

Meaning of Vouching.

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

* It means to test the truth of items appearing in the books of original entry.

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
4. Detects frauds and errors.
5. Ensures proper accounting

Meaning of Voucher.

* A Voucher refers to any documentary evidence in support of an entry made in the books of accounts.

* According to Arthur W. Holmes "A Voucher is documentary evidence in support of a Transaction."

Example:

* Cash memo, bank pay in slip, Minutes of a Meeting, debit notes, Credit Notes.

4. Discuss the difference between Vouching and Verifications?

Vouching	Verification
<ul style="list-style-type: none">* Vouching means checking the accuracy of the transactions recorded in the books of accounts	<ul style="list-style-type: none">* Verification means a process to substantiate the validity of assets and liabilities appearing in the balance sheet.
<ul style="list-style-type: none">* Documentary Evidence	<ul style="list-style-type: none">* Observation and Documentary Evidence
<ul style="list-style-type: none">* Items of profit & loss account	<ul style="list-style-type: none">* Items of balance sheet
<ul style="list-style-type: none">* Audit clerks	<ul style="list-style-type: none">* Auditor
<ul style="list-style-type: none">* Year-round	<ul style="list-style-type: none">* At the end of the financial year
<ul style="list-style-type: none">* To examine the correctness, validity and completeness of the transactions	<ul style="list-style-type: none">* To confirm the Ownership, possession, Existence, Valuation and disclosure of the items appearing on the Balance sheet

Vouching of cash Receipts

* The debit side of cash book shows Opening balance, Cash Sales, Receipts from debtors, Income from interest, dividend, rental income, Commission received, Subscriptions, Sale of Investments, bill receivable bad debts recovered, Insurance claims, Receipts from hire purchase, Sale of fixed assets and Miscellaneous Receipts etc.

* Each item of Receipts is discussed briefly.

Contents

1. Opening balance
2. Cash Sales
3. Income from Interest
4. Dividend
5. Rental Income
6. Commission
7. Subscriptions
8. Sale of Investments
9. Bills Receivable
10. Bad debts recovered
11. Insurance claims
12. Receipts from hire purchase
13. Miscellaneous Receipts.

1. Opening balance. to be

* The first item entered on the Receipt side of the cash book is Opening balance.

* It should be checked with the balance shown in the audited balance sheet of previous year.

* Working Papers May be referred to see that the closing balance of the cash recorded in the balance sheet is the result of many balances.

* Evidences to be vouched include previous year's balance sheet and cash book.

2. Cash Sale:

* Chances of fraud are greater under this head.

* Sufficient care should be taken to vouch documentary proofs in support of sales.

* Various copies of cash memo, Salesman's diary, Cashier Summaries, Counterfoils of Receipt book etc, come under check.

3. Income from Interest.

The Vouchers to be checked out includes passbook, bank advice, Counterfoils, etc.

Depending upon the nature of interest received, evidences are available many for vouching.

Interest income may be received on fixed deposits in bank, Savings bank account, Loans granted,

Semistress held, etc.

* Interest received on fixed deposits in the bank should be verified with the bank advice.

* The arithmetical accuracy of such interest calculations should also be verified.

4. Dividend

* Vouchers to be verified include Counterfoils, dividend Warrant, Passbook etc.

* Dividend received should be verified with the counterfoil or upper part of the dividend Warrant and with the letters received along with the cheque for the amount of dividend.

* Where, shares have been bought cum-dividend or sold ex-dividend, broker's note should be checked.

* This is to ensure that dividends due on those have been received later on.

5. Rental Income

* Vouchers with regard to rental incomes include

- Rent Rolls,
- Lease deed and agreements,
- Counterfoils,
- Correspondence with tenants, etc.

* Rental income may be received in respect of short term or long term leasing of real estates, plant and machinery, construction equipment, etc.

6. Commission

* Documents to be verified include carbon copy of receipts books, agreement between the client and the party, etc.

* Commission is received for rendering service or labours in discharge of certain duties.

* It may be payable as a fixed percentage of the price or amount of the business transacted.

* Commission received should be checked with the amount entered in the cash book.

