors amount shall be:

1. Auditor should obtain a list (Schedule) of debtors, duly certified by some responsible officer of the company.
2. Check whether the credit balance of the sales ledger is in agreement with the customers account or not.

LEGAL DECISIONS

- Lord Justice Lindley, while delivering the famous judgment in the case of Kingston Cotton Mills Ltd., (1896) observed. "It is no part of the auditor's duty to take stock. No one can contend that it is so. He must rely on other people for details of the stock-in-trade. In the case of a cotton mill, he must rely on some skilled person for the material necessary to enable him to enter the stock in trade at its proper value in the balance sheet".
- In the same case, Lord Justice Lopes observed, "An auditor is not bound to be a detective, or as was said to approach his work with a foregone conclusion that there is something wrong. The auditor was acquitted for breach of duty in connection with valuation and verification of stock-in-trade. It is observed from this case "An Auditor is a watch dog and not a bloodhound". He is justified in believing they tried servants of the company in whom confidence is placed by the company. He is entitled to assume that they are honest to rely upon their representations, provided he takes reasonable care".
- Re Westminster Road Construction & Engineering Co. Ltd. (1932), it was held that an auditor must make the fullest use of all materials available to him and although he is neither stock taker and nor a valuer of work-in-progress, he will be guilty of negligence if he fails to take notice of all available evidences from which it could be reasonably deduced that the work-in-progress was overvalued.

(B) Validity: Confirmation requires direct communication with the debtors. The auditor should carefully determine the method, the time of requesting such confirmation and the number of debtors to be requested after taking into consideration the following:

1. Undertake test checking of individual accounts, the balances of ledger accounts and some of the entries of customer accounts for common items.
2. Probability of response from the debtors.
3. Examine thoroughly the system of internal check in operation in relation to book debts.
4. Materiality of accounts.

The Institute of Chartered Accountants of India through its Standard of Audit recommends that the direct confirmation of balance should be done along the following points.

a. Scrutinize the accuracy of the debtors list and verify the existence of debts by receiving directly the confirmation letters or statement of accounts from the debtors (or) arrangements should be made with the client for sending out these letters to the debtors. This may be done on selective basis. However, the confirmation of the balance by the debtor is not a guarantee as regards its realization.

b. Confirmation procedures should be carried out within a reasonable period from the end of the year.

c. Where the number of debtors is small, letters may be sent to all of them, but when there are numerous debtors these could be done on a test basis.

d. List of debtors selected for confirmation should be prepared in duplicate. A copy of this list should be handed over to the client for preparing request for confirmation, which should be fully addressed. In this regard, the client should enclose stamped envelope bearing the auditor's name and address for confirmation.

e. Replies received should be carefully gone through and in cases, where balances do not agree, client should be asked to investigate.

f. The auditor must pay special attention to those balances for which confirmations are not available. They might have been either fictitious or made to conceal a fraud.

(C) Collectability and Collection of Book debts or Debtors: Confirmation of a debt is not an evidence of its collectability.

1. In regarding with collectability, the auditor should make ageing analysis of the debts and classify them as those under 30 days, between 30 and 60 days, between 60 and 90 days, and 120 days and above. This will enable him to ascertain the collectability of individual debts.

Determination of non-collectability of any debt will depend on credit period allowed to the debtor, how regularly he is paying, how many times he has defaulted in payments, etc., Certain indications of doubtful or uncollectable debts may be as follows:-

a. Continuous violation of the terms of credit.

b. Old debts remaining unpaid while new ones are fully paid on time.

c. Stopping of payments after withdrawal of credit facility.

d. Insolvency, disease, or death of a debtor.
e. Closure of debtor's business or his disappearance.
f. Time- barred debts.
g. Handing over of old debts to company lawyer to file legal suit for recovery.
h. Finally, in case of writing down any bad debt or allowing excessive discount to any debtor, the auditor should carefully go through relevant correspondence and see that there is proper authorization for the same.

2. In regard with collection of debtors, the auditor must consider the following points:
   a. Make sure that all payments collected from debtors, particularly towards the closing of the year, are promptly credited to their accounts. Auditor should also see that duly authorized vouchers issued by the company acknowledging payments in respect of debts substantiate all such receipts.
   b. Examine carefully amount paid by debtors, but not credited in their accounts if any.
   c. Make sure that customer's account is duly debited for goods sold or credit.
   d. Vigilantly enquire into disputed balances owing to some claims or complaints.
   e. Check the adequacy of the provision for bad and doubtful debts made by the management by undertaking an analysis of the provision for doubtful debts. The auditor should allow a debt to be written off as bad debt when he is fully satisfied that it is irrecoverable. Inadequacy of provision for bad and doubtful debts if any, must be brought to the knowledge of the owner of the business and highlighting the same in audit report.

