

4.1 MEANING

After preparing Audit note book, audit planning, auditing working papers, audit preparations etc., the next step is to proceed with the examination of accounting entries passed in the books of account during the period under review. In this step the auditor has to check the entries with its supporting documents to determine the accuracy and authenticity of the entries passed by verifying the vouchers, bills and other supporting documents. This process of checking the evidence of the entries called vouching. It may relate to cash as well as trading transactions. Lawrence Dicksee had defined vouching *as an act of comparing entries in the books of accounts with documentary evidence in support thereof.*

4.2 IMPORTANCE OF VOUCHING

It is Often Thought that vouching is mere examination of Voucher with Book Entries but this However is wrong considered. Vouching Comprises of examination of voucher as will satisfy auditor, not only vouchers has to supported by conclusive documentary evidence but it has to be properly made upon books of accounts.

4.2.1 True and Fair

Vouching helps the auditors to ascertain whether the entries in the book are true and fair, this is the basic objective of auditing. Vouching provides audit evidence in respect of following matters:

- **Occurrence:** vouching helps the auditor to ascertain whether the transaction is actually occurred.
- **Amount:** vouching helps the auditor to see whether the transaction is recorded for the right amount.
- **Relevant Entries:** vouching help the auditors to see whether the entries recorded in the books is relevant or not i.e. they relate to the concern and to the current accounting year. Through vouching, the auditors can ascertain whether the entries about the income, expenses, assets etc are relevant.

- **As per Standards:** vouching helps the auditor to verify whether the item is accounted as per the recognized accounting standards, policies and practice.
- **As per Law:** vouching complies the transaction is according to law. E.g. companies law, income-tax act.
- **Disclosure:** vouching enables the auditor to ensure that the item is properly disclosed in the final accounts as required by schedule VI of companies' act 1956.

4.3 POINT TO BE CONSIDERED FOR VOUCHING

Voucher is a document which authorizes an entry into books of accounts. In addition, the voucher may also act an authorization of carrying out actual transaction requiring entry in book of accounts.

1. All vouchers should be consecutively numbered and filed properly.
2. Each voucher should be dated and such date should fall within the financial year under audit.
3. Voucher should be addressed to the client and should relate to business of the client.
4. The amount shown on vouchers should be calculated accurately and amount in words and in figures should match.
5. The signature of the official authorizing the transaction is there on the voucher.
6. Vouchers are properly affixed with a revenue stamp as per the requirements of law.
7. Vouchers originating outside the business are genuine.
8. In case of missing vouchers, the auditor should ask for the reasons for the same & should rely on appropriate evidence, in case of a missing purchase invoice; he may obtain a duplicate copy from the client.
9. The auditor should not seek help of the client's staff while vouching.

4.4 VOUCHING OF INCOME/RECEIPT

General Consideration: Off all the company assets Cash is the most liquid and therefore potentially the most attractive to defalcators. Because of its high liquidity, the cash accounts should always receive the auditor's careful attention. Therefore it is duty of the auditor to

check that cash transactions entered into the books are correctly recorded and all required procedures are followed properly.

To verify cash transactions, it is necessary

1. To verify the system of internal control
2. To check whether all transactions are correctly recorded
3. There is documentary evidence for every transaction.
4. Proper disclosure of these transactions is made in financial statements.

4.4.1 Procedure for Audit of Receipt

Checking receipt and entry in the books of accounts

1. **Name of Client:** Auditor should check that name of the client in the cash book and name of the client on the receipt is same.
2. **Date of Vouchers:** Auditor should see that date on the voucher and date of entry in the cash book are same and fall in the current accounting year
3. **Serial Number of Vouchers:** it should be continuous.
4. **Amount in Words and Figures:** auditor has to confirm that amount written on the voucher in words and in figures is the same he also has to ensure that the same amount is entered in the cash book.
5. **Head of Account:** auditor should ensure that the entry of the voucher is made under proper head of account. It should be same in the voucher and in the books of account.
6. **Signature of Person Preparing Voucher:** this helps to fix the responsibilities for any errors in the voucher
7. Signature of authorized by the proper officer having authority to do it. It should bear signature of that officer. This proves that entry is valid and genuine.
8. **Signature of the Receiver:** this is the proof that the amount was actually received by the concern. The signature should be on revenue stamp if the amount exceeds ₹ 500.

