

# Advanced Financial Accounting

## [AA21]

Supplementary for Chapter 01

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# Performing of Financial Accounting Controls

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The syllabus content from 1.6 to chapter 01 is changed and included in this supplementary. The syllabus content from 1.1 to 1.5 of the chapter remain unchanged and will be tested from January 2019 Examination



# Performing of Financial Accounting Controls

## Chapter Introduction

In the previous stage you have already learnt the basics aspects of accounting process including accounting concepts, prime entry books, double entry system and etc. In this stage we will further discuss some practical aspects of accounting; accounting controls, accounting for different types of legal entities such as partnerships, companies and etc.

This chapter is mainly dedicated to discuss how to use accounting as a method of controlling. The chapter bears 10% of the total syllabus weightings.

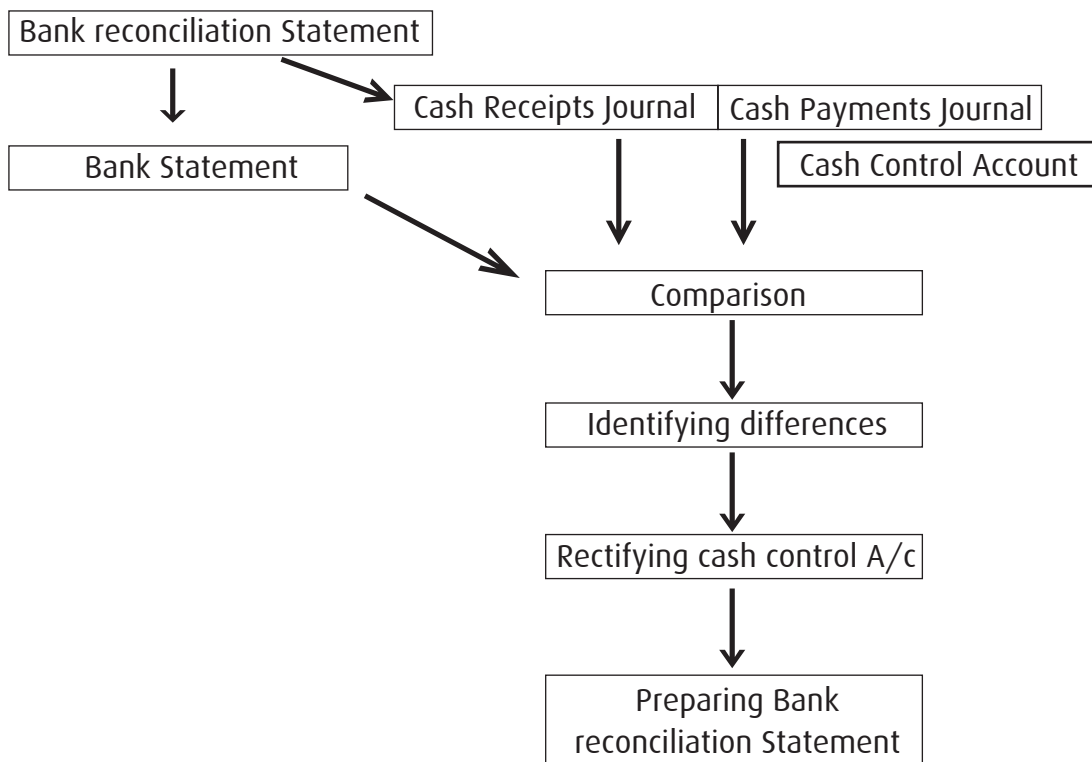
Accounting controls are necessary to ensure the accuracy and reliability of information. Further they help in minimizing frauds. For example duties of accounting personnel can be segregated so that person who invoicing will be different from the person who does the cash collection.

There can be physical controls, controls placed in information systems and etc in an organisation. There are also certain controls which are directly placed on the financial data. In this chapter we will discuss two of such controls; control accounts and bank reconciliation statements.



## 1.6 Purpose and need for preparation of bank reconciliation statement

When preparing the bank reconciliation the following steps can be followed



In correcting the cash control A/c balance, only the following reasons are relevant.

| Items debited to the cash control A/c   | Items credited to the cash control A/c  |
|---|---|
| <ul style="list-style-type: none"> <li>• Direct transfers made to the bank</li> <li>• Errors &amp; Omissions made by the business when recording transactions.</li> </ul> | <ul style="list-style-type: none"> <li>• Payments deducted by the bank in respect of Standing Orders</li> <li>• Bank and cheque book charges</li> <li>• Mistakes made by the business when recording transactions.</li> </ul> |

The Bank Reconciliation Statement will be prepared after the cash control A/c balance is corrected. The following adjustments will be made to the Revised Cash

Control A/c balance:

- The cheques issued by the business during the period but not presented to the bank for payment must be added.
- The value of any cheques deposited business current account but were returned unpaid must be deducted.
- Any errors or omissions of the bank must e added or deducted as appropriate.

