A study on verification and valuation of assets and liabilities in Trading and Manufacturing Industry.

Rachana Sharma

Final year B.Com Student

PES University

➢ **Abstract**

This research looks at how assets and liabilities are valued and verified in the manufacturing and commerce sectors. The background, significance, theoretical ramifications, and current tendencies of the subject are highlighted in Chapter 1's introduction. A corporate and industry profile is given in Chapter 3, while Chapter 2 evaluates pertinent literature. The study design is described in Chapter 4 along with the issue description, research gap, objectives, scope, methodology, along with data collection methods. There is also discussion of limitations. Data analysis as well as interpretation are presented in Chapter 5, and the study is concluded, with a summary of findings and recommendations, in Chapter 6. The goal of the research is to improve asset-liability management and financial accuracy in these industries.

CHAPTER 1

➢ **Introduction:**

➢ **Background of the topic:**

In order to ensure the accuracy and dependability of a company's financial reporting, the verification and also valuation of assets as well as liabilities are crucial parts of financial management and accounting. The verification of assets and liabilities has a long history, going all the way back to the early stages of accounting principle development.

Assets were normally documented at historical cost in traditional accounting, which reflected the price paid to acquire them. But given the erratic nature of the market, this method might not fairly represent the assets' current economic worth. The practice of fair value accounting, that attempts to evaluate both assets as well as liabilities at its present market worth, has become more popular as a result.

In conclusion, the study of asset and liability verification and valuation explores the methods, difficulties, and consequences of estimating the financial value of an organization's assets and liabilities in the dynamic business world of today.

➢ Importance of Verification and Valuation of Assets and Liabilities.

Liabilities and assets are crucial components of the company. Verification is the process of examining the assets listed in financial statements to see whether or not they comply with the law. These are the foundation upon which the balance sheet has been built, and an auditor must demonstrate the accuracy and justice of the data the balance sheet presents. The assessment of different assets and liabilities is known as valuation. For this reason, it is crucial for an auditor.

The significance of asset and liability valuation and verification is discussed below.

• To Display the Real Financial Situation

A balance sheet is created to display a company's true financial situation. Physical verification to verify the presence of the assets. That type of a balance sheet fails to provide genuine and fair information if an appropriate appraisal is not performed. Therefore, asset appraisal and verification are crucial in order to present information about the true financial situation. The balance sheet appropriately classifies and discloses liabilities.

• To Understand the Actual Profit and Loss Situation

Inaccurate depreciation and other asset-related costs result from improper asset appraisal. To verify who owns something, legal and governmental documentation pertaining to the asset are examined. Thus, accurate asset and liability appraisal is required to determine the true profit and loss.

• To generate more Goodwill

A realistic assessment of a company's profitability and financial situation is provided by proper valuation. It has been verified that there are no liens or charges on the assets. Thus, information is available to the public, fostering a favourable perception of the business. Public positivity fosters a greater sense of benevolence.

• In order to reassure shareholders

The shareholders are given accurate information about their assets and liabilities through valuation and verification, assuring them that their investment is secure. to verify that the assets are accurately recorded within those books of accounts.

• Simple for selling.

The balance sheet's reported price may be used to sell the firm at that time, but any assets for which a valuation has not been completed need to be valued beforehand. The proposed generally accepted accounting principles govern the value of liabilities.

➢ **Theoretical implications**

- **The hypothesis of efficient markets:**

According to the EMH, the process of valuation and verification suggests that asset values consider all relevant information. Verification and valuation increase market efficiency by guaranteeing accurate and trustworthy financial reporting and by giving investors the knowledge they need to make wise decisions.

- **Theory of Agency:**

Verification as well as valuation are important tools in the agency theory toolbox for reducing agency conflicts among stakeholders (e.g., shareholders as well as managers). Precise assessment guarantees that supervisors are responsible for managing the organization's assets and deters self-serving conduct.

- **Analysis of Financial Statements:**

Financial statement analysis is based on the appraisal and verification of assets and liabilities. Analysts evaluate a business's profitability, risk profile, along with financial condition based on the stated data' veracity. Financial statements may be misinterpreted, and poor investment choices may result from inaccurate valuation.

- **Theory of Capital Structure:**

The balance sheet contents of a company is influenced by capital structure decisions, which are based on the valuation of its assets and liabilities. Proper valuation of asset valuations, obligations, and related costs and risks is necessary to make the best capital structure decisions.

