



PRINCIPLES AND PRACTICE OF AUDITING

6TH SEMESTER B.COM

BANGALORE UNIVERSITY

MODULE 3

VOUCHING

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MEANING OF VOUCHING

Vouching is the act of testing or substantiating the validity, authenticity and accuracy of the entries made in the books of accounts with the help of relevant documentary evidences.

PURPOSES OF VOUCHING

- Proper evidence
- Proper authority
- Right period
- Correct amount
- Capitals & Revenue Analysis
- Purchase for business purpose
- Arithmetical accuracy
- Postings & Castings
- No errors & frauds
- Check for cash balances
- Reporting



PRINCIPLES OF VOUCHING



- **Arrange the voucher**
- **Checking for date**
- **Checking for authority**
- **No manipulation**
- **Compare the amount in words & figures**
- **Transaction must relate to business**
- **Revenue stamps**
- **Consider cancelled vouchers**
- **Examine Minutes' Book, Bylaws, Agreements & Deed of mortgage**



DIFFERENCE BETWEEN ROUTINE CHECKING AND VOUCHING

ROUTINE CHECKING

VOUCHING

❖ Narrow concept

❖ Broad concept

❖ Does not include vouching

❖ Includes routine checking

❖ Checking for castings, carry forwards, postings and balancing

❖ Checking for validity, authenticity and accuracy

❖ Simple and mechanical checking

❖ Intelligent checking

❖ Arithmetical accuracy

❖ Real accuracy

❖ Identifies clerical errors

❖ Identifies error of principle

❖ Reveals minor frauds

❖ Reveals clever & well designed frauds

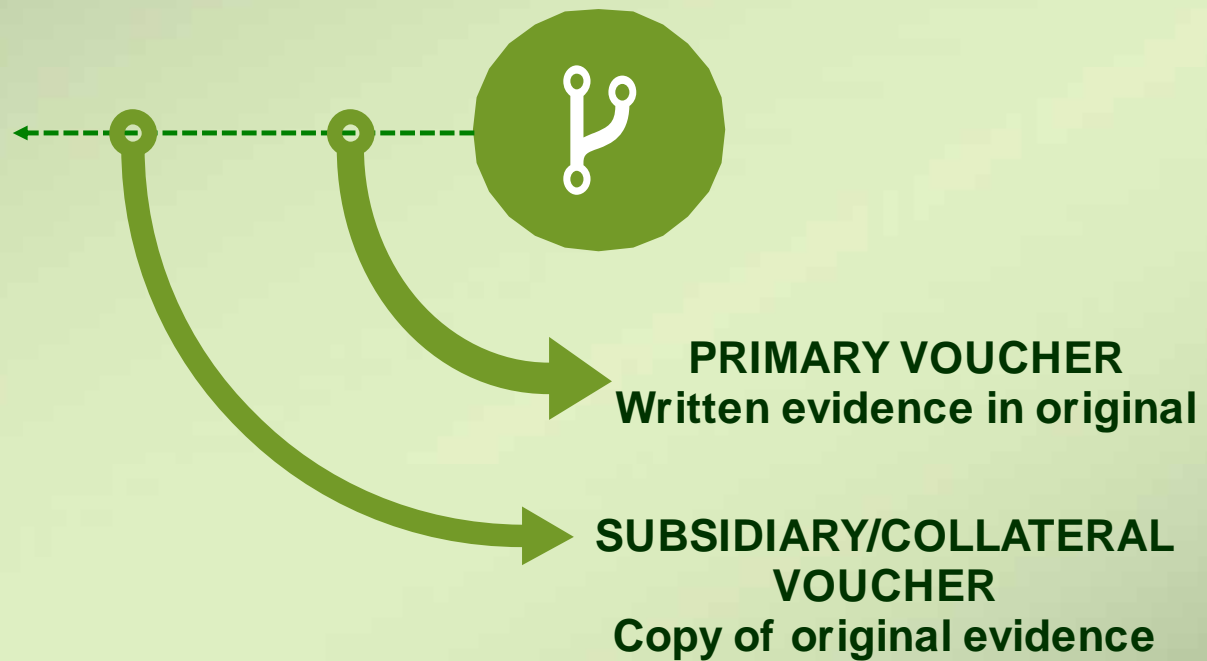
MEANING OF VOUCHER

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

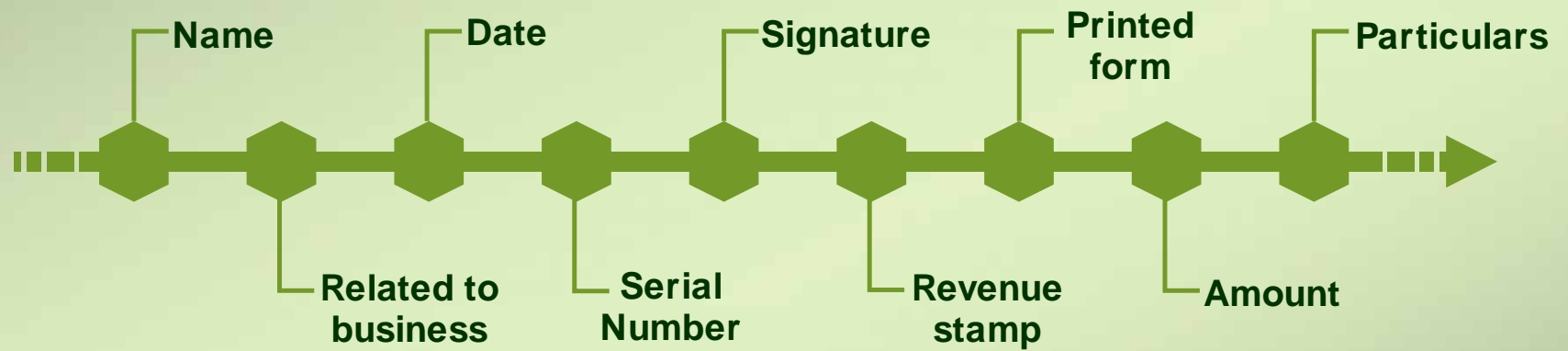
Examples: cash memo, bank pay – in slip, debit & credit notes, bills, wage sheet.



KINDS OF VOUCHERS



CONTENTS OF VOUCHER



IMPORTANT POINTS FOR AN AUDITOR

- Complete the vouching work relating to a particular period or a set of books in 1 continuous sitting
- Must not take the help from his clients
- Test checking may be used, if satisfied with internal check system
- Should not accept a voucher with overwriting
- All the vouchers must be in the name of his client
- Arrange the vouchers in a proper order
- List of missing voucher & demand an explanation



VOUCHING OF RECEIPTS (DEBIT SIDE)