When the adjustments have been completed, the balance should tally with the bank Statement balance.

The formats for the correction of the cash control A/c and the bank reconciliation statement are given below:

#### Cash Account / Cash Control Account (Adjusted)

|   | Rs. |                                 | Rs. |
|---|-----|---------------------------------|-----|
| Balance B/f                             | xxx | Unrecorded Standing Orders      | xxx |
| Unrecorded direct transfers             | xxx | Bank charges                    | xx  |
| Issued cheques returned                 | xx  | Cheque book charges             | x   |
| Reduction in value of cheques deposited | x   | Cheque deposits dishonored      | x   |
|   |     | Cheques issued but not recorded | x   |
|   |     | Balance C/f                     | xx  |
|   | xxx |                                 | xxx |
| Balance B/f                             | xx  |                                 |     |

#### Bank Reconciliation Statement

|                                   | Rs. | Rs.  |
|-----------------------------------|-----|------|
| Adjusted Cash Control A/c balance |     | xxx  |
| <b>Add :</b>                      |     |      |
| Cheques not presented             | xx  |      |
| Errors made by the bank           | xx  | xx   |
|                                   |     | xxx  |
| <b>Less:</b>                      |     |      |
| Cheques not realised              | xx  |      |
| Errors made by the bank           | xx  | (xx) |
| Balance as per Bank Statement     |     | xxx  |



### Example

The Cash Receipts and Cash Payments Journal of Wimal's business , for the month of April 2018 is given below:

## Cash Receipts Journal

| Date     | Details | Cheque No, | Discount Allowed Rs. | Amount Rs.    | Analysis      |               |
|----------|---------|------------|----------------------|---------------|---------------|---------------|
|          |         |            |                      |               | Debtors       | Sales         |
| 05 April | Sales   | 258696     | -                    | 16,000        | -             | 16,000        |
| 08 April | Kumara  | 329680     | 500                  | 10,000        | 10,000        | -             |
| 10 April | Sales   | -          | -                    | 5,000         | -             | 5,000         |
| 15 April | Medha   | 523981     | 800                  | 12,000        | 12,000        | -             |
| 20 April | Sahan   | 352822     | 300                  | 8,000         | 8,000         | -             |
| 22 April | Randika | 392931     | 700                  | 15,000        | 15,000        | -             |
| 25 April | Salinda | -          | 1,000                | 19,000        | 19,000        | -             |
|          |         |            | <b>3,300</b>         | <b>85,000</b> | <b>64,000</b> | <b>21,000</b> |

## Cash Payments Journal

| Date     | Details     | Cheque No. | Discount Received Rs. | Amount Rs.    | Analysis      |               |               |                |
|----------|-------------|------------|-----------------------|---------------|---------------|---------------|---------------|----------------|
|          |             |            |                       |               | Creditors     | Purchases     | Expenses      | Other expenses |
| 04 April | Purchases   | 322020     | -                     | 6,000         | -             | 6,000         | -             | -              |
| 06 April | Sepala      | 322021     | 500                   | 15,000        | 15,000        | -             | -             | -              |
| 08 April | Electricity | 322022     | -                     | 6,000         | -             | -             | 6,000         | -              |
| 12 April | Kosala      | 322023     | 1,000                 | 18,000        | 18,000        | -             | -             | -              |
| 18 April | Petty Cash  | 322024     | -                     | 2,000         | -             | -             | -             | 2,000          |
| 25 April | Drawings    | 322025     | -                     | 5,000         | -             | -             | -             | 5,000          |
| 28 April | Office rent | 322026     | -                     | 6,000         | -             | -             | 6,000         | -              |
| 29 April | Purchases   | 322027     | -                     | 4,000         | -             | 4,000         | -             | -              |
|          |             |            | <b>1,500</b>          | <b>62,000</b> | <b>33,000</b> | <b>10,000</b> | <b>12,000</b> | <b>7,000</b>   |

