

ACC1100 – Introduction to Financial Accounting

Bank Reconciliation

Thursday, 27 April 2017

11:18 am

Bank reconciliation explains the differences between the cash recorded in the bank balance and the cash recorded in the book balance, which occurs due to time lag of payments, errors in bank or book transactions and bank service fees.

At the end of the month, the bank statement and the cheque book is compared to find any errors that need to be rectified.

Bank Side

- Add/Less: Outstanding Deposits/Deposits in transit
 - deposits are made to the bank but bank balance hasn't updated to record this change.
 - Thus, change is required on bank's behalf to update the balance on their end
- Less/Add: Outstanding/Unpresented Cheques
 - cheques made from the company to the bank to pay off a liability, however, the bank accounts haven't been cleared by the bank yet.
 - Appears at a later date
 - Thus, reduces cash from our balance.

Book Side

- Add: Bank collection/Notes Receivable
 - accounts receivable that have been paid by the people who owe us, however, not collected from the bank yet by the company
- Add: Interest Revenue
 - Interest revenue made due to storing money in the bank
- Less: Bank service fees
 - Bank service fees required to be paid
- Less: Dishonoured cheques
 - Cheques from debtors (people who owe us) that didn't go through because there may have been insufficient funds
 - Since the cheque didn't go through, our cash balance is actually less than what it is
- Add/Less: Correction of Book Error
 - Depends on what book error it was
 - Make sure to adjust for the book error in journal entry under the specific accounts where the error occurred
 - Eg DR Utilities Expense CR Cash

Journal Entries

- Bank expenses, such as service fees or cost of printing cheques

DR Account	CR Account	DR	CR
Bank Expense/Sundry Expense		80	
	Cash		80

- Bank Collection

DR Account	CR Account	DR	CR
Cash		800	
	Accounts Receivable		800

- Interest Revenue

DR Account	CR Account	DR	CR
Cash		20	
	Interest Revenue		20

- Dishonoured Cheques

DR Account	CR Account	DR	CR
Accounts Receivable		990	
	Cash		990

- Correction of Book Error

DR Account	CR Account	DR	CR
Specific Account		65	
	Specific Account		65

Step by Step

- Check that outstanding cheques/deposits have appeared in the cash receipts/payments journal. If not, this should appear on the next bank reconciliation
- Check the Cash Receipts and Cash Payments Journal against the Bank Transactions in order to see any incorrect or unrecorded transactions
 - Cross them out once they appear in both with the correct amounts
 - Dates will differ
 - Cash receipts CR(+) bank total Cash payments DR(-) bank total
- For any transactions that differ/are missing, alter it in the cash receipts/cash payments journal as an 'adjustment' at the end of the month
- Transfer the payments and receipts to cash at bank ledger in order to find the balance
- Include all the unrepresented cheques and outstanding deposits on the bank reconciliation statement then compute the total
- If the balances don't match, then you've done something wrong

