



Extend Your Knowledge 9-2: Voucher System of Control

A voucher system is a set of procedures and approvals designed to control cash disbursements and acceptance of obligations. The voucher system of control establishes procedures for:

- Accepting obligations resulting in cash disbursements.
- Verifying, approving, and recording obligations.
- Issuing cheques for payment of verified, approved, and recorded obligations.
- Requiring obligations to be recorded when incurred.
- Treating each purchase as an independent transaction.

LO Apply the voucher system to control cash disbursements.

A good voucher system produces these results for every transaction. This applies even when many purchases are made from the same company during a period.

A voucher system's control over cash disbursements begins when a company incurs an obligation that will result in a payment of cash. A key factor in this system is that only approved departments and individuals are authorized to incur such obligations. The system also often limits the kinds of obligations that a department or individual can incur. In a large retail store, for instance, only a purchasing department should be authorized to incur obligations from merchandise purchases. Another key factor is that procedures for purchasing, receiving, and paying for merchandise are often divided among several departments. These departments include the one requesting the purchase, the purchasing department, the receiving department, and the accounting department. To coordinate and control the responsibilities of these departments, several different business papers are used. Exhibit VSC9.1 shows how these papers are accumulated in a *voucher*. A **voucher** is an internal business paper (or "folder") that is used to accumulate other papers and information needed to control cash disbursements and to ensure that a transaction is properly recorded. We next discuss each document entering a voucher. This is to show how a company uses this system in controlling cash disbursements for merchandise purchases.

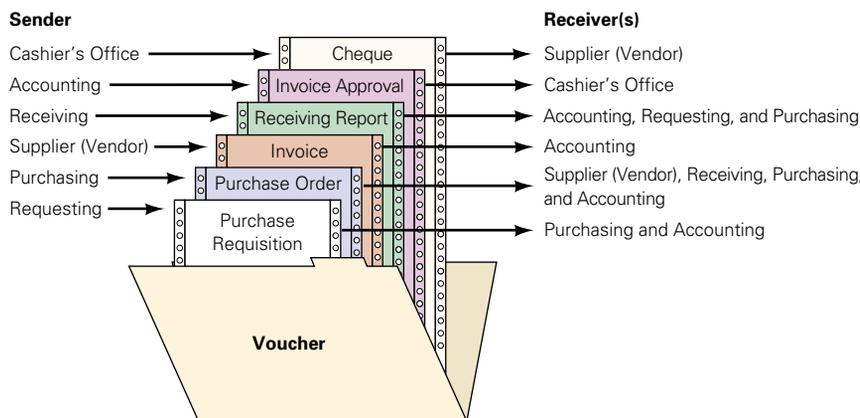


Exhibit VSC9.1

Voucher and Business Documents

Purchase Requisition

Department managers in larger stores are usually not allowed to place orders directly with suppliers. If each manager dealt directly with suppliers, the merchandise purchased and the resulting liabilities would not be well controlled. To gain control over purchases and the resulting liabilities, department managers are often required to place all orders through a purchasing department. When merchandise is needed, a department manager must inform the purchasing department of its needs by preparing and signing a purchase requisition. A **purchase requisition** lists the merchandise needed by a department and requests that it be purchased—see Exhibit VSC9.2. Two copies of the purchase requisition are sent to the purchasing department. The purchasing department sends one copy to the accounting department. When the accounting department receives a purchase requisition, it creates and maintains a voucher for this transaction. A third copy of the requisition is kept by the requesting department as back-up.

Exhibit VSC9.2

Purchase Requisition

○	Purchase Requisition	No. 917	○
○	Z-Mart		○
○	From Sporting Goods Department	Date October 28, 2005	○
○	To Purchasing Department	Preferred Vendor Trex	○
○	Request purchase of the following item(s):		
○	Model No.	Description	Quantity
○	CH 015	Challenger X7	1
○	SD 099	SpeedDemon	1
○	Reason for Request Replenish inventory		
○	Approval for Request <i>DZ</i>		
○	For Purchasing Department use only: Order Date <u>Oct. 30/05</u> P.O. No. <u>P98</u>		
○			○

Purchase Order

A **purchase order** is a business paper used by the purchasing department to place an order with a seller, also called a **vendor**. A vendor is usually a manufacturer or wholesaler. A purchase order authorizes a vendor to ship ordered merchandise at the stated price and terms—see Exhibit VSC9.3. When the purchasing department receives a purchase requisition, it prepares at least four copies of a purchase order. The copies are distributed as follows: *Copy 1* is sent to the vendor as a purchase request and as authority to ship merchandise; *Copy 2* is sent, along with a copy of the purchase requisition, to the accounting department, where it is entered in the voucher and used in approving payment of the invoice; *Copy 3* is sent to the requesting department to inform its manager that action is being taken; *Copy 4* is sent to the receiving department; and *Copy 5* is retained on file by the purchasing department.

