

BSBFIA303

Process accounts payable and receivable

Release 1

Learner guide

BSBFIA303

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and receivable**

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Learner guide

Aspire Version 1.1

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Before you begin

This learner guide is based on the unit of competency *BSBFIA303 Process accounts payable and receivable*, Release 1. Your trainer or training organisation must give you information about this unit of competency as part of your training program. You can access the unit of competency and assessment requirements at: www.training.gov.au.

How to work through this learner guide

This learner guide contains a number of features that will assist you in your learning. Your trainer will advise which parts of the learner guide you need to read, and which practice tasks and learning checkpoints you need to complete. The features of this learner guide are detailed in the following table.

Feature of the learner guide	How you can use each feature
Learning content	Read each topic in this learner guide. If you come across content that is confusing, make a note and discuss it with your trainer. Your trainer is in the best position to offer assistance. It is very important that you take on some of the responsibility for the learning you will undertake.
Examples and case studies	Examples of completed documents that may be used in a workplace are included in this learner guide. You can use these examples as models to help you complete practice tasks, and learning checkpoints. Case studies highlight learning points and provide realistic examples of workplace situations.
Practice tasks	Practice tasks give you the opportunity to put your skills and knowledge into action. Your trainer will tell you which practice tasks to complete.
Video clips	Where QR codes appear, learners can use smartphones and other devices to access video clips relating to the content. For information about how to download a QR reader app or accessing video on your device, please visit our website: www.aspirelr.com.au/help
Summary	Key learning points are provided at the end of each topic.
Learning checkpoints	There is a learning checkpoint at the end of each topic. Your trainer will tell you which learning checkpoints to complete. These checkpoints give you an opportunity to check your progress and apply the skills and knowledge you have learnt.



Foundation skills

As you complete learning using this guide, you will be developing the foundation skills relevant for this unit. Foundation skills are the language, literacy and numeracy (LLN) skills and the employability skills required for participation in modern workplaces and contemporary life.

The following table outlines specific foundation skills noted for your learning in this learner guide.

Foundation skill area	Foundation skill description
Reading	<ul style="list-style-type: none"> Interprets textual information from a range of sources to confirm all necessary job requirements Checks documents to identify errors or discrepancies
Writing	<ul style="list-style-type: none"> Prepares a range of clear documentation using relevant format, grammatical structure and vocabulary suitable to audience
Oral communication	<ul style="list-style-type: none"> Uses questioning and listening techniques to clarify information Explains information clearly using appropriate terminology and tone
Numeracy	<ul style="list-style-type: none"> Uses a limited range of mathematical calculations to reconcile amounts using whole numbers and decimals Arranges/compares numerical information
Navigate the world of work	<ul style="list-style-type: none"> Appreciates implications of legal and regulatory responsibilities related to own work
Interact with others	<ul style="list-style-type: none"> Seeks the appropriate form, channel and mode of communication for a specific purpose relevant to own role Plays an active role in workgroup discussions, paying some attention to the perspective of others
Get the work done	<ul style="list-style-type: none"> Plans a range of routine and non-routine tasks recognising stated goals and aiming to achieve them within specified timeframes Recognises predictable problems and applies formal problem-solving processes or seeks advice from others, as relevant Automatically implements standard procedures for routine decisions Uses digital technologies to access, record, store, organise and compile data and present reports as required

What do you already know?

Use the following table to identify what you may already know. This may assist you to work out what to focus on in your learning.

Topic	Key outcome	Rate your confidence in each section
Topic 1 Maintain financial journal systems	1A The accounting process	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1B Source documents	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1C Dealing with errors	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1D Entering transactions into the journal system	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1E Credit journals	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1F Cash journals	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	1G Procedures for receiving payment	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
Topic 2 Prepare bank reconciliations	2A Bank reconciliation and banking terms	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2B Totalling cash journals	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2C Preparing a bank reconciliation	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2D Correcting errors	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident

Topic	Key outcome	Rate your confidence in each section
	2E Dishonoured cheques	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2F Additional items	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	2G Preparing reconciliation reports	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
Topic 3 Maintain accounts payable and receivable	3A The ledger system	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3B The accounts receivable ledger	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3C Preparing the debtors schedule	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3D The accounts payable ledger	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	3E Preparing the creditors schedule	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
Topic 4 Process payments for accounts payable	4A Reconciling accounts payable statements	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	4B Processing payments	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	4C Correcting errors	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident

Topic	Key outcome	Rate your confidence in each section
Topic 5 Prepare statements for accounts receivable	5A Accounts receivable statements	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	5B Remittance advice	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	5C Manual and computerised systems	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	5D Rectifying discrepancies	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	5E Dispatching statements within designated time lines	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
Topic 6 Follow up outstanding accounts	6A Maintaining the accounts receivable ledger system	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	6B Conducting an aged analysis	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	6C Reviewing credit terms	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident
	6D Corrective action	<input type="checkbox"/> Confident <input type="checkbox"/> Basic understanding <input type="checkbox"/> Not confident

Topic 1

Maintain financial journal systems

The accounts payable and accounts receivable of an organisation are the main financial records that keep track of all the financial transactions carried out by the organisation. These records become part of the financial journal system of an organisation, and help to increase the likelihood of business success by recording the organisation's financial dealings.

In this topic you will learn about:

- 1A The accounting process
- 1B Source documents
- 1C Dealing with errors
- 1D Entering transactions into the journal system
- 1E Credit journals
- 1F Cash journals
- 1G Procedures for receiving payment

1A

The accounting process

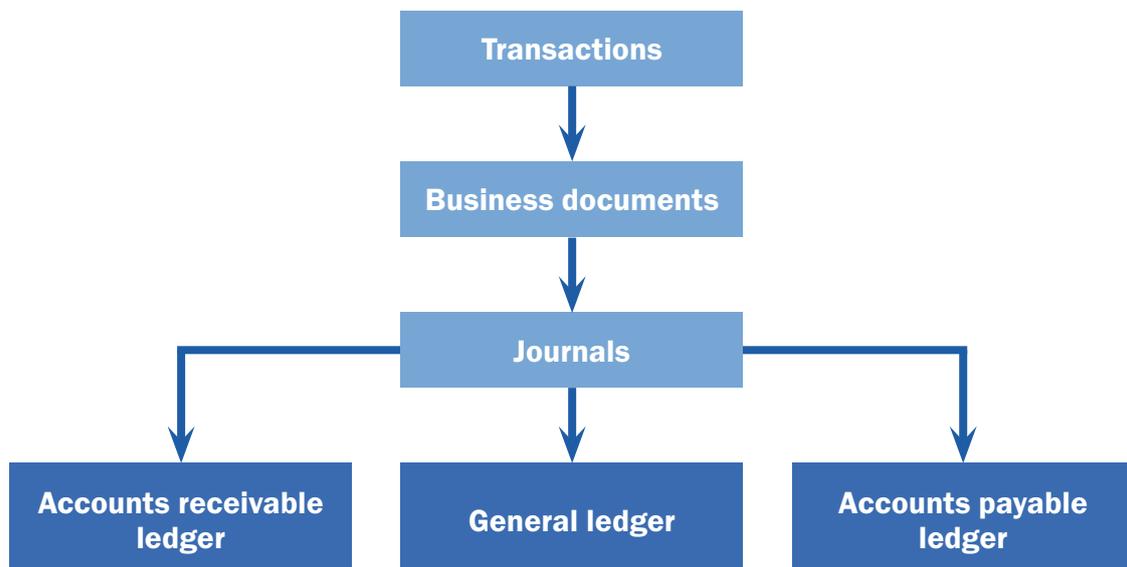
The recording of financial transactions as they take place is referred to as bookkeeping. An organisation without adequate financial records will become inefficient, make poor decisions and ultimately lose control and money. Inefficiency reflects on the organisation's image and the customer base deteriorates. The outcome is likely to be loss of business.

The information that financial records provide helps to:

- plan future business directions
- improve business performance
- make wise business decisions
- provide a control over business operations
- increase understanding of business operations
- obtain finance to continue or expand operations
- detect mismanagement, theft or fraud within the organisation
- calculate profits correctly
- prepare tax returns and other documents required by law.

Maintain accounts

The process of maintaining accounts payable and accounts receivable records begins with financial transactions. The transactions are recorded in business or 'source' documents, which are classified and summarised into journals. These journals are then 'posted' to the general ledger, the accounts payable ledger and the accounts receivable ledger, as shown in the following diagram.



1B

Source documents

Financial transactions must be recorded at the time they are made. A record of a transaction is referred to as a 'source document'. The purpose of this document is to provide evidence that the transaction has occurred, transaction details for recording into accounts payable and receivable records, and an 'audit trail' so that the recording of transactions can be checked for accuracy and completeness.

The following information lists the most common source documents used in accounts payable and accounts receivable systems, and provides brief descriptions of them.

Tax invoice

Record of goods or services provided and the amount due. Tax invoices may be received or issued by an organisation.

Adjustment note

Record of goods returned that are damaged or have run short of required delivery. An adjustment note may be prepared in special circumstances to reduce the amount due on the original invoice. Adjustment notes may be issued or received by an organisation.

Written receipt and cash register roll

Evidence that a payment has been received by the organisation.

EFTPOS (electronic funds transfer at point of sale) receipt

Evidence of electronic payments received by the organisation.

Cheque butt

Evidence that a payment by cheque has been made by the organisation.

Remittance advice

A document prepared and forwarded to a supplier, setting out the details of a payment that has been made.

Cheques received listing

A summary of cheques received by the organisation.

Statement of account

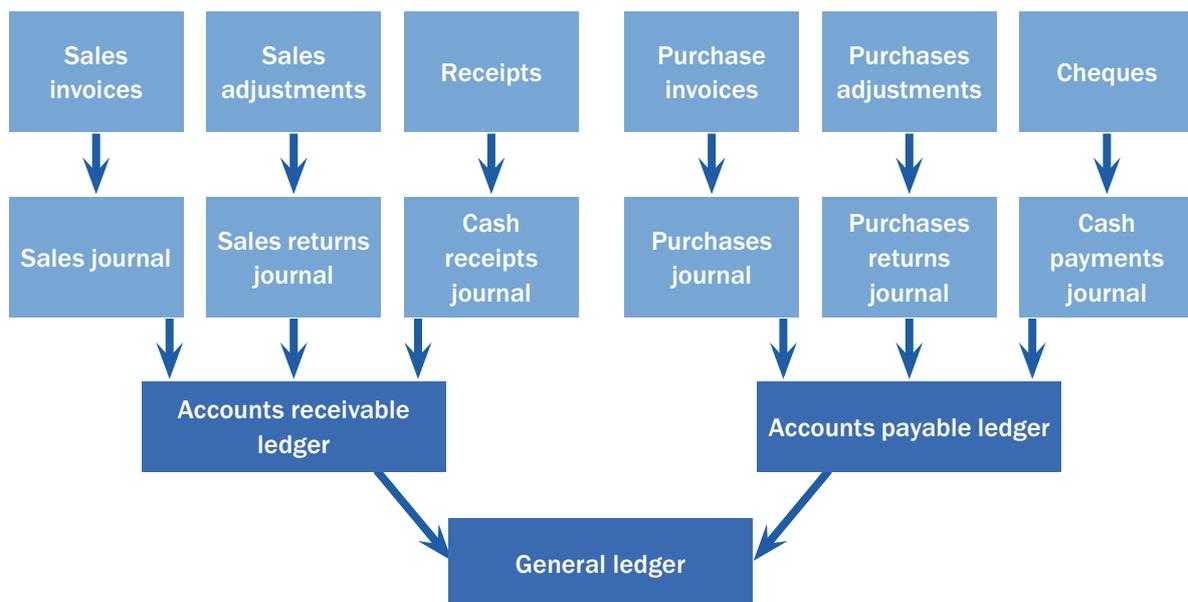
A summary of the transactions that have occurred between the organisation and its suppliers and/or customers.

The bookkeeping process

In a manual or computerised accounting system, source documents provide the evidence and details of a transaction. Without documentary evidence, a transaction cannot be verified or validated. It is essential for taxation and audit purposes that business transactions are supported by authentic and accurate business documents.

In a manual accounting system, the details recorded on source documents are summarised and entered into special journals. This is called the bookkeeping process.

The following diagram illustrates the relationships between the source documents, the journals in which they are recorded and the various ledgers.



Understand legislation

When processing accounts payable and receivable, you need to be aware of your job role and personal responsibilities, including the limits of your position. Your position description tells you what your role and responsibilities are, although it may not describe exactly where the boundaries of your position are. If you are in doubt, consult your supervisor.

Your responsibilities include the requirement to follow any legislation or guidelines that governments have put in place. You do not have to know all the details of the legislation, but you do need to know the types of things you must comply with, as your organisation can be held liable for any difficulties that arise if you have not followed procedures correctly.

Your organisation should have embedded this legislation and other practices into its policies and procedures, so if you follow these, then you are complying with the law. However, when you are processing accounts payable and receivable, always check to ensure you have considered these aspects.

Here is an outline of legislation that needs to be understood.

Anti-discrimination

Anti-discrimination legislation is contained in Commonwealth and state/territory Acts that require workers and employers to treat everyone the same regardless of age, gender or background. Commonwealth Acts include the following:

- *Age Discrimination Act 2004* (Cth)
- *Australian Human Rights Commission Act 1986* (Cth)
- *Disability Discrimination Act 1992* (Cth)
- *Racial Discrimination Act 1975* (Cth)
- *Sex Discrimination Act 1984* (Cth)

Ethical principles

Codes of practice and ethical principles can be workplace-based or applied by a professional association; for example, the Accounting Professional and Ethical Standards Board Code of Ethics, or a workplace requirement to always back up your work or to meet deadlines.

Privacy

Privacy laws are contained in the *Privacy Act 1988* (Cth) and described in 13 principles; for example, to make sure confidential information is stored appropriately.

Safety

Work health and safety (WHS) laws are state/territory-based and set out requirements for employers and workers; for example, to make sure safety directions are followed when using equipment, to follow manual handling guidelines and to notify a supervisor if work demands are causing stress.

Financial

Financial legislation is contained in state/territory and Commonwealth Acts. Some of the main legislation affecting your role relates to fringe benefits and the GST; for example:

- *Income Tax Act 1986* (Cth)
- *Fringe Benefits Tax Assessment Act 1986* (Cth)
- *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

Example: goods and services tax (GST)

Here is an example that provides information about the GST.

The Australian Government requires businesses and not-for-profit organisations to charge GST on the goods and services they provide at a rate of 10% of the value of the transaction. A business must register for GST if it has sales of at least \$75,000 per annum. Not-for-profit organisations such as sporting clubs must register for GST if they earn revenue of \$150,000 or more.

If an organisation is required to register for GST it must first obtain an ABN, which identifies the organisation and enables the Australian Taxation Office (ATO) to communicate with it and trace its business transactions.

Some goods and services are classified as GST-free. For the purpose of this unit, it is assumed that all goods and services are taxable. GST does not apply to payments of wages and salaries. For information on GST-exempt goods, visit the ATO website at: www.ato.gov.au.

When a GST-registered organisation charges GST on its sales or services, it sets aside the GST collected (GST payable) and remits it (sends it) to the ATO at the end of a reporting period.

When a GST-registered organisation purchases goods or services from another organisation that charges GST, the purchasing organisation can claim the GST on the transaction from the ATO. This is referred to as an input tax credit (ITC), or GST receivable.

When an organisation has sales less than \$75,000, it may choose not to register for an ABN and consequently not register for GST. However, these organisations are at a disadvantage as they will confront two problems:

1. The organisation cannot claim GST it pays as an input tax credit. This forces the organisation to absorb the GST paid or increase its prices.
2. When the organisation supplies a GST-registered business with goods and services, the purchasing business must deduct 46.5% of the amount owing and remit it to the ATO, leaving the business with 53.5% of the amount. In this way the ATO ensures that an organisation cannot avoid paying its taxes. The rate of 46.5% is the same rate that can be applied to employees who do not have a tax file number. Hence a business without an ABN is treated in the same way as an employee with no tax file number.

When a GST-registered organisation charges GST on its transactions, the business document it issues must comply with the following requirements.

Requirement	Invoiced amount under \$1,000	Invoiced amount over \$1,000
Include the supplier's Australian Business Number	Yes	Yes
Display the words 'tax invoice' prominently	Yes	Yes
Include the date of issue	Yes	Yes
Include the name of the supplier	Yes	Yes
Include the name of the recipient	No	Yes
Include the address or ABN of the recipient	No	Yes
Describe the items sold	Yes	Yes
State the quantity of each item sold	No	Yes
Include the GST-inclusive price on the invoice	Yes	Yes
Either state the GST component or words similar to 'The total price includes GST'	Yes	Yes

continued ...

... continued

Most business documents show the GST amount as a separate line item on the document. This enables the seller and the purchaser to quickly determine the amount of the transaction excluding the GST, and to identify the GST charged on the transaction.

Some businesses incorporate the GST in the value of the goods or service. When this occurs, divide the total value by 11 to determine the value of the GST in the transaction. To determine the value of the goods or service excluding GST, multiply the GST amount by 10.

Determining the amount of GST

If the total GST-inclusive cost of a stock item is \$165.00, divide this cost by 11 to determine the amount of GST paid.

$$\$165.00 \div 11 = \$15.00$$

(Inclusive price \div 11 = GST amount)

Then subtract this amount from the original price to find its actual cost.

$$\$165.00 - \$15.00 = \$150.00$$

(Inclusive price - GST amount = actual cost)

Or, multiply the GST amount by 10 to find the actual cost.

$$\$15.00 \times 10 = \$150.00$$

Invoices

Invoices (or tax invoices) are issued when an organisation sells goods 'on credit' to a customer; that is, the customer takes the goods without making payment. Usually, an organisation will deliver goods or services along with an invoice, which the customer pays at a later date.

When an invoice for credit is issued, it should show the invoice number and may include the words 'Sold to', followed by the customer's details. Alternatively, when an invoice for cash is issued, it may include the words 'receipt' and 'received from'. These characteristics will help you identify the difference between a tax invoice for a credit sale and a tax invoice for a cash sale.

Invoices must be dispatched as soon as possible after a credit sale has occurred. Prompt collection from debtors is essential for the efficient management of cashflow, so you must make sure you keep invoicing up to date.

Discount terms

Discounts are sometimes offered to debtors to encourage them to pay their accounts on time. Discount terms are the terms by which the discount is offered. For example, a debtor may receive a discount of 5% if they pay their account within 14 days. If they do not pay within this time, they are still required to pay within a certain time; for example, 30 days. This is shown on an invoice as '5% 14 days net 30', or 'Terms: 5/14 net 30'.



Example: sales invoice

Possum Nurseries (the seller) sells 20 box gums and five terracotta pots to L. Mitchell (the purchaser) on credit at a cost of \$270.00. GST of 10% is added (\$27.00), so the total amount owing by L. Mitchell is \$297.00.

Possum Nurseries is offering L. Mitchell terms of 5% discount if the account is paid within 10 days (5/10); otherwise, the full amount owing must be paid within 30 days (net 30). The calculations are as follows:

Amount owing on invoice	\$297.00
Less discount at 5% (\$297.00 x 5%) (inclusive of GST)*	\$14.85
Amount payable	\$282.15

*GST included in discount amount of \$14.85 = $\$14.85 \div 11 = \1.35

TAX INVOICE		Possum Nurseries		
Invoice no: 2097		ABN 69 265 189 797		
Sold to:	L. Mitchell 45 Saint Boulevard Monksville 1606	12 Rawson Road Mudrain 1605 Phone: 9555 5432		
		Date: 5 September 2017		
Particulars		Quantity	Unit price (\$)	Total price (\$)
Box gums		20	7.00	140.00
Terracotta pots		5	26.00	130.00
			Total price (excluding GST)	270.00
			GST	27.00
			Total amount (including GST)	297.00
Terms: 5/10, net 30				

Example: purchase invoice

Possum Nurseries purchases 100 tree ferns from its supplier, Mountain Garden Supplies, on credit at a cost of \$700.00. GST of \$70.00 is added. The total amount payable is \$770.00.

Mountain Garden Supplies offers a discount of 2.5% for payment within 10 days (2.5/10); otherwise, the full amount is due within 30 days (net 30).

TAX INVOICE		Mountain Garden Supplies		
Invoice no: 260269		ABN 51 789 266 979		
Sold to:	Possum Nurseries	200 Grayson Street		
	12 Rawson Road	Mudrain 1605		
	Mudrain 1605	Phone: 9555 8887		
		Date: 5 September 2017		
Particulars		Quantity	Unit price (\$)	Total price (\$)
Tree ferns: height 1 metre		100	7.00	700.00
GST				70.00
		Total amount (including GST)		770.00
Terms 2.5/10, net 30				

Adjustment notes

Adjustment notes are issued when a customer returns goods that have previously been sold on credit, that is, on invoice. Adjustment notes can also be issued to grant a reduction on the amount charged on the invoice.

Once an adjustment note has been prepared or received, it must be checked for accuracy and validated by an authorised person.



Example: sales adjustment note

Possum Nurseries (the seller) credits L. Mitchell's account (the purchaser) for the return of two box gums. The total amount of the adjustment is \$15.40, which includes an adjustment to GST payable of \$1.40.

ADJUSTMENT NOTE		Possum Nurseries		
Adjustment note: C14		ABN 69 265 189 797		
Sold to:	L. Mitchell 45 Saint Boulevard Monksville 1606	12 Rawson Road Mudrain 1605 Phone: 9555 5432		
		Date: 6 September 2017		
Particulars		Quantity	Unit price (\$)	Total price (\$)
Box gums - return		2	7.00	14.00
GST				1.40
		Total amount (including GST)		15.40

Example: purchase adjustment note

Possum Nurseries (the purchaser) returns five tree ferns to its supplier, Mountain Garden Supplies, and receives an adjustment note crediting its account for \$38.50, which includes GST of \$3.50.

ADJUSTMENT NOTE		Mountain Garden Supplies		
Adjustment note: 4597		ABN 51 789 266 979		
Credit to:	Possum Nurseries 12 Rawson Road Mudrain 1605	200 Grayson Street Mudrain 1605 Phone: 9555 8887		
		Date: 8 September 2017		
Particulars		Quantity	Unit price (\$)	Total price (\$)
Tree ferns: height 1 metre		5	7.00	35.00
			GST	3.50
		Total amount (including GST)		38.50

Receipts

An organisation should issue a receipt when it receives payment for any reason. Issuing a receipt provides documentary evidence that payment has been received and provides the details of why the payment has been made.

When a customer who has been sold goods on credit (on invoice) makes payment for the goods, a receipt should be issued to verify the amount paid and the details of the invoice being paid. Where the customer has paid within the discount period, the receipt should also record the discount amount.



A tax invoice issued when money is received can be distinguished from a tax invoice issued for a credit sale, as it will include the words 'Received from' instead of 'Sold to' and will include a receipt number instead of an invoice number.

Example: receipt issued for payment of account by a customer

Possum Nurseries receives payment from L. Mitchell on 14 September 2017 for \$267.52, and issues receipt no. 1789. Due to prompt payment, L. Mitchell has been given a discount of \$14.08, which includes a GST adjustment of \$1.28.

Possum Nurseries	
ABN 69 265 189 797	
12 Rawson Road	
Mudrain 1605	
Phone: 9555 5432	
RECEIPT	No. 789
Date:	8/09/2017
Received from:	L. Mitchell
For:	Payment of account – invoice number 2097
Amount:	\$267.52 Cash/Cheque
Discount:	\$14.08 (inc. \$1.28 GST adjustment)
Authorising signature:	<i>Erica Possum</i>

Receipt issued for a cash sale

When an organisation makes a cash sale to a customer, a receipt can be issued via the cash register. This is referred to as a cash register slip (CRS). Where the amount received is less than \$1,000, the receipt does not need to include the customer's details. If the amount received exceeds \$1,000, the receipt must state the customer's name and either their address or their ABN.

In this transaction, Possum Nurseries sold \$3,500.00 in plants and \$1,800.00 in accessories to a customer on 8 September 2016. GST of \$530.00 has been added. The customer paid for the goods by cheque.

Possum Nurseries	
12 Rawson Road Mudrain 1605	
ABN 69 265 189 797	
TAX INVOICE	
Plants	\$3,500.00
Accessories	\$1,800.00
GST	\$530.00
Total (incl. GST)	\$5,830.00
Cheque	\$5,830.00
Change	\$0.00
Received from: S. Brown Landscaping ABN: 72 123 456 789	
Retain for tax purposes	
18/09/2017	4.30 PM 13028 385656

Example: EFTPOS receipt

Possum Nurseries has received an EFTPOS payment from a customer on 18 September 2016 for \$49.50. Here is a copy of the EFTPOS receipt.

