

VERIFICATION OF ASSETS & LIABILITIES

Auditing- Unit IV

III BBA

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MEANING

- “*proving the truth*”
- Establishing whether the actual facts are in agreement with those asserted or represented. In other words, Verification is proving the existence of correctness of the money values of assets and liabilities appearing in the balance sheet of the business.
- It includes- physical examination, examination of documentary evidence, expert opinions, assertions made by the management about the assets & liabilities.

OBJECTIVES

- To ascertain whether the assets & liabilities shown in Balance Sheet truly exist.
- To ascertain whether the assets and liabilities appearing in the Balance Sheet are at their correct values.
- To confirm the possession and ownership of the assets appearing in the Balance sheet.
- To find out whether there is proper classification of assets and liabilities.
- To check the arithmetical accuracy of the books of accounts.
- To detect errors and frauds in the books of accounts.
- To ascertain whether the Balance Sheet gives true and fair view of the financial position of the business.

VERIFICATION OF ASSETS

- *“Verification of assets implies an enquiry into the value, ownership and title, existence and possession and the presence of any charge on the assets.” – Spicer & Pegler*
- The Institute of Chartered Accountants of India, in its ‘Statement on Auditing Practices’ has laid down that verification of assets should be aimed at establishing their (a) existence, (b) ownership, (c) possession, freedom from encumbrances, proper recording and proper valuation.

Verification of assets involves the following:

- Comparing the ledger accounts of the assets
- Verifying the existence of the assets
- Enquiring into the ownership of the assets
- Ensuring the assets are free from encumbrances or charges
- Ensuring that assets are acquired for the business
- Satisfying that the assets are properly valued.

Objectives of verification of the assets

- To find out the existence of the assets through physical or documentary evidence.
- To find out the ownership and title of the assets by examining the official documents.
- To find out the actual or constructive possession of the assets by the business.
- To verify whether the charges on the assets such as pledge, mortgage, hypothecation are properly declared in the balance sheet.
- To satisfy whether the value of assets as in ledger accounts matches with that of values in balance sheet.
- To verify whether the assets in the balance sheet are properly valued in accordance with the generally accepted accounting principles.
- To verify whether the assets in the Balance sheet are properly classified.
- To ascertain whether the Balance sheet exhibits true and fair view of the financial position of the business.
- To detect errors and frauds.

VERIFICATION OF LIABILITIES

- It is the process of confirming the nature of the liabilities and the extent of their amounts as shown in the Balance Sheet.
- It is the process by which the auditor satisfies himself that all the liabilities of the business are included in the Balance Sheet, that there are no fictitious liabilities included in the balance sheet, that the amounts of the liabilities are correctly determined according to the principles of accountancy and that they are properly classified and disclosed.

Verification of liabilities involves the following:

- **Comparing** the ledger accounts of liabilities with the Balance Sheet.
- **Ensuring** that the liabilities recorded or not recorded in the books of accounts are disclosed in the balance sheet and nothing is omitted.
- **Ascertaining** that all liabilities are outstanding and not fictitious.
- **Ensuring** that the recorded liabilities have been incurred for official purposes only.
- **Ensuring** that all the liabilities are properly valued according to generally accounting principles.
- **Ensuring** that there is proper classification of the liabilities.

Objectives of verification of liabilities

- To verify the actual existence of all the liabilities appearing in the Balance sheet by examining the documentary evidence and confirmation from the concerned parties.
- To ensure that all liabilities of the business, including those not recorded in the books of account are disclosed in the balance sheet.
- To ensure that the liabilities shown in the balance sheet have been incurred for the operation of the business.
- To see that all the liabilities appearing in the balance sheet are properly valued.
- To ensure that the liabilities appearing in the balance sheet are properly classified.

Auditor's Duties in regard to Verification of Liabilities

Westminster Road Construction and Engineering Company Limited

Liabilities

- he should see that all the liabilities of the concern have been included in the balance sheet.
- He should see that even the contingent liabilities have been shown by a way of foot note to the balance sheet.
- He should see the amounts of all the liabilities shown in the balance sheet are correctly arrived at in accordance with the accepted accounting principles i.e., the liabilities are neither overstated or understated.
- He should also get a certificate from some reasonable officials of the client's business as to the correctness of the liabilities shown in the balance sheet.
- He should see that all the liabilities entered in the balance sheet relate to the business.
- He should see that all liabilities are properly authorised by some responsible officials of the concern.
- He should see that the liabilities are properly classified and disclosed in the balance sheet.
- He should see that the liabilities shown in the balance sheet reflect the true position of the liabilities of the business.