OPENING BALANCES WITH UNPRESENTED CHEQUES

SUMMARY

When you first start using Constructor you will undoubtedly have a list of GL account balance (as at the date you start off with the accounting modules) that need to be transferred into Constructor's General Ledger module.

Assuming you have already set up the Chart of Accounts the opening balance process can be a straight forward as one big General Journal, replicating the Trial Balance from your old system. Debit and Credit all the relevant accounts to produce one, big balanced journal and thereby place balances into each account. Further discussion of opening balances is beyond the scope of this document.

DEALING WITH UN-PRESENTED CHEQUES

Dealing with un-presented cheques at that point though can be a little more confusing.

The trouble is, that the amounts on any un-presented cheques have already been accounted for in your opening bank balance (taken from the Trial Balance or Balance Sheet of your old system) and opening expense/liability accounts to which those un-presented payments relate.

The key to catering for un-presented cheques when entering opening balances in Constructor will depend on what effect you what those cheques to have in the GL (on the expense/liability accounts those payments were for).

An important point to note at this stage is that General Ledger journal line items that link to a bank account **will appear on the bank reconciliation** for that account.

There are two ways in which you can cater for this scenario;

The **first option** is to adjust all the opening balance figures you put in, to exclude the affect of the un-presented cheques, so that when you later enter those cheques into Constructor the balances will come into line.

So, the opening **bank account** balance would need to be changed to **exclude** the total of all the cheques you are about to enter in, as un-presented. When you later then the cheques into the system, doing so will decrease the bank balance (in Constructor). (Another way to look at this would be to enter the balance from the **bank statement** at the date of your opening balances instead, then enter into Constructor any un-presented cheques **and deposits** (as new payments or receipts) at that date. These will then show up on the bank statement for presenting.)

Now, that takes care of one side of the entry - problem is, there are two sides. The other side is the expenses or liabilities those un-presented payments covered.

Using this first option, you would need to go through and individually adjust **all** the opening balance amounts for the expenses / liability accounts that these un-presented cheques will cover. Then, as these payments are entered, these balances will also come into line.

In a large Chart of Accounts this would quickly become a long winded and complicated scenario.

The **second option** is someone cleaner but involves an extra general journal entry on startup.

This amount of the journal entry needs to be for the total of un-presented cheques. You would need to debit the bank by that total amount (this artificially and temporarily increases the bank balance). You would also need to credit (again temporarily) another account - ideally "Suspense" – by that same amount. This places a balance into that Suspense account which will shortly be negated.

Now, vitally important, when you enter the un-presented cheques into the system (as new payments), you simply enter them with "G" lines (posting directly to a General Ledger account), but rather than select the expense or liability account the payment is for, you select "Suspense" account you used in the initial journal. The affect will be to bring the balance of that "Suspense" account back to $0 and the bank account balance back to what it should be.

EXAMPLE:

Imagine a bank balance of $10,000 at 1st July, with only a couple of other accounts with balances (to avoid complication at this point). (Debtors $5000, Creditors $8000 and Retained Earnings of $17000).

In this over simplified example your opening balance journal would look like this:

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DR:     Bank                $10,000
DR:     Debtors             $15,000
CR:         Creditors               $8,000
CR:         Retained Earnings   $17,000
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Now, let's also assume you had $2500 worth of un-presented cheques:

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DR:     Bank                $2,500
CR:         Suspense                $2,500
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Now you are ready to enter the $2500 worth of un-presented cheques, into the system as new payments (however many transactions that represents – there could be any number of cheques made out to any type of expense or liability payment making up that $2500).
As long as you enter "G" lines on the payment screen, and choose the "Suspense" account, the effect will be to DR Suspense and CR the Bank, each time. Provided the totals are right, the Suspense account balance will reduce to $0, and the Bank should come back to its original figure ($10,000).