POSSUM NURSERIES 12 Rawson Road Mudrain 1605 Phone: 9555 5432	
MERCHANT	35947761
TERMINAL	Y3A273
DATE/TIME	08/09/17 13.08
RRN	000755 011341
PURCHASE AUD	\$49.50
TOTAL AUD	\$49.50
FLEXICARD	SAVINGS
3894	
APPROVED 00	AUTH: 377213

Payments

An organisation may pay for goods or services by cash, using a credit card, using EFTPOS, performing a direct deposit or issuing a cheque. If a receipt is generated at the time of payment, it should be retained as evidence of the payment. For direct deposits, the transaction or receipt number and other details should be noted.

When an organisation writes a cheque to a supplier, it should retain the cheque butt as evidence of the payment. The details on the cheque butt must record the amount paid and the details of the payment. When a supplier is being paid, the words 'Payment of account' can be used to signify that a supplier has been paid. It is also common practice to record the invoice number for which the payment is being made.



Example: cheque butt

Possum Nurseries issues a cheque for \$500.00 to Mountain Garden Supplies as part payment of invoice no. 260269. The cheque number is 003250.

The cheque butt shows that the balance of the account was \$2,350.00 and that \$410.00 was deposited in the account before the \$500.00 cheque was prepared. The balance of the account is \$2,260.00 after writing the cheque.

Date	21/09/2017
To	Mountain Garden Supplies
For	Part payment of account - inv. no. 260269
Balance (\$)	2,350.00
Deposit (\$)	410.00
Total (\$)	2,760.00
This cheque (\$)	500.00
Balance (\$)	2,260.00
	003250

Statement of account

At regular intervals, usually monthly, a business should forward a statement of account to its credit customers. This statement provides the customer with a summary of the transactions made during the month, including the amount owing from the previous month, the sales and returns made during the month, the amounts paid, any discounts received and the balance of the account at the end of the month.

The statement of account that follows has been prepared by Possum Nurseries for the customer L. Mitchell for the month of September.

STATEMENT OF ACCOUNT			Possum Nurseries		
To:	L. Mitchell 45 Saint Boulevard Monksville 1606		ABN 69 265 189 797 12 Rawson Road Mudrain 1605 Phone: 9555 5432 Date: 30 September 2017		
Date	Particulars	Reference	Debit (\$)	Credit (\$)	Balance (\$)
1/09/16	Balance brought forward				100.00
2/09/16	Payment received	Receipt 750		100.00	0.00
5/09/16	Sales	Invoice 2097	297.00		297.00
6/09/16	Sales returns	Adjustment note C14		15.40	281.60
14/09/16	Payment received	Receipt 789		267.52	14.08
14/09/16	Discount	Receipt 789		14.08	0.00
25/09/16	Sales	Invoice 3130	198.00		198.00
		0–30 days \$198.00	30–60 days	60–90 days	90+ days

Practice task 1

1. Explain the term GST.

continued ...

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2. In this table, calculate the amount of GST to be added and determine the total amount to charge the customer.

Amount (\$)	GST (\$)	Total (\$)
590.00		
25.00		
6,780.00		
55.50		
8,250.00		
190.00		

3. The amounts in this table are inclusive of GST. Calculate the GST amount.

Amount (\$)	GST (\$)
869.00	
2,145.00	
636.90	
1,017.50	
764.50	

1C

Dealing with errors

Organisations should have detailed and strict procedures for creating, authorising and processing financial documents. These procedures are designed to prevent and detect errors and fraud.

The sale of goods and services is usually an organisation's main source of revenue. It is important that sales documents are accurate and correctly authorised.

Some source documents contain errors due to miscalculations, entering the wrong address or customer details, or some other human error. All documents should be double-checked when they are being issued or received. If you discover an error or discrepancy in an invoice before it is dispatched, make sure it is corrected before the invoice is forwarded to the debtor. If the invoice has already been forwarded, you must report the error to your supervisor or follow your organisation's procedures.

When you are processing documents, you must check that the information provided on the document is accurate and meets company and legislative requirements.

Checks on company documents

- Document title; for example, tax invoice, adjustment note, receipt
- Date
- Document number
- Organisation name, address and phone number
- Australian Business Number (ABN)
- Customer/supplier details where applicable; for example, name, order number

Other items to check

- All extension calculations are accurate (invoices and adjustment notes).
- Document totals are correctly calculated.
- GST, if applicable, is correctly calculated.
- Terms and conditions, where applicable, are clearly stated.
- The document is prepared in duplicate where necessary.

Organisational policy and procedures

Your organisation should have policies and procedures regarding identifying and dealing with errors in financial records. These might include:

- having two people check details on issued invoices
- checking invoice-received details with the staff member who requested the goods or services
- validating invoices
- referring documents for resolution.



Validate invoices

Invoices should be validated by a supervisor or other independent person (not someone who has prepared them).

Many organisations that manually produce invoices use a validation slip. The validation slip contains a list of items to be checked before an invoice is dispatched. A validation slip should be signed by the validating person when everything has been checked.

Invoices should be checked to make sure that:

- the invoice has been printed in duplicate and provides all the details required by law
- the goods were ordered by the debtor (customer)
- the goods have been sent to the debtor or are being sent with the invoice
- all calculations and extensions are correct
- the terms of the invoice are correct (some customers may have different/special terms)
- a credit check is completed prior to giving credit to any new debtor
- credit has not been extended beyond an existing debtor's credit limit.

Example: invoice validation slip

Here is an example of an invoice validation slip.

LMN Co. Pty Ltd	
Invoice Validation Slip	
Customer:	
Invoice no:	
Date issued:	
Items checked	Initials of person checking
Invoice shows all details of issuing company required by law: name of company, business address, ABN	
Customer's name and address are correct	
Customer's purchase order cross-referenced and quoted on invoice	
Goods dispatched (or services rendered)	
Calculations and extensions correct	
Credit terms checked against customer records	
Credit check carried out on debtor by credit department	
If debtor has not paid outstanding invoices, has the sale/service been authorised by the supervisor/credit department?	
Duplicate of invoice filed	
Confirmed that the above details have been checked and are correct.	
Checked by: _____	
Verified by supervisor: _____	
This slip is to be attached to the duplicate copy of the invoice.	

Validate electronic invoices

If invoices are produced electronically, the supervisor may be required to simply initial the invoices as verification.

Invoices with errors suggest to your debtors that your organisation has poor internal control. People are more likely to do business with you when they are confident with your organisation and know that they are being billed for the correct amount.

If business documents sent or received by the organisation are not checked, the organisation may lose money. Ledgers that are based on business documents may also be incorrect, resulting in organisational confusion and misdirection.

Miscalculated remittances to the ATO can result in large penalties. It is therefore important that records are accurate and a true reflection of the organisation's financial standing.

You should make sure that you are familiar with the procedures that are followed at your workplace. Ask your coach or supervisor if you are unsure about your organisation's procedures and policies.



Practice task 2

Read the scenario, then complete the tasks that follow.

Scenario

You are an accounts receivable clerk at Micro Computer Systems of 234 Burwood Road, Hedgethorn 1608. The company is GST-registered and its ABN is 69 792 641 111.

- A purchase order, number B321A, was received from S. West of 14 Bank Place, St Thomas 1607 on 25 August 2017.
- Invoice 20 has been prepared in duplicate as a result of this order. The customer has already received the following items:
 - 2 Jaxon GHJ-33 Laser Printers at \$480.00 each
 - 2 Jaxon A09P Scanners at \$180.00 each
- All credit customers are given a 30-day credit policy and are offered a discount of 2% on invoices paid within seven days.
- This invoice has been prepared and has been sent to you for validation prior to it being dispatched to S. West, who has a credit limit of \$5,000.00. S. West's current account balance owing is \$2,000.00, which is not overdue.
- Assume that the duplicate invoice is filed correctly after the necessary corrections have been made.

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<p>TAX INVOICE</p> <p>Invoice no: 200</p> <p>Sold to:</p> <p>A. West</p> <p>17 Allison Drive Mudrain 1605</p>	<p>Micro Computer Systems</p> <p>432 Burwood Highway</p> <p>Hedgethorn 1608</p> <p>ABN: 69 297 641 111</p>		
Your purchase/order no:			
Particulars	Quantity	Price per unit (\$)	Total price (\$)
Jaxson GHJ-43 Laser Printer	2	480.00	960.00
Jaxson A09P Scanner	3	180.00	360.00
GST			132.00
Total amount			1,320.00
Terms 5/10, net 30			

1. Use the invoice validation slip below to identify any errors or omissions, then make the necessary corrections to the invoice above.
2. Complete this validation slip after any corrections have been made.

Micro Computer Systems Invoice Validation Slip	
Customer:	Invoice no:
Date issued:	
Items checked	Initials of person checking
Invoice shows all details of issuing company required by law: Name of company, business address, ABN	
Customer's name and address are correct	
Customer's purchase order cross-referenced and quoted on invoice	
Goods dispatched (or services rendered)	
Calculations and extensions are correct	
Credit terms checked against customer records	
Credit check carried out on debtor by credit department	
If debtor has not paid outstanding invoices, has the sale/service been authorised by the supervisor/credit department?	
Duplicate of invoice filed	
Confirmed that the above details have been checked and are correct.	
Checked by: _____	
Verified by supervisor: _____	
This slip is to be attached to the duplicate copy of the invoice.	

1D

Entering transactions into the journal system

The manual bookkeeping process requires the information recorded on business documents to be entered into journals, which have been designed to record specific data from the documents and are used for different purposes. Transactions need to be entered into the cash and credit journal system in accordance with organisational policy and procedures, and relevant legislation and compliance requirements.

Advantages of using journals

- Data from different source documents is brought together and simplified.
- Transactions are recorded in chronological (date) order.
- Data can be recorded concisely.
- Summarised information is readily accessible.
- Management can interpret the information more easily than by looking at many individual source documents.
- Journals allow division of duties (one person may look after debtors, another may look after creditors).
- Posting information to the ledgers is made easier.

1E

Credit journals

Credit journals are used to record transactions where goods are bought or sold on credit. Credit journals summarise the information provided by tax invoices and adjustment notes.

Credit journals may be prepared and maintained in either a manual, paper-based system or in an electronic spreadsheet/accounting program. These journals include the:

- sales and/or services journal
- sales returns and allowances journal
- purchases journal
- purchases returns and allowances journal.



Sales journal

When a business sells goods on credit, it issues the customer with a tax invoice that describes the goods, shows the value of the goods, stipulates the amount of GST charged and states the total amount owed by the customer.

The details of tax invoices issued to customers are entered into a sales journal.

A simple sales journal has the following format:

Sales journal						
Date	Debtor	Folio	Tax inv. no.	Sales (\$)	GST payable (\$)	Total (\$)

Sales journal headings

Here is some information about how to use the columns in the sales journal.

Date

Date of invoice

Debtor

Name of person or organisation buying the goods on credit

Folio

Ledger account number, generally used to record the account code of a ledger account, a supplier account or a customer account. It can also be used as a journal reference (this column is left blank for this unit).

Tax inv. no.

Number of the invoice

Sales

Selling price of the goods sold to the debtor, excluding GST

GST payable

Amount of GST tax charged on the goods

Total

Total amount payable on the invoice

Example: sales journal variations

Here are some examples of sales journal variations.

Many organisations sell more than one product and require the sales journal to record the sales of each product. This sales journal shows the sales by product:

Sales journal							
Date	Debtor	Folio	Tax inv. no.	Sales (\$)		GST payable (\$)	Total (\$)
				Flowers	Vases		

continued ...

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If the organisation offers services on credit, a services journal could be prepared similar to the following format:

Services journal						
Date	Debtor	Folio	Tax inv. no.	Services (\$)	GST payable (\$)	Total (\$)

If the organisation sells goods and offers a service on credit, the journal format might be as follows:

Sales and services journal							
Date	Debtor	Folio	Tax inv. no.	Sales (\$)	Services (\$)	GST payable (\$)	Total (\$)

Example: enter sales invoices into the sales journal

In this example, credit sales are to be entered into the sales journal.

Date	Transaction	Document
1 November 2017	Credit sale to Smith & Co. \$750 plus GST \$75.00	Tax invoice no. 25691
6 November 2017	Credit sale to ABC & Co. \$1,290.00 plus GST \$129.00	Tax invoice no. 25692
15 November 2017	Credit sale to Smith & Co. \$1,500.00 plus GST \$150.00	Tax invoice no. 25693
27 November 2017	Credit sale to B. Bitten \$615.00 plus GST \$61.50	Tax invoice no. 25694
30 November 2017	Credit sale to Better Products \$2,050.00 plus GST \$205.00	Tax invoice no. 25695

continued ...

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Sales journal						
Date	Debtor	Folio	Tax inv. no.	Sales (\$)	GST payable (\$)	Total (\$)
1/11/17	Smith & Co.		25691	750.00	75.00	825.00
6/11/17	ABC & Co.		25692	1,290.00	129.00	1,419.00
15/11/17	Smith & Co.		25693	1,500.00	150.00	1,650.00
27/11/17	B. Bitten		25694	615.00	61.50	676.50
30/11/17	Better Products		25695	2,050.00	205.00	2,255.00
Totals				6,205.00	620.50	6,825.50

Note the following features of the sales journal:

- Each tax invoice is recorded in date and invoice number order. As the invoices were issued by the same business, the invoices will be sequential.
- Every invoice must be recorded, even those that have been cancelled. This is to ensure that no invoice is omitted inadvertently.
- Invoice totals are recorded, not individual items listed on the invoice.

Sales returns and allowances journal

The sales returns and allowances journal is used to record all credit sales returns from customers, any allowances made for slightly damaged goods and any allowances for when a customer has been overcharged.

The source documents for the sales returns and allowances journal are the adjustment notes.

A sales returns and allowances journal could be presented in the following format.

Sales returns and allowances journal						
Date	Debtor	Folio	Adj. note no.	Sales returns (\$)	GST payable (\$)	Total (\$)

Sales returns and allowances journal headings

Here is some information about how to use the columns in the sales returns and allowances journal.

Date

Date of adjustment note

Debtor

Name of person or organisation receiving the adjustment

Folio

Ledger account number (this column is left blank for this unit)

Adj. note no.

Number of the adjustment note

Sales returns

Value of credit given excluding GST

GST payable

Amount of GST to be adjusted due to the credit given

Total

Total value of the adjustment note

Example: enter transactions into the sales returns and allowances journal

B. Bitten, a customer who was previously sold goods on invoice, has returned goods totalling \$220.00 (including \$20.00 GST). Adjustment note no. 105 was given to B. Bitten on 30 November 2017. This is recorded in the sales returns and allowances journal as shown below.

Sales returns and allowances journal						
Date	Debtor	Folio	Adj note no	Sales returns (\$)	GST payable (\$)	Total (\$)
30/11/17	B. Bitten		105	200.00	20.00	220.00

This adjustment note reduces the amount owed by debtor B. Bitten.

Total the sales returns and allowances journal

Totalling journals is a form of crosschecking to make sure all the details entered are correct. Total the sales returns and allowances journal by making sure the total sales returns plus the total GST payable equals the overall journal total. Most journals are totalled in a similar way.

Purchases journal

The purchases journal is used to record credit purchases of trading stock. The source documents for the purchases journal are the tax invoices received from suppliers (creditors) who have provided goods on credit.

Once an invoice has been received, it must be checked for accuracy and validated by an authorised person.

A purchases journal could have the following format:

Purchases journal						
Date	Creditor	Folio	Tax inv. no.	Purchases (\$)	Input tax credit (\$)	Total (\$)

Purchases journal headings

The columns in the journal would be used to record the following tax invoice details.

Date

Date of invoice

Creditor

Name of person or organisation supplying the goods on credit

Folio

Ledger account number (this column is left blank for this unit)

Tax inv. no.

Number of the invoice

Purchases

Buying price of the goods purchased from the creditor, excluding GST

Input tax credit

The amount of GST charged on the invoice

Total

Total amount payable on the invoice

Example: enter transactions into the purchases journal

In this example, credit purchases are to be entered into the purchases journal of Marmer Trading, a GST-registered business. All transactions include GST.

Date		Transaction	Document
November 2017	1	Credit purchase from Better Imports \$1,320.00.	Tax invoice no. B1249
	13	Credit purchase from Excellent Manufacturing \$2,750.00	Tax invoice no. 5901
	15	Credit purchase from B. Tomms \$1,045.00	Tax invoice no. 105
	20	Credit purchase from Better Products & Co. \$1,155.00	Tax invoice no. A1959
	29	Credit return of goods to Excellent Manufacturing \$1,650.00	Tax invoice no. 5995

Marmer Trading Purchases journal						
Date	Creditor	Folio	Tax inv. no.	Purchases (\$)	Input tax credit (\$)	Total (\$)
1/11/17	Better Imports		B1249	1,200.00	120.00	1,320.00
13/11/17	Excellent Manufacturing		5901	2,500.00	250.00	2,750.00
15/11/17	B. Tomms		105	950.00	95.00	1,045.00
20/11/17	Better Products & Co.		A1959	1,050.00	105.00	1,155.00
29/11/17	Excellent Manufacturing		5995	1,500.00	150.00	1,650.00
Totals				7,200.00	720.00	7,920.00

Note the following features of the purchases journal:

- Each tax invoice is recorded in date order.
- Every invoice must be recorded.
- Invoice totals are recorded; not individual items listed on the invoice.
- Invoice numbers are not consecutive; this is because they come from different suppliers.

Total the purchases journal

You should crosscheck additions, making sure that total purchases plus total input tax credits equals the overall purchases journal total. Check the accuracy of the purchases journal against your purchase invoices for the month. They should be the same.

Make sure that you are familiar with the procedures followed at your organisation. Check with your supervisor if you are not sure of a procedure.

Purchases returns and allowances journal

The purchases returns and allowances journal is used to record all credit-purchased returns to suppliers, any allowances made for slightly damaged goods and any allowances made as a result of an overcharge by the supplier.

The source documents for the purchases returns and allowances journal are the adjustment notes received from suppliers.

A purchases returns and allowances journal could be presented in the following format.

Purchases returns and allowances journal						
Date	Creditor	Folio	Adj. note no.	Purchases returns (\$)	Input tax credit (\$)	Total (\$)

Purchases returns and allowances journal headings

The columns in the journal would record the following information from the supplier's adjustment notes.

Date

Date of adjustment note

Creditor

Name of person or organisation supplying the goods on credit

Folio

Ledger account number (this column is left blank for this unit)

Adj. note no.

Number of the adjustment note

Purchases returns

Value of credit given excluding GST

Input tax credit

The reduction in input tax credits arising from purchases returns and allowances

Total

Total value of the adjustment note

Example: enter transactions into the purchases returns and allowances journal

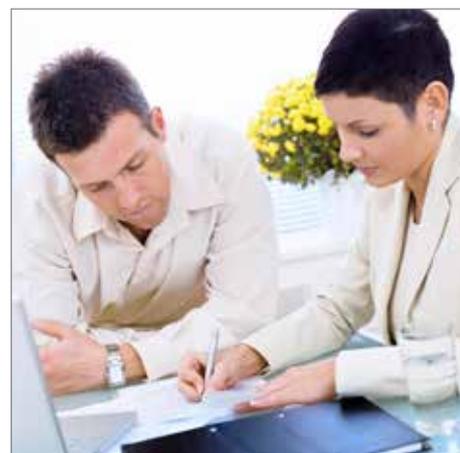
Your company returns goods totalling \$165.00 including GST to Better Products & Co. on 24 November. Better Products & Co. issues you with an adjustment note no. B208. This is recorded in the purchases returns and allowances journal, as shown below.

Purchases returns and allowances journal						
Date	Creditor	Folio	Adj. note no.	Purchases returns (\$)	Input tax credits (\$)	Total (\$)
24/11/17	Better Products & Co.		B208	150.00	15.00	165.00

The adjustment note received from Better Products & Co. reduces the amount owed by your company to the supplier (creditor).

Errors in credit journals

All credit journals must be crosschecked, proofread and checked against the source documents. You should report any errors to your supervisor and make sure they are corrected as soon as possible.



Practice task 3

1. Simon's Hardware, a GST-registered business, has provided you with the details of tax invoices issued to its customers during December. You are required to record these invoices in the sales journal that follows. All transactions include GST.

Date		Transaction	Document
December 2017	8	Credit sale to R. Bander: \$847.00	Tax invoice no. 447
	19	Credit sale to L. Border: \$990.00	Tax invoice no. 448
	24	Credit sale to K. Northey: \$748.00	Tax invoice no. 449
	24	Credit sale to L. Border: \$1,320.00	Tax invoice no. 450

Simon's Hardware Sales journal December 2017						
Date	Debtor	Folio	Tax inv no	Sales (\$)	GST payable (\$)	Total (\$)
Totals						

2. From the following details of sales adjustment notes, enter the transactions into the sales returns and allowances journal for Simon's Hardware. All amounts include GST.

Date		Transaction	Document
December 2017	10	Credit return of goods from R. Bander: \$110.00	Adjustment note no. 87
	24	Credit return of goods from L. Border: \$220.00	Adjustment note no. 89
	28	Credit return of goods from K. Northey: \$143.00	Adjustment note no. 91

continued ...

... continued

Simon's Hardware						
Sales returns and allowances journal						
Date	Debtor	Folio	Adj note no	Sales returns (\$)	GST payable (\$)	Total (\$)
Totals						

3. From the following details of tax invoices received by Simon's Hardware, enter the relevant details into the purchases journal and then total the journal. Calculate and add 10% GST to each invoice.

Date		Transaction	Document
January 2018	7	Credit purchases from G. Noonan \$500.00	Tax invoice no. 3323
	15	Credit purchases from V. Vickers \$170.00	Tax invoice no. 235
	19	Credit purchases from D. Archer \$480.00	Tax invoice no. 4098
	23	Credit purchase from K. Newstead \$760.00	Tax invoice no. 2158

Simon's Hardware						
Purchases journal						
Date	Creditor	Folio	Tax inv no	Purchases (\$)	Input tax credits (\$)	Total (\$)
Totals						

continued ...

... continued

4. From the following details, enter any relevant transactions into the purchases returns and allowances journal for Simon's Hardware and then total the journal. All transactions include GST.

Date		Transaction	Document
January 2018	9	Credit returns to G. Noonan \$110.00	Adjustment note no. 002
	17	Credit returns to V. Vickers \$22.00	Adjustment note no. 110
	24	Credit returns to D. Archer \$66.00	Adjustment note no. CF3
	27	Credit returns to K. Newstead \$176.00	Adjustment note no. 226

Simon's Hardware						
Purchases returns and allowances journal						
Date	Creditor	Folio	Adj note no	Purchases returns (\$)	Input tax credits (\$)	Total (\$)
Totals						

1F

Cash journals

Cash can be received from various sources, including loans from banks, the sale of assets, the sale of goods on a cash basis, from debtors settling their accounts, interest received on investments and from commissions.

Guidelines for dealing with cash

- Any cash coming into the business should be recorded immediately.
- Ideally, the people who receive cash should not be the same people who record cash transactions, due to the risk of misappropriation of funds.
- Cash should be banked daily if possible.
- Petty cash may be used for small payments. All other payments should be made by EFTPOS, direct deposit, cheque or credit card.
- All receipts should be banked intact; that is, cash should not be taken from the daily takings (cash register) to make payments.
- Regularly check cash receipts and cash payments against bank statements.

Cashflow

An organisation cannot survive without having an adequate cashflow. A well-managed cashflow means making sure there is enough money coming into the organisation to cover the money going out.

Organisations generally use two specific journals that deal with cash:

- the cash payments journal (money going out of the organisation)
- the cash receipts journal (money coming into the organisation).



Cash payments journal (CPJ)

The cash payments journal is used to record payments made by the organisation.

The cash payments journal includes the payment of:

- day-to-day expenses, such as telephone, electricity, rent and wages
- purchases paid by cheque, EFTPOS and direct deposits shown on the bank statement
- withdrawal of cash by the owner (drawings)
- payments to creditors
- interest charges and bank fees.

Cash payments journal format

The source documents for the cash payments journal are the cheque butts and the bank statements. A cash payments journal could be presented in the following format.

Cash payments journal										
Date	Particulars	Chq no	Discount received			Reason for payment				Bank (\$)
			ITC adj. (\$)	Disc. rec'd (\$)	Creditors (\$)	Creditors (\$)	Cash purchases (\$)	Sundries (\$)	ITC (\$)	

Cash payments journal headings

The columns in the cash payments journal are used to record the following data.

General headings

- Date: date written on the cheque
- Particulars: details of who is being paid
- Chq no: the number of the cheque (in chronological order)

Discount received

This is used to record any discounts received from a creditor when the creditor is paid. The discount received from the creditor is recorded in the following columns:

- ITC adj: the amount of input tax credit (GST amount) included in the total discount received
- Disc. rec'd: the discount received (excluding the GST component)
- Creditors: the total amount of discount received

Reason for payment

This records payments as:

- Creditors (accounts payable): the payment to a creditor (for goods purchased on invoice)
- Cash purchases: cash purchases of trading stock (note that stock purchased on credit is recorded in the purchases journal)
- Sundries: any items that do not fall into the other payment categories; for example, donations, drawings and asset purchases
- ITC: the amount of input tax credits (GST paid) in the payment

Bank

- The amount of each cheque written must be recorded in this column.

