# Basic Accounting Handbook for Government Departments



FUNDAMENTAL ACCOUNTING CONCEPTS

Chapter 1

July 2010

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#### 1. Overview

The purpose of this chapter is to provide a basic understanding of the fundamental accounting concepts required for maintaining accounting records. The information presented in this chapter is intended to provide the basic accounting information for finance practitioners who lack formal accounting training.

The Office of the Accountant-General compiles an annual Departmental Financial Reporting Framework (ADFRF), commonly referred to as the *AFS Prep Guide*, which is referred to throughout the chapter.

# 2. Key learning objectives

- Understanding the accounting equation
- Understand basic accounting principles
- Understanding the reporting framework for departments
- How to record basic accounting transactions
- Understanding the various systems of accounting
- How to do a bank reconciliation
- Key elements of an invoice and a receipt

Introduction to accounting 3.

Accounting can be described as the systematic recording, reporting and analysis of financial

transactions of an entity in accordance with a set of rules or principles that govern

accounting practices.

Financial transactions involve the inflow or outflow of cash in exchange for goods or services

where the "cash inflow" is termed income or revenue generation and "cash outflow" is

termed expenditure.

The purpose of accounting is to provide information that is useful, relevant and comparable

to interested parties who must make decisions about the entity.

The accounting system commonly used by government departments is Basic Accounting

System (BAS) which is the general ledger. It is the main source of financial information for

management and annual reporting.

For the purpose of this introduction to accounting the basic accounting information provided

is applicable to the modified cash basis of accounting presently by national and provincial

departments.

**Basic Accounting Equation and the Double-Entry System** 4.

The basic accounting equation is simply the Statement of Financial Position of an entity. The

Statement of Financial Position represents the financial health of the entity at a point in time,

usually at the end of the financial year but it can also be used at the end of the quarter or

half-year.

Assets – Liabilities = Net Assets

A - L = NA

**Assets:** what the entity has or owns e.g. cash in bank, debtors

**Liabilities:** what the entity owes others e.g. creditors

Net Assets: what remains when liabilities are subtracted from assets i.e. the net worth of the

entity

In the ideal government accounting environment the following applies:

Where the net assets value is positive it can be attributed to the net resources that may

be applied for the provision of goods and services in the future i.e. it is the community's

investment in the entity, and

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• Where the net assets value is negative it can be interpreted as the amount of future taxation/other revenue already committed is paying off debt and other liabilities.

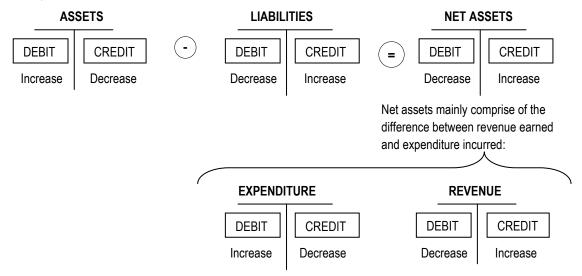


Note that the accounting equation is fundamental to the *double-entry bookkeeping* **system** of accounting i.e. every transaction has a debit and a credit that keeps the accounting equation balanced at all times.

This forms the basis of the Statement of Financial Position and all other statements in the annual financial statements.

In the double-entry bookkeeping system every transaction or event impacts at least two different accounts (one account is debited and the other credited). It serves as a kind of error-detection system: if, at any point, the sum of debits does not equal the corresponding sum of credits, then an error has occurred.

#### In summary:





**Scenario 1:** Purchase of a motor vehicle to the value of R50,000 for <u>cash</u>.

- the entity's cash in the bank decreases; and
- the assets owned by the entity increases.

Both legs of the transaction affect the assets of the entity. The liabilities and net assets are therefore not impacted.

Bank (Asset)		Vehicles (Asset)	
	Cr 50,000	Dr 50,000	
Increase	Decrease	Increase	Decrease

Scenario 2: Purchase of a motor vehicle to the value of R50,000 on credit.

