

### Learning Outcomes 1 and 2

Demonstrate knowledge and a understanding to analyse the use of different financial and managerial control tools and strategies to manage resources in a responsible manner.

**Financial Information:** The learner is able to demonstrate knowledge, understanding and the application of financial information according to generally accepted accounting practice and concepts.

**Managerial Accounting:** The learner is able to demonstrate knowledge and understanding of managerial accounting, as well as the application thereof.

**AS 4: Analyse and Interpret bank, debtors and creditors reconciliations**

In most enterprises a large quantity of accounting information is manipulated in the course of business. It is therefore essential that control measures are used at certain stages of the process. Examples of these accounting control measures include the **bank reconciliation statement; debtors control account and the creditors control account.**

### 1. THE BANK RECONCILIATION STATEMENT

At regular intervals (e. g. monthly) the enterprise should obtain a statement of his account from the bank (a bank statement). This is in effect a copy of the account of the enterprise in the records of the bank. The bank statement is used as a source document to control and supplement the records of the enterprise. It is used to ascertain whether the information that appears on it agrees with that found in the cash journals.

### 2. SUMMARY OF HOW TO RECONCILE BALANCES

Assume a favourable balance.

	Description of transactions	Entry
<b>(a) Items on the bank statement not in the cash receipts journal (CRJ) or cash payments journal (CPJ)</b>	1. Service Fees. Cash handling fee. Transaction levy.	CPJ bank credit (A-) Bank charges debit (E-)
	2. Interest on overdraft.	Always entered as a separate amount in CPJ. Do not add to bank charges. Bank credit (A-) Interest on overdraft debit (E-)
	3. Stop orders/debit orders.	CPJ bank credit (A-) 'Whatever account' debit (e.g. insurance (E-), loan repayment (L-), etc.)
	4. Dishonoured cheques: * Insufficient funds. * Post-dated cheque received and deposited in error by the business. * Cheques received and deposited by the business with and error, e.g. not signed by the drawer, or the words and figures do not correspond.	CPJ bank credit (A-) Debtor and debtors control debit (A-)
	5. Deposits made directly into the enterprises cheque account.	CRJ bank debit (A+) 'Whatever account' credit (e.g. rent received (E+), interest on fixed deposit (E+), a debtor (A-))
	6. Interest on current account.	CRJ bank debit (+) Interest on current account (E+)
	7. Deposits entered on the bank statement in error, i.e. another bank customer deposited money into his account and the bank credited the business account in error.	Bank reconciliation statement debit with the amount wrongly credited. The bank will debit the following month's statement to correct error.
	8. Cheques drawn by other customers of the bank but debited on the enterprise's bank statement in error.	Bank reconciliation statement credit with the amount wrongly debited. The bank will credit the following month's statement to correct error.
	9. Deposits from the previous month.	Tick off against the previous month's bank reconciliation statement.
	10. Cheque drawn in previous months.	Tick off against the previous month's bank reconciliation statement.
<b>(b) Items in CRJ not on bank statement</b>	Deposits	Bank reconciliation statement credited with outstanding deposit
<b>(c) Items in CPJ not on bank statement</b>	Cheques (including salary cheques)	Bank reconciliation statement debited with outstanding cheques.
<b>(d) Items on previous month's bank recon statement</b>	Cheques that have still not been presented for payment.	Bank reconciliation statement debited with outstanding cheques.
<b>(E) Errors in current or previous month's CPJ</b>	Cheques entered incorrectly	If a cheque was incorrectly recorded as R250 instead of R520 and additional entry in for R270 must be made in CPJ bank credit and 'whatever account' debit. If a cheque was incorrectly recorded as R180 instead of R108, a correcting entry of R72 must be made in the CRJ bank debit and 'whatever account credit.
<b>(f) Errors in current or previous month's CRJ</b>	Deposit of R120 is recorded in CRJ as R20. The deposit of R120 is correct on the bank statement.	Single entry in CRJ, e.g. deposit error corrected, R100. No posting is done, only the bank increases.
<b>(g) Post-dated cheques received</b>	* No entry * If entered into CRJ in error the bank will dishonour the cheque.	Refer to 4
<b>(h) Post-dated cheques issued</b>	Enter into CPJ as a normal cheque issued.	Bank reconciliation statement debit with outstanding cheques.
<b>(i) Lost and stale cheques</b>	* Cheques issued by the business that became stale (older than six months) without being replaced. * Cheques issued by the business, which the payee has lost. * Cheque stopped and replaced.	* Cancel in CRJ bank debit (A+), 'whatever account' credit, e.g. donations (E+). * Cancel in CRJ bank debit (A+), 'whatever account' credit, e.g. creditor (L+). * Cancel cheque as above. Issue new cheque in CPJ bank credit (A-), e.g. creditor debit (L-).

