



# AUDITING PAPER II

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# Auditing Paper – II

(As per the Revised Syllabus of BAF Sem-III, 2014-2015)

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**First Edition : 2014**

**Reprint : 2015**

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<b>Published by</b>	: Mrs. Meena Pandey for <b>Himalaya Publishing House Pvt. Ltd.</b> , "Ramdoot", Dr. Bhalerao Marg, Girgaon, Mumbai - 400 004. Phone: 022-23860170/23863863, Fax: 022-23877178 <b>E-mail: himpub@vsnl.com; Website: www.himpub.com</b>
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<b>DTP by</b>	: <b>Sanhita D. More</b>
<b>Printed at</b>	: Rose Fine Art, Mumbai. On behalf of HPH.

# Preface

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“It is an exciting time to be an accountant.” This is the way we’ve started our auditing lectures since the last five years. With all of the changes that have occurred in the audit environment, it is an exciting time to study accounting and to be an auditing teacher.

This book recognizes the changes that have occurred in the profession in the past 10 years: new regulatory boards, ever changing auditing and accounting standards, and a move in the profession to merge US Standards with International Standards. All of these changes make this an exciting time to work as an auditor.

**Why a new auditing textbook?** — This textbook was written to combine the teaching of theory and practice. Accounting students usually do not like theory; they are happier solving problems and focusing on “practical” issues. Contemporary texts weigh heavily on theory, many of them devoting most of the first half of the text to theory and waiting until the second half to address the issues and the problem solving of auditing. In our teaching experience, we have found that students often thought the theory sections to be boring, causing them to become discouraged and stifling their interest in the business process rules that came later in the course. Obviously, students need a theoretical basis so they can understand the logic of audit practice, but current textbook approaches need to be modified.

Introducing the reading of ledger accounts early in the text allows instructors to talk about audit theory and concrete examples and challenging problems for resolution. This approach promises to help students see that theory is important to grasp because it supports problem solving and can be learned in relation to practical issues encountered in business environments. Such linkage, we think, supports student learning. Students’ experience of connecting theory to practice through specific problem solving exercises shows them the importance of theory and that it is useful because it shows how the professional addresses practical issues as they arise. Having used this approach, we find that an early mix of practical and theory works well.

Change makes it difficult for a teacher to keep up with the current rules and regulations. Students do not fully appreciate how much things have changed because they don’t have a long history with the profession. This book is designed to educate the teacher as well as the student. Auditing standards from three sources are listed at the beginning of each chapter: the PCAOB, the Auditing Standards Board, and the International Auditing and Assurance Standards Board. Changes to these standards will be posted to the book’s website as soon as they are passed—and there will be changes. The Auditing Standards Board will soon reissue all auditing standards after they have been converged with international auditing standards. This will result in a complete renumbering of auditing standards. The PCAOB will continue to issue new standards, and the interim standards it adopted in 2003 will be revised. The book concludes with chapters on procedures performed at the end of the audit of limited companies and other concerns and audit reports and on the audit profession.

The syllabus contains a list of the topics covered in each chapter which will avoid the controversies regarding the exact scope of the syllabus. The text follows the section-wise, chapter topic pattern as prescribed in the syllabus. We have preferred to give the text of the section and rules as it is and thereafter added the

comments with the intention of explaining the subject to the students in a simplified language.

While making an attempt to explain in a simplified language, any mistake of interpretation might have crept in. This book is a unique presentation of subject matter in an orderly manner. This is a student-friendly book and tutor at home. We hope the teaching faculty and the student community will find this book of great use.

We welcome any recommendation for improvements of this textbook. It is our belief that comments or suggestions for additions, deletions, corrections, rearrangements, etc., from readers will enhance future editions.

We are extremely grateful to Mr. Pandey of Himalya Publishing House Pvt. Ltd. for their devoted and untiring personal attention accorded by them to this publication.

We gratefully acknowledge and express our sincere thanks to the following people without whose inspiration, support, constructive suggestions this book would not have been possible.