4.4.2 Audit of Specific Cash Receipt

Cash Sales: Cash Sales are sales of goods and services where cash is collected at the time the good or service is supplied. Units are considered to be Cash Sales units if they are involved with these types of transactions. Cash sales include cash and GST collected for such

things as user or registration fees for conferences, field trips, camps or memberships. Cash Sales units need to comply with the Cash Sales Procedure and the University's Cash Receipting and Banking procedures.

Payment for Cash Sales can be in the form of currency (bank notes and coin), cheques, bank drafts, money orders, credit and debit cards, or Electronic Funds Transfer (EFT).

Vouching of 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.

1. **Income from Investment:** Income coming from interest payments, dividends, capital gains collected upon the sale of a security or other assets, and any other profit that is made through an investment vehicle of any kind.

Generally, most people earn a large portion of their total net income through employment income. However, disciplined saving and investment in the financial markets can grow moderate savings into large investment portfolios, yielding an investor a large annual investment income.

In income statements of publicly traded companies, you will commonly see an item called investment income (or

losses); this is where the company reports the portion of the net income that was obtained through investments made with surplus cash as opposed to being earned with the company's usual line of business.

In some instances employers may see fit to offer their employees a number of benefits in addition to their salary. These often include fringe benefits such as pension contributions or access to a private healthcare scheme. Sometimes, however, employees may also be offered interest-free or low-interest loans.

Loans from employers are sometimes offered solely for specific purposes. For example, many companies have begun offering interest-free loans in order that employees can purchase bicycles or public transport passes in an effort to reduce the company's overall carbon footprint. Others offer such loans for their employees to buy gym membership in order to encourage general workplace well being. In some circumstances, however, employers may offer low-interest or interest-free loans for any purpose, acting therefore as a sort of personal bank to their employees.

2. **Rental Receipt:** Check the copies of the bill issued to the tenants by reference of copies of the tenancy agreements and bill of charges paid by the landlords on behalf of the tenants.

The amount collected from the tenants on account of the rent should be checked by the reference to receipt issued to them.

At the end the register should be scrutinized to find amount or rents which are not recorded and are considered bad or irrecoverable, for deciding whether these should be written off.

Verify the particulars of total accommodation available for being let out in different building or belonging to the client.

3. **Sale of Investment:** The person who is authorized to purchase an investment can sell an investment. Thus, in case of a company, an investment can be sold only by the board of directors and in case of trust of the trustees acting together.

The sale proceed of investments are vouched by reference to brokers sold note where share have been sold ex-dividend; collection of dividend subsequent to the sale is vouched. If on other hand shares can be sold cum dividend, it should be verified that the part of sale proceeds attributable to the right to receive the dividend has been adjusted as an item of income.

For this purpose the cost of investment is determined either on the first in first out basis or an average cost basis. Whatever method is adopted, the same should be followed consistently from year to year.

4. **Sale of Assets:** The sale of asset should be under proper authorization.

Another important aspect which requires consideration is the basis of sale, whether by auction or by negotiation.

Check that the amount of sale proceeds has been properly accounted for.

Ensure that the profit or loss arising on sale of assets is properly accounted in the books of accounts.

5. **Commission Received:** Auditor should check the following points:

Supporting documents: The commission received should be supported by- (1) copy of the bill of the client (2) copy of agreement showing rate of commission.

Name: Name of the concern on the bill on the receipt registered and in the supporting document should be of the client.

Date: Date on the bill in the receipt registered and in the supporting document should tally and pertain to the current year.

Sr. no: Serial number on the bills should be continuous and tally with those in the books.

Amount: amount in figures and words on the bills should be the same and tally with the amount in the books and the supporting documents

Rate/amount: the rate/amount mentioned in the bills should tally with the supporting documents and the entry in books.