(D) Disclosure in Balance Sheet

Book-debts must appear in Balance Sheet at their estimated realisable value. That means there should be deduction of the provision kept for Doubtful Accounts from the total book debts. According to Para III Schedule to Companies Act 2013, there should be disclosure of Sundry Debts in Balance Sheet as follows:

1. There should be separate statement of aggregate amount of trade receivable (book debts) not paid for more than six months from the date they became due.
2. Classification of Trade receivables must be as follows: (a) Secured, considered good, (b) Unsecured, considered good and (c) Doubtful.
3. There should be separate disclosure of allowance for bad and doubtful debts.
4. Debts owned by Directors or other officer of the company, or any of them either individually or jointly with any other person, or debts owned by firms or private companies respectively in which any director is a partner, a director, or member, should be separately stated.

5.3 Verification and Valuation of Intangible Assets

5.3.1 Meaning and Definition of Intangible Assets

Intangible assets are those assets, which do not have their form or physical existence. However, they are part of business and appear in the Balance Sheet, like any other assets, by virtue of their utility to the business. Goodwill, Patent Rights, Copyrights, Trademarks are some of the examples of intangible assets. The cost of intangible fixed assets are amortized over their useful life.

Intangible asset is defined by International Accounting Standards Board as, "an identifiable non-monetary asset without physical substance".

5.3.2 Classifications of Intangible Asset

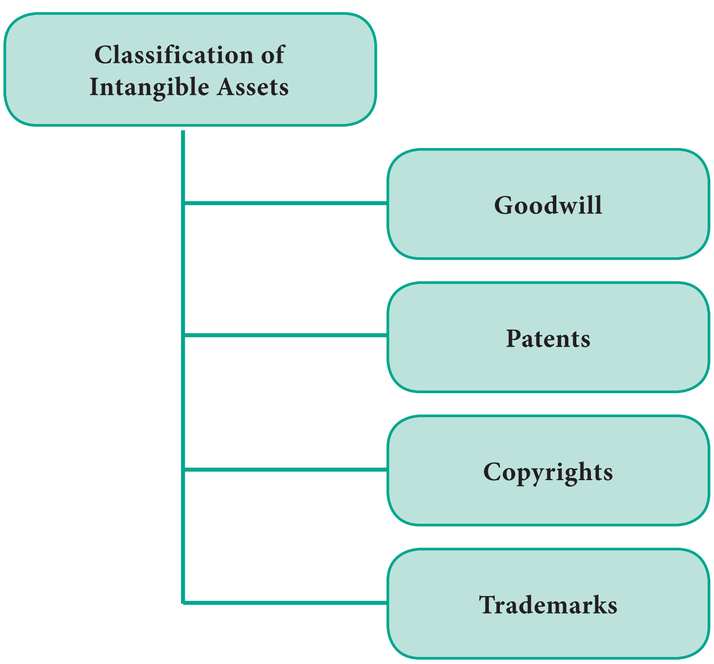
Intangible assets do not have physical existence but it has legally existed with documentary evidence. It is broadly classified into two categories such as limited life intangibles and unlimited life intangibles. Limited life intangible assets include Goodwill, Patents and Copyrights. On the other hand, Trademarks is classified as unlimited life intangibles.

5.3.3 Verification and Valuation of Individual Intangible Assets

The Procedure of Verification and Valuation of individual Intangible Assets are explained in the following paragraphs.

1. Goodwill

Goodwill is an intangible concealed asset, which represents the earning capacity of the business. As a rule, this does not appear in the Balance Sheet except when it is actually purchased, or in case of a partnership when it is brought into the books of accounts in case of change in the partnership deed. It arises because of several reasons such as special popularity of a particular place, attractiveness of



the goods dealt in, the popularity of the firm and reputation of the owners of the business enterprise etc. It also refers to the monetary value of reputation of a business. Since, goodwill is not tangible it does not call for physical verification. The Goodwill is shown in company's Balance Sheet under the head Fixed Assets. Goodwill is used for attracting the customers. It attracts more customers and therefore, increases profits in future. It is an intangible real asset and not a fictitious asset. Goodwill is a valuable asset if the concern is profitable. On the other hand, it is valueless if the concern is in loss. Goodwill is to be verified and valued in the following manner.

