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Support Pack | Grade 12

CAPS

Accounting

Reconciliations

This revision pack for **Accounting Grade 12** provides support for learners revising the most important concepts and principles covered in the CAPS curriculum. These include concepts relating to companies, the acquisition of Fixed assets, inventories, VAT, Manufacturing and cost accounts, and budgeting. Summaries of the GAAP principles, theory of Accounting, and the format of Debtors and Creditors control accounts are provided. Furthermore, a detailed table to summarise the interpretation of Financial Statements is provided.

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1. Debtors and creditors reconciliations

Two important points relating to reconciliations:

The *Debtors Control* and *Creditors Control* accounts are a summary of all the transactions that appear in the individual debtors' and creditors' accounts in the subsidiary ledgers. So, all the transactions in the control accounts are the same as those in the subsidiary ledger accounts.

Always determine the effect a transaction will have on the individual account of a debtor or creditor and then do exactly the same in the control account.

Format of *Debtors Control* account

**General Ledger of My Store Ltd
Balance Sheet account**

Dr   **Debtors Control**   Cr

Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2014 Feb	01	Balance	b/d	xxx	2014 Feb	28	Bank and discount allowed	CRJ	xx
	28	Sales	DJ	xx			Debtors allowances	DAJ	x
		Bank (R/D) (refund)	CPJ	xx			Journal credits	GJ	x
		Petty cash	PCJ	x			Balance	c/d	xx
		Journal debits	GJ	x					
				xxx					**xxx**
2014 Mar	01	Balance	b/d	xx					

Format of *Creditors Control* account

General Ledger of My Store Ltd
Balance Sheet account

Dr   **Creditors Control**   Cr

Date		Details	Fol.	Amount	Date		Details	Fol.	Amount
2014 Feb	31	Bank and discount received	CPJ	xx	2014 Feb	01	Balance	b/d	xxx
		Sundry returns	CAJ	x		28	Sundry purchases	CJ	xx
		Journal debits	GJ	x			Bank (refunds or cancelled / R/D cheques)	CRJ	x
		Balance	c/d	xx			Journal credits	GJ	
				xxx					**xxx**
					2014 Mar	01	Balance	b/d	xx

Reconciling *Debtors Control* and *Creditors Control* accounts with the Debtors Ledger and Creditors Ledger

> Once the control accounts have been drawn up, the balances of the control accounts and the totals of the Debtors and Creditors Lists should be the same.

Reasons for differences:
- Incorrect adding in the journals
- Incorrect adding in the Debtors and Creditors Ledgers (or lists)
- Incorrect posting from the journals to the ledgers
- Errors on the source documents
- Errors in recording entries in the journals
- The omission of transactions (not entered into the journals at all)

How to correct errors:
1. Determine whether an error was made in the control account or in the list (Creditors or Debtors Ledger).
2. Correct the error where it was made. Errors are usually corrected by entries in the General Journal.

Possible errors and how to correct them

Possible mistake	How to correct it	Debtors Control account	Debtors List
An amount was not posted from the journal to the ledger at all (omitted).	Enter the amount in the:	✔	✔
An amount was incorrectly entered into the journal, for example R2 500 instead of R5 200 (transposed).	Correct by entering the difference in the:	✔	✔
An amount was correctly entered into the journal, but was incorrectly posted to the Debtors/Creditors Ledger, for example R1 000 instead of R100.	Correct by entering the difference in the:		✔
An amount was correctly entered into the journal but was posted to the wrong side of the Debtors/Creditors Ledger.	Correct by entering the amount TWICE in the:		✔
The journal was cast incorrectly; that is, too much or too little. (To cast is to add or to total.)	If under-cast, add the amount by which it is under or over. If over-cast, subtract the amount. Enter the amount in the:	✔	
The total of the journal was posted to the wrong side of the *Debtors/Creditors Control* account.	Correct by entering the amount TWICE in the:	✔	
The journal was correctly totalled but this total was incorrectly posted to the *Debtors/Creditors Control* account, for example R200 instead of R2 000.	Correct by entering the difference in the:	✔	

Reconciling the creditor's statement with the individual account in the Creditors Ledger

All business transactions with a creditor are recorded in the creditor's individual account in the Creditors Ledger. The creditor records the transactions as well. At the end of the month, the creditor's statement (record of transactions) must be reconciled with the business transactions in the Creditors Ledger.

Remember:
- Additional entries such as interest, or any transactions in the statement that were not recorded by the business, must be entered in the General Journal and posted to the creditor's account in the Creditors Ledger.
- Errors made by the business must be corrected by making a General Journal entry, which is then posted to the creditor's account in the Creditors Ledger.
- Errors made by the creditor must be reconciled in the Creditors Reconciliation Statement.