* The accuracy of the third party regarding rate of commission and basis of the working should also be verified.

7. Subscriptions

* The Vouchers to be verified are: Counterfoil, register of subscribers etc.

A subscription is a contribution towards a fund maintained by a society, club or school.

* The auditor can ensure the entitlement of the receipt of subscription by going through the bye-laws of association or club.

8. Sale of Investments

- * Documents to be verified include:
- Minutes of board of directors.
 - Bank advice, etc.
 - Investments through broker.
 - A broker issues a note on details about the nature or details investment sold, the terms of sale, Mode of payment, etc.
 - It is known as broker's sold Note.

9. Bills Receivable

* The documentary evidences available for inspection includes cash book, Pass book, bills Receivable book, etc.

* The amount received on the bills should be debited in the bills Receivable account and credited in the sundry debtor account.

10. Bad debts Recovered

* The vouchers to be inspected are correspondences between the Official Receiver and the agent, dividend, Hakkant, Counterfoil

Receipts, Credit Manager's file etc.

11. Insurance claims

* The Vouchers in support of insurance claims received are the policy of Insurance, Correspondence with insurer, FIR in case of Theft, accident etc.

* And the report of the Value or assessors.

12 Receipts from the purchase

* Documents such as hire-purchase agreements and evidence in the Nature of Counterfoil of Receipt are to be Vouched.

* The auditor can know about amount of instalment, Number of instalments.

* Hire purchase period and other related terms by studying the hire purchase agreement in details.

* The auditor should keep in mind that instalment includes interest also.

* He should check that the whole amount of instalment is not credited to sales account.

* There should be bifurcation

13. Miscellaneous Receipts

* The documents to be verified are

- Fixed Assets register

- Sales deed.
- Auction Notes
- Broker's sold Note
- Minutes of Directors
- Correspondences Exchanged etc.
- * Sale of fixed Assets by Companies shall be approved by the board of directors.
- * Therefore, the Minutes of the Meeting of directors are to be verified.
- * To ensure that the sale proceeds are deposited in the bank on the very next day, the auditor should verify the cash book, entries on sale of fixed assets and also the bank book.
- * Calculations of profit or loss on sale of fixed assets should be transferred to capital reserve.
- * Miscellaneous receipts should be vouched with the correspondences.
- * Contracts or any other related documents produced in support of the transactions.