## Cash Control A/c

|        |                     | Rs.           | Rs.                   |               |
|--------|---------------------|---------------|-----------------------|---------------|
| 01 Apr | Balance B/f         | 12,000        | Creditors Control A/c | 33,000        |
|        | Sales               | 21,000        | Purchases             | 1,000         |
|        | Debtors Control A/c | 64,000        | Expenses              | 12,000        |
|        |                     |               | Other payments        | 7,000         |
|        |                     |               | 30/Apr Balance C/f    | 44,000        |
|        |                     | <b>97,000</b> |                       | <b>97,000</b> |
| 01 May | Balance B/f         | 44,000        |                       |               |

The Bank Statement received for the month of April 2018 is given below:

**Bank Statement for the month of April 2018**

| Date     | Details             | Debit (Rs.) | Credit (Rs.) | Balance (Rs.) |
|----------|---------------------|-------------|--------------|---------------|
| 01 April | Balance             | -           | 12,000       | 12,000        |
| 08 April | Cheque 258696       | -           | 16,000       | 28,000        |
| 10 April | Cheque 322020       | 6,000       | -            | 22,000        |
| 10 April | Cash                | -           | 5,000        | 27,000        |
| 12 April | Cheque 322021       | 15,000      | -            | 12,000        |
| 15 April | Cheque 523981       | -           | 12,000       | 24,000        |
| 16 April | Cheque 322023       | 18,000      | -            | 6,000         |
| 18 April | Cheque 322024       | 2,000       | -            | 4,000         |
| 20 April | Cheque 218570       | -           | 10,000       | 14,000        |
| 25 April | Cheque 322025       | 5,000       | -            | 9,000         |
| 25 April | Cash                | -           | 19,000       | 28,000        |
| 30 April | Cheque 322026       | 6,000       | -            | 22,000        |
|          | Cheque book charges | 1,000       | -            | 21,000        |
|          | Dividends           | -           | 4,000        | 25,000        |

**Required:**

State the reasons for the differences in the above bank statement and the cash Control A/c and

1. Adjust the balance in the cash control A/c
2. Prepare the bank reconciliation statement

**A**

**Answer**

Reasons for the differences in the bank statement and cash control A/c balances:

1. Cheques deposited but not realised
 

|                  |            |
|------------------|------------|
| Cheque No 241711 | Rs. 8,000  |
| Cheque No 281620 | Rs. 15,000 |
2. Dividends directly credited to the bank Rs. 4,000
3. Cheques issued but not presented for payment
 

|                  |           |
|------------------|-----------|
| Cheque No 211012 | Rs. 6,000 |
| Cheque No 211017 | Rs. 4,000 |
4. Cheque book charges Rs. 1,000
5. The sum "total" of the purchases column in the cash payments Journal of Rs.10,000 recorded as Rs. 1,000 in the cash control A/c

## Adjusting the cash control A/c

| Cash Control A/c |               |                     |               |
|------------------|---------------|---------------------|---------------|
|                  | Rs.           |                     | Rs.           |
| Balance          | 44,000        | Cheque book charges | 1,000         |
| Dividends        | 4,000         | Purchases           | 9,000         |
|                  |               | Balance C/f         | 38,000        |
|                  | <u>48,000</u> |                     | <u>48,000</u> |
| Balance B/f      | 38,000        |                     |               |