**Mr. Jitendra Singh Thakur (Trustee, Thakur College)**

**Dr. Chitali Chakraborty (Principal, Thakur College)**

**Mrs. Janki Nishikant Jha**



**Authors**

# Syllabus

Sr. No.	Modules/ Units
<b>1</b>	<b>Vouching</b>
1.1	Audit of Income Revenue from Sales and Services, Rental Income, Interest and Dividends Income, Royalties Income, Recovery of Bad debts written off, Commission Received
1.2	Audit of Expenditure Purchases, Salaries and Wages, Rent, Insurance Premium, Telephone Expense, Petty Cash Payment, Advertisement, Travelling Salesmen's Commission, Freight Carriage and Custom Duties
<b>2</b>	<b>Auditing Techniques: Verification</b>
2.1	Audit of Assets Plant & Machinery, Furniture and Fixtures, Accounts Receivable, Investments, Inventory, Goodwill, Patent Rights
2.2	Audit of Liabilities Outstanding Expenses, Accounts Payable, Secured Loans, Unsecured Loans, Contingent Liabilities, Public Deposits
<b>3</b>	<b>Audit and Assurance Standards</b>
3.1	Significance of the Audit and Assurance Standards Issued by Institute of Chartered Accountants of India Responsibility of Auditor for AAS
3.2	Understanding of Following Standards SA 200 Basic Principles Governing an Audit SA 200A Objective and Scope of the Audit of Financial Statements SA 230 Audit Documentation SA 320 Audit Materiality SA 570 Going Concern
<b>4</b>	<b>Audit of Limited Companies</b>
4.1	Qualifications, Disqualifications, Appointments (First and Subsequent Auditor), Reappointment, Removal of Auditors.

# Question Paper Pattern

Maximum Marks: 75

Questions to be Set: 05

Duration: 2  $\frac{1}{2}$  Hrs.

All questions are compulsory carrying 15 marks each.

Q-1	Compulsory – No Option - Objective Type (a) Sub Question to be asked 10 and to be answered 08 (b) Sub Question to be asked 10 and to be answered 08 (True of False, Multiple Choice, Answer in One Sentence, Match the Following)	15 Marks
Q-2	Full Length Question OR	15 Marks
Q-2	Full Length Question	15 Marks
Q-3	Full Length Question OR	15 Marks
Q-3	Full Length Question	15 Marks
Q-4	Full Length Question OR	15 Marks
Q-4	Full Length Question	15 Marks
Q-5	Full Length Question OR	15 Marks
Q-5	Short Notes To be Answered 05 To be Answered 03	15 Marks

**Note:** Full length question may be sub-divided into two sub-questions of 08 and 07 marks.

# Contents

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1. Vouching	1 – 26
2. Verification	27 – 56
3. Standards on Auditing	57 – 99
4. Audit of Limited Companies	100 – 123





# 1

## **CHAPTER**

# Vouching

### **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.”

### **Importance of vouching**

It is often thought that vouching is mere examination of voucher with book entries but this however is wrongly considered. Vouching comprises of examination of vouchers that will satisfy auditor. Not only vouchers has to be supported by conclusive documentary evidence but it has to be properly made upon books of accounts.

### **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 has actually occurred.
- **Amount:** Vouching helps the auditor to see whether the transaction is recorded for the right amount.

- **Relevant entries:** Vouching helps the auditors to see whether the entries recorded in the books are 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.

### **Points 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 and 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.

## Vouching of Income/Receipt

### General consideration

Of 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 the duty of the auditor to check that cash transactions entered in 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.
  - 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 in continuation.
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 help to fix the responsibilities for any errors in the voucher
7. **Signature of the receiver:** This is the proof that the amount was actually received by the concern. The signature should be on a revenue stamp if the amount exceeds ₹ 500.

### **Cash Sales**

Cash Sales are sales of goods and services where cash is collected at the time goods or service is supplied. 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 Cash Receipt 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.

#### **Sales on Approval**

1. Document to be seen (Sale or return day book): Examine the sale or return day book for the manner of accounting.
2. Check actual movement of goods from dispatch register/goods outward book. Note the period of approval in the case of different goods/customers.
3. Verify whether goods returned have been properly reversed in the day book.
4. Order book or confirmation book: Examine this register to verify sale confirmed by customers and goods held by customers at their end as sale or return stock.
5. Sales register: Ensure that sales have been recognised whenever- (a) approval is received from the party; or (b) goods are appropriated by the party; or (c) period of approval has expired and goods have not been returned.
6. Stock registers and statements: Ensure that closing stock includes goods lying with customers in respect of which period of approval has not expired.
7. Ensure that goods validly returned by customers are duly accounted in stock.

#### **Consignment Sales**

1. Document to be seen (Consignment agreement):- Ascertain and note the following terms and conditions like commission due, manner of payment, adjustment, etc.
2. Risk of bad debts- in case of del credere commission:- Consignee has to bear the risk of bad debts; else bad debts are borne by the consignor.
3. Reimbursement of consignment expenses.
4. Goods outward book: Verify goods despatched by reference to the proforma invoice, consignment day book, goods outward book, transport documents,

acknowledgement of the goods by the consignee and the account sales.

