



INTRODUCTION TO ACCOUNTING AND FINANCIAL REPORTING II(ACT102)

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Bank Reconciliation Statement

- Customers bank statement is a monthly document prepared by the bank cashier to monitor the movement of the bank customer's cash at bank for the particular month.
- Customers bank account is a cashbook prepared by a bank customer on a monthly basis to monitor the his/her cash movement at the bank for that particular month.

Bank Reconciliation Statement

CONTROL BOOKS OF BANK CUSTOMERS ACCOUNT

- Customer's bank account
- Customer's bank statement

PURPOSE OF BANK STATEMENT

- ❑ To monitor deposits and withdrawals
- ❑ To reduce burden of fraud
- ❑ To provide quick balance information to the account holder

Bank Reconciliation Statement

BANK RECONCILIATION

Bank reconciliation is the process of making the balance on the bank column of a cash book to agree with the balance on the bank statement received from the bank.

BANK RECONCILIATION STATEMENT

It is a statement prepared to equalize the customer's cashbook balance with the customer's bank statement balance.

Bank Reconciliation Statement

MERITS OF BANK RECONCILIATION STATEMENT

- ❑ It aids the bank customer to monitor unpresented cheques, uncredited lodgements etc.
- ❑ It assists in detecting errors that might have occurred in the cash book or in the bank statement.
- ❑ It is useful in detecting fraud either from the bank or office
- ❑ Where the bank reconciliation statement is prepared regularly, it helps to prevent fraud.

Bank Reconciliation Statement

REASONS FOR DISAGREEMENT BETWEEN THE CASH BOOK AND THE BANK BALANCE

- ❑ Bank charges
- ❑ Credit transfer
- ❑ Unpresented cheques
- ❑ Uncredited cheques
- ❑ Bank errors
- ❑ Customer's errors

Bank Reconciliation Statement

Bank Reconciliation Statement As at 31st
December 2015

Balance as per adjusted cash book	x x
Add unpresented cheques	<u>x x</u>
Less uncredited lodgements/cheques	<u>(x)</u>
Add or deduct bank error(s)	<u>x</u>
Balance as per bank statement	<u>x x</u>

Bank Reconciliation Statement

STEPS FOR RECONCILIATION(WORD PROBLEM)

- ✓ Read the question carefully
- ✓ Identify the variables and their corresponding figures
- ✓ Prepare adjusted cash book
- ✓ Prepare the reconciliation statement

Bank Reconciliation Statement

STEPS FOR RECONCILIATION(CASHBOOK VS BANK STATEMENT)

- ❑ Check the records in the debit column of the cashbook against those in the credit column of the bank statement. Any unseen record should be called uncredited cheques
- ❑ Check the records in the credit column of the cashbook against those in the debit column of the bank statement. Any unseen record should be called unrepresented cheques

Bank Reconciliation Statement

STEPS FOR RECONCILIATION(CASHBOOK VS BANK STATEMENT)

- ❑ Check the records in the debit column of the bank statement against those in the credit column of the cashbook. Any unseen record should be called bank charges
- ❑ Check the records in the credit column of the bank statement against those in the debit column of the cashbook. Any unseen record should be called credit transfers

Bank Reconciliation Statement

STEPS FOR RECONCILIATION(CASHBOOK VS BANK STATEMENT)

- ❑ Prepare an adjusted cashbook
- ❑ Prepare a bank reconciliation statement

Types and Correction of Errors

ERROR IN ACCOUNTING

Error is an accounting terminology used to signify mistakes made while recording and/or posting financial transactions.

CLASSIFICATION OF ACCOUNTING ERRORS

Errors in accounting are classified into two. Those that affect the agreement of trial balance and those that do not affect the agreement of trial balance.

Types and Correction of Errors

CAUSES OF ERRORS

Errors can occur as a result of:

- ❑ Not following the double entry principle.
- ❑ Carelessness of the book keeper or accounting personnel.
- ❑ Over sight: a complete omission of one or more accounting entry(ies). iv. Under casting of entries in an account.

