Debtors and creditors reconciliation

# ACTIVITY 5.1 REQUIRED:

Compare the statement received form Bonbuix Wholesalers and the Creditors’ ledger in the books of Miller traders.

1. Make journal entries to correct the books of Miller Traders.
2. Post to the Creditors’ ledger.
3. Prepare the Creditors’ reconciliation statement.

# INFORMATION:

1. Creditors’ ledger of Miller Traders

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Details** | **Fol** | **Debit** | **Credit** | **Balance** |
| May 1 | Balance |  |  |  | 28 600 |
| 7 | Invoice 414 | CJ |  | 4 100 | 32 700 |
| 10 | Debit note 104 | CAJ | 420 |  | 32 280 |
| 14 | Cheque 712 | CPJ | 14 400 |  | 17 880 |
|  | Discount | CPJ | 320 |  | 17 560 |
| 20 | Invoice 420 | CJ |  | 2 800 | 20 360 |
| 26 | Invoice 428 | CJ |  | 3 400 | 23 760 |
| 28 | Debit note 108 | CAJ | 620 |  | 23 140 |

1. Statement received from Bonbuix Wholesalers.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **BONBUIX WHOLESALERS**  **Statement of account** | | | | |
| 12 Loveday Street Account nr. 987  Pretoria Transactions to 25 May 2008  0001  Miller Traders 23 Farrow Road Centurion | | | | |
| **Date** | **Details** | **Debit** | **Credit** | **Balance** |
| May 1 | Balance |  |  | 28 600 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 7 | Invoice | 4 100 |  | 32 700 |
| 10 | Debit note |  | 240 | 32 460 |
| 14 | Cheque |  | 14 400 | 18 060 |
|  | Discount |  | 230 | 17 830 |
| 20 | Invoice | 2 800 |  | 20 630 |
| 23 | Invoice | 10 400 |  | 31 030 |

1. On comparing the statement and the creditors’ ledger account, the following errors have been discovered:
   * The amount of allowances on 10 May 2008 were correct on the statement. The allowances were for Trading Stock.
   * The amount of the discount on 14 May 2008 were correct on the statement.
   * The Statement includes all transactions up until 25 May 2008.
   * Miller traders didn’t purchase any stock on 23 May 2008 from Bonbuix Wholesalers. They request Bonbuix Wholesalers to investigate this entry on their account. Bonbuix Wholesalers determine that the amount in question was incorrectly debited to the account of Miller Traders.

# ACTIVITY

Broad Stores purchase goods on credit from Ashes Ltd.

# REQUIRED:

Redraw the table and indicate how the relevant balance will change when preparing the creditors’ reconciliation. Indicate the figures as well as a (+) for increase and (-) for decrease. The first transaction has been done for you.

|  |  |  |
| --- | --- | --- |
| **No.** | **Creditors’ Ledger of**  **Broad Stores** | **Statement of account received from Ashes Ltd.** |
| **Balance** | **R114 485** | **R182 150** |
| **A.** | **-9 500** | **-9 500** |
| **B.** |  |  |
| **C.** |  |  |
| **D.** |  |  |
| **E.** |  |  |
| **F.** |  |  |

|  |  |  |
| --- | --- | --- |
| **G.** |  |  |
| **H.** |  |  |
| **I.** |  |  |
| **TOTAL** |  |  |

# INFORMATION:

The following balances are provided:

|  |  |  |
| --- | --- | --- |
| In the account of Ashes Ltd in the Creditors Ledger of Broad  Stores on 31 August 2018. | R144 485 | Credit |
| On the statement received from Ashes Ltd on 25 August 2018. | R182 150 | Debit |

The following errors and omissions were discovered during an investigation:

1. A payment by Broad Stores of R9 500 was omitted from the Creditors Ledger and the statement of accounts.
2. An invoice for goods bought for R87 000 was reflected on the statement from Ashes Ltd but was not recorded by Broad Stores.
3. An invoice for R28 000 received form Ashes Ltd was recorded correctly by Board Stores. The statement of accounts reflects it as R21 000.
4. Broad Stores had correctly recorded discount of R1 350 for early payment of their account. This has not been reflected on the statement from Ashes Ltd.
5. The statement of accounts reflects interest of R730 on the overdue account. Ashes Ltd acknowledged that an error had been made and promised to reverse the entry in September 2018 statement.
6. A debit note for R2 000 issued to Value CC was incorrectly recorded in the account of Ashes Ltd by Broad Stores.
7. A credit not for R5 350 received from Ashes Ltd for goods returned was incorrectly recorded as an invoice by Board Stores.
8. Ashes Ltd include returns of R1 215 on the statement. This was returns by another client Road Stores.
9. Goods purchased from Ashes Ltd on 31 August 2018 for R4 600 were recorded by Broad Stores. The statement of accounts from Ashes Ltd is dated 25 August 2018.

