The Bank Reconciliation

There are two records of a business' cash, its cash account in its own general ledger and the bank statement. Often at a particular date they will show differing amounts due to time lag, or timing differences.

Therefore, the accountant must explain the differences between the banks balance and the cash ledger, known as the **bank reconciliation**.

Preparing the Bank Reconciliation

Bank Side of the Reconciliation
Items to show on the bank side include the following:

1. Items recorded by the business but not yet recorded by the bank
    a. Deposits in transit
    b. Outstanding cheques
2. Bank errors

Book Side of the Reconciliation
Items to show on the book side include the following:

1. Bank collections; are monies directly collected by banks on behalf of the business and are not recorded on the books yet.
2. Electronic funds transfers
3. Service charge; banks fee for processing a company's transactions.
4. Interest revenue on cheque or savings accounts
5. Dishonoured cheques received from customers; previously recorded are cash receipts that have turned out to be worthless.
6. Cheques collected, deposited and returned to payee by the bank for reasons other than being dishonoured
7. The cost of specially printed cheques
8. Book errors

Steps of Preparing the Bank Reconciliation

1. Start with two figures, from the bank and the books.
2. Add to or subtract from the bank balance those items that appear on the books but not on the bank statement. (bank side)
3. Journalise those items that appear on the bank statement but not on the firms books (book side)
4. Check each side, which should equal

Internal Controls Over Cash Receipts

Internal control over cash receipts ensures that all cash receipts are deposited in the bank quickly and that the firm's accounting record is correct.

Cash Receipts over the Counter

The cash register offers management control over the cash received in store. It openly displays the amount the payer ensuring the cashier doesn't overcharge, it only opens once an amount has been entered and the transaction made, issues a receipt, so at the end of the day the amount in the drawer can be matched to the amount recorded by the register. Pricing at uneven amounts means that change is required, making the cashier enter the transaction into the register. The money is then deposited at the end of the day in the banks and the accounting register is sent off.

Cash Receipts by Mail

All incoming mail should be opened by a mailroom employee, who checks the amount of the cheque received with the attached remittance advice. Having combined the money with the cash register, the three records of the day's cash receipts can be made, the control total from the mailroom, the bank deposit and the accounting department.

Cash Short and Over

A different often exists between actual cash receipts and the day's record of cash received. When the cash balance exceeds cash on hand, there is a cash short situation and cash over when the opposite situation occurs. Therefore, in cash short situation the following entry would be made:

Cash (A+)	24980	
Cash short and over (E+)	20	
Sales Revenue (R+)		25000
Daily cash sales.		

Internal Controls Over Cash Payments

Controls Over Payment By Cheque

Payment by cheque acts as a source document and is signed by an authorised official, who can ensure the goods and services can be delivered.

Voucher System

Vouchers authorise cash payments.

Streamlined procedures

Evaluated receipts settlement (ERS) compresses the approval process into a single step: compare the receiving report to the purchase order. This is further streamlined