

Topic Overview	
Topic	BAFS Elective Part - Accounting Module – Financial Accounting A03: Bank Reconciliation Statement and Correction of Errors
Level	S5 / S6
Duration	3 lessons (40 minutes per lesson)

Learning Objectives:

1. To apply the techniques in reconciling the differences between the balance on a bank statement and a cash book;
2. To apply the knowledge in correction of errors which do not cause disagreement with the trial balance and the calculation of profits; and
3. To apply correction of errors knowledge which cause disagreement in the trial balance and calculation of profit.

Overview of Contents:

Lesson 1	Bank Reconciliation Statement
Lesson 2	Errors which do not Cause Disagreements in the Trial Balance
Lesson 3	Errors which Cause Disagreements in the Trial Balance and the Suspense Account

Resources:

- Topic Overview, Teaching Plan and Answers to Student Worksheet
- PowerPoint Presentation
- Student Worksheet

Suggested Activities:

- Group Discussion
- Oral Presentation
- Case Study

Lesson 1	
Theme	Bank Reconciliation Statement
Duration	40 minutes

Expected Learning Outcomes:

Upon completion of this lesson, students will be able to:

1. Understand the timing differences between the Bank Statement and Cash Book resulting reconciliation;
2. Using the vouchers provided, create a Bank account by consolidating the accounting cycle learnt;
3. Identify discrepancies by comparing a Bank account to a Bank Statement;
4. Update the Bank account in the Cash Book and create the Bank Reconciliation Statement;
5. Understand that the Bank Reconciliation Statement can be an internal control tool; and
6. Understand the methods to minimise the possibility of misappropriation of funds.

Prior Knowledge:

- Different vouchers used in the accounting cycle; and
- Bank account.

Teaching Sequence and Time Allocation:

Activities	Reference	Time Allocation
Part I: Introduction		
✧ Teacher explains the reasons for discrepancies between the cash book and bank statement. <ul style="list-style-type: none"> ■ Students comprehend timing differences. ■ Teacher summarises items recorded in the bank statement but not recorded in the cash book. 	PPT #1 - 10	5 minutes
Part II – Contents		
✧ Activity 1: Matching <ul style="list-style-type: none"> ■ Identify the discrepancies in either the cash book or bank statement and their impact on the bank balance. 	PPT #11 Student Worksheet pp.1-2	6 minutes

<p>✧ Activity 2: Problem solving</p> <ul style="list-style-type: none"> ■ Students write up a cash book from source documents. ■ Students update the cash book after comparing it to the bank statement. ■ Students adjust the discrepancies. ■ Students present their findings. <p>✧ Recommended teachers apply their own judgment in using the supplementary documents (invoice and pro-forma invoice) to investigate the following with students:</p> <ul style="list-style-type: none"> ■ Accounting cycle. ■ Types and purposes of different documents – invoice and pro-forma invoice. ■ Difference of Trade Discount and Cash Discount. ■ Terms of payment shown in the invoice, e.g., 1/5, N10; COD; Prepaid. ■ Calculation of Cash Discount. 	<p>PPT # 12-23</p> <p>Student Worksheet pp.3-15</p>	<p>15 minutes</p>
<p>✧ Activity 3: Group discussion</p> <ul style="list-style-type: none"> ■ The class is divided into groups of 4 to 5 students to discuss ways to minimise the possibility of misappropriation of funds, i.e. all properly recording and accounting for all receipts and payments. ■ Students present one suggestion from each group. ■ Teacher wraps up the presentation. 	<p>PPT # 24-25</p> <p>Student Worksheet p.16</p>	<p>8 minutes</p>
<p>Part III – Conclusion</p>		
<p>✧ Teacher concludes the lesson by highlighting the key points learned:</p> <ul style="list-style-type: none"> ■ Entries that were made in bank statement only. ■ Entries that were made in cash book only. ■ Bank reconciliation statement will, in this activity only, include the discrepancies in the cash book. ■ Preparation of bank reconciliation statement can be used as a tool of internal control. 	<p>PPT # 22-23</p>	<p>6 minutes</p>

Lesson 2	
Theme	Errors which do not Cause Disagreement in the Trial Balance
Duration	40 minutes

Expected Learning Outcomes:

Upon completion of this lesson, students will be able to:

1. Differentiate the six types of errors that do not affect the trial balance;
2. Tell why these errors do not affect the trial balance;
3. Identify how these errors could be identified;
4. Correct these errors through journal entries; and
5. Understand the effects of errors on profit calculation and prepare a corrected profit and loss statement.

Teaching Sequence and Time Allocation:

Activities	Reference	Time Allocation
Part I: Introduction		
✧ Teacher defines the six types of errors not affecting the trial balance. Students should: <ul style="list-style-type: none"> ■ Understand why these errors do not affect the trial balance. ■ Understand the nature of various types of errors, differentiate them and correct them through journal entries. ■ Understand the effects of errors on profit calculations and prepare a corrected profit and loss statement. 	PPT #26-40	10 minutes
Part II – Content		
✧ Activity 4: Identify the errors and discuss how to uncover these errors <ul style="list-style-type: none"> ■ Activity 4A “Identify the errors” - Students identify the types of errors and complete the list. ■ Activity 4B “Why? Why? Why? - Students explain why these errors do not affect the trial balance. ■ Activity 4C “Think. How could you identify these errors?” – Students suggest way to uncover each error. ■ Teacher checks answers with the class. 	PPT #41-52 Student Worksheet pp.17 - 19	10 minutes

✧ Activity 5: Help your boss <ul style="list-style-type: none"> ■ Students are asked to help their boss, the accounting manager of Dragon Company, to correct the errors in the books by journal entry. ■ Teacher discusses answers with the class. 	PPT #53-56 Student Worksheet p.20	5 minutes
✧ Activity 6: Profit Bingo <ul style="list-style-type: none"> ■ Students are asked to identify if the corrected entries affect the profit and loss. Complete the working table given. ■ Teacher asks students to prepare a correct profit and loss statement. ■ Students are expected to understand: <ul style="list-style-type: none"> ◆ The nature of the error; ◆ The reason why the error occurred; ◆ Whether the error affects the profit and loss statement and the trial balance; ◆ How the error affects profit; ◆ Procedure to correct the error. ■ Teacher discusses answers with the class. 	PPT #57-62 Student Worksheet pp.21 - 23	10 minutes
Part III – Conclusion		
✧ Teacher concludes the session and highlights the key points learned: <ul style="list-style-type: none"> ■ Six types of errors not affecting trial balance. ■ Reasons why errors are discovered. ■ Methods to correct the error. ■ Techniques to arrive at the correct net profit. 	PPT #63-64	5 minutes

Lesson 3	
Theme	Errors which Cause Disagreement in the Trial Balance and Suspense accounts
Duration	40 minutes

Expected Learning Outcomes:

Upon completion of this lesson, students will be able to:

1. Understand the reasons for inequalities in the trial balance;
2. Understand the inequality of trial balance refers to the existence of errors;
3. Use a “Suspense Account” to temporarily maintain the trial balance;
4. Identify and locate errors from source documents and accounting records;
5. Correct the errors in the ledger accounts; and
6. Understand the effects of errors in the trial balance.

Prior Knowledge:

- Bank Reconciliation Statement;
- Updated Bank account for discrepancy;
- Correction of errors through Journal entries; and
- Correction of errors in the profit or loss account.

Teaching Sequence and Time Allocation:

Activities	Reference	Time Allocation
Part I: Introduction		
✧ Teacher reviews the dual aspects of transactions to maintain balance in the trial balance. <ul style="list-style-type: none"> ■ Errors will exist if the trial balance does not agree. ■ A trial balance in agreement will not guarantee it is error free. 	PPT #65-70	4 minutes
Part II: Contents		
✧ Teacher illustrates the use of Suspense Account to rectify the imbalanced trial balance. <ul style="list-style-type: none"> ■ Errors are corrected by double entries after identifying them. ■ Suspense Account will be closed after correcting all errors. ■ Adjust the net profit after correction, if necessary. 	PPT #71-76	5 minutes
✧ Activity 7: Group Discussion Review the four cases of errors and their effects on profit/assets/liabilities. <ul style="list-style-type: none"> ■ Students are paired up. ■ Teacher gives cases to the students and they discuss the location of errors: (a) the trial balance total is/is not affected; (b) profit is/is not affected; (c) asset is/is not affected. 	PPT #77 Student Worksheet pp. 24 - 27	5 minutes

<ul style="list-style-type: none"> ■ Students explain how the accounts would be affected by the errors and the steps to rectify the errors. ■ Students to present their answers. 		
<p>✧ Activity 8: Problem solving</p> <ul style="list-style-type: none"> ■ Class is divided into groups of 4 to 6. Each group is to distinguish errors that affect/not affect the trial balance. ■ Teacher briefs students about question assumptions -- explains steps to solve the problem. ■ Students prepare a bank reconciliation statement. ■ The case is used to improve students' problem solving ability. They have to co-operate and co-ordinate with members assigned on: <ul style="list-style-type: none"> ◆ Preparing the bank reconciliation statement and input information for double entry in the ledger; ◆ Providing information to update the bank account; ◆ Identifying the errors ■ Teacher can accelerate learning by showing the list of errors and referring to the summary in the Teacher Notes. <ul style="list-style-type: none"> ◆ Updating ledger accounts. ◆ Preparing a corrected trial balance. ■ Students present their answers and findings. 	<p>PPT #78-82</p> <p>Student Worksheet pp.28 - 44</p>	<p>23 minutes</p>
Part III: Conclusion		
<p>✧ Teacher concludes the lesson and highlights the key points learned:</p> <ul style="list-style-type: none"> ■ Errors may be obvious causing an imbalance in trial balance. ■ Errors may still exist even if the trial balance is in agreement. ■ Use the journal to initiate the double entry of error corrections. 	<p>PPT #83-84</p>	<p>3 minutes</p>

Suggested Answers

LESSON 1

Activity 1: Matching

(I) Complete the table below for discrepancies in cash book and bank statement stating their originality.

Originality	Items of Discrepancies
Bank Statement	1. Auto pay 2. Bank charges 3. Credit transfer 4. Direct debit 5. Dishonoured cheque 6. Errors in bank statement 7. Standing order - Receipts or Payments
Cash Book	1. Deposits in transit/Uncredited cheques 2. Errors in cash book 3. Unpresented cheques



Errors in the bank statement should not be reflected as they should be rectified by the bank itself.

(II) Based on your findings above, classify the items according to the effect on balances.

Category	Items of Discrepancies
Resulting balance in cash book is greater than in bank statement	Auto pay Bank charges Deposits in transit/Uncredited items Direct Debit Dishonoured cheque Errors in bank statement (e.g. Bank draws out money into the account by mistake.) Errors in cash book (e.g. Receipts side overstated) Standing order - Payments
Resulting balance in bank statement is greater than in cash book	Credit transfer Errors in bank statement (e.g. Bank deposited money from the account by mistake.) Errors in cash book (e.g. Payment side overstated) Unpresented cheques Standing Order - Receipts

Activity 2: Problem Solving

Step 1: Write up the Bank account based on the pay-in slips and cheque counterfoils.

Dragon Company
Bank

Year 9		\$	Year 9		\$
Jan 1	Balance b/d	15,830	Jan 3	Somy Corp (#285701)	30,500
Jan 4	Blueberry Ltd	21,780	Jan 4	Office Furniture: OK (#285702)	17,250
Jan 12	Plum Ltd	24,750	Jan 7	Electricity: H K Electric (#285704)	285
Jan 12	Cherry Co	18,000	Jan 10	Kowloon (#287505)	16,000
Jan 28	Lemon Ltd	8,000	Jan 23	Somy Corp (#285706)	36,500
Jan 31	Cherry Co	35,640	Jan 30	Salary: Mary Kwan (#285707)	10,000

Step 2: Pair off the entries in the bank account with the bank statement

Date	Details	Withdrawal	Deposit	Balance
Year 9		\$	\$	\$
Jan 1	Balance			15,830
Jan 4	Deposit		21,780	37,610
Jan 4	Cheque # 285701	30,500		7,110
Jan 7	Cheque # 285702	17,250		(10,140)
Jan 10	Cheque # 285704	285		(10,425)
Jan 12	Deposit		42,750	32,325
Jan 13	Cheque # 285705	16,000		16,325
Jan 23	Cheque # 285706	36,500		(20,175)
Jan 28	Deposit		8,000	(12,175)
Jan 29	Bank interest	140		(12,315)
Jan 30	Returned cheque	8,000		(20,315)
Jan 31	TT		13,000	(7,315)

Step 3: Update the Bank account for the following discrepancy items

■ E.g. bank interest, dishonoured cheques, telegraphic transfers

Dragon Company
Bank

Year 9		\$	Year 9		\$
Jan 1	Balance b/d	15,830	Jan 3	Somy Corp (#285,701)	30,500
Jan 4	Blueberry Ltd	21,780	Jan 4	Office Furniture: OK (#285702)	17,250
Jan 12	Plum Ltd	24,750	Jan 7	Electricity: H K Electric (#285704)	285
Jan 12	Cherry Co	18,000	Jan 10	Kowloon (#287505)	16,000
Jan 28	Lemon Ltd	8,000	Jan 23	Somy Corp (#285706)	36,500
Jan 31	Cherry Co	35,640	Jan 30	Salary: Mary Kwan (#285707)	10,000
Jan 31	Green Trees	13,000	Jan 31	Bank interest	140
			Jan 31	Lemon Ltd: Returned cheque	8,000
			Jan 31	Balance c/d	18,325
		137,000			137,000

Step 4: Analyse the following unpaired items and find their financial effects on the bank statement.

(a) Money deposited after the cheque clearing cut-off time

Deposits in transit/Uncredited cheques

Cash book has recorded the receipt but not so for the bank. This would result in a smaller/~~greater~~* balance in bank statement compared to the Cash Book (Bank account).

(b) Cheque issued but not presented for payment by payee is called

Unpresented cheque

Cash book has recorded the payment but bank has not. This would then result to a smaller/~~greater~~ balance in bank statement compared to the Cash Book (Bank account).

Step 5: Formalise the explanation in a proper statement.

Dragon Company	
Bank Reconciliation Statement as at 31 January Year 9	
	\$
Balance per adjusted cash book balance	18,325.00
<u>Add</u> Unpresented cheque (cheque no. 285707)	<u>10,000.00</u>
	28,325.00
<u>Less</u> Deposit in transit	<u>(35,640.00)</u>
Overdraft per bank statement	<u><u>(7,315.00)</u></u> OD

Conclusion: Prima facie, there ~~is~~is not a misappropriation of funds by the former employee because the updated bank account balance matched the bank statement.

Activity 3 - Group Discussion

Possible measures to avoid misappropriation of funds:

1. All payments should be made by cheque as far as practicable.
2. Payments should only be made for purchases duly authorised by the management and supported by purchase order, delivery note to confirm receipt as to the exact quantity and quality of goods.
3. Bills paid should be stamped with "PAID" and affixed with a copy of the cheque issued.
4. All cash should be banked intact on a daily basis.
5. Accounting records such as sales invoices, purchase orders should be pre-numbered to avoid omission or duplication of record. This also helps the audit trail process.
6. Always take advantage of cash discounts offered by vendors if funding permits.
7. Bank reconciliation statement should be prepared on a regular basis which helps to highlight fraud and error.

LESSON 2

Activity 4:

Activity 4A

- (A) Error of principle
- (B) Error of complete reversal of entries
- (C) Error of commission
- (D) Error of original entry
- (E) Error of omission
- (F) Compensating error

Activity 4B

Reasons:

- Transactions are recorded using the double entry method so that every debit must have a corresponding credit in the ledger account.
- There were no single debit and credit entries made to the accounts in the above error.
- A wrong amount has been used for both the debit and credit entry.

Activity 4C




Suggested ways

- A. Accountant found that the monthly total purchases day book did not match the company's purchases account. Upon reviewing the purchase account, the accountant found that there was a household electricity expense relating to Mr. Lung, the owner of the company.
- B. There is a difference shown between the bank statement balance and the cash book balance. Investigating the difference, the accountant found a cheque paid to OK Furniture Co was recorded as a debit in the cash book.
- C. Plum Ltd phoned us and complained that the statement we sent them showed an unpaid amount which they had already paid.
- D. Cherry Co paid an invoice for \$30,000.
- E. The property owner sent an overdue rent reminder to the company and the accountant found that this month's rent expense was absent from the profit and loss account.
- F. The errors were found when the manager asked another staff to re-calculate the sales and purchases journals.

