

Identification & Physical Verification

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Valuer's Key role

- ▶ Key role of valuer is to make sure the asset is available as per record and is verified as well.
- ▶ Physical inspection is very important.
- ▶ Pictures with date and geo pointing – to be put in the report.

Step by Step Process

- ▶ Please get the fixed asset register
 - ▶ Name of machine
 - ▶ Maker
 - ▶ Date of purchase
 - ▶ Value of purchase
 - ▶ Additional cost for installation
- ▶ In majority of cases FAR is not available.
- ▶ So we have to go and do the physical inventory and then value it.

IF FAR is available

- ▶ Check – number of sites – one or more.
- ▶ Do A, B, C analysis
 - ▶ A – covers the max of the value.
 - ▶ B – mid level
 - ▶ C – large number of smaller assets.
- ▶ Group the assets in similar types.
- ▶ Physically see the asset, and take picture of
 - ▶ The asset
 - ▶ Manufacturing plate showing year of manufacture
 - ▶ Hours run in case of DG, fork lift etc.
- ▶ Check the maintenance sheet – if available.

Always take the picture of the site & address and yourself there to prove that the verification has been done by yourself.

In a running plant it is better to have a management representative to help you.

If FAR is NOT available

- ▶ In Insolvency cases – chances are less.
- ▶ There will be management person
- ▶ The machines will be covered with dust / dirty.

1. Get a mail from client that FAR is NOT available.
2. Number of sites to be confirmed.
3. Moving assets like cars / trucks to be confirmed.
4. On one site
 - a) Divide the site in smaller zones.
 - b) All assets to be listed in that zone.
 - c) Pictures to be taken
5. Do the same in other sites.
6. If possible ask for a clients person to be with you.

Possible ways to verify

- ▶ Some time – there is an equipment at contractor premise.
- ▶ We can do the verification with a video call.
 - ▶ Record the call.
- ▶ Ask another valuer to do the physical verification
 - ▶ Put his name as the person who has verified.
 - ▶ The responsibility of the report is still with you.
- ▶ Ask your employees to do the verification.
- ▶ If the machine is in contractor's location, and not allowed to verify physically – please put those as a separate list.
 - ▶ Get a mail / letter of the same from the client.
- ▶ Use of drones is OK.. Pipe line / transmission tower.

What is P&M

- ▶ Computers, electric installations
- ▶ Civil structure under the machines / mechanical assets.
- ▶ Air Conditioners
- ▶ Water 7 Sewage installations.
- ▶ ETP
- ▶ Alarms
- ▶ Weigh bridges
- ▶ Fixtures & Fittings

If in doubt – to the physical verification – and check later.

Suggestions on how to list the machines

- ▶ Condition of the machine
 - ▶ N= New
 - ▶ E = excellent. More than 80% of the expected life is there
 - ▶ VG = very good
 - ▶ G = Good
 - ▶ F = Fair
 - ▶ P = poor condition. Major repairs may be required to start
 - ▶ S = Scrap.
- ▶ Usage of machine
 - ▶ G = general purpose like lathe / milling
 - ▶ SPM = special purpose for the plant / product
- ▶ Original purchased
 - ▶ N = New
 - ▶ U = Used / second hand. These are quite common.

Suggested Table

Asset Verification of M/S ... ABC Ltd

S. No	Area	Machine	Nature	Purchased	Condition Now
1	Tool Room	CNC Vertical Milling	General Purpose	2000	Poor
2	Fabrication Shop	EOT 5 Ton	Soecial Purpose	2005	Good
3	Packing area	Auto strapper	General Purpose	2003	Poor
4	Office	Split AC 1.5 Ton	General Purpose	2015	Good

Discrepancy

- ▶ Asset available but NOT in FAR
- ▶ Asset not available but in FAR
- ▶ Different asset description in FAR than physical
 - ▶ FAR says fork lift 3 T – available a stacker 1 ton.

- ▶ Always ask for the reason of such difference.
- ▶ Is the difference minor or major.
- ▶ To be mentioned in the report.

Physical verification is an important part of valuation. The actual value is an opinion, but the asset physically available is a fact.

Some Definitions

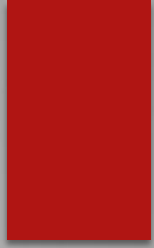
Name	Means
Age	Years between inspection date and installation date.
Effective Age	Apparent Age compared to new machine. Will be seen through the Maintenance records and condition.
Economic Balance Life	Total time that the asset will give a productive output in a profitable manner.
Physical Life	Total time the asset will last. It may last longer than being useful.
Useful life	For how long will that be good. In case of IT sector, Obsolescence may be faster than actual deterioration.

Factors Affecting Life

- ▶ Physical Life
 - ▶ Maintenance
 - ▶ Right use – no over loading, use in the right manner
 - ▶ Use by the right operator.
- ▶ Technological life
 - ▶ Old version
 - ▶ Technology does not exist – computers / software.
- ▶ Legal life
 - ▶ Government specifies the life – Trucks / cars that can be used.

More definitions

Term	Meaning
Historic Cost	Original total purchase price when new.
Acquisition Cost	Final cost that goes in FAR after discounts, logistics, trials etc. This is without taxes.
Book Cost	Cost at the time when the asset was acquired.
Written down value	Book cost less depreciation



Thanks