# CASH AND CASH EQUIVALENTS
# BANK RECONCILIATION STATEMENTS

## *1. Introduction*

Cash is one of the most important assets in the enterprise. Without it the enterprise is unable to continue its operations. It cannot purchase stock, pay creditors or buy plant and machinery.

The enterprise will record cash kept in the bank in a ledger account called "Bank". This account will record all payments made in the cash payments journal and all cash receipts recorded in the cash receipts journal.

The bank will send the enterprise a monthly statement on which all movement in the account will be indicated. The account usually indicates the following:

- Opening balance
- Deposits credited
- Cheques debited
- Bank charges
- Stop orders
- Direct deposits by debtors
- Interest paid on favourable bank balance
- Interest charged on bank overdrafts
- Dishonoured (R/D – Refer to drawer) cheques
- Correction of errors made during the previous month
- Closing balance

Usually the bank balance in the enterprise's books will not agree to the balance per the bank statement. Therefore the difference must be reconciled to account for the differences.

## *2. Reasons for differences*

1. Items appear in the enterprise's books but are not reflected on the bank statements:
    - Outstanding cheques – Cheques drawn by the enterprise but not presented for payment. (Note that cheques issued more than 6 months ago are considered stale and must be written back by a debit to bank and a credit to the relevant contra account.)
    - Deposits not yet credited by the bank

2. Items appear on the bank statement but are not recorded by the enterprise:

- Bank charges – Fees for services rendered by the bank
- Direct deposits by debtors
- Dishonoured cheques
- Interest paid or received
- Stop orders/debit orders

3. Errors made by either the enterprise or bank.

## 4. Preparation of the bank reconciliation statement

A favorable bank balance is indicated as a credit in the bank statement i.e. the reverse of the way it is recorded in the enterprise's books.

1. Tick off (✓) all items in the CRJ which appear on the credit side of the bank statement.
2. Tick off (✓) all items in the CPJ which appear on the debit side of the bank statement.
3. Tick off (✓) all items on the previous month's reconciliation statement against corresponding items on the bank statement.
4. Item not ticked off will be dealt with as follows:

Circle these items

- Items not ticked off in the cash payments and receipt journals:
These items are already recorded in the enterprise's books and are not recorded again. They must therefore appear in the bank reconciliation statement for the current month.

- Items not ticked off on the bank statement:
These items must still be recorded in the enterprise's books. The adjustments are done in the cash receipts and cash payments journal at the end of the current month.

Note: Errors made by the business are corrected by the business in the CRJ/CPJ
Errors made by the bank are corrected in the bank reconciliation statement.

The bank account in the general ledger appears as follows:

BANK A

| | | | |
|---|---|---|---|
| Bal b/d | XXX | Payments (CPJ) – Adjusted | XXX |
| Receipts (CRJ) – Adjusted | XXX | Bal c/d | XXX |
| | XXX | | XXX |
| balance b/d | XXX | | |

The adjusted bank balance will be used in the reconciliation statement.

5. The bank reconciliation statement can now be prepared.

From business perspective bank acc is asset. From banks perspective my bank account is liability

Whatever is done in business accounting records is done opposite by bank and whatever is done by bank opposite is done by my business

## 5. *Format of the bank reconciliation statement*

| | Dr | Cr |
|---|---|---|
| Cr (Favourable) balance per bank statement | | XXX |
| Dr Cheques not yet debited by the bank | XXX | |
| (unpresented) | | XXX |
| Cr Deposit not yet credited by bank (outstanding) | XXX | or XXX |
| Errors made by the bank (correct banks errors) | XXX | |
| Dr (Favorable) balance per bank account | | |
| | XXX | XXX |

- A favorable bank account balance is on the debit side of the bank account as well as on the bank reconciliation statement.
- An unfavourable or overdrawn bank account balance is on the credit side of the bank account as well as on the bank reconciliation statement.
- A favourable bank statement is on the credit side of the bank statement as well as on the bank reconciliation statement.