4. SALE OF INVESTMENTS

- **Amount received must be vouched with broker's sold note**
- **When investments are sold through bank, then bank advice must be verified**
- **Compare securities on hand with the amount realized on sale of investments account**

**Documents to be Vouched: Bank advice
and Broker's Sold note.**

VOUCHING OF PAYMENTS (CREDIT SIDE)





1. PAYMENT TO CREDITORS

- Examine the internal check system
- Check entries in cashbook with receipts issued by creditors
- Compare the ledger balances of creditors with statement of accounts sent by them
- All payments made must be properly authorized
- Verify for discounts received

Documents to be Vouched: Receipts issued by creditors, Invoices, Statement of accounts of creditors, Bank statement.

Example

On 12.3.17, Paid cash to Rakesh Rs.22,000 being supplier of goods.

Vouching of Cash paid to Creditors.

Auditor should vouch the transaction in the following manner:

1. Verify entry in Cash Book with respect to date, name of creditor or supplier and amount paid.
2. Verify entry in Creditor or Supplier Account with reference to date and amount.

Cash Book

Dr.				Cr.			
Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
				12.3.2017	By Rakesh a/c		22,000

Rakesh (Creditors) Account

Dr.				Cr.			
Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
12.3.2017	To Cash a/c		22,000				

2. PAYMENT OF WAGES

- Verify internal check as regards to payment of wages
- Check for arithmetical accuracy & calculation of wages
- Ensure no dummy workers or ex – employees are included in wage sheet
- Vouch cashbook with wage sheet
- Vouch cashbook with bank statement
- Verify signature/thumb impression of workers
- Unpaid wages deposited in bank

Documents to be

Vouched: Attendance register, Time or piece records, Leave register, Overtime register, Wage sheet, Bank statement, Register of casual labourers.

Example:

On 5/7/2016, Paid wages by cash for ₹8,000.

Vouching of Payment of Wages

Auditor should vouch the transaction in the following manner:

1. Verify entry in Cash Book with respect to wages paid amount and date of payment.
2. Verify entry in Wages Account with regard to date and amount of payment.
3. Verify entries in Wage Sheet.
4. Verify entries in Pay Roll.

