

VOUCHERS – AN OVERVIEW

**PUBLISHED BY
FINANCIAL MANAGEMENT SERVICE FOUNDATION**

VOUCHERS - AN OVERVIEW

- Sanjay Patra, FMSF

1. INTRODUCTION

Generally, an accounting system includes various procedures for documenting and reporting accurate and up-to-date financial information. The system should also contain procedures to assist management in controlling day-to-day operations/transactions. Any financial transaction has to be supported by documents which validate that the said transaction has actually taken place. This is where vouchers play a crucial role.

Vouchers refer to the documents that summarize the transaction along with the supporting documents as evidence for the same. Vouchers are known as 'cash equivalent' which means that for every payment, we generate a cash/bank voucher. Therefore, in effect, vouchers assume the same importance as that of cash.

2. UNDERSTANDING VOUCHERS

Vouchers are helpful for following reasons:

- 2.1. Proper **recording of transactions**
- 2.2. Providing proper **evidence/supporting of financial transactions**
- 2.3. Establishing safe **administrative procedures**

2.1. Recording of transactions:

When any activity/ transaction occur, the first place where the recording is done is the voucher. Various information that are required for basic book-keeping such as the date, account head, mode of payment, etc. are captured in the voucher.

2.2. Evidence/Supporting:

Vouchers as a record of transaction contain evidence of occurrence of

such transaction, activity or event. The evidence may be bills, receipts, invoices, purchase orders, agreement paper and other summaries like list and signature of participants (in case of training, workshop, etc.)

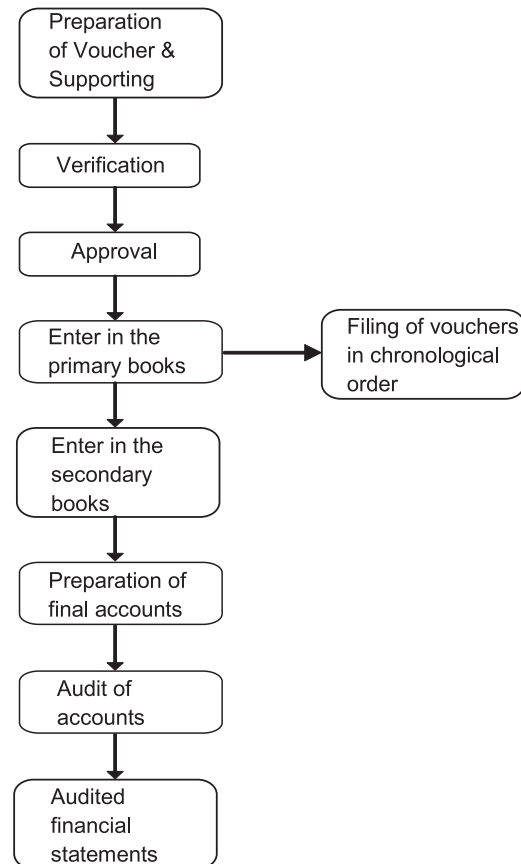
2.3. Administrative Procedure:

Voucher makes the requirement of verification and approval compulsory and properly followed. Therefore, it promotes healthy internal processes.

Vouchers make the financial transaction independent and verifiable. Normally, a voucher discloses information such as details of the goods purchased, amount paid for the goods purchased, date and mode of payment, name of the supplier, name of persons passing or approving the purchase, name of the person making the payment and purpose for which the purchase was made.

For voluntary organizations dealing with more than one project and funding agencies, the project name or number and the funding agency to which the expenditure is required to be charged should also be disclosed in the voucher. This would provide information as to under which the expenditure has been incurred.

The steps involved in vouching i.e. from voucher preparation to its use during audit are depicted in the diagram below:



3. TYPES OF VOUCHERS

Many types of vouchers are used for recording the transactions as a source document in accounting. The standard vouchers in accounting comprises of Vouchers are classified into three categories:

- 3.1. Contra Voucher
- 3.2. Payment Vouchers
- 3.3. Receipt Vouchers
- 3.4. Journal Vouchers

3.1. Contra Voucher is used to indicate transfer of funds from:

- Bank account to Cash account
- Bank account to Bank account
- Cash account to Bank account
- Cash account to Cash account

In other words, cash deposited in bank or cash withdrawn from bank are recorded through contra voucher. 'Contra' means both sides. Therefore, a contra voucher is recorded in both the receipt as well as in the payment side.

3.2. Payment Voucher is a document prepared at the time when payment is to be effected and it serves as evidence for payment of goods and services that were purchased by the organization.