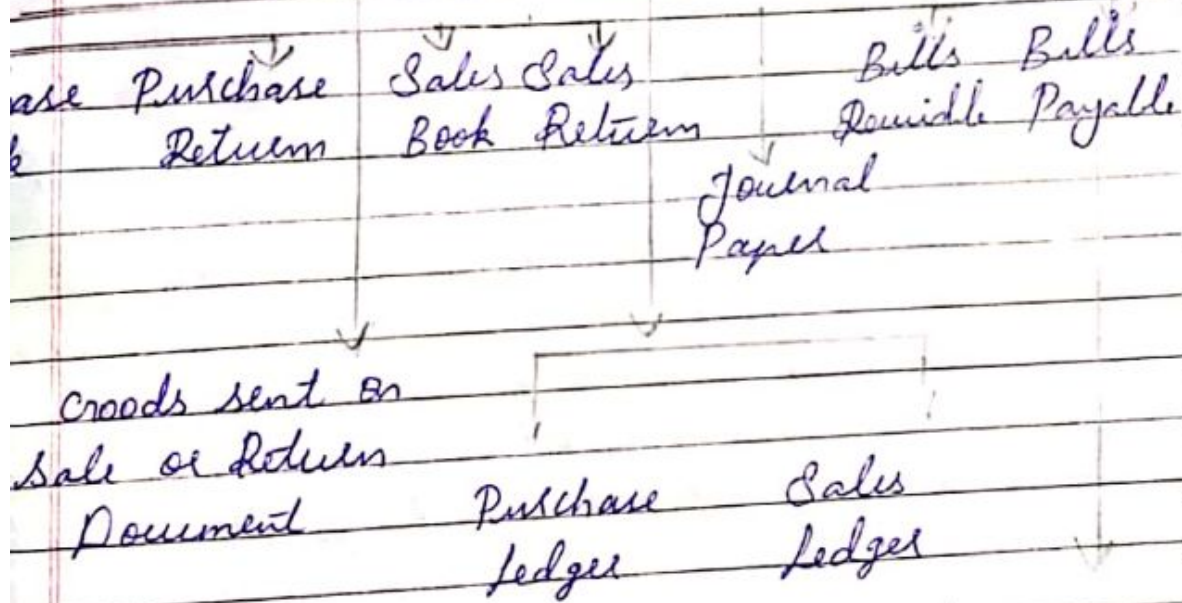
Vouching of cash payment

* Cash payment is defined as a flow of liquid funds given by a consumer to a provider of goods or services as compensation for receiving those products.

* In Most domestic business transactions, a cash payment will typically be made in the currency of the country where the transaction takes place, either in paper currency, in coins or in an appropriate combination.

* Terms used in Vouching of payments -
 Cheque, Cash in hand, Wages, Vouchers, Voucher Numbers, bank Reconciliations, Bank cheques, Monthly accounts, Discounts, Payments Authorities.

Vouching Trading Transactions
(Books Audited)



Consignment Sales

Various Aspects to be Covered in Vouching of Trading Transactions

- * Auditor should ensure Omission-free Transaction.
- * He should ensure adequate

Disclosure under schedule VI of Accounting Standard.

* He should verify the proper segregation of capital and revenue expenditure.

* He should ensure strict and consistent adherence to accounting policies relating to depreciation, amortisation etc.

* He has to verify the procedure adopted to value stock, goods in Warehouse, goods sent on sale or return basis, goods in transit and stock with customers.

* He has to assess the efficacy of internal control and decide the nature, timing and extent of substantive procedures to be followed in large undertakings.

* He has to examine the various controls put in place, purchase procedure, delivery procedure, Material Ordering process and goods receipts procedure.

* He has to verify whether goods returned are supported by debit/Credit Notes.

* He has to ensure compliance with Accounting Standard 2 for disclosing proper value of goods.

Vouching of Purchase Book.

The auditor should keep in mind the following points.

1. He has to ensure the efficiency internal check with regard to purchase.

2. The auditor has to examine the contracts entered into with suppliers in respects of bulk - Purchase and familiarise himself with the terms and conditions of purchase.

3. Auditor has to check the amount of purchase invoice with the entries in the statement of accounts sent by the creditor.

4. He has to scrutinise the terms and conditions of forward contract if any, and eventual settlement.

Suppose commitment under forward contract involves an abnormal sum, he has to mention it as foot note.

5. Where the auditor across duplicate copy to invoice, he has to scrutinise the relevant amount of the creditor in the personal ledgers and make general scrutiny of the invoice standing to the credit of the creditor concerned. He has to make sure that the original been actually lost. He should further examine the goods received note.

6. He should verify rightness of casting, posting and carry forwards

of purchase goods

7. In the case of imported material, foreign invoice, Exchange conversion, sale, shipping bills, clearing and forwarding bills, Outlets, receipts, banker's advice etc. should be scrutinised.

8. Auditor should pay specific attention to purchases made in the first month and the last month of the accounting period because purchase of the last year may be included in the purchases of first month of the current year. Therefore he has to ascertain whether they relate to the period under audit. Besides he has to compare percentage of gross profit on the cost of goods sold with that of previous year. If there is any material variation, the reason thereof should be inquired into. Some the material variation may be due to the fact that purchases might not have been recorded in the purchases book even though they were taken into stock.

9. He should make a list of purchase for which vouchers are missing or which are inadequately vouched for one reason or other and hand them over to Management for clarification.

Vouching Purchase book

Purchase of Goods Vouching Operation

Documents to be Audited has to look vouched into the following

- Purchase invoice With respect.
- Copies of Orders placed
- Goods Received Note relates to current year.
- Copies of Challan
- Goods inward Register
- Stock records.
- To invoice whether the period of purchase
- Whether Purchases from the supplier have been Made in Client's name.
- Whether Names of Creditors agree with those in purchase book.
- Whether the goods are of such nature in which business enterprise deal.
- Whether net discount is shown after deduction the gross discount.
- Whether all the purchases have been authorised by a responsible officer.