Activity 5: Help your boss

Date	Particulars	Dr. \$	Cr. \$
(A) Year 8/12/31	Drawings Purchases Being drawings incorrectly recorded as company purchases. (Correction - Error of principle)	600	600
(B) Year 8/12/31	OK Furniture Co Ltd (\$200 x 2) Cash Being cash payment to OK Furniture Co Ltd recorded in the wrong side of accounts. (Correction - Error of complete reversal of entries)	400	400
(C) Year 8/12/31	Blueberry Co Ltd Plum Co Ltd Being cash receipt from Plum Co Ltd wrongly credited to Blueberry Co Ltd. (Correction - Errors of commission)	500	500
(D) Year 8/12/31	Cherry Co (\$30,000 - \$12,000) Sales Being sales to Cherry Co recorded in incorrect amount. (Correction - Error of original entry)	18,000	18,000
(E) Year 8/12/31	Rent Accounts payable - Property Co Ltd Being rent due but not recorded in the books. (Correction - Error of omission)	15,000	15,000
(F) Year 8/12/31	Sales Purchases Being sales and purchases journals both overstated. (Correction - Compensating error)	300	300

Activity 6: Profit Bingo**Workings:-**

	 Errors	Profit	 Amount
Date	Fill in the accounts affected and circle if they are to profit and loss (P/L) account or balance sheet account (B/S).	Circle: Affect (✓) Not Affect(X)	+ \$ / - \$ / ~
(A) Year 8/12/31	Dr. Drawings P/L ; <input type="checkbox"/> B/S Cr. Purchases <input type="checkbox"/> P/L ; B/S	<input checked="" type="checkbox"/> / X	+\$600
(B) Year 8/12/31	Dr. OK Furniture Co P/L ; <input type="checkbox"/> B/S Cr. Cash P/L ; <input type="checkbox"/> B/S	✓ / <input type="checkbox"/> X	~
(C) Year 8/12/31	Dr. Blueberry Ltd P/L ; <input type="checkbox"/> B/S Cr. Plum Ltd P/L ; <input type="checkbox"/> B/S	✓ / <input type="checkbox"/> X	~
(D) Year 8/12/31	Dr. Cherry Co P/L ; <input type="checkbox"/> B/S Cr. Sales <input type="checkbox"/> P/L ; B/S	<input checked="" type="checkbox"/> / X	+ \$18,000
(E) Year 8/12/31	Dr. Rent <input type="checkbox"/> P/L ; B/S Cr. Accounts payable - Property Co Ltd P/L ; <input type="checkbox"/> B/S	<input checked="" type="checkbox"/> / X	- \$15,000
(F) Year 8/12/31	Dr. Sales <input type="checkbox"/> P/L ; B/S Cr. Purchases <input type="checkbox"/> P/L ; B/S	✓ / <input type="checkbox"/> X	- \$300 + \$300

Total effect on Profit / loss: \$3,600 (☐ Increase / Decrease in Profit)

After adjustment, the Income Statement would be:

Dragon Company		
Income statement for the year ended 31 December Year 8		
	\$	\$
Sales		1,127,550
Less: Returns inwards		3,600
		<u>1,123,950</u>
Cost of goods sold:		
Opening stock	23,650	
Purchases	<u>539,830</u>	
	563,480	
Less: Closing stock	<u>15,800</u>	547,680
Gross profit		576,270
Less expenses:		
Electricity	18,750	
Rent	180,000	
Salaries	411,500	
Other operating expenses	<u>200</u>	610,450
Net loss		<u><u>(34,180)</u></u>

LESSON 3

Activity 7: Group Discussion

Case 1: Sales Day Book is understated.

Which account(s) is/are affected? What is the effect?

Sales account is understated.

What can be done to rectify the errors?

(a)	Dr Suspense
(b)	Profit understated
(c)	No effect on assets/liabilities
(d)	Dr Suspense Cr Sales

Case 2: Closing stock is overstated after Trading Account has been drawn up.

Which account(s) is/are affected? What is the effect?

Closing stock account is overstated.

What can we do to rectify the errors?

(a)	Trial balance is balanced because the same 'wrong' amount is used to record the closing stock (Dr Closing Stock, Cr Trading Account). No entry is to be made in Suspense .
(b)	Profit overstated because the greater the closing stock, the smaller the cost of goods sold and thus the higher the profit.
(c)	Assets (Stock) is overstated.
(d)	Dr Profit and Loss Cr Closing Stock

Case 3: Machinery Repairs being recorded as Machinery

Which account(s) is/are affected? What is the effect?

Machinery Repairs is overstated while Machinery account is understated.

What can we do to rectify the errors?

(a)	Trial balance is incorrect though it is balanced. It is because as the wrong accounts are used, both the Machinery Repairs (Revenue expenditure) and Machinery (Capital expenditure) show an incorrect figure.
(b)	<p>Profit is understated as the expense of Machinery Repairs is overstated.</p> <p>The incorrect treatment of expenditures has resulted in an understated fixed assets figure. While cost of fixed asset is being depreciated over its useful life and the depreciation expense is charged against P&L in the year. It inadvertently results in a higher profit.</p>
(c)	The net book value of the fixed assets are incorrectly increased.
(d)	<p>Dr Machinery</p> <p>Cr Machinery Repairs</p> <p><u>And</u></p> <p>Dr Profit and Loss - Depreciation</p> <p>Cr Provision for Depreciation on Machinery</p>

Case 4: Payroll cheque recorded as debit bank and credit salaries.

Which account(s) is/are affected? What is the effect?

Bank account is overstated and Salary account is understated by the amount of the cheque.

What can be done to rectify these errors?

(a)	Trial balance is incorrect though it is balanced. It is because the same "wrong" amount is entered on the reverse side of both accounts
(b)	Profit overstated because the salary expenses are understated.
(c)	Assets (Bank) is overstated because a payment is entered as the receipt.
(d)	Dr Salaries Cr Bank for double of the cheque amount.

Activity 8: Problem Solving

Step 1:

Compare the entries in the bank statement and bank account.

Identify the entries shown in the bank statement only.

	Amount
(A)	\$10,000
(B)	\$250
(C)	\$14,696
(D)	\$211
(E)	\$678

Note: Sequence of answers may vary for each student.

Step 2:

Update the Bank Account and complete the corresponding double entries as follows:

Journal		Dr	Cr
		\$	\$
(1)	Bank	10,000	
	Debtor - P		10,000
(2)	Subscription	250	
	Bank		250
(3)	Debtor - O	14,696	
	Bank		14,696
(4)	Bank interest	211	
	Bank		211
(5)	Printing	678	
	Bank		678

Step 3:

Check the entries against the source documents such as Day Books, opening balances from previous year's financial statement, etc.

Identify the errors and make correction entries. Number the errors found using (1), (2), (3), (4), (5), etc.

Notes:

After checking the source documents, day books, ledgers and opening balances, etc, the following errors are found for the month of January Year 19:

1. Total of Sales Day Book was understated by \$1,000.
2. Opening balance of Machinery account on 1 January Year 19 was \$254,000 instead of \$245,000.
3. Opening balance of Accrued Telephone \$138 at 1 January Year 19 was omitted.
4. The closing balance of Bank account should be \$31,873 instead of \$31,783.
5. Payments by cheque \$1,500 for Machinery repairs was entered in the Cash Book correctly but was debited to Machinery account.
6. Credit purchases from \$2,800 to Creditor B was mistakenly entered in Creditor C's account.
7. Returned goods of \$300 to Creditor C was completely reversed in the ledger entries.

(I) Errors affecting trial balance

No.	Amount
(1)	\$1,000
(2)	\$9,000
(3)	\$138
(4)	\$90

Complete the journal entries to correct the errors.

Journal		Dr	Cr
		\$	\$
(1)	Suspense	1,000	
	Sales		1,000
(2)	Machinery (\$254,000 - \$245,000)	9,000	
	Suspense		9,000
(3)	Suspense	138	
	Accrued Telephone		138
(4)	Bank (\$31,873-\$31,783)	90	
	Suspense		90

(II) Errors not affecting trial balance agreement.

No.	Amount	Name of the Error
(i)	\$1,500	Error of Principle
(ii)	\$2,800	Error of Commission
(iii)	\$300	Error of Complete reversal of entries

Journal		
	Dr	Cr
	\$	\$
(i) Machinery repairs	1,500	
Machinery		1,500
(ii) Creditor - C	2,800	
Creditor - B		2,800
(iii) Creditor - C	600	
Returns inwards		300
Returns outwards		300

Ledgers after reconciliation and correction of errors:

Machinery ¹					
Year 19			Year 19		
		\$			\$
Jan 1	Balance b/d	245,000	(i)	Machinery repairs	1,500
Jan 20	Bank	1,500			
(2)	Suspense	9,000			

Furniture ²							
Year 19			\$	Year 19			\$
Jan 1	Balance b/d		150,000				

Stock ³			
Year 19	\$	Year 19	\$
Jan 1	Balance b/d	15,800	

Debtor - M ⁴					
Year 19		\$	Year 19		\$
Jan 1	Balance b/d	25,304	Jan 25	Bank	25,304
Jan 10	Sales	20,300			

Debtor - N ⁵					
Year 19			Year 19		
		\$			\$
Jan 1	Balance b/d	90,000	Jan 26	Bank	87,000

Debtor - O ⁶					
Year 19			Year 19		
		\$			\$
Jan 1	Balance b/d	14,696	Jan 28	Bank	14,696
Jan 17	Sales	25,800			
(C)	Bank	14,696			

¹ Corrected balance at 31.1.Year 19 \$254,000² Corrected balance at 31.1.Year 19 \$150,000³ Corrected balance at 31.1.Year 19 \$15,800⁴ Corrected balance at 31.1.Year 19 \$20,300⁵ Corrected balance at 31.1.Year 19 \$3,000⁶ Corrected balance at 31.1.Year 19 \$40,496

Debtor - P ⁷

Year 19	\$	Year 19	\$
Jan 1 Balance b/d	10,000	(A) Bank	10,000

Bank⁸

Year 19	\$	Year 19	\$
Jan 31 Balance b/d	31,783	(B) Subscription	250
(A) Debtor - P	10,000	(C) Debtor - O	14,696
Suspense	90	(D) Bank interest	211
		(E) Printing (#302293)	678
		Balance c/d	26,038
	<u>41,873</u>		<u>41,873</u>

Bank (Alternative answer)

Year 19	\$	Year 19	\$
Jan 1 Balance b/d	29,573	Jan 3 Purchases (#302288)	19,100
Jan 4 Sales	20,000	Jan 7 Electricity (#302289)	1,300
Jan 25 Debtor - M	25,304	Jan 12 Rent (#302290)	15,000
Jan 26 Debtor - N	87,000	Jan 19 Purchases (#302291)	100
Jan 28 Debtor - O	14,696	Jan 20 Machinery Repairs (#302292)	1,500
(A) Debtor - P	10,000	Jan 27 Creditor - A (#302294)	27,200
		Jan 27 Creditor - B (#302295)	2,500
		Jan 27 Creditor - C (#302296)	45,000
		Jan 30 Salary - Chan (#302297)	18,000
		Jan 30 Salary - Lee (#302298)	15,000
		(B) Subscription	250
		(C) Debtor - O	14,696
		(D) Bank interest	211
		(E) Printing (#302293)	678
		Balance c/d	26,038
	<u>186,573</u>		<u>186,573</u>

⁷ Corrected balance at 31.1.Year 19 Nil⁸ Corrected balance at 31.1.Year 19 \$26,038

Loan ⁹

Year 19	\$	Year 19	\$
Jan 1		Balance b/d	200,000

Creditor - A ¹⁰

Year 19	\$	Year 29	\$
Jan 27	Bank	Jan 1	Balance b/d
	27,200	Jan 22	Purchases
			22,000

Creditor - B ¹¹

Year 19	\$	Year 19	\$
Jan 27	Bank	Jan 1	Balance b/d
	2,500	(ii)	Creditor - C
			2,800

Creditor - C ¹²

Year 19	\$	Year 19	\$
Jan 27	Bank	Jan 1	Balance b/d
(ii)	Creditor - B	Jan 3	Returns inwards
(iii)	Returns inwards	Jan 13	Purchases
(iii)	Returns outwards		

Capital ¹³

Year 19	\$	Year 19	\$
Jan 1		Balance b/d	311,235

Purchases ¹⁴

Year 19	\$	Year 19	\$
Jan 3	Bank		
Jan 19	Bank		
Jan 31	Creditors		

⁹ Corrected balance at 31.1.Year 19 \$200,000¹⁰ Corrected balance at 31.1.Year 19 \$22,000¹¹ Corrected balance at 31.1.Year 19 \$2,800¹² Corrected balance at 31.1.Year 19 \$3,000¹³ Corrected balance at 31.1.Year 19 \$311,235¹⁴ Corrected balance at 31.1.Year 19 \$44,000

Sales¹⁵

Year 19	\$	Year 19	\$
		Jan 4 Bank	20,000
		Jan 31 Debtors	45,100
		(1) Suspense	1,000

Electricity¹⁶

Year 19	\$	Year 19	\$
Jan 7 Bank	1,300		

Rent¹⁷

Year 19	\$	Year 19	\$
Jan 12 Bank	15,000		

Salaries¹⁸

Year 19	\$	Year 19	\$
Jan 30 Bank	18,000		
Jan 30 Bank	15,000		

Returns inwards¹⁹

Year 19	\$	Year 19	\$
Jan 31 Creditor - C	300	(iii) Creditor - C	300

Suspense²⁰

Year 19	\$	Year 19	\$
Difference in Trial Bal	7,952	(2) Machinery	9,000
(1) Sales	1,000	(4) Bank	90
(3) Accrued telephone	138		
	<u>9,090</u>		<u>9,090</u>

¹⁵ Corrected balance at 31.1.Year 19 \$66,100¹⁶ Corrected balance at 31.1.Year 19 \$1,300¹⁷ Corrected balance at 31.1.Year 19 \$15,000¹⁸ Corrected balance at 31.1.Year 19 \$33,000¹⁹ Corrected balance at 31.1.Year 19 Nil²⁰ Corrected balance at 31.1.Year 19 Nil

Accrued telephone ²¹

Year 19	\$	Year 19	\$
		(3) Suspense	138

Machinery repairs ²²

Year 19	\$	Year 19	\$
(i) Machinery	1,500		

Returns outwards ²³

Year 19	\$	Year 19	\$
		(iii) Returns inwards	300

Subscription ²⁴

Year 19	\$	Year 19	\$
(B) Bank	250		

Bank interest ²⁵

Year 19	\$	Year 19	\$
(D) Bank	211		

Printing ²⁶

Year 19	\$	Year 19	\$
(E) Bank	678		

²¹ Corrected balance at 31.1.Year 19 \$138

²² Corrected balance at 31.1.Year 19 \$1,500

²³ Corrected balance at 31.1.Year 19 \$300

²⁴ Corrected balance at 31.1.Year 19 \$250

²⁵ Corrected balance at 31.1.Year 19 \$211

²⁶ Corrected balance at 31.1.Year 19 \$678

Dragon Company		
Corrected Trial Balance as at 31 January Year 19		
	\$	\$
Machinery	254,000	
Furniture	150,000	
Stock at 1 January Year 19	15,800	
Debtor - M	20,300	
Debtor - N	3,000	
Debtor - O	40,496	
Bank	26,038	
Loan		200,000
Creditor - A		22,000
Creditor - B		2,800
Creditor - C		3,000
Capital		311,235
Purchases	44,000	
Sales		66,100
Electricity	1,300	
Rent	15,000	
Salaries	33,000	
Accrued telephone		138
Machinery repairs	1,500	
Returns outwards		300
Subscription	250	
Bank interest	211	
Printing	678	
	<u>605,573</u>	<u>605,573</u>

Dragon Company		
Bank Reconciliation Statement as at 31 January Year 19		
	\$	\$
Balance per Cash Book		26,038
<u>Add Unpresented cheque</u>		
#302287	2,000	
#302297	18,000	
#302298	15,000	35,000
Balance per Bank Statement on 31 January Year 19		<u>61,038</u>

BAFS Elective Part Accounting Module – Financial Accounting

Topic A03: Bank Reconciliation Statement and Correction of Errors

Technology Education Section
Curriculum Development Institute
Education Bureau, HKSARG
April 2009



Introduction

This session aims to reinforce students' understanding of the reasons for differences between the bank statement and cash book balances; and the techniques in reconciling such differences and preparing the bank reconciliation statement. Errors which cause and do not cause disagreement in the trial balance and the techniques to correct them will be discussed. Way that profit is affected by errors will also be identified.