- the entity's creditors (liabilities) increase; and
- the assets owned by the entity increases.

This transaction affects the assets as well as the liabilities of the entity. To balance the accounting equation, an increase in assets should be met by a corresponding increase in the liabilities.

Vehicles (Asset)		Creditor (L	_iability)
Dr 50,000			Cr 50,000
Increase	Decrease	Decrease	Increase

When the entity pays the creditor the outstanding amount the transaction is recorded as follows:

Bank (Asset)		Creditor (Liability)		
	Cr 50,000	Dr 50,000		
Increase	Decrease	Decrease	Increase	

**Scenario 3:** Cash sale of goods to the value of R20,000

- the entity's cash in the bank increases; and
- the revenue generated by the entity increases.

This transaction affects the assets as well as the revenue (net assets) of the entity. To balance the accounting equation, an increase in assets should be met by a corresponding increase in net assts. Net assets are increased when the entity makes a surplus (profit).

Bank (Asset)		Reve	nue
Dr 20,000			Cr 20,000
Increase	Decrease	Decrease	Increase

Scenario 4: Sale of goods to the value of R20,000 on credit

- the entity's debtors (assets) increase; and
- the revenue generated by the entity increases.

As with cash sales, to balance the accounting equation, an increase in assets should be met by a corresponding increase in net assts.

# Debtors (Asset) Revenue Dr 20,000 Cr 20,000 Increase Decrease Decrease

When the entity receives the amount due from the debtor the transaction is recorded as follows:

Bank (Asset)		Debtors	(Asset)
Dr 20,000			Cr 20,000
Increase	Decrease	Increase	Decrease

**Scenario 5:** Payment of electricity bill amounting to R1,500.

- the entity's cash in the bank decreases; and
- the expenditure incurred by the entity increases.

An increase in expenditure usually means a decrease in the surplus (profit) of the entity.

The transaction is therefore recorded as follows:

Bank (Asset)		Expenditure	
	Cr 1,500	Dr 1,500	
Increase	Decrease	Decrease	Increase

#### In summary:

An increase in assets: Normally results in

Increase in revenue (ultimately net assets)

Increase in liabilities

A decrease in assets: Normally results in

Increase in expenditure (ultimately net assets)

- Decrease in liabilities

• An increase in liabilities: Normally results in

Increase in expenditure (ultimately net assets)

Increase in assets

A decrease in liabilities: Normally results in

Decrease in assets

#### 4.1 Accounting rules for recording transactions

Now that the accounting equation and the double entry system have been explained the following accounting rules must be remembered and applied:

- The principle of double entry i.e. each transaction debit has a corresponding credit;
- The accounting equation is always in balance regardless of the nature of the financial transaction;
- Transactions are recorded/recognised in accordance with the accounting policies derived from the reporting framework;
- Transactions are categorised in accordance with the Standard Chart of Accounts; and coding structures in the Basic Accounting System (BAS) or the relevant accounting system used (discussed in a separate chapter); and
- All account balances should agree to supporting documentation and/or sub systems and any differences should be reconciled.

#### 4.2 Accounting classification

An accounting classification structure is made up of elements used to categorise the financial transaction data. The data elements defined by the accounting classification structure allows for meaningful reporting of financial information.

The Standard Chart of Accounts (SCoA) is the structure of government accounts, with the purpose of harmonising the budgeting and reporting definitions of items of payments, receipts, assets, liabilities and net assets so that useful and reliable government financial information can be developed.

SCoA is a combination of the reporting requirements of the Economic Reporting Format and the annual financial statements and is designed to comply with the accounting and classification policies.

# 5. Basis of Accounting

The basis of accounting refers to the method of accounting employed for recognising and measuring transactions and balances namely the accrual basis or cash basis of accounting. The distinctions between the two are the timing of when transactions are recorded in the financial records of the entity and the extent to which transactions are recognised. The accrual basis of accounting includes all transactions whereas the cash basis of accounting is

limited to transactions that give rise to cash flow. These are discussed in greater detail below.