### Bank reconciliation summary

1) Bring in opening balances for CRJ, CPJ and GL.

2) Amounts appearing in our books but not in the Bank Statement are put in the bank recon.
-Debits in my CRJ are treated as credits (deposits) in the bank recon.
-Credits in my CPJ are treated as debits (cheques) in the bank recon.

3) Amounts appearing in bank statement but not in our books are put in our books.
-Debits in the bank statement are treated as credits in my books (CPJ).
-Credits in the bank statement are treated as debits in my books (CRJ).

4) R/D cheques must be put in the CPJ as the debtors cheque received in the CRJ has defaulted and must thus be cancelled.

5) Errors

a) *Our errors* are corrected in our books. Reverse the difference of the error in the opposite Journal.

b) *Banks errors* (error on bank statement) are corrected in the bank recon e.g. incorrect debit is credited in the recon.

6) Amounts appearing in last months bank recon should appear in this months bank statement (see point no 2 or error 5b). If it does not appear in this months bank statement, put it in the recon until it appears.

7) However, if the cheque was issued six months ago and has appeared in the bank recon for those six months, the cheque is stale. The cheque must thus be cancelled in the CRJ as it was originally issued in the CPJ.

# DEBTORS & CREDITORS

Pages 193-219 & 265-276

## 1. Current Assets

Examples of current assets include.

- Trade & other receivables (less credit losses & allowances for credit losses)
- Inventory
- Bills receivable
- Income accrued
- Pre-payments

## 1.2 The debtors control account and debtors reconciliation

The debtors control account is an account in the general ledger which records the total of all the debtors. Each debtors will also have his own account in a subsidiary ledger called the debtors ledger. Each debtor's account will reflect the transactions with the enterprise. This ledger is totalled monthly and is compared to the balance of the debtors control account. A monthly reconciliation is performed to account for the differences.

Differences usually arise due to errors on either the debtors control account or the debtors ledger. The errors are added or subtracted to reconcile the difference.

Note the following:

- When an error is made in totaling a journal, the mistake only relates to the debtors control account. It does *not affect* the *debtors list* (total of debtors ledger).
- When an amount is posted to the incorrect side of an account, the correction must be twice the original amount. This is first to cancel the original entry and then to create a new entry according to the original amount.

## 1.3 Format of the debtors control account

from different Journals.

| + | DEBTORS CONTROL ACCOUNT | | | | - |
|---|---|---|---|---|---|
| Opening Balance | b/d | xxx | Bank ( debtors column) (Discount granted included) | CRJ | xxx |
| Sales (credit) | SJ | xxx | Bills Receivable / Debtor | GJ | xxx |
| Interest income-charged on overdue accounts | GJ | xxx | Sales Returns | SRJ | xxx |
| Bank (R/d cheques) | CPJ | xxx | Credit losses | GJ | xxx |
| Journal Debits i.r.o Debtors | GJ | xxx | Journal Credits i.r.o Debtors | GJ | xxx |
| Transfer from creditors with "Dr" Balances | GJ | xxx | | | |
| | | | | | |
| Closing balance | b/d | yy | | | |

NOTE: Debtor control is an asset, thus all items on the debit side will increase the debtors account eg: the credit sales.
All items on the credit side will decrease the asset. Eg on the credit side will be the cash received from debtors (who we originally sold the stock on credit) in the CRJ.

## 1.4 Debtors reconciliation

| | |
|---|---|
| Balance as per list of Debtors Account (given) | x |
| Add : Debtors – A | x |
| Less : Debtors – B | (x) |
| | yy |

## 1.5 Bills receivable

A bill is a negotiable document drawn on a debtor and can be used to settle a debtor's account. When a bill is drawn, the amount is no longer shown as a debtor in the statement of financial position, but is instead shown as bills receivable under current assets.

The journal entry when a bill is drawn on a debtor is as follows:

| | | |
|---|---|---|
| Bills receivable (A) | XXX | |
| Debtors control account | | XXX |

When an enterprise draws bills frequently, it will record them in a bill receivable journal.