Signature on bills: the bills should be signed by (a) an authorized official of the client to indicate the approval and (b) the person preparing the bill and the person making entry in the register so as to fix the responsibility for any error

Errors and frauds: auditor should ensure that there are no errors of commission or omission. He should pay particular attention to the transaction close to the year-end; i.e. the cut-off date. Auditor should note the amount and the rate of commission for overall reconciliation.

Proper accounting: Auditor should see that commission received is properly accounted in the books. The amount in the bills should be debited to cash/bank or party and should be credited to miscellaneous income and not to the sales A/c.

4.5. VOUCHING OF EXPENDITURE

4.5.1 General Considerations

In any business, cash transactions form the largest bulk of transactions. However, there is maximum scope for frauds in these transactions. Therefore it is duty of the auditor to check that cash transactions entered into the books are correctly recorded and all required procedures are followed properly.

To verify cash transactions, it is necessary

1. To verify the system of internal control
2. To check whether all transactions are correctly recorded
3. There is documentary evidence for every transaction.
4. Proper disclosure of these transactions is made in financial statements.

4.5.2 Procedure for Audit of Payments

Checking vouchers and entry in the books of accounts

Name of Client: Auditor should check that name of the client in the cash book and name of the client on the voucher is same.

Date of Vouchers: Auditor should see that date on the voucher and date of entry in the cash book are same and fall in the current accounting year.

Serial Number of Vouchers: It should be continuous.

Amount in Words and Figures: Auditor has to confirm that amount written on the voucher in words and in figures is the same he also has to ensure that the same amount is entered in the cash book.

Head of Account: Auditor should ensure that the entry of the voucher is made under proper head of account. It should be same in the voucher and in the books of account.

Signature of Person Preparing Voucher: Once voucher is prepared, it has to be signed immediately by the person preparing it. This helps to find out the person who made error preparing the voucher.

Signature of authorized by the proper officer having authority to do it. It should bear signature of that officer. This proves that entry is valid and genuine.

Signature of the Payee: Voucher should have signature of the payee. This is a proof that the amount was actually received by the client.

4.5.3 Audit of Payments of Specific Transactions

1. Purchases

- 1. Supporting Documents:** Purchases can be either in cash or on credit. Cash purchases should be verified with a. cash memos or b. invoiced received from supplier In case of imported goods, import license, bill of entry, custom duty receipt etc can be checked by the auditor
- 2. Name of Client:** Name of client i.e. name of the concern from whom purchases are made should be same on invoices, Purchase day book as well as on any other supporting document.
- 3. Date:** Like the name, date of invoices, purchase day book and any other supporting document should be same
- 4. Serial Number:** Serial numbers on purchase vouchers should be continuous and should tally with those entered in Purchase register.
- 5. Amounts:** Amounts written on vouchers. In words in figures should match. They should tally with amount entered in the books of account as well as with any other supporti9nfg document.
- 6. Quantity:** Quantity entered in the Purchase book should tally with supporting document i.e. delivery challan, transporter's bill, octroi receipt, entry in the Stock Books etc.

7. **Signatures on Vouchers:** The purchase vouchers must be signed by.
 - (a) Authorized officer of the client.
 - (b) Person who prepares the voucher and
 - (c) Person making entry in Purchase day book.
 - (d) This will help in recognizing at what point and by whom error or fraud is made.
8. **Signature and Stamp of the Client:** the purchase bill received from the client should have signature and stamp or seal of the client.
9. **Distinction between Payment of Goods and an Advance:** it is necessary to make distinction between payment for goods and an advance against supplies to be made in future.
10. **Errors and Frauds:** Auditor should ensure that there are no frauds and errors in the books as well as in the invoices. There are no errors of omission as well as commission.

2. Wages and Salaries

Vouching of Salaries:

While die salaries auditor should pay attention to the following points:

1. The auditor should check the salary book.
2. He should check the salaries actually paid during the year.
3. He should compare the salary book and cheque drawn for a particular month.
4. He should compare salary book with the cash book.
5. Auditor should see that sign of each employee are available on the book.
6. Auditor should also examine, terms and conditions of the officers employment.
7. Revenue receipts should also be checked by the auditor.
8. Auditor should also verify that all the deductions like income tax, and other funds have been credited in the irrespective accounts.
9. He should also check that unpaid salaries are taken into account for that period.
10. Auditor should also check that increment given to the employee was due or not.