#### 5.1 Cash Basis of Accounting

The transaction is recorded at the time that money changes hands i.e. when money is paid or received. In the cash system of accounting expenditure is referred to as "payments" because the expenditure is only recorded when the payment is made and "revenue" is referred to as receipts because the receipt is only recorded at the time when the actual money is received and not when the goods or services are provided.



Example: Payments transaction

Department ABC buys twenty motor vehicles at a cost of R1,500,000 on 3<sup>rd</sup> April. The motor vehicles are delivered on 15<sup>th</sup> April. The Department pays for the motor vehicles at month end, on 30<sup>th</sup> April.

The transaction for the purchase of twenty motor vehicles is only recorded in the general ledger on 30<sup>th</sup> April when Department ABC pays over the money for the purchase of the motor vehicles.

Accounting entries in the books of Department ABC at 30<sup>th</sup> April when the department pays for the motor vehicles:

Debit	Motor Vehicles	1,500,000	
Credit	Bank	1,500,000	1



Example: Receipts transaction

The local government office collects motor vehicle licence fees, an amount of R55,000 on behalf of Department ABC. The money collected is deposited in the Department's bank account three days after it is collected by the local government office.

Accounting entries in the books of Department ABC when the motor vehicle licence fees collected is deposited in the departments bank account:

Debit	Bank	55,000	
Credit	Income Received		55,000
	(motor vehicle licence fees)		

When applying the cash basis of accounting transactions are only reflected in the general ledger when cash changes hands; and this means that there is no indication of cash that must still be paid to suppliers or of revenue that is due to the department.

Therefore the general ledger does not provide a realistic view of the financial position of the department.

Advantages of the cash basis of accounting is that it is easy to understand; quick to prepare and less subjective than accrual accounting.

Disadvantages of the cash basis of accounting are that it ignores future cashflows and does not allow for the assessment of the management of assets and liabilities.

#### 5.2 Accrual Basis of Accounting

In terms of the accrual basis of accounting transactions are recorded in the general ledger at the time that it happens regardless of whether cash exchanges hands. This means that the general ledger reflects monies that the department must pay to suppliers (creditors) and monies due to the department (debtors).

The advantages of the accrual basis of accounting are that it provides better management information and it makes it easier to assess performance and position of the entity.

The disadvantages of accrual accounting are that it is complex, costly and more subjective than cash accounting.



**Example:** Accrual Payments transaction

Department ABC orders twenty motor vehicles at a cost of R1,500,000 on 3<sup>rd</sup> April. The motor vehicles are delivered on 15<sup>th</sup> April. Department ABC pays for the motor vehicles at month end, on 30 April.

The transaction for the purchase of twenty motor vehicles is recorded in the general ledger at the time that the motor vehicles are delivered.

Accounting entries in the books of Department ABC on the 15<sup>th</sup> April when the Department takes ownership of the motor vehicles and a creditor is raised i.e. the Department owes money to the motor vehicle supplier:

Debit	Motor Vehicles	1,500,000	
Credit	Creditor: Motor Vehicle Supplie	ſ	1,500,000

Accounting entries in the books of Department ABC on 30th April when the Department pays for the motor vehicles:

Debit	Creditor: Motor Vehicle Supplier	1,500,000	
Credit	Bank		1,500,000



**Example:** Accrual Receipts transaction

The local government office collects motor vehicle licence fees, an amount of R55,000 on behalf of Department ABC.

The money collected is deposited in the Department's bank account three days after it is collected by the local government office.

