SESSION 8: DEBTORS & CREDITORS RECONCILIATION

KEY CONCEPTS:

In this session we will look at:

- Debtors Reconciliation
- Creditors Reconciliation

X-AMPLE QUESTIONS:

QUESTION 1:

DEBTORS RECONCILIATION AND INTERNAL CONTROL

You are provided with information relating to SA Traders. The bookkeeper has made a few errors when reconciling the Debtors Control Account to the Debtors List.

REQUIRED

1.1 SA Traders requires their new customers to provide personal details, including proof of residence, before opening accounts. Briefly explain why this is necessary. Name TWO points.  

1.2 Prepare the correct Debtors List on 31 August 2010, and show how you would adjust the Debtors Control Account using the format provided.

INFORMATION

1. The bookkeeper discovered that he had made a number of errors when preparing the Debtors Ledger Accounts.

2. The Debtors Control Account and the Debtors List did not reconcile. The difference is R6 470.

<table>
<thead>
<tr>
<th>Balance of the Debtors Control Account</th>
<th>R70 663</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total of the Debtors List</td>
<td>77 133</td>
</tr>
<tr>
<td>Sunnyside Traders</td>
<td>17 600</td>
</tr>
<tr>
<td>Thembisa Traders</td>
<td>55 473</td>
</tr>
<tr>
<td>Tildai Suppliers</td>
<td>3 400</td>
</tr>
<tr>
<td>Mondo Stores</td>
<td>660</td>
</tr>
<tr>
<td>Difference</td>
<td>R6 470</td>
</tr>
</tbody>
</table>

3. Errors on the account of Sunnyside Traders
   - Interest on the account was calculated incorrectly. Adjust for an additional R165 interest.
   - VAT at 14% was omitted on Invoice 868 dated 31 July 2010. Total sales, excluding VAT, amounted to R16 500.

4. Errors on the account of Thembisa Traders
- A credit note of R3 080 was incorrectly reflected in the Debtors Ledger Account as a debit entry. The General Ledger is correct.
- Thembisa Traders claim that they paid R13 200 last month, but that this is not reflected on their statement. Investigations revealed that Thembisa Traders' payment was incorrectly posted to the account of another debtor, Sunnyside Traders.
- Thembisa Traders had issued a dishonoured cheque for R2 750 in settlement of an amount of R3 100. The CRJ and CPJ entries were correctly recorded. The cancellation of the discount was not reflected in the Debtors Ledger Account. The control account is correct.

5. **Additional errors reflected on the Debtors Reconciliation Statement**
- The debt of R660 of Mondo Stores, a debtor, has been written off as irrecoverable. The amount was posted to the Debtors Control Account but not to the debtor's personal account.
- Tildai Suppliers are reflected in the Debtors Ledger and the Creditors Ledger. Their credit balance of R2 124 in the Creditors Ledger is to be offset against their account in the Debtors Ledger.

**QUESTION 2:**

**DEBTORS RECONCILIATION**

The following information was extracted from the accounting records of Dunwen Centre. Mrs Murray, the owner prepared the Debtors Control account as well as the Debtors’ List for September 2010. There were however, certain errors and omissions that still need to be taken into account.

**INSTRUCTIONS**

2.1. Reconcile the Debtors Control account with the Debtors’ List. (8)

2.2. Read the following information and answer the question below.

The business is experiencing difficulty collecting payments from their debtors. Mrs Murray writes off debtors’ accounts as irrecoverable after 60 days. After investigating, you noticed that the business does not have a debt collection policy. Many customers are granted credit as the owner believes this increases sales.

**Draft a letter to Mrs Murray and include the following:**
- A proposed debt collection policy;
- Factors that must be taken into account before granting credit;
- FAso explain the procedure to be followed before writing off a debtor’s account as a bad debt. (15)

**INFORMATION**

a) Balance as per Debtors Control account – R6 260 (30 September 2010)
b) Balance as per Debtors List – R6 610 (30 September 2010)
c) Errors and omissions not taken into account:
- The total of the Debtors Journal was under cast by R200.
- The total of the Debtors Allowance Journal was overcast by R100.
- An invoice for R945 was issued to debtor P. Gummy but was posted to his account as R495.
- A receipt issued to debtor W. Pooh for R800 was correctly entered in the Cash Receipts Journal, but was posted to the debtors’ ledger as R300.
- Interest of R45 was charged to the account of T. Tigger. This was omitted from the general journal.
- The bank returned T. Tigger’s cheque for R750, marked R/D. The cheque was received in full settlement of his account of R850. No entry was made of the above transaction.

QUESTION 3:

CREDITORS RECONCILIATION

You are the internal auditor of Valentine Stores, a gift shop owned by Mark Masuku. The Creditors Control Account and Creditors List were prepared by the bookkeeper, Ditzy Donald. The postings from the journals have been done, but you have noted a number of errors and omissions.

REQUIRED

3.1 The Creditors Control Account reflected a balance of R61 417 while the total of the Creditors List from the Creditors Ledger reflected a total of R59 387. Briefly explain why it is important that these two figures agree. (2)

3.2

3.2.1 List the corrections that the bookkeeper must make to the Creditors Control Account in the General Ledger. The first one has been done for you as an example. If no entry is applicable, you must write 'NO ENTRY'. (11)

3.2.2 Prepare a correct Creditors List on 31 July 2009. Show workings in brackets to earn part-marks. (16)

3.3 Provide THREE points for good internal control over creditors. (6)

INFORMATION

1. CREDITORS LIST ON 31 JULY 2009

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Khan Traders</td>
<td>R563</td>
<td></td>
</tr>
<tr>
<td>Thankful Stores</td>
<td></td>
<td>R30 560</td>
</tr>
<tr>
<td>Connel Ltd</td>
<td></td>
<td>R10 890</td>
</tr>
<tr>
<td>Yolisa Wholesalers</td>
<td></td>
<td>R18 500</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>R563</td>
<td>R59 950</td>
</tr>
</tbody>
</table>

= R59 387
2. ERRORS AND OMISSIONS

A. A credit invoice for trading stock purchased from Connel Ltd for R3 400 on 28 July 2009 was not recorded at all. (See solution)

B. Stock purchased on credit from Connel Ltd, R7 200, was incorrectly posted to the account of Yolisa Wholesalers.

C. Interest of R258 must be brought into account on the overdue account of Connel Ltd.

D. The debit balance of Khan Traders must be transferred to their account in the Debtors Ledger.

E. Goods of R8 350 returned to Thankful Stores were incorrectly treated as a credit purchase and posted accordingly.

F. A discount of R230 received from Yolisa Wholesalers was incorrectly posted to the Creditors Ledger as R320. The General Ledger is correct.

G. The amount of R2 100 reflected as a refund in the Creditors Control Account was in fact received from a debtor, S Steyn, whose account had previously been written off as bad debt.

H. An amount of R80 in the Creditors Allowances Journal for trading stock returned was posted to the wrong side of a creditor’s account, Thankful Stores.

I. VAT of R490 was omitted from an invoice of equipment bought from Yolisa Wholesalers.