Cash receipts journal (CRJ)

The details from receipts, cash register rolls (CRR), cheques received listings, EFTPOS summaries and direct credits shown on the bank statement are recorded in the cash receipts journal. When goods are sold, a receipt of some form is given to the customer.

Receipts can be:

- cash register docket
- computer-generated receipts
- handwritten receipts
- EFTPOS docket
- credit card docket.



Cash receipts journal format

Whatever type of receipt your organisation uses, it is important to issue receipts immediately when receiving payment. A receipt is a legal document that is evidence of payment being received.

Receipts contain some or all of the following information:

- Company name, ABN and other identifying information
- The date the payment was received
- The amount of money received
- A receipt number
- Who is paying (payer)
- Who is receiving payment (payee)
- The signature of the person receiving the money or their designated officer
- A brief description of the transaction

Cash receipts journal recording

In a paper-based system, it is common to produce at least two copies of the receipt. Generally, the person making the payment receives the original receipt and the receiver keeps the duplicate.

A cash receipts journal is used to record all amounts received by an organisation and includes:

- capital contributions in cash by the owner/s
- payments received from debtors
- cash sales
- other sources of revenue such as commission and interest revenue.

Cash receipts journal format

A cash receipts journal could be prepared in the following format.

Cash receipts journal										
Date	Particulars	Rec no	Discount expensed			Reason for receipt				Bank (\$)
			GST adj. (\$)	Disc. expense (\$)	Debtors (\$)	Debtors (\$)	Cash sales (\$)	Sundries (\$)	GST (\$)	

Cash receipts journal headings

The columns in the cash receipts journal are used to record the following data.

General

- Date: date of transaction
- Particulars: details of transaction
- Rec no: the number on the receipt issued to a customer as evidence of payment

Discount expensed

The three columns in this section are used to record the amounts relating to any discount given by the business to debtors when they pay their account. The three columns are used as follows:

- GST adj: to record the amount of GST on the discount
- Disc. expense: to record the amount of the discount (excluding GST)
- Debtors: to record the total amount of the discount (including GST) granted to the debtor

Reason for receipt

- Debtors: to record the amount received from customers (debtors). These will be the customers who were sold stock previously on invoice
- Cash sales: to record the cash sale of trading stock (note that credit sales of stock are recorded in the sales journal)
- Sundries: to record amounts for reasons other than debtor payments and cash sales, such as commission, asset sales
- GST: the amount of GST collected and recorded on the tax invoice (receipt)

Bank

- Bank: the total of all amounts received for the day; this should correspond with the total amount recorded on the daily bank deposit slip

Example: cash payments journal

Cash payment transactions have been entered into the cash payments journal, as follows.

Date		Transaction	Document
December 2017	1	Paid telephone account \$165.00 including GST	Cheque no. 501
	4	Purchased stock for cash \$715.00 including GST	Cheque no. 502
	5	Paid rent on premises \$495.00 including GST	Cheque no. 503
	6	Paid wages \$850.00	Cheque no. 504
	7	Cash drawings \$600.00	Cheque no. 505
	7	Paid creditor J. Hynes \$945.00 after receiving discount of \$55.00 including GST	Cheque no. 506
	7	Paid creditor P. Rowe \$528.00 after being given discount totalling \$22.00 including GST	Cheque no. 507
	8	Donation to Homeless Youths \$50.00	Cheque no. 508
	8	Paid cleaners \$110.00 including GST	Cheque no. 509

Cash payments journal										
Date	Particulars	Chq no	Discount received			Reason for payment				Bank (\$)
			ITC adj. (\$)	Disc. rec'd (\$)	Creditors (\$)	Creditors (\$)	Cash purchases (\$)	Sundries (\$)	ITC (\$)	
Dec 1	Telephone	501						150.00	15.00	165.00
Dec 4	Purchases	502					650.00		65.00	715.00
Dec 5	Rent	503						450.00	45.00	495.00
Dec 6	Wages	504						850.00		850.00
Dec 7	Drawings	505						600.00		600.00
	J. Hynes	506	5.00	50.00	55.00	945.00				945.00
	P. Rowe	507	2.00	20.00	22.00	528.00				528.00
Dec 8	Donations	508						50.00		50.00
	Cleaning	509						100.00	10.00	110.00
Totals			7.00	70.00	77.00	1,473.00	650.00	2,200.00	135.00	4,458.00

continued ...

... continued

In this example, you should note the following:

- The total of the amounts entered in the Reason for payment columns is recorded in the Bank column.
- When payment is made to a creditor, the name of the creditor must be entered in the particulars column.
- Amounts entered in the Disc rec'd column do not involve a payment of cash and must not be added to the amounts in the Reason for payment columns.
- Amounts recorded as discounts received from creditors must identify the GST component separately, as this amount must be included as an adjustment when completing a Business Activity Statement.
- All cheques must be accounted for. If a cheque is cancelled, it should be written in as a cancelled cheque. By writing up cancelled cheques, all cheques have been accounted for and the business can ensure the accuracy of its records.

Example: cash receipts journal

The following transactions have been entered into the cash receipts journal.

Date		Transaction	Document
December 2017	1	Cash sales \$5,500.00 including GST	CRR
	4	Debtor I. Young paid \$549.00 and is granted discount totalling \$11.00 including GST	Receipt no. 420
	4	Cash sales \$4,950.00 including GST	CRR
	5	Received commission from Able Products \$550.00 including GST	Receipt no. 421
	5	Debtor Y. Nguyen paid \$1,078 on account. Discount granted \$22.00 including GST	Receipt no. 422
	5	Cash sales \$3,850.00 including GST	CRR
	6	Received rent revenue: P. Peters \$440.00 including GST	Receipt no. 423
	6	Cash sales \$3,850.00 including GST	CRR
	6	Debtor H. Tan paid \$957.00 on account. Discount allowed \$33.00 including GST	Receipt no. 424
	6	Debtor A. Phillips paid \$264.00 on account. Discount allowed \$11.00 including GST	Receipt no. 425

continued ...

... continued

Cash receipts journal										
Date	Particulars	Rec no	Discount expensed			Reason for receipt				Bank (\$)
			GST adj. (\$)	Disc. expense (\$)	Debtors (\$)	Debtors (\$)	Cash sales (\$)	Sundries (\$)	GST (\$)	
Dec 1	Sales	CRR					5,000.00		500.00	5,500.00
Dec 4	I. Young	420	1.00	10.00	11.00	549.00				
	Sales	CRR					4,500.00		450.00	5,499.00
Dec 5	Commission	421						500.00	50.00	
	Y. Nguyen	422	2.00	20.00	22.00	1,078.00				
	Sales	CRR					3,500.00		350.00	5,478.00
Dec 6	Rent received	423						400.00	40.00	
	Sales	CRR					3,500.00		350.00	
	H. Tan	424	3.00	30.00	33.00	957.00				
	A. Phillips	425	1.00	10.00	11.00	264.00				5,511.00
Totals			7.00	70.00	77.00	2,848.00	16,500.00	900.00	1,740.00	21,988.00

Note the following about the cash receipts journal:

- Receipts are recorded in chronological (date) order, all receipts are accounted for and receipt numbers are sequential.
- Amounts recorded in the Bank column must be the total of the receipts received for each day, and the total must correspond with the total recorded on the daily bank deposit slip. See the totals for December 1, 4, 5 and 6 in the cash receipts journal in this example.
- The daily total is reconciled against the bank statement when the bank is reconciled.
- The bank total does not include the amounts recorded in the discount expense column, as discount given does not relate to a flow of cash.

Practice task 4

1. Record the following cheque details for Drayton Enterprises in the cash payments journal, and total the journal at the end of the month.

Date	2017	Transaction	Document
January 2017	1	Rent paid on shop \$110.00	Cheque no. 97
	3	Paid wages \$385.00	Cheque no. 98
	10	Owner R. Drayton withdrew \$90.00 from the business	Cheque no. 99
	13	Purchase of goods \$990.00 including GST	Cheque no. 100
	17	Paid deposit on new motor vehicle \$1,000.00 nil GST	Cheque no. 101
	18	Cancelled	Cheque no. 102
	25	Purchased stationery \$77.00 including GST	Cheque no. 103
	27	Paid wages \$495.00	Cheque no. 104
	29	Paid trade creditor G. Hotham \$99.00 after receiving \$11.00 discount (inclusive of GST)	Cheque no. 105
	30	Purchase of goods \$484.00 including GST	Cheque no. 106

continued ...

... continued

2. Record the following receipts for Drayton Enterprises (a GST-registered business) in the cash receipts journal.

Date		Transaction	Document
January 2017	2	A. Milton paid \$418.00 on account after taking a \$22.00 discount	Receipt no. 336
	3	Cash sales \$440.00 including \$40.00 GST	CRR
	5	Received \$66.00 interest on investments (GST does not apply)	Receipt no 337
	10	G. Styles paid account of \$550.00	Receipt no. 338
	16	Cash sales \$1,375.00 inclusive of GST	CRR
	27	The owner R. Drayton invested a further \$5,500.00 cash in the business (GST not applicable)	Receipt no. 339
	27	Cash sales \$1,100.00 including \$100.00 GST	CRR

continued ...

1G

Procedures for receiving payment

Customers may pay in cash, by cheque or credit card, or by making a deposit directly to the organisation's bank account.

You should never leave cash in the cash register overnight. It should be banked daily or, if that is not possible, locked in a safe or another secure facility at your workplace. Your organisation may use the night deposit facility at the bank. A daily cash register summary should be prepared from the cash register roll and the cash in the cash register reconciled with this summary.

Cash

If the customer is paying by cash:

- ensure you deduct any discount, if applicable, from the amount owing
- count the cash in the customer's presence so they can see and hear you
- leave the cash on the ledge of the cash register in view of the customer while you enter the transaction
- count the change before you put the cash received into the register (this lessens the chances of errors and disputes)
- count out the change to the customer
- check that you are only giving single notes and that none are stuck together; for example, don't give \$40 change instead of \$20.

Credit card

When accepting credit or debit card payments:

- check the customer's signature against the sample signature on the back of the card
- check the expiry date on the card to make sure the card is valid
- follow your organisation's policies and procedures when accepting credit card payments.

Cheque

If the customer is paying by cheque:

- make sure the cheque is signed, is not post-dated, and the figures and words are the same
- follow your organisation's procedures when accepting cheques (if you are unsure of the customer's identity, you may need to check the signature on the cheque against the drawer's drivers licence and list their details on the back of the cheque; for example, licence number, expiry date, current address, phone number)
- make sure the cheque is written for the correct amount, allowing for a discount if applicable.

Summary

1. Financial records keep track of all the financial transactions carried out by an organisation.
2. Financial records include tax invoices, sales and purchases adjustment notes, receipts, cash register rolls, credit card vouchers, cheque butts, remittance advice and statements of account.
3. The accounting process involves recording financial transactions, classifying them and entering them into journals, then posting the journals into the general ledger, the accounts payable ledger and the accounts receivable ledger.
4. Source documents record financial transactions and are used to enter data into the accounts systems.
5. If they are registered for GST, organisations must charge GST on the goods and services they provide at a rate of 10% of the transaction. Some goods and services are classified as GST-free.
6. When a GST-registered organisation charges GST on its sales or services, the organisation sets aside the GST collected (GST payable) and remits it to the ATO at the end of the reporting period.
7. When a GST-registered organisation purchases goods or services from another organisation that charges GST, the purchasing business can claim the GST on the transaction from the ATO. This is referred to as an 'input tax credit' or 'GST receivable'.
8. Invoices are issued when an organisation sells goods on credit to a customer. The tax invoice will show the invoice number and may include the phrase 'sold to', followed by the customer's details.

9. Adjustment notes are issued when a customer returns goods they have purchased on credit.
10. An organisation issues a receipt when it receives payment. Issuing a receipt provides documentary evidence that payment has been received and provides the details of why payment has been made.
11. Cashflow refers to the cash coming into an organisation (from debtors, sales, loans, commissions, etc.) and the cash going out (to pay creditors, expenses, liabilities, etc.).
12. Cash coming into an organisation must be recorded by someone other than the person who received the cash. It should be banked daily if possible. Receipts should be banked intact.
13. All payments made by an organisation should be by cheque, EFTPOS, direct deposit or credit card so there is a record of payment.
14. Credit journals are used to record transactions where goods are bought or sold on credit. These journals are the sales journal, sales returns and allowances journal, purchases journal, and purchases returns and allowances journal.
15. A cash payments journal (CPJ) records payments made by an organisation. It includes payments of day-to-day expenses, purchases paid by cheque, EFTPOS or direct deposit; withdrawal of cash by the owner; payments to creditors; interest charges; and bank fees. Source documents are cheque butts and bank statements.
16. A cash receipts journal (CRJ) records all payments received by an organisation, including capital contributions and payments from debtors, cash sales, commission, interest and revenue.
17. Details from receipts must be written in the cash receipts journal. Receipts can be a cash register docket, a computer-generated or handwritten receipt, a credit card docket or an EFTPOS docket.
18. When a customer pays by cash, make sure discounts are deducted, cash is left on view while the transaction is being entered, the change is counted clearly in the customer's presence, and notes are not stuck together.
19. When a customer pays by cheque, make sure the cheque is signed, is not post-dated, is written for the correct amount and the figures and words are the same.
20. When accepting credit card payments, check the customer's signature against their sample and check the expiry date.
21. Journals must be checked for accuracy. The cash payments journal should be crosschecked against cheque butts and bank statements. The cash receipts journal should be crosschecked with the receipt book, cash register roll and bank statements.

Learning checkpoint 1

Maintain financial journal systems

This learning checkpoint allows you to review your skills and knowledge in maintaining financial journal systems.

Part A

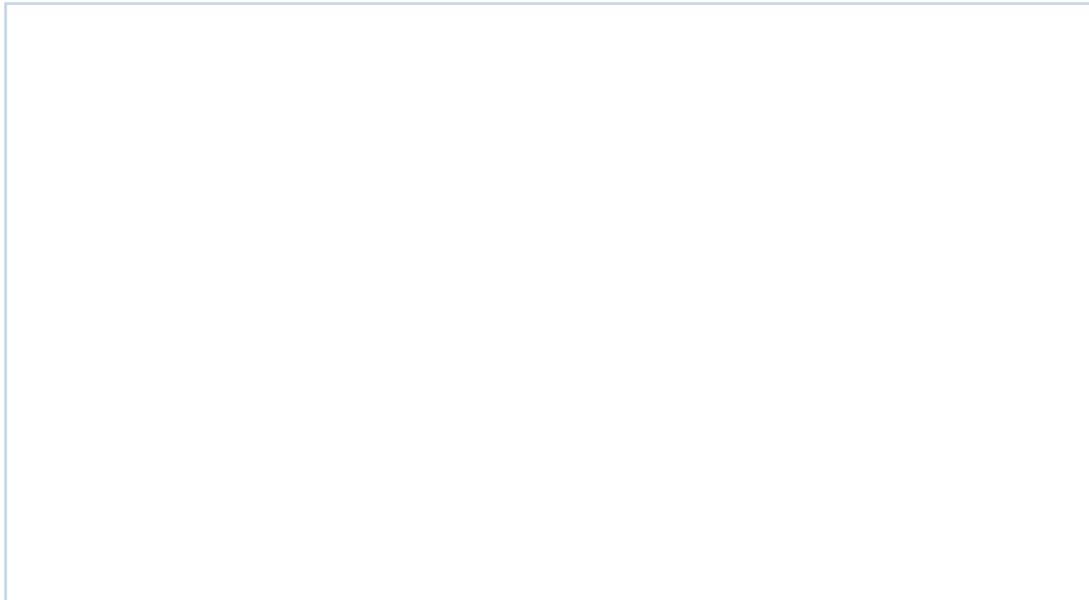
Match the document to its description. Write down the name of the document and, next to it, write its matching description.

Documents:

- Tax invoice
- Written receipt and cash register roll
- Cheque butt
- EFTPOS receipt
- Adjustment note

Descriptions:

- Evidence that a payment has been made by the business
- Evidence that a payment has been received by the business
- A document produced when goods are returned, damaged, short-delivered or special allowances are involved
- Evidence of goods or services supplied stating the amount due
- Evidence of electronic payments received by the business



Part B

Complete the following source documents for Handyman Hardware Suppliers.

- On 6 July 2017, Handyman Hardware Suppliers sold 30 boxes of vinyl floor tiles at \$45.00 per box and eight timber shelves at \$25.00 per shelf to K. Gibbs (5 Hammer Street, Mudrain, 1605) on credit. GST is applicable. Complete the tax invoice for this sale.

TAX INVOICE Invoice no: 25 Sold to:	Handyman Hardware Suppliers ABN 51 864 189 797 26 Green Road Hedgethorn 1608 Phone: 9555 0000 Date:		
Particulars	Quantity	Price per unit (\$)	Total price (\$)
GST			
Total amount			
Terms: 5/10, net 30			

- On 8 July 2017, Handyman Hardware Suppliers purchased 500 tins of white ceiling paint at \$22.00 per tin from their supplier ATN Paint Supplies, on credit. GST is payable. Complete the details on the tax invoice issued by ATN Paint Supplies.

TAX INVOICE Invoice no: 20456 Sold to:	ATN Paint Supplies ABN 51 785 368 537 38 West Bay Road Mudrain 1605 Phone: 9555 5333 Date:		
Particulars	Quantity	Price per unit (\$)	Total price (\$)
GST			
Total amount			
Terms: 2.5/10, net 30			

3. On 7 July 2017, Handyman Hardware Suppliers must credit K. Gibbs's account for the return of five timber shelves. Complete the adjustment note to be issued to K. Gibbs.

<p>ADJUSTMENT NOTE Adjustment Note: C26</p> <p>Sold to:</p>	<p>Handyman Hardware Suppliers ABN 51 864 189 797 26 Green Road Hedgethorn 1608 Phone: 9555 0000 Date:</p>		
Particulars	Quantity	Price per unit (\$)	Total price (\$)
GST			
Total amount			

4. On 9 July 2017, Handyman Hardware Suppliers returned 20 damaged tins of paint to ATN Paint Supplies. Complete the details in the adjustment note that the hardware suppliers will receive.

<p>ADJUSTMENT NOTE Adjustment note: AD341</p> <p>Sold to:</p>	<p>ATN Paint Supplies ABN 51 785 368 537 38 West Bay Road Mudrain 1605 Phone: 9555 5333 Date:</p>		
Particulars	Quantity	Price per unit (\$)	Total price (\$)
GST			
Total amount			

5. On 11 July 2017, Handyman Hardware Suppliers sold \$2,200.00 of paint to a customer who paid in cash. Fill in the details on the cash register slip. GST should be added.

Handyman Hardware Suppliers ABN 51 864 189 797 Tax invoice	
	\$
Paint	
GST	
Total	
Cash	
Change	
Received from:	
Address:	
Or ABN:	
Retain for tax purposes	
11/07/16 2:35 PM 1259 529865	

6. On 11 July 2017, Handyman Hardware Suppliers received a payment (cheque no. 195214) from K. Gibbs as full payment of the amount owing. Due to prompt payment, K. Gibbs has taken a 5% discount. The receipt was authorised by H. Harrison. Complete the receipt to be issued to K. Gibbs.

Handyman Hardware Suppliers ABN 51 864 189 797 26 Green Road Hedgethorn 1608 Ph: 9555 0000	
RECEIPT no: 825	
Date:	
Received from:	
For:	
Amount:	Cash/cheque
Discount:	
Authorising signature:	

7. On 13 July 2017, Handyman Hardware Suppliers issued a cheque numbered 004270 to ATN Paint Supplies as full payment of the amount owing. The appropriate discount has been taken. Complete the details on the cheque butt below.

Date	To	For	Discount
	Balance (\$)		23,890.00
	Deposit (\$)		1,200.00
	Total (\$)		
	This cheque (\$)		
	Balance (\$)		
			004270

Part C

Describe the purpose of an invoice validation slip.

Part D

Record the following invoices into the sales journal below.

2/06/17	Sold goods to D. Muller	\$610.00	plus GST	Tax invoice no. 92
6/06/17	Sold goods to D. Black	\$980.00	plus GST	Tax invoice no. 93
14/06/17	Sold goods to P. King	\$1,520.00	plus GST	Tax invoice no. 94
21/06/17	Sold goods to A. Dawes	\$3,250.00	plus GST	Tax invoice no. 95
29/06/17	Sold goods to B. Carr	\$1,890.00	plus GST	Tax invoice no. 96
30/06/17	Sold goods to S. Brent	\$2,500.00	plus GST	Tax invoice no. 97

Sales journal						
Date	Debtor	Folio	Tax inv. no.	Sales (\$)	GST payable (\$)	Total (\$)
Totals						

Part E

Based on the sales journal in Part D, prepare the sales returns journal based on the following information:

- 7/06/17: Gave allowance to D. Black for slightly faulty goods of \$88.00 including \$8.00 GST; adjustment note no. 210.
- 22/06/17: A. Dawes returned goods totalling \$275.00 including \$25.00 GST; adjustment note no. 211.

Sales returns and allowances journal						
Date	Debtor	Folio	Adj. note no.	Sales returns (\$)	GST payable (\$)	Total (\$)
Totals						

Part F

1. Record the following invoices in the purchases journal below.

1/06/17	Purchased goods from Weaks Pty Ltd	\$990.00 including \$90.00 GST	Tax invoice no. 2591
9/06/17	Purchased goods from Ray Browne & Co.	\$5,500.00 including \$500.00 GST	Tax invoice no. B19
20/06/17	Purchased goods from Commercial Suppliers	\$6,600.00 including \$600.00 GST	Tax invoice no.825
26/06/17	Purchased goods from Union & Co.	\$1,320.00 including \$120.00 GST	Tax invoice no. 3215
30/06/17	Purchased goods from D Charles & Co.	\$2,255.00 including \$205.00 GST	Tax invoice no. 2218

Purchases journal						
Date	Creditor	Folio	Tax inv. no.	Purchases (\$)	Input tax credits (\$)	Total (\$)

Date	Creditor	Folio	Tax inv. no.	Purchases (\$)	Input tax credits (\$)	Total (\$)
Totals						

2. Prepare the purchases returns and allowances journal using the information from the previous question and the following additional details.
- 2/06/17: Returned goods to Weaks Pty Ltd totalling \$55.00 including \$5.00 GST; adj. note no. 1022
 - 22/06/17: Received an allowance from Union & Co. for \$27.50 including \$2.50 GST; adj. note no. 088

Purchases returns and allowances journal						
Date	Creditor	Folio	Adj. note no.	Purchases returns (\$)	Input tax credits (\$)	Total (\$)
Totals						

Part G

Record the following cash payments in the cash payments journal below.

2/10/17	Paid wages	\$1,250.00	Cheque no. 1521
2/10/17	Paid insurance	\$1,650.00 including GST	Cheque no. 1522
3/10/17	Paid telephone	\$1,012.00 including GST	Cheque no. 1523
3/10/17	Cash purchases	\$550.00 including GST	Cheque no. 1524
9/10/17	Paid wages	\$1,250.00	Cheque no. 1525
10/10/17	Drawings – cash	\$800.00	Cheque no. 1526
16/10/17	Paid wages	\$1,250.00	Cheque no. 1527
16/10/17	Paid interest on loan	\$500.00	Cheque no. 1528
19/10/17	Paid creditor P. Jacks	\$645.00 discount \$55.00 including GST	Cheque no. 1529
20/10/17	Paid creditor E. Young	\$289.00 discount \$11.00 including GST	Cheque no. 1530
23/10/17	Paid wages	\$1,250.00	Cheque no. 1531
30/10/17	Paid creditor D. Robbs	\$428.00 discount \$22.00 including GST	Cheque no. 1532
30/10/17	Paid wages	\$1,250.00	Cheque no. 1533
30/10/17	Drawings – cash	\$800.00	Cheque no. 1534

Part H

Enter the following cash receipts in the cash receipts journal below.