Accounting entries in the books of Department ABC when the motor vehicle licence fees are collected and due to the department:

On the day that the licence fees are collected:

Debit	Debtor: Local Government Office	55,000	
Credit	Revenue		55,000
	(motor vehicle licence fees)		

#### On the day that the income is received:

Debit	Bank	55,000	
Credit	Debtor: Local Government Office		55,000

#### 5.3 Modified Cash Basis of Accounting

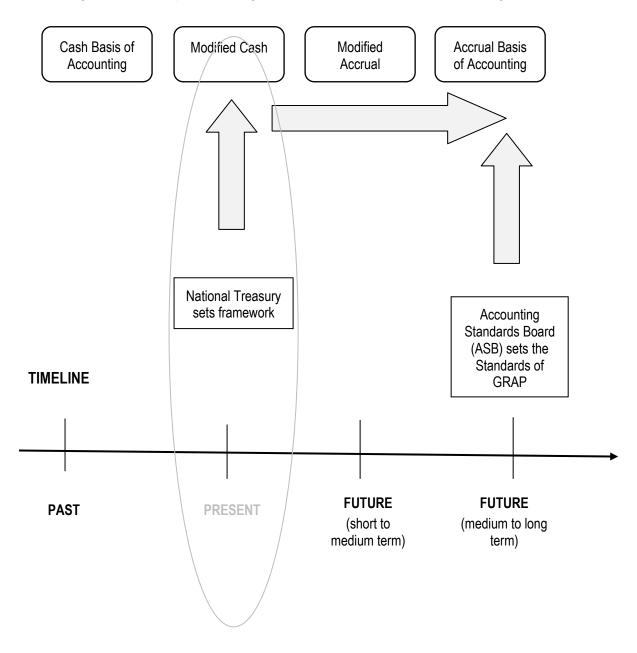
This is the cash basis of accounting, with additional disclosure items taken from the standards of Generally Recognised Accounting Practices (GRAP).

The additional disclosure items are prescribed in the *Departmental Financial Reporting Framework* which is issued annually by the Office of the Accountant-General.

#### 5.4 Modified Accrual Basis of Accounting

Under the modified accrual basis of accounting most of the accrual accounting principles are applied. The modified accrual basis of accounting is a step closer to applying full accrual accounting. There will be a move from the modified cash basis of accounting presently in use to modified accrual accounting before full accrual accounting is applied. For example, non-monetary assets such as property, plant and equipment or inventories will be recognised as assets in the general ledger and recognised on the *Statement of Financial Position*.

The diagram below depicts the migration from cash to accrual accounting:



## 6. The Annual Report

The annual report is a key instrument in ensuring accountability and transparent governance within an entity. The nature and quality of information provided is vital for the measurement of an entity's past performance and assessment of its future plans.

The purpose of an annual report is to:

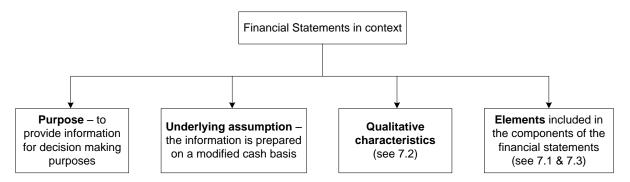
- provide a record of the activities of an entity during a specific financial year;
- provide a report on performance against the budget of an entity for that specific financial year;
- promote accountability to the public for decisions made throughout the year by the entity;
- reflect the performance of the entity during a financial year in comparison with targets and performance of the previous financial year;
- provide information on the financial statements for a specific financial year based on the reporting framework adopted by the entity;
- give information on the audit report of financial statements;
- stipulate particulars of any corrective action taken or to be taken in response to issues raised in the audit reports; and
- provide any information as determined by SCOPA, recommendations of the audit committee and any other prescribed information.

To achieve the above objectives the annual report as a minimum consists of:

- ✓ the Accounting Officer's and / or the Minister's Review;
- ✓ a mission statement;
- ✓ the legislative mandate;
- ✓ programme performance information;
- ✓ governance reports such as the report of the Audit committee; and
- ✓ the annual financial statements.

#### 7. The Annual Financial Statements

The purpose of the annual financial statements is to present a true and fair view of an entity's financial performance, financial position, changes in net assets and cash flows that is useful to a wide range of users and are therefore not tailored to the needs of any particular user group. Financial statements also show the results of the stewardship of management and the accountability of management for the resources entrusted to them.