5. Stock registers: Ensure that the stock lying with consignee at the year end is taken in the balance sheet at cost on a consistent basis and credited to the consignment a/c to arrive at the result of consignment transactions.
6. Ensure that no profit is taken for the profit on goods remaining in the hands of the consignee.
7. Account sales: Verify whether consignment sales are accounted by crediting consignment account and debiting the consignee's account.
8. See whether the summary of transactions reported, i.e., sales made, expenses incurred, commission due, remittance made, balance stock, and amount due from/to either party is properly disclosed in the general ledger.
9. Consignment account: When the goods are consigned above cost, ensure that necessary adjustments to remove the loading are made at the end of the year.
10. Verify whether necessary adjustments are made at the yearend in respect of unsold goods, commission and expenses incurred by the consignee.
11. Confirmation: Obtain confirmation of the account balance from consignee.

### **Recovery of Bad Debts Written Off**

- (i) Ascertain the total amount of bad debts.
- (ii) Ensure that all recoveries of bad debts have been properly recorded in the books of account.
- (iii) Examine notification from the Court liquidator of company or from bankruptcy trustee, letters from collecting agencies or from debtors should also be seen.
- (iv) Check Credit Manager's file for the amount received and see that the said amount has been deposited into the bank promptly.

### **Sales Return**

- (i) Examine the accounting basis for such transactions with reference to corresponding Debit Note. The relevant correspondence may also be examined.
- (ii) Verify by reference to relevant corresponding record in goods inward book or the stores records. Further, the figures in these documentary evidences should be compared with the original invoices for rates and other charges and calculation should also be checked.
- (iii) Examine in depth to eliminate the possibility of fictitious sales returns for covering bogus sales recorded earlier when such returns outwards are in substantial figure either at the start or end of the accounting year.
- (iv) Cross-check with reference to original invoices any rebates in price or allowances if any given by buyers on strength of their Debit Notes.

### **Rental Receipt**

- (i) 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.
- (ii) The amount collected from the tenants on account of the rent should be checked by the reference to receipt issued to them.
- (iii) 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.
- (iv) Verify the particulars of total accommodation available for being let out in different building or belonging to the client.

### **Commission Received**

Auditor should check the following points:

- (i) **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.

- (ii) **Name:** Name of the concern on the bill on the receipt registered and in the supporting document should be of the client.
- (iii) **Date:** Date on the bill in the receipt registered and in the supporting document should tally and pertain to the current year.
- (iv) **Sr. no:** Serial number on the bills should be continuous and tally with those in the books.
- (v) **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
- (vi) **Rate/amount:** The rate/amount mentioned in the bills should tally with the supporting documents and the entry in books.
- (vii) **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
- (viii) **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.
- (ix) **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.

#### **Interest and Dividend received**

1. First check the income stated in the current year's profit and loss account.
2. Ascertain the amount received on account of last year and find the outstanding balance receivable.
3. From cash book vouch the entries for income received.



4. Check the Tax Deducted at Source (T.D.S.) calculation and verify the effect given in the ledger.
5. Compare the income received in total with that of the last year and enquire about any significant variation.
6. Get a list of investments and check whether the income on all the securities and investments has been received. If any securities are pledged with bank, get a certificate from bank.
7. Ascertain the income for the year, still to be received and check whether provision has been made for the same.
8. In case of interest received check the calculations.
9. For interest from bank, verify the entry in the bank statement. For fixed deposits, check whether any F.D has

#### **Royalties received**

1. The auditor should see the relevant contract and examine the important provisions relating to the conditions of payment of royalty. In particular, the rate of royalty, mode of calculation and the due dates should be noted.
2. The periodical statement received from the publisher and the calculation of the royalty should be checked. If there is any deduction on account of recoupment of royalty for the past period, the records for earlier royalty receipts should be seen to ensure that the amount of deduction is as per the contract.
3. Royalties due but not yet received should have been properly accounted for.

### **Vouching of Expenditure**

#### **General Considerations**

In any business, cash transactions forms 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.

### **Procedure for Audit of Payments**

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

## **Audit of Payments of Specific Transactions:**

### **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 for 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 supporting 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.

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.