- **Research on Market-Based Accounting:**

Asset valuation techniques are frequently incorporated into theoretical frameworks within market-based accounting studies in order to comprehend how the market responds to financial reporting data. Precise assessment improves the validity of empirical research investigating how the market reacts to accounting data.

➢ **Recent trends in verification and valuation of assets and liabilities**

- **Applications of Data Analytics:**

Businesses are using data analytics methods and technologies more often to improve the process of appraisal and verification. The accuracy and dependability of both liabilities and assets value are increased via the use of advanced data analytics, which enables more thorough and effective financial data analysis.

- **Put Fair Value Measurement First:**

As a result of accounting regulations like IFRS 13 as well as ASC 820, fair value assessment is becoming increasingly important. In order to achieve more transparent and influenced by the market valuations, the use of fair value accounting mandates businesses to determine the market worth of their assets and liabilities using observable market data.

• **Combining Environmental, Social and Governance (ESG) Aspects:**

Businesses are evaluating the long-term sustainability as well as resilience of their company models by integrating ESG considerations into their liabilities and assets appraisal procedures. ESG factors can affect the value of liabilities associated with social and environmental hazards as well as intangible assets like intellectual property along with brand reputation.

• **A closer look at asset impairment testing**

Procedures for asset impairment assessment are under closer scrutiny due to market volatility and economic uncertainty. Businesses must constantly evaluate the recoverable quantities of assets, especially in sectors of the economy where market circumstances are subject to large swings.

• **Pay attention to data privacy and cybersecurity:**

Companies are giving cybersecurity along with data privacy issues top priority in their assets and liabilities assessment procedures due to the increase in cyber threats and breaches of data. The possible effects of cybersecurity threats on the worth of digital assets including the effectiveness of risk mitigation strategies are being evaluated by valuation specialists.

CHAPTER- 2

Literature Review

1.Title: Company valuation: Objectives aspects in the verification of economic value of intangibles assets, Journal - Revista Catarinense da Ciência Contábil, Santos, Author - Nivaldo João dos, Volume No.17, Year of publication 2018

This paper investigates the economic assessment of intangible assets, like goodwill and intellectual capital, using a case study of a southern Brazilian automaker. It emphasizes how crucial it is to hone operational asset data and comprehend pertinent expenses to provide an appropriate appraisal. The study presents two approaches to valuation: estimating free cash flow and evaluating equity assets. When evaluating the economic worth of intangible assets, accuracy in valuation improves objectivity.

2.Title: Verification of Inventories, Journal - Journal of Accountancy, Author - A. L. Philbrick, Vol. 26, Issue 6, Year of publication 1918

The article titled "Verification of Inventories" highlights how important auditors are to verifying the ownership, condition, and their marketability of business property. It draws attention to the changing roles that auditors play, the value of accurate financial accounts, and the potential hazards of mistakes in inventory verification. The author emphasizes that auditing procedures must be conducted with great care and attention to detail.

3.Possibility of Company Goodwill Valuation: Verification in Slovak and Czech Republic, Journal - Management and Marketing, Authors - Ivana Podhorska, Katarina Valaskova, Vojtech Stehel, Tomas Kliestik, Volume 14, Issue 3, Year of publication 2019.

The difficulties in the valuation and verification of corporate goodwill are examined in this research; this is a problem that has long plagued the scientific community. Regression analysis as well as descriptive statistics are used to identify important sources of goodwill development in Slovak and Czech businesses. The objective is to build the econometric model for goodwill valuation to meet the requirement for precise techniques of valuation in these types of economic contexts.

4.Title: The recognition and valuation of Current Assets on the balance sheet in the United States, The Accounting Historians Journal, Author - Carol Normand, Charles W Wootton, Volume 28, Issue 2, Year of publication 2001.

The recognition, classification, and valuation of current assets in financial statements in the US during 1865 to 1940 are examined historically in this article. It highlights how financial consumers, especially creditors, shaped the way that current asset classification is developed. Historical examples show how current assets were valued and displayed on balance sheets by corporations throughout this time.

5.Title: Fair Value as the direction for Valuation in accounting, Journal - International Scientific Symposium "Economics, Business & Finance, Authors - Konrad Stępień, Alicja Kasperowicz–Stępień, Volume 63, Year of publication 2016.