# CREDITORS CONTROL

## 1. Introduction

- Current liabilities: Current liabilities must be settled within a period of 12 months.
- Non-Current liabilities: Long – term liabilities need not be settled within a period of 12 months.

## 2. Current liabilities

Examples of current liabilities include:

- Trade & other payables
- Bills payable
- Accrued expense
- Income received in advance
- Current portion of long – term liabilities
- Tax / Vat payable

## 2.1 The creditors control account and creditors reconciliation

Trade creditors are recorded in the creditors control account. The creditors control account is an account in the general ledger which records the total of all the enterprise's creditors. Each creditor will also have his own account in a subsidiary ledger called the creditors ledger. Each creditor's account will reflect the enterprise's transactions with that creditor. A monthly reconciliation is performed to account for the differences.

Differences usually arise due to errors either the creditors control account or the creditors ledger.
The errors are added or subtracted to reconcile the difference.

Note the following:

- When an error is made in totalling a journal, the mistake only relates to the creditors control account. It *does not* affect the *creditors list* (total of creditors ledger).
- When an amount is posted to the incorrect side of an account, the correction must be twice the original amount. This is first to cancel the original entry and then to create a new entry according to the original amount.

## 2.2 Format of the creditors control account

\- CREDITORS CONTROL ACCOUNT +

| | | | | | |
|---|---|---|---|---|---|
| Bank (creditors column)<br>(Discount received included) | CPJ | xxx | Balance | b/d | xxx |
| Bills payable / creditor | GJ | xxx | Purchases (credit) | PJ | xxx |
| Purchases Returns | PRJ | xxx | Interest expense- charged on overdue accounts | GJ | xxx |
| Journal debits i.r.o Creditors | GJ | xxx | Journal credits i.r.o creditors | GJ | xxx |
| | | | Transfer of Debtors with "Cr " Balances | GJ | xxx |
| | | | Balance | b/d | yy |

NOTE: Creditors control is a liability and thus the items on the credit side will increase the liability eg purchasing stock on credit.
Items on the debit side will decrease the liability. Eg the payments of creditors in the CPJ.

## 2.3 Creditors reconciliation

| | |
|---|---|
| Balance as per list of creditors account (given) | x |
| Add : creditors – A | x |
| Less : creditors – B | (x) |
| Balance | yy |

## 2.4 Bills Payable

A bill payable is similar to bills receivable with regard to regard to credit sales. A bill may be used to pay creditors instead of a cheque
The journal entry when a bill is drawn on the enterprise by a creditor is as follows:

| | | |
|---|---|---|
| Creditors control account | XXX | |
| Bills payable (L) | | XXX |

When bills are drawn frequently on an enterprise, it will record them in a bills payable journal.

# Summary of subsidiary ledgers and the general ledger

General ledger of JP Traders

| Bank | | | |
|---|---|---|---|
| Balance b/d | 110 000 | | |
| | | | |

| Debtors Control | | | |
|---|---|---|---|
| Balance b/d | 45 000 | | |

| Creditors Control | | | |
|---|---|---|---|
| | | Balance b/d | 75 000 |

## Subsidiary Ledgers

Debtors Ledger :

| ZZ Shops | | | |
|---|---|---|---|
| Balance | 22 000 | | |

| AA Shops | | | |
|---|---|---|---|
| Balance | 23 000 | | |

| List of debtors | Balance |
|---|---|
| ZZ Shops | 22 000 |
| AA Shops | 23 000 |
| | 45 000 |

Creditors Ledger :

| MN Suppliers | | | |
|---|---|---|---|
| | | Balance | 42 000 |

| BB Suppliers | | | |
|---|---|---|---|
| | | Balance | 33 000 |

| List of creditors | Balance |
|---|---|
| MN Suppliers | 42 000 |
| BB Suppliers | 33 000 |
| | 75 000 |

# NON CURRENT ASSETS
## Property, Plant and Equipment

### 1. Introduction

A Non-Current Asset is an asset that is acquired to carry out, facilitate or support operations. They have lifespan of more than one year. Non-Current Asset include land & building, machinery, office equipment, furniture & fittings and motor vehicles.