# ACTIVITY 5.2

Ladoo Traders buys goods on credit from Anami Suppliers. The information relates to August 2018.

# REQUIRED:

1. Redraw the table and indicate how the balances will change when preparing the creditors reconciliation. Indicate the figure as well as a + for increase and a – for decrease.

|  |  |  |
| --- | --- | --- |
| **NO** | **CREDITORS LEDGER**  **ACCOUNT BALANCE** | **STATEMENT BALANCE** |
| **Balance** | **95 160** | **143 460** |
| **i)** |  |  |
| **ii)** |  |  |
| **iii)** |  |  |
| **iv)** |  |  |
| **v)** |  |  |
| **vi)** |  |  |
| **vii)** |  |  |
| **TOTAL** |  |  |

# Refer to information (vi)

An investigation revealed that only R21 500 of these goods were entered in the stock records. The remaining goods were ordered by M. Rice, the credit manager.

* + Provide TWO possible actions that can be taken against M Rice.
  + Explain TWO internal control measures that the business can use to prevent such incidents in future.

# INFORMATION:

1. **Balances:**

|  |  |  |
| --- | --- | --- |
| Account of Anami Suppliers in the Creditors Ledger of Ladoo  Traders on 31 August 2018. | R95 160 | Cr |
| Statement from Anami Suppliers on 25 August 2018 | R143 460 | Dr |

1. **Errors and omissions discovered during an investigation:**
   1. An invoice for R26 000 received form Anami Suppliers was recorded correctly bu Ladoo Traders. The statement reflects it as R20 600.
   2. Ladoo Traders had correctly recorded a discount of R820 for an early payment. This did not appear on the statement form Anami Suppliers.
   3. The statement reflected interest of R1 240 on an overdue balance. Anami Suppliers acknowledged that an error had been made.
   4. A debit note for R1 520 issued to Amanda Ltd was incorrectly recorded in the account if Anami Suppliers by Ladoo Traders.
   5. A credit note for R2 440 received form Anami Suppliers for goods returned was incorrectly recorded as an invoice by Ladoo Traders.
   6. An invoice for R47 500 was reflected on the statement from Anami Suppliers but was not recorded by Ladoo Traders.
   7. A payment of R7 500 by Ladoo Traders on 27 August 2018 was recorded in the Creditors Ledger account of Anami Suppliers.

# Activity change names and double amounts

On 30 June 2016, the Debtors control account in the General Ledger of Zara Stores showed a debit balance of R19 280, while the Debtors list in the subsidiary ledger showed a total of R15 110.

# REQUIRED

Copy the table and indicate how to correct the errors and omissions in order to reconcile the balance of the control account with the Debtors list total.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Debtors control account** | | **Debtors list** | |
| **Debit** | **Credit** | **Debit** | **Credit** |
|  |  |  |  |  |
|  |  |  |  |  |

# ERRORS AND OMISSIONS

1. The Debtors list was overcast by R1 440.
2. The balance of a debtor was omitted from the Debtors list, R530.
3. The balance on an account of a debtor, R800, was brought down incorrectly as R80.
4. The amount on an invoice to B. Danny was miscalculated. The account should not be R1 720, but R1 360.
5. Payments to creditors as per Cash Payment Journal were debited to the Debtors control account, R9 520.
6. The Debtors Journal was undercast and posted accordingly. The total should have been R10 480 and not R5 080.
7. A credit note for R510 was recorded but not posted to the debtor’s personal account.
8. The account of a debtor was balanced incorrectly. The balance should have been R926 and not R766.
9. A credit note for R388 was recorded correctly in the Debtors Allowance Journal but posted to the personal account as R298.
10. A credit note for R1 280 was recorded on the Debtors Allowance Journal as R1 280 and posted incorrectly to the debtor’s ledger as R920.
11. A cheque for R1 100 received from J. Judd was posted to the account of J. Judy.
12. An invoice for R520 in the Debtors Journal was posted to the credit side of T. Lions account in the Debtors Ledger.

# ACTIVITY change names and amounts

New traders sell 80% of their fashion wear on credit. Their credit terms are strictly 30 days. Study the information given below and answer the following questions.

# REQUIRED:

1. Explain what action the bookkeeper should have taken when he discovered a difference of R6 800 in the Reconciliation Statement. Discuss at least TWO actions.
2. Calculate the correct balance owing by the following debtors:

B. Barrett

1. Small
2. Alberts
3. Calculate the opening balance in the Debtors Control account on 1 February 2017.
4. New Traders pay all their creditors in 30 days in order to receive a cash discount of 5%. Do you agree with their philosophy? Why? Discuss at least TWO factors that should be considered before deciding to pay creditors within 30 days.