Examining the fundamentals of valuation techniques, this course concentrates on fair value and historical cost. It addresses the benefits and drawbacks of each strategy while considering the varying demands of creditors, investors, and management. As a result of continuous discussions and the intricacies associated with corporate resource valuation inside the accounting system, there is a tendency preferring fair value above historical cost.

CHAPTER 3 - Company Profile

- Name of the Firm: **K S Sathyanarayana and Co**
- It is a Chartered Accountant firm.
- It was established in the year 1/04/2000.
- It is a partnership firm, and the partners are K.S Sathyanaranaya and Mr. N Ramanathan
- Mr. Ramanathan retired in the year 2010 and Shankar Murty Shasthri joined as the partner in the year 2010.
- At present there are 10 employees in the firm.
- The firm provides Statutory, Tax, Internal Audit and Accounting Services.
- Address: No. 384, 1st floor, 19th 'G' main, 1st 'N' block, Rajajinagar, Bangalore - 560010
- Email: nramksat@gmail.com
- Phone No.: 080-41280449
- Mobile: 9845012090

➢ **Partners Profile**

Partner 1

• **Name: K S Sathyanarayana**

• **Qualification: B. Com, F.C.A**

• **Membership of ICAI since 1998**

• **Experience:** Acquired experience of over 20 years in the profession. Apart from the regular auditing experience, possesses expert knowledge in the field of Direct Tax and adequate knowledge of Indirect Tax. Independently handled various managerial and accounting assignments, including Financial & Secretarial Due Diligences, handled all kinds of Secretarial matters, appeared before various Income Tax/ Sales Tax authorities (including appellate authorities)

Partner 2

• **Name: Shankar Murthy. Shastri**

• **Qualification: B. Com, F.C.A**

• **Membership of ICAI since 2008**

• **Experience:** Acquired experience of over 12 years in the profession. Has worked as Senior Software Consultants for Oracle ERP in the area of Finance and Accounting, worked as Assistant Manager- Accounts in Amalgamated Bean Coffee Trading Company Limited (coffee Day Beverages), where he was involved in Management Accounts, Joined as a partner in the firm since March 2010, have been handling all operational and supervisor work related to Auditing, Finalization of Accounts, monitoring of Statutory and other compliances, attending to clients.

CHAPTER- 4

Research Design

➢ **Statement of Problem**

The problem statement tackles a number of significant issues with asset verification and appraisal procedures. First and foremost, more exact criteria are required to guarantee consistency and accuracy in asset evaluation. Because of the existing rules' lack of precision, various organizations may use different valuation techniques. The dependability of financial reporting as well as decision-making procedures is compromised by this discrepancy. Second, because intangible assets are subjective in nature, valuing them—like intellectual property—presents a big issue. Inaccuracies or manipulation in the value of these assets are possible in the absence of explicit standards. Ultimately, irregularities resulting from non-standard verification procedures

exacerbate the issue even further. Inconsistent verification techniques can lead to data errors, which can warp financial results and undermine stakeholder confidence. In general, resolving these issues is essential to improving the dependability and transparency of asset valuation along with verification procedures in corporate operations.

➤ Research Gap

The influence of developing technology on asset verification as well as valuation techniques is not well analysed in research, which reduces accuracy and efficiency. Furthermore, there is a dearth of research on the incorporation of ESG (environmental, social, and governance) elements into valuation techniques, indicating shortcomings in tackling changing market conditions and stakeholder anticipations.

➤ Hypothesis of the study

• Hypothesis 1

i. Null Hypothesis (H0)

Current techniques of valuing assets have significant relationships with the efficient valuing of assets.

ii. Alternative Hypothesis (H1)

Current techniques of valuing assets have no significant relationships with the efficient valuing of assets.

• Hypothesis 2

i. Null Hypothesis (H0)

Current techniques of verifying assets have significant relationships with the efficient verifying of assets.

ii. Alternative Hypothesis (H1)

Current techniques of verifying assets have no significant relationships with the efficient verifying of assets.

➤ Objectives of the study

1. To evaluate the present verification and valuation processes of assets.

2. To investigate how fair value measurement affects the reliability of both assets and liabilities in financial reporting.