Purchase of goods

Vouching Operation

- Auditor has to verify the correctness of classification of Expenditure between Capital and Revenue Nature.
- He has to check purchase invoice with documentary evidences like goods inward note invoice, stock register.
- Where the nature of goods purchased requires chemical analysis, auditor has to see the inspection report of experts.

Vouching of Purchase Returns

A step to vouch the purchase return includes

Document to be Vouched.

- Debit Note
- Purchase Return book
- Statement of account from Creditor.

1. Debit Note

* The auditor should focus on the following while checking debit note:

* It is made in the name of the Supplier

* The Name of the creditor is same

as the one recorded in the purchase returns book

* The date of the debit entry to period under audit

* It bears the initial of officer who initials it as a token of internal checking

2. Purchase Returns

The Entries for goods returned should be checked with the Goods outwards Book / Gate pass.

3. Reasons for Returns

* The auditor should be satisfied with the bonafide of Reasons for purchase Returns.

* Correspondence with the suppliers in this regard should be gone through.

4. Casting and Posting.

* Auditor should verify the correctness of postings, castings and carry forward of purchase returns book.

* The posting to the general ledger should be examined.

5. Manipulation

* The auditor has to examine the purchase returns made in the early part of the year as some fraudsters

May includes fictitious purchase during the period under audit and show them as returns after the end of the accounting period.

b. Statement of Account

* The auditor has to test check some of the debit notes sent to creditors in the light of the statement of accounts sent by the creditor.

Vouching of Sales Book

The auditor has to do the following Vouching Operations.

Document to be Vouched.

- Sales contract
- Tender
- Shipping bills Outlet receipt
- Forward contract
- Goods Outward register

Internal Check system

* He has to examine the internal check system regarding execution of Sales Order.

* Sales book should be checked with copies of invoices which should be marked "Vouched" so that it is not reproduced in support of any other entry.

* He should observe the following things in sales invoice:

1) Name in which sales invoice is made out.

ii) Period of invoice.

* Calculation of trade discount and showing the net sales.

* Names of the debtor agreeing with those in the sales book.

2. Allocation

* He should verify the correctness of sale of goods and sale of assets.

3. Dispatch

* Sale of goods should be checked with documentary evidences like goods outward, goods dispatched register, etc.

* Copies of invoice should be checked with goods outward register to ensure that no sales are omitted in the books.

4. Sales Contract

* He should peruse the terms and condition of sales contracts.

* In the absence of such a contract, he should enquire the sales policy of the Management and setting price quoted in the sales invoice.

5. Authorisation

* Sales invoice should have been authorised by a responsible officer.

6. Statement of Account

* Auditor should test check the amount of sales invoice with the entries appearing in the statement of accounts sent by the debtor / or sent by the client to debtors.

* Besides, statement of account should be verified by obtaining confirmation from debtors.

7. Tenders Quotations:

* Sales invoices should be verified with tenders and quotations if called by its client.

8. Export Sales

* Export Sales should be vouched in light of invoice, shipping receipt, banker's advice, terms of invoice like F.O.R, F.O.B, C.I.F etc.

9. Casting and Posting.

* He should verify the correctness of casting, posting and carry forward of sales book. Posting to the general ledger and those to debtors ledger should be checked.

10. Forward Contract

* Forward contract in respect of sales should be inspected and its

eventual settlement should be verified, possible loss from sales of goods ~~mentioned~~. Under forward contract should be dismissed and provision should be made therefore. Goods actually delivered should be recognised as sales.

11. Sales Tax

* Sales Tax collected through 'VAT' should be recorded under separate accounts.

12. Suppression of Sales:

* The auditor should go into sales booked in the first month and the last month of the accounting period because the sales of the last year may be included in the sale of the first month of the current year and sale of last month of the current year may be recorded in the next year. This would distort the operation status of the concern. Hence, the auditor should carefully vouch these sales.

