

# Advanced Financial Accounting

## [AA21]

Supplementary for Chapter 01

---

# Performing of Financial Accounting Controls

---

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.

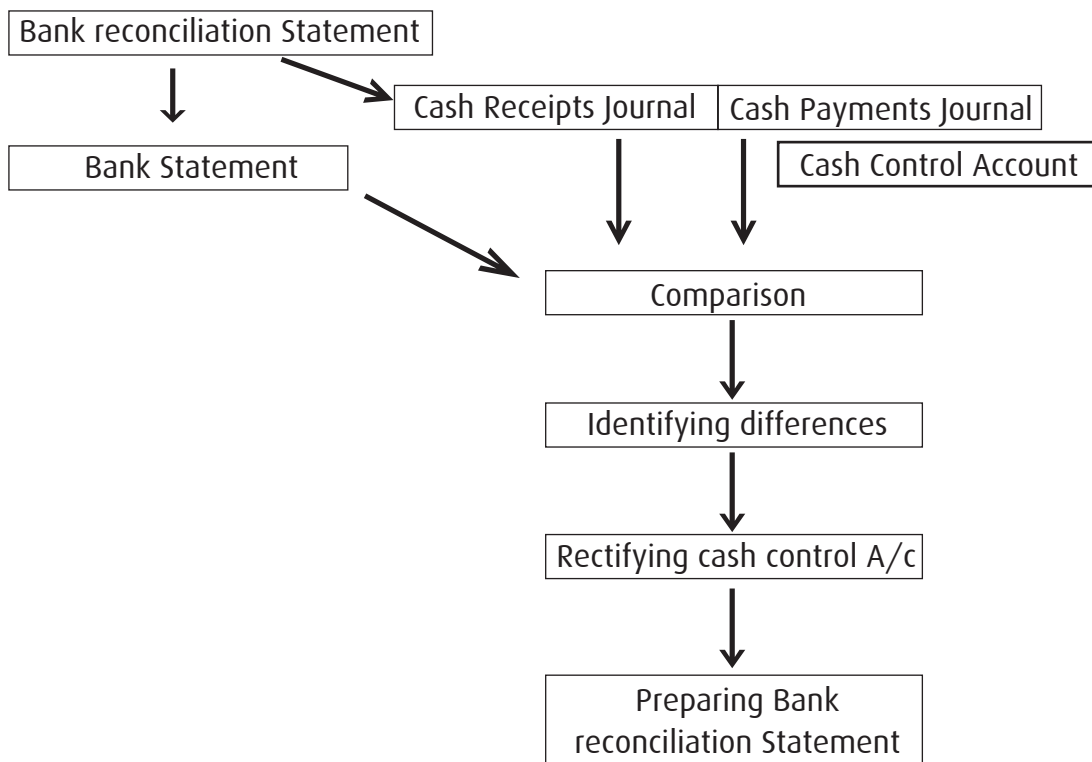
Accounting controls are necessary to ensure the accuracy and reliability of information. Further they help in minimizing frauds. For example duties of accounting personnel can be segregated so that person who invoicing will be different from the person who does the cash collection.

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

### **E**<sub>g:</sub> 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 322022	15,000	-	12,000
15 April	Cheque 523981	-	12,000	24,000
16 April	Cheque 322024	18,000	-	6,000
18 April	Cheque 322025	2,000	-	4,000
20 April	Cheque 218570	-	10,000	14,000
25 April	Cheque 322026	5,000	-	9,000
25 April	Cash	-	19,000	28,000
30 April	Cheque 322027	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		

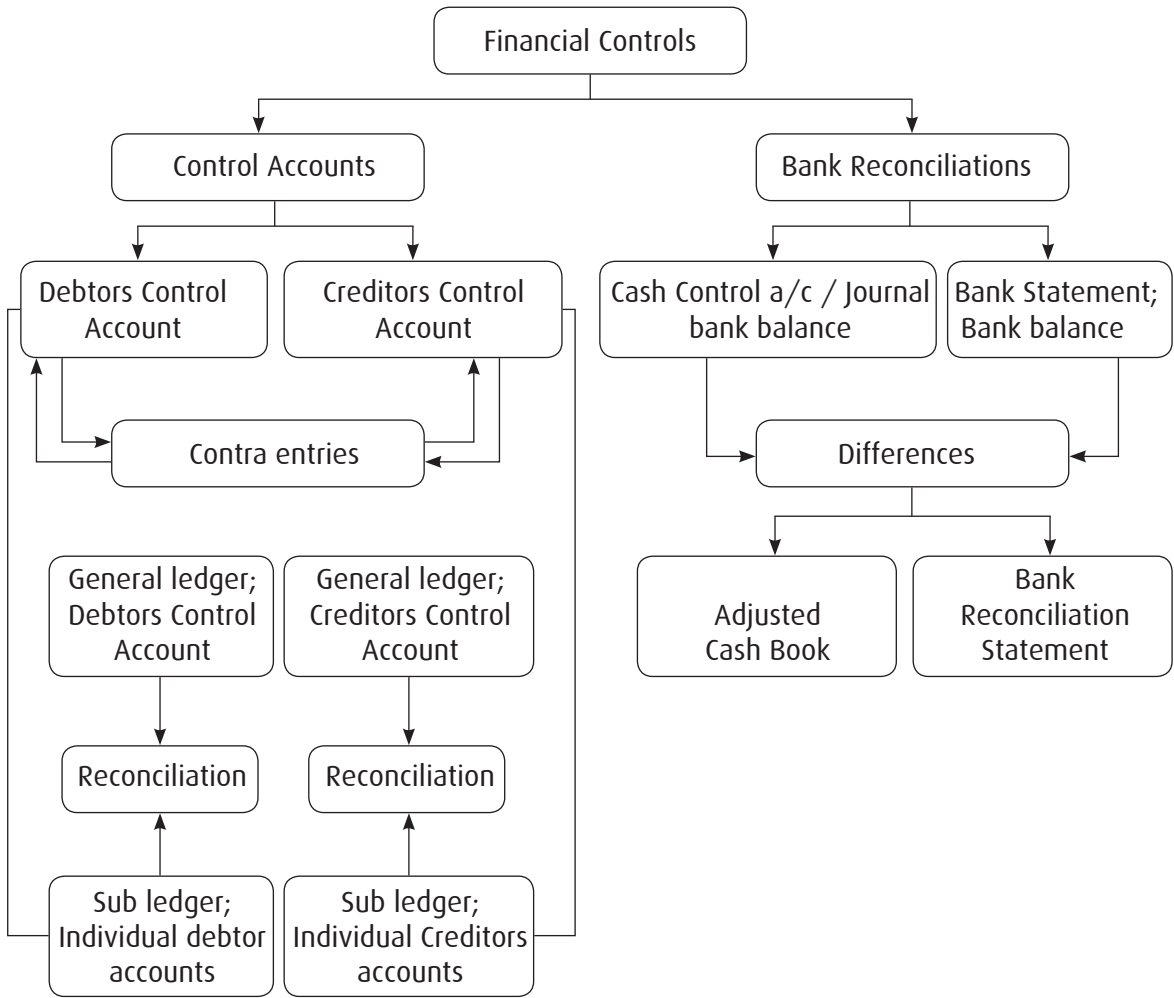
## Preparing the Bank Reconciliation Statement

## 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	
	10,000	18,000
<b>Less:</b>		
Deposited but unrealized cheques		
	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 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 No.	Value Rs.	Analysis		
				Electricity	Salaries	Cash 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	<u>95,500</u>			

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	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 400105	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.