Duration

Three 40-minute lessons

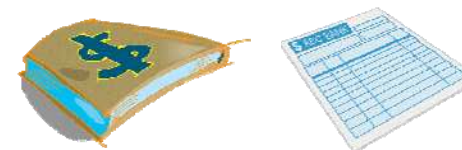
Contents

Lesson 1 – Bank Reconciliation Statement

Lesson 2 – Errors which Do not Cause Disagreement in Trial Balance

Lesson 3 – Errors which Cause Disagreement in Trial Balance

Lesson One Bank Reconciliation Statement



Topic A03
Bank Reconciliation and
Correction of Errors

2


BAFS Elective Part
Learning and Teaching Example

Lesson 1

Upon completion of this lesson, students will be able to:

- Understand the timing differences between the Bank Statement and Cash Book resulting reconciliation.
- Using the vouchers provided, create a Bank account by consolidating the accounting cycle learnt.
- Identify discrepancies by comparing a Bank account to a Bank Statement.
- Update the Bank account in the Cash Book and create the Bank Reconciliation Statement.
- Understand that the Bank Reconciliation Statement can be a internal control tool.
- Understand the methods to minimise the possibility of misappropriation of funds.

Record of Money owned by the Company



Cash Book

Bank Statement

Should these two records have the same balance on a particular date?

Topic A03
Bank Reconciliation and
Correction of Errors

3

BAFS Elective Part
Learning and Teaching Example

Teacher asks the students how to record the money owned by the company.

Suggested answers:


- (a) in the Cash Book by the company book-keeper; and
- (b) a mirror image provided by the bank in the form of bank statement sent to its customers at regular intervals.

The teacher then asks students whether these two records will have the same balance on a particular date. If their answer is:

- (a) Yes, go to the next page and explain to them why it is not the case.
- (b) No, with compliment remarks and go to the next page.

Discrepancies between bank statement and cash book

- Timing differences
 - How long would it take for a cheque to be sent to our supplier in Singapore?



Topic A03
Bank Reconciliation and
Correction of Errors

4

BAFS Elective Part
Learning and Teaching Example

Teacher explains that recording should be done once the transaction has occurred.

Ask students how they would send the cheque to a Singapore vendor.

If this is done by mail, it may take 4 to 5 days. Even if it is by courier, it may reach the vendor on the next day. However, it takes 2 working days for a local banking system, or even longer for the Singapore vendor to deposit the cheque into their HK\$ account with a Singapore bank then must send it back to Hong Kong for clearing.

Discrepancies may happen ...

- An overseas customer chooses to wire the money to us without sending us the cheque physically (electronic money transfer).
- Bank charges us overdraft interest.

Similarly, an overseas customer may find it more convenient to ask his bank to debit his own account directly for remitting the money to us. However, we will not be aware of the remittance until we receive the credit advice or bank statement.

Bank would charge the company interest directly for amount overdrawn.

Again, discrepancies will appear between the balance of bank statement and cash book.

For Explaining the Differences



In reality, the bank account (Cash Book) and the bank statement will not reflect the same balance on any given date even though neither party has not done anything wrong. Hence, we have to prepare the Bank Reconciliation Statement.

Causes of Differences:

Entries which were made in cash book only

- Unpresented cheques
- Deposit in transit/Uncredited item
- Errors in the cash book

Topic A03
Bank Reconciliation and
Correction of Errors

7

BAFS Elective Part
Learning and Teaching Example



Unpresented cheques refer to cheques issued to payee who has not presented to his bank for payment.

Deposit in transit/Uncredited item refers to receipts not yet deposited in the bank account or have been kept in the deposit drop-in box after banking business hours.

Occasionally, the book-keeper may make a mistake in the cash book, eg, entering a transaction on the wrong side of the cash book, thereby recording an incorrect balance from the previous page, or omit an entry, etc.

Causes of Differences:

Entries which were made in bank statement only

- Standing Order
- Direct debit
- Credit transfer
- Bank charges
- Dishonoured cheques
- Bank Errors

Topic A03
Bank Reconciliation and
Correction of Errors

8

BAFS Elective Part
Learning and Teaching Example



Teacher explains that the bank will charge (debit) the company's account for a prior auto-pay arrangement in terms of standing order or direct debit, eg monthly donation of a fixed amount to the Community Chest, payment of electricity to Hong Kong Electric, etc. The book-keeper may realise and record these items in the cash book **only** after receipt of the bank statement. Standing Order can also serve with a receipt purpose.

A customer may choose to settle his account by bank transfers. The details may only be known when the bank statement/phone banking/online banking enquiry is checked.

The bank will charge for services such as overdraft facility, inward/outward remittance, setup of direct debit arrangements and issuance of cheque books for some banks.

If a cheque deposited fails to clear, because of, eg, insufficient funds, unverifiable signature or at the order of the drawer, the bank will debit the account for the returned cheque.

Sometimes the bank might, by mistake, debit or credit the company's account though it is unlikely in the Hong Kong banking system.

What can we do
if discrepancies
are found?



Steps for Reconciliation

(1) Pair up entries in Bank Account with those on the Bank Statement.

(2) Update Bank Account for items found on the Bank Statement only.

(3) Correct Errors found in the Bank Account.

(4) Prepare Bank Reconciliation Statement with the adjusted Bank account difference

The reconciliation process starts by comparing the monthly bank statement with the cash book for the corresponding period. If the opening balance on the bank statement does not correlate with the cash book, check for any outstanding items in the bank reconciliation statement of the preceding period now appearing on the current bank statement.

Match entries appearing in both the current period cash book and bank statement. Adjust for discrepancies shown in the bank statement only. At this point any errors disclosed in the cash book should be updated as well. Then we'll have a 'clean' bank balance in the cash book.

Prepare the bank reconciliation statement starting with the adjusted cash book bank balance to arrive at the balance shown on the bank statement. Adjust entries shown in the cash book with a/an:

- (a) Increase for
 - (i) Items on the payments side, e.g. unrepresented cheque
 - (ii) Error of incorrect deposits made by the bank
- (b) Decease for
 - (i) Items on the receipts side, e.g. deposits in transit
 - (ii) Error of incorrect withdrawals made by the bank

Activity 1: Matching



Refer to Student Worksheet p. 1 – 2. Students must verbally distinguish the discrepancy items for reconciliation listed either in cash book or bank statement. They must also show the effects on the cash book/bank statement balances.

Objectives of the activity:

- Identify the discrepancy items listed on either cash book or bank statement and their impact on the bank balance.
- Distinguish discrepancy items shown on bank statement or cash book only.
- Identify their effects on bank balance.



Activity 2: Problem Solving

The Case Study of Dragon Limited

Refer to Student Worksheet p. 3 – 15. The case of Dragon Company is used to help students understand and apply the skills in creating the bank account in the ledger and prepare the bank reconciliation statement.

Objectives of the activity:

- Apply the skills of creating the Cash Book (Bank only) from the source documents: cheque counterfoils, pay-in-slips, etc.
- Invoice and pro-forma invoices are provided for further study.
- Identify the reconciliation process discrepancies.
- React to the discrepancies.



- Dragon Company is an electronic appliances wholesaler with its year end on 31 December. It is also the sole agent of Somy Corporation. The business has experienced a downturn during the past two years with poor financial control and inefficient accounting information management.
- You are asked to answer questions about this Company in the coming Activities.

In this activity, a set of documents were provided for students in helping the manager of Dragon Company to determine if there is any misappropriation of funds by a former employee.

Students can do it in groups and they have 15 minutes to complete the task.

Teacher can now use a few minutes to introduce those documents (slide #14-18) to students.

CUSTOMER'S CREDIT ADVICE						BANK OF HONG KONG LTD		Date: Year 9/01/04	
A/C Name		Dragon Company							
A/No.		006-012-0-21221-1			Currency		HKD		
Please note the conditions printed on the back of the customer's Credit advice	Cheque No.	Bank/Branch	Amount	Cheque No.	Bank/Branch	Amount			
	787940	012813	21,780.00						
	Remarks			Cheque Total	*****21,780.00				
				Transfer Total	*****				
			Cash Total	*****					
F00000127000 Year 9/01/04 13:01:04 20801 61841A 41293 00000 01234									

Pay-in Slip

Topic A03
Bank Reconciliation and
Correction of Errors

14

BAFS Elective Part
Learning and Teaching Example

Refer to Student Worksheet p. 4. When money is deposited into the bank account, the bank will acknowledge receipt on the pay-in-slip.

BANK OF HONG KONG LTD		
DATE 10/1/Year 9		
TO Somy Corporation		
BAL B/F		
AMT DEPOSITED		
AMT DEPOSITED		
TOTAL		
AMT THIS CHECK	16,000.00	
BAL C/F		
CH No. 285701 Can recorder (PO A370)		

Cheque Counterfoil


Refer to Student Worksheet p. 6. A cheque counterfoil is that part of a cheque that is retained in the cheque book as a record. A cheque will be torn off from the cheque book leaving the counterfoil for record or identification purposes.

 DRAGON COMPANY Unit 373, 25 Kwun Tong Road, Kowloon, Hong Kong e-mail: sales@dragon.com.hk		Tel 2727 1111 Fax 2727 2222	
Blueberry Ltd		INVOICE Invoice No. A21221 Date 28 Dec Yr 8 Term 1/5, N10	
PO No.	Description	Quantity	U/Price (HK\$)
09-103	Somy XP DC	22 pc	1,000.00
			22,000.00
TOTAL: HONG KONG DOLLARS TWENTY-TWO THOUSAND ONLY			
Received the above goods in order and good condition		For and on behalf of Dragon Company	
Chop and Sign		 Authorised Signature	
E&OE			


Sales Invoice

Refer to Student Worksheet p. 8. An invoice or bill is a commercial document issued by a seller to the buyer, indicating the products, quantities, and agreed prices for products or services the seller has provided for the buyer. An invoice indicates the buyer must pay the seller, according to the payment terms.

From the seller's perspective, an invoice is a *sales invoice*. The buyer sees it as a *purchase invoice*. The document indicates the buyer and seller, but the term *invoice* indicates money is owed.



DRAGON COMPANY
Unit 373, 25 Kwun Tong Road, Kowloon, Hong Kong
Tel 2727 1111 Fax 2727 2222
e-mail: sales@dragon.com.hk



PRO-FORMA INVOICE

Green Trees (Macau) Ltd

PO No.	Description	Quantity	U/Price (HK\$)	Amount (HK\$)
G201	Sony XP Camrecorder	13 pc	1,000.00	13,000.00
				13,000.00

TOTAL: HONG KONG DOLLARS THIRTEEN THOUSAND ONLY

Received the above goods in order and good condition

Chop and Sign _____

Invoice No. A21227
Date 28 Jan Yr 9
Term Prepaid

For and on behalf of
Dragon Company

E&OE
Authorised Signature

Topic A03
Bank Reconciliation and
Correction of Errors

17

BAFS Elective Part
Learning and Teaching Example


Refer to Student Worksheet p. 11.

In trade transactions, a pro forma invoice states the commitment from the seller to sell the goods to the buyer at the specified price and terms. It is used to declare the value of the sale. It is not a true invoice, because it is not used to record Debtors for the seller and Creditors for the buyer.

Simply, a 'Proforma Invoice' is a Confirmed Purchase Order where buyer and Supplier agree on the Product Detail and its cost to buyer. The content of a pro forma invoice is almost identical to a commercial invoice. It is usually considered a binding document although the price might change prior to the final sale.

BANK OF HONG KONG LTD

DRAGON COMPANY
Unit 373, 25 Kwun Tong Road
KLN



KWUN TONG BRANCH
ACC NO. 006-012-0-21221-1
CURRENCY HKD

STATEMENT OF ACCOUNT

DATE	DETAILS	WITHDRAWALS	DEPOSITS	BALANCE
Year 901231	BALANCE BROUGHT FORWARD			19,830.00
Year 901004	Deposit		21,780.00	37,610.00
Year 901004	Cheque #285701	30,500.00		7,110.00
Year 901007	Cheque #285702	17,250.00		(10,140.00)
Year 901010	Cheque #285704	285.00		(10,425.00)
Year 901012	Deposit		42,750.00	22,325.00
Year 901013	Cheque #285705	16,000.00		16,325.00
Year 901023	Cheque #285706	36,500.00		(20,175.00)
Year 901028	Deposit		8,000.00	(12,175.00)
Year 901029	Bank interest	140.00		(12,315.00)
Year 901030	Returned cheque	8,000.00		(20,315.00)
Year 901031	TTI		13,000.00	(7,315.00)
Total no. of withdrawals 7		amounting to 168,675.00	As at Year 901031	Balance (7,315.00)
Total no. of deposits 4		amounting to 85,530.00		

Please examine and verify each and every entry regarding the transaction(s) set out in this statement and notify the Bank immediately in writing of any entry which you consider wrong, irregular and/or unauthorized. Unless the Bank receives such notice within 90 days of the date of this statement, each and every entry concerning the transaction(s) set out in this statement shall be conclusively binding on you and you shall not be entitled to dispute any entry recorded in this statement on whatever ground. Please advise the Bank immediately of any change of correspondence address.

Topic A03
Bank Reconciliation and
Correction of Errors

18

BAFS Elective Part
Learning and Teaching Example

Bank Statement

Refer to Student Worksheet p. 12.

A bank statement is a bank report (released on a fixed date every month) that lists deposits, withdrawals, cheques paid, and service charges incurred on an account. It shows the cumulative effects of these transactions and the account's balance, up to the date the report was prepared.

Dragon Company Bank					
Year 9		\$	Year 9		\$
Jan 1	Balance b/d	15,830	Jan 3	Somy Corp (#285701)	30,500
Jan 4	Blueberry Ltd	21,780	Jan 4	Office Furniture: Ikea (#285702)	17,250
Jan 12	Plum Ltd	24,750	Jan 7	Electricity: H K Electric (#285704)	285
Jan 12	Cherry Co	18,000	Jan 10	Kowloon (#287505)	16,000
Jan 28	Lemon Ltd	8,000	Jan 23	Somy Corp (#285706)	36,500
Jan 31	Cherry Co	35,640	Jan 30	Salary: Mary Kwan (#285707)	10,000
			Jan 31	Balance c/d	13,465
		124,000			124,000
Feb 1	Balance b/d	13,465			

Topic A03
Bank Reconciliation and
Correction of Errors

19

BAFS Elective Part
Learning and Teaching Example

Teacher begins checking the answer with students.

Teacher shows students that the bank account balance is different from the bank statement balance.

Dragon Company Bank (Revised)					
Year 9		\$	Year 9		\$
Jan 1	Balance b/d	15,830	Jan 3	Somy Corp (#285701)	30,500
Jan 4	Blueberry Ltd	21,780	Jan 4	Office Furniture: Ikea (#285702)	17,250
Jan 12	Plum Ltd	24,750	Jan 7	Electricity: H K Electric (#285704)	285
Jan 12	Cherry Co	18,000	Jan 10	Kowloon (#287505)	16,000
Jan 28	Lemon Ltd	8,000	Jan 23	Somy Corp (#285706)	36,500
Jan 31	Cherry Co	35,640	Jan 30	Salary: Mary Kwan (#285707)	10,000
Jan 31	Green Trees	13,000	Jan 31	Bank interest	140
			Jan 31	Lemon Ltd – Ret cheque	8,000
			Jan 31	Balance c/d	18,325
		130,000			130,000
Feb 1	Balance b/d	18,325			

Topic A03
Bank Reconciliation and
Correction of Errors

20

BAFS Elective Part
Learning and Teaching Example

Teacher shows students the adjusted bank account incorporating all items shown in the bank statement.