3.3. Receipt Voucher is documentary evidence that the sum stated thereon has been received on behalf of the organization

3.4. Journal Voucher is documentary evidence of formal entries that need to be made in case of non-cash transactions. It records all transactions that do not involve cash and bank. Usually, journal vouchers are prepared under the following circumstances:

- Correction of accounting errors arising from misclassification
- Carrying out adjustments or transfers between accounts i.e. provision for payment in future, for depreciation, etc.

4. COLOR CODING

Vouchers are also identified on the basis of colors. For example, the following color coding may be used:

- Cash Voucher (White in color)
- Bank Voucher (Yellow in color)
- Journal Voucher (Pink in color)

5. HOW TO ENHANCE THE QUALITY OF VOUCHER DOCUMENTATION?

Vouchers are primary documents in accounting which gives the overall view of a particular transaction and the trail of events before and after. The characteristics of vouchers are:

- 5.1. Clarity
- 5.2. External evidence
- 5.3. Verifiability

5.1. Clarity

Vouchers should provide clarity in terms of:

- Date of transaction
- Person who has prepared the voucher
- Person who has authorized the transaction
- Purpose of the transaction
- Amount in words and figures
- Account head which has to be debited/credited

5.2. External Evidence

The supporting documents that are attached with the vouchers such as bills, invoices, receipts and summaries are called external evidence.

5.3. Verifiability

The verifiability of a voucher can be tested if the external evidence/supporting documents provided with the vouchers can be independently verified, when required.

6. WHAT ARE VALID SUPPORTINGS?

It is very essential that each voucher should be accompanied by third party documents such as bills, cash memos, letters, etc. These documents should be such that they are self-sufficient to justify the occurrence of the transaction without one being there to give explanations.

7. WHAT TO DO WHEN VALID SUPPORTING DOCUMENTS ARE NOT AVAILABLE?

In case of NGOs who operate at remote locations, setting appropriate external evidence as described in previous sections can be a challenging task. In most of the locations, it is not possible to get proper bills, invoice, money receipts, etc. In such cases, the external evidence becomes very weak as only kachha bills are available. Therefore, these evidences have to be strengthened through circumstantial evidence.

A circumstantial evidence is indirect evidence that supports the fact that the expenditure has been incurred. For example, if there is expenditure on food for a meeting at the village level, circumstantial evidence can be list of participants in the meeting, their signatures, the activity plan of the organization signifying that the meetings was planned has has taken place, minutes of the meeting, photographs and certification by the field coordinator. These will all provide greater evidence to support the incurred expenditures.

All vouchers and for that matter circumstantial evidences should be

approved by an authorized person other than the accountant who prepares the vouchers.

8.TEN POINTS TO REMEMBER WHILE PREPARING VOUCHERS

Vouchers are the base of whole accounting system. Therefore, the accountant has to be very careful while preparing them. The following points have to be kept in mind while writing vouchers:

- 8.1. The accountant who prepares the vouchers should be well versed with a accounting policies.
- 8.2. Vouchers should be prepared and filed separately on a daily basis.
- 8.3. Voucher should be prepared for each and every entry made in the books of account.
- 8.4. All vouchers should be computer generated, if there is computerized accounting.
- 8.5. Each voucher should be serially numbered and such numbers should be mentioned in the respective original books of account maintained in order to facilitate cross-reference.
- 8.6. Various types of vouchers should be printed in different colors to help in easy identification.
- 8.7. For payment above INR 5,000, a revenue stamp of 8. 8. appropriate value must be affixed and the payee or the person 8. 9. authorized by the payee should sign and write his/her name and address.

8.8. To ensure correct accounting to the respective funding agency, a rubber stamp in the name of the respective funding agency should be stamped on the voucher and the supporting documents.

8.9. In order to avoid double payments, it is desirable to put a '**Paid**' stamp on the voucher as well as the supporting documents.

8.10. Neither the voucher nor the supporting document should be overwritten and correction fluid should not be used. In case, correction is to be made, it should be approved by the authorized person. Therefore,

one should be very cautious while writing vouchers.

9. CONCLUSION

Vouchers are very crucial document for an organization. Voucher should be kept by the organization for at least 7 years from the end of the financial year as per Income Tax Act 1961. A good voucher system is important for future reference for the auditors and the statutory authorities. Therefore, it is important that a voucher be filled correctly with requisite narrations and supporting, so that the person verifying it can easily obtain the required information that is being sought.

(Sanjay Patra - Senior Chartered Accountant and Executive Director of FMSF.)