

## **Ch:6. Vouching**

In auditing process, based on evidence, there are two main functions

- Collection of evidences – through observation, confirmation, inspection, inquiry.
- Evaluation of evidences – with relevance, adequacy and validity.

Q.1 Write meaning of Vouching.

Meaning: Vouching means examination of original documentary evidence in support of accounting entries.

It is also known as testing of truth of items appearing in the books of original entries.

Q. 2 Discuss Objective of Vouching

Objectives of vouching –

Q.3 Write importance of Vouching./ “Vouching is the essence of Auditing”-Explain. / “Vouching is the soul of Auditing”-Explain./ Without vouching Auditing is not possible –Do you agree?

Intelligent and faithful vouching will establish reliability on financial statements, i.e., Profit and Loss account and Balance Sheet of any organization. If adequate internal control system exists, the Auditor may choose to do test checking instead of complete vouching.

Points of importance of vouching

Q.4 Write Difference between Vouching and Routine Checking.

Types of Voucher

There are two types of vouchers –

- **Primary Voucher** – Original copy of written supporting document is called primary voucher. Like purchase Bill, cash memo, pay-in-slip, etc.
- **Collateral/Secondary Voucher** – Copies of supporting documents which are not available in original are collateral voucher like duplicate or carbon copy of sale invoice.

**Q.5 Which Points are considered in the process of Vouching?**

- 1. Serial number**
- 2. Date**
- 3. Name**
- 4. Address**
- 5. Amount**
- 6. Particulars**
- 7. Approval & signature**
- 8. Revenue Stamp**
- 9. Continuous vouching**
- 10. Cancellation of vouchers**
- 11. Period**
- 12. Entry in books of Accounts**
- 13. List of missing vouchers**

Example of Vouchers

<b>Transactions</b>	<b>Vouchers</b>
Sales	Sales order, sales invoice, goods outward register, cash receipt, bank pay-in-slip, etc.
Purchase	Quotations, purchase orders, purchase bills, goods inward register, etc.
Cash Payments	Demand note, cash receipt, cash memo, etc.
Cash Received	Duplicate or carbon copy of cash receipt, contracts and correspondence with payee, etc.
Bank Payments	Cheques, counterfoils, bank statements, etc.
Payment received through Banking Channels	Bank deposit slip, bank statements, etc.

Q.7 Write Auditor's Duty for vouching.

### **Vouching of Cash Receipts (Debit Side of Cash Book)**

**Note: Always write name of Vouchers related to transaction and then explanation for transaction.**

We will discuss the cash receipts which are placed on the debit side of cash book for following items:

Transactions	Vouchers	Explanations(Process of Vouching)
Repayment of Loan by Others	Contract, minute book, bank pass-book, Counter foils etc.	<ul style="list-style-type: none"> <li>• Calculation of interest received and interest should be credited to interest received account.</li> <li>• Verification from bank statement if directly deposited by party into bank.</li> <li>• Checking of carbon copies or counterfoils of cash receipts.</li> <li>• To ensure that there should be no violation of Income Tax rules as payment of loan exceeding Rs. 20,000/- cannot be repaid in cash. It should be through Cheques, Demand Draft, NEFT, RTGS or any other available banking channels.</li> </ul>
Cash Received from Debtors	Copy of bill, cash memo, correspondence, Cash sales book, passbook etc.	<ul style="list-style-type: none"> <li>• The carbon copies or counterfoils of cash receipt book should be verified.</li> <li>• Cash receipt should be serially numbered.</li> <li>• Cash received should be entered on the same date when the cash is actually received.</li> <li>• The discount allowed to customers should be properly authorized by a responsible officer.</li> <li>• Correspondence with customer and ledger account should be tallied.</li> </ul> <p>misappropriation of cash-</p> <ul style="list-style-type: none"> <li>• Cash received from customer not recorded in books and no cash receipt may be issued.</li> <li>• Issuance of receipt for lesser amounts than amount actually received.</li> </ul> <p>Using <b>teeming and lading</b> method; it is a very common method to misappropriate the money, in which the cash received from any customer not recorded in the books and the cash received from same customer at a later instance or another customer recorded in the books and so on.</p>
Rent Received	cash memo, Rent agreement, correspondence, Cash sales book, passbook etc.	<ul style="list-style-type: none"> <li>• To check rental agreement or lease deed.</li> <li>• In case where the rental income is received from more than one property, separate account for each property</li> </ul>