3. To determine obstacles and difficulties regarding valuing intangible assets.

4. To assess if the financial statements' disclosures of assets and liabilities are adequate and transparent.

➤ Scope of study

1. Pay attention to verification techniques in different companies.

2. Analyse how applicable valuation methods are to various asset types.

3. Incorporate a study of how market forces affect assessments of fair value.

4. Describe the difficulties in accurately assessing intangible assets.

5. Make suggestions for enhancing the procedures used for valuation and verification.

➢ **Research Methodology and Data Collection**

• **Research Method**

In this research I have used **Descriptive Research Method** for the study (Explain the process)

The method of descriptive study entails seeing and characterizing events in their unaltered, unmanipulated state. It seeks to present an accurate picture of the traits, mannerisms, or circumstances of a certain subject or group of people. Typically, this method gathers data through surveys, interviews, or observations. After the data is gathered, it is evaluated to look for trends, patterns, or connections.

1.**Data Collection**

i. Primary Data

• Survey and Questionnaire method.

ii. Secondary Data

• Trade Journal:

• Published Sources

• Unpublished Individual Sources

• Journals

• Newspapers

• Web sites

• Blogs

• Diaries

➢ **Population**

The whole group about whom you wish to make conclusions is referred to as the population. The particular group from whom you will gather data is called a sample. The sample size is consistently smaller than the population's overall size.

A lack of time led me to choose 50 samples.

➢ **Sample Size**

• 50 samples.

1.**Tools for data collections**

• Online Survey and through questionnaire

2.**Data Analysis Plan**

• Collection of data from the clients

• Interpretation of the data given by the clients

3.Statistical tools for Analysis

Statistical tools were used for data analysis. In the present study descriptive statistics and Chi-Square test were used and data were presented through graphs and charts like Histogram etc.

➢ Limitations of the study

1.Reliance on subjective assessment in methods of valuation.

2.Absence of widely recognized criteria for validation.

3.It is challenging to value intangible assets that change quickly.

4.Possible effects of volatility in the markets on the accuracy of valuation.

5.Unable to completely incorporate future uncertainty into value.

• Chi Square Method

A statistical method for assessing the discrepancy between actual and predicted data is the Chi-Square test. You can also perform this test to see whether it has any correlation with our data's category variables. Determining if a discrepancy among both categorical variables is the result of random variation or a link between them is helpful.

CHAPTER - 5

## Data Analysis and Interpretation

➢ Data Analysis Method

1.Table – 6 : Methods of Valuing Assets

Methods for valuing assets	No of responses	Percentage
Historical Cost	24	48.00%
Fair market value	20	40.00%
Replacement cost	0	0.00%
Net realizable value	6	12.00%

Analysis:

The answers are divided into groups according to the techniques employed to value the assets. 48.00% of respondents chose the historical cost method, making it the most widely chosen technique. The second most popular approach, selected by 40.00% of respondents, is fair market value. The surveys for Replacement Cost as well as Net Realizable Value yielded no replies.

Graph 6
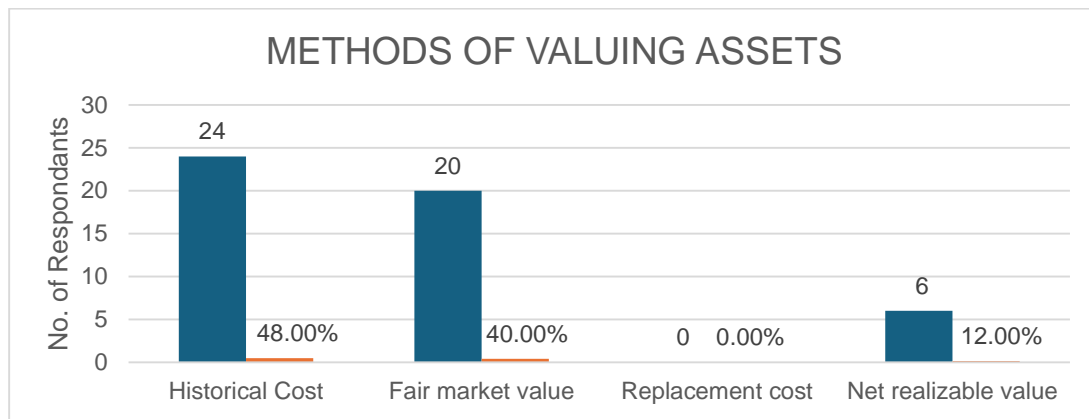
Interpretation:

When it comes to asset valuation, the vast majority of respondents choose the Historical Cost approach, which records assets at the time of initial acquisition. Another often employed technique, fair market value, provides a more up-to-date estimate of asset worth by reflecting the cost at which assets may be traded in an open market between informed and cooperative parties. The lack of replies for Net Realizable Value and Replacement Cost indicates that the survey respondents may not be as familiar with or knowledgeable about these techniques.