Vouching of Wages:

To vouch the wages following points must be considered :

1. **Checking of Internal System:** Auditor should satisfy himself testing the system of internal check that internal control system is sufficient to provide a reasonable protection against errors.
2. **Checking of Calculations:** Auditor should apply the test check to see that all the calculations are correct.
3. **Checking of Wages Sheet:** Auditor should examine the time work wages and piece work wages thoroughly.
4. **Computing System:** Auditor should check that wages computing paying system is sound or not.
5. **Nature of Payment:** The nature of payment in both the cases (time and piece of work) must be checked by the auditor that it is actually in practice or not.
6. **Same Cash paid and Drawn:** It should be also checked by the auditor that amount paid should be same which is drawn.
7. **Checking of Names:** Auditor should check that payment has been made to those, employees whose names are given. He should check that there should be no dummy worker in them.
8. **Proper Signature:** He should check that wages sheets should be properly authorized and signed by the reasonable officer.
9. **Signature Verification:** Auditor should verify signature and thumb impressions of workers by using the test check. He can compare with previous month.
10. **Unpaid Wages:** He should check that all unpaid wages are taken into account or not.
11. **Deductions:** Auditor should also check that deductions like income tax are properly made in their relative heads.

3. Advertisement Expenditure**1. Supporting Documents:**

- (a) Bill from the advertising agency
- (b) Proof of appearance of advertisement from the concerned medium,
- (c) Contract with the advertising agency about the terms and conditions

2. **Relate to Clients Business Only:** The advertisement expenses should be related to client's business only

3. **Date of Advertisement:** The advertisement should have appeared in the current financial year only.
4. **Amount:** Total amount spent for advertisement expenses be verified from the receipts from the medias or advertisement agency
5. **Detailed about Appearance of Advertisement:** The auditor should obtain the complete list of advertisement, media wise i.e. Newspapers, television, magazines, radio etc. showing the dates, exact location, timing etc. along with amounts paid in respect of each category.
6. **Regular Contracts:** If there is regular contract for advertisement with ad agency. Auditor should check regular statements obtained from the agency showing the advertisement made and amounts debited to the client
7. **Accounting Principles and Practices:** The auditor should check that while recording the payment for advertisement expenses basic accounting principles are followed properly. E.g. classification of heavy advertisement expenses into capital and revenue expenditure, pre-paid and outstanding expenses, Etc.
8. **Disclosure:** The auditor sees that outstanding advertising expenses have been properly disclosed on the liabilities side of the balance sheet.

4. Travelling Expenses:

1. **Supporting Documents:**
 - (a) Name and designation of the person claiming the amount
 - (b) Particulars of the journey.
 - (c) Amount of railway or air fare
 - (d) Amount of boarding or lodging expenses or daily allowance along with dates and times of arrival and departure from each station
 - (e) Other expense claimed i.e. conveyance, tips, etc.
2. **Attachments of Counterfoils:** If the journey is undertaken by the air, the counterfoil of the air ticket should be attached to the voucher. The auditor has to check the counterfoil along with the voucher.
3. **Related to Client:** The travelling expenses should be related to the business only it should not have been paid for personal travel of any employee.

4. **Date of Document:** The travel should have been taken place during current year only. The documents presented should also bear the date during the current year.
5. **Amount:** The auditor has to check that the amount in the ticket either air or rail. The amount mentioned in the voucher and the amount entered in the books is the same.
6. **Authorization:** All the vouchers should be authorized by a senior officer having authority to do that work.
7. **Approval by the Board of Directors:** In case of foreign travel. Or any extraordinary travel, the expenses, before being paid, should have been approved by the board of Directors.
8. **Advances Taken:** If any advances have been taken for the traveling expenses, they should be settled on the receipt of final bills.
9. **Accounting Principles and Practices:** The basic accounting principles and practices should be followed properly while recording the travelling expenses.
10. **Disclosures:** If the travelling expenses are more than 1% of the turnover, they should be disclosed separate. Same way amount spent on directors traveling should also be disclosed separately advance taken has to be settled against the final bills but if any amount is not settled that has to be shown appropriately in the Balance Sheet.