**11. Purchase Return**

- (i) Examine debit note issued to the supplier which in turn may be confirmed by corresponding credit note issued by the supplier acknowledging the same. The relevant correspondence may also be examined.
- (ii) Verify by reference to relevant corresponding record in goods outward book or the stores records. Further, the figures in these documentary evidence should be compared with the supplier's original invoices for rates and other charges and calculation should also be checked.
- (iii) Examine in depth to eliminate the possibility of fictitious purchase returns for covering bogus purchases recorded earlier when such returns outwards are in substantial figure either at the beginning or end of the accounting year.
- (iv) Cross-check with reference to original invoices any rebates in price or allowances if any given by suppliers on strength of their Credit Notes.

**Wages and Salaries:**

**Vouching of Salaries:**

While vouching 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

#### (a) Supporting documents:

1. Bill from the advertising agency
2. Proof of appearance of advertisement from the concerned medium,
3. Contract with the advertising agency about the terms and conditions

(b) **Relate to clients business only:** The advertisement expenses should be related to client's business only

(c) **Date of advertisement:** The advertisement should have appeared in the current financial year only.

(d) **Amount:** Total amount spent for advertisement expenses be verified from the receipts from the medias or advertisement agency

(e) **Details 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.

(f) **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

(g) **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.

- (h) **Disclosure:** The auditor sees that outstanding advertising expenses have been properly disclosed on the liabilities side of the balance sheet.

#### **Rent expense**

1. **Rental Agreement:** Examine the Rent Agreement and note aspects like - (a) period of lease; (b) rent payable; (c) manner of payment; (d) amenities and other charges payable etc.
2. **Payment Vouchers:** Verify the payment vouchers and check whether the payments have been made as per the terms of the agreement.
3. **Bank Statement:** Trace the payment entries into the Bank Statement.
4. **Receipts:** See whether proper receipts have been obtained from the owner of the property.
5. **TDS File:** In case of rent payments exceeding ₹ 1,80,000 per annum, see whether tax has been deducted at source at the appropriate rates, and remitted to the authorities. See whether Tax deduction returns have been submitted to the IT Authorities.
6. **General Ledger/Financial Statements:** Ensure that any payment in the nature of Deposit/Additional Deposit has not been wrongly charged to revenue. Where the deposit given to the landlord bears any interest, see whether interest income has been recognised in the P&L A/c. Scrutinise the ledger and see whether proper accounting entries have been passed in respect of prepaid rent as at the beginning of the year/rent payable at the end of the year etc.

### **Insurance Premium**

- 1. Documents to be seen (Insurance Policy/Cover Note):**  
Examine the insurance policy/cover note and note aspects like – (a) asset covered by the policy; (b) amount of premium; (c) time period of insurance, etc.
- 2. Bonus:** See whether “No Claim Bonus”, whether applicable, has been granted in the policy to the insured.
- 3. Payment vouchers:** Verify the payment vouchers and trade the payment entries into the bank statement. Compare the same with receipt issued by the insurance company.
- 4. Arrangement with the bank:** Examine cases of insurance premium payments where insurance policy is taken out by arrangement with the bank, e.g., in case of machineries and other assets obtained by way of bank loan.
- 5. Staff insurance policy records:** Where insurance premium relates to staff, examine whether the same has been properly recovered monthly/periodically from their pay bills.
- 6. General ledger/financial statements:** Scrutinize the ledger and see whether proper accounting entries have been passed in respect of prepaid insurance as at the beginning of the year/unexpired insurance premium at the end of the year, etc.

### **Petty Cash Expenses**

- 1. Internal Controls:** Examine the Internal Control in respect of Petty Cash Payments, and note the authorization procedure in respect of Postage and Courier Expenditure, Postage Stamps/Prepaid Post Covers, etc. Identify the persons who handle Petty Cash. Verify the ceiling limit of disbursement through Petty Cash. Note the limit of Imprest System.
- 2.** See whether such controls have operated effectively over the Petty Cash Book. Examine the Petty Cash Book and test-check the entries relating to Postage Courier Expenditure, for a few months