2/10/17	Cash sales	\$1,782.00 including GST	CRR
2/10/17	Commission received	\$660.00 including GST	Receipt no. 101
2/10/17	Debtor Y. Browne paid	\$250.00	Receipt no. 102
4/10/17	Cash sales	\$2,035.00 including GST	CRR
6/10/17	Cash sales	\$2,310.00 including GST	CRR
10/10/17	Debtor P. Peterson paid	\$578.00 discount \$22.00 including GST	Receipt no. 103
12/10/17	Rent revenue	\$220.00 including GST	Receipt no. 104
12/10/17	Debtor I. Mitchell paid	\$989.00 discount \$11.00 including GST	Receipt no. 105
12/10/17	Cash sales	\$2,365.00 including GST	CRR
16/10/17	Received interest	\$400.00	Receipt no. 106
23/10/17	Cash sales	\$3,410.00 including GST	CRR
26/10/17	Debtor M. Rowe paid	\$689.00 discount \$11.0 including GST	Receipt no. 107
26/10/17	Debtor P. Lane paid	\$910.00	Receipt no. 108
26/10/17	Cash sales	\$3,982.00 including GST	CRR

Part I

1. How would you explain the accounting process to someone who does not know anything about it?

2. Why is it important that you comply with legislative requirements when carrying out your tasks?

Topic 2

Prepare bank reconciliations

Making sure your organisation's financial records match the balance recorded by the bank is an important part of the accounting process. This is known as 'bank reconciliation'. It involves matching the transactions in the cash journals with the amounts indicated on the statement the organisation receives from the bank.

In this topic you will learn about:

- 2A Bank reconciliation and banking terms
- 2B Totalling cash journals
- 2C Preparing a bank reconciliation
- 2D Correcting errors
- 2E Dishonoured cheques
- 2F Additional items
- 2G Preparing reconciliation reports

2A

Bank reconciliation and banking terms

In order to reconcile the bank's accounts with your organisation's accounts, you must be familiar with the organisation's reconciliation procedures and the special terms banks use when processing accounts and issuing statements.

Bank reconciliation

A reconciliation of the bank account is undertaken by comparing the organisation's cash payments and cash receipts journals with the bank statement issued by the bank.

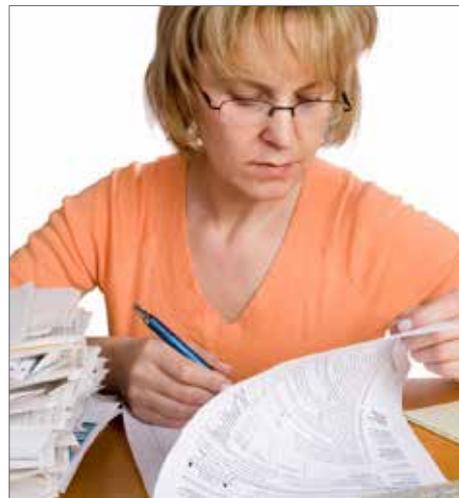
The purpose of preparing the bank reconciliation is to:

- ensure the accuracy of the bank account in the general ledger
- check the accuracy of the bank statement
- identify transactions recorded in the bank statement that have not been recorded in the cash journals
- identify cash receipts that have not been deposited with the bank
- identify cheques that have been issued but not yet presented by the payee to the bank.

Differences between bank statements and cash journals

Differences between the cash journals maintained by the organisation and the statement prepared by the bank are common. The differences may be the result of errors, but more often they are simply because the bank and the organisation record cash transactions at different times. For example, the organisation records the cheque at the time it is drawn whereas the bank records the cheque at the time it is presented.

Depending on the size of the organisation, the frequency of this reconciliation can vary from daily to once a month. As a minimum, you should prepare a bank reconciliation statement once a month, usually on the last day of the month or as soon as you have received the bank statement for the end of the month.



Banking terms

There are a number of terms you should be familiar with when looking at documents issued by a bank. These are outlined here.

Bank statement

A bank statement is issued by the bank and lists all deposits made into the bank account (including direct deposits), all withdrawals (including direct debits), banking charges and cheque payments. How often your organisation receives a bank statement depends on its size and the type of business it does, as well as the arrangements your organisation has with its bank.

P/P

Regular periodic payments out of the account: for example, monthly payment of insurance premiums.

D/D

Deposits made into an account by someone other than the account holder: for example, a debtor payment.

DEPOSIT

Cash, cheques, vouchers making up a deposit.

DSR

Dishonoured cheque returned to drawer.

EFTPOS

Electronic funds transfer at point of sale.

Example: bank abbreviations

The following example uses some of these abbreviations. Make sure you understand each term.

Bank of Australasia Bank statement as at 31 March 2017 Braxton & Co.				
From: 1 March 2017		Account no: 293516		
To: 31 March 2017		Statement no: 38		
Date	Particulars	Debit (\$)	Credit (\$)	Balance (\$)
1/03/2017	Balance			500.00 Cr
2/03/2017	DEPOSIT		200.00	700.00 Cr
3/03/2017	771	185.00		515.00 Cr
3/03/2017	DEPOSIT		5,130.00	5,645.00 Cr
6/03/2017	773	230.00		5,415.00 Cr
7/03/2017	774	65.00		5,350.00 Cr
7/03/2017	777	135.00		5,215.00 Cr
9/03/2017	DEPOSIT		902.00	6,117.00 Cr
10/03/2017	DEPOSIT		1,201.00	7,318.00 Cr
13/03/2017	778	1,001.00		6,317.00 Cr
15/03/2017	DEPOSIT		150.00	6,467.00 Cr
15/03/2017	DEPOSIT		803.00	7,270.00 Cr
16/03/2017	780	150.00		7,120.00 Cr
20/03/2017	781	800.00		6,320.00 Cr
23/03/2017	783	2,000.00		4,320.00 Cr
23/03/2017	784	950.00		3,370.00 Cr
23/03/2017	DEPOSIT		200.00	3,570.00 Cr
24/03/2017	Interest revenue		25.00	3,595.00 Cr
24/03/2017	DEPOSIT		451.00	4,046.00 Cr
24/03/2017	785	90.00		3,956.00 Cr
30/03/2017	788	200.00		3,756.00 Cr
30/03/2017	Cheque book	25.00		3,731.00 Cr
30/03/2017	DEPOSIT		280.00	4,011.00 Cr
30/03/2017	Bank charges	15.00		3,996.00 Cr
All entries in this statement are correct.				

Double-entry accounting

Banks classify their customer accounts as a liability, as the bank is holding the money on behalf of the customer for safekeeping. The bank owes the money to the customer, so the customer is a liability.

When recording amounts in the customers' accounts, banks follow the rules of double-entry accounting for a liability as follows.

Liability account rules:

- To **increase** a liability account, record an amount in the **credit** column.
- To **decrease** a liability account, record an amount in the **debit** column.

Bank statement interpretation

Deposits made by an organisation are recorded by the bank in the credit column on the bank statement, and withdrawals are recorded in the debit column.

If a bank statement has a credit balance, it means that deposits (credits) by the customer are greater than withdrawals (debits), and the bank owes the balance to the customer.

If the bank statement has a debit balance, it means that withdrawals (debits) by the customer are less than deposits (credits) and the customer owes the bank money; that is, the account is in overdraft.

When the organisation prepares its calculation of the bank account in the general ledger, it will be following the rule applicable to an asset: cash receipts are added to the bank balance as debits, and payments are credited to reduce the bank balance.

Example: double-entry differences

Differences between general ledger bank records and bank statements are shown in the following example.

General ledger bank record				Bank statement			
	Debit (\$)	Credit (\$)	Balance (\$)		Debit (\$)	Credit (\$)	Balance (\$)
Deposit	1,000.00		1,000.00 Dr	Deposit		1,000.00	1,000.00 Cr
Cheque		250.00	750.00 Dr	Cheque	250.00		750.00 Cr

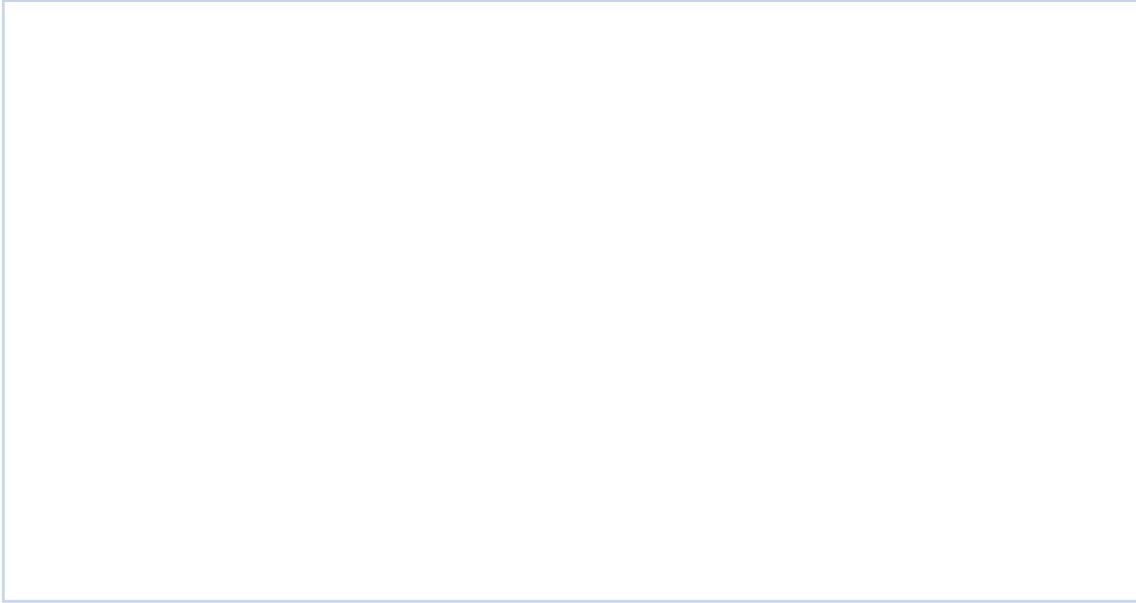
Note the following about double-entry differences:

- When a \$1,000.00 deposit is made, the bank's customer records the entry in the debit column but the bank records it as a credit entry.
- A withdrawal of \$250.00 is recorded by the bank's customer in the credit column but it is entered by the bank in the debit column.
- The general ledger shows that the bank balance is \$750.00 Dr; that is, money in the bank. The bank statement shows a credit balance, meaning that the bank owes the money to its customer.

When reconciling the bank you need to be clear about differences in terminology. 'Debit' and 'credit' on the bank statement have the opposite meaning to that in the organisation's accounts.

Practice task 5

Find out how often bank reconciliations are performed in a range of organisations. Is there a particular reason for how often this is done?



2B Totalling cash journals

Cash journals must be totalled before they can be used to prepare bank reconciliations. Totalling the cash journals means balancing the 'total' entries in the vertical columns with the 'total' entries in the horizontal columns.

Journals should always be crosschecked and checked against source documents, as outlined here.

Crosschecking and checking journals against source documents

Crosschecking means making sure that the bank column equals the cumulative totals of all other columns, excluding the discount column.

To ensure accuracy:

- the cash payments journal should be checked against the cheque butts and bank statements
- the cash receipts journal should be checked against the receipt book, cash register roll and bank statements.

Crosscheck additions and make sure that the total sales plus total GST equals the journal total. Check the accuracy of the journal against your invoices for the month. They should be the same.

If you find you have recorded an item incorrectly, inform your supervisor immediately. Do not correct it with correction fluid, as this is not acceptable accounting procedure. Follow your organisation's procedure for correcting errors.

Practice task 6

Total this cash receipts journal for Drayton Enterprises.

Drayton Enterprises Cash receipts journal										
Date	Particulars	Rec no	Discount expensed			Reason for receipt				Bank (\$)
			GST adj. (\$)	Disc. expense (\$)	Debtors (\$)	Debtors (\$)	Cash sales (\$)	Sundries (\$)	GST (\$)	
2/1/16	A. Milton	336	2.00	20.00	22.00	418.00				418.00
3/1/16	Sales	CRR					400.00		40.00	440.00
5/1/16	Interest	337						66.00		66.00
10/1/16	G. Styles	338				550.00				550.00
16/1/16	Sales	CRR					1,250.00		125.00	1,375.00
27/1/16	R. Drayton	339						5,500.00		
	Sales	CRR					1,000.00		100.00	6,600.00
Totals										

2C

Preparing a bank reconciliation

When preparing a bank reconciliation, it is recommended that you follow a set procedure that enables you to complete the process efficiently. It is important that you pay attention to small details, as these can have a great impact on the outcome of the reconciliation.

Data and source documents required when preparing a bank reconciliation:

- The balance of the bank account in the general ledger at the start of the month
- Details of cheques that were not presented at the bank in the previous month
- Details of deposits not credited at the bank in the previous month
- The month's cash receipts and cash payments journals
- The monthly bank statement (provided by the bank)

Bank reconciliation procedure

Use the following procedure to reconcile the bank account. You should not proceed to the next step in the sequence until the previous step has been completed.

1. Reconcile deposits

- a) Match the deposit amounts appearing in the bank statement (credit column) with the corresponding amounts in the cash receipts journal. This is called the matching process. To match corresponding items in both sets of records, place a tick (✓) against each of the matched transactions.

Always work from the bank statement to the journal, not vice versa, as the deposits in the bank will have been written up in the cash records. If the bank statement shows an amount as a deposit, then it must appear in the journal – the organisation should have entered it into the cash receipts journal before depositing the amount into the bank.

- b) Identify any un-ticked items in the bank statement. These items are amounts deposited into the bank that may not have been recorded in the cash receipts journal. Record un-ticked items in the cash receipts journal, tick the items in both the statement and the journal and, finally, total the journal.
- c) Identify the un-ticked items remaining in the cash receipts journal. These represent deposits that have not been presented at the bank. They are part of the reason for unequal entries in the bank statement and general ledger.

2. Reconcile payments

- a) Match the corresponding cheque amounts appearing in the bank statement (debit column) with the corresponding cheques in the cash payments journal by placing a tick against matched transactions.

All cheques that appear in the bank statement will appear in the cash payments journal, as the bank can only receive the cheques after the organisation has authorised them for payment.

- b) Identify any un-ticked items in the bank statement. These items are the amounts withdrawn from the account that may not have been recorded in the cash payments journal. Record the un-ticked items in the cash payments journal, tick the items in both the statement and the journal and, finally, total the journal.
- c) Identify the un-ticked items remaining in the cash payments journal. These represent cheques the organisation has issued that have not been presented at the bank for payment. They are part of the reason for unequal entries in the bank statement and general ledger.

3. Record the results

- a) Using the month's opening bank balance and the totals of the cash receipts and cash payments journals, calculate the closing balance of the bank account in the general ledger at the end of the month.
- b) Prepare a bank reconciliation statement using the items identified in steps 1c and 2c.

Example: reconcile the bank account

At the end of February 2017, Braxton & Co. reconciled the bank account in the general ledger with the bank statement issued by its bank, the Bank of Australasia.

The reconciliation indicated that the following receipts and cheques had not been deposited at the bank or presented for payment in February.

Outstanding deposit in February		\$200.00
Unpresented cheques in February	Cheque no.	
	771	\$185.00
	773	\$230.00
	774	\$65.00
	776	\$120.00

continued ...

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Braxton & Co. Cash payments journal											
Date	Particulars	Chq no	Discount received			Reason for payment				Bank (\$)	
			ITC adj. (\$)	Disc. rec'd (\$)	Creditors (\$)	Creditors (\$)	Cash purchases (\$)	Sundries (\$)	ITC (\$)		
1/3/17	Advertising	777						135.00			135.00
3/3/17	Purchases	778					910.00			91.00	1,001.00
6/3/17	J. Moore	779	1.80	18.00	180.00						180.00
7/3/17	P. Wang	780	1.50	15.00	150.00						150.00
10/3/17	Rent	781						800.00			800.00
16/3/17	Commission	782						200.00			200.00
20/3/17	Wages	783						2,000.00			2,000.00
22/3/17	Purchases	784					950.00				950.00
24/3/17	Postage	785						90.00			90.00
27/3/17	Stationery	786						85.00			85.00
28/3/17	Repairs	787						100.00			100.00
30/3/17	L. Rowe	788	2.00	20.00	200.00						200.00

continued ...

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The bank statement issued by the bank for March was as follows.

Bank of Australasia Bank statement as at 31 March 2017 Braxton & Co.				
From: 1 March 2017		Account no: 293516		
To: 31 March 2017		Statement no: 38		
Date	Particulars	Debit (\$)	Credit (\$)	Balance (\$)
1/03/2017	Balance			500.00 Cr
2/03/2017	DEPOSIT		200.00	700.00 Cr
3/03/2017	771	185.00		515.00 Cr
3/03/2017	DEPOSIT		5,130.00	5,645.00 Cr
6/03/2017	773	230.00		5,415.00 Cr
7/03/2017	774	65.00		5,350.00 Cr
7/03/2017	777	135.00		5,215.00 Cr
9/03/2017	DEPOSIT		902.00	6,117.00 Cr
10/03/2017	DEPOSIT		1,201.00	7,318.00 Cr
13/03/2017	778	1,001.00		6,317.00 Cr
15/03/2017	DEPOSIT		150.00	6,467.00 Cr
15/03/2017	DEPOSIT		803.00	7,270.00 Cr
16/03/2017	780	150.00		7,120.00 Cr
20/03/2017	781	800.00		6,320.00 Cr
23/03/2017	783	2,000.00		4,320.00 Cr
23/03/2017	784	950.00		3,370.00 Cr
23/03/2017	DEPOSIT		200.00	3,570.00 Cr
24/03/2017	Interest revenue		25.00	3,595.00 Cr
24/03/2017	DEPOSIT		451.00	4,046.00 Cr
24/03/2017	785	90.00		3,956.00 Cr
30/03/2017	788	200.00		3,756.00 Cr
30/03/2017	Cheque book	25.00		3,731.00 Cr
30/03/2017	DEPOSIT		280.00	4,011.00 Cr
30/03/2017	Bank charges	15.00		3,996.00 Cr
All entries in this statement are correct.				

continued ...

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The reconciliation procedure involves the following steps:

Step 1a: Match deposits in the bank statement with deposits in the cash receipts journal.

The deposits in the bank statement that match those in the cash receipts journal are ticked as follows.

Bank of Australasia				
Bank statement as at 31 March 2017				
Braxton & Co.				
From: 1 March 2017		Account no: 293516		
To: 31 March 2017		Statement no: 38		
Date	Particulars	Debit (\$)	Credit (\$)	Balance (\$)
1/03/2017	Balance			500.00 Cr
2/03/2017	DEPOSIT		200.00✓	700.00 Cr
3/03/2017	771	185.00		515.00 Cr
3/03/2017	DEPOSIT		5,130.00✓	5,645.00 Cr
6/03/2017	773	230.00		5,415.00 Cr
7/03/2017	774	65.00		5,350.00 Cr
7/03/2017	777	135.00		5,215.00 Cr
9/03/2017	DEPOSIT		902.00✓	6,117.00 Cr
10/03/2017	DEPOSIT		1,201.00✓	7,318.00 Cr
13/03/2017	778	1,001.00		6,317.00 Cr
15/03/2017	DEPOSIT		150.00✓	6,467.00 Cr
15/03/2017	DEPOSIT		803.00✓	7,270.00 Cr
16/03/2017	780	150.00		7,120.00 Cr
20/03/2017	781	800.00		6,320.00 Cr
23/03/2017	783	2,000.00		4,320.00 Cr
23/03/2017	784	950.00		3,370.00 Cr
23/03/2017	DEPOSIT		200.00✓	3,570.00 Cr
24/03/2017	Interest revenue		25.00	3,595.00 Cr
24/03/2017	DEPOSIT		451.00✓	4,046.00 Cr
24/03/2017	785	90.00		3,956.00 Cr
30/03/2017	788	200.00		3,756.00 Cr
30/03/2017	Cheque book	25.00		3,731.00 Cr
30/03/2017	DEPOSIT		280.00✓	4,011.00 Cr
30/03/2017	Bank charges	15.00		3,996.00 Cr
All entries in this statement are correct.				

continued ...

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The corresponding deposits in the cash receipts journal are ticked as follows.

Outstanding deposit from February	\$200.00✓
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Braxton & Co.											
Cash receipts journal											
Date	Particulars	Rec. no.	Discount expensed			Reason for receipt				Bank (\$)	
			GST adj. (\$)	Disc. exp. (\$)	Debtors (\$)	Debtors (\$)	Cash sales (\$)	Sundries (\$)	GST (\$)		
3/3/17	Sales and GST payable	CRR						3,300.00		330.00	
	E. Abbott	401		1,500.00							5,130.00✓
6/3/17	Sales and GST payable	CRR					820.00			82.00	902.00✓
9/3/17	Sales and GST payable	CRR					910.00			91.00	
	P. Jacks	402			200.00						1,201.00✓
13/3/17	B. Capp	403			150.00						150.00✓
15/3/17	Sales and GST payable	CRR					730.00			73.00	803.00✓
23/3/17	E. Rose	404			200.00						200.00✓
24/3/17	Sales and GST payable	CRR					410.00			41.00	451.00✓
30/3/17	Commission	405							280.00		280.00✓
31/3/17	Sales and GST payable	CRR					280.00			28.00	
	A. Loader	406			190.00						498.00

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Step 1b: Identify un-ticked items in the bank statement, record them in the cash receipts journal and tick the items as matched, then total the journal.

The bank statement shows a deposit of \$25.00 for interest that needs to be recorded in the cash receipts journal as follows.

Braxton & Co. Cash receipts journal											
Date	Particulars	Rec. no.	Discount expensed			Reason for receipt				Bank (\$)	
			GST adj. (\$)	Disc. exp. (\$)	Debtors (\$)	Debtors (\$)	Cash sales (\$)	Sundries (\$)	GST (\$)		
3/3/17	Sales and GST payable	CRR						3,300.00		330.00	
	E. Abbott	401			1,500.00						5,130.00✓
6/3/17	Sales and GST payable	CRR						820.00		82.00	902.00✓
9/3/17	Sales and GST payable	CRR						910.00		91.00	
	P. Jacks	402				200.00					1,201.00✓
13/3/17	B. Capp	403				150.00					150.00✓
15/3/17	Sales and GST payable	CRR						730.00		73.00	803.00✓
23/3/17	E. Rose	404				200.00					200.00✓
24/3/17	Sales and GST payable	CRR						410.00		41.00	451.00✓
30/3/17	Commission	405							280.00		280.00✓
31/3/17	Sales and GST payable	CRR						280.00		28.00	
	A. Loader	406				190.00					498.00
	Interest received	BS								25.00	25.00✓
	Totals					2,240.00		6,450.00	305.00	645.00	9,640.00

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Step 1c: Identify un-ticked items remaining in the cash receipts journal.

The cash receipts journal shows that an amount of \$498.00 has yet to be deposited in the account.

Step 2a: Match cheques in the bank statement with cheques in the cash payments journal.

The cheques in the bank statement that match those in the cash records are ticked as follows.

Bank of Australasia				
Bank statement as at 31 March 2017				
Braxton & Co.				
From: 1 March 2017		Account no: 293516		
To: 31 March 2017		Statement no: 38		
Date	Particulars	Debit (\$)	Credit (\$)	Balance (\$)
1/03/2017	Balance			500.00 Cr
2/03/2017	DEPOSIT		200.00✓	700.00 Cr
3/03/2017	771	185.00✓		515.00 Cr
3/03/2017	DEPOSIT		5,130.00✓	5,645.00 Cr
6/03/2017	773	230.00✓		5,415.00 Cr
7/03/2017	774	65.00✓		5,350.00 Cr
7/03/2017	777	135.00✓		5,215.00 Cr
9/03/2017	DEPOSIT		902.00✓	6,117.00 Cr
10/03/2017	DEPOSIT		1,201.00✓	7,318.00 Cr
13/03/2017	778	1,001.00✓		6,317.00 Cr
15/03/2017	DEPOSIT		150.00✓	6,467.00 Cr
15/03/2017	DEPOSIT		803.00✓	7,270.00 Cr
16/03/2017	780	150.00✓		7,120.00 Cr
20/03/2017	781	800.00✓		6,320.00 Cr
23/03/2017	783	2,000.00✓		4,320.00 Cr
23/03/2017	784	950.00✓		3,370.00 Cr
23/03/2017	DEPOSIT		200.00✓	3,570.00 Cr
24/03/2017	Interest revenue		25.00✓	3,595.00 Cr
24/03/2017	DEPOSIT		451.00✓	4,046.00 Cr
24/03/2017	785	90.00✓		3,956.00 Cr
30/03/2017	788	200.00✓		3,756.00 Cr
30/03/2017	Cheque book	25.00		3,731.00 Cr
30/03/2017	DEPOSIT		280.00✓	4,011.00 Cr
30/03/2017	Bank charges	15.00		3,996.00 Cr
All entries in this statement are correct.				

continued ...

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Braxton & Co. Cash payments journal											
Date	Particulars	Chq no	Discount received			Reason for payment				Bank (\$)	
			ITC adj. (\$)	Disc. rec'd (\$)	Creditors (\$)	Creditors (\$)	Cash purchases (\$)	Sundries (\$)	ITC (\$)		
1/3/17	Advertising	777						135.00			135.00✓
3/3/17	Purchases	778				910.00			91.00		1,001.00✓
6/3/17	J. Moore	779	1.80	18.00	180.00						180.00
7/3/17	P. Wang	780	1.50	15.00	150.00						150.00✓
10/3/17	Rent	781						800.00			800.00✓
16/3/17	Commission	782						200.00			200.00
20/3/17	Wages	783						2,000.00			2,000.00✓
22/3/17	Purchases	784						950.00			950.00✓
24/3/17	Postage	785						90.00			90.00✓
27/3/17	Stationery	786						85.00			85.00
28/3/17	Repairs	787						100.00			100.00
30/3/17	L. Rowe	788	2.00	20.00	200.00						200.00✓

Unpresented cheques in February	Chq no	
	771	\$185.00✓
	773	\$230.00✓
	774	\$65.00✓
	776	\$120.00

continued ...