		<p>should be maintained.</p> <ul style="list-style-type: none"> <li>• The Auditor should verify that the rent for all the twelve month is received or not.</li> <li>• The amount of rent should be verified from the rent deed or the lease deed.</li> </ul> <p>If TDS (Tax Deducted at Source) is deducted by the party, there should be proper accounting of TDS</p>
Sale of Investments	Contract, Passbook, Sale deed, Receipt etc.	<ul style="list-style-type: none"> <li>• To check bank statement if the sales proceeds have reached the bank account.</li> <li>• To verify broker commission, note or debit note, if investments are sold through broker.</li> </ul> <p>To ensure separate accounting is being done for capital receipts and revenue receipts. Dividend or profit or loss on sale of investment is a revenue receipt and the sales proceeds of the investment cost should be booked as capital receipt</p>
Subscription For non-trading institution	Receipts, Register of members, passbook etc.	<p>Subscriptions are received from the members of a club and the following points need to be considered by the Auditor while vouching subscription –</p> <ul style="list-style-type: none"> <li>• Subscription register should be verified.</li> <li>• Verification of subscription received during the year and the subscription receivable.</li> </ul> <p>Counterfoil of cash receipt should be verified</p>

Sale of Fixed Assets	Receipts, Correspondence, Broker's note, tenders, resolution, passbook etc.	<p>To check minutes of the meetings of the Board of Directors.</p> <ul style="list-style-type: none"> <li>• Sale agreement or sale contract.</li> <li>• Verification of agent account if sale is made through an agent.</li> <li>• Profit or Loss on sale of fixed assets should be booked to revenue account.</li> <li>• Authorization of sale of fixed assets.</li> <li>• Sale proceed of fixed assets should be credited to fixed assets account after deducting expenses on sale of fixed assets if any.</li> <li>• Sale agreement or sale contract.</li> <li>• Verification of agent account if sale is made through an agent.</li> <li>• Profit or Loss on sale of fixed assets should be booked to revenue account.</li> </ul>
Interest and Dividend Received	Receipts, counterfoils of dividend warrants, passbook etc.	<ul style="list-style-type: none"> <li>• Verification of the dividend warrant letter along with the covering letter for verification of dividends in case of dividends received through cheque.</li> <li>• Verification of bank statement, if the dividend is directly credited to the bank account.</li> <li>• Interest on security can be vouched from the securities schedule.</li> <li>• Interest on fixed deposit can be verified from bank statement and TDS certificates.</li> <li>• Interest received from outsiders to whom company has granted loan could be verified from statement of account of party along with TDS certificates.</li> <li>• Provision should be made for interest accrued but not due.</li> <li>• All interest received and accrued should be properly accounted for in the books of accounts.</li> </ul>

Commission Received	Receipts, Sales statement, Copy's of party's accounts, passbook, copies of account sales	<ul style="list-style-type: none"> <li>• Verification of agreement on the basis of which the commission is received.</li> <li>• Calculation of the commission receivable.</li> <li>• The commission received should be verified from counterfoils, bank statements, cash receipts, etc. and the provision for commission receivable should be rightly accounted for in the books of accounts.</li> </ul> <p>Commission receivable on "sale of goods sent on consignment" should be verified from sale account</p>
Instalments Received on Hire-Purchase Sale	Agreements, passbook, Receipts etc	<ul style="list-style-type: none"> <li>• Study of the Hire-Purchase agreement for hire-purchase-sale price, number of instalment, rate of interest etc.</li> <li>• Segregation of principle amount and interest amount should be done and both should separately account for.</li> <li>• Profit on sale on hire-purchase should be duly calculated on the basis of instalment received during the year.</li> </ul>

#### Vouching of Cash Payments (Credit Side of Cash Book)

All the payment made to creditors, expenses incurred in cash and all other payments done appear on the credit side of cash book and the Auditor is required to vouch cash payments because chances of cash misappropriation are very high.

Transactions	Vouchers	Explanations
Cash Purchases	Cash memos, goods inward register, counterfoils of cheque, pass-book, receipts for payment, etc.	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> <li>▪ Check Authenticity of payment</li> <li>▪ Receipt issued</li> <li>▪ Compare with inward register-amount &amp; quantity</li> <li>▪ Prepare list for missing vouchers</li> </ul>
Amount paid to creditors	Receipts issued by creditors, counterfoil of cheques, pass book, correspondence, bills etc.	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> <li>▪ Check Authenticity of payment</li> <li>▪ Receipt issued by the creditors.</li> <li>▪ If the creditor is paid amount as full and final settlement, the balance amount, if any stands in</li> </ul>

