

VOUCHING

UNIT-3

VOUCHING

Meaning of VOUCHING: The act of examining documentary evidence in order to ascertain the accuracy and authenticity of entries in the books of account is called "Vouching".

In other words vouching means a careful examination of all original evidences **that is invoices, statements, receipts, correspondence, minutes, contracts etc.** with a view to ascertain the accuracy of the entries in the books of accounts and also to find out, as far as possible that no entries have been omitted in the books of accounts.

DEFINITION OF VOUCHING: According to Dicksee."Vouching consists of comparing entries in books of account with documentary evidence in support thereof".

OBJECTIVES OF VOUCHING

- Each and every transaction is verified and ratified on the basis of documentary evidences, so that the accuracy of the transaction can be known.
- Vouching is done to find out the errors and frauds committed in the books of accounts.
- To have accuracy in presenting the financial reports as true and fair
- Through vouching we can know that the transactions in the books of accounts are authorised by the competent authority.
- To find out accuracy of entries appearing in the BOA
- To ensure that the distinction has been made between the capital and revenue items while recording the transactions.

IMPORTANCE/ADVANTAGES/MERITS OF VOUCHING

- Vouching with diligent care and intelligence ensures the success of an audit work
- Vouching is a vital technique of an auditor to check the regularities and irregularities of the transactions.
- It is only through vouching the true and fair view of the books of accounts ,financial statements and reports can be certified by auditor
- It helps to know whether documentary evidences are authorized by the responsible authority.
- Vouching helps to know that the transactions which are recorded are related to business.

VOUCHING

ROUTINE CHECKING AND VOUCHING

Routine checking covers the checking of every carry forward, posting to ledger account and balancing of account.

Vouching includes routine checking which is a mechanical checking, whereas vouching is made on the basis of documentary evidence.

A voucher may be a sales bill, purchase bill, payment receipt, pay-in slip, etc. All such types of documentary evidence are known as vouchers.

DIFFERENCE BETWEEN ROUTINE CHECKING AND VOUCHING

<u>Routine checking</u>	<u>vouching</u>
➤ Comprise of checking arithmetical accuracy and clerical errors	➤ Checking of transactions and its validity and authenticity
➤ Its objective is to verify that the accounts have been correctly balanced	➤ The object is to vouch on documentary evidence
➤ Routine checking is included in vouching	➤ Vouching is a broader term as it includes routine checking
➤ Simple and mechanical	➤ Intelligent and systematic process
➤ Scope is limited	➤ Wider scope
➤ Reveals minor frauds	➤ Reveals all kinds of errors and fraudulent activities

VOUCHERS

MEANING: A voucher is a written paper or document in support of an entry in the books of account.

Voucher is known as the evident for the support of a transaction in the books of account. It may be bill, receipts, requisition form, agreement, decision, bank paying slip etc.

PRINCIPLES OR TECHNIQUES OF VOUCHING:

At the time of vouching auditor should keep in view the following important principles in his mind...

1. Arranged Vouchers: First of all auditor should check all the vouchers provided by the client are properly arranged. These are in the same order as the entries are made in the books.
2. Checking of Date: The auditor should compare the date of the voucher with the date recorded in the cash book.
3. Compare the Words and Figures: The auditor should satisfy himself amount written numbered consecutively. All the vouchers should be properly filed. On the vouchers, its figures and words are same or not.