... continued

Step 2b: Identify un-ticked amounts in the bank statement, record them in the cash payments journal, tick the items as matched then total the journal.

The bank statement shows the following transactions that have not been recorded in the cash payments journal:

- Cheque book: \$25.00 Dr
- Bank charges: \$15.00 Dr

These amounts are entered in the cash payments journal and ticked off in the bank statement and cash payments journal. The cash payments journal is then totalled.

The updated cash payments journal appears as follows.

Braxton & Co.										
Cash payments journal										
Date	Particulars	Chq no	Discount received			Reason for payment				Bank (\$)
			ITC adj. (\$)	Disc. rec'd (\$)	Creditors (\$)	Creditors (\$)	Cash purchases (\$)	Sundries (\$)	ITC (\$)	
1/3/17	Advertising	777						135.00	135.00	
3/3/17	Purchases	778				910.00				91.00
6/3/17	J. Moore	779	1.80	18.00	180.00					180.00
7/3/17	P. Wang	780	1.50	15.00	150.00					150.00
10/3/17	Rent	781						800.00	800.00	
16/3/17	Commission	782						200.00	200.00	
20/3/17	Wages	783						2,000.00	2,000.00	
22/3/17	Purchases	784				950.00				950.00
24/3/17	Postage	785						90.00	90.00	
27/3/17	Stationery	786						85.00	85.00	
28/3/17	Repairs	787						100.00	100.00	
30/3/17	L. Rowe	788	2.00	20.00	200.00					200.00
	Cheque book	BS						25.00	25.00	
	Bank charges	BS						15.00	15.00	
Totals			5.30	53.00	530.00	1,860.00	3,450.00	91.00	5,931.00	

continued ...

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Step 2c: Identify un-ticked items remaining in the cash payments journal.

The cash payments journal indicates the following cheques have not been presented.

Unpresented cheques in February	Chq no	
	776	\$120.00
Unpresented cheques in March	Chq no	
	779	\$180.00
	782	\$200.00
	786	\$85.00
	787	\$100.00

Step 3: Calculate the closing balance of the bank account in the general ledger.

Remember that the balance of the cash at bank account was \$100 at the start of the month.

The bank balance can be calculated in the following ways.

As a statement

Cash at bank account	
	\$
Balance at start of month 1 March	100.00
Add cash receipts total	9,640.00
	9,740.00
Less cash payments total	5,931.00
Balance at end of month 31 March	3,809.00

As an account (in the general ledger)

Remember, the bank account is an asset.

Asset accounts	
1. To increase an asset account, record an amount in the debit column.	
2. To decrease an asset account, record an amount in the credit column.	

General ledger					
Date	Particulars	Folio	Debit (\$)	Credit (\$)	Balance (\$)
Cash at bank					
1 March	Balance				100.00 Dr
31 March	Cash receipts	CRJ	9,640.00		9,740.00 Dr
	Cash payments	CPJ		5,931.00	3,809.00 Dr

continued ...

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Step 4: Prepare the bank reconciliation statement.

The bank statement shows a credit balance of \$3,996.00, meaning that the bank owes the organisation this amount. However, the bank account in the general ledger is showing an amount of \$3,809.00 in debit.

Remember that the bank follows the liability rule, whereas the organisation follows the asset rule.

The bank account in the general ledger is the accurate figure, as it has been adjusted to include all the amounts from the bank statement. The bank statement balance is not accurate, as it does not include the amounts yet to be deposited and the cheques that have yet to be presented. These amounts have already been included in the cash journals.

To prepare the bank reconciliation statement, start with the balance of the bank statement and adjust it to include the deposits not yet credited and the cheques not yet presented to arrive at the balance of the bank account in the general ledger.

1. Commence with the balance of the bank statement: \$3,996.00
2. Adjust the balance for the deposit not yet credited from step 1c: \$498.00
3. Adjust the balance for the cheques not yet presented from step 2c:

Unpresented cheques in February	Chq no	
	776	\$120.00
Unpresented cheques in March	Chq no	
	779	\$180.00
	782	\$200.00
	786	\$85.00
	787	\$100.00

The above information is presented in a statement format as follows.

Braxton & Co			
Bank reconciliation statement			
As at 31 March 2017			
		\$	\$
Balance as per bank statement (credit)			3,996.00
ADD deposits not yet credited			498.00
			4,494.00
LESS unpresented cheques in March	Chq no		
	776	120.00	
	779	180.00	
	782	200.00	
	786	85.00	
	787	100.00	685.00
Balance as per cash at bank account (debit)			3,809.00

As the balance of the bank statement has now been determined to be the same as the organisation's bank account calculation, the organisation's cash records are considered accurate.

Bank reconciliation for an account in overdraft

When the closing balance of the bank statement shows a credit balance, it means that the organisation has funds available at the bank. In this case, the bank reconciliation statement is prepared using the following format.

Balance as per bank statement (credit)
ADD deposits not yet credited
LESS unpresented cheques in March
Balance as per cash at bank account

When the closing balance of the bank statement shows a debit balance, it means that the organisation's bank account is in overdraft and the organisation owes the bank money. If this is the case, the bank reconciliation statement must be prepared using the following format.

Balance as per bank statement (debit)
ADD unpresented cheques in March
LESS deposits not yet credited
Balance as per cash at bank account

If the organisation has an overdraft account, any cheques made by the organisation and presented to the bank will be honoured. The amount paid out will increase the amount owed by the organisation. When the organisation makes deposits to the account, the amount owing will decrease.

Example: reconcile an overdraft account

The bank reconciliation statement for the month ended 31 March 2016 for LMN Pty Ltd included the following amounts that have been reconciled to amounts in the April bank statement.

		\$
Deposit not credited		800.00✓
Unpresented cheques	No 11	1,000.00✓
	No 12	300.00✓
	No 13	58.00✓

The bank balance in the general ledger at 1 April was \$7,558.00 in credit.

The bank statement issued by the bank for April showing the reconciled deposits and payments was as follows.

continued ...

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Bank of Australasia Bank statement as at 30 April 2017 LMN Pty Ltd				
From: 1 April 2017		Account no: 246810		
To: 30 April 2017		Statement no: 43		
Type of account: cheque/overdraft				
Date	Particulars	Debit (\$)	Credit (\$)	Balance (\$)
1/04/17	Balance			7,000.00 Dr
3/04/17	DEPOSIT		800.00✓	6,200.00 Dr
3/04/17	DEPOSIT		506.00✓	5,694.00 Dr
4/04/17	15	250.00✓		5,944.00 Dr
6/04/17	11	1,000.00✓		6,944.00 Dr
7/04/17	13	58.00✓		7,002.00 Dr
10/04/17	DEPOSIT		557.00✓	6,445.00 Dr
12/04/17	16	95.00✓		6,540.00 Dr
14/04/17	19	154.00✓		6,694.00 Dr
17/04/17	20	209.00✓		6,903.00 Dr
18/04/17	DEPOSIT		1,002.00✓	5,901.00 Dr
21/04/17	14	95.00✓		5,996.00 Dr
26/04/17	DEPOSIT		954.00✓	5,042.00 Dr
27/04/17	18	110.00✓		5,152.00 Dr
28/04/17	DEPOSIT		250.00✓	4,902.00 Dr
30/04/17	12	300.00✓		5,202.00 Dr
	Bank charges and interest	75.00✓		5,277.00 Dr
	B. Cookes (dis. chq)	250.00✓		5,527.00 Dr

continued ...

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LMN Pty Ltd										
Cash receipts journal										
Date	Particulars	Rec no	Discount expensed			Reason for receipt			Bank (\$)	
			GST adj. (\$)	Disc. expense (\$)	Debtors (\$)	Debtors (\$)	Sundries (\$)	GST (\$)		
3/04/17	Sales	CRR					460.00	46.00	506.00✓	
10/04/17	E. Jackson	5	1.00	10.00	11.00	150.00				
	Sales	CRR					370.00	37.00	557.00✓	
18/04/17	P. Loch	6	1.00	10.00	11.00	100.00				
	Sales	CRR					820.00	82.00	1,002.00✓	
26/04/17	A. Alexander	7	2.50	25.00	27.50	250.00	640.00	64.00	954.00✓	
28/04/17	B. Cookes	8	2.00	20.00	22.00	250.00			250.00✓	
	Sales	CRR					410.00	41.00	451.00✓	
28/04/17	B Cookes (dis. chq)	BS43	(2.00)	(20.00)	(22.00)	(250.00)			(250.00)✓	
	Monthly totals		4.50	45.00	49.50	500.00	2,700.00	270.00	3,470.00	

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LMN Pty Ltd Cash payments Journal										
Date	Particulars	Chq no	Discount received			Reason for payment				Bank (\$)
			ITC adj. (\$)	Disc. rec'd (\$)	Creditors (\$)	Creditors (\$)	Purchases (\$)	Sundries (\$)	ITC (\$)	
3/04/17	P. J. Links	14			95.00					95.00 ✓
4/04/17	Wages	15						250.00		250.00 ✓
6/04/17	A. K. Dawes	16			95.00					95.00 ✓
7/04/17	Rates	17						250.00		250.00 ✓
10/04/17	Telephone	18						100.00	10.00	110.00 ✓
12/04/17	Electricity	19						140.00	14.00	154.00 ✓
17/04/17	Rose & Co	20					190.00		19.00	209.00 ✓
25/04/17	Smithson P/L	21			180.00					180.00 ✓
28/04/17	Supplies	22						70.00	7.00	77.00 ✓
30/04/17	Telephone adj.	18						(45.50)	(4.50)	(50.00) ✓
	Bank charges	BS43						75.00		75.00 ✓
	Monthly totals				370.00		195.00	880.50	49.50	1,495.00

continued ...

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LMN Pty Ltd General ledger					
Date	Particulars	Folio	Debit (\$)	Credit (\$)	Balance (\$)
Cash at bank					
1 April	Balance				7,558.00 Cr
30 April	Cash receipts	CRJ	3,470.00		4,088.00 Cr
	Cash payments	CPJ		1,495.00	5,583.00 Cr

LMN Pty Ltd Bank reconciliation statement As at 30 April 2016			
		\$	\$
Balance as per bank statement (debit)			5,527.00
ADD unpresented cheques in March	Chq No.		
	17	250.00	
	21	180.00	
	22	77.00	507.00
			6,034.00
LESS deposit not yet credited			451.00
Balance as per cash at bank account (credit)			5,583.00

Practice task 7

1. You are required to prepare a bank reconciliation statement for December from these records supplied to you by Maverick Trading. Add any required information to the cash receipts journal and cash payments journal, then complete the general ledger and reconciliation statement.

The balance of Maverick Trading's bank account in the general ledger on 1 December 2017 was \$14,500 in debit.

The November bank reconciliation indicated that the following receipts and cheques had not been deposited at the bank or presented for payment in November.

Outstanding deposits in November		\$300.00
		\$1,500.00
Unpresented cheques in November	Chq no	
	395	\$800.00
	398	\$1,500.00

continued ...

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Bank of Australasia				
Bank statement as at 31 December 2017				
Maverick Trading				
From: 1 December 2017		Account no: 1254879		
To: 31 December 2017		Statement no: 52		
Date	Particulars	Debit (\$)	Credit (\$)	Balance (\$)
1/12/17	Balance			15,000.00 Cr
1/12/17	Deposit		300.00	15,300.00 Cr
2/12/17	Deposit		13,200.00	28,500.00 Cr
2/12/17	Cheque 398	1,500.00		27,000.00 Cr
3/12/17	Cheque 400	6,600.00		20,400.00 Cr
9/12/17	Deposit		5,170.00	25,570.00 Cr
13/12/17	Cheque 403	7,200.00		18,370.00 Cr
14/12/17	Rent	620.00		17,750.00 Cr
14/12/17	Bank fees	150.00		17,600.00 Cr
15/12/17	Deposit		5,830.00	23,430.00 Cr
19/12/17	Deposit		20,000.00	43,430.00 Cr
19/12/17	Interest		60.00	43,490.00 Cr
25/12/17	Deposit		6,120.00	49,610.00 Cr
28/12/17	Cheque 405	36,000.00		13,610.00 Cr
28/12/17	Cheque 407	1,200.00		12,410.00 Cr
29/12/17	Cheque 402	5,280.00		7,130.00 Cr
30/12/17	Rent	620.00		6,510.00 Cr
30/12/17	Loan payment	900.00		5,610.00 Cr
All entries in this statement are correct.				

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2. Samantha Davis operates a music shop. Using the following information, you are required to prepare the bank reconciliation for June 2016. Add any required information to the cash receipts journal and cash payments journal, then complete the general ledger and reconciliation statement.

Note: If there is a discrepancy between the bank's records and those of Samantha Davis, assume that the bank is correct.

Samantha Davis Music Store			
Bank reconciliation statement			
As at 31 May 2017			
		\$	\$
Balance as per bank statement (debit)			580.00
ADD unrepresented cheques in April	Chq no		
	1385	45.00	
	1390	40.00	
	1391	95.00	
	1393	250.00	430.00
			1,010.00
LESS deposit not yet credited			220.00
Balance as per cash at bank account (credit)			790.00

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Commercial Banking Co Statement for June 2017				
Account of:	Samantha Davis Music Store			
Type of Account:	Cheque/overdraft			
Account Number:	083-726/5508 6811	Page 29		
Date	Particulars	Debit (\$)	Credit (\$)	Balance (\$)
1/06/17	Balance			580.00 Dr
1/06/17	DEPOSIT		220.00	360.00 Dr
1/06/17	DEPOSIT		304.00	56.00 Dr
3/06/17	1391	95.00		151.00 Dr
3/06/17	DEPOSIT		560.00	409.00 Cr
4/06/17	1394	150.00		259.00 Cr
4/06/17	1393	250.00		9.00 Cr
7/06/17	DEPOSIT		957.00	966.00 Cr
7/06/17	Bank charges	25.00		941.00 Cr
8/06/17	1396	55.00		886.00 Cr
8/06/17	DEPOSIT		300.00	1,186.00 Cr
10/06/17	1390	40.00		1,146.00 Cr
10/06/17	1397	88.00		1,058.00 Cr
13/06/17	DEPOSIT		709.50	1,767.50 Cr
14/06/17	OD interest	40.00		1,727.50 Cr
15/06/17	1395	135.00		1,592.50 Cr
15/06/17	1401	110.00		1,482.50 Cr
16/06/17	DEPOSIT		189.00	1,671.50 Cr
18/06/17	Dividend		100.00	1,771.50 Cr
21/06/17	Cheque book	10.00		1,761.50 Cr
23/06/17	Loan repayment – direct deposit	550.00		1,211.50 Cr
25/06/17	1400	25.00		1,186.50 Cr
25/06/17	1399	100.00		1,086.50 Cr
28/06/17	DEPOSIT		495.00	1,581.50 Cr
28/06/17	1403	88.00		1,493.50 Cr
30/06/17	Direct deposit – dividend		135.00	1,628.50 Cr
All entries in this statement are correct.				

continued ...

... continued

Samantha Davis Music Store General ledger					
Date	Particulars	Jnl Ref	Debit (\$)	Credit (\$)	Balance (\$)
Cash at bank					
1/06/17	Balance				790.00 Cr

Samantha Davis Music Store Bank reconciliation statement As at 30 June 2017		
	\$	\$

2D Correcting errors

At times, amounts recorded in the cash journals may be recorded incorrectly; for example, \$950 may be entered as \$590. This results in an over- or under-statement of the correct amount.

Errors in the cash journals should be identified during the bank reconciliation process, when the amount in the bank statement will not match the amount in the cash journal.

If an error is discovered, the normal course of action is to check the duplicate receipt or cheque butt. If the error can be proved, you need to correct the error in the journal so that it matches the amount in the bank statement.

If a check of the original documentation does not indicate an error, then the bank may have made a mistake. In this case the bank must be contacted and its documentation checked.



Example: make corrections

In the examples and questions that follow, it is assumed that any errors are a result of incorrect amounts being recorded in the cash journals, not the bank statement, so that correcting entries must be made in the cash journals.

There are two ways of making correction adjustments to the cash journals.

1. Correct the error by neatly crossing out the amount, recording the correct amount above the amount in error and ticking the amount to match the bank statement amount. This method is illustrated in the following example.

The bank statement recorded cheque 51 as \$14,790. This had been incorrectly recorded in the cash payments journal as \$14,970.

Cash payments journal						
Date	Particulars	Chq no	Creditors (\$)	Sundries (\$)	ITC (\$)	Bank (\$)
10/05/17		BS	14,790.00			14,790.00✓
	B. Hall	51	14,970.00			14,970.00

continued ...

2. Correct the error by recording the difference at the bottom of the journal so that the original amount and the adjustment equal the amount in the bank statement. Then tick both amounts in the journal and the matching amount in the bank statement.

The adjusting amount may need to be shown as a positive value or a negative value depending on the error and depending on the cash journal. This method is illustrated in the following example.

The bank statement recorded cheque 51 as \$14,790. This had been incorrectly recorded in the cash payments journal as \$14,970. The difference is (\$180). This amount is entered in the journal as follows.

Cash payments journal						
Date	Particulars	Chq no	Creditors (\$)	Sundries (\$)	ITC (\$)	Bank (\$)
10/05/17	B. Hall	51	14,970.00			14,970.00✓
31/05/17	B. Hall (adjustment)	BS	(180.00)			(180.00)✓

2E

Dishonoured cheques

When a customer pays an account by cheque, the organisation records the amount in the cash receipts journal and deposits the cheque in the bank at the end of the day's trading. The deposit is recorded in the credit column of the bank statement and is matched to the amount in the cash receipts journal during the bank reconciliation process.

On occasions, the bank may have difficulty clearing the cheque, as the customer who paid by cheque may have insufficient funds to honour the payment. When this occurs the bank will deduct the amount from the organisation's bank account by recording an amount in the debit column of the bank statement and marking the details as a dishonoured cheque. The bank may also charge an amount to the debit column as a dishonoured cheque charge, to cover administration costs.

When a previously deposited cheque has been dishonoured and debited to the bank statement, the amount needs to be reversed on the cash receipts journal. This is done by duplicating the original amount received and recording it as a negative entry. This effectively removes the receipt from the cash receipts journal.

If a dishonoured cheque charge accompanies the dishonoured cheque, this also needs to be recorded in the cash payments journal along with other bank charges appearing on the bank statement.

Example: adjust journals for dishonoured cheques

This bank statement shows that a deposit of \$320.00 was made on 25 May. However, the amount was dishonoured and subsequently debited on 30 May. In addition, a dishonoured payment charge was made on the same day.

Bank of Australasia Bank statement as at 31 May 2017 N.B. Maines				
From: 1 May 2017		Account no: 14879		
To: 31 May 2017		Statement no: 102		
Date	Particulars	Debit (\$)	Credit (\$)	Balance (\$)
1/05/16	Balance			15,000.00 Cr
25/05/16	Deposit		320.00	15,320.00 Cr
30/05/16	Dishonoured payment (B. Hall)	320.00		15,000.00 Cr
	Dishonoured payment charge	25.00		14,975.00 Cr

continued ...

The following cash receipts journal shows:

- the matching of the deposit on 25 May with the corresponding amount in the bank statement
- its subsequent reversal due to it being dishonoured on 30 May.

These amounts have been ticked to indicate that they have been reconciled in the bank statement.

Cash receipts journal									
Date	Particulars	Rec no	Discount expenses			Reason for receipt			Bank (\$)
			GST adj (\$)	Disc expense (\$)	Debtors (\$)	Debtors (\$)	Sundries (\$)	GST (\$)	
25/05/17	B. Hall	15	3.00	30.00	33.00	320.00			320.00✓
30/05/17	B. Hall (dis. chq)	BS	(3.00)	(30.00)	(33.00)	(320.00)			(320.00)✓

The dishonoured cheque charge appearing in the bank statement must be recorded in the cash payments journal, as the bank has charged the cost against the organisation's bank balance. The organisation has two options when recording the amount in the journal:

1. The dishonoured cheque charge can be charged against an expense account, such as bank charges, in which case the organisation would bear the cost.
2. The dishonoured cheque can be charged against the debtor's account, in which case the organisation would not incur the cost. This second method is preferred by most organisations and is recorded as follows.

Cash payments journal						
Date	Particulars	Chq no	Creditors (\$)	Sundries (\$)	ITC (\$)	Bank (\$)
30/05/15	B. Hall (debtor: dis. chq charge)	BS		25.00		25.00✓

Practice task 8

You are required to prepare a bank reconciliation statement on 31 December from the following information provided by Jackson Trading. Add any required information to the cash receipts journal and cash payments journal, then complete the general ledger and reconciliation statement.

- The bank account balance at 1 December was \$510 in debit.
- In November, the following amounts were not included in the bank statement.

Deposits not yet credited	\$120.00
	\$480.00
Unpresented cheques	
Chq 98	\$50.00
Chq 112	\$2,300.00
Chq 116	\$540.00

continued ...

... continued

Bank of Australasia				
Bank statement as at 31 December 2017				
Jackson Trading				
From: 1 Dec 2017		Account no: 56342		
To: 31 Dec 2017		Statement no: 1078		
Date	Particulars	Debit (\$)	Credit (\$)	Balance (\$)
1/12/17	Balance			2,800.00 Cr
3/12/17	Deposit		120.00	2,920.00 Cr
3/12/17	Chq 112	2,300.00		620.00 Cr
5/12/17	Deposit		1,890.00	2,510.00 Cr
9/12/17	Chq 121	1,000.00		1,510.00 Cr
12/12/17	Dishonoured payment J Latham	4,150.00		2,640.00 Dr
12/12/17	Dishonoured payment charge	22.00		2,662.00 Dr
12/12/17	Deposit		4,150.00	1,488.00 Cr
12/12/17	Interest		55.00	1,543.00 Cr
21/12/17	Deposit		4,576.00	6,119.00 Cr
21/12/17	Loan payment	1,200.00		4,919.00 Cr
22/12/17	Chq 124	600.00		4,319.00 Cr
22/12/17	Deposit		750.00	5,069.00 Cr
26/12/17	Chq 98	50.00		5,019.00 Cr
26/12/17	Chq 122	4,150.00		869.00 Cr
30/12/17	Bank charges	66.00		803.00 Cr
All amounts appearing in the bank statement are correct.				

continued ...