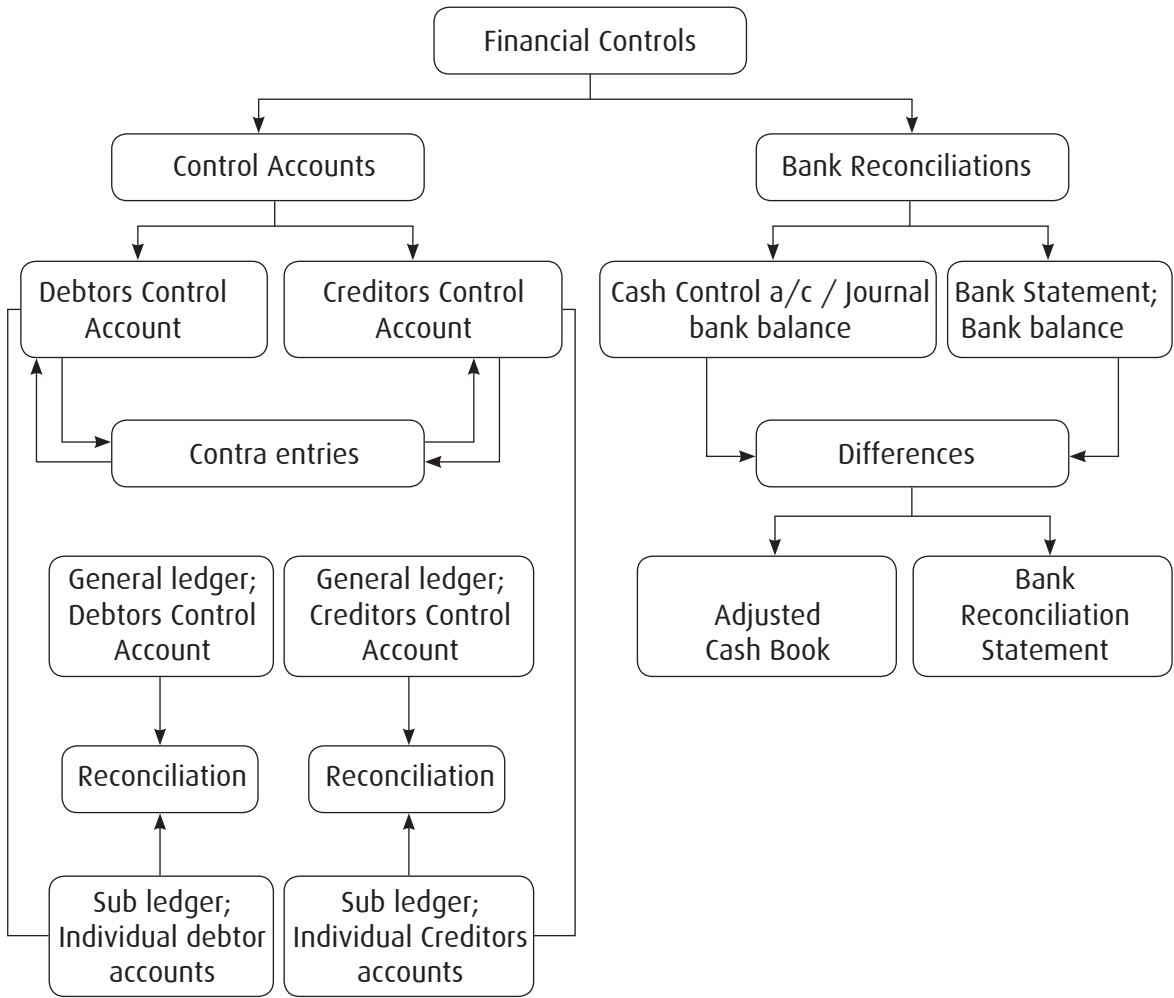
## Preparing the Bank Reconciliation Statement

## Bank reconciliation statement as at 30 April 2018

|  | Rs.    | Rs.      |
|--|--------|----------|
| Adjusted balance as per cash control A/c |        | 38,000   |
| <b>Add :</b>                             |        |          |
| Cheques issued but not presented         |        |          |
| 211012                                   | 6,000  |          |
| 211017                                   | 4,000  | 10,000   |
|  |        | 48,000   |
| <b>Less:</b>                             |        |          |
| Cheques not realised                     |        |          |
| 241711                                   | 8,000  |          |
| 281620                                   | 15,000 | (23,000) |
| Balance as per Bank Statement            |        | 25,000   |



**Summary**





## Exercises

1. FG Company has prepared Bank Reconciliation as at 31 July 2018 and given below.

|  |         | Rs.    |         |
|--|---------|--------|---------|
| Balance as per Adjusted Cash Control Account |         |        | 100,000 |
| <b>Add:</b>                                  |         |        |         |
| Unpresented Cheques                          | -177261 | 8,000  |         |
|  | -177265 | 10,000 | 18,000  |
| <b>Less:</b>                                 |         |        |         |
| Deposited but unrealized cheques             |         |        |         |
|  | -152801 | 12,000 | 12,000  |
| Balance as per Bank Statement                |         |        | 106,000 |

Cash Receipt Journal, Cash Payment Journal and Cash Control A/c prepared for the month ending 31 August 2018 are as follows.