13. Sales Returns

* The auditor has to check whether goods sent on sale or return basis are not recorded in the sales book until the person who returns

It confirms the sales. If it is treated as sales, adjustment entries should have been made in respect of unsold goods. With the customer and see that such goods are valued at cost price or market price whichever is lower.

14. Year-end Sales.

* In respect of heavy sales during the end of the accounting period, the auditor should see that the goods have debited before the close of the financial year with reference to goods outwards register and see that those goods are not included in the closing stock in the light of stock register.

Vouching of Sales Returns

Following steps should be taken to vouch sales returns.

1. The Auditor should check Credit Note and ensure the following:

- * Name of the credit note to be in client's name.
- Period of the credit note falling under audit period.
- Initial of the officer authorised to approve the sales returns.
- Name of the debtor appearing with the sales returns book.

2. Correctness of Returns Entries

* He has to ensure that debtor account debited each is credited with Returns.

3. Reasons

* The auditor should peruse the correspondence between the debtor and the debtor to figure out the reasons for bulk returns.

4. Casting and Posting

* The auditor should check the lightness of casting, posting and carrying forward of sales returns books.

* Further postings to the general ledger and postings to the debtor ledger should be checked.

5. Manipulation

* Sometimes fraudster may include a fictitious sales during the year under audit and show it as returns after the end of accounting period.

* Hence auditor should focus on heavy returns if any during the beginning and end of the audit period.

6. Inflation of profit.

* The auditor should examine whether all the return has been booked in the sales returns book.

* Goods returned and taken into stock but not recorded in the sales returns books may inflate profit.

* The auditor should compare the goods inward book with sales return book in this respect.

Vouching of Journal Proper

* Entries which cannot be entered in any of the subsidiary books are recorded in the journal proper.

General Steps to Vouch Journal Proper

* Auditor should ensure the every Journal has a narration.

* Transaction has been authorised.

* Transaction is supported by documentary evidence like contract, Minutes, Correspondence, etc.

1. Opening Entries: Opening entries should be checked with reference to previous year's audit working papers or audited balance sheet of the previous year.

2. Closing Entries: It should be audited in the light of audited closing balance of the general ledger.

3. Transfer Entries: The auditor should see whether transfer from one account to another is authorised by responsible officer.

4. Rectification Entries: He should check

PAGE 111
DATE / /

Correctness of rectification entries and see that necessary permission has been obtained from responsible officer.

5. Adjusting Entries: He should scrutinise the correctness of various adjustment entries.

6. Transactions for which there is no book of Original entries: These types of transactions should be vouched in light of correspondence, Minutes of Board Meeting and general Meeting and other relevant documentary evidence, e.g. bad - debts, B/R dishonoured, acquisition of assets and liabilities from vendors. He should check the total of the Journal Vouchers and journal entries.

Vouching of Bills Receivable Book.

The auditor should.

* Check the casting and carry forward of B/R book

* Check the postings from the ledger to the individual customers

* The proceeds of bills discounted and matured should be traced into the cash book or bank statement.

* Auditor should demand certificate in respect of bills sent for collection

* Bills which have become overdue should be scrutinised and fully discussed with the client. A note should be written to disclose the amount of

Contingent liability is the legal.

* Bills on hand should be physically checked and the balance in the bills receivable amount in the general ledger should tally with bills not matured on hand.

* Bills dishonoured should be debited to customers concerned.

Vouching of Bills payable Book.

* Auditor should check casting, Postings and carrying forward of bills payable book.

* Bills paid should be vouched with reference to cash book and the returned bills.

* He should verify that the total of the bills payable book agree with the credit balance on the bills payable account in the ledger.

Vouching of Consignment Sales.

Auditor should check the Undermentioned documents.

- Consignment day book
- Account Sales
- Proforma invoice
- Goods outward, Account Sales.
- Agreement between Consignor and Consignment.

* Price of goods sent should be checked with reference to proforma

invoice.

* Expenses incurred relating to consignment should be vouched in light of cash book and relevant Vouchers.

* As regards goods sent on consignment, a separate book "Consignment outward Journal" should be vouched with reference to copies of agreement, account sales, correspondence and proforma invoice.