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Types and Correction of Errors

CAUSES OF ERRORS

Errors can occur as a result of:

- ❑ Over casting of entries in an account.
- ❑ Wrong posting: where debit entry is posted as credit in the ledger.
- ❑ Technical fault in accounting software: this relate to organisation where the accounting system is computerized

Types and Correction of Errors

ERRORS THAT DO NOT AFFECT AGREEMENT OF TRIAL BALANCE

1. Error of omission
2. Error of commision
3. Error of original entry
4. Error of principle
5. Error of transposition
6. Complete reversal of entry

Types and Correction of Errors

PROCEDURES FOR CORRECTION OF ERROR

- The two accounts involved must be identified
- All asset accounts must have a debit balance
- All liabilities accounts must have a credit balance
- All income accounts must have credit balance

Types and Correction of Errors

PROCEDURES FOR CORRECTION OF ERROR

- ❑ All expenses accounts must have debit balance
- ❑ Sales accounts must have credit balance
- ❑ Purchases accounts must have debit balance
- ❑ Interpret the errors in the ledgers
- ❑ Correct the ledger and then post to the journal

Suspense Account

The occurrence of some errors (excluding those discussed above) can cause disagreement in the trial balance total.

There are reasons why trial balance totals may not agree. These include:

- ❑ Omission of a ledger account balance from the trial balance.

Suspense Account

- ❑ Overcast: where one side of ledger account was added up by amount higher than actual.
- ❑ Entry of an amount in the same side of the ledger i.e. a debit entry posted as credit or a credit entry posted as debit.
- ❑ Undercast: where one side of a ledger account was added up by an amount lower than actual.

Suspense Account

The correction of the above errors will necessitate the use of a suspense account.

Where the trial balance total do not agree and to avoid any delay in the preparation of final accounts, a suspense account would be opened to record the difference in the trial balance total pending the time the errors are located and corrected.

Suspense Account

PREPARATION OF SUSPENSE ACCOUNT

1. Identify the errors that affect trial balance
2. Make the identified error pass through suspense account
3. Illustrate the errors in the ledgers and make the necessary corrections
4. Post the correction to the journal

Control Account

A control account is a memorandum account, the balance of which reflects the total balances of many related subsidiary accounts which are part of the double entry system.

Merits of Control Account

- i. It allows homogeneous accounts to be grouped together.

Control Account

Merits of Control Account

- ii. Useful in detecting fraud and errors relating to debtors and creditors.
- iii. It can be used to detect missing figure.
- iv. Allows for quick preparation of draft annual account.
- v. It also helps to locate errors in a trial balance because such errors can be easily traced to a set of account(s).

Control Account

Divisions of Control Account

There are two major types of control accounts namely ;

- i. Sales ledger control or Debtors control account
- ii. Purchases ledger control or Creditors control account

Control Account

Preparation of Debtors Control Account

- Any transactions that will increase the customers' indebtedness to the organisation are debited to the debtors control account while those that will reduce the debts are credited to the same account.

Control Account

Preparation of Debtors Control Account

- At the end of the period, the sales ledger control account or debtors control account will have a debit balance to show how much is due from all the credit customers. Debtors control account is not used for cash customers

Control Account

Preparation of Creditors Control Account

- The transactions that will increase the financial obligation to the supplier will be credited to the creditors control account. Same account will be debited with those transactions that will reduce the obligation like discount received, returns outwards and payments to creditors.

Incomplete Records

The concept of incomplete records or single entry explains the practice whereby the normal principle of double entry which is the basis of modern accounting is not followed strictly, and yet accounting records are said to be kept.

Incomplete Records

The accounting personnel is now charged with the responsibility of picking whatever available records in order to determine any of the following accounting information:

- ❑ The profit for the period
- ❑ Sales/Purchases made
- ❑ Drawings within the period
- ❑ Actual cash lodged into bank.

Incomplete Records

- ❑ Actual debts owed by customers at a particular period
- ❑ Actual goods supplied and amount due to creditors.
- ❑ Trial balance
- ❑ Accounting / financial statement.

Incomplete Records

Features of Single Entry or Incomplete Records

- ❑ The keeping of personal account only with no corresponding debit or normal accounting in the books of accounts.
- ❑ Incomplete and unsatisfactory and it is clear that accurate information of the operation is not maintained.

Incomplete Records

Features of Single Entry or Incomplete Records

- ❑ Lack of maintenance of sales accounts without any debtor control account maintained to reconcile sales to debtors.
- ❑ Lack of maintenance of purchases accounts without corresponding creditors account to reconcile it to creditors purchases to actual payments made.

Incomplete Records

Features of Single Entry or Incomplete Records

- ❑ More often than none, is the only receipts and invoices are maintained with an absence of a sales or purchases ledger.
- ❑ Situations where some accounting documents are either lost or destroyed and so on.