### 2. Tangible & intangible assets

Non-Current Assets can be distinguished as follows:

#### 2.1 Tangible assets
Tangible assets are assets that one can see and touch. Examples include motor vehicles and land & buildings.

#### 2.2 Intangible assets
Intangible assets are items such as preliminary expenses, patents, trademarks and goodwill. They cannot be seen or touched.

Preliminary expenses are expenses which are incurred when the company is established. They include expenses such as registration fees and other expenses incurred in setting up a company. Preliminary expenses are depreciated same way as other assets.

## PROPERTY PLANT & EQUIPMENT

### 3. Determination of the cost of the asset

Non-Current Assets are recorded at cost in the books of account. The following items are included in the determination of the cost price of an asset ,thus *capitalised :*

- Purchase price
- Cost of transporting the asset to the place of use
- Installation costs e.g. the cost a concrete slab on which the machine will be placed
- Expenses incurred in getting the asset operational

Maintenance costs are not included in the cost of the asset but are treated as an expense in the Statement of profit and loss and other comprehensive income. Modifications and additions to the asset are capitalised and form part of the cost of the asset.

## 4. Recording acquisition of asset

The following journal entry is made on the purchase of an asset:

| | | |
|---|---|---|
| Non-current asset | XXX | |
| Bank / creditors | | XXX |

The amount at which the asset is recorded is known as historical cost and remains the same over the lifetime of the asset.

A separate account is maintained for each category of Non-current assets.

In terms of the Companies Act, all non-current assets must be recorded in a register. This register contains details of non-currents assets that the company owns. Non-current assets are recorded at cost in the register.

## 5. Depreciation

As non-current assets are used by the enterprise, benefit is obtained from the asset. The depreciation expense is based on the expected benefit derived from the asset. Depreciation is thus systematic distribution of the cost of the Non-current asset over the lifetime of the assets so as to match the income generated by that asset.

The following journal entry is made to record depreciation:

| | | |
|---|---|---|
| Depreciation (expense) | XXX | |
| Accumulated depreciation | | XXX |

The accumulated depreciation account is known as an asset contra account and reduces the cost price of the asset to net carrying value in the statement of financial position.

When assets are *acquired during the year*, the depreciation charge must be based on the number of months that the asset is available for use. The pro-rata allocation of depreciation is the ratio that the number of months use bears to12 months in a year. Therefore if an asset was acquired 3 months into the year, the depreciation charge will be multiplied by 9/12 as the asset was in use for 9 months.

Land (and buildings) are never depreciated.

There are 3 methods of calculating depreciation:

- Straight – line method ( on the cost price of the asset )
- Reducing balance method ( on the carrying amount/book value of the asset )
- Production volume method

## Straight line method / on cost

An equal amount of the cost price of the asset is written off over the lifetime of the asset.

A machine was purchased on 1 January 19.8 for R 550 000.Depreciation is provided over 5 years on the straight line basis.

The annual depreciation expense is therefore 5550 000 ÷ 5=R110 000.After 5 years the asset will have zero value.

If the asset has a residual value, the depreciable amount is reduced by the residual value. The residual value is the amount that can be obtained for the asset at the end of its lifespan. E.g.: at the end of the 10 year lifespan of an asset, it was sold for R1000. Thus the original cost of the asset has to be reduced by R1000, to calculate depreciation.

## Reducing balance method / on carrying amount

A fixed percentage of the carrying amount (cost – accumulated depreciation) of the assets is written off in each period. The depreciation expense decreases every year.

Refer to the information in the example above. Depreciation is written off at 20%per annum.

Year 1: Depreciation=550 000 x 20%=R110 000
Year 2: Depreciation = (550 000-110 000) x 20%=R88 000
Year 3: Depreciation = (550 000-110 000-88 000) x20%=R70 400

The asset will never be depreciated completely. The carrying value (cost less accumulated depreciation) will become smaller and smaller but will never reach zero.