... continued

Jackson Trading							
Cash receipts journal							
Date	Description	Rec no	Debtors (\$)	Sales (\$)	Sundries (\$)	GST (\$)	Bank (\$)
2/12/17	Sales	520		1,800.00		180.00	1,980.00
8/12/17	Sales	521		5,000.00		500.00	5,500.00
12/12/17	J. Latham	522	4,150.00				4,150.00
18/12/17	Sales	523		4,160.00		416.00	4,576.00
19/12/17	Sales	524		3,200.00		320.00	3,520.00
20/12/17	P. Lah	525	750.00				750.00
Totals							

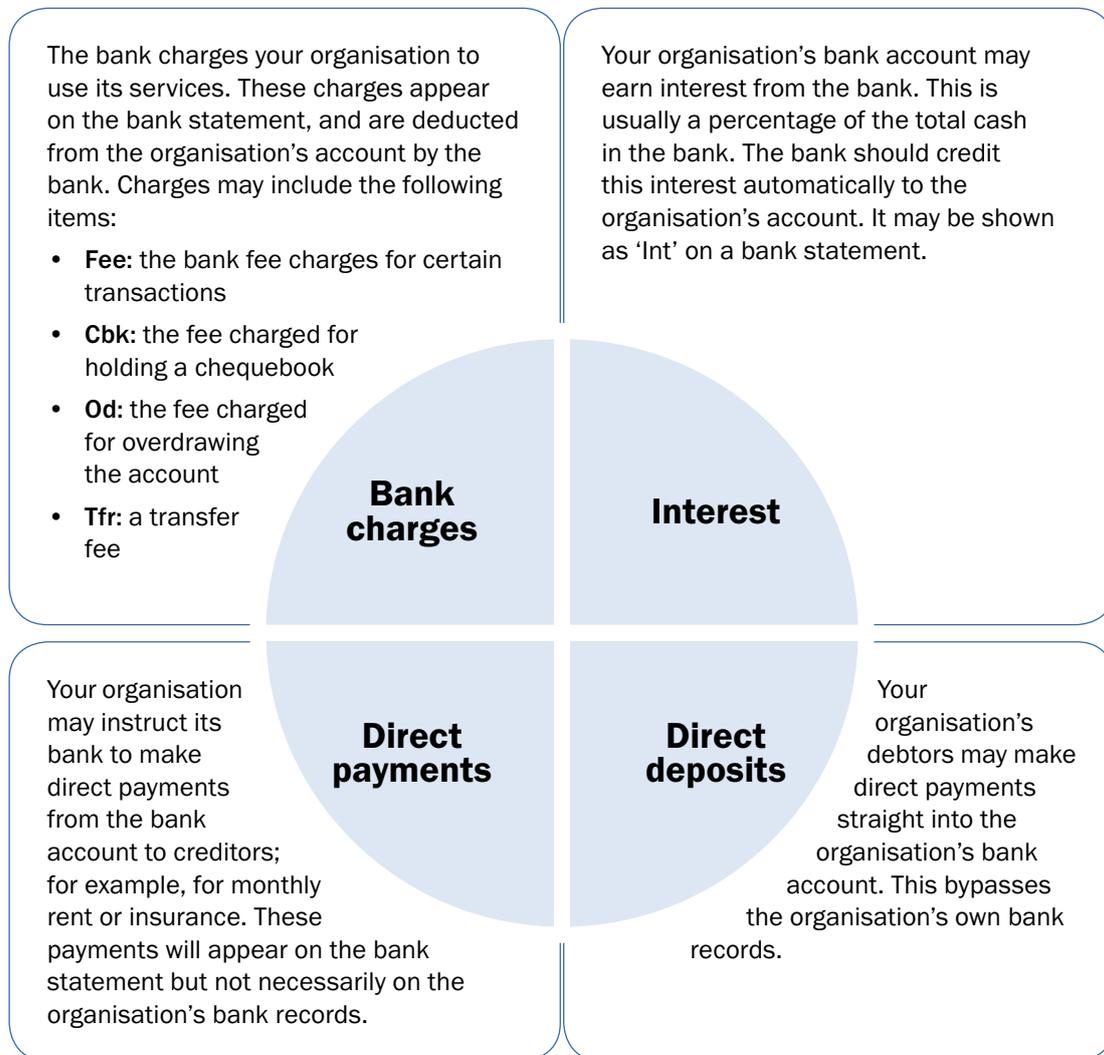
Jackson Trading							
Cash payments journal							
Date	Description	Chq no	Creditors (\$)	Purchases (\$)	Sundries (\$)	ITC (\$)	Bank (\$)
4/12/17	Vehicle costs	120			250.00	25.00	275.00
8/12/17	Drawings	121			1,000.00		1,000.00
10/12/17	Purchases	122		3,650.00		365.00	4,015.00
15/12/17	Purchases	123		9,800.00		980.00	10,780.00
21/12/17	Petty cash	124			600.00		600.00
25/12/17	Nyall Ltd	125	2,500.00				2,500.00
Totals							

continued ...

2F

Additional items

Some items appear on the bank statement but not on the organisation's bank records. These include the following.



2G

Preparing reconciliation reports

Depending on your role and responsibilities, your organisation may require you to present a reconciliation report. This report details your findings, including any errors found and adjustments made. It records the results of the reconciliation and any action taken, such as correction of errors or querying the bank.

Your report should include your reconciliation statement and describe the inconsistencies you found and how you dealt with them. It is a useful record to verify how you have dealt with problems, and is also important for identifying repeat problems. This contributes to improving your processes and maintaining accuracy.



Summary

1. Making sure an organisation's financial records match the balance recorded by the organisation's general ledger and bank statement is known as bank reconciliation.
2. Journals must be crosschecked, proofread and checked against all source documents to make sure all entries and totals are accurate. This is called totalling the journal.
3. The reconciliation procedure is as follows:
 - Reconcile deposits:
 - Match the deposit amounts that appear in the bank statement (credit column) with the corresponding amount in the cash receipts journal.
 - Identify amounts deposited to the bank that may not have been recorded in the cash receipts journal and record them.
 - Identify deposits that have not yet been presented at the bank.
 - Reconcile payments:
 - Match the cheque amounts that appear in the bank statement (debit column) with the corresponding cheques in the cash payments journal.
 - Identify amounts withdrawn from the account that may not have been recorded in the cash payments journal and record them.
 - Identify cheques the organisation has issued but that have not been presented at the bank for payment.
 - Calculate the closing balance of the bank account in the general ledger:
 - Use the opening bank balance at the start of the month and the totals of the cash receipts and cash payments journal to calculate the closing balance of the bank account at the end of the month.
 - Prepare the bank reconciliation statement:
 - When errors in the cash journals are found during the bank reconciliation process, check the source document and adjust the cash journals to correct the error.
 - A cheque will be dishonoured by the bank if the customer who paid by cheque has insufficient funds to honour the payment. The bank will deduct the amount from the organisation's bank account by recording an amount in the debit column of the bank statement and marking the details as a dishonoured cheque.
 - When the closing balance of the bank statement shows a credit balance (the organisation has money in the bank), you need to add the deposits not yet credited and subtract any unpresented cheques.
 - When the closing balance of the bank statement shows a debit balance (the organisation's bank account is in overdraft and it owes the bank money), you need to subtract the deposits not yet credited and add the unpresented cheques.
 - Some entries in the bank statement may not appear in the organisation's bank ledger. These include bank charges, interest, direct payments and direct deposits.
 - Your organisation may require you to prepare a reconciliation report detailing the outcome of the reconciliation procedure.

Learning checkpoint 2 Prepare bank reconciliations

This learning checkpoint allows you to review your skills and knowledge in preparing bank reconciliations.

Part A

1. Using the statements that follow, complete the cash journals for the month ending 31 December 2016 from the bank statement and the previous month's bank reconciliation for J. Woods. Tick all the matching entries in the cash receipts journal, cash payments journal and the previous month's bank reconciliation with the bank statement.
2. Prepare a bank reconciliation statement for J. Woods as at 31 December 2016. Note: The figures in the bank statement are correct.

J. Woods			
Bank reconciliation statement			
as at 30 November 2017			
		\$	\$
Balance as per bank statement (credit)			1,200.00
ADD outstanding deposits			660.00
			1,860.00
LESS unrepresented cheques	Chq no		
	No. 359	170.00	
	No. 362	465.00	635.00
Balance as per bank ledger account (debit)			1,225.00

Bank of Australasia Ltd Bank statement as at 31 December 2017 J. Woods				
From: 1 December 2017		Account no: 271 820 999		
To: 31 December 2017		Page no: 12		
Type of account: cheque/overdraft				
Date	Particulars	Debit (\$)	Credit (\$)	Balance (\$)
1/12/17	Balance			1,200.00 Cr
1/12/17	DEPOSIT		660.00	1,860.00 Cr
1/12/17	359	170.00		1,690.00 Cr
1/12/17	DEPOSIT		1,540.00	3,230.00 Cr
3/12/17	370	560.00		2,670.00 Cr
4/12/17	DEPOSIT		510.00	3,180.00 Cr
6/12/17	362	465.00		2,715.00 Cr
6/12/17	371	220.00		2,495.00 Cr
7/12/17	373	150.00		2,345.00 Cr
8/12/17	Bank interest		65.00	2,410.00 Cr
8/12/17	372	300.00		2,110.00 Cr
11/12/17	DEPOSIT		1,650.00	3,760.00 Cr
15/12/17	DEPOSIT		200.00	3,960.00 Cr
17/12/17	376	560.00		3,400.00 Cr
19/12/17	DEPOSIT		825.00	4,225.00 Cr
20/12/17	DEPOSIT		90.00	4,315.00 Cr
20/12/17	375	970.00		3,345.00 Cr
20/12/17	Bank charges	75.00		3,270.00 Cr
24/12/17	Cheque book	10.00		3,260.00 Cr
24/12/17	DEPOSIT		3,080.00	6,340.00 Cr
29/12/17	374	165.00		6,175.00 Cr
29/12/17	379	560.00		5,615.00 Cr

J. Woods Cash receipts journal											
Date	Particulars	Rec. no.	Discount expensed			Reason for receipt				Bank (\$)	
			GST adj. (\$)	Disc. exp. (\$)	Debtors (\$)	Debtors (\$)	Cash sales (\$)	GST payable (\$)	Sundries (\$)		
1/12/17	Sales	CRR					1,400.00	140.00		1,540.00	
3/12/17	T. Cobb	916				170.00					
	S. Trap	917				340.00				510.00	
7/12/17	Sales	918					1,500.00	150.00		1,650.00	
11/12/17	M. Soo	919				200.00				200.00	
17/12/17	Sales	CRR					750.00	75.00		825.00	
19/12/17	P. Dark	920	1.00	10.00	11.00	90.00				90.00	
24/12/17	Sales	CRR					2,800.00	280.00		3,080.00	
30/12/17	ACE Ltd	921	2.00	20.00	22.00	1,080.00				1,080.00	
Totals											

J. Woods					
General ledger					
Date	Particulars	Folio	Debit (\$)	Credit (\$)	Balance (\$)
1/12/17	Balance				1,225.00 Dr

J. Woods			
Bank reconciliation statement			
as at 31 December 2017			
		\$	\$
Balance as per bank statement (credit)			
ADD outstanding deposits			
LESS unrepresented cheques	Chq no		
Balance as per bank ledger account (debit)			

Part B

1. You work in a small paper supplies business owned by T. Smith. Complete the cash journals that follow from the list of transactions provided, for the month ending 31 July 2017. All sales and purchases include GST.
2. Complete a bank reconciliation statement for T. Smith for the month of July 2017. The reconciliation statement for the previous month is supplied below.

1/07/17	Cash sales \$3,300.00	CRR
1/07/17	Paid wages \$1,120.00	Cheque no. 250
3/07/17	D. Burns paid amount owing \$340.00	Receipt no. 582
3/07/17	N. Rowe paid amount owing \$680.00	Receipt no. 583
5/07/17	Paid telephone account \$440.00 (including GST)	Cheque no. 251
5/07/17	Paid council rates \$600.00	Cheque no. 252
5/07/17	Cashed a cheque for petty cash \$300.00	Cheque no. 253
7/07/17	Cash sales \$3,850.00	CRR
11/07/17	K. Keyes paid amount owing \$400.00	Receipt no. 584
12/07/17	Purchased stock \$341.00	Cheque no. 254
15/07/17	Paid wages \$1,120.00	Cheque no. 255
15/07/17	Paid creditor T. Cook \$950.00	Cheque no. 256
15/07/17	Paid creditor Trade Suppliers-R-Us \$380.00	Cheque no. 257
17/07/17	Cash sales \$1,760.00	CRR
19/07/17	N. Morris paid amount owing \$1,000.00 after taking a discount of \$20.00	Receipt no. 585
24/07/17	Cash sales \$6,930.00	CRR
29/07/17	Paid wages \$1,180.00	Cheque no. 258
30/07/17	B. Somers paid amount owing \$500.00 after taking a discount of \$10.00	Receipt no. 586

T. Smith			
Bank reconciliation statement			
as at 30 June 2017			
		\$	\$
Balance as per bank statement (credit)			1,200.00
ADD outstanding deposits			1,330.00
			2,530.00
LESS unpresented cheques	Chq no		
	245	340.00	
	249	930.00	1,270.00
Balance as per bank ledger account (debit)			1,260.00

Bank of Australasia Ltd Bank statement as at 31 July 2017 T. Smith				
From: 1 July 2017 To: 31 July 2017 Type of account: cheque/overdraft			Account no: 271 820 457 Page no: 18	
Date	Particulars	Debit (\$)	Credit (\$)	Balance (\$)
1/07/17	Balance			1,200.00 Cr
1/07/17	DEPOSIT		1,330.00	2,530.00 Cr
1/07/17	245	340.00		2,190.00 Cr
1/07/17	DEPOSIT		3,300.00	5,490.00 Cr
1/07/17	250	1,120.00		4,370.00 Cr
3/07/17	DEPOSIT		1,020.00	5,390.00 Cr
4/07/17	249	930.00		4,460.00 Cr
6/07/17	251	440.00		4,020.00 Cr
6/07/17	253	300.00		3,720.00 Cr
7/07/17	DEPOSIT		3,850.00	7,570.00 Cr
8/07/17	252	600.00		6,970.00 Cr
11/07/17	DEPOSIT		400.00	7,370.00 Cr
15/07/17	255	1,120.00		6,250.00 Cr
17/07/17	DEPOSIT		1,760.00	8,010.00 Cr
19/07/17	DEPOSIT		1,000.00	9,010.00 Cr
20/07/17	256	950.00		8,060.00 Cr
20/07/17	Bank charges and interest	55.00		8,005.00 Cr
24/07/17	DEPOSIT		6,930.00	14,935.00 Cr
24/07/17	257	380.00		14,555.00 Cr
29/07/17	258	1,180.00		13,375.00 Cr
30/07/17	Cheque book	35.00		13,340.00 Cr
31/07/17	Dishonoured cheque D. Burns	340.00		13,000.00 Cr

T. Smith Cash receipts journal											
Date	Particulars	Rec. no.	Discount expensed			Reason for receipt				Bank (\$)	
			GST adj. (\$)	Disc. exp. (\$)	Debtors (\$)	Debtors (\$)	Cash sales (\$)	GST payable (\$)	Sundries (\$)		
Totals											

T. Smith					
General ledger					
Date	Particulars	Folio	Debit (\$)	Credit (\$)	Balance (\$)
1/07/17	Balance				1,260.00 Dr

T. Smith			
Bank reconciliation statement			
as at 31 July 2017			
		\$	\$
Balance as per bank statement (credit)			
ADD outstanding deposits			
LESS unpresented cheques	Chq no		
Balance as per bank ledger account (debit)			

3. What would you do if you discovered an error in the cash journals? Who would you refer to, if necessary?

4. What would you do if you discovered an error in the bank statement? Who would you refer to, if necessary?

Part C

List three things you would include in a reconciliation report. Explain how a reconciliation report contributes to continuous improvement.

Topic 3

Maintain accounts payable and receivable systems

Most organisations that sell goods on credit to customers maintain control over their customers by keeping an accounts receivable ledger (debtors ledger). This ledger contains an account for each debtor in which every transaction made with the customer is recorded.

By keeping an account of each individual debtor, the organisation is able determine which debtors owe money, the amount of money owed and how regularly each customer is paying their account.

Organisations that purchase goods on credit from suppliers keep an accounts payable ledger (creditors ledger). This ledger contains an account for each creditor in which every transaction made with the supplier is recorded.

By keeping an account of each individual creditor, the organisation is able determine who they owe money to, the amount of money owed and when payments are due.

In this topic you will learn about:

- 3A The ledger system
- 3B The accounts receivable ledger
- 3C Preparing the debtors schedule
- 3D The accounts payable ledger
- 3E Preparing the creditors schedule

3A

The ledger system

An organisation that sells stock to debtors will normally maintain control over the business accounts and its debtors by keeping a general ledger and an accounts receivable ledger (also referred to as a debtors ledger).

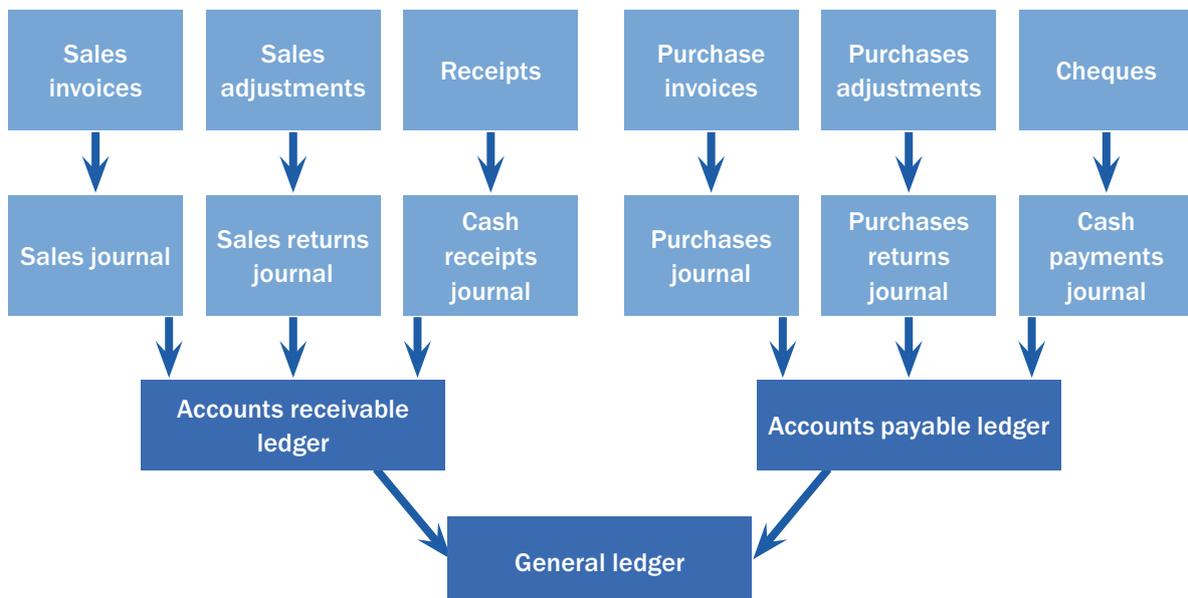
The general ledger contains the organisation's accounts, including assets, liabilities, owner's equity, revenue and expense accounts. The accounts in the general ledger are regularly updated by posting the totals of the journals to the accounts in accordance with the principles of double-entry accounting.

Double-entry accounting requires the accounts in the general ledger to be debited and credited with amounts from the journals according to certain rules. After the accounts have been updated in the general ledger, a trial balance is prepared to ensure that the general ledger balances. The trial balance is then used to prepare the business financial reports: an income (profit and loss) statement and a balance sheet.



Source documents, journals, ledgers and reports

This diagram illustrates the relationship between the journals, the general ledger, other subsidiary ledgers and financial reports.



3B The accounts receivable ledger

The accounts receivable ledger contains information about the organisation’s debtors. A separate account is prepared for each debtor from information contained in the journals.

The most common format of account is the ‘three-column’ format. It is referred to as the ‘three-column’ format because it has three monetary columns. These are the debit, credit and balance columns, as shown here.

Account name					
Date	Particulars	Jnl ref	Debit (\$)	Credit (\$)	Balance (\$)

Accounts receivable ledger headings

The columns in this format of the accounts receivable ledger are used as follows.

Date

The date the journal entry was posted

Particulars

The reason for making an entry in the account

Jnl ref

The reference to the journal from which the information was obtained:

- SJ for sales journal
- CRJ for cash receipts journal

Debit

The amount increased or decreased according to the rules of double-entry accounting

Credit

The amount increased or decreased according to the rules of double-entry accounting

Balance

The running balance of the account

Double-entry accounting

The rules of double-entry accounting require amounts to be recorded in debit and credit columns according to their classifications (assets, liabilities, owner's equity, revenues and expenses). These are described here.

Assets

An item is considered an asset if it provides the organisation with a long-term benefit or is considered an item of value owned by the organisation. This includes cash at the bank, cash on hand (for example, in the cash registers), stock on hand, buildings, equipment and amounts owing by debtors.

Liabilities

An item is considered a liability if it relates to amounts the organisation owes but has not yet paid, which includes bank loans, mortgages, taxes and amounts owing to creditors.

Owner's equity

This refers to the amount of money invested by the owner into the business plus any net income, but minus withdrawals made by the owner. It is calculated by subtracting the value of the business's liabilities from the value of its assets.

Revenues

Revenues arise when an organisation makes a sale or provides a service to a customer.

Expenses

An organisation incurs expenses for items such as wages and salaries, advertising, motor vehicles, equipment, machinery and payments for utilities.

Double-entry rules

Here are the account classifications and the double-entry accounting rules to record increases and decreases in these accounts.

Asset

To increase an asset account, record the amount in the debit column.
To decrease an asset account, record the amount in the credit column.

Liability

To increase a liability account, record the amount in the credit column.
To decrease a liability account, record the amount in the debit column.

Owner's equity

To increase an owner's equity account, record the amount in the credit column.
To decrease an owner's equity account, record the amount in the debit column.

Revenue

To increase a revenue account, record the amount in the credit column.
To decrease a revenue account, record the amount in the debit column.

Expense

To increase an expense account, record the amount in the debit column.

To decrease an expense account, record the amount in the credit column.

Example: debtor entry in the sales journal

Customers (debtors) who owe the organisation money are classified as assets. As a result, when posting transactions from the journals to each debtor's account:

- an entry recorded in the debit column will increase the amount owing by the debtor
- an entry recorded in the credit column will decrease the amount owing by the debtor.

Debiting a debtor's account increases the amount that debtor owes an organisation. For example, a sale of goods to D. Smith for \$550.00 including GST on 1 February 2016 will need to be recorded as a debit to D. Smith's account. This is done by entering the amount of \$550.00 into the debit column and recording the running account balance in the balance column, as shown below.

D. Smith					
Date	Particulars	Jnl ref	Debit (\$)	Credit (\$)	Balance (\$)
1/02/17	Sales	SJ	550.00		550.00 Dr

The balance column shows the cumulative balance of the account. The 'Dr' next to the \$550.00 shows the account has a debit balance of \$550.00. This means that the business is owed \$550.00 by D. Smith.

If D. Smith makes a payment of \$200.00 on 7 February, the payment will be recorded in the credit column of the account because the asset account is being reduced. This would be recorded as follows.

D. Smith					
Date	Particulars	Jnl ref	Debit (\$)	Credit (\$)	Balance (\$)
1/02/17	Sales	SJ	550.00		550.00 Dr
7/02/17	Bank payment	CRJ		200.00	350.00 Dr

The account balance now shows that D. Smith has an outstanding balance of \$350.00.

Prepare the accounts receivable ledger

The accounts receivable ledger, which contains the individual accounts of each debtor, will be updated using the information contained in the:

- sales journal (credit sales to debtors)
- sales returns and allowances journal (returns from debtors)
- cash receipts journal (payments received from debtors, including discount given).

Example: debtor entry in the accounts receivable ledger

The following sales journal shows the amounts sold on credit to debtors. The total of each transaction must be recorded in the debit column of each debtor's individual account as each debtor incurs an increased amount.

Sales journal						
Date	Debtor	Folio	Tax inv. no.	Sales (\$)	GST payable (\$)	Total (\$)
1/11/17	Smith & Co		25691	750.00	75.00	825.00
6/11/17	ABC & Co		25692	1,290.00	129.00	1,419.00
15/11/17	Smith & Co		25693	1,500.00	150.00	1,650.00
27/11/17	B. Bitten		25694	615.00	61.50	676.50
30/11/17	Better Products		25695	2,050.00	205.00	2,255.00
Totals				6,205.00	620.50	6,825.50

The debtors' accounts arising from this sales journal are shown as follows.

Individual debtors' accounts					
Date	Particulars	Jnl ref	Debit (\$)	Credit (\$)	Balance (\$)
Smith & Co					
1/11/17	Sales	SJ	825.00		825.00 Dr
15/11/17	Sales	SJ	1,650.00		2,475.00 Dr
ABC & Co					
6/11/17	Sales	SJ	1,419.00		1,419.00 Dr
B. Bitten					
27/11/17	Sales	SJ	676.50		676.50 Dr
Better Products					
30/11/17	Sales	SJ	2,255.00		2,255.00 Dr

Example: entry in the sales returns and allowances journal

The sales returns and allowances journal records the value of goods returned by debtors or allowances given to debtors. The total amount recorded against each debtor must be entered into the credit column of the debtor's account and the balance reduced, as goods returned will decrease the amount owing.

The transactions in the following sales returns and allowances journal have been entered into the individual debtors' accounts to update the accounts receivable ledger.

Sales returns and allowances journal						
Date	Debtor	Folio	Adj. note no.	Sales (\$)	GST payable (\$)	Total (\$)
28/11/17	B. Bitten		105	200.00	20.00	220.00
30/11/17	Better Products		106	140.00	14.00	154.00
Totals				340.00	34.00	374.00

The daily transactions in the sales returns journal would be entered into the debtors' accounts in the accounts receivable ledger as follows.

Note: The debtor Better Products has an account balance being carried forward from the previous month totalling \$3,000.00.

Accounts receivable ledger					
Date	Particulars	Jnl ref	Debit (\$)	Credit (\$)	Balance (\$)
Smith & Co					
1/11/17	Sales	SJ	825.00		825.00 Dr
15/11/17	Sales	SJ	1,650.00		2,475.00 Dr
ABC & Co					
6/11/17	Sales	SJ	1,419.00		1,419.00 Dr
B. Bitten					
27/11/17	Sales	SJ	676.50		676.50 Dr
28/11/17	Sales returns	SRJ		220.00	456.50 Dr
Better Products					
1/11/17	Balance				3,000.00 Dr
30/11/17	Sales	SJ	2,255.00		5,255.00 Dr
	Sales returns	SRJ		154.00	5,101.00 Dr

Example: debtor payment entry into the cash receipts journal

When debtors pay their accounts and are granted a discount, the amounts are recorded in the cash receipts journal. These amounts are posted to the credit column of each debtor's account and the account balance reduced, as payment has been received.