VOUCHING

4. **Checking of Authority:** The auditor should examine that all the vouchers are passed by the authorized officer. If the voucher is passed by unauthorized person it will not be correct.
5. **Cutting or Change:** If there is any cutting or change on the receipts and vouchers figures it should be signed by the authorized officer. The auditor should satisfy himself by inquiring about it.
6. **Transaction must relate to business:** The auditor should carefully examine that the entries must relate to the business.
7. **Case of Personal Vouchers:** The auditor should not accept the voucher in personal name. There is a chance that an officer of the company has purchased any item in his personal capacity.
8. **Checking of Account Head:** Auditor must be satisfied about the head of account on which cash is deposited and drawn. He should examine the documentary evidence in this regard.
9. **Revenue Stamp:** The auditor should also check that voucher bears a required revenue stamp or not?
10. **Case of Cancelled Voucher:** The auditor should not accept the cancelled voucher because it has already served the purpose of payment. There will be a danger of double payment if it is accepted.
11. **Important Notes:** The auditor should take some important notes about those items which need further evidence or explanation.
12. **Payment:** The auditor should check that whether payment is described partially or for complete transaction of sale.
13. **Agreements:** These provide the basic information to the auditor. He should check the agreements, correspondence and other relevant papers.
14. **Printer Vouchers:** Printer vouchers are considered true and these are legally acceptable. If these are not printed then these are useless.
15. **List of Missing Vouchers:** Auditor should prepare the list of missing vouchers. This list will be helpful in detecting the fraud and errors.

TYPES OF VOUCHER

- **Primary Voucher:** Written evidence in original is said to be the primary voucher, for example, invoice for a purchase.
- **Collateral Voucher:** When the original voucher is not available, copies thereof are produced in support or subsidiary evidence in order to remove doubt from the mind of auditor. Such a voucher is usually known as a collateral voucher.

VOUCHING OF RECEIPTS: vouching of cash transactions is the most important job an auditor. Vouching of receipts means verification of documentary evidences of the transactions related to cash receipts. It is called vouching of the items that appears in **the debit side of the cash book.**

VOUCHING

VOUCHING OF CASH SALES

In case of cash sales the chances of fraud are comparatively greater, for example the salesman may sell goods but may not record the same in the cash book. Therefore the auditor should examine the effectiveness of the internal control system in regard to cash sales. .

Cash sales can be vouched by the auditor in the following way:

1. Internal Check:-Auditor should evaluate the internal check and if it is proper system then he should rely on it.
2. Checking of Memos:-Auditor should check the cash sales memos and compare it with the daily summaries of salesman and cashier.
3. Entry in Cash Book:-Auditor should also check the figures of the salesman and cashier summaries entry in the cash book.
4. Checking Of Cash Register:-If cash register is used, auditor should check the total daily rolls with the entries in the cash book.
5. Checking of Cash Book:-Auditor should compare the cash book with the general ledger.
6. Checking Of Price Lists:-Auditor should obtain and verify it price lists and other instructions by the authorize persons regarding the cash sales.
7. Guidance to Client:-If internal check system is not effective than auditor should inform the client about the dangers of frauds. He should also suggest some measures.

VOUCHING OF RECEIPTS FROM DEBTORS

It is quite difficult to vouch cash receipts from debtors. The only evidence for cash received from them is the counterfoil of receipts issued to them. But this evidence is not very reliable. . Fraud may be committed by entering lesser amount in the counterfoil, or by issuing receipts to debtors from the unused receipt book, or by entering fewer amounts in the debit side of the cash book.

In vouching receipts from debtors an auditor should take the following steps:

- 1) Examine the internal check system in operation in this regard.
- 2) Ensure that unused receipt books are kept in the custody and control of some / responsible officer.
- 3) Ensure that original copies of all the spoilt receipt forms are attached with the duplicate copies in the receipt book.
- 4) Verify dates and amounts on the counterfoils with those in the cash book.
- 5) Ensure that payments received through cheques are entered in the cash book.

VOUCHING

6) Proper scrutiny should be made about discount allowed to customers. The auditors should inquire about the terms and conditions of allowing discounts.

7) Special attention should be paid to amounts written off as bad debts. There are chances that the amount from the debtors had been received and misappropriated and thereafter the debt had been written off as bad. The auditor should ensure that some only responsible officer is allowed to write off debts.

Teeming and lading is a bookkeeping fraud also known as short banking, delayed accounting and lapping. It involves the allocation of one customer's payment to another in order to make the books balance and often in order to hide a shortfall or theft.

One of the common practices that is performed in this fraudulent activity, is that the amounts received from the debtor is credited to the earlier debtor's account so that one debtor's account does not show an outstanding balance for a long time. Such a process is continued until the time the original amount misappropriated is finally replaced or until the cashier is caught. Auditors pay special attention during the vouching process as part of the verification of transaction to identify teeming and lading.