#### 7.1 Components of financial statements

The annual financial statements comprise the following:

#### Appropriation Statement

The appropriation statement provides a summary of the financial performance of an entity against its approved budget at a programme and sub-programme level.

#### Statement of Financial Position (POS)

The POS provides a *snapshot* of the entity at a point in time. The POS provides information about the net worth of the entity. Information presented on the POS is the nature of assets, liabilities and net assets.

#### Statement of Financial Performance (PER)

The PER provides information of the inflow and outflow of funds over a given period of time and whether the entity has made a surplus (income exceeds expenditure) or a deficit (expenditure exceeds income). Information presented in the PER is the revenue earned and the expenditure incurred.

#### Cash Flow Statement

The Cash Flow Statement as the name suggests shows a summary of cash receipts and cash payments during the year.

#### • Statement of changes in net assets

The Statement of Changes in Net Assets provides a link between PER and POS and explains movements in opening and closing balances.

#### Notes including accounting policies

The notes are an integral part of the financial statements; they provide more detailed disclosure than is possible on the face of the main statements. The notes to the financial statements include a Statement of Accounting Policies which is fundamental to the understanding and interpretation of financial reports.

#### Disclosure notes

The disclosure notes include additional information on balances and transactions not recognised in the main statements for example contingent liabilities, movement in capital assets, provision, commitments and accruals.

There is a close relationship between the above components of financial statements. Each component reflects different aspects of the same transaction and or event. No single statement will, in itself, provide all the necessary information to the users of the financial statements.

#### 7.2 Qualitative characteristics

To achieve its stated objective (i.e. to provide useful information to the users of the financial statements), information in the financial statements must have certain qualitative characteristics, forming the pillars of financial reporting. The qualitative characteristics are discussed below:



#### Understandability

The information contained in the financial statements must be understandable to the average user who has a reasonable knowledge of government, the department's activities and environment, accounting and a willingness to study the information with reasonable diligence.

This does not imply that information should be excluded from the financial statements simply because it may be too complex for certain users to understand.

#### Relevance

Relevant information is information that is decision useful and can therefore influence stewardship by helping users to evaluate past, present or future events, or confirming or correcting their past evaluations.

The relevance of information is established by reference to the nature and the materiality of the information concerned.

#### Reliability

Information is reliable when it does not contain material errors and is free from bias. The users of the financial statements should be able to rely on the information as a faithful representation of the transactions, balances and events that it purports to represent.

The term "reliability" refers to information that the users can trust; information that is a true and accurate representation of the transactions, balances and events.

Reliable information should:

- reflect the substance rather than the legal form of the transactions or events;
- be neutral in that it should not present information in a manner to achieve a predetermined result; and
- be complete, within the bounds of materiality and cost.

#### Comparability

Information should be comparable to enable users to identify trends and to assess performance over time and between similar entities. One of the main reasons for the disclosure of accounting policies in the financial statements is to assist users in comparing the financial statements of different entities.

The application of the above mentioned qualitative characteristics along with the accounting policies contained in the Departmental Financial Reporting Framework should result in financial statements that convey what is generally understood as fair presentation.

It is important to note that the Departmental Financial Reporting Framework sets out the minimum requirements necessary to achieve fair presentation.

In some instances management may identify and include information in addition to the minimum requirements. This should be done only after due consideration of the qualitative characteristics and the objective of the financial statements.

#### 7.3 Elements of financial statements

The elements included in the financial statements are the building blocks from which the components of the financial statements are constructed. These elements are broad classes of events or transactions that are grouped according to their characteristics.