Dragon Company			
Bank Reconciliation Statement as at 31 January Year 9			
	\$		
Balance per adjusted cash book balance	18,325.00		
<u>Add</u> Unpresented cheque (cheque no. 285707)	10,000		
	28,3250.00		
<u>Less</u> Deposit in transit	(35,640.00)		
Overdraft per bank statement	<u>(7,315.00)</u>	OD	

Topic A03
Bank Reconciliation and
Correction of Errors

21

BAFS Elective Part
Learning and Teaching Example

A bank reconciliation statement is prepared which reconciles the “adjusted” balance on the cash book with the balance on the bank statement.

Summary			
Discrepancies found in Cash Book →			
Bank Reconciliation Statement			
Nature	Change in Cash Book	Adjustment in Bank Reconciliation Statement	
Unpresented cheque	-	Increase	
Deposit in transit/Uncredited item	-	Decrease	
Receipts Overstated	Decrease	-	
Payments Overstated	Increase	-	

Topic A03
Bank Reconciliation and
Correction of Errors

22

BAFS Elective Part
Learning and Teaching Example

Teacher reiterates that only unpresented cheques and deposits in transit should be shown on the bank reconciliation statement.

Should there be a bank overdraft on the bank statement, the same steps apply except the amount is in parenthesis ending with the suffix “OD”.

Students should be reminded that errors identified in the cash book must be corrected before the reconciliation.

Discrepancies found in Bank Statement → Update Cash Book

Nature	Change in Cash Book	Adjustment in Bank Reconciliation Statement
Auto-pay /Standing order payments/Direct Debit	Decrease	-
Standing order receipts	Increase	
Dishonoured cheque	Decrease	-
Credit transfer	Increase	-
Bank charges	Decrease	-
Withdrawal by mistake	-	Decrease
Deposit by mistake	-	Increase

Topic A03
Bank Reconciliation and
Correction of Errors

23

BAFS Elective Part
Learning and Teaching Example

Teacher continues to conclude that the items requiring updating in the cash book include: standing order payments/receipts, auto-pay, dishonoured cheque, credit transfer, bank charges, bank interest.

Any bank errors should be dealt with on the bank reconciliation statement with the bank duly informed.

The preparation of the bank reconciliation statement is an ongoing exercise which acts as an important internal control tool.



Activity 3: Group Discussion

Topic A03
Bank Reconciliation and
Correction of Errors

24

BAFS Elective Part
Learning and Teaching Example

Teacher asks students to divide into groups of 4 to 5 students to find out measures which can effectively and efficiently protect the assets of cash to avoid misappropriation of funds in small businesses.

Objectives of the activity:

- Identify measures to minimise the possibility of misappropriation of funds.
- Apply internal control and cash management in small businesses.

Students can refer to Student Worksheet p.16 for details.

Internal Control

- Segregation of duty
- Preparation of Bank Reconciliation Statement



Topic A03
Bank Reconciliation and
Correction of Errors

25

BAFS Elective Part
Learning and Teaching Example

The responsibility for keeping of bank account should be separate from preparation of the bank reconciliation statement to avoid duplication of potential errors and fraud.

Fraud occurs when a cashier or clerk steals cash from one customer's payment and covers it up by stealing cash from the next customer's payment ... and so on. For small size businesses, it is easier where cash handling and cash recording duties are handled by one person. A bank reconciliation statement can help to locate any fraud and or errors.

End of Lesson 1

Lesson Two

Correction of Errors (I) - Errors which do not cause disagreement of trial balance



Topic A03
Bank Reconciliation and
Correction of Errors

26


BAFS Elective Part
Learning and Teaching Example

Lesson 2

This session provides students will be able to:

- understand and differentiate the six types of errors that do not affect the trial balance.
- understand why these errors do not affect the trial balance.
- understand how these errors could be identified.
- understand how to correct these errors through journal entries.
- understand the effects of errors on profit calculations and how to prepare a corrected profit and loss statement.

Are they safe?



Have you ever watched the Chinese acrobatic circus? Or the tightrope walking?

They fall if they could not maintain balances.

Can you remember a Beijing Olympic Gold Medalist who missed her balance in the semi-final?

Topic A03
Bank Reconciliation and
Correction of Errors


27

BAFS Elective Part
Learning and Teaching Example

Teacher asks students if they have ever watched the Chinese acrobatic circus or the tightrope walking.

- (1) Chinese acrobatic circus specialises in the art of jumping, tumbling, and balancing, requiring agility and skilful control of the body. Tightrope walking requires balances of the body when walking on a rope.
- (2) The performers will fall if they do not maintain their balance. Olympic Gold Medalist, He Kexin in Beijing 2008 is no exception to this rule.
- (3) Similar to Chinese acrobatic circus performance and tightrope walking, if a trial balance is not in balance, there are errors.
- (4) However, it still cannot be assumed it is error free even if the trial balance is in balance.

Is this Trial Balance correct?



Dragon Company
Trial balance as at 31 December Year 6

	Dr \$	Cr \$
Building	100	
Cash	150	
Capital		120
Creditors		130
	<u>250</u>	<u>250</u>

Dr Totals = Cr Totals

Topic A03
Bank Reconciliation and
Correction of Errors

28

BAFS Elective Part
Learning and Teaching Example

- (1) Just as the slide shows, even though the trial balance is in balance, we know there is something wrong because the Furniture account appears on the credit side of the trial balance.
- (2) After investigation, the accountant found that creditor's account of \$130 was mistakenly written as Furniture account in the above trial balance, and must be corrected.
- (3) When preparing the trial balance, we need to check the reasonableness and consistency of the data and accounts from the supporting documents. (eg. Invoices, ledgers, journals, etc) in order to prevent such errors.
- (4) Usually we would have 6 types of errors that could happen without affecting the trial balance equality.

Errors that do not affect equality of trial balance

Balance ≠ Error-free



Can you name those types of errors?

Topic A03
Bank Reconciliation and
Correction of Errors

29

BAFS Elective Part
Learning and Teaching Example

Teacher tells the students that even if the trial balance is in balance, it does not mean that there are no mistakes in the accounting records.

Teacher then introduces the six types of errors not affecting the equality of trial balance, that is:

- 1.Errors of commission
- 2.Errors of principle
- 3.Errors of original entry
- 4.Errors of omission
- 5.Compensating errors
- 6.Errors of complete reversal

1. Errors of commission



Example: Paid Somy Corp. by cheque \$6,000. It was correctly entered in the cash book, but was entered by mistake in the account of Somi Co.



Correction:

	Dr	Cr
	\$	\$
Somy Corp	6,000	
Somi Co		6,000

Topic A03
Bank Reconciliation and
Correction of Errors

30

BAFS Elective Part
Learning and Teaching Example

These errors arise when the correct amounts are entered, but not to the correct account even though the accounts are in the same group.

2. Errors of principle



Example: The purchase of a motor van \$80,000 by cheque was debited in error to the motor expenses account.

Correction:

	Dr	Cr
	\$	\$
Motor van	80,000	
Motor expenses		80,000

Topic A03
Bank Reconciliation and
Correction of Errors

31

BAFS Elective Part
Learning and Teaching Example

These errors arise where an item is entered in the wrong type of account.

3. Errors of original entry



Example: Credit purchase of \$17,000 from Somy Corp has been entered as both as a \$10,000 debit and a credit.

Correction:

	Dr	Cr
	\$	\$
Purchases	7,000*	
Somy Corp		7,000

* \$17,000 - \$10,000 = \$7,000

Topic A03
Bank Reconciliation and
Correction of Errors

32

BAFS Elective Part
Learning and Teaching Example

These errors arise when the same incorrect amounts are entered in debit and credit of the ledger accounts.

4. Errors of omission



Example: Goods purchased from Somy Corp for \$2,000 -- but no entry made in the books.

Correction:

	Dr	Cr
	\$	\$
Purchases	2,000	
Somy Corp		2,000

Topic A03
Bank Reconciliation and
Correction of Errors

33

BAFS Elective Part
Learning and Teaching Example

These errors will arise when transactions are completely omitted from the books.

5. Compensating errors



Example: Both the stationery expense and the commission income were overcast by \$50. These errors offset the effect on the other.

Correction:

	Dr	Cr
	\$	\$
Commission income	50	
Stationery expenses		50

Topic A03
Bank Reconciliation and
Correction of Errors

34

BAFS Elective Part
Learning and Teaching Example

There are 2 or more errors which have offset the effect of the other. The errors do not have to be related in any way.

6. Errors of complete reversal of entries



Example: A cheque of \$400 was paid to OK Furniture Co. for amount owing. \$400 was debited to cash book and \$400 was credited to OK Furniture Co account.



Correction:

OK Furniture Co.
Bank

Dr	Cr
\$	\$
800*	800

* \$800 = \$400 x 2

Topic A03
Bank Reconciliation and
Correction of Errors

35

BAFS Elective Part
Learning and Teaching Example

This type of errors occurs where the correct accounts and correct amounts are used, but the entries were entered in the wrong side of the accounts.

Steps for Errors correction

- (1) Identify the errors.
- (2) Make the corrections.
- (3) Check if the corrections affect profit and loss accounts (P/L) or balance sheet (B/S) accounts
- (4) For those affecting P/L, quantify the effect and make adjustment to the company profit, by
Debiting profit and loss accounts → Profit ↓
OR
Crediting profit and loss accounts → Profit ↑

Topic A03
Bank Reconciliation and
Correction of Errors

36

BAFS Elective Part
Learning and Teaching Example

Teacher goes through steps as above for identifying and correcting the errors.

Students are required to understand the impact of errors to the profit / loss position of the company.

STEP 1	STEP 2			STEP 3	STEP 4
Types of Errors	Dr	Cr	\$	Effect on P/L accounts	Effect on profit
1 Errors of commission	Somy Corp (B/S)	Somi Corp (B/S)	600	Nil	Nil
2 Errors of principle	Motor van (B/S)	Motor expenses (P/L)	80,000	Yes	+ 80,000
3 Errors of original entries	Purchases (P/L)	Somy Corp (B/S)	7,000	Yes	- \$7,000

Topic A03
Bank Reconciliation and Correction of Errors

37

BAFS Elective Part
Learning and Teaching Example

Teacher leads students to identify the errors, correct the errors and understand the effects on profitability, step by step.

Types of Errors:

(1)Somi Co Account which was wrongly debited should be credited back to correct the error. Also Somy Corp should be debited to reflect the payment made. Because the accounts affected are all balance sheet accounts, there would be no impact on profit and loss.

(2)To record the purchase, the motor van account should be debited, not the motor expenses account. The correction should be made by debiting the motor van account and crediting the motor expenses account. Since the correction would affect the credit side of an expense account, the company profit would increase accordingly.

(3)The purchase from Somy Corp should be \$17,000 instead of \$10,000. Thus the purchase from Somy Corp is understated. Debiting purchases and crediting Somy Corp by \$7,000 could rectify the error. As the purchase account is a profit and loss account, the increase of \$7,000 purchase would lead to a decrease of \$7,000 in profit.

STEP 1	STEP 2			STEP 3	STEP 4
Types of Errors	Dr	Cr	\$	Effect on P/L a/cs	Effect on profit
4 Errors of omission	Purchases (P/L)	Somy Corp (B/S)	2,000	Yes	- \$2,000
5 Compensating errors	Commission income (P/L)	Stationery Expenses (P/L)	50	Net off	+ \$50 - \$50 = 0
6 Errors of complete reversal of entries	OK Furniture Co (B/S)	Bank (B/S)	800	Nil	Nil

Topic A03
Bank Reconciliation and Correction of Errors

38

BAFS Elective Part
Learning and Teaching Example

Teacher continues to lead students to identify the errors, correct the errors and understand the effects on profitability.

Types of Errors:

(4) Purchases from Somy Corp has been completely omitted. We simply record in the books by debiting \$2,000 to the purchase account and crediting \$2,000 to the Somy Co account. As the purchase account is a profit and loss account, increasing it will lead to a decrease of \$2,000 in profit.

(5) To correct the error, deduct both debit and credit sides with \$50. As the two errors compensate each other, there will be no effect on profit and loss.

(6) Issuing a cheque to a creditor should be recorded as debiting the creditor and crediting the bank. Entries reversal will have a double effect on both sides. Therefore, the correction should be done by debiting \$800 (\$400 x 2) to creditor – OK Furniture account and crediting the bank account. As both accounts are balance sheet accounts, they do not affect company profit.

Effects of Adjustments on Profit and Loss

- Before correcting the errors, the net profit of Dragon Company for the year ended 31 December Year 7 was \$12,000.

Errors	P/L accounts affected	Debit / Credit ?	+ Profit or - Profit ?
2	Motor expenses	Credit	+ \$80,000
3	Purchases	Debit	- \$7,000
4	Purchases	Debit	- \$2,000
5	Commission income	Debit	- \$50
5	Stationary expenses	Credit	+ \$50
	Total effect on P/L		+ \$71,000

After adjustment, the profit would be \$83,000.

Bank Reconciliation and
Correction of Errors

39

BAFS Elective Part
Learning and Teaching Example



The original profit of Dragon Company for the year ended 31 December Year 7 was \$12,000. After the adjustment, its profit is now \$83,000 (\$71,000 + \$12,000).

Summary Effects of errors on Profit:



Errors affecting P/L
accounts (eg. Sales)

→ **Affect profit**



Errors not affecting P/L
accounts (eg. Debtors)

→ **No effect on profit**

Topic A03
Bank Reconciliation and
Correction of Errors

40

BAFS Elective Part
Learning and Teaching Example



Students should identify the accounts that will be affected by the errors and the way it affects the company's profit.



Activity 4: Identify the errors

Refer to Student Worksheet p. 17. Teacher asks students to identify the 6 errors discovered on the accounting records with the type of error.

Teacher asks students to think why these 6 types of errors do not affect the trial balance.

Students can form groups to complete the whole task. (1A-1C).

Objectives of the activity:

- Distinguish the six types of errors which do not affect the trial balance.
- Understand why these type of errors do not affect the trial balance.



Activity 4: Identify the errors

Activity 4A:

As the bookkeeper of Dragon Company, you found the following errors from the company books. You are asked by your manager to identify the type of errors.

In this activity, students are required to study (A) to (F) and identify what types of errors each belongs to.

Students can write down the answer on Student Worksheet p.17.

Activity 4A: Identify the errors - Answers



- (A) Errors of principle
- (B) Errors of complete reversal of entries
- (C) Errors of commission
- (D) Errors of original entry
- (E) Errors of omission
- (F) Compensating errors

Teacher checks answers with students.

Activity 4B:



Why? Why? Why?



Do you know why these errors
do not affect agreement of the
trial balance totals?

Refer to Student Worksheet p. 18. Teacher asks students to think of possible answers why these errors do not affect agreement of trial balance totals.

Activity 4B: Answers

Why? Why? Why?



Reasons

- (1) Double Entry System: One Debit = One Credit
- (2) For the above errors to happen:
 - No Debit and No Credit at the same time.
 - Wrong amount for both Debit and Credit entry.

Teacher checks answers with students.

Activity 4C:

Think... How could you find the errors?

Discuss with your members to suggest one possible way to uncover errors (A) to (F) ?



Refer to Student Worksheet p.19. Teacher asks students to discuss the possible ways to locate the errors from (A) to (F). An example of (A) is given for students' reference.

Activity 4C: Answers

Think... How could you find the errors?

Answer for (A)

Accountant found that the total of monthly purchases day book did not match the purchases account of the company. Reviewing the purchases account details, the accountant found that there was an electricity expense relating to Mr. Lung's home.



Teacher checks answers with students.

Activity 4C: Answers

Think... How could you find the errors?

Answer for (B)

There is a difference between the bank statement balance and the cash book balance. Investigating the difference, the accountant found a cheque paid to Ikea Furniture Co was recorded as debit in the cash book.



Teacher checks answers with students.

Activity 4C: Answers

Think... How could you find the errors?

Answer for (C)

Plum Ltd phoned us and complained that the statement we sent them showed an unpaid amount which they had already paid us before the month end.



Teacher checks answers with students.

Activity 4C: Answers

Think... How could you find the errors?

Answer for (D)

Cherry Co paid us
\$30,000.



Teacher checks answers with students.

Activity 4C: Answers

Think... How could you find the errors?

Answer for (E)

The property owner sent the company an overdue rent reminder and the accountant found that there was no rent expense in profit and loss account for this month.



