

# Monyetla Project – Accounting Gr 11

## Lesson 1: Creditors Reconciliation notes

### CREDITORS RECONCILIATION

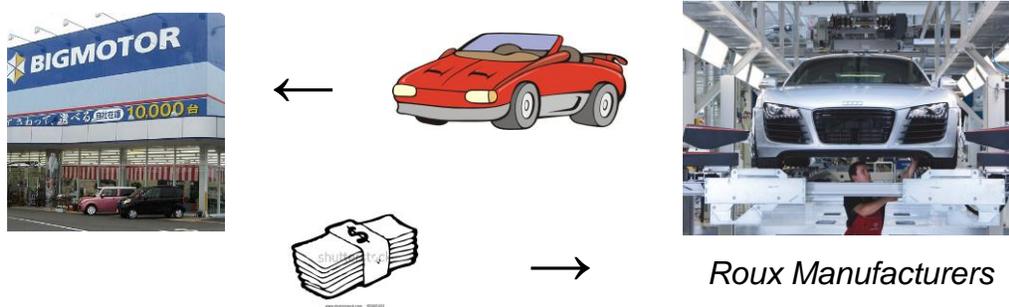
What is a Creditor?

Creditors are suppliers of goods and services on credit to the business. A creditor is a liability because they are owed money by us, the business.

In every supplier–customer relationship, one party is the *creditor* and the other party is the *debtor*.

For example:

Bigmotor (the business) bought stock on credit from Roux Manufacturers (the creditor).



From the point of view of **Bigmotor**:

Bigmotor bought vehicles from Roux Manufacturers. Roux Manufacturers is their creditor because Bigmotor owes them money.

From the point of view of **Roux Manufacturers**:

Roux Manufacturers sold vehicles to Bigmotor. Bigmotor is their debtor because Bigmotor owes them money.

The same **mirror image** concept we dealt with when we did bank reconciliation, applies here. The transactions which take place between the businesses are therefore written in converse order.

Look at the *converse order/mirror image* of the transactions in the following example:

In the books of Bigmotor, the business → this is OUR BOOKS:



### Creditors Ledger of Bigmotor

Roux Manufacturers

Date		Details	Fol	Debit (-)	Credit (+)	Balance
2013						
Jan	1	Balance				6 000
	3	Invoice 332	CJ		2 000	8 000
	8	Cheque 124	CPJ	5 400		8 600
		Discount received	CPJ	600		2 000
	12	Invoice 335	CJ		1 800	3 800
	25	Debit note 12	CAJ	150		<b>3 650</b>

**Statement of Account received from Roux Manufacturers, from their books:**



Bigmotor

Date		Details	Debit (+)	Credit (-)
2013				
Jan	1	Opening balance	6 000	
	3	Invoice 332	2 000	
	8	Receipt 20		5 400
		Discount allowed		600
	12	Invoice 335	1 800	
	25	Credit note 35		150
	27	Closing balance	<b>3 650</b>	

Control over creditors:

It is important that the business maintains good control over their creditors at all time, to ensure that:

- The creditors clerk does his job efficiently.
- The procurement policy is being adhered, in that purchases are authorised.
- The correct amount of items that were ordered from creditors are received and are in a good condition.
- Creditors are paid on time so that the business qualifies for the necessary discounts.
- Full use is made of the credit terms (60-90 days) in order to maintain good cash flow.
- There is division of duties among employees so that one person can check another person's work.
- The balance in the Creditors control account is reconciled to the total of the Creditors list to ensure that records are accurately updated (inside the business).
- The statements received from individual creditors is reconciled with their accounts in the Creditors Ledger.
- Internal audits to are conducted in order to minimise the possibility of fraud or error.

Creditors Reconciliation

At the end of each month, the business will receive a statement of account from its creditors. These statements show all the transactions that took place between the business and the creditor for a certain period.