Element	Definition	Comment	Examples
Asset	A resource controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity	Assets are utilised in a number of ways but all will lead to the generation of future economic benefits (i.e. cash flowing to the entity) or the delivery of services to the community.	Motor vehicles, buildings, inventory, staff debt, prepayments, cash etc
Liability	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow of an entity's resources.	An obligation is simply a duty or responsibility to perform in a certain way. For it to be recognised it must be a present obligation and not a future commitment.	Payables, unpaid taxes etc.
Net asset	The residual interest in an entity's assets after deducting all its liabilities.	This is the net worth of an entity and represents either the resources available for the provision of future goods/services or the amount of future taxation or	Retained surplus, revaluation reserve etc.

Element	Definition	Comment	Examples
		other revenue to collect to	
		pay off its debt and other	
		liabilities.	
Revenue	Increases in economic benefits or	Revenue arises from an	Appropriated
	service potential not resulting	entity's normal operating	funds,
	from contributions made by	activities.	departmental
	owners.		revenue, aid
			assistance
			received etc.
Expenditure	Decreases in economic benefits	Expenses include losses for	Goods and
	or service potential not resulting	example forex losses.	services,
	from distributions to owners.		compensation of
			employees etc.

An item is recognised in the financial statements when it meets the definition of an element and when:

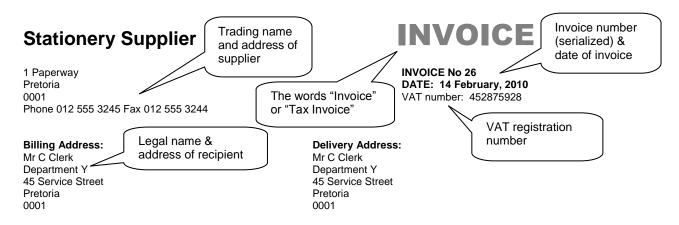
- it is probable that there will be an inflow or outflow of economic benefits or service potential associated with the asset or liability; **or**
- the revenue is earned; or
- the expenditure is incurred; and

the amount can be measured reliably (i.e. a monetary value can be assigned to the transaction).

## 8. Further fundamentals explained

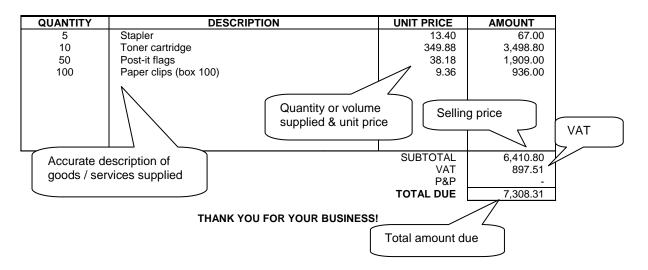
#### 8.1 Invoices

Before making any payment for a good / service it is important to ensure that a valid invoice has been received. A valid tax invoice has the following information:



#### Comments or special instructions:

SALESPERSON	P.O. NUMBER	SENT DATE	SENT VIA	F.O.B. POINT	TERMS
Mr Sales	100982	01/02/2010	-	-	Due on receipt



On receipt of the invoice, the creditors administration official / creditors clerk should perform the procedures listed below:

# **Stationery Supplier**

**INVOICE** 

1 Paperway Pretoria 0001

Phone 012 555 3245 Fax 012 555 3244

INVOICE No 26 DATE: 14 February, 2010 VAT number: 452875928

Billing Address:

Mr C Člerk Department Y 45 Service Street Pretoria 0001 Delivery Address: Mr C Clerk Department Y 45 Service Street

Pretoria 0001

#### Comments or special instructions:

SALESPERSON	P.O. NUMBER	SENT DATE	SENT VIA	F.O.B. POINT	TERMS
Mr Sales	100982	01/02/2010	-	-	Due on receipt

QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT
5	Stapler	13.40	67.00
<u>1</u> ) 10	Toner cartridge	349.88	3,498.80
· 50	Post-it flags	38.18	1,909.00
100	Paper clips (box 100)	9.36	936.00
		CLIDTOTAL	6.410.90
		SUBTOTAL VAT	6,410.80 897.51
		P&P	097.51
		TOTAL DUE	3 7,308.31
ĺ		I O I AL DUE	1,306.31

THANK YOU FOR YOUR BUSINESS!