Teacher checks answers with students.

Activity 4C: Answers

Think... How could you find the errors?

Answer for (F)

The errors were found when the manager asked another staff member to re-calculate the sales and purchases journals.



Teacher checks answers with students.

Activity 5: Help your boss



Activity 5: Help your boss

Your boss, the accounting manager of Dragon Company, would like you to correct the errors identified in Activity 4 by means of journal entries.

Refer to Students Worksheet, p. 20. Teacher asks students to prepare journal entries for correction of errors and correct the profit.

Objectives of the activity:

- Understand the journal entries for correction of errors.
- Provide narratives to describe each type of errors corrected.
- Ascertain the effects on profit as affected by errors which are of nominal nature.

Activity 5: Help your boss - Answers



Date	Particulars	Dr. \$	Cr. \$
(A) Year 8/12/31	Drawings Purchases Being drawings incorrectly recorded as business purchases. (Correction - Error of principle)	600	600
(B) Year 8/12/31	Ikea Furniture Co (\$200 x 2) Cash Being cash payment to Ikea Furniture Co recorded in the wrong side of accounts. (Correction - Error of complete reversal of entries)	400	400
(C) Year 8/12/31	Blueberry Ltd Plum Ltd Being cash receipt from Plum Ltd wrongly credited to Blueberry Ltd. (Correction - Error of commission)	500	500

Topic A03
Bank Reconciliation and
Correction of Errors

55

BAFS Elective Part
Learning and Teaching Example

Teacher checks answers with students.

Activity 5: Help your boss - Answers



Date	Particulars	Dr. \$	Cr. \$
(D) Year 8/12/31	Cherry Co (\$30,000 - \$12,000) Sales Being sales to Cherry Co recorded in incorrect amount. (Correction - Error of original entry)	18,000	18,000
(E) Year 8/12/31	Rent Accounts payable - Property Co Ltd Being rent due but not recorded in the books. (Correction - Error of omission)	15,000	15,000
(F) Year 8/12/31	Sales Purchases Being sales and purchases journals both overstated. (Correction - Compensating error)	300	300

Topic A03
Bank Reconciliation and
Correction of Errors

56

BAFS Elective Part
Learning and Teaching Example

Teacher checks answers with students.



Activity 6: Profit bingo



Activity 6: Profit bingo



Your manager would like to know the impact of the errors identified in Activity 4 on the company's profit and loss.

You were provided the income statement for the Dragon Company (Before adjustment).



Refer to Students Worksheet p. 21, teacher asks students to complete a table of journal entries and amend the income statement for the Dragon Company.

Objectives of the activity:

- complete the journal entries to correct them.
- differentiate if the error will affect the company's profit.
- adjust the profit and loss account after the correction of errors.

Teacher can also explain the components of the profit and loss accounts, especially those accounts that will be affected by the errors.



Activity 6: Profit bingo

Please help the manager to determine the profit and loss position by completing the following table.



	Errors	Profit	Amount
Date	Fill in the accounts affected in correction of errors. Circle if they are profit and loss (P/L) or balance sheet account (B/S).	Circle:- Affect (✓) Not Affect(X)	+ \$ / - \$ / ~
(A) to (F) Year 8/12/31	Dr. P/L ; B/S Cr. P/L ; B/S	✓ / X	???

Topic A03
Bank Reconciliation and
Correction of Errors

59

BAFS Elective Part
Learning and Teaching Example

Teacher asks students to complete a table of journal entries and amend the trading and profit and loss accounts for Dragon Company.



Activity 6: Profit bingo - Answers



	Errors	Profit	Amount
Date	Fill in the accounts affected in correction of errors. Circle if they are profit and loss (P/L) or balance sheet account (B/S)	Circle:- Affect (✓) Not Affect(X)	+ \$ / - \$ / ~
(A) Year 8/12/31	Dr. Drawings Cr. Purchases	P/L ; B/S P/L ; B/S	✓ / X +\$600
(B) Year 8/12/31	Dr. OK Furniture Co Cr. Cash	P/L ; B/S P/L ; B/S	✓ / X ~
(C) Year 8/12/31	Dr. Blueberry Ltd Cr. Plum Ltd	P/L ; B/S P/L ; B/S	✓ / X ~

Topic A03
Bank Reconciliation and
Correction of Errors





60

BAFS Elective Part
Learning and Teaching Example

Teacher checks answers with students.



Activity 6: Profit bingo - Answers

				
	Errors		Profit	Amount
Date	Fill in the accounts affected in correction of errors Circle if they are profit and loss (P/L) or balance sheet account (B/S)		Circle:- Affect (✓) Not Affect(X)	+ \$ / - \$ / ~
(D) Year 8/12/31	Dr. Cherry Co	P/L ; B/S	✓ / X	+ \$18,000
	Cr. Sales	P/L ; B/S		
(E) Year 8/12/31	Dr. Rent	P/L ; B/S	✓ / X	- \$15,000
	Cr. Accounts payable - Property Co Ltd	P/L ; B/S		
(F) Year 8/12/31	Dr. Sales	P/L ; B/S	✓ / X	- \$300 + \$300
	Cr. Purchases	P/L ; B/S		

Total effect on Profit / loss: \$3,600 (Increase / Decrease in Profit)

Topic AHS
Bank Reconciliation and
Correction of Errors

61

BAFS Elective Part
Learning and Teaching Example

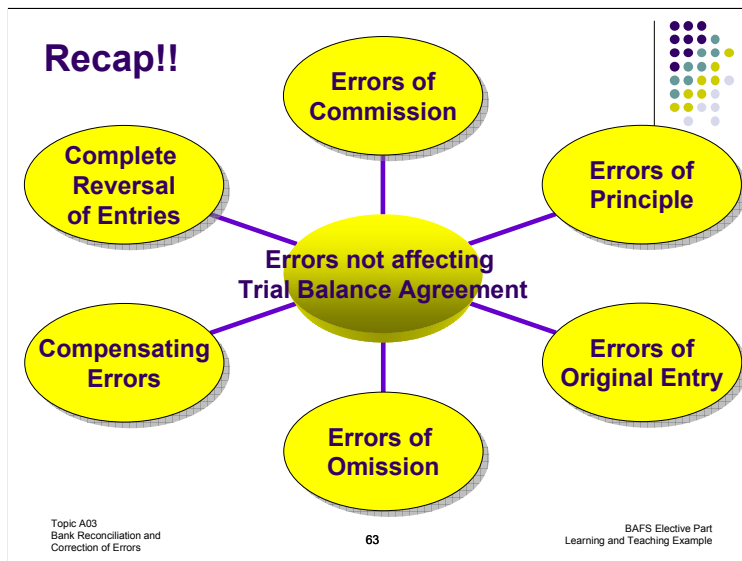
Teacher checks answers with students.

Dragon Company – (After Adjustment) Income Statement for the year ended 31 Dec Year 8

	\$	\$
Sales		1,127,550
Less: Returns inwards		<u>3,600</u>
		1,123,950
Cost of goods sold:		
Opening stock	23,650	
Purchases	<u>539,830</u>	
	563,480	
Less: Closing stock	<u>15,800</u>	<u>547,680</u>
Gross profit		576,270
Less Expenses:		
Electricity	18,750	
Rent	180,000	
Salaries	411,500	
Other operating expenses	<u>200</u>	<u>610,450</u>
Net Loss		<u>(34,180)</u>

Correction of Errors

Teacher checks the adjusted profit and loss accounts with students.



Teacher recaps with students the definition and nature of the six types of errors.

Teacher reiterates the reasons why these errors happen.

Recap!!

Effects of errors to the profit

Account being affected by correction of errors	Any effect on the profit ?	Increase / Decrease in profit
As an account grouped in Profit and loss account	Yes	Profit ↓ Debit entry Profit ↑ Credit entry
As an account grouped in Balance Sheet	No	No effect

Topic A03
Bank Reconciliation and
Correction of Errors

64

BAFS Elective Part
Learning and Teaching Example

Teacher recaps with students the impacts of the errors to profit and loss of the company.

End of Lesson 2.

Lesson Three

Correction of Errors (II)

- Errors which cause disagreement of trial balance



Topic A03
Bank Reconciliation and
Correction of Errors

65

BAFS Elective Part
Learning and Teaching Example

Lesson 3

This session provides students will be able to:

- understand the reasons of trial balance inequality.
- understand there must be errors in the accounts if trial balance fails to maintain balance.
- use "Suspense Account" to maintain the balance of trial balance temporarily.
- identify and locate errors from source documents and accounting records.
- correct the errors in the ledger accounts.
- understand the effects of errors on profit of the company.



She is falling...

When she could not maintain balance.

Topic A03
Bank Reconciliation and
Correction of Errors


66

BAFS Elective Part
Learning and Teaching Example

Teacher invites students to state the Rule of Double Entry, i.e., every debit in one account must have a corresponding credit in another account(s). Trial balance is an extract of the accounts in the books after balancing.

This means if the rule of double entry is not followed, e.g., Debit not accompanied by a corresponding Credit, or vice versa, the trial balance cannot be equal on both sides resulting in a difference between debit and credit totals.

Total Debits \neq Total Credits



Is this Trial Balance correct?

Dragon Company
Trial balance as at 31 December Year 8

	Dr \$	Cr \$
Building	100	
Cash	150	
Capital		120
Creditors		130
	250	250

Dr Totals = Cr Totals

Topic A03
Bank Reconciliation and
Correction of Errors

BAFS Elective Part
Learning and Teaching Example


In a manual accounting system, we may occasionally recklessly forget to follow the 'Rules of Double Entry' in the recording transactions.

The teacher asks students who have experienced a Trial Balance out of balance.

The teacher reminds the students that if the trial balance is not in agreement, errors can be located by referring to the source documents, such as Day Books, pay-in slips, invoices, etc. to see if the Rule of Double Entry has been followed.

After investigation, the Accounting Officer of Dragon Company quickly discovered that the accounting clerk had incorrectly recorded the capital entry to the trial balance. Instead of copying capital of \$120 from the ledger, it was copied as \$130. This resulted in the trial balance not being in balance. So, the capital entry should be corrected to \$120.

What to do if the errors are not found out quickly?



Create "Suspense" Account to temporarily maintain the books in balance.

If Total Debits > Total Credits

↓

Suspense Account	
	Difference in books

If Total Credits > Total Debits

↓

Suspense Account	
Difference in books	


Topic A03
Bank Reconciliation and
Correction of Errors

BAFS Elective Part
Learning and Teaching Example

The teacher tells students that accountants have to uncover the errors whenever the trial balance is not in balance.

Because of the time factor, we may have inadequate time to ascertain errors. A Suspense Account could be temporarily created to represent the difference before the errors and thus corrected.

A Suspense Account is created by placing the differences on the side of the trial balance where the shortfall happens.




Is this Trial Balance correct?

Dragon Company
Trial balance as at 31 December Year 8

	Dr	Cr
	\$	\$
Building	100	
Cash	150	
Capital		120
Creditors		130
	<u>250</u>	<u>250</u>

Suspense account will be closed after errors are corrected



Topic A03
Bank Reconciliation and
Correction of Errors


69

BAFS Elective Part
Learning and Teaching Example

After locating the errors, correction is performed by providing the correct entry in one account with the opposite entry entered in the Suspense Account.

Once all the errors are corrected, the Suspense Account is closed with the trial balance now in agreement.

Errors causing Disagreement in the Trial Balance



1. One entry only
Debit OR Credit entry
2. Two entries
Both on Debit side OR
Both on Credit side
3. Two entries
Debit \neq Credit

Topic A03
Bank Reconciliation and
Correction of Errors

70

BAFS Elective Part
Learning and Teaching Example

The teacher reminds students of the reasons why the trial balance could be unbalanced:

One entry only

Under the double entry system, one debit must be followed by one credit. Failing to enter either one of them causes the trial balance to be not in balance. For example: Crediting cash account only for paying a creditor by cash.

Two entries made on the same side

Making two entries on one side causes the trial balance to be not in balance. For example, debiting both creditor account and cash account for paying a creditor by cash.

Making two different entries

Debiting and crediting different amounts for paying a creditor by cash.

1. One Entry Only - Debit or Credit entry



Example: Received cash of \$700 from Lemon Ltd, a trade debtor. It was correctly entered in the cash book but no other corresponding entry was made.



Correction:

	Dr	Cr
	\$	\$
Suspense account	700	
Lemon Ltd		700

Topic A03
Bank Reconciliation and
Correction of Errors

71

BAFS Elective Part
Learning and Teaching Example

This type of error arises when only one debit or only one credit entry was made.

It would make the trial balance imbalanced. In this case, a suspense account was credited to temporarily maintain the balance of the trial balance.

Once the error was discovered, the accountant corrects the entry by debiting the suspense account and crediting the debtor account, Lemon Ltd.

This correction affects the balance sheet only, there would be no impact on profit.

2. Two entries Both on Debit side or Both on credit side



Example: Received customer returned goods of \$3,200 from Plum Ltd. Returns inwards account has been input correctly but Plum's account was debited.



Correction:

	Dr	Cr
	\$	\$
Suspense account	6,400*	
Plum Ltd		6,400
* \$6,400 = \$3,200 x 2		

Topic A03
Bank Reconciliation and
Correction of Errors

72

BAFS Elective Part
Learning and Teaching Example

This type of error arises when debit side / credit side of two accounts was entered on the same side while no entry was made on the other corresponding side.

When the trial balance was not in balance and error was not yet found, the Suspense Account was credited to balance temporarily.

Then, the error was identified. In this case, instead of crediting Plum Co account, it was wrongly debited.

It would be corrected by debiting the Suspense Account and crediting the Plum Ltd account by twice the amount of returns inwards.

As this correction affects the balance sheet only, there would be no impact on profit.

3. Two entries - Debit \neq Credit



Example: Somy Corp extended a cash discount of \$1,300. Somy's account was entered correctly but only \$1,200 was credited to the discounts received account.

Correction:

	Dr	Cr
	\$	\$
Suspense account	100*	
Discounts received		100
* \$1,300 - \$1,200 = \$100		

Topic A03
Bank Reconciliation and
Correction of Errors

73

BAFS Elective Part
Learning and Teaching Example

This type of error arises when debit side / credit side of the corresponding amounts were entered by different amounts in the accounts affected.

When the trial balance is not in balance and error was not yet found, suspense account was credited to make it balance temporarily.

Once the error is found, the accountant will make the correct entry by debiting the Suspense Account and crediting the discounts received account.

Steps for Errors correction

Use of Suspense Account to balance the trial balance not in agreement.

- (1) Identify the errors
- (2) Make the correction and eliminate the Suspense Account
- (3) Check if the corrections affect profit and loss accounts (P/L) or balance sheet (B/S) accounts
- (4) For those affecting P/L, quantify the effect and make adjustment to the company profit, by
 Debiting profit and loss accounts → Profit ↓
OR
 Crediting profit and loss accounts → Profit ↑

Bank Reconciliation and
Correction of Errors

74

BAFS Elective Part
Learning and Teaching Example

Teacher leads students through the steps as above to identify and correct the errors.

Teacher leads students to understand the impact of errors on the company's profit and loss position.

	STEP 1	STEP 2			STEP 3	STEP 4
	Types of Errors	Dr	Cr	\$	Affect P/L a/c?	Quantify the effect on profit
1	One entry only	Suspense (B/S)	Lemon Ltd (B/S)	700	No	No
2	Two entries both of Dr or both of Cr	Suspense (B/S)	Plum Ltd (B/S)	6,400	No	No
3	Two entries Dr \neq Cr	Suspense (B/S)	Discounts received (P/L)	100	Yes	+ \$100

Topic A03
Bank Reconciliation and
Correction of Errors
75
BAFS Elective Part
Learning and Teaching Example

Teacher leads students step by step to identify the errors, correct the errors and understand their effect on profit.

Effects on Profit and loss			
Before discovering the errors, Dragon Company's net profit for the year ended 31 December Year 7 was \$24,000.			
Errors	P/L accounts affected	Debit / Credit ?	+ Profit or - Profit ?
3	Discounts received	Credit	+ \$100
Total effect on P/L			+ \$100

After adjustment, the profit would be \$24,100.

Topic A03
Bank Reconciliation and
Correction of Errors
76
BAFS Elective Part
Learning and Teaching Example

The Dragon Company's original profit for the year ended 31 December Year 7 was \$24,000. After the adjustment, profit is now \$24,100 (\$24,000 + \$100).



Activity 7: Group Discussion

Refer to Student Worksheet p. 24 - 27. Teacher pairs students to response to the four Cases of errors by referring to the accounts given.

Objectives of this activity:

- Understand the relationship between errors with trial balance in equality, and their effects on profit, and assets/liabilities.
- Ascertain a case for the occurrence of such errors with reasoning.
- Work with suspense account.
- Able to correct errors.



Activity 8: Problem Solving

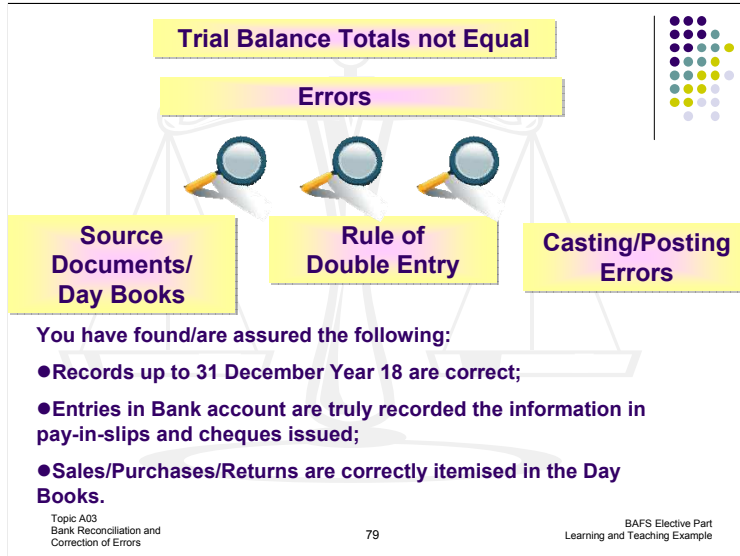
Refer to Student Worksheet p. 28-44.

Teacher briefs the students on the background of the case in the following slide, and divides the class into 4 to 6 students per group with group members responsible for:

- Pairing up bank statement and bank account entries.
- Update the bank account and corresponding ledger accounts for the items in the bank statement only.
- Check posting in the ledger accounts from day books, opening balances, receipt from vendor and correspondence with customer to identify errors affecting and not affecting trial balance agreement.
- Update the ledger accounts for errors identified above.
- Prepare the corrected trial balance.

Objectives of the activity:

- Apply the principles in the preparation of bank reconciliation.
- Identify errors and their correction in the ledger accounts.



Trial Balance Totals not Equal

Errors

Source Documents/ Day Books

Rule of Double Entry

Casting/Posting Errors

You have found/are assured the following:

- Records up to 31 December Year 18 are correct;
- Entries in Bank account are truly recorded the information in pay-in-slips and cheques issued;
- Sales/Purchases/Returns are correctly itemised in the Day Books.

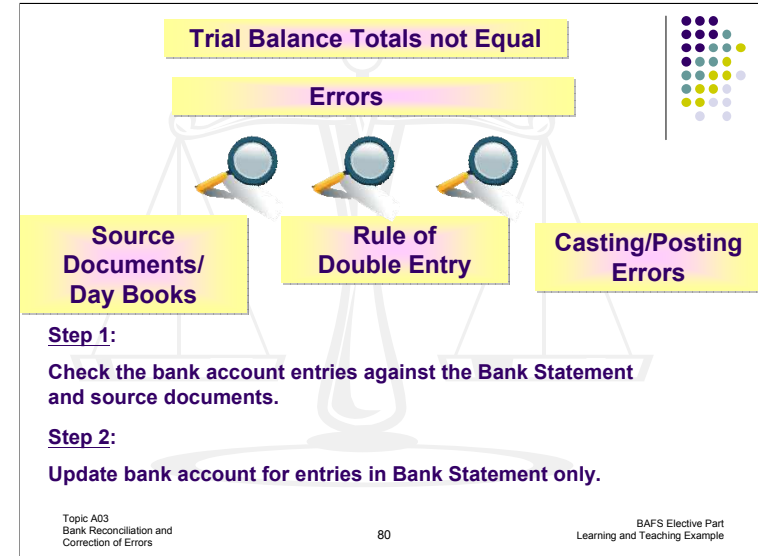
Topic A03
Bank Reconciliation and
Correction of Errors

79

BAFS Elective Part
Learning and Teaching Example

Teacher can provide hints to the students:

- Are all the opening balances brought into the books of accounts on 1.1.Year 19?
- Are the total castings correct in the Day Books and properly posted in the ledger accounts? (Amount and Dr/Cr side; Name of Account)
- Are the postings complete/correct in the Bank account?
- Are the closing balances correct and complete?



Trial Balance Totals not Equal

Errors

Source Documents/ Day Books

Rule of Double Entry

Casting/Posting Errors

Step 1:

Check the bank account entries against the Bank Statement and source documents.

Step 2:

Update bank account for entries in Bank Statement only.

Topic A03
Bank Reconciliation and
Correction of Errors

80

BAFS Elective Part
Learning and Teaching Example

Step 1 : Bank account and Bank Statement

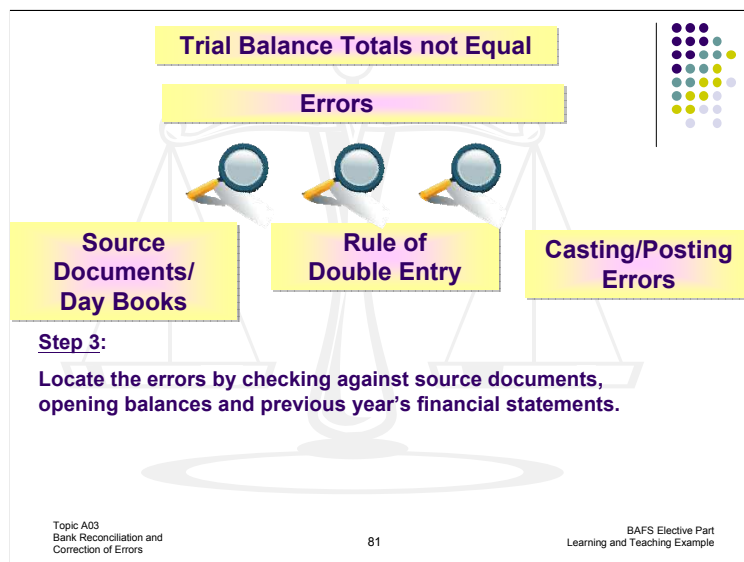
Check the opening balance from the Balance Sheet of 31 December Year 18. Pair up the entries in the bank statement and bank account for January Year 19.

Note the implication of the Receipt from Fast Printing Ltd (Payment of \$678)(E), and the exchange of e-mail with Customer P (Remittance by Debtor P would relate to the credit transfer of \$10,000 on 12 January Year 19)(A).

Step 2:

Update for other entries shown in bank statement only, viz:

- IVE Club subscription for \$250 (B);
- Dishonoured cheque \$14,696 which matched the earlier deposit from Debtor O (C); and
- OD Interest for \$211(D)



Step 3: Locate the errors by checking against:

- Opening balances: Are all accounts correctly and completely brought into the books on 1 January Year 19. Show the missing accounts, if any.
- Day Books: Are the totals correct and correctly posted to the ledger accounts? Show the missing accounts and correct the casting errors, if any.
- Bank Account: Are all items shown in Bank Statement reflected in the Bank Account? Postings to the ledger accounts complete? Cast for an adjusted balance to be carried forward.

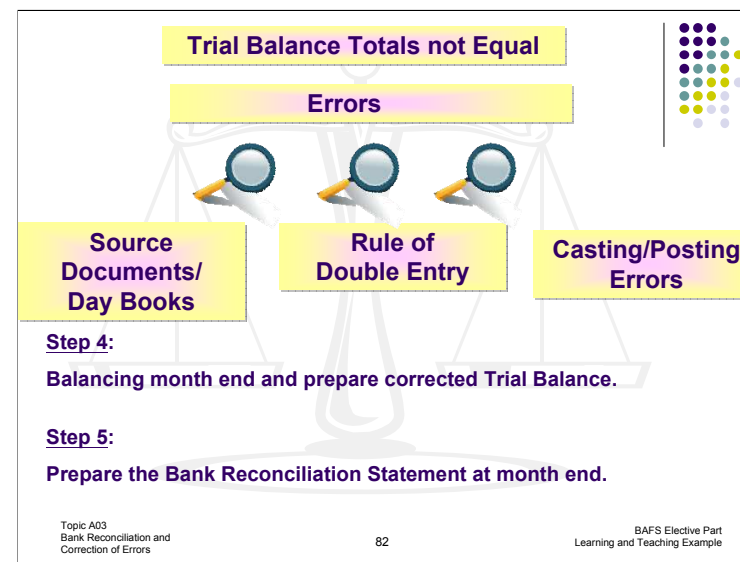
(I) Errors affecting trial balance agreement

- (1) Sales Day Book: undercast by \$1,000 (Total \$46,100, not \$45,100)
- (2) Opening Balances b/d: Machinery should be \$254,000, not \$245,000
- (3) Opening Balances b/d: Accrued telephone being omitted
- (4) Unadjusted bank balance: undercast by \$90 (Should be \$31,873, not \$31,783)

(II) Errors not affecting trial balance agreement

Check source documents, Day Books and their posting in the ledger.

- (i) Posting from Bank account: Machinery repairs of \$1,500 posted to Machinery account – Error of principle
- (ii) Posting from Purchases Day Book: Purchases from Creditor B for \$2,800 entered in Creditor C's account – Error of commission
- (iii) Posting from Returns Outwards Day Book: Returns to Creditor C debited Returns inwards and credited Creditor C's account – Complete reversal of entries.
- (iv) Printing \$678 paid by cheque was not entered into the books.

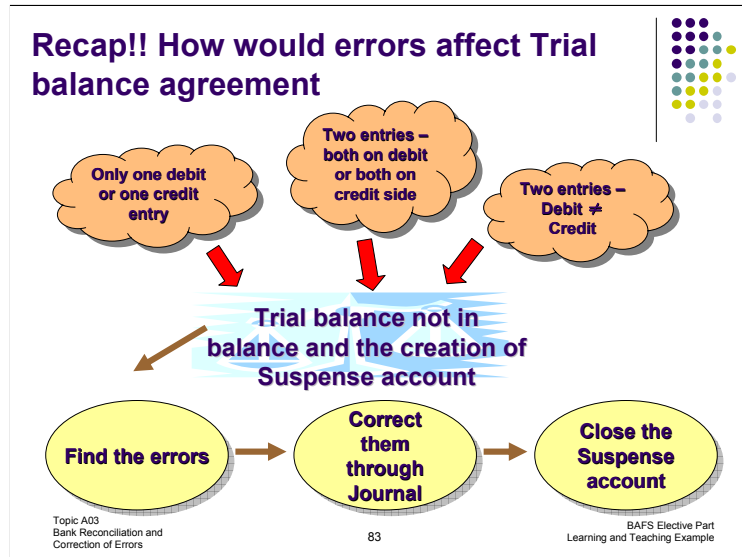


Step 4: Balancing off on 31 January Year 19

Recalculate the month end balances and ensure all accounts are properly accounted for on the Corrected Trial Balance.

Step 5: Prepare the Bank Reconciliation Statement

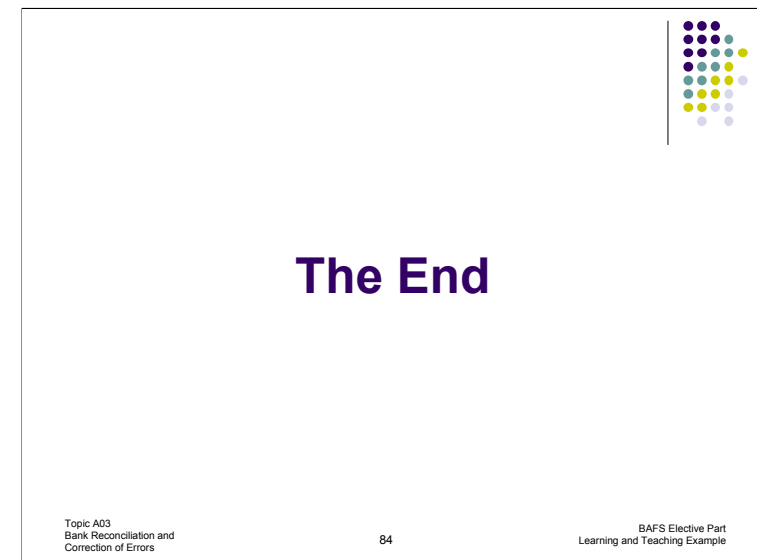
Start with the adjusted bank balance and list discrepancies shown in the Bank Account only.



The teacher recaps with the students how errors would affect the balance of Trial balance.

The teacher reviews with students that suspense account should be created temporarily to make the Trial balance in balance.

The teacher reminds students that all the errors in the books must be found out and corrected. Finally, the suspense account must be closed.



Teacher reviews key points taught in the lessons.

We will be alerted of errors if the trial balance is not in agreement. However it is possible for a trial balance to be in agreement but still contain errors.

Errors are corrected by means of journal entries:

1. Reverse the correct entry, if any.
2. Reinstatement the correct entry.
3. Record the opposite entry in the Suspense account if such error has resulted inequality in trial balance agreement.

Errors found subsequent to the preparation of financial statements with errors in the revenue/expense accounts will require an adjustment to the net profit.

The process of reconciling the balance in the cash book and bank statement may also help reveal undetected errors.

End of Lesson 3

BAFS Elective Part – Accounting Module – Financial Accounting
Topic A03: Bank Reconciliation Statement and Correction of Errors



Activity 1: Matching

Following are a list of the discrepancies which may appear in a bank reconciliation statement.

Auto pay
 Bank charges
 Credit transfer
 Deposits in transit/Uncredited items
 Direct debit
 Dishonoured cheques
 Errors in bank statement
 Errors in cash book
 Standing order - Receipts or Payments
 Unpresented cheques

(I) Complete the table below using the above list of discrepancies in cash book and bank statement stating their originality.

Originality	Items of Discrepancies
Bank Statement	1. 2. 3. 4. 5. 6. 7.

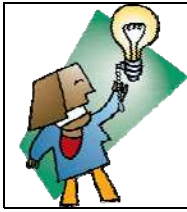
Cash Book	1. 2. 3.
-----------	----------------

Which of the above item(s) should not be reflected in the cash book?

Why?

(II) Based on your findings, classify the items according to the effect on balances.

Category	Items of Discrepancies
Resulting balance in cash book is greater than in bank statement	1. 2. 3. 4. 5.
Resulting balance in bank statement is greater than in cash book	1. 2. 3. 4. 5.



Activity 2 - Problem Solving





This is your first day as the new book-keeper for the Dragon Company reporting directly to the Manager. The Manager is surprised because he received the company bank statement indicating an overdrawn account despite the belief that the company was in a strong financial position.


He suspects that the former book-keeper had failed to record all in the cash book and possibly stole money from the account.