Incomplete Records

Features of Single Entry or Incomplete Records

- ❑ Situations where receipts and payments are made through banks without any corresponding records kept in the office.
- ❑ It creates problems to management because it is difficult to keep full control of records to avoid misappropriations.

Incomplete Records

Calculating Profit from Incomplete Record

- Here, the net profit of the business can be ascertained using the formula:

Profit=closing capital + drawings-opening capital-additional capital

- Note: Prepare a closing statement of affair/balance sheet to get closing capital and also prepare opening statement of affair to get opening capital.

Incomplete Records

Disadvantages of Single Entry

- ❑ It does not conform to the principle of double entry
- ❑ The flexibility of double entry principle is lacking
- ❑ It is difficult to obtain accurate information
- ❑ It is difficult to arrive at the profit for the year

Reserves and Provisions

Reserves

They are known/actual part of company's profits prudently set aside not to meet any liability or commitment but to strengthen the company's financial position.

Types of Reserves

- ❑ Capital reserve
- ❑ Revenue reserve

Reserves and Provisions

Capital Reserves

These are reserves that are not available for distribution as dividend. Examples include:

- ❑ Share premium
- ❑ Debenture premium
- ❑ Profit on revaluation of asset
- ❑ Purchase goodwill

Reserves and Provisions

Revenue Reserves

These are reserves that are available for distribution as dividend. The two types of revenue reserves are:

- ❑ General reserves (set aside to strengthen the company's financial position)
- ❑ Specific reserves (set aside for specific purpose)

Reserves and Provisions

Provisions

These are estimated parts of profits set aside to cushion or lessen the effect of loss of specific nature on the company's performance. Examples include:

- ❑ Provision for depreciation
- ❑ Provision for discount allowed
- ❑ Provision for bad debt

Reserves and Provisions

Bad Debt

- ❑ Bad debts are debts that cannot be collected from the debtors/supposed payer and therefore become losses to the company. When the management envisaged that debtors will not pay, a provision for bad debt. However, if it is envisaged that debtor may not pay, then a provision for doubtful debt is created.

Reserves and Provisions

Provision for Bad Debt

- These are estimated parts of profits set aside to cushion or lessen the effect of bad debt on the company's performance.

Provision for Doubtful Debt

These are estimated parts of profits set aside to cushion or lessen the effect of doubtful debt on the company's performance.

Reserves and Provisions

Provision for Bad Debt Accounting Entries*

When a provision for bad and doubtful debt has been created, the amount involved is:

- ❑ Credited to the provision for bad and doubtful debt account
- ❑ Debited to the profit and loss account
- ❑ Deducted from the debtors balance

Reserves and Provisions

Provision for Bad Debt Accounting Example

- The item Sundry debtors N46,000 in a firm's trial balance include some debts of doubtful value. It is decided to create a provision of 5% of the total debtors to provide against loss. Give the entries necessary to record this and show how the items Sundry debtors will appear in the firm's balance sheet.

Reserves and Provisions

Increase in Provision for Bad Debt

Increase in the company's debtors might lead to an increase in the provision for bad and doubtful debt. In this case, the accounting entries are:

- ❑ Credit the provision for bad debt a/c
- ❑ Debit the profit and loss a/c
- ❑ Write off balance in the provision a/c to the debtors a/c

Reserves and Provisions

Increase in Provision for Bad Debt Example

- Assuming the company's debtor has now increased from N46,000 to N60,000, existing provision being N2,300. It is decided to create a provision of 5% of the new total debtors to provide against loss. Give the entries necessary to record the changes

Reserves and Provisions

Decrease in Provision for Bad Debt

Decrease in the company's debtors might lead to a decrease in the provision for bad and doubtful debt. In this case, the accounting entries are:

- ❑ Debit the provision for bad debt a/c
- ❑ Credit the profit and loss a/c
- ❑ Write off balance in the provision a/c to the debtors a/c

Reserves and Provisions

Provision for Discount Allowed & Received

If a company usually allows and receives cash discount, then there is need to make provision.

Accounting Entries

Provision for discount allowed:

- ❑ Debit profit and loss
- ❑ Credit provision for discount allowed

Reserves and Provisions

Provision for Discount Allowed & Received

If a company usually allows and receives cash discount, then there is need to make provision.

Accounting Entries

Provision for discount received:

- ❑ Credit profit and loss
- ❑ Debit provision for discount received

Computer Accounting Software

TO BE CONTINUED.....!