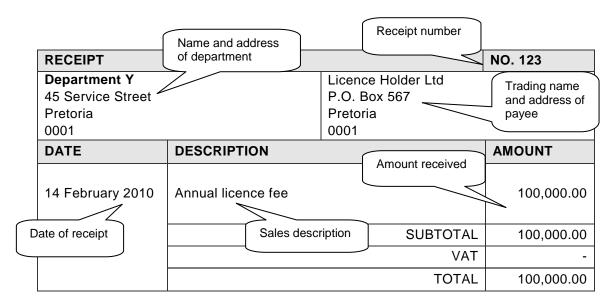
- 1. Agree the quantity on the invoice to the quantity on the goods received note (GRN);
- 2. Agree the price on the invoice with the price on the order;
- 3. Cast and cross cast the invoice;
- 4. Recalculate the VAT and other calculations such as trade discounts etc; and
- 5. Prepare the payment voucher with at least the following information:
  - a. supplier code;
  - b. account codes for the debit and credit entry of the transaction; and
  - c. invoice number and amount to be paid.

Where the invoice details differ from the order and GRN, the creditors administration official / creditors clerk should perform the following:

- ✓ enquire of both the procurement and receiving sections for possible reasons for the differences:
- ✓ if it is determined that the invoice is, in fact incorrect, the creditors administration official must communicate this to the supplier and request an amended invoice;
- ✓ the incorrect invoice must be stamped as invalid and a copy of this invalid invoice should be forwarded to the supplier with a letter to the effect that payment could well be delayed;
- ✓ this incorrect invoice should be attached to the order form:
- ✓ on receipt of the amended invoice procedures outlined above should be repeated. The
  invalid invoice should be attached to the payment voucher along with the other
  documents.
- ✓ where this becomes a recurring problem, it should be brought to the Financial Managers attention.

#### 8.2 Receipts

Issuing receipts is a critical way for an entity to keep track of its sales and to monitor inventory levels where relevant. The key elements of a receipt have been identified below:



The following procedures are critical to the recording and management of receipts:

- ✓ all money received must be accounted for by issuing an official receipt
- ✓ amounts received must be banked on the date of receipt;
- ✓ the banked amounts must reconcile back to the actual receipts;

✓ any unbanked monies must be kept in a locked safe;

#### 8.3 Bank reconciliation

Payments and receipts recorded in the cash book are usually balanced at the end of the month to determine the net effect of payments and receipts for that month. It is good practice to check the balance of the cash book to the balance of the bank account according to the bank's recordkeeping of transactions for the month. The Treasury Regulations prescribe that bank reconciliations should be performed daily.

This comparison of the cash book and the bank account is called a bank reconciliation statement.

The procedures for a bank reconciliation are summarised below followed by an example of how to perform a bank reconciliation.



Note that the procedures on how to perform a bank reconciliation can be applied to other account reconciliations such as reconciling creditors or debtors.

#### Procedures for a bank reconciliation

- 1. Compare the bank statement with the cash book balance as follows:
  - Compare the cash book receipts with the credits reflected on the bank statement;
     tick or highlight the amounts that appear in the cash book and on the bank statement;
  - Compare the cash book payments with the debits reflected on the bank statement; tick or highlight the amounts that appear in the cash book and on the bank statement.
- 2. Update the cash book with entries on the bank statement that have not yet been entered in the cash book i.e. those items that have not been ticked or highlighted on the bank statement.
  - Update the payments side of the cash book with bank charges; stop orders; debit orders etc; and
  - Update the receipts side of the cash book with direct deposits etc.

