

VOUCHING

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VOUCHING MEANING

- **Vouching** is a technical term, which refers to the inspection of documentary evidence supporting and substantiating a transaction, by an auditor. It is the essence of Auditing.
- It is the practice followed in an audit, with the objective of establishing the authenticity of the transactions recorded in the primary books of account.

VOUCHING DEFINITION

- Vouching is defined as the "verification of entries in the books of account by examination of documentary evidence or vouchers, such as invoices, debit and credit notes, statements, receipts, etc.

IMPORTANCE OF VOUCHING

1. Vouching Is The Backbone Of Auditing
2. Vouching Is The Essence Of Auditing
3. Vouching Is Important To See Whether Evidences Are Correct Or Not

Vouching Is The Backbone Of Auditing

- Main aim of auditing is to detect errors and frauds for proving the true and fairness of results presented by income statement and balance sheet. Vouching is only the way of detecting all sorts of errors and planned frauds. So, it is the backbone of auditing.

Vouching Is The Essence Of Auditing

- Auditing not only checks the accuracy of books of accounts but also checks whether the transactions are related to business or not. All the transactions are performed after the prior approval of concerned authority or not, transactions are real or not because an accountant may include fictitious transactions to commit frauds. All these facts can be found with the help of vouching. So, vouching is essential for auditing.

Vouching Is Important To See Whether Evidences Are Correct Or Not

- An auditor checks the books of accounts to detect errors and frauds. Frauds may be committed presenting duplicate vouchers. All the small and big amounts of frauds can be detected with the help of vouching. So, all the evidential documents and records are to be checked carefully and in detail by an auditor which is the scope of vouching.

VOUCHING OF CASH TRANSACTIONS

- I. Vouching of Cash Receipts (Debit Side of Cash Book)
- II. Vouching of Cash Payments (Credit Side of Cash Book)

I. Vouching of Cash Receipts (Debit Side of Cash Book)

- Opening Balance of Cash Book
- Cash Received from Debtors
- Repayment of Loan by Others
- Rent Received
- Sale of Investments
- Subscription
- Sale of Fixed Assets
- Interest and Dividend Received
- Commission Received
- Installments Received on Hire-Purchase Sale

Opening Balance of Cash Book

- Opening balance of cash book represents cash in hand at the start of the year and should be verified from the balance sheet of last financial year.

Cash Received from Debtors

Consider the following points for verification of cash received from debtors –

- The carbon copies or counterfoils of cash receipt book should be verified.
- Cash receipt should be serially numbered.
- Cash received should be entered on the same date when the cash is actually received.
- The discount allowed to customers should be properly authorized by a responsible officer.
- Correspondence with customer and ledger account should be tallied.

Following are the different ways used for misappropriation of cash –

- Cash received from customer not recorded in books and no cash receipt may be issued.
- Issuance of receipt for lesser amounts than amount actually received.
- Using **teeming and lading** 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.

Repayment of Loan by Others

Repayment of loan by others may be verified in the following ways –

- Calculation of interest received and interest should be credited to interest received account.
- Verification from bank statement if directly deposited by party into bank.
- Checking of carbon copies or counterfoils of cash receipts.
- 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.

Rent Received

- To check rental agreement or lease deed.
- In case where the rental income is received from more than one property, separate account for each property should be maintained.
- The Auditor should verify that the rent for all the twelve month is received or not.
- The amount of rent should be verified from the rent deed or the lease deed.
- If TDS (Tax Deducted at Source) is deducted by the party, there should be proper accounting of TDS.

Sale of Investments

- To check bank statement if the sales proceeds have reached the bank account.
- To verify broker commission, note or debit note, if investments are sold through broker.
- 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.

Subscription

- Subscriptions are received from the members of a club and the following points need to be considered by the Auditor while vouching subscription –
- Subscription register should be verified.
- Verification of subscription received during the year and the subscription receivable.
- Counterfoil of cash receipt should be verified.

Sale of Fixed Assets

- To check minutes of the meetings of the Board of Directors.
- Sale agreement or sale contract.
- Verification of agent account if sale is made through an agent.
- Profit or Loss on sale of fixed assets should be booked to revenue account.
- Authorization of sale of fixed assets.
- Sale proceed of fixed assets should be credited to fixed assets account after deducting expenses on sale of fixed assets if any.

Interest and Dividend Received

- Verification of the dividend warrant letter along with the covering letter for verification of dividends in case of dividends received through cheque.
- Verification of bank statement, if the dividend is directly credited to the bank account.
- Interest on security can be vouched from the securities schedule.
- Interest on fixed deposit can be verified from bank statement and TDS certificates.
- Interest received from outsiders to whom company has granted loan could be verified from statement of account of party along with TDS certificates.
- Provision should be made for interest accrued but not due.
- All interest received and accrued should be properly accounted for in the books of accounts.

