

DEBTORS AND CREDITORS RECONCILIATION

7 FEBRUARY 2013

Lesson Description

In this lesson we will consider the following:

- Journals are used to record credit transactions
- How to prepare a creditors reconciliation statement and debtors reconciliation
- The purpose of credit control
- The purpose of monthly statements to debtors
- Debtors' age analysis

Key Concepts

(Notes adapted from Grade 12, Accounting for all, Chapter 3)

Creditors' Transactions and Creditors' Accounts

When an enterprise buys goods on credit from another enterprise or supplier, the transaction is recorded in the creditor's journal. Any purchases returned are recorded in the creditor's allowances journal and payments of outstanding creditors' accounts are recorded by making an entry in the cash payments journal. Errors that are corrected, interest charged on overdue accounts and transfers between debtors' and creditors' accounts are all recorded through entries in the general journal.

The following journals are used:

- CJ – for recording credit purchases
- CAJ – for recording purchases returns
- CPJ – for making cheque payments to creditors
- PCJ – for making cash payments to creditors
- CRJ – for recording R/D cheques
- GJ – for sundry transactions relating to creditors, e.g. interest on overdue accounts

CREDITORS CONTROL

[illegible]

An individual account is kept for each creditor in the enterprise's creditors ledger. This individual account is a summary of all the transactions between the enterprise and the creditor and shows the (total) amount due to (or outstanding balance of) the creditor. The entries in the journals as books of first entry are posted daily or monthly to the individual account of the creditor.

At month-end, an account is rendered by the creditor. It gives a summary of the transactions concluded with the creditor during the month, and the total amount that the enterprise owes the creditor.

Creditors Reconciliation Statement

When the enterprise receives an account statement from the creditor, the statement must be compared with the entries of the creditor concerned in the creditors ledger. The purpose of this check is to trace any errors and/or omissions. For this purpose a creditors reconciliation statement is prepared.

Stacey Trading (Reg. 655/1986)				
PO Box 425 Elardias Rand Tel.: (012) 345-6789 Pretoria Fax: (012) 987-6543 0065				
Account rendered to: Exemplar Stores				
Account statement No.: 477 Date: 31 January 2009				
Date	Details	Debit	Credit	Balance
2009 Jan 01	Account rendered			8 350
02	Invoice 1065	11 000		19 350
03	Payment received		4 350	15 000
10	Invoice 1071	8 560		23 560
14	Invoice 1077	11 200		34 760
28	Invoice 1122	9 800		44 560

Creditors Ledger of Exemplar Stores					
Stacey Trading C1					
Date	Details	Fol	Debit	Credit	Balance
2009 Jan 01	Account rendered				8 350
02	Invoice 20	CJ4		11 000	19 350
03	Cheque 124	CPJ4	4 350		15 000
10	Invoice 23	CJ4		8 560	23 560
14	Invoice 25	CJ4		11 200	34 760
28	Invoice 30	CJ4		9 800	44 560

Example One

Poodles Pet Shop

Poodles Pet Shop received an account statement (statement 114) dated 28 May 2009 from Ray-Bees Vets. According to an agreement with Ray-Bees Vets, Poodles Pet Shop receives 20% trade discount on all invoices and an additional 5% cash discount if payment is made within 30 days of the account date. Statement 114 shows a debit balance of R27 888. The accounting officer compared the statement with Ray-Bees Vets' account in the creditors ledger, which showed a credit balance of R10 712, and found the following differences:

- Invoice 189 was correctly recorded in the creditors ledger as R11 200. Statement 114 reflects the invoice amount as R14 000. The trade discount was not taken into account.
- Credit note 73 for R320 was correctly entered into the creditors ledger, but is shown as an invoice on statement 114.
- Ray-Bees Vets' account in the creditors ledger was added up incorrectly – it is undercast by R7 200.
- Invoice 194 for R6 280 has not yet been recorded in the creditors journal because the goods are in transit.
- Invoice 208 included eight items that were on special and invoiced for the gross price of R160 per item. The trade discount was not taken into account on these items.

Required:

Calculate the correct amount due to Ray-Bees Vets on 31 May 2009.

Creditors ledger	Statement received from Ray Bee Vet
R10 712	R27 888.

Debtors' Transactions and Debtors' Accounts

When customers or other enterprises buy goods on credit from our enterprise, the transaction is recorded in the debtors journal. Any sales returns are recorded in the debtors allowances journal and payments received from debtors are recorded by making an entry in the cash receipts journal. Errors that are corrected, interest charged on overdue accounts and transfers between debtors' and creditors' accounts are recorded through entries in the general journal.

The following journals are used:

- DJ – for recording credit sales
- DAJ – for recording sales returns
- CRJ – for payments received from debtors
- PCJ – for cash payments made for debtors
- CPJ – for recording R/D cheques
- GJ – for sundry transactions relating to debtors, e.g. interest on overdue accounts

An individual account for each debtor is kept in the enterprise's debtors ledger. This individual account is a summary of all the transactions between the enterprise and the debtor and shows the (total) amount due by (or outstanding balance of) the debtor

DEBTORS RECONCILIATION is a usually a comparison of the Control account to the Debtors list.

Debtors Age Analysis Report

The debtors age analysis report enables the credit division to analyse transactions with debtors according to specific criteria and to determine how payments and collections are being made. This could be a useful tool to manage the business's outstanding debts and to see which debtors are not performing according to the credit agreement. It allows the business to analyse the outstanding amounts the debtors owe the business in different periods, such as current (or less than 30 days), 30, 60, 90 and more than 90 days.

Questions**Question 1: Debtors Reconciliation**

The following information was extracted from the accounting records of Dunwen Centre. Mrs Murray, the owner prepared the Debtors Control account as well as the Debtors' List for September 2010. There were however, certain errors and omissions that still need to be taken into account.

INSTRUCTIONS

- 1.1. Reconcile the Debtors Control account with the Debtors' List. (8)
- 1.2. Read the following information and answer the question below.

The business is experiencing difficulty collecting payments from their debtors. Mrs Murray writes off debtors' accounts as irrecoverable after 60 days. After investigating, you noticed that the business does not have a debt collection policy. Many customers are granted credit as the owner believes this increases sales.

Draft a letter to Mrs Murray and include the following:

- A proposed debt collection policy;
- Factors that must be taken into account before granting credit;
- Also explain the procedure to be followed before writing off a debtor's account as a bad debt. (15)

INFORMATION

- a) Balance as per Debtors Control account – R6 260 (30 September 2010)
- b) Balance as per Debtors List – R6 610 (30 September 2010)
- c) Errors and omissions not taken into account:
 - The total of the Debtors Journal was under cast by R200.
 - The total of the Debtors Allowance Journal was overcast by R100.
 - An invoice for R945 was issued to debtor P. Gummy but was posted to his account as R495.
 - A receipt issued to debtor W. Pooh for R800 was correctly entered in the Cash Receipts Journal, but was posted to the debtors' ledger as R300.
 - Interest of R45 was charged to the account of T.Tigger. This was omitted from the general journal.
 - The bank returned T.Tigger's cheque for R750, marked R/D. The cheque was received in full settlement of his account of R850. No entry was made of the above transaction.

ANSWER BOOKLET

1.1.

DEBTORS CONTROL	DEBTORS LIST
6 260	6 610

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1.2.

Dear Mrs Murry
RE: Debtors' collection policy/bad debts
Factors that must be taken into account before granting credit
Proposed debt collection policy
Procedure to be followed before writing off a debtor's account as a bad debt
Yours Faithfully

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