# INFORMATION:

|  |  |
| --- | --- |
| NEW TRADERS |  |
| Reconciliation of Debtors control account to the Debtors list | |
| On 31 January 2017 |  |
| Balance per Debtors control account | R62 800 |
| Balances per Debtors Ledger: | R56 000 |
| A. Wright | R12 000 |
| B. Barrette | R9 000 |
| C. Chapman | R17 000 |
| D. Small | R11 000 |
| E. Alberts | ? |
| Difference | R6 800 |

**ADDITIONAL INFORMATION**

The following errors were discovered and must be corrected:

1. Goods sold on credit to D. Small for R2 600 were correctly recorded in the Debtors Journal but incorrectly posted as R6 200 to D. Small’s account in the Debtors Ledger.
2. No entry has been made for a cheque of R6 000 which was returned by the bank due to insufficient funds. The cheque was originally received from B. Barrett in settlement of R6 400.
3. The Debtors Allowance Journal has been undercast by R5 600.
4. An invoice issued to E. Alberts for R2 400 has been posted to the wrong side of her account.

Activity 1 FS 2019

The information relates to Busby Stores for September 2018

# REQUIRED:

1. Provide TWO reasons why it is important for the business to prepare the Creditors reconciliation Statement each month.
2. Calculate the correct Creditors’ Control Account balance after taking into account the relevant errors and omissions.
3. Calculate the correct balance for creditors Zebo Suppliers and Leo Wholesalers by taking into account the errors and omissions.

# INFORMATION:

1. **Balances and total on 30 September 2018 (before errors and omissions):**

|  |  |
| --- | --- |
| Creditors control account in the General Ledger | R87 690 |
| Creditor’s list (before errors and omissions) |  |
| Zebo Suppliers | R16 580 |
| Leo Wholesalers | R29 520 |

1. **Errors and omissions**
   1. The Creditors control was under-cast by R5 020.
   2. A credit invoice for trading stock purchased from Zebo Suppliers for R12 800 on 28 September 2018 was not recorded at all.
   3. A payment of R3150 to Leo Wholesalers was posted as an invoice in the Creditors’ Ledger, The CPJ was correct.
   4. A debit note of R1 280 for goods returned to Zebo Suppliers was recorded in the Creditors’ Journal in error and posted to the General Ledger accordingly. Posting to the Creditors’ Ledger was correctly done from the document.
   5. VAT of R1 720 was omitted from an invoice from Zebo Suppliers.
   6. Equipment purchased on credit from Blackwood Manufacturers, R4 900, was incorrectly posted to the account of Leo Wholesalers.
   7. An invoice for R3 575 form Zebo Suppliers was incorrectly posted as R3 375 to their account in the Creditors’ Ledger only.

Activity 2 KZN 2019

Birdswood Traders, owned by Stanley Mazibuko, sells building material for cash and on credit. Their credit terms are 30 days, but they are budgeting that 80% of their debtors will adhere to the credit terms.

# REQUIRED:

1. Briefly explain why the balance of the debtors control account should correspond with the total of the list of debtors.
2. Calculate the correct closing balance of the debtors control account as at 30 June 2019.
3. Prepare a correct list of debtors of Birdswood Traders on 30 June 2019. Show all calculations.
4. Does Birdswood Traders have effective control over their debtors? Explain by quoting figures to motivate your answer.
5. State TWO actions that Birdswood Traders could take in order to encourage debtors to settle their accounts according to the credit terms.

# INFORMATION:

1. Debtors age analysis schedule for June 2019.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **TOTAL** | **CURRENT** | **30 DAYS** | **60 DAYS** | **90 DAYS** |
| R187 500 | R33 700 | R26 300 | R72 600 | R54 900 |

1. Balance of the debtor’s control on 30 June 2019, amounted to R175 700.
2. Balance according to the debtor’s ledger on 30 June 2019.

|  |  |  |
| --- | --- | --- |
| **Debtors** | **Amount due** | **Credit limits** |
| S.M Mazibuko | 46 500 | 30 000 |
| T,G Nyembe | 31 800 | 35 000 |
| T.M Msweli | 27 000 | 30 000 |
| J.P Botha | 63 200 | 40 000 |
| P.S Pillay | 8 600 | 10 000 |
|  | 177 100 |  |

1. The following errors and omissions were discovered and must be corrected:
   1. The debtors Journal was overcast by R4 100.
   2. Goods sold on credit to P.S. Pillay were incorrectly posted to the account of T.G Nyembe, R7 600.
   3. An allowance on damaged goods delivered to S.M. Mazibuko, R1 400, was posted to the wrong side of his account.
   4. An invoice issued to T.M Msweli for R2 300 was not entered in the books of Birdswood Traders.
   5. A cheque for R8 700, received from P.S Pillay in settlement of an invoice for R9 000, was returned by the bank due to insufficient funds. No entry was made of this.
   6. Goods sold on credit to J.P Botha for R4 700, was correctly entered in the debtors Journal, but was posted to her account in the debtors’ ledger as R7 400.

Activity 3

Activity 4

Activity 5