		<p>the ledger account of the creditor; this amount should be credited to discount received.</p> <ul style="list-style-type: none"> <li>▪ If any advance payment is made to creditor that should be clearly mention.</li> <li>▪ Statement of account of creditor.</li> <li>▪ Discount received, if any</li> </ul>
Payment of wages	Attendance register, job cards, wage-sheets, pass-book, counterfoils of cheques etc.	<ul style="list-style-type: none"> <li>▪ Adequacy of Internal Control System.</li> <li>▪ Payment of wages at higher rate than allowed.</li> <li>▪ Payment shown to ex-workers in the current month.</li> <li>▪ Lower or non-deduction of Advance or other deductions due.</li> <li>▪ Payment to fictitious workers.</li> <li>▪ Payment to workers who were absent from duty.</li> <li>▪ Wages sheet should compare with wages register.</li> <li>▪ Comparison of current month wages with last month's wages and proper verification should be there for extra ordinary changes.</li> <li>▪ Detailed verification for payment to casual workers.</li> <li>▪ Vouching and verification of accounting treatment for unpaid wages</li> </ul>
Purchase of Fixed Assets	Receipt, sale deed, lease agreement, auctioneer's certificate, counterfoils of cheque, pass-book etc.	<ul style="list-style-type: none"> <li>• Adequacy of Internal Control System.</li> <li>• Check Authenticity</li> <li>• Purchase invoice of assets.</li> <li>• Freight inward charges, installation charges, erection and commissioning charges should be capitalized.</li> <li>• Treatment of Excise duty</li> </ul>

		according to the excise rules.
Purchase of Investments	Receipt, brokers note, allotment letter, MOA, board resolution and minute book, counterfoils of cheque, pass-book etc.	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> <li>▪ Check Authenticity of payment</li> <li>▪ Verify Broker note or bill of purchase</li> <li>▪ Cum-dividend or Ex-dividend</li> <li>▪ Verify name on investment</li> <li>▪ Examine board resolution</li> <li>▪ In case of company provisions of company act should be followed</li> </ul>
Travelling Expenses & Allowances	Receipt, bills, rules for travelling allowances, counterfoils of cheque, pass-book etc.	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> <li>▪ Check Authenticity of payment</li> <li>▪ Rules for reimbursement of expenses</li> <li>▪ Business tour only</li> <li>▪ Paid within limit of income-tax</li> </ul>
Loans & Advances	Receipt, mortgage deed, agreement, counterfoils of cheque, pass-book etc.	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> <li>▪ Check Authenticity of payment</li> <li>▪ Verify receipts for loan amount</li> <li>▪ Examine agreement of loan &amp; securities offered</li> <li>▪ Verify rules of AOA &amp; provisions of company act</li> </ul>
Interest paid	Receipt, Agreement etc.	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> <li>▪ Check Authenticity of payment</li> <li>▪ Verify interest amount, rate of interest, period for payment</li> <li>▪ Check calculation for interest</li> <li>▪ Verify rules for unpaid amount or amount paid in advance</li> <li>▪ Verify proper posting of transaction, amount &amp; period of transaction</li> </ul>
Postage & Telegram	Postage register, outward mail register, petty cash book, franking	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> </ul>

	pass book etc.	<ul style="list-style-type: none"> <li>▪ Check Authenticity of payment</li> <li>▪ Verify postage register</li> <li>▪ Tally expenses recorded</li> <li>▪ Check franking pass-book issued by Post &amp; telegram department</li> <li>▪ Balance of stamp counted &amp; recorded as asset in B/s</li> <li>▪ Verify proper posting of transaction, amount &amp; period of transaction</li> </ul>
Insurance Premium	Receipt, insurance policy, counterfoil of cheque, pass book, petty cash book etc.	<ul style="list-style-type: none"> <li>• Insurance policy issued by the Insurance Company.</li> <li>• Insurance premium receipt</li> <li>• Insurance premium should not be related to any official of the company</li> <li>• Verify proper posting of transaction, amount &amp; period of transaction</li> </ul>
Bills discounted but dishonoured	Correspondence, bank advice, pass book, bills receivable book etc.	<ul style="list-style-type: none"> <li>▪ Examine bank advices</li> <li>▪ Bills receivable book</li> <li>▪ Amount of dishonoured bills recovered from debtor</li> <li>▪ Verify proper posting of transaction, amount &amp; period of transaction</li> </ul>
Technical know-how	Collaboration agreement, receipt, pass-book, counterfoils of cheque etc.	<ul style="list-style-type: none"> <li>▪ Verify agreement</li> <li>▪ Examine entry for transaction</li> <li>▪ Verify proper posting of transaction, amount &amp; period of transaction</li> </ul>
Legal Expenses	Receipt, bills of solicitors of advocates, counterfoil of cheque book, pass book etc.	<ul style="list-style-type: none"> <li>• Examine Internal check system</li> <li>• Check Authenticity of payment</li> <li>• Verify proper posting of transaction, amount &amp; period of transaction</li> </ul>
Commission paid	Receipt, Agreement, account sales, counterfoil of cheque book, pass book etc.	<ul style="list-style-type: none"> <li>• Examine Internal check system</li> <li>• Check Authenticity of payment</li> <li>• Verify proper posting of transaction, amount &amp; period of transaction</li> </ul>
GST paid	Challan, receipts, assessment	<ul style="list-style-type: none"> <li>• Verify tax slab</li> </ul>