### Cash Receipts Journal / Receipt Journal

| Date   | Details | Cheque No. | Value<br>Rs. | Analysis |            |
|--------|---------|------------|--------------|----------|------------|
|        |         |            |              | Debtors  | Cash Sales |
| 05 Aug | Sales   | 400105     | 15,000       |          | 15,000     |
| 11 Aug | Naleen  | 210115     | 7,500        | 7,500    |            |
| 30 Aug | Sales   | 256975     | 7,000        |          | 7,000      |
|        |         |            | 29,500       | 7,500    | 22,000     |

### Cash Payments Journal / Payment Journal

| Date   | Details          | Cheque<br>No. | Value<br>Rs. | Analysis    |          |                   |
|--------|------------------|---------------|--------------|-------------|----------|-------------------|
|        |                  |               |              | Electricity | Salaries | Cash<br>Purchases |
| 05 Aug | Electricity Bill | 177271        | 6,000        | 6,000       |          |                   |
| 07 Aug | Salaries         | 177272        | 14,000       |             | 14,000   |                   |
| 12 Aug | Purchases        | 177273        | 2,000        |             |          | 2,000             |
| 31 Aug | Purchases        | 177274        | 12,000       |             |          | 12,000            |
|        |                  |               | 34,000       | 6,000       | 14,000   | 14,000            |

## Cash Account / Cash Control Account

|        |                     |                |        |                        |                |
|--------|---------------------|----------------|--------|------------------------|----------------|
| 01 Aug | Balance B/f         | 100,000        | 31 Aug | Electricity            | 6,000          |
| 08 Aug | Debtors Control A/c | 7,500          | 31 Aug | Salaries               | 14,000         |
| 08 Aug | Sales               | 22,000         | 31 Aug | Creditor's Control A/c | 14,000         |
|        |                     |                | 31 Aug | Balance C/f            | 95,500         |
|        |                     | <u>129,500</u> |        |                        | <u>129,500</u> |
| 01 Sep | Balance B/f         | 95,500         |        |                        |                |

Bank has sent the following bank statement for the month of August.

| Peramuna Bank           |                |        |         |
|-------------------------|----------------|--------|---------|
| Bank Statement - August |                |        | Rs.     |
|                         | Debit          | Credit | Balance |
| 01 Aug                  | Balance        |        | 106,000 |
| 01 Aug                  | Payment 177261 | 8,000  | 98,000  |
| 01 Aug                  | Deposit 152801 | 12,000 | 110,000 |
| 05 Aug                  | Deposit 400105 | 15,000 | 125,000 |
| 07 Aug                  | Payment 177271 | 6,000  | 119,000 |
| 09 Aug                  | Payment 177272 | 14,000 | 105,000 |
| 12 Aug                  | Payment 177273 | 2,000  | 103,000 |
| 13 Aug                  | Deposit 210115 | 7,500  | 110,500 |
| 31 Aug                  | Bank charges   | 250    | 110,250 |

- 01) Prepare the Adjusted Cash Control Account and Bank Reconciliation Statement as at 31 August 2018.
- 02) AGB Company has four current accounts maintained in two commercial banks. Can the AGB Company prepare one bank reconciliation for all the bank accounts ?



## Solutions

01)

## Adjusted Cash Account / Cash Control Account

|        |               |        |               |
|--------|---------------|--------|---------------|
|        | Rs.           |        | Rs.           |
| 31 Aug | Balance       | 31 Aug | Bank Charges  |
|        | 95,500        | 30 Aug | Balance C/f   |
|        | <u>95,500</u> |        | <u>95,500</u> |

## Bank Reconciliation Statement

Rs.

|  |        |         |
|--|--------|---------|
| Balance as per Adjusted Cash Control Account |        | 95,250  |
| <b>Add:</b>                                  |        |         |
| Unpresented Cheques -177265                  | 10,000 |         |
| -177274                                      | 12,000 | 22,000  |
| <b>Less:</b>                                 |        |         |
| Deposited but unrealized cheques             |        |         |
| -210115                                      | 7,000  | 7,000   |
| Balance as per Bank Statement                |        | 110,250 |

Note that the Chq. No. 177265 which was unpresented in the month of July has not been presented even in the month of August. Therefore, it again appears as an unpresented cheque in the month of August. However, Chq. No. 177261 has been presented in the month of August. Therefore, it does not appear in the August reconciliation. Similarly unrealized cheque in the previous month has been realized in the August so that it does not appear in the August reconciliation.

2.

No. Purpose of the bank reconciliation is to identify the differences between the bank balance according to the bank and the cash book. In this case company needs to maintain four bank accounts in the ledger and prepare four bank reconciliations.