Commission Received

- Verification of agreement on the basis of which the commission is received.
- Calculation of the commission receivable.
- 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.
- Commission receivable on “sale of goods sent on consignment” should be verified from sale account.

Installments Received on Hire-Purchase Sale

- Study of the Hire-Purchase agreement for hire-purchase-sale price, number of installment, rate of interest etc.
- Segregation of principle amount and interest amount should be done and both should separately account for.
- Profit on sale on hire-purchase should be duly calculated on the basis of installment received during the year.

II. Vouching of Cash Payments (Credit Side of Cash Book)

- Opening Balance
- Payment to Creditors
- Payment of Salaries
- Payment of Wages
- Purchase of Plant and Machinery
- Rent Paid
- Insurance Premium
- Income Tax
- Excise Duty
- Commission on Sale
- Director's Fees
- Internal Control System for Cash Transactions

Opening Balance

- The opening balance of cash book can never be credited because cash of company cannot be in negative but the credit bank balance represents the overdraft account from bank or utilization of cash credit limit as sanctioned from bank.

Payment to Creditors

Payment to creditors may be examined by the following –

- Receipt issued by the creditors.
- If the creditor is paid amount as full and final settlement, the balance amount, if any stands in the ledger account of the creditor; this amount should be credited to discount received.
- If any advance payment is made to creditor that should be clearly mention.
- Statement of account of creditor.

Payment of Salaries

Depending upon the adequacy of internal control system in an organization Auditor will decide his audit Program. It is very important for Auditor to check the following –

- Attendance record of employee and salary register.
- Appointment letter of new employees.
- Comparison of current month salary with last month's salary and if there is any abnormal change in amount, Auditor should verify the same.
- Alteration in amount of deductions on account of advance, loan, fine, funds, insurance, TDS, etc.

Payment of Wages

- Adequacy of Internal Control System.
- Payment of wages at higher rate than allowed.
- Payment shown to ex-workers in the current month.
- Lower or non-deduction of advance or other deductions due.
- Payment to fictitious workers.
- Payment to workers who were absent from duty.
- Wages sheet should compare with wages register.
- Comparison of current month wages with last month's wages and proper verification should be there for extra ordinary changes.
- Detailed verification for payment to casual workers.
- Vouching and verification of treatment accounting treatment for unpaid wages.

Purchase of Plant and Machinery

The Auditor should pay attention to the following –

- Purchase invoice of machinery.
- Freight inward charges, installation charges, erection and commissioning charges should be capitalized.
- Treatment of Excise duty according to the excise rules.

Purchase of Land & Building

Purchase of Land and Building can be vouched as follows

- Study of Lease hold agreement, if land is purchased on lease hold basis.
- Payment should be as per lease term.
- All the expenses incurred to acquire lease hold property should be debited to respective property account.
- Auditor should study the conveyance deeds in case property is purchased under free hold basis.
- For verification of payment, the Auditor can check the payment receipt and the conveyance deed.

Rent Paid

Consider the following points for the verification of rent by the auditor –

- Rent Deed.
- Rent receipt from Land lord.
- Provision for un-paid rent at the end of the year.

Insurance Premium

Consider the following points for the verification of Insurance Premium –

- Insurance policy issued by the Insurance Company.
- Insurance premium receipt
- Insurance premium should not be related to any official of the company.

Income Tax

Consider the following for the verification of Income –

- Advance Tax Challan
- Self-Assessment Tax challan
- Income Tax demand notice
- Assessment order

Excise Duty

- Consider the following for the verification of Excise Duty –
- Rate of Excise Duty
- Excise records and sale invoice for verification of excise duty

Commission on Sale

Consider the following for the verification of Commission on Sale –

- Agreement of sale.
- Rate of commission on sale.
- Calculation of commission on the basis of sale.
- Cash receipt issued by agent.
- Provision for commission payable

Director's Fees

Consider the following for the verification of Director's Fees –

- Directors receive fees for attending the Board meetings.
- Verification of attendance register.
- Verification of payment receipt duly acknowledged by the directors.

Internal Control System for Cash Transactions

Following are the main features of a good internal control system –

- All cash received should be accounted for immediately.
- All received cheques should be crossed immediately on receipt.
- Cash receipt should be issued to debtors and daily reconciliation of account should be done where the debtors pay cash on daily basis.
- All cash receipts should be deposited in bank on a daily basis.
- Bank reconciliation account should be prepared on a regular basis.
- Payments other than petty payments should be done through crossed cheques.
- Cash receipt should be obtained for every cash payment to creditors.
- Cash expenses should be duly supported by proper and genuine bills or vouchers.

THANK YOU