# Units produced

Depreciation is written off annually based on the excepted production of the asset over its lifespan.

Refer to the example above. Production for year 1=200 units, year 2=75units,years 3=125 units, year 4= 100 units.

Year 1: Depreciation = [200÷ (200+75+125+100)] x 550 000=R220 000
Year 2: Depreciation= [75÷500] x 550 000=R82500
Year 3: Depreciation = [125÷500] x550 000=R137 500
Year 4: Depreciation =[100÷500] x 550 000=R110 000
Total depreciation =220 000+82500+137 500+110 000=R550 00

## 6. Asset realisation /disposal

Once an asset has been used, it will be *disposed of.* This process is referred to as the scrapping or alienation of an asset.

There are different ways to dispose of an asset:

- Scrap the asset: No proceed are received for the asset i.e. it is just dumped
- Sell it to another party
- Trade it in for another asset ( thus bring in another asset to replace disposed asset)
- Donate asset etc.

***The following six (6) steps should be followed when dealing with the disposal of an asset.***

calculate

1. Record the depreciation of the current period up until the date of disposal (general journal)

Debit: Depreciation
Credit: Accumulated depreciation

Now calculate the total accumulated depreciation of the disposed asset

2. Transfer the *total accumulated depreciation* of the disposed asset to the realisation account (general journal)

Debit: Accumulated depreciation
Credit: Realisation account

3. Transfer the cost price of the disposed asset to the realisation account (general journal):

Debit: Realisation account
Credit: The particular asset account

4. Record the amount earned on the realisation (note that the realisation account is *credited* in all the cases)

4.1 *Asset sold for cash (*CRJ):
Debit: Bank
Credit: Realisation account

4.2 *Asset sold on credit* (general journal):
Debit: Debtor (and debtors control account)

Credit: Realisation account

4.3 *Asset traded in, buy new asset* (general journal):
Debit: The asset account (as part of the cost price of the new asset)
Credit: Realisation account

4.4 *Asset traded in -buy new asset on credit* (general journal):
Debit: Creditors control
Credit: Realisation account

4.5 *Asset donated* (general journal)
Debit: Donations
Credit: Realisation account

5. Determine the profit or loss on the disposed asset:

5.1 If the total of the debit side of the realisation account is bigger than that of the credit side, the asset was disposed of at a loss. ( balancing amount on credit side of realisation account )

5.2 If the total of the credit side of the realisation account is bigger than that of the debit side, the asset was disposed of at profit. ( balancing amount on the debit side of realisation account )

6. Transfer the profit or loss on the realisation to the profit and loss account (general journal ) :

6.1 Profit:
Debit: Realisation account
Credit: Profit and loss account

6.2 Loss:
Debit: Profit and loss account
Credit: Realisation account.

- A separate asset realisation account is opened for each Non-Current Asset sold.

*ASSETS AT COST*

| | | | |
|---|---|---|---|
| Balance b/d | XXX | Realisation account (transfer of cost price of asset sold) (3) | XXX |
| Purchase (cost price) | XXX | Balance c/d | XXX |
| | XXX | | XXX |

*ACCUMULATED DEPRECIATION*

| | | | |
|---|---|---|---|
| Realisation account (transfer of accumulated depreciation on asset sold) (2) | XXX | Balance b/d | XXX |
| Balance c/d | XXX | Depreciation (depreciate till realisation) (1) | XXX |
| | XXX | | XXX |

*DEPRECIATION*

| | | | |
|---|---|---|---|
| Depreciation (depreciate till Realisation) (1) | XXX | Profit & loss | XXX |

If asset disposed of at a profit, then the asset disposal account will look as follows:

*ASSET REALISATION*

| | | | |
|---|---|---|---|
| Date | | Date | |
| Equipment | XXX | Accumulated Depreciation on Equipment | XXX |
| Profit on sale asset (record profit on disposal) (5) | XXX | Bank/Creditors Control (amount earned on Disposal ) (4) | XXX |
| | XXX | | XXX |