The following cash receipts journal shows three receipts issued to debtors.

Cash receipts journal										
Date	Particulars	Rec no	Discount expensed			Reason for receipt				Bank (\$)
			GST adj. (\$)	Disc. expense (\$)	Debtors (\$)	Debtors (\$)	Cash sales (\$)	Sundries (\$)	GST (\$)	
16/11/17	Smith & Co	58	2.50	25.00	27.50	797.50				797.50
17/11/17	ABC & Co	59	1.00	10.00	11.00	1,408.00				1,408.00
30/11/17	B. Bitten	60	0.50	5.00	5.50	451.00				451.00

These amounts are posted to the individual debtors' accounts in the accounts receivable ledger as follows.

Accounts receivable ledger					
Date	Particulars	Jnl ref	Debit (\$)	Credit (\$)	Balance (\$)
Smith & Co					
1/11/17	Sales	SJ	825.00		825.00 Dr
15/11/17	Sales	SJ	1,650.00		2,475.00 Dr
16/11/17	Bank	CRJ		797.50	1,677.50 Dr
	Discount expense	CRJ		27.50	1,650.00 Dr
ABC & Co.					
6/11/17	Sales	SJ	1,419.00		1,419.00 Dr
17/11/17	Bank	CRJ		1,408.00	11.00 Dr
	Discount expense	CRJ		11.00	Nil
B. Bitten					
27/11/17	Sales	SJ	676.50		676.50 Dr
28/11/17	Sales returns	SRJ		220.00	456.50 Dr
30/11/17	Bank	CRJ		451.00	5.50 Dr
	Discount expense	CRJ		5.50	Nil
Better Products					
1/11/17	Balance				3,000.00 Dr
30/11/17	Sales	SJ	2,255.00		5,255.00 Dr
	Sales returns	SRJ		154.00	5,101.00 Dr

Summary of the accounts receivable ledger

Here is a summary of the information about entries in the accounts receivable ledger.

Accounts receivable ledger entries

Amounts recorded in the debit column are added to the balance column.

Amounts recorded in the credit column are subtracted from the balance column.

When entering information from the journal into the subsidiary ledger, enter the total amount. For example, do not separate sales and GST payable. This is because the debtor is required to pay the total amount owing.

Discount expense and its associated GST adjustment are recorded in the credit column, as they effectively reduce the amount owing by the debtor to the business.

Payments made by debtors are recorded in the credit column.

3C

Preparing the debtors schedule

After transactions affecting debtors have been posted to the accounts receivable ledger, it is necessary to check that the total of all the balances matches the balance of the debtors control account that is maintained in the general ledger (reconciliation).

This is done by listing all the balances of each debtor's account. It is common practice to prepare this schedule at the end of the month, but the timing can vary depending on the size of the organisation.

The schedule assists the accounts receivable department to manage debtors by giving a clear indication of the total monies owed to the organisation by debtors. The schedule also helps management determine cashflow and ensure debtors do not exceed their credit limit.

The debtors schedule taken from the account balances in the last example, showing the account balance of each debtor, could be presented as follows.

Debtors schedule as at 30 November 2017	
Debtor name	\$
Smith & Co.	1,650.00
Better Products	5,101.00
Balance as per debtors control	6,751.00

The debtors control account balance in the general ledger should also be \$6,751.00. If the two balances do not agree, then accounts must be investigated and errors fixed.

Practice task 9

From the journals shown below for the business of S. Stanley, post the information to the accounts receivable ledger and prepare a debtors schedule.

S. Stanley Sales journal						
Date	Debtor	Folio	Tax inv. no.	Sales (\$)	GST payable (\$)	Total (\$)
7/12/17	W. Harris		R505	1,800.00	180.00	1,980.00
10/12/17	T. Hopwood		R506	1,900.00	190.00	2,090.00
15/12/17	D. Jarvis		R507	2,100.00	210.00	2,310.00
22/12/17	W. Harris		R508	1,400.00	140.00	1,540.00
Totals				7,200.00	720.00	7,920.00

continued ...

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S. Stanley						
Sales returns and allowances journal						
Date	Debtor	Folio	Adj. note no.	Sales returns (\$)	GST payable (\$)	Total (\$)
8/12/17	W. Harris		DR612	300.00	30.00	330.00
15/12/17	T. Hopwood		DR613	200.00	20.00	220.00
Totals				500.00	50.00	550.00

S. Stanley									
Cash receipts journal									
Date	Particulars	Rec. no.	Discount expensed			Reason for receipt			Bank (\$)
			GST adj. (\$)	Disc. exp. (\$)	Debtors (\$)	Debtors (\$)	Cash sales (\$)	Sundries (\$)	
5/12/17	T. Hopwood	001	10.00	100.00	110.00	3,390.00			3,390.00
6/12/17	W. Harris	002	6.00	60.00	66.00	1,934.00			1,934.00
29/12/17	L. Chile	003				500.00			500.00
Totals			16.00	160.00	176.00	5,824.00			5,824.00

continued ...

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S. Stanley Accounts receivable ledger					
Date	Particulars	Jnl ref	Debit (\$)	Credit (\$)	Balance (\$)
L. Chile					
1/12/17	Balance				1,000.00 Dr
W. Harris					
1/12/17	Balance				2,000.00 Dr
T. Hopwood					
1/12/17	Balance				3,500.00 Dr
D. Jarvis					
1/12/17	Balance				1,800.00 Dr
S. Stanley Debtors schedule as at 31 December 2017					
Debtor					\$
Balance as per debtors control					

3D

The accounts payable ledger

An organisation that purchases goods on credit from suppliers may consider it necessary to maintain an accounts payable ledger (creditors ledger), in which an account for each creditor is maintained.

Keeping an accounts payable ledger enables the organisation to ensure that amounts owing to suppliers are paid on time, thereby ensuring a good credit relationship. It also allows payments to be managed to ensure that pressure is not placed on the organisation's cash position.

Double-entry rules: creditors

Creditors are classified as a liability. As a result, the following double-entry accounting rules must be applied when posting transactions to the creditors' accounts in the accounts payable ledger.

Double-entry rules for liability accounts

- To increase a liability account, record an amount in the credit column.
- To decrease a liability account, record an amount in the debit column.

Example: creditor entry

If your organisation purchases \$825.00 worth of goods, GST inclusive, from Ezy Suppliers on 1 February 2017, you would record this transaction as follows in the creditor's account.

Ezy Suppliers					
Date	Particulars	Jnl ref	Debit (\$)	Credit (\$)	Balance (\$)
1/02/17	Purchases	PJ		825.00	825.00 Cr

If Ezy Suppliers is paid \$825.00 on 15 February 2016, you would debit the ledger, because when you pay a creditor you must reduce the credit balance. This would be posted to the creditor's account as follows.

Ezy Suppliers					
Date	Particulars	Jnl ref	Debit (\$)	Credit (\$)	Balance (\$)
1/02/17	Purchases	PJ		825.00	825.00 Cr
15/02/17	Bank	CPJ	825.00		Nil

This account now shows that your organisation owes nothing to Ezy Suppliers.

Prepare the accounts payable ledger

The accounts payable ledger contains a separate account for each creditor. The information used to update each creditor's account is taken from the:

- purchases journal (which shows the amounts owing from purchasing goods)
- purchase returns and allowances journal (which shows the value of goods returned)
- cash payments journal (which shows payments made to creditors and the discount received).



Example: entry in the purchases journal

The purchases journal records amounts owing to creditors as a result of purchasing stock on credit. The following purchases journal for Bolton Company shows the amounts owing to creditors for purchases made during November.

Bolton Company Purchases journal						
Date	Creditor	Folio	Tax inv. no.	Purchases (\$)	Input tax credit (\$)	Total (\$)
1/11/17	Better Imports		B1249	1,200.00	120.00	1,320.00
13/11/17	Excel Ltd		5901	2,500.00	250.00	2,750.00
15/11/17	B. Tomms		105	950.00	95.00	1,045.00
20/11/17	Bigger Products Ltd		A1959	1,050.00	105.00	1,155.00
29/11/17	Excel Ltd		5995	1,500.00	150.00	1,650.00
Totals				7,200.00	720.00	7,920.00

Each invoice in this journal would be posted to the appropriate creditor's account in the accounts payable ledger as follows.

Note: Creditor B. Tomms has an opening account balance of \$2,000.00 for an unpaid invoice from the previous month.

continued ...

... continued

Accounts payable ledger					
Date	Particulars	Jnl ref	Debit \$	Credit \$	Balance \$
Better Imports					
1/11/17	Purchases	PJ		1,320.00	1,320.00 Cr
Excel Ltd					
13/11/17	Purchases	PJ		2,750.00	2,750.00 Cr
29/11/17	Purchases	PJ		1,650.00	4,400.00 Cr
B. Tomms					
1/11/17	Balance				2,000.00 Cr
15/11/17	Purchases	PJ		1,045.00	3,045.00 Cr
Bigger Products Ltd					
20/11/17	Purchases	PJ		1,155.00	1,155.00 Cr

Example: entry in the purchases returns journal

The purchases returns and allowances journal records amounts that creditors have accepted as returned goods or have granted as an allowance.

The following purchases journal shows the returns made by Bolton Company in November.

Purchases returns and allowances journal						
Date	Creditor	Folio	Adj. note no.	Purchases returns (\$)	ITC (\$)	Total (\$)
20/11/17	B. Tomms		2365	110.00	11.00	121.00
24/11/17	Bigger Products Ltd		B208	150.00	15.00	165.00
Totals				260.00	26.00	286.00

continued ...

... continued

The transactions recorded in this journal are posted to each creditor's account to reduce the amount owing, as follows.

Accounts payable ledger					
Date	Particulars	Jnl ref	Debit (\$)	Credit (\$)	Balance (\$)
Better Imports					
1/11/17	Purchases	PJ		1,320.00	1,320.00 Cr
Excel Ltd					
13/11/17	Purchases	PJ		2,750.00	2,750.00 Cr
29/11/17	Purchases	PJ		1,650.00	4,400.00 Cr
B. Tomms					
1/11/17	Balance				2,000.00 Cr
15/11/17	Purchases	PJ		1,045.00	3,045.00 Cr
20/11/17	Purchases returns	PRJ	121.00		2,924.00 Cr
Bigger Products Ltd					
20/11/17	Purchases	PJ		1,155.00	1,155.00 Cr
24/11/17	Purchases returns	PRJ	165.00		990.00 Cr

Example: entry in the cash payments journal

Payments made to creditors are recorded in the cash payments journal. The amounts paid appear in the creditors column of the journal, along with amounts received as a discount.

The following cash payments journal shows the amounts paid by Bolton Company to its creditors and the discount received on each payment.

Cash payments journal										
Date	Particulars	Chq no	Discount received			Reason for payment				Bank (\$)
			ITC adj. (\$)	Disc. rec'd (\$)	Creditors (\$)	Creditors (\$)	Cash purchases (\$)	Sundries (\$)	ITC (\$)	
20/11/17	B. Tomms	514	2.00	20.00	22.00	1,978.00				1,978.00
21/11/17	Better Imports	515	5.00	50.00	55.00	1,265.00				1,265.00
30/11/17	Excel Ltd	516	5.00	50.00	55.00	2,695.00				2,695.00
Totals			12.00	120.00	132.00	5,938.00				5,938.00

continued ...

... continued

These amounts are posted to each creditor's account, as follows.

Accounts payable ledger					
Date	Particulars	Jnl ref	Debit (\$)	Credit (\$)	Balance (\$)
Better Imports					
1/11/17	Purchases	PJ		1,320.00	1,320.00 Cr
21/11/17	Bank	CPJ	1,265.00		55.00 Cr
	Discount received	CPJ	55.00		Nil
Excel Ltd					
13/11/17	Purchases	PJ		2,750.00	2,750.00 Cr
29/11/17	Purchases	PJ		1,650.00	4,400.00 Cr
	Bank	CPJ	2,695.00		1,705.00 Cr
	Discount received	CPJ	55.00		1,650.00 Cr
B. Tomms					
1/11/17	Balance				2,000.00 Cr
15/11/17	Purchases	PJ		1,045.00	3,045.00 Cr
20/11/17	Purchases returns	PRJ	121.00		2,924.00 Cr
	Bank	CPJ	1,978.00		946.00 Cr
	Discount received	CPJ	22.00		924.00 Cr
Bigger Products Ltd					
20/11/17	Purchases	PJ		1,155.00	1,155.00 Cr
24/11/17	Purchases returns	PRJ	165.00		990.00 Cr

Summary of the accounts payable ledger

Here is a summary of the information about entries in the accounts payable ledger.

Accounts payable ledger entries

Amounts recorded in the credit column are added to the balance owed to the creditor.

Amounts recorded in the debit column are deducted from the balance.

Discount revenue and its associated input tax credits adjustment are recorded in the debit column, as they effectively reduce the amount owing to the creditor.

Payments made to creditors are recorded in the debit column.

3E

Preparing the creditors schedule

After transactions affecting creditors have been posted to the accounts payable ledger, the total of all the balances should be checked to see that it matches the balance in the creditors control account maintained in the general ledger.

This is done by listing all the balances of each individual creditor's account. It is common to do this at the end of the month, but times can vary depending on the size of the organisation.

Make sure you are familiar with the procedures followed at your organisation for preparing a creditors schedule.

Creditors schedule as at 30 November 2017	
Creditor name	\$
Excel Ltd	1,650.00
B. Tomms	924.00
Bigger Products Ltd	990.00
Balance as per creditors control account	3,564.00

The creditors control account balance in the general ledger should be \$3,564.00. This matches the total of individual creditors' balances in the accounts payable ledger.

Practice task 10

From the journals of S. Stanley that follow, post the transactions to the accounts payable ledger and prepare a creditors schedule.

S. Stanley Purchases journal						
Date	Creditor	Folio	Tax inv. no.	Purchases (\$)	Input tax credit (\$)	Total (\$)
5/12/17	A. Atkins		A399	1,800.00	180.00	1,980.00
8/12/17	T. Rupert		C83	1,200.00	120.00	1,320.00
21/12/17	E. Wise		Z911	1,350.00	135.00	1,485.00
22/12/17	J. Johnson		R103	900.00	90.00	990.00
Totals				5,250.00	525.00	5,775.00

S. Stanley Purchases returns and allowances journal						
Date	Creditor	Folio	Adj. note	Purchases returns (\$)	Input tax credit (\$)	Total (\$)
10/12/17	T. Rupert		CN441	250.00	25.00	275.00
23/12/17	E. Wise		RC84	350.00	35.00	385.00
Totals				600.00	60.00	660.00

S. Stanley Cash payments journal									
Date	Particulars	Chq no	Discount received			Reason for payment			Bank (\$)
			ITC adj. (\$)	Disc. rec'd (\$)	Creditors (\$)	Creditors (\$)	Cash purchases (\$)	Sundries (\$)	
12/12/17	A. Atkins	1231	2.00	20.00	22.00	778.00			778.00
28/12/17	J. Johnson	1232	4.00	40.00	44.00	1,156.00			1,156.00
Totals			6.00	60.00	66.00	1,934.00			1,934.00

continued ...

... continued

S. Stanley Accounts payable ledger					
Date	Particulars	Jnl ref	Debit (\$)	Credit (\$)	Balance (\$)
A. Atkins					
1/12/17	Balance				800.00 Cr
J. Johnson					
1/12/17	Balance				1,200.00 Cr
T. Rupert					
1/12/17	Balance				2,000.00 Cr
E. Wise					
1/12/17	Balance				1,000.00 Cr

Creditors schedule as at 31 December 2016	
Creditor	\$
Balance as per creditors control	

Summary

1. Organisations should maintain accurate, up-to-date accounts on each customer to ensure that credit terms are not being breached.
2. A number of records are maintained to record business with customers. These include:
 - the general ledger
 - the accounts receivable ledger (debtors ledger)
 - the accounts payable ledger (creditors ledger)
 - a debtors schedule
 - a creditors schedule.
3. Debtors' payments should be managed appropriately and promptly, using methods endorsed by the organisation.
4. Accuracy is essential when recording entries in all financial records. All records must be checked and rechecked to ensure all details are correct and current.

Learning checkpoint 3

Maintain accounts payable and receivable

This learning checkpoint allows you to review your skills and knowledge in maintaining accounts payable and receivable.

Part A

Record the information from the sales journal, the sales returns and allowances journal and the cash receipts journal into the accounts receivable ledger for XYZ Ltd. Then complete the debtors schedule.

XYZ Ltd						
Sales journal						
Date	Debtor	Folio	Tax Inv. no.	Sales (\$)	GST payable (\$)	Total (\$)
9/08/17	L. Cameron		1320	515.00	51.50	566.50
15/08/17	Cootes Stationery		1321	200.00	20.00	220.00
21/08/17	Best Products		1322	350.00	35.00	385.00
29/08/17	Always Good P/L		1323	290.00	29.00	319.00
30/08/17	Cootes Stationery		1324	50.00	5.00	55.00

XYZ Ltd						
Sales returns and allowances journal						
Date	Debtor	Folio	Adj. note no.	Sales (\$)	GST payable (\$)	Total (\$)
10/08/17	L. Cameron		CN 101	15.00	1.50	16.50
22/08/17	Best Products		CN 102	50.00	5.00	55.00

XYZ Ltd										
Cash receipts journal										
Date	Particulars	Rec no	Discount expensed			Reason for receipt				Bank (\$)
			GST adj. (\$)	Disc. exp. (\$)	Debtors (\$)	Debtors (\$)	Cash sales (\$)	GST payable (\$)	Sundries (\$)	
23/08/17	Cootes Stationery	1025	2.00	20.00	22.00	198.00				198.00
25/08/17	L. Cameron	1026	1.00	10.00	11.00	501.50				501.50

XYZ Ltd	
Debtors schedule as at 31 August 2017	
Debtor	\$

Part B

Record the information from the purchases, purchases returns and allowances and cash payments journals into the accounts payable ledger for XYZ Ltd. Then complete the creditors schedule.

XYZ Ltd						
Purchases journal						
Date	Creditor	Folio	Tax inv. no.	Purchases (\$)	Input tax credits (\$)	Total (\$)
1/08/17	P. Jack		A51	550.00	55.00	605.00
9/08/17	A. Crowe		32691	890.00	89.00	979.00
15/08/17	T. Long		135826	900.00	90.00	990.00
23/08/17	ABC Textiles		6193	1,200.00	120.00	1,320.00
25/08/17	ABC Suppliers		8521	520.00	52.00	572.00
30/08/17	P. Jack		A62	100.00	10.00	110.00

XYZ Ltd						
Purchases returns and allowances journal						
Date	Creditor	Folio	Adj. note no.	Purchases returns (\$)	Input tax credits (\$)	Total (\$)
18/08/17	T. Long		CN523	250.00	25.00	275.00
24/08/17	ABC Textiles		CN201	25.00	2.50	27.50

XYZ Ltd	
Creditors schedule as at 31 August 2017	
Creditor	\$

Part C

Explain how you would reconcile the debtors schedule with the general ledger.

Topic 4

Process payments for accounts payable

Suppliers and contractors will not want to do business with an organisation that is slow in paying or is continually making mistakes with its payment procedures. You may have a large or minimal role in these procedures.

In this topic you will learn about:

- 4A Reconciling accounts payable statements
- 4B Processing payments
- 4C Correcting errors

4A

Reconciling accounts payable statements

Accounts payable statements are summaries of invoices and bills. An organisation will usually have ongoing accounts with suppliers and contractors. These creditors send statements to customers regularly for reconciliation purposes. A statement should list all the invoices an organisation has been sent and whether the invoices have been paid.

The terms of an ongoing account will state the creditor's payment expectations, such as payable within 14 days or a month of receiving an invoice. Usually statements arrive correspondingly, every fortnight or at the end of every month.

These statements must be checked against your organisation's accounting records and processed according to its policies and procedures. Payment documentation must be checked for accuracy and errors must be corrected. This ensures the organisation is paying only what it should, and that creditors are receiving the money they have earned.

Accounts payable statements may be received for goods and services, including:

- stationery
- printing
- raw materials
- cleaning
- employee training or professional development
- equipment maintenance
- IT services
- consulting services
- contract services
- equipment such as tools, machinery and computers.

Accounts payable statements

Many small organisations with a small number of invoices do not need statements, but statements are very useful for large organisations that receive a lot of invoices and need to keep careful track of what has and has not been paid.

Statements usually arrive by post, email or fax and should be addressed to the appropriate staff member, such as the accountant or accounts officer. Unlike invoices, there is no requirement to keep them for any period – they are only used for reconciliation purposes.



Reconciliation

Reconciliation of accounts payable statements involves matching the statement received with the organisation's record of payment. For example, a contractor may have supplied three different services and sent through three different invoices. When the organisation receives the contractor's statement, it needs to check the statement against its record of invoices paid. If the statement indicates that some invoices are unpaid, you may need to find out why.

If your organisation purchases products or services regularly, it should keep an ongoing record of the purchases so the statement can be checked against it when it is received. This ongoing record may be a simple table, similar to the following one that tracks an organisation's stationery purchases.

September stationery purchases			
Product	Quantity	When purchased	Staff member
A4 notebook, lined	3	13/09/2017	Raphaella
Pacer pencils	10	13/09/2017	Kianna
Document holder	1	16/09/2017	Connor
Whiteboard markers	15	22/09/2017	Reuben
Bulldog clips, small	100	23/09/2017	Molly

Reconciling methods

When a supplier sends their invoice at the end of the month, it should list all the items ordered and how much they cost. The accounts officer can then reconcile the invoice against the organisation's record and follow up any discrepancies such as wrong orders or prices on goods. Records of goods that are ordered are also useful for checking that the organisation has received everything it has ordered and is not getting billed for products or services it did not get.

An organisation may keep records of purchases in the form of correspondence with suppliers, such as emails, letters and notes. These can also be checked against accounts payable statements received. Keeping records of the agreements made between an organisation and its contractors and suppliers is vital for tracking accounts, especially if original terms are changed or discounts and adjustments are made.

When an accounts officer receives a statement, they reconcile it by:

- checking that all invoices listed were received by the organisation
- checking that all payments sent to the creditor were received.

Discrepancies in statements

You need to have records of all invoices received and paid in order to reconcile statements. Your organisation should have a policy of forwarding invoices to each staff member who does this. It is useful to keep files for each contractor that contain invoices, approvals of invoice payments from the relevant people, records of invoice payment and any other details of financial transactions between the organisation and the creditor. When the statement arrives, it should be simple to check all listings against the records you have.

Your organisation should have procedures for following up discrepancies in statements. For example, you might find that a creditor has listed an invoice as unpaid when you have a record of a cheque sent to them several weeks ago. You would need to:

- check again that the cheque had been sent
- contact the creditor and ask them to recheck their records
- contact the bank to find out whether the cheque has been presented.

If some invoices have been overlooked, you may need to process payments for them.

Example: statement from creditor

Here is an example of a statement sent from the creditor FR Tables to the organisation Logotech.

STATEMENT OF ACCOUNT		FR Tables		
Attention: Accounts Officer Logotech 563 Fern Avenue Mudrain 1605		2/14 Abbot Street Monksville 1606 Phone: 9550 1234		
		Date: 15/09/2017		
		Page: 1		
Activity from: 1.08.2017	To: 31.8.2017	Balance forward: Nil		
Date	Invoice no.	Charge (\$)	Payment (\$)	Balance (\$)
3/08/2017	00093215	151.80		151.80
24/08/2017	00093216	328.90	328.90	151.80
30/08/2017	00093245	1,012.00	1,012.00	151.80
31/08/2017	00093246	352.00		503.80
31/08/2017	00093249	11,839.00		12,342.80
Amount paid: \$1,340.90				
Total due: \$12,342.80				

Notice that the statement shows how much Logotech has paid and how much it still owes. FR Tables has also shown that Logotech has neglected to pay an invoice from the start of the month. Logotech's accounts officer can use this statement to follow up on the unpaid invoice and find out why the creditor was not paid.

Practice task 11

How would you reconcile a discrepancy that appeared in an accounts payable statement?

4B

Processing payments

When preparing payments to creditors, you should carefully check that you have received everything you are paying for.

Checks for preparing payments to creditors:

- You have the purchase order to match against the delivery docket, invoice and adjustment note, if applicable.
- The goods have actually arrived at your organisation in good order and condition and in the correct quantity.
- All calculations and extensions on the invoices are correct.

Checking delivered goods and services

You should be familiar with the specific procedures followed in your workplace for checking delivered goods and services. If you find any discrepancies between the source documents, consult the appropriate people in your organisation or department. If it appears to be an external error, follow your organisation's procedures for notifying the supplier. If you are unsure, check with your supervisor.

If there are no problems with the source documents, you can process the invoices for payment.