3. Vouch the expenditure with respect to supporting documents like dispatch Register. Cross-check a few cases of Postage/Courier Expenses with the dispatch Register/ Outward Mail Register to see whether any mail has been sent on that day.
4. **Acknowledgements:** Where Postage Expenses are recorded in respect of Registered Post/Speed Post. Examine a few cases whether these "Acknowledgement are being received from the parties."
5. **Agreement with Courier Company:** Where agreements are entered into with a Courier Company/Agency settlement of bills on a monthly basis, see whether the internal control procedure for authorizing payments (at the month end) is operating effectively.
6. **TDS:** See whether TDS has been deducted at source and remitted properly where amount of the contract exceeds ₹ 20,000.
7. **General Ledger/Financial Statements:** Verify whether year-end adjustments have been properly accounted in respect of Postage Stamps in hand.
8. Compute the percentage of Postage Expenditure to Total Turnover and compare the same with that of previous year.
9. Examine Reconciliation Statements prepared regularly for Petty Cash, based on vouchers.
10. Check the castings of columns, totals and main totals. Trace the postings from the Petty Cash Book into the Nominal Ledger Head of Account.
11. Examine the Suspense Vouchers/IOUs and ensure that they are reversed within a reasonable time.
12. Conduct a Surprise Check of Petty Cash balance and compare the same with the Petty Cash Book.

#### **CUSTOMS DUTIES**

<b>Actions</b>	<b>Customs Duty</b>
Type of voucher	Bank/Cash payment voucher
Verify the voucher date	To ensure that the transaction pertains to

	current year
Verify the serial No.	To ensure that no voucher is missing in between
Verify the account head	Dr. Customs Duty A/c. Cr. Bank/cash Cr. Customs Duty Drawback Receivable a/c. (if any)
List of supportive documents	Bill of entry, Custom Clearance Certificates, C&H agents documents, Port charges, Challan of customs duty, Warehouse receipt. Copy of DEPB or Advance Licence.
Computation	Computation should be done with reference to
Authorised by	Manager Accounts
Books of Accounts to examine	Cash/bank book, ledger.
Accounting Policy	Customs duty payable shall be adjusted against duty drawback and export incentives.

## OBJECTIVE QUESTIONS

### A. State with reasons whether following statements are true or false.

1. Process of checking the evidence of the entries called vouching.
2. All vouchers should be consecutively numbered and filed properly.
3. Verification helps the auditor to ascertain whether the transaction has actually occurred.
4. Name of the client in the cash book and name of the client on the receipt should not be the same.
5. Serial number of vouchers should be continuous.

**Ans:** True: 1, 2, 5.

False: 3, 4.

**B. Match the following**

Sr. No	Column A	Sr. No.	Column B
a	Vouching	i	Debit notes from customer.
b	Sales	ii	Salary register
c	Amount	iii	Process of checking the evidence of the entries
d	Salary	iv	Cash memo
e	Purchase	v	amount in words and in figures should match.

**Ans:** a (iii), b (iv), c (v), d (ii), e (i)

**Multiple Choice Questions**

**C. Select the most appropriate answer from the following:**

1. Process of checking the evidence of the entries called \_\_\_\_\_.  
(a) Verification  
(b) Observation  
(c) Vouching  
(d) Inspection
2. To verify cash transactions, it is necessary  
(a) System of internal control  
(b) Check all transaction  
(c) Documentary evidence for every transaction  
(d) All of the above.
3. Total amount spent for advertisement expenses be verified from the

- (a) Receipts from the Medias or advertisement agency.
  - (b) Fixed assets register
  - (c) Debtors books
  - (d) None of the above.
4. Vouching helps the auditors to ascertain whether the entries in the book \_\_\_\_\_ , this is the basic objective of auditing.
- (a) True and fair
  - (b) Only true
  - (c) Only fair
  - (d) None of the above.
5. Voucher should be addressed to the \_\_\_\_\_ .
- (a) Auditor
  - (b) Client
  - (c) Employee
  - (d) None of the above
6. Serial number of vouchers should be \_\_\_\_\_ .
- (a) Colored
  - (b) Continuous.
  - (c) Even number
  - (d) Odd number.

**Ans:** 1. (c), 2. (d), 3. (a), 4. (a), 5. (b), 6. (b).

## **Additional objectives**

### **A. State with reasons whether following statements are true or false.**

1. When the goods are sent to an agent on consignment basis, sales should be booked when the goods are actually sold by the consignee.
2. Checking the date on the supporting documents is not at all important.