5. Petrol Expenses:

Auditor should audit the Petrol expenses in the following manner:

1. **Policies of the Organization:** Different organization follows different policies in this respect. Government employees of a particular grade get the Petrol expenses for vehicles used even for personal purpose.
2. **Supporting documents:** Most of the times petrol expenses are reimbursed on presenting the receipt of the petrol the auditor should check that the reimbursement is made on production of these receipt
3. **Purpose of Travel:** If the petrol expenses are paid only for official traveling the auditor should ensure that this policy is followed properly.

4. **Date of Document:** The expenses should have been taken place during current year only. The documents presented should also bear the date during the current year.
5. **Amount:** The auditor has to check that the amount in the ticket either air or rail. The amount mentioned in the voucher and the amount entered in the books is the same.
6. **Authorization:** All the vouchers should be authorized by a senior officer having authority to do that work.

6. Printing and Stationery:

1. **Quotations:** As per requirements, quotations should obtain from the sealing agency. Auditor should check the actual amount spent with the quotations
2. **Supporting Documents:** The amount spent on purchase of stationary and even for printing should be verified with the supporting documentarily evidences like vouchers, receipts etc. Auditor should ensure that amount charged by the supplier is as per the quotation given in the beginning
3. **Amount:** The amount spent should be recorded under proper head with the proper amount
4. **Stock:** The physical stock of the stationary has to be verified. The balance of stationary at the beginning of the Period, the stock purchased and balance of stationary at the end of the period has to be verified by the auditor, the amount of Stock shown in the records should match with the Physical Quantity.
5. **Dispatch:** Stationary is required by the each an every department in the organization. The orders have to be placed as per the requirements of each department. Even after receipt of stationary it has to be dispatched properly to the respective department against requisition lips give by them.
6. **Misuse:** Auditor should check that there is no misuse of the stationary.

Stationary should not be used for personal purposes.

7. Electricity Expenses:

1. Supporting Documents:
 - (a) Electricity Bills
 - (b) Vouchers
 - (c) Payment receipts

2. Factory and Office Expenses: Auditor should ensure that proper distinction between electricity expenses of factory and electricity expenses of office is made.

4.6 EXERCISE

1. Multiple Choice Questions

- (a) Process of checking the evidence of the entries called _____.
 - (i) Verification
 - (ii) Observation
 - (iii) Vouching
 - (iv) Inspection
- (b) To verify cash transactions, it is necessary
 - (i) System of internal control
 - (ii) Check all transaction
 - (iii) documentary evidence for every transaction
 - (iv) All of the above
- (c) In case of a company, an investment can be sold only by
 - (i) Board of director and trustees
 - (ii) Any employee
 - (iii) Auditor
 - (iv) Manager
- (d) Total amount spent for advertisement expenses be verified from the
 - (i) Receipts from the Medias or advertisement agency.
 - (ii) Fixed assets register
 - (iii) Debtors books
 - (iv) None of the above
- (e) In case of foreign travel. Or any extraordinary travel, the expenses, before being paid, should have been approved by auditor.
 - (i) An auditor
 - (ii) Employee
 - (iii) Board of director
 - (iv) Anyone in the organization