	order, counterfoil of cheque book, pass book etc.	<ul style="list-style-type: none"> <li>• Calculate amount paid</li> <li>• Verify proper posting of transaction, amount &amp; period of transaction</li> <li>• Rate applicable on goods</li> <li>• Any refund if paid in advance</li> </ul>
Income-Tax	Challan, Copy of return of income tax, , assessment order, counterfoil of cheque book, pass book, salary register etc.	<ul style="list-style-type: none"> <li>• Examine Internal check system</li> <li>• Check Authenticity of payment</li> <li>• Advance Tax Challan</li> <li>• Self-Assessment Tax challan</li> <li>• Income Tax demand notice</li> <li>• Assessment order</li> <li>• Verify proper posting of transaction, amount &amp; period of transaction</li> </ul>
Dividend	Dividend warrants, dividend register, counterfoil of cheque book, pass book etc.	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> <li>▪ Check Authenticity of payment</li> <li>▪ Verify proper posting of transaction, amount &amp; period of transaction</li> </ul>
Director Fees	Attendance register, AOA, minutes book of BOD,	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> <li>▪ Check Authenticity of payment</li> <li>▪ Verify proper posting of transaction, amount &amp; period of transaction</li> <li>▪ Rules for payment of fees</li> <li>▪ Amount should not be more than 11% of net profit</li> </ul>
Preliminary Expenses	Receipts, bills of advertisement, solicitors bills, contracts with promoters, counterfoils of cheque book pass book etc.	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> <li>▪ Check Authenticity of payment</li> <li>▪ Verify proper posting of transaction, amount &amp; period of transaction</li> <li>▪ All expenses of establishment included</li> <li>▪ Written off from the balance of P&amp;L A/c in balance sheet in the year in which actually incurred</li> </ul>
Bank charges	Pass book, cash book, bank advice etc.	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> </ul>

		<ul style="list-style-type: none"> <li>▪ Check Authenticity of payment</li> <li>▪ Verify proper posting of transaction, amount &amp; period of transaction</li> <li>▪ Verify bank's advice or pass-book</li> </ul>
Audit Fees	Receipt, Resolution of board & shareholders, sanction letter of C.G., pass book, counter foil of cheque etc.	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> <li>▪ Check Authenticity of payment</li> <li>▪ Verify proper posting of transaction, amount &amp; period of transaction</li> <li>▪ Verify sanction of appointment of an auditor by board</li> <li>▪ Verify minute book, by whom appointed</li> <li>▪ Receipt of payment of fees</li> </ul>
Petty cash Expenses	Receipt, cash memos, petty cash book, counterfoil of cheque, pass book etc.	<ul style="list-style-type: none"> <li>▪ Examine Internal check system</li> <li>▪ Check Authenticity of payment</li> <li>▪ Vouch with vouchers</li> <li>▪ Verify balance as per petty cash book</li> <li>▪ Tally balance with actual balance on hand</li> <li>▪ Check no payment debited to suspense A/c</li> </ul>

### Vouching of Subsidiary books

Name of Subsidiary books	Vouchers
Purchase Book	Goods Requisition Slips, Invoices, goods inward book, purchase orders, Correspondence etc.
Purchases Return Book	Debit notes, credit notes received from suppliers, goods outward book, Correspondence etc.
Sales Book	Orders received book, Invoices, goods outward book, Correspondence, empties and packages register etc.
Sales Return Book	Debit notes received from customers, credit notes issued to customers, goods inward book, Correspondence etc.
Bills Receivable Book	Bills receivable book, cash book, Bank passbook ledger accounts etc.
Bills Payable Book	Statement of Bills payable, cash book, Bank passbook ledger accounts etc.

Write Short note on Journal Proper.

Ans. Meaning: The transactions which are not recorded in the any subsidiary books are entered in the book is known as Journal Proper.

Explanation of following transactions included in it:



