The preparation of books of account

Introduction
In this Topic, we introduce the books kept by an enterprise and economic transactions recorded there. We shall acknowledge and illustrate that the ledger is the main book accounts.

Subsidiary books
These are books of original entry. We post the transactions recorded in the subsidiary books to the ledger accounts at the end of every month and in case of some transactions, only total amounts are posted. The books used to record all transactions of a particular category prior to posting to the ledgers are the books known as subsidiary books or books of prime entry. They include;

- The purchase daybook or journal; this book records the details of all goods purchased on credit. We write up the purchases daybook is from the incoming invoices.
- Sales daybook or journal; this book records the details and amounts of all goods sold on credit. We write up the sales daybook from the outgoing invoices.
- Purchases return book or returns outwards journal; this book records the details and amounts of goods returned to the creditors. We write up the returns out ward daybook is written up from the incoming credit notes
- Sales return book or return inwards journal; this books records the details and amounts of goods returned by the debtors. We write up the return in wards daybook from the outgoing credit notes.
- Petty cash book; this book records the small cash receipts or payments. This books is also used to analyse the expenses the expenses paid in cash
- Journal or diary; the journal is that daybook in which we can record the details of any transaction that cannot be recorded in any other subsidiary book. We call all other books of original entry the division of journal for recording specific type of transactions. The main uses of the journal are the following.
    - To record purchases or sales of assets
    - To correct the errors
    - To record opening and closing entries
    - Writing off of bad debts; etc

JOURNALS
A journal may also be defined as a book of original entry where transactions are first recorded when they occur. Businesses maintain several types of journals and the nature of operations determine the number and the types of journals needed. The journal was once the most used book in bookkeeping, but today entries in the journal are limited to records of ‘unusual’ transactions, which are improperly recorded in any of other books of original entry that will be described. Such transactions are those which do not purely involve the receipt or payment of money (whether in cash or through the bank), and which are not credit sales or purchases or returns inwards or returns. However, the types of Journals are;

a. General journal
b. Sales day book/sales journal
c. Purchases day book/purchases journal
d. Cash book

e. Returns inwards day book
f. Returns outward day book

A) General Journal

We can also use this journal for all types of transactions with two money columns, although in the diagram above we have said it used to record other types of transaction other than those specifically identified with other journals. We also call it a journal proper. XYZ Ltd journals below are examples of general journal.

Procedural steps for recording transactions in the General journal

a. Recording the date on which the transaction occurred.
b. Write the name of the account to be debited and recording the amount in the first money column
c. Write the name of the account to be credited in the second money column
d. A brief explanation is given about the transaction immediately after the account is credited
e. Journals have a Ledger page column. This column provides a convenient cross-reference with the ledger.

Illustration

The following were the transactions of XYZ ltd for the month of January

i) On January 1st XYZ ltd started business with cash of UGX 2,000,000 and money at the bank of UGX 3,000,000
ii) 3rd Jan Purchased goods for UGX 600,000 cash
iii) 6th Jan Bought a Motor vehicle for UGX 1,500,000 by cheque
iv) 7th Jan Sold goods for UGX 300,000 cash.
v) 15th Jan Purchased more goods on credit from TK ltd worth UGX 500,000
vi) 20th Jan obtained a bank loan of UGX 3,000,000 cash.
vii) 23rd Jan Sold goods for UGX 200,000 on credit to Mary
viii) 25th Jan Mary paid UGX 80,000 cash.
ix) 26th Jan Sold goods on credit to Peter for UGX 100,000.
x) 29th Jan purchased goods from John on credit for UGX 300,000

Required Enter the above transactions in the General Journal

XYZ LTD
GENERAL JOURNAL FOR THE MONTH OF JANUARY

Date	Account title & explanations	LP/Folio	Debit	Credit
1st Jan	Cash A/C Bank A/C Capital A/C For starting the business	01 02 03	2,000,000 3,000,000	 5,000,000
3rd	Purchases A/C Cash A/C Being purchase of goods using cash	04 01	600,000	 600,000

6th	Motor vehicle A/C Bank A/C Being for purchase of a motor vehicle using cash	05 02	1,500,000	 1,500,000
7th	Cash A/C Sales A/C Being sale of goods for cash	01 06	300,000	 300,000
15th	Purchases A/C TK Ltd A/C (Creditors) For purchase of goods from TK Ltd on credit	04 11	500,000	 500,000
20th	Cash A/C Loan A/C Being a loan obtained	01 08	3,000,000	 3,000,000
23rd	Mary A/C (Debtor 's A/c) Sales A/C To record sale of goods on credit to Mary	09 06	200,000	 200,000
25th	Cash A/C Mary A/C (Debtor s A/c) To record receipt of cash	01 09	80,000	 80,000
26th	Peter A/C (Debtor's A/C) Sales A/C To record sold of goods to Peter on credit	09 06	100,000	 100,000
29th	Purchases A/C John A/C (Creditor's A/C) To record purchase of goods from John on credit	04 07	300,000	 300,000
			11,080,000	**11,080,000**

Exercise

Kyeswa commenced a Hardware enterprise on March 1 with UGX 50,000,000 on his account in Stanbic Bank. The following transactions were carried out in that month.

Mar 2 Purchased goods of UGX10, 000,000 from Bridgestone Ltd on Credit.

3. Withdrew UGX3, 000,000 from the bank and kept it in the safe as petty cash.
5. Sold goods worth UGX5, 000,000 to Mukozi who paid UGX2, 000,000 by cheque; UGX1, 500,000 cash and issued a notes receivable for the balance.
7. Bought land of UGX8, 000,000 by cheque from Akright Ltd to construct the business premises
9. Paid a salary cheque of UGX800, 000 to his accountant

11 Returned goods of UGX100, 000 to Bridgestone Ltd because they had damages

13. Paid insurance to A.I.G of UGX200, 000 cash

15 Purchased goods worth UGX7, 000,000 from Kiseka Market and issued a Notes Payable.

17 Mukozi rejected and returned defective goods worth UGX300, 000.

18 Paid Bridgestone a cheque of UGX6, 000,000 for goods purchased on credit.
19 Received a cheque of UGX500, 000 from Mukozi for goods sold to him.
21 Disposed of Part of the land at UGX2, 000,000 cash because it was redundant.
22 A cheque from Mukozi bounced because there were insufficient funds on his account.
23 Paid rent of UGX600, 000 cash.
25 Sold goods to Kiyembe Ltd for UGX2, 000,000 on credit
27 Mukozi Paid 400,000 cash for goods sold to him on credit.
29 Purchased goods of UGX4, 800,000 from City tyres on credit
30 Received a cash of UGX1, 000,000 from Kiyembe Ltd to clear his debt.
31 Used business cash of UGX 200,000 to organize a dinner party at Fang-fang Restaurant for his employees.

Required

Enter the above transactions in the general Journal.

B) SALESDAY BOOK (SALES JOURNAL)

In almost all businesses sales will be made on credit. The sales day book is used for recording the credit sales. The sales day book contains the following:

- Date on which the transaction occurred
- Name of the customer. The person who bought the goods on credit (individual or company)
- Invoice number. The number on the sales invoice. A sales invoice is a document showing details of goods sold and the prices at which they have sold
- Folio column
- Amounts or Prices at which goods have been sold

Illustration

The company sold goods on credit to the following people.
On May 1st sold goods to Jackie of 400,000 and the invoice number was 011
On May 4th sold goods to James of 300,000, invoice number 016
On 7th sold goods to Peter 700,000, invoice number 018
On 10th sold goods to Meyer 500,000 invoice number 020

Required: Prepare a Sales daybook

SALESDAY BOOK

Date	**Name of customer**	**Invoice number**	**Folio**	**amount**
May 1st	Jackie	011		400,000
4th	James	016		300,000
7th	Peter	018		700,000
10th	Meyer	020		500,000
				1,900,000

C) PURCHASES DAY BOOK

The purchases daybook is book of original entry for recording goods bought on credit.
The purchases daybook contains the following

- Date
- Name of creditor
- Invoice number
- Folio column
- Amount

Another illustration

The company bought the following goods on credit in the month of May

i) On May 3rd bought goods from Stephen for 1,500,000, invoice number 10
ii) On 7th purchased from Brian for 3,000,000, invoice number 14
iii) On 20th purchased from Derrick for 2,000,000, invoice number 18
iv) On 22nd bought goods from Adrian for 700,000, invoice number 20

Required Record the above transactions in the purchases daybook

PURCHASES DAY BOOK

Date	Name of creditor	Invoice number	Folio	Amount
May 3rd	Stephen	10		1,500,000
7th	Brian	14		3,000,000
20th	Derrick	18		2,000,000
22nd	Adrian	20		700,000
				7,200,000

The cashbook preparation

Introduction
Cash and Cash transactions is an important and easy area to understand in accounting and bookkeeping. Every business and indeed every person receives cash and makes payments.

All businesses and many people should keep records of all receipts and payments. It is important to note that although cash is still used, most business receipts and payments are made through the banking system.

Receipts and payments are recorded in a book called the **cashbook.** The cashbook therefore is a book in which are recorded detailed particulars of all moneys received and paid. From the beginning of the double entry bookkeeping, businesses have found that a very large number of transactions consist of receiving and paying sums of money. Originally, these transactions involved actual payment and receipt of cash. Hence the need to draw and keep a cashbook

In later times, while cash is still used, receipts and payments are also made by cheque through a bank account. Other small and few cash transactions as do happen are recorded in the petty cash book. Thus, a cashbook is now used to record bank transactions but it is still called the cashbook.

Retail transactions for instance shops are still carried out using cash or more correctly a mixture of cash and cheques. We still regard these as bank transactions as at the end of each day the retailer will count the takings (Cash, cheques) and pay the lot into the bank.

Cash Book Types
Two cashbooks types are maintained by business firms i.e.

- Main cash book
- Petty cash book

Nevertheless, generally a cashbook is maintained in a columnar format particularly in a manual accounting system. Thus a cashbook can be;

- Single column
- Two column
- Three column

Single Column Cash Book
This is a type of cashbook maintained where small business owners retain cash received for use in the business and therefore the cash received is debited in the only cash column.
Moreover, where the money is paid out from cash, the entry is credited in the only cash column.
This traditional type of cashbook is phasing out since almost every business owner operates an account with the bank. Thus giving rise to a two-column cashbook.

Two Column Cash Book
This is the most commonly used format of the cashbook. It involves recording bank and cash transactions.

Bank transactions are recorded in the bank column and cash transactions are recorded in the cash column on Debit and Credit side respectively.

Three-Column Cashbook

Where a business entity frequently allows or receives cash discount, it is usually convenient to use a three-column cashbook so as to include all the information relating to cash and balk transactions in a single book. In this Topic emphasis is more on two and three column cashbooks.

Drawing up a Cash Book

Already you have been told that in reality a cashbook is a ledger account, which for convenience and also because of the multiplicity of the entries passing through it, it's not included in the ledger, but it's bound as a separate volume.

It is important to note that cash transactions need not to be journalized because the cashbook fulfils the functions both of a ledger account and book of "original entry" in which cash transactions are recorded as they occur.

Now let us look at hypothetical example of how we design a cashbook. The example adopts a two-column cashbook.

Date	Details	Cash	Bank	Date	Details	Cash	Bank
2004							
Oct 1	Bal b/f		10,000	2	Rent		1000
2	Cash sales	3300		10	Purchases	4000	
3	Debtors	2500		11	Fuel	2000	
9	**Rent income**	3000		19	Telephone		1500
30	Interest Income		20,000				
				29	Payments to suppliers		1200
				31		2800	26300
		8800	**30,000**		Bal c/d	**8800**	**30,000**

Note the following: -

a) Receipts are on the left hand side and payments are on the right hand side of the cashbook.

b) On the left side of the debit and of the credit side is the date for each transaction. The cashbook is ongoing and may last for years, so this is very important

c) The receipts and payments could be by cash or by cheque

The Bank column contains details of the payments made by cheque and of the money received and paid into the bank account.

The bank will have a copy of the account in its own books. The bank will send a copy of the account we know as the bank statement in its books to the firm or organization. When the firm receives the bank statement, it will check it against the bank column in its own cashbook to ensure that there are no errors.

d) As receipts are entered on the debit side of the cashbook, they are subsequently posted to the credit side of the appropriate accounts in the ledger. Moreover, when payments are entered on the credit side of the cashbook, they are subsequently posted to the debit side of the appropriate ledger accounts. We do this to comply with the principle of double entry.

The details column shows the entries against each item stating the name of the account in which the completion of the double entry has taken place.

e) At the beginning of the period that is Oct 1st 2004 the balance in the bank was 10,000 and this appears on the debit side.

At times, a firm may have both cash and bank balances. They should both appear on the debit side of the cashbook at the beginning of the period. It is only on few occasions that a cashbook will have Balance brought forward on the credit side in the bank column. In addition, this is when a firm made an overdraft in the previous period.

During the month, bankings were 20,000. The total in the bank would thus be 30,000 if there had been no payments out. In fact, there were payments out of 3700. You can now see that the balance left is 30,000 – 3700 = 26300. The custom is to put this on the credit side with a description; Balance c/d (Carried down). The essence is to have both debit and credit with 30,000. The procedure of finding and entering the balance at the end is called **balancing the account.**

The procedure is the same for the cash column.

f) Finally, the closing balance forms the opening balance of the next period and it is entered in the new period on the debit side.

Cash paid into the Bank

From our previous hypothetical example, the payments into the bank have been cheques received by the firm that have been banked immediately. We must now consider **cash being paid into the bank**.

A. Let us look at the position when a customer pays his account in cash, and later part of this cash is paid into the bank. The receipt of the cash is debited to the cash column on the date received, the credit entry being in the customer's personal account. The cash banked has the following effect needing action as shown.

Effect	**Action**
1. Asset of cash is decreased	Credit asset account, that is the cash account which is represented by the cash column in the cash book
2. Asset of bank is increased.	Debit the asset account, which is the bank account, which is represented by the bank column in the cashbook.

For example, cash receipt of 10,000 from Kato on 3rd June 2004, later followed by the banking on 5th June 2004 of 6000 of this amount. This would appear in the cashbook as follows.

Cashbook

Date	Details	Cash	Bank	Date	Details	Cash	Bank
2004		UGX	UGX	2004		UGX	UGX
June 3	Kato	10,000		June 5	Bank	6000	
5	Cash		6000				

The details column as we have said before shows entries against each item stating the name of the account in which the completion of the double entry has taken place. Against the cash payment of UGX 6000 appears the word "bank" meaning that the debit of UGX 6000 is to be found in the bank column, and the opposite applies.

B. Where the whole of the cash received is banked immediately, the receipt can be treated in exactly the same manner as a cheque received i.e. it can be entered directly in the bank column.

C. If the firm requires cash, it may withdraw cash from the bank. This is done by making out a cheque to pay itself certain amount in cash. The bank will give cash in exchange for the cheque over the counter.

Here is the two-fold effect and the action required.

Effect	Action
1. Asset of bank decreased	Credit asset account, i.e. the bank column in the cash book
2. Asset of cash increased.	Debit the asset account, i.e. the cash column in the cashbook.

For example, a firm made a withdraw from the bank on 4th August 2004 of UGX.75000/=. In the cashbook, this transaction would appear as follows.

CASHBOOK

Date	Details	Cash	Bank	Date	Details	Cash	Bank
2004		UGX	UGX			UGX	UGX
August 4	Bank	75000		August 4	Cash		75000

Note: Both the debit and credit entries for this item are in the same book. When this happens it is known as a **contra item.**

The use of folio columns

As you have already seen, the details column in an account contains the name of the other account in which double entry completed. Anyone looking through the books would therefore be able to find where the other half of the double entry was.

However, when many books are being used, just to mention the name of the other account would not be enough information to find the other account quickly. More information is needed, and this is given by using **folio columns.**
In each account and in each book being used, a folio column is added, always shown on the left of the money columns.
In this column the name of the other book, in abbreviated form and the number of the page in other book where double entry is completed is stated against each entry in the books.

An entry of receipt of cash from Kalisa whose account was on page 45 of the sales ledger and the cash recorded on page 37 of the cashbook would use the folio column thus;
In the cashbook, the folio column would appear SL45.
In the sales ledger, the folio column would appear CB 37.

By this method full cross-reference would be given. Each of the contra items being shown on the same page of the cashbook would use the letter **"C"** in the folio column.
The act of using one book as a means of entering the transaction to the other account so as to complete double entry is known as **"posting"** the items.

Example 1
Enter the following transactions into a cashbook - Year 2005, Month of Oct
Oct. 1. Kibonge started business with cash at bank amounting to UGX 940,000
2. Received a cheque from G.W Kato worth UGX 115000
4. Cash sales 102000
6. Paid rent by cash 3500
7. Banked 50,000 of the cash held by the firm
15. Cash sales paid direct into the bank 40,000
23. Paid by cheque to S. Forks 277000
29. Withdrew cash from bank for business use 120,000
30. Paid wages in cash 118000

CASHBOOK

Date	Details	Folio	Cash	Bank	Date	Details	Folio	Cash	Bank
2005			UGX	UGX	2005			UGX	UGX
Oct 1	Capital	GL1		940,000	Oct 6	Rent	GL65	35000	
“ 2	G.W.	SL98		115000	Oct 7	Bank	C	50,000	
“ 4	Kato sales	GL	102000		Oct 23	S. Forks	PL23		277000
“ 7	Cash	87		50,000	Oct 29	Cash	C		120,000
“ 15	Sales	C		40,000	Oct 30	Wages	GL39	118000	
“ 29	Bank	GL87	120,000						
		C			Oct 30	Balances	C/d	19000	748000
			222000	**1145000**				**222000**	**1145000**
Nov 1	Balances	B/d	19000	748000					

The abbreviations used in the folio column are as follows: -
GL= General Ledger, **SL** = Sales Ledger, **C** = Contra, **PL** = Purchases Ledger

The folio column is not always an examination requirement and little emphasis is usually put on this; but very important in practical writing up of books of accounts for any organisation /firm.
Let us look at the comprehensive example

Exercise
The following balances were extracted from the books of **O &M** on 31/05/2005.

	UGX
Cash	5000
Bank (credit balance)	3300

During the month of June 2005, the following transactions occurred.

June 1. Bought goods on credit for UGX 6500
2. Sold goods on credit for UGX 8000
4. Received a cheque from UGX 5000 from a debtor and banked it.
7. Paid creditors UGX 1500 cash and UGX 500 by cheque
10. Rejected and returned goods worth UGX 300 to a creditor
12 A debtor rejected and returned goods worth 100/=
14. Banked UGX 1500 cash
16. Paid rent UGX 400 cash and UGX 800 by cheque and electricity UGX 250 cash
20. Withdrew UGX 1000 from the bank and put it in the cash box for payment of Cash expenses.
22. Paid UGX 2000 by cheque for retirement loan
25. Sold land inherited = from father for UGX 10,000 cash and the rest he put into the business
27. Received cash of UGX 100 and cheque of UGX 2000 from a debtor and banked both cash and cheque.
30. Used business cash UGX 300 for a social evening with his friend at a club

Required
Prepare **O&M's** Cash Book for June 2005 properly balanced off as at 30 /6 2005.

The bank reconciliation statements

Introduction

The cashbook records all transactions with the bank. The bank statement records all the bank's transactions with the business. A moment's thought will suggest that the contents of the cashbook are the same as the record provided by the bank in the form of a bank statement, and therefore our records should correspond with the bank statement. This is in fact so, but with two important provisos;

- The ledger account maintained by the bank is the opposite way round to the cashbook. This is because the bank records the balance in favour of an individual as a credit balance that is a liability of the bank to the individual. From the individual's point of view it is, of course, an asset, that is a debit balance in his cash book (or bank control account in the general ledger)
- Timing differences must inevitably occur. A cheque payment is recorded in the cashbook when the cheque is dispatched. The bank only records such a cheque when it is paid by the bank, which may be several days later.

The existence of the bank statement provides an important check on the most vulnerable of a company's assets – cash. However, the timing differences referred to above make it essential to reconcile the balance on the ledger account with that of the bank statement. This reconciliation takes the form of a bank reconciliation statement.

In this topic the relationship between the balance in the cashbook (or cash account), and the balance on the bank statement will be considered. The likely reasons for any differences will be investigated and a statement reconciling the two balances prepared.

Bank reconciliation is the process of bringing cashbook and bank statement balances into agreement by adjusting an account balance reported by a bank to reflect transactions that have occurred since the reporting date.

The process by which you compare the information in the company's records with the statements provided each month by the bank for the bank account and deal with the difference so that the bank's records and the company's records balance.

Banks furnish a depositor with a bank statement once each month. Included with the statement are usually the canceled cheques and any debit or credit memos that have affected the amount. During any month, besides the cheques drawn, the bank may deduct from the account amounts for service charges, returned cheques and for errors. The bank notifies the depositor of each deduction with a debit memo. The bank may also add amounts to the depositor's account for errors and interest. A credit memo is used to notify of any additions. A copy of each memorandum should be included with the monthly statement.

Entries on the customer's bank account in the bank

When a cheque or cash is deposited, the customer account will be credited in the bank. When the customer withdraws cash or when payments are made out of the customer's account, the account is debited.

Entries in the customer's cashbook (bank column)

The bank column of the cashbook shows the transactions of the customer with its bankers. A customer who deposits money debits his cashbook and when a withdrawal is made, the cashbook is credited.

Agreement of the cash and bank balances

When all receipts are deposited intact and all payments are made by check, the bank statement becomes a device for proving the cash in bank account. The proof normally begins with the preparation of a reconciliation of the bank balance. To simplify this process, request the cutoff date of the bank statement to be the last working day of the month. Thus, if all credits in the bank were also debited to the cashbook and all debits in the bank were credited in the cashbook and vice-versa, the two balances would agree and there would be no need of bank reconciliation. However, this is not always the case. The balance as per bank statement rarely agrees with the balance as per cashbook and thus the need to prepare a bank reconciliation statement.

Numerous things may cause the bank statement balance to differ from the cash balance in the general ledger

i) **Outstanding Checks/ Unpresented cheques:**

These are checks that have been written and are listed on the cash disbursement journal but have not cleared through the bank. They are drawn and credited in the cashbook but not presented to the bank for payment. These cheques are not debited to the bank statement.

ii) **Unrecorded Deposits/ Uncredited cheques (also called Deposits in Transit)**:

Often deposits are made on the day following the last day of the month; consequently, these deposits do not appear on the bank statement for that month but they appear on the cash receipts journal. Deposited to the bank and debited to the cashbook but not credited by the bank.

iii) **Direct debits, Charges for Services and Non-Collectable Items:**

A bank often deducts amounts from a depositor's account for services rendered and for returned checks. The bank notifies you of each deduction with a debit memo. These deductions should be recorded as soon as they are received. They are debits in the bank statement not credited to the cashbook and payments effected by the bank without requiring a cheque to be issued by the account holder. Since cheques are not issued for such payments, they are not recorded in the cashbook yet debited in the bank statement. They include the following.

Bank charges,

The bank, for services offered to the account holder, levies these charges; they include ledger fees, commission and many others.

Standing orders (SO)

These are arrangements where the account holder instructs the bank to make certain routine and fixed type of payments directly to the payees on behalf of the account holder. The account holder does not issue cheques for these types of payments. Such transactions include; insurance premiums, paying utility organizations such as water bills and telephone charges. Others include paying interest and amortizing fixed installment loans.

If the deduction occurs close to the end of the month, it may not show on the bank statement.

iv) Direct credits and Interest earned: (credits in the bank statement not debited to the cashbook)

These are receipts that are directly credited to the bank statement without having been debited to the cashbook. For instance, some debtors may clear their indebtedness by paying directly to the payee's bank account and some accounts earn interest that is posted to the account by the bank at the end of the month making the bank statement the only notification.

Credit advice notes (credit memo) and debit advice notes

A credit advice note (credit memo) and a direct debit note for direct credits and direct debits are sent to the account holder and may not be included in the cashbook.

v) Clerical errors

Errors made in recording amounts or wrong postings in the cashbook or bank statement make the cashbook and bank statement balances disagree. Regardless of care and systems of internal control, both the bank and the depositor may make errors that affect a bank balance. These errors are not discovered until the balance is reconciled.

vi) Dishonored cheques

When a bank refuses to pay or recognize a cheque as an instrument for transferring money from one person to another, such a cheque is a dishonored cheque.

Why are cheques dishonoured?

- Lack of sufficient funds on the account
- Amount in words differing from amount in figures
- Drawer's signature differing from specimen signatures held by the bank
- Expired cheques (cheques get stale or expire six months from the date on the cheque).
- Alterations on the cheque not counter signed.
- If there is no account title on the cheque
- Where drawer's confirmation is required by contract and cheques are not confirmed.
- When the payee's identity is doubted
- For some cheques, if payment vouchers are required and are not presented

Steps to follow reconciling account balances:

STEP ONE: Compare the deposits listed on the bank statement with deposits recorded in the cheque register and the cash receipts journal. Identify any differences and determine which is correct. List the deposits in transit for each account on the reconciliation form.

STEP TWO: Compare the canceled checks listed on each bank statement. Note any discrepancies. Review the previous month's reconciliation and check off the cheques that cleared during the current month that were outstanding last month. List any checks that are still outstanding. Verify all deposits in transit that were listed last month to assure that they have been recorded by the bank on the current statement.

STEP THREE: Compare each of the cheques with its entry in the cash disbursement journal. Identify any corrections or discrepancies. List any outstanding checks on the reconciliation form.

STEP FOUR: Determine if any debits or credits appearing on the bank statement need to be recorded in the cheque register. Make general journal entries to record them. Any corrections to deposits or cheques noted should be made by general journal entries. Do not go back and change the cash disbursement or cash receipts journals. Changes to those records must be made in the following month through general journal entries. The purpose of reconciling the bank statement is to verify balances per your cheque book and to resolve discrepancies. If discrepancies or bank errors are found, notify the bank immediately.

STEP FIVE: Compare each of the cheques with its entry in the cash disbursement journal. Identify any corrections or discrepancies. List any outstanding checks on the reconciliation form. Determine if any debits or credits appearing on the bank statement need to be recorded in the cheque register. Make general journal entries to record them. Any corrections to deposits or cheques noted should be made by general journal entries. Do not go back and change the cash disbursement or cash receipts journals. Changes to those records must be made in the following month through general journal entries. The purpose of reconciling the bank statement is to verify balances per your cheque book and to resolve discrepancies. If discrepancies or bank errors are found, notify the bank immediately.

Bank statement

This is a summary of transactions between the account holder and the bank. The transactions include deposit and withdrawals to and from the account respectively. The bank statement also shows the running balance after every transaction. Banks prepare bank statements for their account holders at the end of each month or any time on request.

Relevance of Bank reconciliation

Bank reconciliation strengthens an organizations internal control system through detection and prevention of fraud. When bank transactions are involved, manipulations in the cashbook can be discovered.

It enhances accuracy of records.

A mistake in either the cashbook or the bank statement can be discovered and corrected during the process of bank reconciliation.

Methods of bank reconciliation

There are three major methods of bank reconciliation

i) You can begin with the cashbook balance, adjusting, updating or correcting the cashbook and then preparing a bank reconciliation statement. The aim of this method is to arrive at the bank statement balance.

ii) Beginning with the bank statement balance and working towards the cashbook balance.

iii) Adjusting the cashbook balance and adjusting the bank statement balance. The aim is to show whether the two adjusted balances agree.

As are a number of methods or ways by which a bank reconciliation can be prepared the method adopted by this book is that prepare an adjusted cashbook (Bringing the cash book up to date) and then proceeding to prepare a reconciliation statement.

A Simple illustration:

Mr. Bukenya runs a current account with Nile Bank. He has received a bank statement showing his transactions with the bank in the month of December 2004 as follows.

M. Bukenya

Bank statement for the month of Dec. 2004

Date	Particulars	Dr. (UGX)	Cr. (UGX)	Balance (UGX)
1/12/2004	Balance B/f			1,600,000
	Chq. No. 202		8,000,000√	9,600,000
	Chq. No. 1002	1,000,000√		8,600,000
	Chq. No. 204		500,000√	9,100,000
	Chq. No. 1003	2,000,000√		7,100,000
	Salary deposit		1,700,000	8,800,000
	S.O-MTN (Airtime)	100,000		8,700,000
	Bank charges	200,000		8,500,000

The following is an extract of his cashbook.

M. Bukenya's Cashbook

Date	Particulars	Debit (UGX)	Date	Particulars	Credit (UGX)
1/12/04	Balance b/f	1,600,000		Chq. No. 1001	500,000
	Chq. No. 201	1,000,000		Chq. No. 1002	1,000,000√
	Chq. No. 202	8,000,000√		Chq. No. 1003	2,000,000√
	Chq. No. 203	4,500,000		Chq. No. 1004	2,500,000
	Chq. No. 204	500,000√		Bal c/f	9,600,000
	Total	<u>15,600,000</u>		Total	<u>15,600,000</u>

Note: Ignore Dates

Required: Reconcile the bank statement and cashbook balances

Solution

Step 1: Check off all the transactions that appear both in the cashbook and bank statement with right amount on the right sides. (*See items with the symbol (√**)** in the question above).*

Step 2: Prepare an adjusted cashbook as follows

M. Bukenya's adjusted Cashbook

Date	Particulars	Debit (UGX)	Date	Particulars	Credit (UGX)
1/1/05	Balance b/f	9,600,000		D. Dr. S.O-MTN (Airtime)	100,000
	D. Cr. Salary	1,700,000		D. Dr. Bank charges	200,000
				Bal c/f	11,000,000
	Total	<u>15,600,000</u>		Total	<u>15,600,000</u>

Step 3: Prepare a bank reconciliation statement as follows

M. Bukenya's Bank reconciliation statement

Balance as per adjusted cashbook		11,000,000
Add: Unpresented cheques		
Chq. No. 1001	500,000	
Chq. No. 1004	2,500,000	<u>3,000,000</u>
		14,000,000
Less: Uncredited cheques		
Chq No. 201	1,000,000	
Chq No. 203	4,500,000	<u>(5,500,000)</u>
Balance as per bank statement		8,500,000

Illustration Two

Using the following information, prepare a bank reconciliation statement for Goodshed Ltd for the month of august.

Extracts form Goodshed Ltd's Bank reconciliation statement for the previous month

Bank charge 200,000

Commission 100,000

<u>Uncredited cheques</u>

Cheque No. 004 1,000,000

Cheque No. 623 4,500,000

<u>Unpresented cheques</u>

Cheque No. 10 500,000

Cheque No. 12 2,500,000

Cashbook error: cheque No. 14 1,700,000

Goodshed
Cashbook for the month of Aug. 2004

	Dr. ((UGX))			Cr. (UGX)
Bal b/f	9,600,000		Cheque No. 20	800,000
Cheque No. 2515	1,000,000		Cheque No. 21	1,200,000
Cheque No. 1119	500,000		Cheque No. 22	2,000,000
Cheque No. 990	3,000,000		Cheque No. 23	600,000
Cheque No. 224	2,400,000		Cheque No. 24	200,000
Cash	900,000		Cheque No. 26	1,400,000
Cheque No. 414	1,800,000		Cheque No. 27	2,400,000
Cheque No. 666	700,000		Cheque No. 28	700,000
Cash	1,300,000		Cheque No. 30	1,800,000
Cheque No. 804	2,100,000		S.O-Insurance	900,000
Cheque No. 707	3,400,000			
Cheque No. 31	1,300,000			
C.M Peter	900,000		Bal. C/f	16,900,000
Total	**28,900,000**		**Total**	**28,900,000**

Goodshed
Bank statement for the month of august 2004

		Dr. (UGX)	Cr. (UGX)	Balance (UGX)
Bal b/f				8,500,000
Cheque No.	22	2,000,000		6,500,000
24		200,000		6,300,000
623			4,500,000	10,800,000
990			3,000,000	13,800,000
C.M –Peter			900,000	14,700,000
Cheque No.	21	2,100,000		12,600,000
12		2,500,000		10,100,000
20		800,000		9,300,000
2515			1,000,000	10,300,000
1119			500,000	10,800,000
S.O –Insurance		900,000		9,900,000
Cheque No.	224		4,200,000	14,100,000
Cash			900,000	15,000,000
Cheque No.	26	1,400,000		13,600,000
27		2,400,000		11,200,000
6001			5,000,000	16,200,000
414			1,800,000	18,000,000
804		2,100,000		15,900,000
31		3,100,000		12,800,000
C.M –John			1,300,000	14,100,000
Cheque No.	28	700,000		13,400,000
Ledger fee		50,000		13,350,000
Dividend			1,500,000	14,850,000

Additional information;

i) Any mistake in amounts was made in the cashbooks by an inexperienced bookkeeper.
ii) Cheque No. 31 and 804 were entered on the wrong sides of the cashbook and bank statement respectively.

Solution

Goodshed
Adjusted cashbook

	(UGX. 000)		(UGX. 000)
Bal b/f	16,900	July 2004 D. Debits	
Error on cheque No 224	1,800	Bank charge	200
Cheque No 6001(D. Credit.)	5,000	Commission	100
C.M (John)	1,300	Aug 2004 D. Debits	
Dividend	1,500	Ledger fee	50
Error on cheque No14	1,700	Error on cheque No. 21	900
		Error on cheque No. 31	4,400
		Bal. C/f	22,550
Total	**28,200**	**Total**	**28,200**

Goodshed bank reconciliation statement

	(UGX. 000)	(UGX. 000)	(UGX. 000)
Balance as per adjusted cashbook			22,550
Add: Unpresented Cheques			
Cheque No. 10		500	
Cheque No. 23		600	
Cheque No. 30		1,800	2,900
Less: Uncredited cheques			25,450
Cheque No.004	1,000		
Cheque No. 666	700		
Cheque No. 707	3,400	5,100	
Uncredited cash		1,300	
Bank error; Cheque No. 804		4,200	10,600
Balance as per bank statement			**14,850**

Exercise

The following information relates to the transactions of BRITT Ltd and its bankers for the month of January 2005.

CASHBOOK

Details	**Dr. UGX (Millions)**	**Details**	**Cr. UGX (Millions)**
Balance b/d	1300	Chq No. 400	150
Chq No. 650	2000	Chq No. 444	5000
Chq No. 256	1750	Chq No. 455	1000
Chq No. 181	3000	Chq No. 477	3700
Cash	3500	Chq No. 488	1700
Chq No. 555	4100	Chq No. 500	1100
Chq No. 284	550	Chq No. 511	1950
Chq No. 922	1650	Chq No. 544	600
Cash	2000	Chq No. 588	2800

Chq No. 805	7200	Chq No. 600	1900
Chq No. 695	6850	Chq No. 774	3900
Chq No. 885	3650	Balance c/d	13750
Total	37550	Total	37550

