REVISION: DEBTORS & CREDITORS RECONCILIATION

29 AUGUST 2013

Lesson Description

In this lesson we:

- Revise Debtors & Creditors Reconciliation
- Consider the reasons for differences
- Discuss the procedure for reconciliation
- Revise Debtors Age Analysis

Key Concepts

Debtors / Creditors Reconciliation

- Reconcile the Debtors Control account with the Debtors ledger
- A record of all transactions of the debtor is shown in the debtors ledger
- A copy of this account is sent to our debtors
- A debtors list is prepared at the end of the month

Reasons for Differences

- The creditor may have prepared the statement on a different date from the date on which the business receiving the statement.
- Invoices omitted/entered incorrectly
- Credit/Debit notes omitted/ entered incorrectly

Procedure for Reconciliation

- Compare the monthly statement against the creditors ledger account in the Creditors Ledger.
- The debit column of the statement is compared to the credit side of the ledger account and the credit column on the statement are compared with the debit side of the ledger account
- If there are any errors or omissions in the books of the business receiving the statement, they must be corrected. (it is important to verify the entry before recording)
- If the creditor made any errors (arithmetical, omissions), the business receiving the statement must notify the creditor so that the necessary corrections can be made by the creditor.

Age Analysis

- Debtors represent amounts owing to the business. The collection of amounts due must be evaluated. The recoverability weakens as debtor's age.
- The credit policy must be strictly adhered to and the management must keep an eye on aging debtors' accounts and thus avoid possible losses (bad debts). Analysis of every debtor must be done by way of ageing debtors must be done regularly.

SHAIDS TRADERS						
DEBTORS AGE ANALYSIS AT 31 DECEMBER 2010						Terms : 30 days
DEBTORS	Amount Due	Current	Period in arrear			
			1 month	2 month	3 month	+90 days
A. Ant	R2 000	R1 000	R500	R500		
P.Pine	R3 600	R1 800	R500	R500	R800	
C.Cat	R3 000	R1 500	R500	R500	R500	
D.Dame	R2 500	R1 250	R500	R500	R250	
E.Earl	R1 000					R1 000
	R12 100	**R5 550**	**R2 000**	**R2 000**	**R1 550**	**R1 000**
% Total	**100%**	**46%**	**17%**	**17%**	**13%**	**7%**

- The **credit control** department can make use of the above information to:
- Sent out statements
- Determine bad debts
- Determine provision for bad debts
- Charge interest on outstanding accounts
- Encourage debtors to pay accounts promptly
- Offer discounts
- etc

Debtors Age Analysis

Example

The age analysis of debtors extracted at the end of January showed the following:

More than 90 Days	60 – 90 days	30 – 60 days	Current
R20 000	R24 000	R8 000	R10 800

Is this business controlling their debtors effectively? Why? Discuss two measures that they need to consider in order to improve the above situation.

Answer

- No.✓ Their terms are 30 days but R52 000 is outstanding for more than 30 days. ✓✓
- Or R44 000 is outstanding for more than 60 days
- Offer discounts if debtors pay in 30 days. ✓✓
- Charge interest after 30 days. ✓✓
- Monitor and follow up with debtors who do not pay

Questions

Question 1

Creditors Reconciliation

REQUIRED:

Use the information below to reconcile the account of Sabeen Stores in the Creditors Ledger of Remo Traders with the Statement of Account received from Sabeen Stores, by preparing the Creditors Reconciliation Statements as at 29 February 2012.

INFORMATION:

A CREDITORS LEDGER OF REMO TRADERS
SABEEN STORES

Date	Day	Details	Fol	Debit	Credit	Balance
2012 Feb	1	Account Rendered	b/d			7800
	5	Cheque No. 70	CPJ	2150		5650
		Discount Received	CPJ	25		5625
	12	Invoice No. Z42	CJ		1030	6655
	18	Debit Note D50	CAJ	110		6545
	25	Invoice No. Z56	CJ		890	7435
	27	Cheque No. 80	CPJ	875		6560
	28	Invoice No. Z72	CJ		690	7250

B SUMMARY OF STATEMENT OF ACCOUNT RECEIVED FROM SABEEN STORES FOR FEBRUARY 2012.

Date	Day	Details	
2012 Feb	1	Account Rendered	7800
	5	Payment – Cheque No. 70	-2150
	12	Purchases – Invoice Z42	+1030
	18	Debit Note D50	-110
	20	Refund to a customer	-250
	22	Purchases - Invoice Z50	+490
	24	Purchases – Invoice Z56	+990
		Balance as at 25 February	7800

When comparing the Creditors Ledger against the statement of account, the following differences were noted – all of the errors relate to the Creditors Statement:

1. Sabeen Stores forgot to record the discount for early settlement of account by Remo Traders on 5 February 2012.
2. Cheque 80 and Invoice Z72 have not yet been recorded on the Creditors Statement.
3. After an investigation, it was found that the refund on the statement of account on 20th February was made to another customer Sabeen Stores.
4. Invoice Z50 shown on the statement of account on 22nd February was in fact purchases made by Thekwini Traders.
5. Invoice Z56 is correct in the books of Remo Traders

(13)

CREDITORS RECONCILIATION: Sabeen Stores as at 29 February 2012

BALANCE AS PER STATEMENT OF ACCOUNT	**7 800**	
BALANCE AS PER CREDITORS LEDGER ACCOUNT	**7 250**	

Question 2

Bank Reconciliation

REQUIRED:

Use the Bank Reconciliation Statements for February 2012 and March 2012 to answer the questions that follow.

INFORMATION:

A BANK RECONCILIATION STATEMENT OF LOLIPOP STORES ON 29 FEBRUARY 2012.

	R
Debit Balance as per Bank Statement	54 933
Outstanding cheques	
No. 460 (dated 18 September 2011)	560
No. 608 (dated 30 December 2011)	1 060
No. 652 (dated 29 January 2012)	2 027
No. 679 (dated 28 February 2012)	904
No. 880 (dated 15 May 2012)	1 256
Outstanding deposits	70 373
Credit amount incorrectly debited on Bank Statement	367
Balance as per bank account in the General Ledger	?

B BANK RECONCILIATION STATEMENT OF LOLIPOP STORES ON 31 MARCH 2012.

	R
Debit Balance as per Bank Statement	46 000
Outstanding cheques	
No. 608 (dated 30 December 2011)	1 060
No. 880 (dated 15 May 2012)	1 256
No. 904 (dated 21 March 2012)	733
Outstanding deposits	53 067
Balance as per bank account in the General Ledger	4018

QUESTIONS

a.) Is the balance on the February Bank Statement Favourable or Unfavourable? Give a reason for your answer. (2)

b.) Calculate the closing balance as per the bank account on 29 February 2012 and state whether this is a debit or credit balance. (6)

c.) The February Bank Reconciliation Statement shows a correction of an error of R367. Explain one error that the bank could have made to necessitate this correction. (3)

d.) Cheque no. 460 (dated 18 September 2011) appears on the February Bank Statement but not on the March Bank Statement. What action must have been taken and why? (4)

e.) Explain why cheque No. 880 appears on the Bank Reconciliation Statements for both months? (2)

f.) The internal auditor is concerned as there have been large outstanding deposits on each of the Bank Reconciliation Statements. What do you suspect the cashier is doing illegally which is resulting in these large outstanding deposits? Explain. (3)

g.) Name three items that could appear on the Bank Statement at the end of the month but not appear in either of the Cash Journals. (3)

(23)