Debtors age analysis

A debtors age analysis gives the business a global overview of money still owing by their debtors – it breaks down the debtors' outstanding balances over the schedule's aging period, usually three months. This schedule is analysed to find out:
- Which debtor owes what amount and for how long
- Which debtor needs to be given a discount, charged interest or handed over to attorneys for collection
- Debtors' purchasing habits and what portion of their credit limit they have accessed
- Which percentage of the money owing is current and which is overdue.

The age analysis is a good internal control measure to ensure that debtors are administered properly.
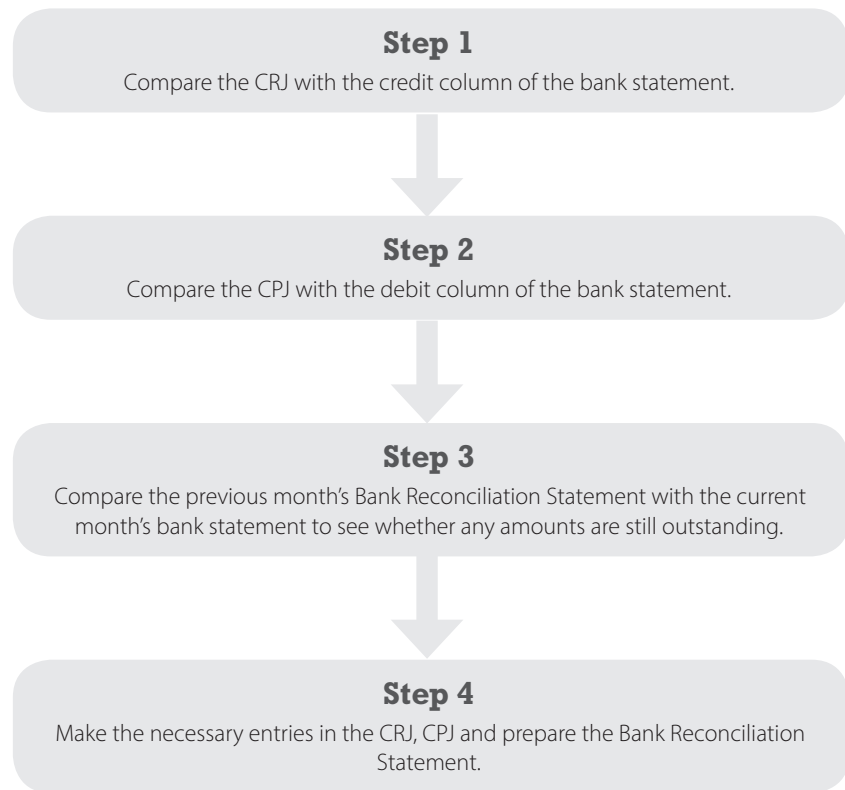
2. Bank reconciliations

Firstly: All cash transactions recorded in a business's books should also be recorded by the bank in the business's account.

What happens in the books of the business	What happens in the books of the bank
The business records all money and cheques received in the CRJ. Debit: *Bank* account	The business deposits all money and cheques received into their bank account. Credit: Business's account at the bank
The business records all payments in the CPJ. Credit: *Bank* account	Cheques are presented for payment at the bank, or EFTs are processed electronically. Debit: Business's account at the bank

Secondly: The transactions recorded in the books of the bank are reflected on the bank statement that is sent to the business each month.

All transactions entered in the business' books are seldom exactly the same as those reflected on the bank statement.

So we compare the current month's CRJ, CPJ and previous month's Bank Reconciliation Statement with the current bank statement in the following four steps:

Step 1

Compare the CRJ with the credit column of the bank statement.

Step 2

Compare the CPJ with the debit column of the bank statement.

Step 3

Compare the previous month's Bank Reconciliation Statement with the current month's bank statement to see whether any amounts are still outstanding.

Step 4

Make the necessary entries in the CRJ, CPJ and prepare the Bank Reconciliation Statement.

Dealing with entries that affect the bank reconciliation process

Description	CRJ	CPJ	BRS		No entry
			Debit	**Credit**	
Cheque is in the current CPJ but not on the current bank statement			✓		
Cheque is on the previous BRS but not on the current bank statement			✓		
Post-dated cheque was issued by the business			✓		
Deposit is in the current CRJ but not on the current bank statement				✓	
Stop order and debit order is on the bank statement but not in the CPJ		✓			
Bank charges and interest on overdraft is on the bank statement but not in the CPJ		✓			
Cheque previously received is dishonoured by the bank		✓			
Direct deposit is on the bank statement but not in the CRJ	✓				
Interest on current account is on the bank statement but not in the CRJ	✓				
Post-dated cheque was received by the business					✓
Cheque previously issued needs to be cancelled (stale, stop payment, stolen or altered)	✓				
Incorrect debit is on the bank statement				✓	
Incorrect credit is on the bank statement			✓		