On searching the files, you find the following

Pay-in slips

CUSTOMER'S CREDIT ADVICE		BANK OF HONG KONG LTD 		Date: Year 9/01/04		
A/C Name	Dragon Company					
A/No.	006-012-0-21221-1	Currency	HKD			
Please note the conditions printed on the back of the customer's Credit advice.	Cheque No.	Bank/Branch	Amount	Cheque No.	Bank/Branch	Amount
	787940	012813	21,780.00			
	Remarks			Cheque Total	*****21,780.00	
				Transfer Total	*****	
			Cash Total	*****		
F00000127000 Year 9/01/04 13:01:04 20801 61841A 41293 00000 01234						

CUSTOMER'S CREDIT ADVICE		BANK OF HONG KONG LTD 		Date: Year 9/01/12		
A/C Name	Dragon Company					
A/No.	006-012-0-21221-1	Currency	HKD			
Please note the conditions printed on the back of the customer's Credit advice.	Cheque No.	Bank/Branch	Amount	Cheque No.	Bank/Branch	Amount
	121921	007026	24,750.00			
	477478	010012	18,000.00			
	Remarks			Cheque Total	*****42,750.00	
				Transfer Total	*****	
			Cash Total	*****		
F00000338751 Year 9/01/12 11:36:01 20801 61841A 42115 00000 01234						

CUSTOMER'S CREDIT ADVICE				BANK OF HONG KONG LTD 			Date: Year 9/01/28
A/C Name	Dragon Company						
A/No.	006-012-0-21221-1			Currency	HKD		
Please note the conditions printed on the back of the customer's Credit advice.	Cheque No.	Bank/Branch	Amount	Cheque No.	Bank/Branch	Amount	
	327831	009106	8,000.00				
	Remarks			Cheque Total	*****8,000.00		
				Transfer Total	*****		
Cash Total				*****			
F00000147481 Year 9/01/28 14:17:16 10223 72284A 27116 00000 01234							

CUSTOMER'S CREDIT ADVICE				BANK OF HONG KONG LTD 			Date: Year 9/01/31
A/C Name	Dragon Company						
A/No.	006-012-0-21221-1			Currency	HKD		
Please note the conditions printed on the back of the customer's Credit advice.	Cheque No.	Bank/Branch	Amount	Cheque No.	Bank/Branch	Amount	
	477539	010012	35,640.00				
	Remarks			Cheque Total	*****35,640.00		
				Transfer Total	*****		
Cash Total				*****			
F00000670219 Year 9/01/31 16:58:03 20801 61841A 11168 00000 01234							

Cheque counterfoils

BANK OF HONG KONG LTD		
DATE	3/1/Year 9	
TO	<i>Sony Corporation</i>	
BAL B/F		
AMT DEPOSITED		
AMT DEPOSITED		
TOTAL		
AMT THIS CHECK	30,500.00	
BAL C/F		
CH NO. 285701 <i>Camrecorder (PD A370) chairs</i>		

BANK OF HONG KONG LTD		
DATE	4/1/Year 9	
TO	<i>OK Furniture Co</i>	
BAL B/F		
AMT DEPOSITED		
AMT DEPOSITED		
TOTAL		
AMT THIS CHECK	17,250.00	
CH NO. 285702 <i>Conference table and (Invoice IF 3031)</i>		

BANK OF HONG KONG LTD		
DATE	5/1/Year 9	
TO		
BAL B/F		
AMT DEPOSITED		
AMT DEPOSITED		
TOTAL		
AMT THIS CHECK	19,000.00	
BAL C/F		
CH NO. 285703 CANCELLED		

BANK OF HONG KONG LTD		
DATE	7/1/Year 9	
TO	<i>H-K Electric Co Ltd</i>	
BAL B/F		
AMT DEPOSITED		
AMT DEPOSITED		
TOTAL		
AMT THIS CHECK	285.00	
CH NO. 285704 <i>Electricity for Dec Year 8</i>		

BANK OF HONG KONG LTD

DATE **10/1/Year 9**

TO ***Kowloon Real Realty Ltd***

BAL B/F		
AMT DEPOSITED		
AMT DEPOSITED		
TOTAL		
AMT THIS CHECK	16,000.00	
BAL C/F		

CH NO. 285705
Rent for Jan Year 9

BANK OF HONG KONG LTD

DATE **23/1/Year 9**

TO ***Sony Corporation***

BAL B/F		
AMT DEPOSITED		
AMT DEPOSITED		
TOTAL		
AMT THIS CHECK	36,500.00	

CH NO. 285706
Camrecorder (PD A371)

BANK OF HONG KONG LTD

DATE **30/1/Year 9**

TO ***Mary Kwan***

BAL B/F		
AMT DEPOSITED		
AMT DEPOSITED		
TOTAL		
AMT THIS CHECK	10,000.00	
BAL C/F		

CH NO. 285707
Salary for Jan Year 9

Supplementary Documents:


Sales invoices

 Dragon Company Unit 373, 25 Kwun Tong Road, Kowloon, Hong Kong e-mail: sales@dragon.com.hk		Tel 2727 1111 Fax 2727 2222	
INVOICE			
Blueberry Ltd		Invoice No.	A21221
		Date	28 Dec Yr 8
		Term*	1/5, N10
PO No.	Description	Quantity	U/Price (HK\$)
09-103	Somy XP DC	22 pc	1,000.00
			22,000.00
			22,000.00
TOTAL: HONG KONG DOLLARS TWENTY-TWO THOUSAND ONLY			
Received the above goods in order and good condition		For and on behalf of Dragon Company	
			
Chop and Sign	E&OE	Authorised Signature	

* Payment Term:

N10 - the debt should be settled within 10 days.

1/5 - 1% cash discount is allowed if the debt is settled within 5 days.



Dragon Company

Unit 373, 25 Kwun Tong Road, Kowloon, Hong Kong
e-mail: sales@dragon.com.hk

Tel 2727 1111 Fax 2727 2222

INVOICE

Cherry Co


Invoice No. A21222
Date 3 Jan Yr 9
Term 1/5, N10

PO No.	Description	Quantity	U/Price (HK\$)	Amount (HK\$)
3701	Somy XP Camrecorder	20 pc	1,000	20,000.00
	Less: 10% trade discount			2,000.00
				18,000.00

TOTAL: HONG KONG DOLLARS EIGHTEEN THOUSAND ONLY

Received the above goods in order and good condition


For and on behalf of Dragon Company



Chop and Sign

E&OE

Authorised Signature



Dragon Company

Unit 373, 25 Kwun Tong Road, Kowloon, Hong Kong
e-mail: sales@dragon.com.hk

Tel 2727 1111 Fax 2727 2222

INVOICE

Plum Ltd

Invoice No. A21223
Date 6 Jan Yr 9
Term 1/5, N10

PO No.	Description	Quantity	U/Price (HK\$)	Amount (HK\$)
7001	Somy XP Camrecorder	25 pc	1,000.00	25,000.00
				25,000.00

TOTAL: HONG KONG DOLLARS TWENTY-FIVE THOUSAND ONLY

Received the above goods in order and good condition


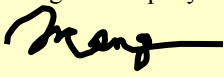
For and on behalf of Dragon Ltd



Chop and Sign

E&OE

Authorised Signature

 Dragon Company Unit 373, 25 Kwun Tong Road, Kowloon, Hong Kong Tel 2727 1111 Fax 2727 2222 e-mail: sales@dragon.com.hk				
INVOICE				
Grape Ltd			Invoice No.	A21224
			Date	18 Jan Yr 9
			Term	1/5, N10
PO No.	Description	Quantity	U/Price (HK\$)	Amount (HK\$)
23401	Somy XP Camrecorder	24 pc	1,000.00	24,000.00
				<u>24,000.00</u>
TOTAL: HONG KONG DOLLARS TWENTY-FOUR THOUSAND ONLY				
Received the above goods in order and good condition			For and on behalf of Dragon Company	
				
Chop and Sign		E&OE	Authorised Signature	

 Dragon Company Unit 373, 25 Kwun Tong Road, Kowloon, Hong Kong Tel 2727 1111 Fax 2727 2222 e-mail: sales@dragon.com.hk				
INVOICE				
Lemon Inc			Invoice No.	A21225
			Date	28 Jan Yr 9
			Term	COD [†]
PO No.	Description	Quantity	U/Price (HK\$)	Amount (HK\$)
-	Somy XP Camrecorder	8 pc	1,000.00	8,000.00
				<u>8,000.00</u>
TOTAL: HONG KONG DOLLARS EIGHT THOUSAND ONLY				
Received the above goods in order and good condition			For and on behalf of Dragon Company	
				
Chop and Sign		E&OE	Authorised Signature	

[†] COD: Cash on Delivery



Dragon Company

Unit 373, 25 Kwun Tong Road, Kowloon, Hong Kong Tel 2727 1111 Fax 2727 2222
e-mail: sales@dragon.com.hk

INVOICE

Cherry Ltd

Invoice No. A21226
Date 26 Jan Yr 9
Term 1/5, N10

PO No.	Description	Quantity	U/Price (HK\$)	Amount (HK\$)
3721	Somy XP Camrecorder	40 pc	1,000.00	40,000.00
	Less 10% trade discount			4,000.00
				<u>36,000.00</u>

TOTAL: HONG KONG DOLLARS THIRTY-SIX THOUSAND ONLY

Received the above goods in order
and good condition

For and on behalf of
Dragon Company

Chop and Sign

E&OE

Authorised Signature



Dragon Company

Unit 373, 25 Kwun Tong Road, Kowloon, Hong Kong Tel 2727 1111 Fax 2727 2222
e-mail: sales@dragon.com.hk

PRO-FORMA INVOICE

Green Trees (Macau) Ltd

Invoice No. A21227
Date 28 Jan Yr 9
Term Prepaid[†]

PO No.	Description	Quantity	U/Price (HK\$)	Amount (HK\$)
G201	Somy XP Camrecorder	13 pc	1,000.00	13,000.00
				<u>13,000.00</u>

TOTAL: HONG KONG DOLLARS THIRTEEN THOUSAND ONLY

Received the above goods in order and
good condition

For and on behalf of
Dragon Company

Chop and Sign

E&OE

Authorised Signature

[†] Payment is made before delivery of the goods.

Bank Statement for January Year 9 was received on 4 February Year 9 showing an overdraft of \$7,315.00.

BANK OF HONG KONG LTD



DRAGON COMPANY
Unit 373, 25 Kwun Tong Road
KLN

A/C NO. 006-012-0-21221-1
CURRENCY HKD

KWUN TONG BRANCH

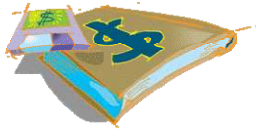
STATEMENT OF ACCOUNT

DATE	DETAILS	WITHDRAWALS	DEPOSITS	BALANCE
Year 8/12/31				15,830.00
	BALANCE BROUGHT FORWARD			
Year 9/01/04	Deposit		21,780.00	37,610.00
Year 9/01/04	Cheque #285701	30,500.00		7,110.00
Year 9/01/07	Cheque #285702	17,250.00		(10,140.00)
Year 9/01/10	Cheque #285704	285.00		(10,425.00)
Year 9/01/12	Deposit		42,750.00	32,325.00
Year 9/01/13	Cheque #285705	16,000.00		16,325.00
Year 9/01/23	Cheque #285706	36,500.00		(20,175.00)
Year 9/01/28	Deposit		8,000.00	(12,175.00)
Year 9/01/29	Bank interest	140.00		(12,315.00)
Year 9/01/30	Returned cheque	8,000.00		(20,315.00)
Year 9/01/31	TT ^s		13,000.00	(7,315.00)

Total no. of withdrawals 7	amounting to 108,675.00	As at Year 9/1/31	Balance (7,315.00)
Total no. of deposits 4	amounting to 85,530.00		

Please examine and verify each and every entry regarding the transaction(s) set out in this statement and notify the Bank immediately in writing of any entry which you consider wrong, irregular and/or unauthorised. Unless the Bank receives such notice within 90 days of the date of this statement, each and every entry concerning the transaction(s) set out in this statement shall be conclusively binding on you and you shall not be entitled to dispute any entry recorded in this statement on whatever ground. Please advise the Bank immediately of any change of correspondence address.

^s TT Telegraphic Transfer



The bank balance in the audited accounts for the year ended 31 December Year 8 matches with that on the bank statement.

Task:

Advise the Manager if any funds have been misappropriated by the former employee.

Use the following table for your presentation:

Step 1: Write up the Bank account based on the pay-in slips and cheque counterfoils.

Bank					
Year 9		\$	Year 9		\$

Step 2: Pair off the entries in the bank account with the bank statement.

Step 3: Update the Bank account for the following discrepancy items.

❑ e.g. bank interest, dishonoured cheques, telegraphic transfers

Bank					
Year 9		\$	Year 9		\$

Step 4: Analyse the following unpaired items and find their financial effects on the bank statement.

(a) Money deposited after the cheque clearing cut-off time

Cash book has recorded the receipt but not so for the bank. This would then result to a smaller/greater* balance in bank statement compared to the Cash Book (Bank account).

(b) Cheque issued but not presented for payment by payee is called

Cash book has recorded the payment but bank has not. This would then result to a smaller/greater* balance in bank statement compared to the Cash Book (Bank account).

* Delete as appropriate.

Step 5: Formalise the explanation in a proper statement.

Conclusion: Prima facie, there is/is not* a misappropriation of funds by the former employee because _____
_____.

** Delete as appropriate.*



Activity 3: Group Discussion

What are the possible measures to avoid misappropriation of funds to protect the company's cash assets in small businesses such as the Dragon Company?

Hints for discussion:

- Payments: When to pay? To whom? Any legitimate payment?
- Receipts: Is it safe to keep cash in the office?
- Consider the source documents for receipts/payments generated by the company. What is the chance for omission/duplication of accounting records?

Suggest 5 measures to avoid misappropriation of funds:

1.

2.

3.

4.

5.

Theme: Errors which do not cause disagreement in trial balance



Activity 4: Identify the errors

Activity 4A

As the bookkeeper of Dragon Company, you have uncovered the following errors from the company books. You are asked by your manager to identify the type of errors.



- (A) Company cash of \$600 was used privately by Mr. Lung, the owner of the company, to pay the electricity bill but has been recorded in the purchases account.
- (B) Payment of \$200 by cheque to settle amount due to OK Furniture Co. - Cash book was debited and OK Furniture Co's account was credited.
- (C) A debtor, Plum Ltd, paid the company \$500 cash. It was correctly debited to the cash book, but was mistakenly credited to Blueberry Ltd.
- (D) Sales of \$30,000 to Cherry Co were entered as both a debit and a credit of \$12,000.
- (E) Rent of \$15,000, due and payable to Property Co Ltd, was not recorded in the book.
- (F) Both the purchase journal and sales journal were overcast by \$300.

- A. _____
- B. _____
- C. _____
- D. _____
- E. _____
- F. _____

Activity 4B

Why? Why? Why?

Do you know why these errors do not affect the trial balance?

1. _____

2. _____

3. _____

Activity 4C

Think... How could you find the errors?



Discuss with your members to suggest one possible way to uncover errors in (A) to (F) of Activity 4A.

An example:

(A) An electricity bill addressed to the owner was found in the company business payment voucher file. Give one more instance for (A).

A. _____

B. _____

C. _____

D. _____

E. _____

F. _____



Activity 5: Help your boss

Your boss, the manager of Dragon Company, would like you to correct the errors identified in Activity 4A by means of journal entries.

Journal

Date	Particulars	Dr. \$	Cr. \$
(A) Year 8/12/31			
(B) Year 8/12/31			
(C) Year 8/12/31			
(D) Year 8/12/31			
(E) Year 8/12/31			
(F) Year 8/12/31			

* Provide narratives and state the type of error for each correction made.






Activity 6: Profit Bingo

Your manager would like to know the impact of the errors identified in Activity 4 on the company's profit and loss. He had provided you the income statement of the Dragon Company as follows:

Dragon Company		
Income statement for the year ended 31 December Year 8		
	\$	\$
Sales		1,109,850
Less: Returns inwards		<u>3,600</u>
		1,106,250
Cost of goods sold:		
Opening stock	23,650	
Purchases	<u>540,730</u>	
	564,380	
Less: Closing stock		548,580
	<u>15,800</u>	
Gross profit		557,670
Less expenses:		
Electricity	18,750	
Rent	165,000	
Salaries	411,500	
Other operating expenses	<u>200</u>	
		595,450
Net loss		<u><u>(37,780)</u></u>

Please help the manager to determine changes in the company's profit/loss position by completing the following table.

	 Errors	Profit	 Amount
Date	Fill in the accounts affected and circle if they are to profit and loss (P/L) account or balance sheet account (B/S).	Circle: Affect (✓) Not Affect(X)	+ \$ / - \$ / ~
(A) Year 8/12/31	Dr. P/L ; B/S Cr. P/L ; B/S	✓ / X	
(B) Year 8/12/31	Dr. P/L ; B/S Cr. P/L ; B/S	✓ / X	
(C) Year 8/12/31	Dr. P/L ; B/S Cr. P/L ; B/S	✓ / X	
(D) Year 8/12/31	Dr. P/L ; B/S Cr. P/L ; B/S	✓ / X	
(E) Year 8/12/31	Dr. P/L ; B/S Cr. P/L ; B/S	✓ / X	
(F) Year 8/12/31	Dr. P/L ; B/S Cr. P/L ; B/S	✓ / X	

Total effect on Profit / loss: \$ _____ (Increase / Decrease * in Profit)

* Circle the correct answer.