You can pay creditors by:

- credit card
- cash (though this is uncommon)
- telephone banking
- electronic banking (EFT)
- cheque.

Paying bills by cash is not considered good business practice because it can be difficult to keep track of payments and important information such as GST may not be recorded. You should only make cash payments if you have written instructions from your supervisor.

Payment by cheque

Cheques are no longer the most common form of payment, but some people may still use them. Make sure you understand and follow the correct procedures at your organisation for drawing cheques and having them signed. For example, often only certain people within an organisation are authorised to sign cheques. These people, such as managers and accountants, check that the payment has been approved. Sometimes there are limits on how much a cheque can be made out for. Very large cheques may need to be approved by chief executive officers or board members.

When sending out your payment, you must send a remittance advice with the cheque so that the creditor knows exactly which invoices are being paid and who is paying them. It is unlikely that your organisation will not have enough funds in the bank to cover a cheque, but in small organisations you may need to make sure that it does.

Example: payment by cheque

A cheque to Tim's Office Supplies for \$132.00 is prepared after checking that:

- the purchase order has been properly authorised
- the goods have been received
- the invoice details are all correct
- the balance in the organisation's cheque account is at least \$132.00.

Payment by credit card

Your organisation may have a number of credit cards that are used to pay for different items due to the cards' credit limits and other features. In addition, different people within an organisation may be responsible for different payments or customers. Your organisation should have procedures for which card is to be used under which circumstances. It may also keep a record of the cards, such as the one below.

Agency	Name on card	Membership no	Expiry date
MasterCard	Ronald Jolley	444 556 721	07/20
American Express	Harani Rada	887 657 990	06/18
Diners Club	Harani Rada	776 223 314	01/20
Visa	Casper Ravila	654 099 781	10/19

A table such as this is very useful if you have to make a lot of credit card payments. You also need to know which credit card to use for which particular payment; for example, does the payment come under the organisation's expenses or a department's or individual's expenses? Information kept about credit cards is highly confidential.

You must always follow your organisation's procedures when making credit card payments. It is vital that all the checking procedures are followed precisely. The main difference between cheque and credit card payments is the source documentation; that is, the records that correspond to each payment. All details of the payment need to be accurately documented for reconciliation purposes when the credit card statement arrives.

Credit cards are essential when making payments over the telephone or online.

Payment by telephone banking

Telephone banking involves payment from either a credit card account or a bank account. It is the process of transferring funds from an account to the creditor via the telephone. Telephone payments can be made directly to the creditor or can be done via BPAY, a centralised electronic bill payment service offered by most financial institutions.



As there is no source documentation for these payments, such as a cheque butt, it is vital that the organisation keeps its own records of them. An example of appropriate documentation would be to record the transaction or receipt number with the time and date of payment, and attach it to the invoice received from the creditor.

This type of payment should only be made by an approved officer and must be clearly documented for reconciliation when the credit card or bank statement arrives. Appropriate forms and procedures are essential and should be developed by the organisation for such payments. Check with your organisation as to the procedures and documentation used if payments are made in this way.

Payment by electronic banking

An electronic funds transfer (EFT) transaction is the process of directly withdrawing funds from your organisation's bank account and depositing them into the creditor's bank account, via electronic deposit computerised transfers. Normally this is done by direct computer communication with the bank. Rather than writing out a cheque physically, the same transaction is completed electronically. You need to know the account from which you are taking money and the details of the account you are depositing it into.

Different banks have different procedures, but the essential EFT method is the same. Most accounting software packages also incorporate EFT processes.

You should follow your organisation's policy on this type of payment. It is good practice to print a copy of the transaction receipt as proof of payment. These types of payments should be checked against the bank statement when reconciling, so keeping records is essential.

Example: use a credit card to make a payment

Pablo often organises professional development for the staff at his work. Sometimes the training centres only accept bookings with payments made by credit card. At other times they send an invoice and the company procedure is to pay these invoices using a credit card.

Pablo is given details of employees' professional development from the employees' managers, so he knows the training has been authorised. He just has to make the booking and pay. Pablo contacts the training organisation to find out how it accepts payment: on invoice, by telephone or online. Pablo has learned that it is much easier for him to process the payment online, because he can do it in his own time and can simply print off the screen as a record of payment.

He needs to know which credit card is most appropriate to use. When paying online, he can simply access the relevant website and fill in the details. Pablo checks that the training organisation has appropriate security and confidentiality policies in place and enters the relevant information. After he has printed a record of the transaction, he puts it in a file he keeps on each trainer. When he receives a notice of payment from the trainer, such as a confirmation of booking, he knows that the payment has gone through.



Practice task 12

Describe how you can be sure that payments made over the telephone or internet have been received by the right creditor.

4C Correcting errors

If you find an error in a creditor's invoice, it is vital that you notify the creditor immediately. This is usually done in writing or via email. You can request an amended invoice from the supplier/creditor or a full credit of the invoice, where the creditor issues a new invoice.

All adjustments should be made before you pay the invoice. Always notify the appropriate person of any errors you find. If you detect an error as a result of an incorrect statement or incorrect payment details, you must ensure that all relevant accounting documents are corrected; for example, the creditor's account may need to be adjusted.

Some discrepancies may be due to repayments, adjustments or omitting discount terms. They can also be due to renegotiation between the organisation and its customers. Staff members should keep records of all these types of adjustments so that the accounts officer can follow them up. If you don't have the necessary records, find the staff member responsible and consult with them.

Errors in an invoice may include:

- wrong product or service listed
- wrong quantity of a product or service listed
- wrong price of a product or service listed
- wrong date of a product or service delivery.

Summary

1. Accounts payable must be reconciled with the organisation's purchasing records before payment.
2. Goods and services should be checked before payment is made.
3. Payment must be authorised by the responsible staff member.
4. Payment methods should follow the preferences of the creditor wherever possible.
5. Records of purchases and payments should be checked for errors, and followed up where necessary.
6. Accuracy is essential to make sure transactions are checked and errors corrected quickly.
7. Before processing invoices and making payments, check that all source documentation is correct, the goods have been received and all calculations on invoices are correct.
8. Payment can be made to creditors by cheque, credit card, electronic banking or telephone banking.
9. Notify creditors immediately if an error is found in an invoice, and adjust all documentation appropriately.

Learning checkpoint 4

Process payments for accounts payable

This learning checkpoint allows you to review your skills and knowledge in processing payments for accounts payable.

Part A

1. Explain the importance of keeping payments to creditors up to date.

2. List the controls you would use to check payments to creditors.

3. Describe what you would do if you found an error in a creditor's invoice.

Part B

Outline the policy your organisation (or an organisation you have researched) has for preparing payments to creditors.

Part C

Barry Planter has received a statement of account from his supplier, Northern Traders, and has asked you to validate the entries in the statement and check the statement for accuracy. He has provided you with the following information and has requested a written report.

Statement of account					
Barry Planter ABN 23 659 878 452 21A Hall Road Mandarray 5489			Northern Traders ABN 54 265 189 797 85 Grange Road Chesterville 4587 Phone: 07 9874 2336 Date: 30 June 2017		
Date	Particulars	Reference	Debit (\$)	Credit (\$)	Balance (\$)
1 June	Balance				1,000.00
10 June	Sales	Invoice 45	3,600.00		5,600.00
18 June	Sales return	Adjustment note 654		330.00	5,270.00
20 June	Payment received	Receipt 457		980.00	4,290.00
Ageing:		0–30 days \$4,790.00	30–60 days	60–90 days	90+ days

Tax invoice		Northern Traders	
Invoice no: 54		ABN 54 265 189 797	
Sold to: Barry Planter		85 Grange Road	
ABN 23 659 878 452		Chesterville 4587	
21A Hall Road		Phone: 07 9874 2336	
Mandarry 5489		Date: 12 June 2017	
Particulars	Quantity	Unit price (\$)	Total price (\$)
Sundry items	55	60.00	3,300.00
GST			330.00
Total amount (including GST)			3,630.00
Terms 5/10, net 30			

Adjustment note		Northern Traders	
Adjustment note: 654		ABN 54 265 189 797	
Sold to: Barry Planter		85 Grange Road	
ABN 23 659 878 452		Chesterville 4587	
21A Hall Road		Phone: 07 9874 2336	
Mandarry 5489		Date: 18 June 2017	
Particulars	Quantity	Unit price (\$)	Total price (\$)
Sundry items	5	60.00	300.00
GST			30.00
Total amount (including GST)			330.00

<p>Northern Traders ABN 54 265 189 797 85 Grange Road Chesterville 4587 Phone: 07 9874 2336</p>	
RECEIPT	No. 457
Date:	20 June 2017
Received from:	Barry Planter
For:	Payment of account
Amount:	\$980.00 Cash/Cheque
Discount:	\$20.00 (including GST)
Authorising signature:	<i>T. Harmerson</i>

Topic 5

Prepare statements for accounts receivable

Just as your organisation receives statements of accounts payable from creditors, it provides statements of accounts receivable to its debtors.

In this topic you will learn about:

- 5A Accounts receivable statements
- 5B Remittance advice
- 5C Manual and computerised systems
- 5D Rectifying discrepancies
- 5E Dispatching statements within designated time lines

5A

Accounts receivable statements

The accounts receivable statement should reflect the details in the accounts receivable ledger. The statement must be accurate. Your organisation's debtor will check it against their own records and the records your organisation has sent them.

Each accounts receivable statement summarises the customer's account over the last month.

The statement should include the following information:

- Name and address of the supplier
- Name and address of the client/accounts receivable
- Month to which the statement is applicable
- Opening balance, if applicable
- Sales, sales returns, credit, forward orders and payments
- Final balance (with overdue details if appropriate)
- Payments received on an invoice-by-invoice basis
- Discount policy

5B Remittance advice

When a debtor makes a payment to your business by cash, cheque or EFT, a remittance advice is generally received with the payment. The EFT remittance advice is usually received on the day that the payment goes into the business’s bank account.

Example: remittance advice

A remittance advice shows details of the payment being made, as in the following example.

REMITTANCE ADVICE		Mudrain Waste Disposal			
Southern Hills Council PO Box 1 Mudrain 1605		PO Box 121 Mudrain 1605 Phone: 9555 4438 Fax: 9555 4444			
Date: 18/11/2017	Cheque no: 7451	Account: S.H. Council	Page no: 1 of 1		
Date	Type	Invoice no/details	Amount	Discount	Payment
14/08/17	Invoice	24699	250.00		250.00
18/09/17	Invoice	24753	350.00		350.00
16/10/17	Invoice	24931	250.00		250.00
Total paid					850.00

You can use the remittance advice to check against your organisation’s bank statement and debtors schedule, making sure that all entries are consistent and correct.

5C

Manual and computerised systems

Small organisations often prepare accounts receivable statements one-by-one according to an organisational template, such as this example.

Accounts receivable monthly customer statement					
[Your organisation's name]					
[Your organisation's address]					
[Customer name]					
[Customer address]					
Credit limit:					
Date	Invoice no.	Product or service	Charges	Credits	Account balance
Ending balance					
Balance due					

Larger organisations use accounting software such as MYOB, Quickbooks or Xero. These packages may automatically generate statements for the organisation's customers and can save a lot of time. However, they may require specialised training. You should discuss any training issues you have with your manager or supervisor.

The way your organisation prepares accounts receivable statements depends on its size, its customers and the nature of its business. You must make sure you comply with the system your organisation uses, whether it is manual or computerised.

Practice task 13

Outline the advantages and disadvantages of using accounting software for preparing accounts receivable statements.

5D

Rectifying discrepancies

You can check that your organisation has the correct details in accounts receivable statements by checking the statements against the debtors schedule. Both totals should be the same.

Reasons for discrepancies between accounts receivable statements and the debtors schedules include:

- payments not yet received
- payments received but not recorded
- adjustments to customer invoices that have not been entered in the records.

Resolve discrepancies

Discrepancies need to be resolved to the satisfaction of both the customer and the organisation. Resolving discrepancies is why it is so important to keep records of all financial transactions.

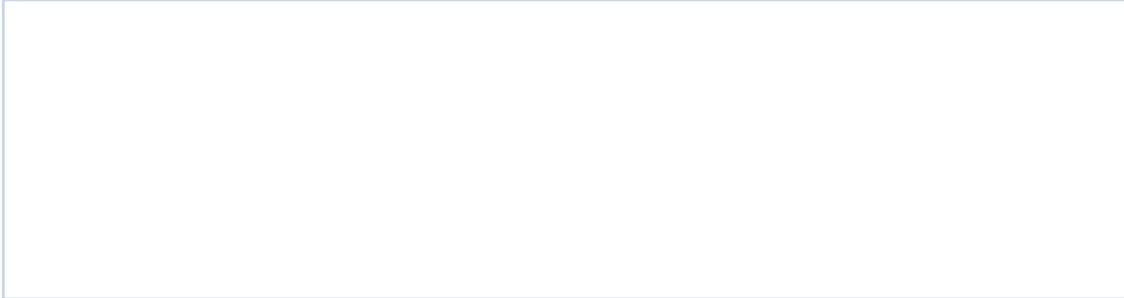
A customer may also inquire about discrepancies they have found in the statement they received.

When dealing with inquiries about discrepancies, you need to:

- clarify what the problem is; for example, is an invoice showing as unpaid when it has been paid, or has the customer paid for goods they have not received?
- follow up the problem by checking accounts and consulting with the staff member who dealt with the customer
- correct the error on the system, if it is an error on your organisation's part
- ask the customer to follow up the problem, if it is an error on their part
- notify the customer of the action taken
- issue the customer with new products, a credit voucher or discount depending on the situation
- make a record of the problem that you can refer to if it occurs again.

Practice task 14

A customer makes an inquiry about an error in a statement they have received. An incorrect amount is being shown for the previous month's payment. What issues does this problem raise and how can it be resolved for the customer?



5E

Dispatching statements within designated time lines

Your organisation should have a policy about when to issue statements so that customers receive them by a certain date. This encourages customers to expect the statements and streamlines your organisation's operations.

Depending on the system used to prepare accounts receivable statements, you need to plan some time to prepare and dispatch them at the end of the month. You need to keep a record of all the customers who are issued with statements and their contact details. You also need to leave time for checking the statements against the debtors schedule and resolving any discrepancies you find.

Ensuring your organisation's statements are dispatched within designated time lines enhances your organisation's professional reputation and makes planning your work easier.



Summary

1. Accounts receivable statements are documents issued to customers detailing their financial transactions with an organisation.
2. Remittance advice is the information about payments that customers usually send with payments or according to their own schedules.
3. Accounts receivable statements and remittance advice should be checked for accuracy and consistency.
4. Discrepancies in accounts receivable statements should be followed up promptly and according to organisational policy.
5. Accounts receivable statements must be dispatched within designated time lines.

Learning checkpoint 5

Prepare statements for accounts receivable

This learning checkpoint allows you to review your skills and knowledge in preparing statements for accounts receivable.

Part A

Complete the statement of account sent to K. Gibbs on 31 July 2017 using the information below.

TAX INVOICE Invoice no: 25 Sold to: K. Gibbs 5 Hammer Street Mudrain 1605	Handyman Hardware Suppliers ABN 51 864 189 797 26 Green Road Hedgethorn 1608 Phone: 9555 0000 Date: 6/07/2017		
Particulars	Quantity	Price per unit (\$)	Total price (\$)
Vinyl floor tiles	30	45.00	1,350.00
Timber shelves	8	25.00	200.00
GST			155.00
Total amount			1,705.00
Terms: 5/10, net 30			

ADJUSTMENT NOTE Adjustment Note: C26 Sold to: K. Gibbs 5 Hammer Street Mudrain 1605	Handyman Hardware Suppliers ABN 51 864 189 797 26 Green Road Hedgethorn 1608 Phone: 9555 0000 Date: 7/07/2017		
Particulars	Quantity	Price per unit (\$)	Total price (\$)
Timber shelves	5	25.00	125.00
GST			12.50
Total amount			137.50

Handyman Hardware Suppliers
 ABN 51 864 189 797
 26 Green Road
 Hedgethorn 1608
 Ph: 9555 0000
 RECEIPT no: 825
 Date: 11/07/2017
 Received from: K. Gibbs
 For: Payment of account – inv. no. 25
 Amount: \$1,489.12 Cash/cheque
 Discount: \$78.38
 Authorising signature: *H. Harrison*

Statement of account					
Sold to:			Handyman Hardware Suppliers ABN 51 864 189 797 26 Green Road Hedgethorn 1608 Ph: 9555 0000 Date:		
Date	Reference	Particulars	Debit (\$)	Credit (\$)	Balance (\$)
Ageing:		0–30 days	30–60 days	60–90 days	90+ days

Part B

A customer has recently received a statement from your organisation. She rings to say that there are a couple of things on it she thinks are wrong. Describe the procedure or steps you would take to resolve the problem.

Part C

1. Explain why you think it is important for banks to issue statements regularly every month.

2. Explain what might happen if you or the account holder received statements months after the transactions had been made.

3. Explain what might happen if the statements were received irregularly, such as one after two weeks, then one after three months, then one after five days.

Topic 6

Follow up outstanding accounts

Organisations of any kind often expect some amount of outstanding accounts. How they deal with them can make the difference between a smooth cashflow and encountering problems.

In this topic you will learn about:

- 6A Maintaining the accounts receivable ledger system
- 6B Conducting an aged analysis
- 6C Reviewing credit terms
- 6D Corrective action

6A Maintaining the accounts receivable ledger system

In order to manage cashflow successfully, organisations need to make sure they receive the money owing to them within a reasonable amount of time. There are various strategies an organisation can use to make sure its debtors pay their accounts promptly. These may include preventative measures such as:

- clearly communicating terms of trade or terms of credit, including the offering of discounts for prompt payments
- establishing set payment arrangements
- establishing credit limits for all debtors.

Corrective action may need to be taken against slow or non-paying debtors.

Payments by debtors

An organisation may manage debtor payments in various ways.

Managing debtor payments may include:

- completing a credit check on prospective debtors by using a credit agency and/or by obtaining trade references from three of their current suppliers
- setting and enforcing a credit limit for each debtor (and making sure it is understood)
- communicating the terms of sale and payment arrangements to all debtors
- offering incentives for prompt settlement of accounts; for example, a discount if paid within seven days
- ensuring that statements are accurate and sent out promptly
- reviewing debtors on a weekly basis to highlight slow and non-payers so that corrective action may be taken.

Debtor control

To ensure control over debtors, it is essential that an organisation maintains a detailed record of each debtor, including their ABN, addresses (shipping and billing), contact numbers, contact person's name, credit terms and credit limit. At least once a month, ensure that the debtors' accounts are balanced and reconciled.

Once all the transactions for the current month are entered into the sales, sales returns and cash receipts journals, the accountant will check the following information.

Totals posted

Ensure that the totals of all invoices, adjustment notes and receipts for the month have been posted to the debtors control account in the general ledger.

Balances agree

Ensure that a list of the final balances in the debtors ledger agrees in total with the balance of the debtors control account in the general ledger.

Slow-paying debtors

Most organisations have some debtors that do not pay or are slow to pay their accounts. To minimise the number of slow-paying debtors, organisations may have procedures to ensure that debtors are kept under control. These include:

- conducting an aged analysis
- reviewing credit terms
- taking corrective action.

6B

Conducting an aged analysis

The purpose of ageing debtors, that is, identifying how long an account has been outstanding, is so that the accounts receivable manager (credit manager) can find out whether any debtors are not adhering to the agreed terms of credit. By detecting slow payers early, an organisation can take timely corrective action to remedy the problem.

Ageing a debtor's statement separates the total amount owing into the length of time invoices have been outstanding.

Common categories in ageing analysis include:

- current
- 30 days
- 60 days
- 90 days and over.

Example: ageing analysis

The ageing of the debtor's statement enables the customer to see whether their account is within trading terms. The customer may query outstanding balances if they feel that there has been an error. For example, a cheque remitted by the debtor in the previous month may have gone missing in the mail.

Assume debtor B. Wright has a credit limit of \$5,000 and is required to pay within 30 days. He has been sold the following amounts in the last five months.

March	\$250.00	Invoice no. 2209
April	\$1,250.00	Invoice no. 2300
May	\$2,000.00	Invoice no. 2451
June	\$2,000.00	Invoice no. 2598
July	\$1,000.00	Invoice no. 2703

The outstanding section of the statement would be:

B. Wright outstanding balance				
90 days and over	60 days	30 days	Current	Balance
\$1,500.00	\$2,000.00	\$2,000.00	\$1,000.00	\$6,500.00

The ageing of B. Wright's account shows that he has been allowed to exceed his \$5,000 credit limit and that he has not been paying his account within the terms of credit, with balances outstanding for 60 days (\$2,000) and 90 days and over (\$1,500). This debtor would need to be considered for corrective action.

6C Reviewing credit terms

Credit terms (terms of credit) are the payment conditions an organisation arranges with its customers. This may involve a discount for paying within a certain time.

Credit terms specify the amount of credit a customer can access. Once the customer has reached their credit limit, they will not be able to purchase more goods or services from the organisation until they have paid some or all of their account. Alternatively, the organisation can review the customer's credit terms.

An organisation should review the credit terms for each debtor at least once a year. If, on review, a debtor is found to be a slow payer, the organisation may decide to reduce the amount of credit available to the debtor. Alternatively, the organisation may decide to encourage prompt payments by charging interest on outstanding accounts.

Communication with debtors is an essential element of debtor control. Reviewing debtors' credit terms provides the organisation with an opportunity to talk to its debtors to determine whether or not they are happy with the services provided. For example, you may discover that they are paying late because they are dissatisfied with the service they are receiving.



6D

Corrective action

If a debtor is found to be delinquent (non-paying), strict follow-up procedures should be adhered to in accordance with the organisation's policy. A corrective action procedure could include the following items.

Steps in a corrective action procedure

- Contacting the debtor requesting payment via follow-up letters, telephone calls, emails and personal visits
- Suspension/cancellation of credit terms
- Explaining to the debtor that they are in breach of the credit agreement
- Making arrangements to help the debtor settle the account
- Stopping further credit until all overdue amounts are paid
- Placing the customer on cash-sales terms only
- Charging late fees on all overdue amounts outstanding
- Referring the debtor to a debt collection agency

Cash on delivery

A customer may be asked to pay for goods or services as they are delivered. If they do not pay, they will not receive the goods or services, or will not receive more goods or services until the first payment is received.

Cancellation of agreed credit arrangements

The organisation may choose to cancel all credit arrangements with the customer. A new agreement might be arranged, or the relationship terminated.

Arrangements for settlement

Your organisation may have different credit policies for different customers, or the same credit policy for all customers. Whenever you are dealing with individual credit terms you should make sure you access the correct records and follow your organisation's procedures.

Your organisation should also have policies and procedures regarding reviewing credit terms and following up outstanding accounts.

Some of this work may need to be done on a daily basis. It is important that swift action is taken when there is an indication that a debtor is likely to become delinquent. Failure to act quickly may result in money owing having to be written off as a bad debt.

If a customer is in danger of losing their account with your organisation, there may be a case for making arrangements to settle the problem in some other way.

Arrangements for settlement may include:

- having the customer pay off the debt in small, regular payments
- referring the matter to a collection agency
- returning goods delivered
- arranging for the organisation to receive appropriate services or goods from the customer as payment.

Practice task 15

Outline a procedure for managing accounts receivable and for dealing with debtors who are slow in paying or are at risk of becoming delinquent.

Summary

1. Customer credit accounts should be reflected in the accounts receivable ledger system.
2. Aged analysis of accounts receivable is used to identify outstanding accounts.
3. Organisational collection procedures should be followed at all times.
4. Outstanding accounts must be reported and followed up within organisational policies and procedures.
5. Credit terms must be monitored and reviewed according to organisational policies and procedures.

Learning checkpoint 6 Follow up outstanding accounts

This learning checkpoint allows you to review your skills and knowledge in following up outstanding accounts.

Part A

Discuss the importance of always knowing who owes your organisation money.

Part B

This is a history of transactions with a debtor, R. Higginbotham. Age the following transactions onto the outstanding balance sheet below.

11/07/17	Tax invoice no. 1806	\$92.00
15/07/17	Adjustment note no. 053	\$22.00
26/07/17	Tax invoice no. 1899	\$200.00
30/07/17	Receipt no. 591	\$70.00
28/08/17	Tax invoice no. 1988	\$200.00
14/09/17	Tax invoice no. 2056	\$105.00
1/10/17	Tax invoice no. 2110	\$150.00
15/11/17	Tax invoice no. 2660	\$100.00

R. Higginbotham outstanding balance at 30/11/17				
90 days and over	60 days and over	30 days	Current	Balance

Part C

Read the scenario, then answer the question that follows.

Scenario

J. Simpson owes the Far Moon Clothing Company \$15,000.00 for goods purchased over a three-month period. As the bookkeeper, you have telephoned and written to Mr Simpson, who keeps promising to pay.

What steps would you take next?