- ✘ The statement, which is an **external document**, shows out transactions with the creditor from their point of view.
- ✘ The statement must be compared to the creditor's account in the Creditors Ledger to ensure that the details of all invoices and other transactions reflected on it are correct. The Creditors Ledger, which is the **internal document**, shows our transactions with the creditor from our (the business') point of view.

In the books of Bigmotor, the business:

→ Using the external documents (Statements of account from creditors like Roux Manufacturers) to reconcile accounts in the Creditors Ledger.

→ Because the creditor, in this case Roux Manufacturers, makes identical entries in their books to what Bigmotor makes in their books, the Creditors Statement (received from Roux Manufacturers) can be used as the *external document of control*.

→ The Statement is compared to the individual account of the creditor (Roux Manufacturers) in the Creditors Ledger of Bigmotors and mistakes and/or omissions are revealed.

Differences that can arise:

- The creditor may have closed off the Statement on a different date from the date that the business closed off their Creditors Ledger account.
- Invoices, credit notes, cheques, discounts, interest could have been entered incorrectly or not entered at all.
- Posting errors could have occurred.
- Addition or subtraction errors could have occurred.
- Fraud could have been committed.

These are the reasons why we reconcile the accounts in the books of the business and the Statement received from its various creditors.

*Reconciliation is part of the **internal control measures** that a business puts in place in order to ensure proper administration of debtors' and creditors' accounts.*

Comparing the Creditors Ledger to the Statement of Account:

When we receive the Statement (external document) we must compare it to the individual accounts of the creditors in the Creditors Ledger.

Step 1:

Compare the credit (+) column of the Creditors Ledger with the debit (+) column of the Statement.

Creditors Ledger – our books	Statement received from creditor
Invoices are compared with →	Invoices

Step 2:

Compare the debit (-) column of the Creditors Ledger with the credit (-) column of the Statement.

Creditors Ledger – our books	Statement received from creditor
Debit notes are compared with →	Credit notes
Cheques are compared with →	Receipts
Discount received is compared with →	Discount allowed

Step 3:

Tick the amounts that appear in both the Creditors Ledger and the Statement and circle the amounts that don't.

Step 4:

If there are any errors or omissions in the Creditors Ledger, the business must correct it in the Creditors Ledger.

*Errors and omissions don't only occur on the Statement received from the creditor, the business can also make mistakes and leave out entries in the Creditors Ledger.*

Step 5:

If there are any errors or omissions on the Statement, the business must notify the creditor so that they can correct it on the next statement. In the meantime, a Creditors Reconciliation Statement is drawn up by the business to reconcile these errors and omissions.

Step 6:

If there are any transactions in the Creditors Ledger that is not on the statement because the date on the statement is a few days before the end of the month, the business must show it on the Creditors Reconciliation Statement.

Summary of errors and omissions and their corrections:

Error or omission	How to correct them
<b>Invoices</b> recorded in the Creditors Ledger, but not on the creditor's statement.	Enter in the debit (+) column of the Creditors Reconciliation Statement.
<b>Payments, discounts and debit notes</b> recorded in the Creditors Ledger, but not on the creditor's statement.	Enter in the credit (-) column of the Creditors Reconciliation Statement.
<b>Invoices</b> recorded on the creditor's statement, but not in the Creditors Ledger.	Enter in the credit (+) column of the Creditors Ledger.
<b>Payments, discounts and credit notes</b> recorded on the creditor's statement, but not in the Creditors Ledger.	Enter in the debit (-) column of the Creditors Ledger.
An incorrect debit (+) on the creditor's statement. → <i>Do not bring mistakes made by the creditor into your books.</i>	Enter in the credit (-) column of the Creditors Reconciliation Statement.
An incorrect credit (-) on the creditor's statement. → <i>Do not bring mistakes made by the creditor into your books.</i>	Enter in the debit (+) column of the Creditors Reconciliation Statement.
If an error is made and <b>too much</b> is entered in the debit or credit column.	The correction must be made in the <b>opposite column</b> .
If an error is made and <b>too little</b> is entered in the debit or credit column.	The correction must be made in the <b>same column</b> .
Transactions in the Creditors Ledger, but not on the creditor's statement because it happens after the statement was printed.	Enter on the Creditors Reconciliation Statement.