The Income Statement

After adjusting the errors, your manager would like you to complete the following income statement for Dragon Company.

Dragon Company	
Income Statement for the year ended 31 December Year 8	
	\$
Sales	
Less: Returns inwards	
Cost of goods sold:	
Opening stock	
Purchases	
Less: Closing stock	
Gross profit	
Less expenses:	
Electricity	
Rent	
Salaries	
Other operating expenses	
Net loss	

BINGO !!

Theme: Errors causing disagreements between the Trial Balance and Suspense Accounts



Activity 7: Group Discussion

Below are extracts of the Dragon Company's accounting records. Assume errors were found in each of the following four independent cases.

- Do we need to create a Suspense Account? (Dr or Cr?)
- What is the effect on profit? (Over/Understated) Why?
- What is the effect on assets/liabilities? (Over/Understated) Why?
- How to correct the error(s)?

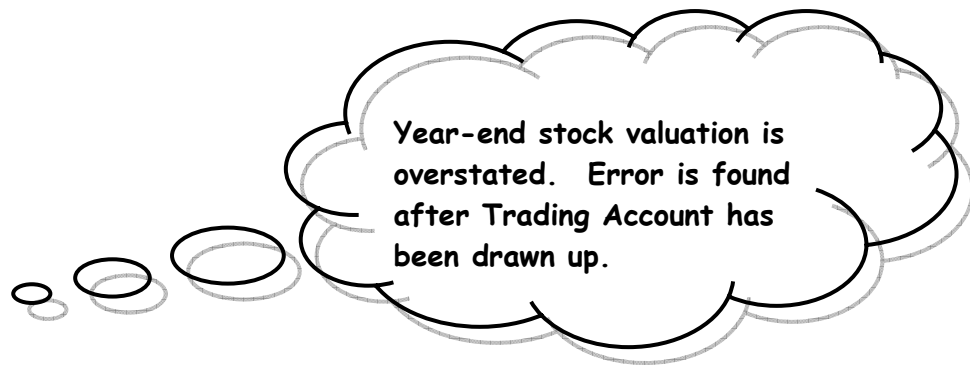
Case 1:



Which account(s) is/are affected? What is the effect?

What can be done to rectify the error(s)? Write your answers in the table provided.

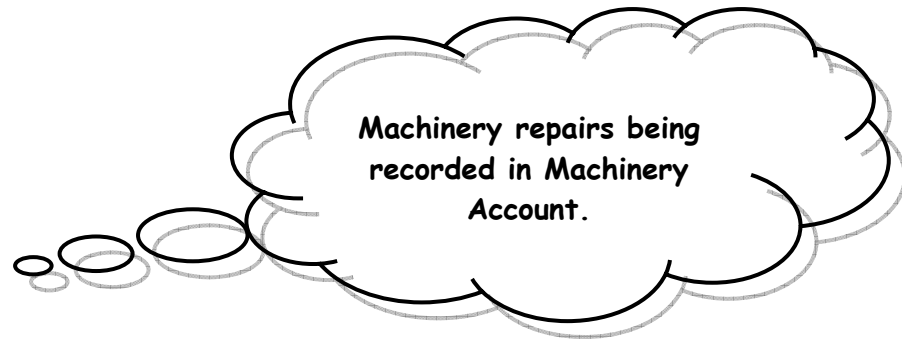
(a)	
(b)	
(c)	
(d)	

Case 2:

Which account(s) is/are affected? What is the effect?

What can done to rectify the error(s)?

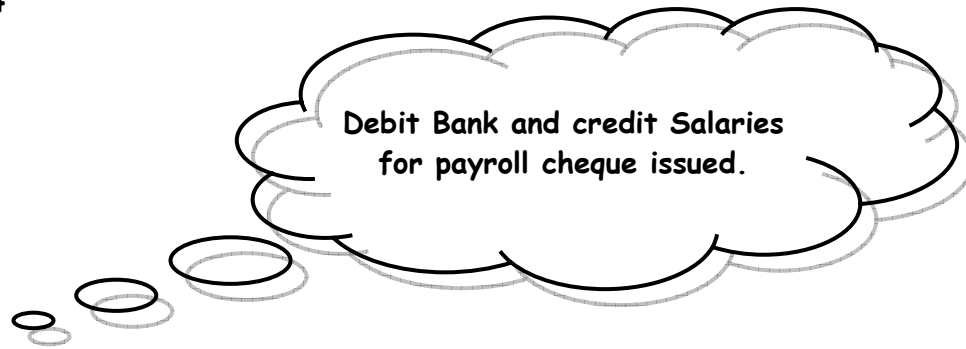
(a)	
(b)	
(c)	
(d)	

Case 3

What account(s) is/are affected? What is the effect?

What can done to rectify the error(s)?

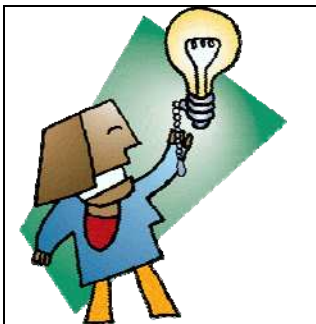
(a)	
(b)	
(c)	
(d)	

Case 4

What account (s) is/are affected? What is the effect?

What can be done to rectify the error(s)?

(a)	
(b)	
(c)	
(d)	



Activity 8: Problem Solving



You are the Accounting Officer of the Dragon Company. Your assistant, John has recorded January Year 19 transactions for the month to date and completed the trial balance whose debit total disagrees with the credit total. He approaches you for assistance. John is known to be a careless person who consistently makes errors.

The Day Books of the company show:

Sales Day Book			Purchases Day Book		
Year 19		\$	Year 19		\$
Jan 10	Debtor - M	20,300	Jan 13	Creditor - B	2,800
Jan 17	Debtor - O	<u>25,800</u>	Jan 22	Creditor - A	<u>22,000</u>
Jan 30	Transfer to Sales	<u>45,100</u>	Jan 31	Transfer to Purchases	<u>24,800</u>
Returns Outwards Day Book					
Year 19		\$			
Jan 3	Creditor - C	<u>300</u>			
Jan 31	Transfer to Returns outwards	<u>300</u>			

You are also given the ledger accounts of Dragon Company:

Machinery ¹			
Year 19		\$	Year 19
Jan 1	Balance b/d	245,000	
Jan 20	Bank	1,500	

Furniture ²			
Year 19		\$	Year 19
Jan 1	Balance b/d	150,000	

Stock ³			
Year 19		\$	Year 19
Jan 1	Balance b/d	15,800	

Debtor - M ⁴			
Year 19		\$	Year 19
Jan 1	Balance b/d	25,304	Jan 25 Bank
Jan 10	Sales	20,300	25,304

¹ Balance per ledger at 31.1.Year 19 \$246,500

² Balance per ledger at 31.1.Year 19 \$150,000

³ Balance per ledger at 31.1.Year 19 \$15,800

⁴ Balance per ledger at 31.1.Year 19 \$20,300

Debtor - N ⁵

Year 19		\$	Year 19		\$
Jan 1	Balance b/d	90,000	Jan 26	Bank	87,000

Debtor - O ⁶

Year 19		\$	Year 19		\$
Jan 1	Balance b/d	14,696	Jan 28	Bank	14,696
Jan 17	Sales	25,800			

Debtor - P ⁷

Year 19		\$	Year 19		\$
Jan 1	Balance b/d	10,000			

⁵ Balance per ledger at 31.1.Year 19 \$3,000

⁶ Balance per ledger at 31.1.Year 19 \$25,800

⁷ Balance per ledger at 31.1.Year 19 \$10,000

Bank ⁸			
Year 19		\$	
Jan 1	Balance b/d	29,573	
Jan 4	Sales	20,000	
Jan 25	Debtor - M	25,304	
Jan 26	Debtor - N	87,000	
Jan 28	Debtor - O	14,696	
Year 19		\$	
Jan 3	Purchases (#302288)	19,100	
Jan 7	Electricity (#302289)	1,300	
Jan 12	Rent (#302290)	15,000	
Jan 19	Purchases (#302291)	100	
Jan 20	Machinery Repairs (#302292)	1,500	
Jan 27	Creditor - A (#302294)	27,200	
Jan 27	Creditor - B (#302295)	2,500	
Jan 27	Creditor - C (#302296)	45,000	
Jan 30	Salary - Chan (#302297)	18,000	
Jan 30	Salary - Lee (#302298)	15,000	

Loan ⁹			
Year 19		\$	
Jan 1	Balance b/d	200,000	

⁸ Corrected balance at 31.1.Year 19 \$26,038

⁹ Balance per ledger at 31.1.Year 19 \$200,000

Creditor - A ¹⁰

Year 19		\$	Year 19		\$
Jan 27	Bank	27,200	Jan 1	Balance b/d	27,200
			Jan 22	Purchases	22,000

Creditor - B ¹¹

Year 19		\$	Year 19		\$
Jan 27	Bank	2,500	Jan 1	Balance b/d	2,500

Creditor - C ¹²

Year 19		\$	Year 19		\$
Jan 27	Bank	45,000	Jan 1	Balance b/d	48,300
			Jan 3	Returns inwards	300
			Jan 13	Purchases	2,800

¹⁰ Balance per ledger at 31.1.Year 19 \$22,000¹¹ Balance per ledger at 31.1.Year 19 Nil¹² Balance per ledger at 31.1.Year 19 \$6,400

Capital ¹³			
Year 19		Year 19	
	\$		\$
		Jan 1 Balance b/d	311,235

Purchases ¹⁴			
Year 19		Year 19	
	\$		\$
Jan 3 Bank	19,100		
Jan 19 Bank	100		
Jan 31 Creditors	24,800		

Sales ¹⁵			
Year 19		Year 19	
	\$		\$
		Jan 4 Bank	20,000
		Jan 31 Debtors	45,100

Electricity ¹⁶			
Year 19		Year 19	
	\$		\$
Jan 7 Bank	1,300		

¹³ Balance per ledger at 31.1.Year 19 \$311,235

¹⁴ Balance per ledger at 31.1.Year 19 \$44,000

¹⁵ Balance per ledger at 31.1.Year 19 \$65,100

¹⁶ Balance per ledger at 31.1.Year 19 \$1,300

Rent ¹⁷			
Year 19		Year 19	
	\$		\$
Jan 12	Bank	15,000	

Salaries ¹⁸			
Year 19		Year 19	
	\$		\$
Jan 30	Bank	18,000	
Jan 30	Bank	15,000	

Returns inwards ¹⁹			
Year 19		Year 19	
	\$		\$
Jan 31	Creditor - C	300	

Year 19		Year 19	
	\$		\$

¹⁷ Balance per ledger at 31.1.Year 19 \$15,000

¹⁸ Balance per ledger at 31.1.Year 19 \$33,000

¹⁹ Balance per ledger at 31.1.Year 19 \$300

Year 19	\$	Year 19	\$
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Year 19	\$	Year 19	\$
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Year 19	\$	Year 19	\$
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Year 19	\$	Year 19	\$
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Year 19	\$	Year 19	\$
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A trial balance was extracted from the ledger balances as follows:

Dragon Company		
Trial Balance as at 31 January Year 19		
	\$	\$
Machinery	246,500	
Stock at 1 January Year 19	15,800	
Furniture	150,000	
Debtor - M	20,300	
Debtor - N	3,000	
Debtor - O	25,800	
Debtor - P	10,000	
Bank	31,783	
Loan		200,000
Creditor - A		22,000
Creditor - C		6,400
Capital		311,235
Purchases	44,000	
Sales		65,100
Electricity	1,300	
Rent	15,000	
Salaries	33,000	
Returns inwards	300	
	<u>596,783</u>	<u>604,735</u>

The Trial Balance does not
balance!
What has gone wrong?



In addition, the bank statement for January Year 19 received on 4 February Year 19 is as follows:

Bank Statement

Bank Statement

Year 19		Deposit (Cr) Withdrawals	Balance (OD)
		\$	\$
Jan 1	Balance forward		25,573
Jan 3	Deposit	6,000 Cr	31,573
Jan 5	Deposit	20,000 Cr	51,573
Jan 8	Cheque #302289	1,300	50,273
Jan 8	Cheque #302288	19,100	31,173
Jan 12	Credit transfer	10,000 Cr	41,173
Jan 13	Cheque # 302290	15,000	26,173
Jan 18	Auto pay - IVE Club subscription	250	25,923
Jan 20	Cheque #302292	1,500	24,423
Jan 20	Cheque #302291	100	24,323
Jan 22	Cheque #302293	678	23,645
Jan 27	Cheque #302296	45,000	21,355 OD
Jan 28	Deposit	112,304 Cr	90,949
Jan 29	Deposit	14,696 Cr	105,645
Jan 30	Cheque #302295	2,500	103,145
Jan 30	Cheque #302294	27,200	75,945
Jan 31	Returned cheque	14,696	61,249
Jan 31	OD interest	211	61,038



Investigation....

For investigation, you have checked and verified the following papers / documents which are correct.

Dragon Company Balance Sheet as at 31 December Yr 18

<u>Assets</u>	\$
Machinery	254,000
Furniture	150,000
Stock	15,800
Debtors (Schedule 1)	140,000
Bank	29,573
	<u>589,373</u>
<u>Liabilities and Capital</u>	
Loan	200,000
Creditors (Schedule 2)	78,000
Accrued Telephone	138
Capital	311,235
	<u>589,373</u>


Dragon Company Bank Reconciliation Statement as at 31 December Yr 18

	\$
Balance per Cash Book	29,573
<u>Add</u> Unpresented cheque (#302287)	<u>2,000</u>
	31,573
<u>Less</u> Deposit in transit	<u>6,000</u>
Balance per bank statement	<u>25,573</u>

Notes to Accounts

<u>Schedule 1</u>	\$
Debtor - M	25,304
Debtor - N	90,000
Debtor - O	14,696
Debtor - P	10,000
	<u>140,000</u>

<u>Schedule 2</u>	\$
Creditor - A	27,200
Creditor - B	2,500
Creditor - C	48,300
	<u>78,000</u>

<u>Fast Printing Ltd</u>	
<u>Receipt</u>	
No. 1356	22 January Year 19
Received from Dragon Company in settlement of Invoice No. V489 the sum of \$678	
	

From: P
Sent: Monday, February 2, Year 19 12:00 PM
To: Dragon Company
Subject: Settlement of account

In reply to your enquiry of 31 Jan Year 19, we wish to inform you that we have remitted the money on 12 January Year 19.

Regards,
P

Year 19/1/31 Manager <accounts@dragon.com.hk>:
Dear Customer P,

Attached please find the Statement of Accounts for your action.

Best regards,
Dragon Company

You have found/are assured the following:

- Records up to 31 December Year 18 are correct;
- Entries in Bank account reflect the information in pay-in-slips and cheques issued;
- Sales/Purchases>Returns are correctly itemised in the Day Books.

Task

Prepare:

- Bank Reconciliation Statement and
- Corrected trial balance as at 31 January Year 19.

Step 1:

Pair up the entries in the bank statement and bank account.
Identify the entries shown in the bank statement only.

Step 2:

Update the Bank Account and complete the corresponding double entries as follows:

<u>Journal</u>		
	Dr	Cr
	\$	\$
(1)		
(2)		
(3)		
(4)		
(5)		

Step 3:

Check the entries against the source documents such as Day Books, opening balances from previous year's financial statement, etc.

Identify the errors and make correction entries. Number the errors found using (1), (2), (3), (4), (5), etc.

(I) Errors affecting trial balance agreement.

No.	\$

Show the journal entries to correct the errors.

Journal		
	Dr	Cr
	\$	\$
(1)		
(2)		
(3)		
(4)		

(II) Errors not affecting trial balance agreement.

No.	Amount	Name of the Error

Show the journal entries to correct the errors.

Journal			
		Dr	Cr
		\$	\$
(i)			
(ii)			
(iii)			

Step 4:

Write up the corrected trial balance as at 31 January Year 19.

Dragon Company
Trial Balance as at 31 January Year 19

Step 5:

Prepare the bank reconciliation statement.

Dragon Company
Bank Reconciliation Statement as at 31 January Year 19

\$

\$

Balance per bank statement on 31 January Year 19