- (f) Vouching helps the auditors to ascertain whether the entries in the book _____, this is the basic objective of auditing.
- (i) True and fair (ii) Only true
 (iii) Only fair (iv) None of the above
- (g) Voucher should be addressed to the _____.
- (i) Auditor (ii) Client
 (iii) employee (iv) None of the above
- (h) Serial number of vouchers should be _____.
- (i) Colored (ii) Continuous
 (iii) Even number (iv) Odd number
- (i) Telephone charges should be examine on the basis of _____.
- (i) Cash memo
 (ii) Agreement with telephone department
 (iii) Telephone bills
 (iv) All of the above
- (j) _____ documents is not relevant for vouching cash purchase
- (i) Purchase invoice
 (ii) Goods inward register
 (iii) Attendance records of cashier
 (iv) Purchase order
- (k) The auditor will examine bills of entry in order to vouch _____.
- (i) Local purchase (ii) Cash purchase
 (iii) Import goods (iv) Export goods
- (l) Insurance premium should be examined on the basis of _____.
- (i) Insurance policy
 (ii) Insurance premium receipt
 (iii) Entries in the bank statement
 (iv) All of the above

[Ans.: (a) - (iii), (b) - (iv), (c) - (i), (d) - (i) - (e) - (iii), (f) - (i), (g) - (ii), (h) - (ii), (i) - (iv), (j) - (iii), (k) - (iii), (l) - (iv)]

2. State whether True and False

- (a) Process of checking the evidence of the entries called vouching.
- (b) All vouchers should be consecutively numbered and filed properly.
- (c) The person who is authorized to purchase an investment cannot sell an investment.
- (d) The advertisement expenses should be related to client's business only
- (e) In case of foreign travel. Or any extraordinary travel, the expenses, before being paid, should have been approved by auditor.
- (f) Travelling expenses are more than 5% of the turnover, they should be disclosed separate.
- (g) Verification helps the auditor to ascertain whether the transaction is actually occurred.
- (h) Name of the client in the cash book and name of the client on the receipt is should not be same.
- (i) Serial number of vouchers should be continuous.

[Ans.: (a) - True, (b) - True, (c) - False, (d) - True, (e) - False, (f) - False, (g) - False, (h) - False, (i) - True]

3.A. Match the Column

Column A	Column B
1. Vouching	(a) Debit notes from customer.
2. Sales	(b) Salary register
3. Amount	(c) Process of checking the evidence of the entries
4. Salary	(d) Amount in words and in figures should match.
5. Purchase	(e) Bank statement
	(f) Cash memo

[Ans.: 1. - (c), 2. - (f), 3. - (d), 4. - (b), 5. - (a)]

3.B. Match the Column

Column A	Column B
1. Voucher	(a) Signature of payee on revenue stamp
2. Cash payment exceeding ₹ 5,000	(b) Bank statement
3. Wages	(c) Signed by authorized person
4. Interest	(d) Supported by cash memos
	(e) Cash Book

[Ans.: 1. - (c), 2. - (a), 3. (d), 4. (b)]

4. Answer in One Sentences

1. What do you mean by vouching?
2. Explain one importance of vouching.
3. Give one point to be consider while vouching.
4. Give two examples of internal document for vouching.
5. Give two examples of external document for vouching
6. Give any two documents for vouching of cash sales.
7. Give any two documents for vouching of rental receipt.
8. Give any two supporting document for the vouching of purchase.
9. Give any two documents for vouching of wages
10. Give any two documents for vouching of salaries.

5. Theory Question

1. Explain the term vouching.
2. Explain the term true and fair in respect to vouching.
3. List out the important point while considering for the vouching.
(Oct 2003)
4. Explain the procedure for the audit of receipt.
5. Explain the vouching of cash receipt.
(April 2001)
6. How you will vouch the income from investment.
(April 2009)
7. Write short note on vouching of Rental receipt.
8. How you will vouch sale of investment?
(Oct 2002)

9. How you will vouch sale of assets?
10. Write short note on vouching of commission received.
11. What are the general considerations for vouching of expenditure?
12. What are the procedures for the audit of expenditure?
13. What are the points to be considered for purchase?
14. Explain the vouching of salary.
(April 2000, April 2008)
15. Explain the vouching of wages.
16. List out the important point while vouching advertisement expenditure.
(April 2000, April 2007, Oct 2011)
17. Explain the vouching of travelling expenditure.
(April 2006, April 2010)
18. List out the vouching of petrol expenses.
19. Explain the vouching of electricity expenses.
20. List out the vouching of printing and expenditure.