2. Table – 9: Assets they prioritize for valuation.

Assets they prioritize for valuing	No of responses	Percentage
Tangible assets	0	0.00%
Intangible assets	0	0.00%
Inventory and receivables.	28	56.00%
All of the above	22	44.00%

Analysis:

The assets that respondents prioritized for valuation are shown in the replies. Receivables and inventory accounted for 56.00% of all replies, the most. Not a single respondent gave either intangible or tangible assets top priority.

Graph 9

ASSETS THEY PRIORITIZE FOR VALUATION
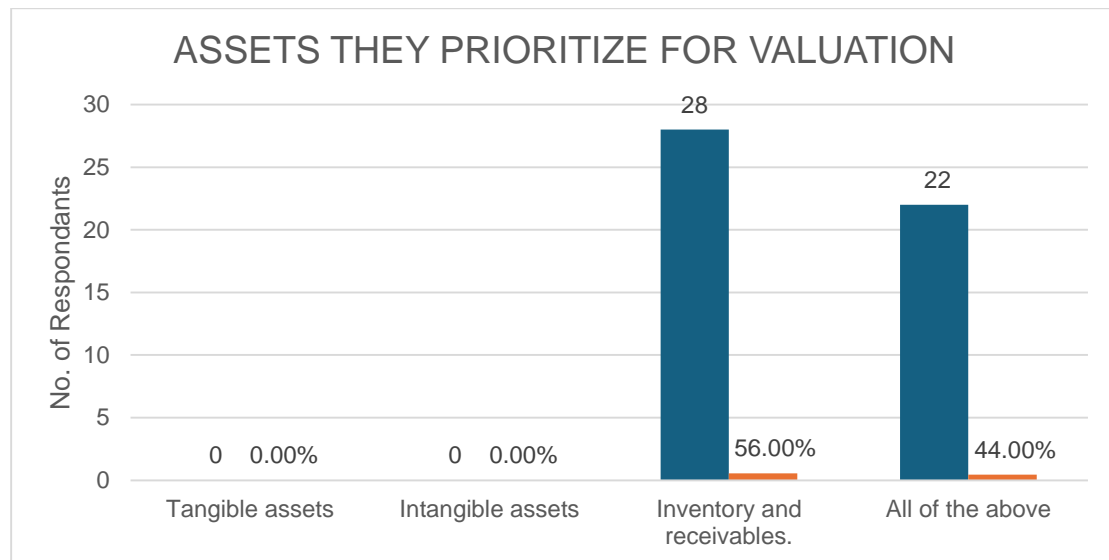
Interpretation:

When it comes to valuing inventories and receivables, which constitute essential parts of a business's working capital, more than half of respondents (56.00%) give them top priority. Since no one answered whether intangible or tangible assets should be prioritized, it is possible that respondents thought inventory and receivables had a greater direct effect on financial success. Selecting "All of the above" signifies that while all asset categories should be valued, inventories and receivables are particularly important, as indicated by the choice made by 44.00% of respondents.

3.Table – 14: Methods to verify the existence of tangible assets.

Methods to verify the existence of assets	No of responses	Percentage
Physical inventory counts	0	0.00%
Documentation review	0	0.00%
Third-party appraisal	0	0.00%
Combination of the above methods	50	100.00%

Analysis:

To confirm the presence of assets, 100% of respondents said they used a mix of the aforementioned techniques. No one approach, including third-party assessment, documentation review, or physical inventory counts, was chosen by any of the respondents.