PROCEEDS FROM SALE OF INVESTMENT

If the sale proceeds of the sale of investments are received through bank, then bank advice should be verified.

2. The auditor should also find out whether the investments are sold at ex-dividend/interest or cum dividend/interest. He should ensure that the sale proceeds are appropriately bifurcated into capital and revenue.

3. The commission paid/payable to the brokers is to be verified.

4. If the organization has sold quoted shares/stock, the auditor should verify whether the investments are sold at the quoted prices or not.

5. The auditor should examine whether the investments are long-term or short-term investments. He should also ensure that the income tax liabilities relating to capital gain on sale of investments are included in the return of income filed with the Income tax authorities.

VOUCHING OF PAYMENTS: vouching of payment means vouching of the payments side or credit side of the cash book.

VOUCHING OF CASH PURCHASES

In vouching this item, the auditor should take the following steps:

1. Purchases are supported with cash memos or invoices.
2. See that an only net amount, that is, (purchases minus trade discount) has been entered to the books of account.
3. Goods have been actually received and payment is recorded in proper books.
4. He should check goods received book.

VOUCHING

5. The auditor should make sure goods are purchased for business purpose only not for personal requirement.

VOUCHING OF PAYMENT OF CREDITORS

1. The receipts issued by the creditors acknowledging the receipt of money should be checked.
2. The money paid should be compared with the money due as per the accounts of the creditors and the invoices received from them.
3. He should scrutinize the method of comparing the statement of accounts with their actual accounts.
4. Before passing an entry in this regard, he should refer to minutes, contracts and other documentary evidence
5. The auditor should see purchases are duly authorized.
6. The auditor must ask for duplicate copy of the missing vouchers for the payment made to creditors.

VOUCHING FOR DEFERRED REVENUE EXPENDITURE

Deferred Revenue Expenditure is an expenditure of **revenue nature** whose benefit is not completely exhausted in the year in which it is incurred, but extends over a number of years.

In other words, it is a revenue expenditure which is not completely written off in the year in which it is incurred, but it will be spread over the years during which its benefit is available.

Examples – (a) Preliminary expenses, (b) Research expenditure, (c) Development expenses, (d) Underwriting Commission for the issue of shares and debentures.

Vouching of Preliminary Expenses • these are the expenses incurred at the time of floating the joint stock company. Also known as Promotion Expenses. • It includes (a) Investigation charges (b) Cost of issue of shares and debentures (c) Underwriting commission (d) Fees paid for the preparation of documents like Memorandum and Articles (e) Fees paid for Registration (f) Expenses on Prospectus

- Auditor should ascertain whether these expenses are authorized by the appropriate authority and whether these expenses are incurred within the sanctioned limit.
- Cash vouchers and bank pass book are to be examined for having paid these expenses
- The auditor must see whether the expenses capitalised as preliminary expenses and are actually related to the formation of company.
- He has to examine the supporting papers, vouchers, contracts, agreements etc.
- He should check the bills and receipts issued by the printer of MOA and AOA.
- He must check the rightness of entries.

Vouching of Cost of Issue of Shares and Debentures • It includes the marketing expenses of shares.

- Marketing of fresh issues (Initial Public Offer-IPO) involves direct selling or selling through under writers.
- In case of direct selling, Bankers to the Company play a major role, as the initial deposits and subsequent calls will have to be paid to the company's bankers.

VOUCHING

- Cost of marketing, commission payable to bankers for collecting money and other service charges have to be vouched.
- Auditor should examine the Pass Book of the Bank with which IPO accounts are maintained and the Agreement Copy between Banker and the Company.

Vouching of under writing commission • It refers to the Commission paid to the Underwriters.

- Auditor should look into the Agreement between the Company and the Underwriters regarding the Commission Payable.
- He has to find out whether the commission is paid only on marked applications.
- If the issue is not fully subscribed, he must check whether the underwriter has discharged his liability before the commission is paid.
- It is essential as sometimes the commission is paid even before the full subscription has been met with.
- He should ascertain whether the commission calculation has been properly made