Cash Account

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
				5/7/2016	By Wages a/c		8,000

Wages Account

Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
5/7/2016	To Cash a/c		8,000				

Specimen of Wage Sheet

No. Week ending

Job No. 01			Job No. 11			Job No. 12			Job No. 13		
Clock No.	Hrs.	Am.	Clock No.	Hrs.	Am.	Clock No.	Hrs.	Am.	Clock No.	Hrs.	Am.
Total			Total			Total			Total		

Prepared By

Checked By

Specimen of Payroll

Name	No. of worker	Rate	Total Hrs.	OT Hrs.	Wages	DA	Gross Wages	Deductions				Total Deductions	Net Wages
								ESI	PF	IT	Others		
Total													

Prepared By

Checked By



3. PURCHASE OF LAND AND BUILDING

- Examine title deeds & sale agreements
- If purchased on leasehold basis, verify lease agreement
- If freehold asset, examine correspondence directly from the seller
- Capitalize all expenses
- If purchased through broker, verify brokers note
- If purchased through auction, verify auctioneer statement
- If construction contracts, verify architects certificate

Documents to be Vouched: (1) Title Deeds, Sale Agreements, (2) Lease Agreement, (3) Correspondences with Seller, (4) Auctioneers Statement, (5) Architects Certificate, (6) Contractors Agreement, (7) Receipts.

Example

On 20th April 2016, purchased a piece of land for Rs.1,00,000 and paid cash.

Vouching of Purchase of Land and Buildings

Auditor should vouch the transaction in the following manner:

1. Verify entry in Cash Book with respect to date of purchase, cost, and nature of asset purchased.
2. Verify entry in Land and Buildings Account with regard to date and amount of purchase.

Cash Account

Dr.				Cr.			
Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
				20.4.2016	By Land and Buildings a/c		1,00,000

Land and Buildings Account

Dr.				Cr.			
Date	Particulars	Folio	Amount	Date	Particulars	Folio	Amount
20.4.2016	To Cash a/c		1,00,000				

4. PURCHASE OF PLANT & MACHINERY



- Vouch the invoices & receipts from vendors
- Capitalize all incidental charges & add with the cost of asset
- If hire purchased, verify hire purchase agreement
- If purchased through auctions, verify auctioneers statement
- If imported machinery, import duty & clearing charges debited to asset account

**Documents to be Vouched:
Invoice from Vendors, Receipts,
Auctioneers Statement of Account, Hire
Purchase Agreement**

5. PURCHASE OF PATENTS & COPYRIGHTS

- Patent is an exclusive right or privilege to make or produce something and copyright is a right to produce an item of a particular design
- Obtain the patents and copyrights list from the client & examine with reference to registration number, date, name of the seller, consideration paid
- Verify registration certificates, certificates for grant of patent, documents of assignment, copyright agreements and receipt for renewal fees
- If purchased through broker, brokers commission must be accounted as capital expenditure & should be included in the cost of patent
- If received through research, research expenses must be capitalised
- Ensure that renewal fees paid must not be capitalized but instead should be treated as revenue expenditure
- Ensure that lapsed patents have been written off from the books of accounts

Documents to be Vouched:

- (1) List of Patents and Copyrights,
- (2) Patent and Copyright Agreement,
- (3) Registration Certificates,
- (4) Document of Assignment,
- (5) Receipts

6. CASH PURCHASE



- **The purchases are duly authorized**
- **Ensure that the purchases are related to business only**
- **Vouch with cash memos of the suppliers**
- **Special attention must be paid to trade discounts**
- **Ensure that purchase of any fixed assets must not be included here**

**Documents to be Vouched:
Cash memos, goods inward
book**

7. ACCRUED INCOMES

- Each accrued income is added with the concerned income on the credit side of P/L account & is again shown as an asset on the asset side of the balance sheet
- Examine demand notes, vouchers, etc to ascertain whether the outstanding assets are brought into account or not
- Compare the outstanding assets of current year with those of previous year & enquire into the material difference, if any

**Documents to be Vouched:
Demand notes**

8. PREPAID EXPENSES

- Each prepaid expenses is deducted from the concerned expense on the debit side of the trading account or P/L account & is again, shown as an asset side of the balance sheet
- Examine demand notes, vouchers, etc to ascertain whether the outstanding assets are brought into account or not
- Compare the outstanding assets of current year with those of previous year & enquire into the material difference, if any