Graph 14

METHODS TO VERIFY THE EXISTENCE OF TANGIBLE ASSETS
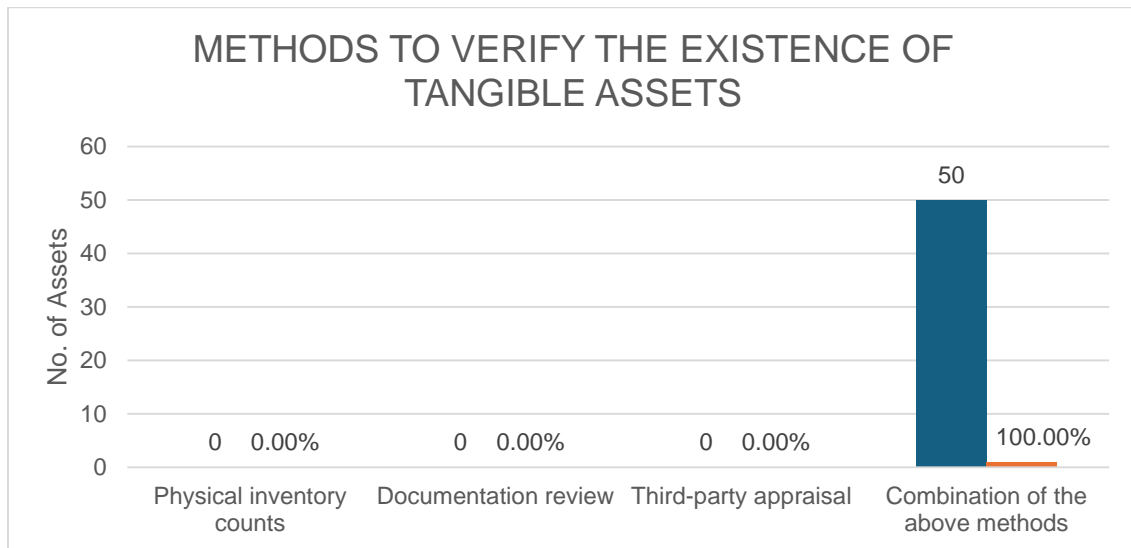
Interpretation:

The respondents appear to understand the significance of using a variety of techniques to confirm the existence of assets, based on the unanimous response. Combining techniques guarantees a comprehensive strategy for asset verification, which may improve precision and dependability. Respondents show a proactive attitude to asset verification by choosing a variety of approaches, which may reduce the likelihood of errors or inconsistencies.

4. Table – 16: Type of assets they prioritize for verification purpose.

Type of assets they prioritize for verification purpose	No of responses	Percentage
High value assets only	44	88.00%
All tangible assets	0	0.00%
All intangible assets	0	0.00%
All assets regardless of value	6	12.00%

Analysis:

Verifying only high-value assets is prioritized by the majority of responders (88.00%). Only a tiny percentage (12.00%) said that all assets, regardless of value, should be verified.

Graph 16
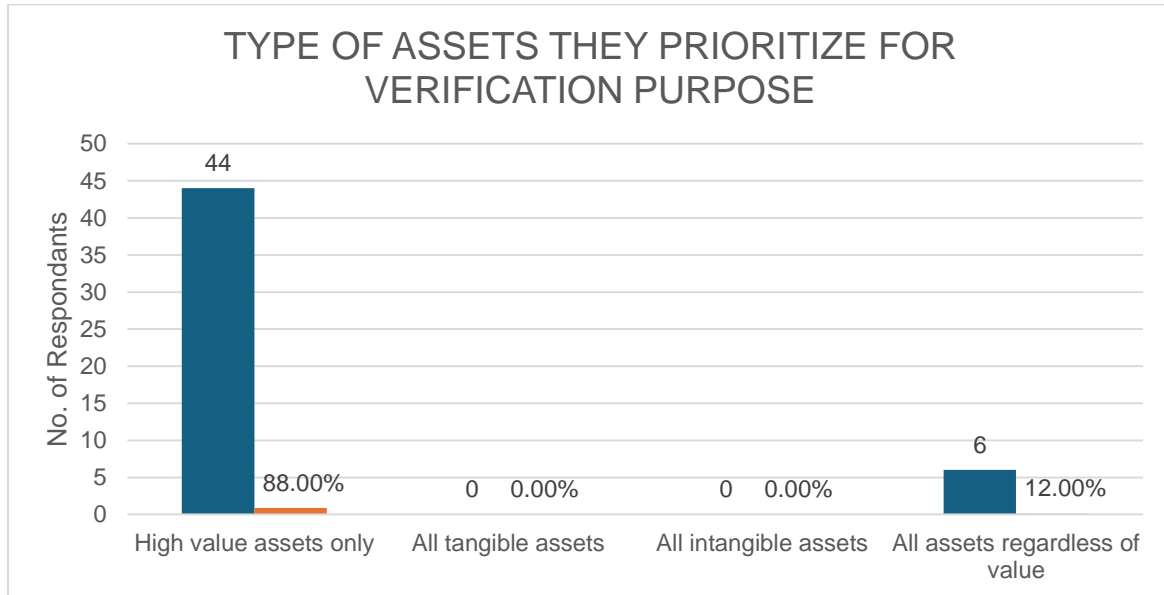
Interpretation:

Setting high-value asset verification as a top priority demonstrates a risk-based strategy that concentrates resources on assets which significantly affect financial statements. Verifying every asset, regardless of value, can suggest taking a more cautious approach and ensuring that every item is thoroughly examined for correctness and completeness. Organizations may effectively allocate resources while addressing the most important elements of their asset base by giving priority to high-value assets.

> **Proving the Hypothesis using Chi-Square Test**

The chi-square test is conducted using the responses of the survey.

- **Hypothesis 1**

i. Null Hypothesis (H0)

Current techniques of valuing assets have significant relationships with the efficient valuing of assets.

ii. Alternative Hypothesis (H1)

Current techniques of valuing assets have no significant relationships with the efficient valuing of assets.

Assets they prioritize for valuing	No of responses	Percentage
Tangible assets	0	0.00%
Intangible assets	0	0.00%
Inventory and receivables.	28	56.00%
All of the above	22	44.00%

Methods for valuing assets	No of responses	Percentage
Historical Cost	24	48.00%
Fair market value	20	40.00%
Replacement cost	0	0.00%
Net realizable value	6	12.00%

Contingency Analysis of Which of the following methods does your company primarily use for valuing tangible assets By Which types of assets does your company prioritize for regular valuation?

Interpretation: Here the value of the chi-square test is **0.0001** which is **less than 0.05** hence **we fail to reject H1.** Hence H1 is accepted and H0 is rejected.

- **Hypothesis 2**

i. Null Hypothesis (H0)

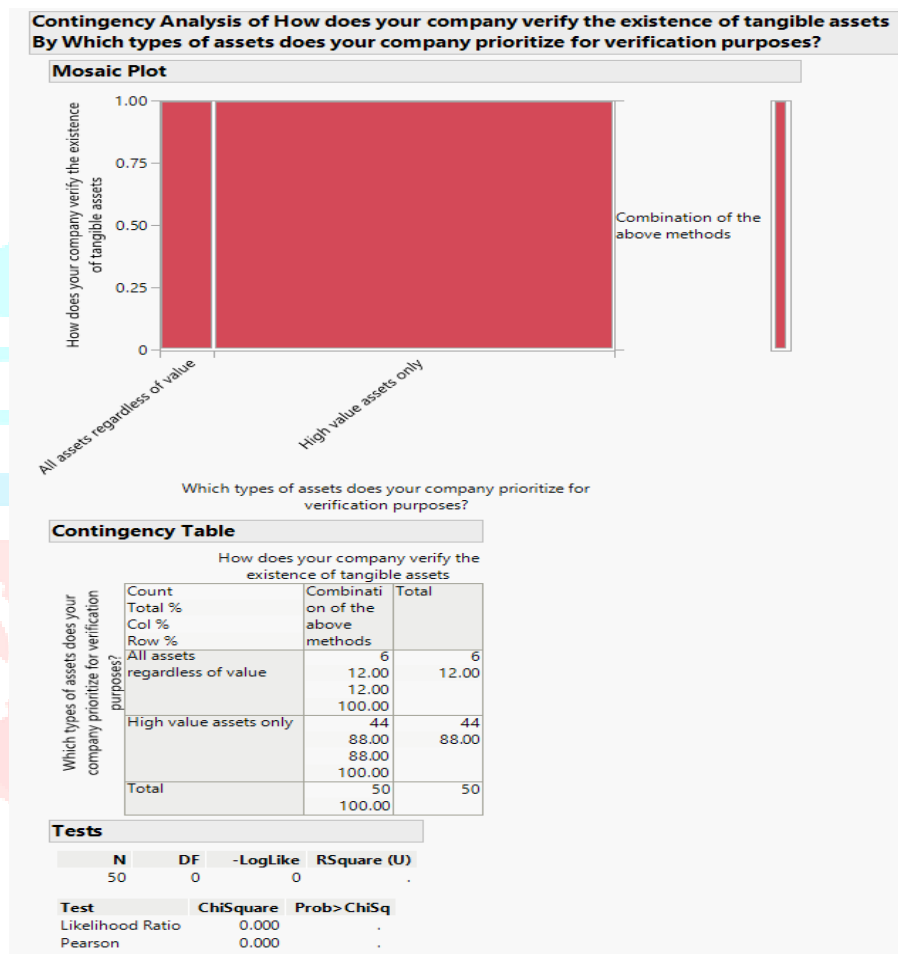Current techniques of verifying assets have significant relationships with the efficient verification of assets.

ii. Alternative Hypothesis (H1).