BANK STATEMENT

Particulars	Dr. (Millions)	Cr. (Millions)	Bal. (Millions)
Balance b/f			1300
Chq No. 411		100	1400
Chq No. 922	1650		(250)
Cash	2000		(2250)
Chq No. 477		37000	34750
Chq No. 511		1950	36700
Chq No. 495	4000		32700
Chq No. 905	4500		28200
Chq No. 544		600	28800
Chq No. 588		2800	31600
Minority interest dividends		400	32000
Cash	2500		29500
Chq No. 444		500	30000
Chq No. 455		1000	31000
Chq No. 181	300		30700
Cash	3500		27200
Chq No. 379	1800		25400
Chq No. 488		1700	27100
Chq No. 500		1100	28200
Chq No. 805	2700		25500
Chq No. 774	3900		21600
Chq No. 695	6850		14750
Bank charges	1000		13750
S.O-Interest	200		13550

Errors on cheques numbered 805 and 181 were made in the bank but any other errors are cashbook errors, while the bank dishonoured chq No. 650.

Required:

Reconcile the cashbook and bank statement balances and determine whether there was any fraud/undiscovered error and by how much?

Exercise 2

On 30/6/2004, the bank statement of MUBS Guild showed the bank account to have to have a debit balance of UGX 715,400,000. However, on the same date, the cashbook showed the bank account to have an overdraft of UGX 1,195,900,000.

A check of the bank statement against the cashbook revealed the following:

i) Cheques totaling UGX 3,168,400,000 paid to creditors had not been presented to the bank for payment.
ii) An amount of UGX 150 Million paid as contribution to assist the Tsunami Victims was recorded as UGX 15 Million.
iii) Cheques amounting to 2,574,500,000 Shillings banked in the month did not appear on the bank statement.
iv) Bank charges of 13,750,000 Shillings had been recorded in the cashbook as 17,350,000.
v) A cheque of 35 Million Shillings for drawing had been recorded as 53 million in the cashbook.

Required:

a) Adjust MUBS Guild cashbook.
b) Reconcile the adjusted cashbook balance with the bank balance.
c) State four major reasons why the cashbook balance most often differs from the bank statement balance as at any date.
d) There is normally no serious need for preparation of a bank reconciliation statement Discuss.

Errors that cannot be detected by the trial balance

Specifically, the following errors do not affect the agreement of the trial balance.

i. ***Errors of Omission***. This is when a transaction is completely omitted from the books of account. For example, if goods were sold Sarah for 300,000 cash but it is not recorded anywhere the trial balance will agree
ii. ***Errors of Commission*;** This type of error occurs when the correct amount is entered in wrong people's account. It is important to note that here double entry is observed. For example, if the company sold goods to Martha Tendo on credit but by mistake Marias Tendo account is debited.
iii. ***Errors of Original entry.*** These are errors made on the original documents when a transaction is being recorded. The double entry is observed but the original figure is not correct. For example, goods for 1,500,000 cash are sold but by mistake 5,100,000 is recorded on the receipt, the wrong amount will be transferred to the journal, ledgers and trial balance
iv. ***Errors of Principle*** This error occurs when transactions are entered in the wrong types of accounts. For example, a computer (fixed asset) is sold and credited to the sales account the trial balance will agree. Such a transaction is supposed to be recorded in the disposal account
v. ***Errors of Complete reversal of entries*** This type of error occurs when correct amounts are recorded on the wrong sides of the account. For example, if a cash sale is made the cash account is supposed to be debited while sales account credited, but the reverse is done by debiting the sales account and the crediting the cash account.
vi. Compensating errors

This occurs when the same error made on the debit is made also on the credit side which implies errors cancel out each other. For example, if the cash account was over debited by 200,000 UGX at the same time the sales account was over credited by the same figure then such errors will cancel out and the trial balance will agree.

We emphasize again that even if the above errors do not affect the agreement of the trial balance, once detected or found out, they must be corrected and must still follow the dual concept.

Now let us look at an example involving the correction of errors (using the journal) that do not affect the trial balance.

The Audit of Banyanga's books for the year ending 31/12/2004 revealed the following errors;

i. A machine purchased for UGX.1.2M had been debited too the purchases account
ii. Goods purchased from Bukenya for UGX.0.15M were credited to the account of Bakanya
iii. An invoice from Orobia for UGX.0.27M was omitted
iv. Goods sold to Akileng for UGX.0.175M were entered in the sale day book as UGX.0.157M
v. The Salaries and wages account was over-added by UGX.0.035M and rent receivable account had also been over-added by UGX.0.035M

Required: Show by means of journal entries how the following errors should be corrected in the books of Banyanga.

Solution

Date	**Particulars**	**folio**	**DR**	**CR**
Dec.31.2004	Machinery account Purchases account (Being the correction of error as machinery debited to purchases account)		1,200,000	 1,200,000
-do-	Bakanya Bukenya (being a Transfer of amount incorrectly credited to Bakanya)		150,000	 150,000
-do-	Purchases account Orobia (Being purchase of goods previously omitted)		270,000	 270,000
-do-	Akileng Sales account (Being adjustment for under charge of sales)		18,000	 18,000
-do-	Rent receivable account Salaries and wages account (Being an adjustment for overcharge)		35,000	 35,000