AUDITOR'S DUTY IN VERIFICATION

1. Ascertain that the company is justified in creating goodwill in its books of accounts.
2. Where goodwill is generated in own business, the auditors should verify the particulars of expenses debited to Goodwill account.
3. In a partnership firm, the partnership deed should be verified by the auditor. He may also verify the changes made in the goodwill account from time to time based on the provisions made in the partnership deed.

AUDITOR'S DUTY IN VALUATION

1. Auditor should confirm himself that goodwill has not been shown in excess of its cost price.
2. Examine that the sum paid for goodwill does not exceed the difference between the total purchase consideration and the value of net tangible assets acquired.
3. He should see that it is valued as per method stated in partnership deed, purchase or agreement.
4. Goodwill may appear in the Balance Sheet at cost less amounts written off.
5. The amortization period and method of amortization should be reviewed at the end of each financial year.
6. An intangible asset should be eliminated in the books of accounts when no future economic benefits are expected from its use.

2. Patents

According to the Patent Act 1970, "A patent is an official document that guarantees to the inventor an exclusive right for a term of years to make, use or sell his invention".

AUDITOR'S DUTY IN VERIFICATION

While verfication and valuation patent right the auditor must bear in his mind the following important points.

1. The auditor should examine the actual certificates issued by the patent office in respect of patents granted.
2. The auditor should ensure that patents are registered in the name of the client.
3. Obtain a list showing the description of each patent, registered number, date, patented item, renewal date and number of years to run etc., concerning each patent.
4. Where patents have been purchased from an individual, auditor should inspect the agreement for the purchase and note the age of various patents.
5. Auditor should carefully verify that none of the patent rights have lapsed. Care should be taken the lapsed patent are written off.
6. The original fees paid to purchase the patent right should be capitalised and should be debited to patent account

while the subsequent renewal fee should be treated as a revenue expenditure.

AUDITOR'S DUTY IN VALUATION

1. Patents must be valued at cost less depreciation. There may be three causes of depreciation, viz: (a) lapse of time, (b) obsolescence, and (c) the patented article going out of fashion.
2. At time a patent might become valueless due to obsolescence or failure to create a demand of the patented article. In such cases the auditor should see that its value is written off before the expiry of the period covered by the patent.

3. Copyrights

Copyright refers to the exclusive right to produce or re-produce or authorise for doing certain acts specified in the Copyright Act, 1957 in respect of some kind of literary, dramatic, musical, computer programme, cinematograph film, sound recording or artistic works. It is the legal right given to an author, which prohibits the publication of the work by other persons. The effects of such copyright is that the author or the publisher gets an exclusive right to publish or reproduce the work for a certain number of years or even it may be for the life time of the author or the publisher as the case may be. The verification of this item will be on the lines similar to those described under patents.

AUDITOR'S DUTY IN VERIFICATION

The auditor should also inspect the original agreement between the author and the publisher. Where there is purchase of copyright, verification of price paid should be from written agreement.

AUDITOR'S DUTY IN VALUATION

1. Copyright must be revalued at the date of the Balance Sheet.
2. Copyright that has become obsolete should not be valued and shown in the Balance Sheet. Hence, it is clear that copyright is to be valued only based on profit earning capacity.
3. Auditor should ensure that copyrights, which have expired, are written off.
4. In the Balance Sheet, generally copyrights must be shown at cost less amounts written off from time to time.

4. Trademarks

A registered and legalised brand name or brand mark is what is known as Trade Mark. It provides a better protection for goods and services and for the prevention of use of fraudulent marks. A trademark is a distinctive mark attached to goods offered for sale in the market, to distinguish the same from similar goods and to identify them with a particular trader, or with his successor as owner of the particular business.

AUDITOR'S DUTY IN VERIFICATION

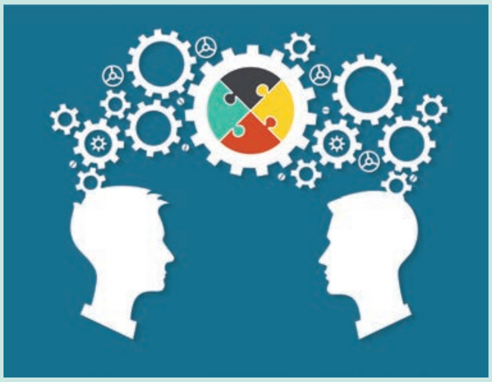
1. Examine the certificates of registration issued by the Registrar.
2. Examine the last renewal fee receipt to ensure that the trademark has not been

allowed to lapse. Verify that renewal fee has been charged to revenue expenditure.