3. Auditor should ensure that the value of goods returned is disclosed separately in the profit and loss account.
4. The amount mentioned on the voucher has to match with the amount in supporting documents and also the books of accounts.
5. If tax is deducted at source (TDS) from interest, auditor should see that interest is shown in the account net of TDS.
6. The auditor should reconcile the sales register and stock register to ensure that the goods sold are actually removed from the godown.
7. In case of rent income, the same has to be disclosed as a “operating income”.
8. Every voucher need not be authorized.
9. While vouching dividend received, the auditor has to verify the schedule of investments.
10. Auditor should ensure that remuneration to directors is disclosed separately

**Ans: True:** 1, 4, 9, 10.

**False:** 2, 3, 5, 7, 8.

### B. Match the following

Sr. No	Column A	Sr. No.	Column B
a	Importance of vouching	i	To be disclosed under “Revenue from operations”
b	Authorization	ii	Points to be considered while checking voucher
c	Sales	iii	Signature of payee on revenue stamp
d	Income from investments	iv	To be disclosed under “Other income”
e	Cash payment	v	Dividend from official Receiver

	exceeding ₹ 5000		
		vi	Proper accounting

**Ans:** a (vi), b (ii), c (i), d (), e (iii).

### C. Fill in the blanks with proper word.

- \_\_\_\_\_ means comparing the entries in books of accounts with documentary evidence in support thereof.
- While auditing interest expense, the auditor has to ensure that the name of \_\_\_\_\_ on the loan agreement is that of the auditee.
- In case, interest is received net of TDS, interest should be recorded in the books at \_\_\_\_\_
- Companies are required to maintain accounts as per \_\_\_\_\_
- The payee should sign on a \_\_\_\_\_ stamp, if the payment exceeds ₹ 500/-.

**Ans:** (1) Vouching, (2) Borrower, (3) gross value, (4) Revised Schedule VI format, (5) Revenue

### D. Select the Correct answer

- Which of the following is an importance of vouching?
  - Ensures all items are disclosed in the financial statement as per Schedule VI provisions
  - It helps to verify whether entries are passed as per acceptable accounting principles.
  - Helps in detection and prevention of errors & frauds
  - All the above
- Checking the head of account debited or credited during vouching helps the auditor to
  - Detect errors of principle
  - Check whether accounting is proper.

- (c) Find errors of commission
  - (d) All of the above
3. Which of the point is not to be considered while checking a voucher?
- (a) Name of party
  - (b) Serial number of voucher
  - (c) Credit period of payment
  - (d) Accounting entry
4. Which of the following can be accepted as a supporting document?
- (a) Invoice/Challan
  - (b) Debit note/Credit note.
  - (c) Emails/letters.
  - (d) All of the above.
5. Checking the date of voucher on the voucher during vouching mainly helps the auditor to obtain evidence that.
- (a) The transaction relates to current year.
  - (b) The transaction has taken place.
  - (c) The transaction is genuine.
  - (d) The transaction is legal.
6. While verifying recovery of bad debts, the auditor has to check
- (a) Whether the amount was actually written off in some previous year
  - (b) The source of income of the debtor
  - (c) That the debtor has returned the entire amount written off.
  - (d) All of the above.
7. The auditor does not have to check the following while auditing salaries or wages:
- (a) Calculation of the salary
  - (b) Whether the calculation was verified by department heads

- (c) Whether dues like PF, PT, TDS have been deducted and deposited
  - (d) Payment has been made to all the employees on first of the month
8. Checking the date of entry of voucher in the books mainly helps auditor to obtain evidence that:
- (a) Entry was made on the same day as that of the voucher.
  - (b) Entries are passed on a daily basis
  - (c) The vouchers are filled every day.
  - (d) No vouchers are missing
9. In order to audit petty cash expenses, the auditor has to check
- (a) Petty cash register
  - (b) Internal controls
  - (c) Reconciliation of petty cash register and cash book
  - (d) All of the above.
10. In case of sales return, the auditor should check.
- (a) Credit notes and delivery challans.
  - (b) Whether cash has been repaid to the client
  - (c) Purchase invoices and goods received notes.
  - (d) Credit notes and goods received notes.

**Ans:** 1. (d), 2. (a), 3. (c), 4. (d), 5. (a), 6. (a), 7. (d), 8. (a), 9. (d), 10. (d)

### **Theory questions:**

#### **Explain the following:**

- (a) Explain the term vouching.
- (b) Explain the term true and fair in respect to vouching.
- (c) List out the important point while considering for the vouching.
- (d) Explain the procedure for the audit of receipt.
- (e) Explain the vouching of cash receipt.



- (f) Write short note on vouching of rental receipt.
- (g) Write short note on vouching of commission received.
- (h) What are the general considerations for vouching of expenditure?
- (i) What are the procedures for the audit of expenditure?
- (j) What are the points to be considered for purchase?
- (k) Explain the vouching of salary.
- (l) Explain the vouching of wages.
- (m) List out the important point while vouching advertisement expenditure.



2



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ISBN: 978-93-5142-835-0

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