Current techniques of verifying assets have no significant relationships with the efficient verification of assets.

Methods to verify the existence of assets	No of responses	Percentage
Physical inventory counts	0	0.00%
Documentation review	0	0.00%
Third-party appraisal	0	0.00%

Combination of the above methods	50	100.00%

Type of assets they prioritize for verification purpose	No of responses	Percentage
High value assets only	44	88.00%
All tangible assets	0	0.00%
All intangible assets	0	0.00%
All assets regardless of value	6	12.00%

Contingency Analysis of How does your company verify the existence of tangible assets By Which types of assets does your company prioritize for verification purposes?

Interpretation: Here the value of the chi-square test is **0.000** which is **less than 0.05** hence **we fail to reject H1.** Hence H1 is accepted and H0 is rejected.

CHAPTER 6

➢ Summary of Findings

1.The data indicates that there was a nearly equal distribution of responders by gender, with 46% being female and 54% being male. This implies that both genders participated through the survey or research in a comparable way.

2.The data reveals a wide range of job titles held by survey participants; the most often represented jobs, both with 16% of the replies, are Finance Manager as well as Assistant Finance Manager. The market's conditions along with asset kinds influence the different valuation techniques.

3.With 58% of the overall replies, respondents aged 40 and over make up the bulk of respondents. This suggests that older age groups are more represented in the survey population.

4.The survey respondents predominantly hold postgraduate degrees, constituting 56% of the sample, followed by graduates at 44%, with no respondents having SSLC, PUC, or PhD qualifications.

5.A majority of those surveyed have worked for 5-15 years; the remaining respondents have worked for 0-5 years, 5-10 years, 10-15 years, and 15 years or more.

➤ Suggestions

1.Improve auditor education to ensure precise methods for valuation and verification.

2.Establish uniform protocols to ensure uniform reporting across sectors.

3.Use modern instruments to gather and analyse data quickly.

4.Promote cooperation between experts in financial reporting and auditors.

5.Update valuation techniques often to account for laws and market conditions.

➤ Conclusion

Accurate financial reporting along with effective asset management are vital, as demonstrated by studies on the assessment and verification of assets as well as liabilities in the manufacturing and commerce sectors. This study highlights the difficulties and best practices in various fields by looking at the theoretical foundations, current trends, and methodological techniques. The report highlights critical areas for improvement and offers doable recommendations to improve verification and valuation procedures via thorough data analysis and interpretation. The results highlight the necessity of consistent protocols, strong internal controls, and ongoing methodology revisions to accommodate shifting market conditions. All things considered, this study provides insightful information that helps experts in the field maximize financial performance and guarantee regulatory compliance.

➤ References

1.Dos Santos, N. (2018). Company valuation: Objectives aspects in the verification of economic value of intangibles assets. *Revista Catarinense da Ciência Contábil*, *17*(50), 23-36.

2.Philbrick, A. L. (1918). Verification of Inventories. *Journal of Accountancy*, *26*(6), 3.

3.Podhorska, I., Valaskova, K., Stehel, V., & Kliestik, T. (2019). Possibility of company goodwill valuation: Verification in Slovak and Czech Republic. *Management & Marketing. Challenges for the Knowledge Society*, *14*(3), 338-356.

4.Normand, C., & Wootton, C. W. (2001). The Recognition and Valuation of Current Assets on the Balance Sheet in the United States, 1865–1940. *Accounting Historians Journal*, *28*(2), 63-108.

5.Stępień, K., & Kasperowicz–Stępień, A. (2016). FAIR VALUE AS THE DIRECTION FOR VALUATION IN ACCOUNTING. In *International Scientific Symposium "Economics, Business & Finance"* (p. 63).

6.https://www.simplilearn.com/tutorials/statistics-tutorial/chi-square-test