AUDITOR'S DUTY IN VALUATION

1. Trademarks can be acquired like copyrights. The auditor should vouch the expenditure incurred in connection with their acquisition like registration fees, payments made to designer and artist, expenditure on account of salaries and overheads, attributable to the time spent in developing designs of trademark should be capitalised for arriving exact value of trademarks.
2. If the trademark has been acquired by assignment, vouch the amount paid for that with the assignment should be capitalised.
3. To judge the accurate value of trademarks the auditor should carefully note that proper distinction is made between capital and revenue expenditure. The incorrect allocation, which means the items of revenue expenditure are shown as capital expenditure or vice versa would falsify and distort the financial statements.

STUDENTS ACTIVITY



1. Visit a audit office and discuss with the auditor about stock verification.
2. Visit a centralized store of an industrial undertaking and have a discussion with the auditor and storekeeper about the stock verification.
3. Visit an audit office and discuss with the auditor about valuation of Debtors.
4. Arrange a meeting for the students along with an auditor for surprise visit to industrial units for checking of cash balance and cash at bank.
5. Have a group discussion on various aspects of valuation and verification on assets and liabilities.

SUMMARY

The present chapter discussed about verification and valuation of current assets and intangible assets. 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 enterprises. If the correct valuation of asset is not done as per generally accepted accounting principles, then it affects the company's life. The reason to overstate or understate the profits and financial position of the business would falsify and distort the financial statements and affects the true financial position of the company. Then the primary objective of auditing "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 all type of assets.

KEY TERMS

- **Current Assets:** Current assets are those assets which can be easily converted into cash within a shorter period of time, normally not exceeding one year.
- **Verification of Cash:** It refers count the cash in one sitting and compared it with the cashbook balance.
- **Verification of Cash at Bank:** It means comparison of the balances between pass book and bank column of the cash book.
- **Examination of Stock Taking:** Stock taking refers to the physical count of stock-in-trade.
- **Loose Tools:** These are part of current assets and will be typically found on any Balance Sheet that may be produced for the business.
- **Stores and Spare Parts:** It refers to additional or extra item is kept ready for ordinary use, in case another item of the same type is lost, broken or worn out.
- **Raw Materials:** Raw materials form a major input into the production. They are required to carry out production. Example: Steel, copper, rubber, cotton, wool, timber, lime stone, coal etc.
- **Work-in-Progress:** The work in progress is that stage of stock which are in between raw materials and finished goods. It means the total value of unfinished production at the end of each financial period.
- **Finished Goods:** These are the goods which are ready for the consumers. The stock of finished goods provides a buffer between the production and the market.
- **Net Realisable Value:** It refers to the estimated price at which the stock of goods can be sold in the market. It is also known as price prevailing in the market.
- **Replacement Cost:** It represents the cost of replacing the stock of identical items at the date of Balance Sheet.
- **Individual or Pick and Choose Method:** The lower of cost or market price is the basis in respect of each individual item and the total of the same is the value of the inventory.
- **Global Method:** Under this method, the cost of all items is determined and aggregated.

- **Sundry Debtors:** It implies the amount receivable from customers. It fall under the category of current assets. It is also known as Book Debts. According to Companies Act 2013, the book debts of a company should be shown as three categories such as Good, Doubtful and Bad.
- **Intangible Asset:** An intangible asset is an asset, other than a financial asset without physical form.
- **Goodwill:** It is an intangible asset which represents the earning capacity of the business.
- **Patents:** A patent is an official document that guarantees to the inventor an exclusive right for a term of years to make, use or sell his invention.
- **Copy Right:** It is an exclusive right to produce or re-produce or authorise the doing of certain acts specified in the Copyright Act 1957.
- **Trade Marks:** A trademark is a distinctive mark attached to goods offered for sale in the market, to distinguish the same from similar goods and to identify them with a particular trader.

EVALUATION

DMJ449

I. Multiple Choice Questions:

1. Which one of the following is not an example of intangible assets?
   a. Patents & Trademarks
   b. Land
   c. Slogan
   d. Copy right

2. Inventory of a manufacturing enterprise includes:
   a. Raw materials
   b. Work-in-Progress
   c. Finished Stock
   d. All of these

3. In valuation of raw materials, the unit cost method is also called as:
   a. FIFO
   b. LIFO
   c. Actual cost Method
   d. HIFO

4. FIFO is advisable in case of
   a. falling Prices
   b. rising Prices
   c. constant Prices
   d. none of these

5. Under which method issue of materials is priced at the latest purchase price?
   a. FIFO
   b. LIFO
   c. Simple Average
   d. Weighted Average

6. Book Debts should be verified by
   a. Balance sheet
   b. Amount received from Debtors
   c. Debtors Schedule
   d. Certificate from Manager