Purchase Order Z-Mart 10 Prairie Street Winnipeg, MB R3J 1G9	No. P98															
To: Trex 9797 Cherry Road Windsor, ON N9G 2P5	Date Oct. 30/2005 FOB Destination Ship by As soon as possible Terms 2/15, n/30															
Request shipment of the following item(s):																
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Model No.</th> <th style="width: 40%;">Description</th> <th style="width: 10%;">Quantity</th> <th style="width: 10%;">Price</th> <th style="width: 15%;">Amount</th> </tr> </thead> <tbody> <tr> <td>CH 015</td> <td>Challenger X7</td> <td style="text-align: center;">1</td> <td style="text-align: right;">490</td> <td style="text-align: right;">490</td> </tr> <tr> <td>SD 099</td> <td>SpeedDemon</td> <td style="text-align: center;">1</td> <td style="text-align: right;">710</td> <td style="text-align: right;">710</td> </tr> </tbody> </table>		Model No.	Description	Quantity	Price	Amount	CH 015	Challenger X7	1	490	490	SD 099	SpeedDemon	1	710	710
Model No.	Description	Quantity	Price	Amount												
CH 015	Challenger X7	1	490	490												
SD 099	SpeedDemon	1	710	710												
All shipments and invoices must include purchase order number	Ordered by <div style="text-align: center; font-family: cursive; font-size: 1.2em;">J.W.</div>															

Exhibit **VSC9.3**

Purchase Order

Invoice

An **invoice** is an itemized statement of goods prepared by the vendor (seller) listing the customer's name, the items sold, the sales prices, and the terms of sale. An invoice is also a bill sent to the buyer by the seller. From the vendor's point of view, it is a *sales invoice*. The vendor sends the invoice to a buyer, or **vendee**, who treats it as a *purchase invoice*. When receiving a purchase order, the vendor ships the ordered merchandise to the buyer and includes or mails a copy of the invoice covering the shipment to the buyer. The invoice is sent to the buyer's accounting department, where it is placed in the voucher. Exhibit 6.6 on page 268 of the text-book shows Z-Mart's purchase invoice.

Receiving Report

Many companies maintain a special department to receive all merchandise or other purchased assets. When each shipment arrives, this receiving department counts the goods and checks them for damage and agreement with the purchase order. It then prepares four or more copies of a receiving report. A **receiving report** is used within the company to notify the appropriate persons that ordered goods are received and to describe the quantities and condition of the goods. One copy is placed in the voucher. Copies are also sent to the requesting department and the purchasing department to notify them that goods arrived. The receiving department retains a copy in its files.

Invoice Approval

When a receiving report arrives, the accounting department should have copies of these papers on file in the voucher: purchase requisition, purchase order, invoice, and receiving report. With the information on these papers, the accounting department can record the purchase and approve its payment before the end of the discount period. In approving an invoice for payment, this department checks and compares information across all papers. To facilitate this checking and to ensure that no step is omitted, the department often uses an **invoice approval form**, also called *cheque authorization*. Exhibit VSC9.4 shows an invoice approval

form. An invoice approval is a checklist of steps necessary for approving an invoice for recording and payment. It is a separate business paper either filed in the voucher or preprinted on the voucher. It is sometimes stamped on the invoice. Exhibit VSC9.4 shows the invoice approval as a separate document.