* Unsold goods with consignment should be valued either at Market price or at cost price whichever is lower plus proportional expenses incurred on consignment. This should not be treated as sales.

* Where goods are sent on a higher price, the loading factor included in stock is to be reversed.

* Agreement between the Consignor and the Consignee should be perused to discern the Commission and other Expenses shared by the parties to consignment.

* Confirmation of balance should be obtained from the consignee.

* Credit in the consignment account should be checked with the help of account sales received from consignee.

* Where it is desired to show the results of each consignment, goods sent on consignment recorded in consignment day book should be

debited. The auditor should check debit in each of consignment account with reference to proforma invoice. Goods outward Register, Transport documents of the goods and acknowledgement of the goods sent by the consignee.

* Credit in the consignment account should be checked with reference to account sales sent by the ~~consignee~~ consignee.

Vouching of goods sent on Sale or Return document

Document to be Vouched.

- Receipt of approval from customer
- Sales invoice
- Sales Record
- Goods inward book
- Goods outward book.

Vouching Operation

* Auditor should see whether separate record is maintained for the type of sales.

* He should ensure that goods sent or return should not included in the stock until it is confirmed by the buyer within stipulated time.

* The auditor should examine the internal control system in this

regard.

* He should get a statement confirming the goods remaining with customers on approval basis.

* He should check whether goods sent on sales or return has been taken into closing stock as stock with the customer where no intimation is received from customer or the time limit has not ~~not~~ expired.

* He should see the arrangement to get back the goods where the customer informs the return of the goods.

Vouching of Purchase Ledger.

Documents to be Vouched.

- Previous year's audited balance sheet
- Purchase books.
- Goods inwards book.
- A list of creditors.
- Statement of accounts from creditors.
- Creditor ledger adjustment account.

Following steps are taken books of Original entries are vouched.

* The ledger should be vouched with the help of previous year's audited balance sheet, purchase book, goods inwards book, cash book, bank statement, allowance register etc.

* Casting posting and carrying forward of the purchase ledger should be checked.

* A list of closing balances of creditors should be checked with purchase ledger.

* The total accounts of the above ledger in the general ledger should agree with the total of list of balances.

* The casting of schedule of creditors should be checked.

* The purchase ledger balances should be compared with the confirmation or statement of account received from creditors and differences if any, should be clarified.

* Amount remaining unrecorded should be investigated and suggested to be written off.

* Amount due to creditors remaining under dispute should be shown under the head contingent liability under and should be provided for in the account.

* Debit balances on any account should be investigated for ascertaining its recoverability.

* The auditor should demand a schedule of creditors and compare it with the total of creditors ledger. Adjustment account when self-balancing system is practiced.

* He should verify the reasonableness of Reserve Made for discount on creditors.

Vouching of Sales ledges.

Document to be Vouched.

- Bills Receivable book
- Sales Returns book
- Cash book
- Goods outwards book
- Confirmation of balance from debtors
- Debtors ledger adjustment accounts

The auditor should consider the following:

* The audit should see that full payment made by the customer is adjusted for longest outstanding amount. The auditor should investigate the past payments as there is a possibility of Misappropriation through Teeming and Lading.

* Debit balance may arise due to goods in transit are goods with the customer. In this context, he should note whether property in the goods is past on to the buyer or not. Where the property is past, he should see whether entry 'Goods in Transit' or 'goods seller' is made. Where the property in the goods is not past it would remain as a debit balance.

* Opening balance of sales ledges should be vouched with bills Receivable book, sales returns books, cash book, goods outwards book, Journal etc.

* He should see whether cash discount is allowed only for customer

Making payment promptly. He should mention unreasonable allowances if any given to any customer.

* He should verify whether inter-account transfer is authorised by Responsible officer.

* He should check whether the signing of off of old debts is properly authorised.

* Where amount due from the customer is under dispute, he should verify whether proper provision has been made therefor.

* He should take confirmation of balances from debtors to detect fraud and misappropriation of the amount collected.

* Where books are kept under 'Self-balancing System' the total of balance in the schedule of debtors should agree with the total