7. Costs of intangible fixed assets are ________________ over their useful life.
   a. Depreciated
   b. Charged
   c. Amortized
   d. Allocated

8. An example of intangible asset is
   a. Furniture & Fixtures
   b. Loose Tools
   c. Store and Spare Parts
   d. Patents, Copyrights & Goodwill

9. Goodwill is a ________________.
   a. Intangible Asset
   b. Current Asset
   c. Fixed Asset
   d. Fictitious Asset

10. Which one of the following does not call for physical verification?
    a. Plant
    b. Goodwill
    c. Loose Tools
    d. Stamp

11. Goodwill is shown in Company's balance sheet under the head ________________.
    a. Investments
    b. Fixed Assets
    c. Current Assets
    d. Miscellaneous Expenses

12. The original fees paid to purchase the patent right should be treated as ________________.
    a. Revenue Expenditure
    b. Deferred Revenue Expenditure
    c. Capital Expenditure
    d. None of these

13. The renewal fee of patent right should be treated as a ________________.
    a. Revenue Expenditure
    b. Deferred Revenue Expenditure
    c. Capital Expenditure
    d. None of these

14. Which one of the following is the reason for charging depreciation on patent rights?
    a. Lapse of time
    b. Obsolescence
    c. Out of fashion
    d. All of these

15. Patents and copyrights fall under the category of ________________.
    a. Current Assets
    b. Liquid Assets
    c. Intangible Assets
    d. Fixed Assets

16. Some kind of literary, dramatic, musical, cinematograph film, sound recording or artistic works etc are coming under which type of intangible asset?
    a. Goodwill
    b. Patent rights
    c. Trade Marks
    d. Copyrights

17. In the balance sheet, generally copy right must be shown at ______________________.
    a. Cost Price
    b. Market Price
    c. Cost or Market Price whichever is less
    d. Written down Value

18. A registered and legalized brand name or brand mark is what is known as ______________.
    a. Brand Name
    b. Trade Name
    c. Trade Mark
    d. Brand Mark

19. Stores and Spare Parts are shown in Company's balance sheet under the head ______________.
    a. Current Assets
    b. Fixed Assets
    c. Intangible Assets
    d. Fictitious Assets

Answers 1.(b), 2.(d), 3.(c), 4.(a), 5.(b), 6.(c), 7.(c), 8.(d), 9.(a), 10.(b) 11.(b) 12.(c) 13.(a) 14.(d) 15.(c) 16.(d) 17.(d) 18.(c) 19.(a)

II. Very Short Answer Questions

1. How would you classify current assets?
2. What is current asset? Give example.
3. What is the general procedure for physical stock taking?
4. What is an intangible asset? Give example.
5. How should goodwill be valued?
6. What is replacement cost?
7. What is realisable value?
8. How would you verify Copyrights?
9. What is Pick and Choose method for valuing stock?
10. Write short notes on the following:(i). Verification of Cash-in-hand.(ii). Verification of Book Debts.(iii). Verification of Stock-in-trade.
11. What are Stores and Spare Parts?
12. How would you verify Loose Tools?

III. Short Answer Questions

1. State the auditor's duty as regards to verification of cash-in-hand and cash at bank.
2. How an auditor is responsible for verification of stock-in-trade?
3. What are the steps to be taken to verify sundry debtors of a limited company by the auditor?
4. What is the general procedure of valuing the stock-in-trade?

5. What are the duties of an auditor regarding the valuation of Goodwill?
6. Explain the procedure of sending letters requesting confirmation from debtors.
7. Can an auditor afford to remain totally absent during the physical verification of inventories? Discuss and enumerate the methods of valuation of stock-in-trade.
9. Enumerate the important features of Goodwill.
10. State briefly, how the copyrights of a business are verified and valued for Balance Sheet purpose.

IV. Essay Type Questions

1. Explain the verification of current assets.
2. How would you verify the balance at bank to eliminate the risk of fraud?
3. Briefly explain the valuation of stock for Balance Sheet purpose and examine the Auditor's position in this respect.
4. Explain about the verification of intangible assets.
5. What is verification? How would you verify (a) Goodwill (b) Patents (c) Copy rights and (d). Trade Marks.
6. What is valuation? How would you value (a) Goodwill (b) Patents (c) Copyrights and (d) Trade Marks
7. What are the special considerations should be kept in mind while verifying and valuing Trade debtors?
8. Explain the special points to which an auditor should direct his attention for the adequacy of provision for bad and doubtful debts in the valuation of sundry debtors?
9. Discuss fully recognised accounting principles governing valuation of inventories.
10. State the steps to be taken to verify Goodwill by an auditor and his duties regarding these?

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