Example

Bhata Shoes trades in all kind of shoes. A statement received on 26 May 2012 from **Shoe Suppliers**, one of their creditors, reflects that Bhata Shoes owes them R34 260. According to Bhata Shoes, the amount outstanding is only R22 090.

Compare the account of Shoe Suppliers in the Creditors Ledger of Bhata Shoes with the Statement received from Shoe Suppliers.

1. Make additional entries in the account of Shoe Suppliers in the Creditors Ledger of Bhata Shoes.
2. Prepare a Creditors Reconciliation Statement on 31 May 2012.

**Information:**

The following Statement was received from **Shoe Suppliers** on 26 May 2012:

In the books of **Shoe Suppliers (Statement)**:

## Bhata Shoes

Date		Details	Fol	Debit +	Credit -
2012 May	1	Opening balance		13 650	
	8	Invoice 180		√ 22 000	
	12	Receipt 55			25 600
	20	Invoice 185		√ 8 700	
	23	Credit note 33			590
	24	Invoice 187		16 100	
	25	Closing balance		34 260	

In the books of Bhata Shoes:

Creditors Ledger of Bhata Shoes  
Shoe Suppliers

Date		Details	Fol	Debit -	Credit +	Balance
2012 May	1	Balance				<b>13 650</b>
	8	Invoice 180	CJ		√ 22 000	35 650
	12	Cheque 101	CPJ	26 500		9 150
		Discount received	CPJ	820		8 330
	20	Invoice 185	CJ		√ 8 700	17 030
	23	Debit note 24	CAJ	790		16 240
	24	Invoice 187	CJ		16 900	33 140
	27	Invoice 190	CJ		5 600	38 740
	28	Cheque 104	CPJ	16 000		22 740
		Discount received	CPJ	650		22 090

**Additional information:**

- The cheque issued on 12 May was incorrectly recorded by Shoe **Suppliers** as R25 600. The correct amount on the cheque is R26 500.

*(Since the cheque of R26 500 was incorrectly recorded by **Shoe Suppliers**, the correction must be made in the Creditors Reconciliation Statement – R900 too little was entered in the credit (-) column.)*

- Shoe Suppliers** did not enter the discount allowed of R820 on 12 May.

*(The amount of the discount must be entered in the credit (-) column of the Creditors Reconciliation Statement.)*

- Bhata Shoes applied for an allowance of R790 on shoes that is not the correct colour. Shoe Suppliers only agreed on an allowance of R590.

*(Bhata Shoes entered R790 in the debit (-) column of the Creditors Ledger instead of R590 → R200 too much.)*

- The invoice on 24 May was incorrectly recorded by Bhata Shoes as R16 900. The correct amount on the invoice is R16 100.

*(Since the invoice of R16 100 was incorrectly recorded by Bhata Shoes, the correction must be made in the Creditors Ledger – too much was entered in the credit (+) column.)*

- The statement was posted on 25 May 2012.

## MEMO

## CREDITORS LEDGER OF BHATA SHOES

## Shoe Suppliers

Date		Details	Fol	Debit -	Credit +	Balance
2012 May	31	Balance	b/d			22 090
		Debit note 24 (790 – 590)			200	22 290
		Invoice 187 corrected (16 900 – 16 100)		800		21 490

## SHOE SUPPLIERS

## Creditors Reconciliation Statement of Bhata Shoes on 31 May 2012

	Debit +	Credit -
<b>Debit balance</b> as per Creditors Statement on 25 May 2012	34 260	
Credit incorrect amount on Receipt 55 (26 500 – 25 600)		900
Discount not on Statement		820
Invoice 190 not on Statement	5 600	
Payment not on Statement		16 000
Discount not on Statement		650
<b>Credit balance</b> as per Creditors ledger account		21 490
	<b>39 860</b>	<b>39 860</b>