### 3. ANALYSING TRANSACTIONS REGARDING BANK RECONCILIATIONS

#### ACTIVITY

The following information was taken from the records of Spaghetti Junction.

#### Required:

- One of the listed cheques not presented to the bank has been treated incorrectly. Which cheque is it? Explain your choice and indicate the correct course of action.
- Prepare a correct bank reconciliation statement as at 31 July 20.6. Show clearly what the correct bank balance in the general ledger should be.
- Explain how a cheque 719 should be treated when preparing the financial statements as at 31 July 20.6.
- Explain why cheque 874 is not treated in the same way as cheque 719 when preparing the financial statements.
- Explain why a post-dated cheque received by Spaghetti Junction on 24 July 20.6 but dated 24 August 20.6 does not appear in this bank reconciliation statement.
- If cheque 854 does not appear on the bank statement for August, what action would you take?
- Briefly explain why the preparation of a bank reconciliation statement is important.

#### Information:

The following items appeared in the bank reconciliation statement of Spaghetti Junction as at 31 July 20.6. The bookkeeper is not sure if any errors were made.

Overdraft as per bank statement	R 21 720
<u>Cheques not presented to the bank:</u>	
No 461 (dated 30 January 20.6)	R 4 000
No 719 (dated 15 August 20.6)	R 9 920
No 854 (dated 24 July 20.6)	R 1 800
No 874 (dated 31 July 20.6)	R 1 520
Outstanding deposit	R 8 295
Unfavourable balance as per bank account	R 14 840

**Note:** The bookkeeper warned that the bank balance might be wrong because he ignored the following entries as he was not sure how to enter them.

- Cheques dishonoured on 31 July 20.6:

Name of Debtor	Amount	Reason
B. Pillay	R4 800	Post-date cheque for 20 August 20.6
A. Adam	R7 200	Account closed

- The Oldies Pension Fund notified the bookkeeper that cheque 801, dated 26 July 20.6, had been dishonoured by the bank because of an error on the cheque. The cheque was the monthly pension fund contribution. The bookkeeper immediately replaced the dishonoured cheque with cheque 875 (dated 31 July 20.6). No entries have been made for cheque 801 and cheque 875.

The salaries journal showed the following details:

Employers pension fund contribution of R8 000

#### SUGGESTED ANSWERS TO ACTIVITY

- Cheque no 461 for R4 000 is stale because it is older than six months and must be cancelled in the cash receipts journal.
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SPAGHETTI JUNCTION BANK RECONCILIATION STATEMENT AS AT 31 JULY 20.6		
	Debit (R)	Credit (R)
Debit balance as per bank balance	21 720	22 120
Credit outstanding deposit		22 120
Debit outstanding cheques:		
No 719 (dated 15 August 20.6)	9 920	
No 854 (dated 24 July 20.6)	1 800	
No 874 (dated 31 July 20.6)	1 520	
No 875 (dated 31 July 20.6)	10 000	
Credit balance as per bank account	<b>44 960</b>	<b>44 960</b>

#### Calculation of bank balance:

Bank overdraft	R14 840
Cheque no 461 stale	(4 000)
Cheque no 801 dishonoured	(10 000)
Cheque no 875 (issued)	10 000
R/D cheque	4 800
R/D cheque	7 200
	<b>22 840</b>



- Cheque 719: Bank overdraft will decrease by R9 920 and become R12 920. Trade creditors balance will increase by R9 920.
- Cheque 874 (dated 31 July 20.6) is not a post-dated cheque and must be recorded as an outstanding cheque in the bank reconciliation statement.
- Post-dated cheques received are recorded in the register for post-dated cheques and deposited on the day they are due.
- Cheque 854 (dated 24 July 20.6) must be recorded as an outstanding cheque in the bank reconciliation statement on 31 August 20.6.
- The business keeps a record of all cash transaction. Deposits made and cheques issued not only affect the business but also the bank concerned. The bank also keeps a record of its transactions with the business. The logical conclusion is that the books of the business and the bank should agree and that the bank balance will be the same in both sets of books. Comparisons between the books of the business and the books of the bank must be made on a monthly basis by preparing a bank reconciliation statement. In this way errors and/or dishonesty can be detected at an early stage.