Exhibit VSC9.4

Invoice Approval

Invoice Approval			
	No.	By	Date
Purchase requisition	917	<i>72</i>	Oct. 28/05
Purchase order	P98	<i>9W</i>	Oct. 30/05
Receiving report	R85	<i>JK</i>	Nov. 3/05
Invoice:	1915		
Price		<i>JK</i>	Nov. 12/05
Calculations		<i>JK</i>	Nov. 12/05
Terms		<i>JK</i>	Nov. 12/05
Approved for payment		<i>BC</i>	Nov. 12/05

As each step in the checklist is approved, the clerk initials the invoice approval and records the current date. Approval implies that the following actions have been taken for each step:

1. *Requisition check* Items on invoice are requested, as shown on purchase requisition.
2. *Purchase order check* Items on invoice are ordered, as shown on purchase order.
3. *Receiving report check* Items on invoice are received, as shown on receiving report.
4. *Invoice check*
 - Price* Invoice prices are as agreed with the vendor (on purchase order).
 - Calculations* Invoice has no mathematical errors.
 - Terms* Terms are as agreed with the vendor (on purchase order).

The Voucher

Once an invoice is checked and approved, the voucher is complete. A complete voucher is a record summarizing a transaction. The voucher shows that a transaction is certified as correct and it authorizes recording an obligation for the buyer. A voucher also contains approval for paying the obligation on an appropriate date. The physical form of vouchers varies across companies. Many are designed so that the invoice and other related source documents are placed inside the voucher, which is often a folder.

Exhibit VSC9.5
Inside of a Voucher

Z-Mart Voucher No. 4657
Winnipeg, MB

Date Oct. 28, 2005
 Pay to Trex
 City Windsor Province Ontario

For the following: (attach all invoices and supporting papers)

Date of Invoice	Terms	Invoice Number and Other Details	Terms
Nov. 2, 2005	2/15, n/30	Invoice No. 1915	1,200
		Less discount	24
		Net amount payable	1,176

Payment approved
A. O. Neal
 Auditor

Completion of a voucher usually requires a person to enter certain information required on the inside and outside of the voucher. Typical information required on the inside of a voucher is shown in Exhibit VSC9.5, and that for the outside is shown in Exhibit VSC9.6. The information is taken from the invoice and the supporting documents filed in the voucher. A complete voucher is sent to an authorized individual (often called an *auditor*). This person performs a final review, approves the accounts and amounts for debiting (called the *accounting distribution*), and authorizes recording of the voucher.

Exhibit VSC9.6
Outside of a Voucher

Voucher No. 4657

Accounting Distribution

Account Debited	Amount
Merch. Inventory	1,200
Store Supplies	
Office Supplies	
Sales Salaries	
Other	
Total Vouch. Pay. Cr.	1,200

Due Date November 12, 2005
 Pay to Trex
 City Windsor
 Province ON

Summary of charges:
 Total charges 1,200
 Discount 24
 Net payment 1,176

Record of payment:
 Paid _____
 Cheque No. _____

When a voucher is approved and recorded, it is filed until its due date, when it is sent to the cashier's office for payment. The person issuing cheques relies on the approved voucher and its signed supporting documents as proof that an obligation is incurred and must be paid. The purchase requisition and purchase order confirm that the purchase is authorized. The receiving report shows that items are received, and the invoice approval form verifies that the invoice is checked for

errors. There is little chance for error. There is even less chance for fraud without collusion, unless all of the documents and signatures are forged.

Expenses in a Voucher System

Obligations should be approved for payment and recorded as liabilities as soon as possible after they are incurred. This practice should be applied to all purchases. It should also be applied to all expenses. When a company receives a monthly telephone bill, for instance, the charges (especially long-distance and costly calls) should be checked for accuracy. A voucher is prepared and the telephone bill is filed inside the voucher. This voucher is then recorded with a journal entry. If the amount is due at once, a cheque is issued. If not, the voucher is filed for payment on its due date.

Requiring vouchers to be prepared for expenses when they are incurred helps ensure that every expense payment is valid. Yet invoices or bills for such items as repairs are often not received until weeks after work is done. If no records of repairs exist, it can be difficult to determine whether the invoice amount is correct. Also, if no records exist, it is possible for a dishonest employee to collude with a dishonest seller to get more than one payment for an obligation, or for payment of excessive amounts, or for payment for goods and services not received. An effective voucher system helps prevent each of these frauds.



Answer—p. VSC9-6

VSC9.1 Do all companies require a voucher system? At what point in a company's growth do you recommend a voucher system?

GUIDANCE ANSWER TO



VSC9.1 Not necessarily. A voucher system is used when a manager can no longer control the purchasing

procedures through personal supervision and direct participation in business activities.