**Documents to be Vouched:
Demand notes**

9. INCOME RECEIVED IN ADVANCE

- Each unearned income has to be deducted from the concerned income on the credit side of P/L account & is again shown on liability side of the balance sheet
- Examine demand notes, vouchers, etc to ascertain whether the outstanding liabilities are brought into account or not
- Compare the outstanding liabilities of current year with those of previous year & enquire into the material difference, if any

**Documents to be Vouched:
Demand notes**

10. OUTSTANDING EXPENSES

- Each outstanding expenses is added with the concerned expenses on the debit side of trading & P/L account & is again shown as a liability on the liability side of the balance sheet
- Examine demand notes, vouchers, etc to ascertain whether the outstanding liabilities are brought into account or not
- Compare the outstanding liabilities of current year with those of previous year & enquire into the material difference, if any

Documents to be Vouched:

Demand notes

11. IMPERSONAL LEDGER

- It is a ledger which contains all the nominal, real & personal accounts other than the personal accounts of trade debtors & creditors
- Check the journals & their postings into impersonal ledgers
- Check opening balances with the statement of audited accounts of previous year
- Ensure the totals of subsidiary books have been correctly arrived & posted to concerned accounts
- Check the balances of various accounts in trial balance & debit & credit side must be tallied
- Ensure that the balances in nominal accounts are adjusted according to GAAP

**Documents to be Vouched: Audited
accounts of previous year**

12.BANK ACCOUNT

❖ Payments into the bank

- Compare cashbook with bank passbook
- Vouched with counterfoils of paying – in – book
- Direct payment vouched from bank's advice notes
- Bank's interest on deposits vouched from bank's advice notes
- Note the dates of cash deposits into bank

❖ Withdrawals from the bank

- Compare cashbook with bank passbook
- Vouched with counterfoils of cheques issued
- Bank charges vouched from bank's advice notes
- Note the withdrawal dates

Documents to be Vouched: Bank passbook, paying – in – slip, Bank's advice notes

13.PETTY CASH



- **Checked periodically & ensure that petty cash payments are genuine**
- **Physically count the cash with petty cashbook balance**
- **Petty cashbook must be maintained on the imprest system**
- **All petty cash payments over Rs. 2 are supported by proper vouchers**
- **Vouchers arranged properly & consecutively numbered**
- **Refer nominal ledger to find out whether balances shown in petty cashbook agree with ledger account**

**Documents to be Vouched:
Petty cashbook**

14.SALES BOOK

- **Date of outward invoice agrees with the date in sales book & must fall within trading period under audit**
- **Sales related to business only must be recorded**
- **Check for authorization for goods sold**
- **Only credit sales are recorded in sales book**
- **Sale of capital assets are not included**
- **Goods sold but not delivered are not included in closing stock**
- **Goods sent on sale or return or consignment are not entered**

**Documents to be Vouched: Sales invoice,
statement of accounts to debtors for
confirmation**





15. PURCHASE BOOK

- Purchases related to business only must be recorded
- Check for authorization for goods purchased
- Date of purchase invoice agrees with the date in purchases book & must fall within trading period under audit
- Only credit purchases are recorded in purchase book
- Purchase of capital assets are not included
- If missing invoices, obtain the duplicates & demand an explanation

**Documents to be Vouched: Invoice,
Statements of accounts from the
creditors**

PRELIMINARY EXPENSES

- It is incurred before the commencement of business or for setting up of any undertaking or business
- Check the board resolution approving expenses
- Check bills issued by the printer of MOA & AOA
- Check receipts for the registration fee paid for the company
- Verify rates of stamps required to be affixed on MOA & AOA
- Ascertain Minutes' book for the decision to write off preliminary expenses over a period



**Documents to be Vouched: Bills, Receipts,
Minutes' book**

UNDERWRITING COMMISSION

- It is a contract between company & second party called underwriters, who promise to sell all the shares of the company to public & buy the unsold shares & debentures
- Commission payable is in accordance with articles & statute
- Examine the contract entered into between underwriters & the company
- Examine receipts for the commission paid to underwriters
- Shown separately on the asset side of balance sheet under the head miscellaneous expenditure until written off



Documents to be Vouched: Contract deed, receipts for commission

MEANING OF DEFFERED REVENUE EXPENDITURE



It is a revenue expenditure, which is not completely written off in the year in which it is incurred, but is spread over the years during which its benefit is available

Examples: Preliminary expenses, Brokerage & Underwriting commission for the issue of shares & debentures