- 3. Correct any errors in the cash book for example a receipt amount of R356 incorrectly entered as R365 in the cash book.
- 4. Balance the cash book again once it has been updated with information from the bank statement and all errors corrected. This is the "true" bank balance that will appear on the Statement of Financial Position.
- 5. Prepare the bank reconciliation as follows:
  - Begin with the bank balance as it appears in the bank statement;
  - Add any items that have been debited in the cash book but not yet credited by the bank i.e. receipts reflected in the cash book but not yet reflected in the bank account;
  - Deduct any items that have been credited in the cash book but not yet credited by the bank i.e. payments reflected in the cash book but not yet reflected in the bank account;
  - Make necessary adjustments for errors by the bank e.g. add any amounts incorrectly debited by the bank and deduct any amounts credited by the bank; and
  - The net result should equal the bank balance shown in the cash book.



**Example:** Cash Book of Department ABC where all receipts and payments are recorded.

RECEIPTS			PAYMENTS			
DATE	DETAILS	AMOUNT	DATE	DETAILS	AMOUNT	
01-Jul-09	Balance B/F	756.20	02-Jul-09	P Mable	50.00	
03-Jul-09	Kenny Ltd	220.00	02-Jul-09	Bright & Co	130.00	
15-Jul-09	Maya & Maya	330.00	02-Jul-09	Glitter & Co	10.00	
31-Jul-09	Black Kettle	63.00	08-Jul-09	Moochy Ltd	27.50	
			14-Jul-09	Johannesburg City Council	89.00	
			14-Jul-09	F D Jetset	49.00	
			15-Jul-09	Kribby Ltd	250.00	
			26-Jul-09	Purple Insurance	122.00	
			31-Jul-09	Balance c/d	641.70	
		1 369.20			1 369.20	
31-Jul-09	Balance c/d	641.70	31-Jul-09	Bank charges	12.95	
31-Jul-09	Riteman Ltd	179.75	·	Balance c/d	808.50	
		821.45			821.45	



**Example:** Bank Statement of Department ABC from Blueskye Bank.

#### **BANK STATEMENT**

BLUE SKYE BANK 12 Moony Street Johannesburg 2001

Account number: 34 450 4560

Statement number 18 Date: 31 July 2009

DATE	DETAILS	DEBIT	CREDIT	BALANCE	
01-Jul-09	Balance			756.20	Cr
04-Jul-09	Cheques		220.00	976.20	Cr
09-Jul-09	004450	50.00		926.20	Cr
14-Jul-09	004452	10.00		916.20	Cr
16-Jul-09	Johannesburg City Council	89.00		827.20	Cr
19-Jul-09	Cheques		330.00	1 157.20	Cr
24-Jul-09	004455	250.00		907.20	Cr
26-Jul-09	Bond insurance	122.00		785.20	Cr
30-Jul-09	004454	49.00		736.20	Cr
31-Jul-09	Bank charges	12.95		723.25	Cr
31-Jul-09	Riteman Ltd		179.75	903.00	Cr

Preparing the Bank Reconciliation Statement:

- **Step 1:** Highlight the transaction amounts that appear in the Cash Book and the Bank Statement (amounts in blue)
- **Step 2:** Update the Cash Book with amounts that appear on the Bank Statement but not in the Cash Book (amounts shaded in grey)
- Step 3: Update the Cash Book balance (amount shown in orange in the Cash Book)
- **Step 4:** Calculate the difference between the new Cash Book balance (R808.50) and the balance reflected on the Bank Statement (R903.00). **The difference or reconciling amount is R94.50.**
- Step5: Prepare the Bank Reconciliation Statement as presented below.

#### **DEPARTMENT ABC**

Bank Reconciliation as at 31 July 2009

Balance per Cash Book 808.50

ADD: Cheques not presented for payment 157.50

Bright and Co. 130.00 Moochy Ltd 27.50

LESS: Outstanding receipts63.00Balance per Bank Statement903.00

#### Note:

- The reconciling amount of R94.50 comprises the following reconciling items (items on the Cash Book and Bank Statement not highlighted in blue or shaded in grey):
- Cheques not yet presented to the bank for payment: R130 + R27.50 = R157.50

LESS: receipts not yet reflected in the Bank Statement, R63.00

EQUALS: R94.50