



## Bank Reconciliation

The purpose of bank reconciliation is to adjust both the company's record of its chequing account and the bank's record of the chequing account so that the accounts are equal (or balanced). The usual transactions to adjust for are:

- (1) deposits in transit:** deposits the company knows it has made but the bank has not processed yet (add to bank balance)
- (2) outstanding cheques:** cheques the company knows it has issued but the bank has not processed yet (deduct from bank balance)
- (3) service charges:** bank charges that the company hasn't yet recognized (deduct from book balance)
- (4) not sufficient funds (NSF):** a cheque that was not honored by the bank because the account it was written from did not have enough money (deduct from book balance)
- (5) errors:** the company incorrectly records the amount of a deposit or cheque, forgets to record a deposit or cheque, or the bank incorrectly debits or credits the company (add or deduct to book or bank depending on the error)

The basic strategy: look for differences in the two statements (and possibly the previous month's reconciliation if included).

The detailed strategy:

### Step 1: Adjusting the Balance per Bank

- Find the balance shown at the end of the month, then state the adjustments.
- Identify deposits in the book balance that the bank balance is missing (or from the previous month's reconciliation). Add those to the bank balance
- Identify payments (cheques) in the book balance that the bank balance is missing (or from the previous month's reconciliation). Deduct those from the bank balance.
- Bank errors are mistakes made by the bank. Depending on the error, the correction could increase or decrease the balance shown on the bank statement. For instance if the bank incorrectly debited a transaction to the company's account that had not been a cheque drawn by the company, this amount would be added back into the bank balance.

General format for adjustments of the bank balance

	Bank Statement Balance
	Adjustments:
	Add: <b>Deposits in transit</b>
	Deduct: <b>Outstanding cheques</b>
	Add or Deduct: <b>Bank errors</b>
	<b>Reconciled Balance per Bank</b>



## Step 2: Adjusting the Balance per Books

- Find the balance shown at the end of the month, then state the adjustments.
- Add interest earned to the book balance.
- Errors in the company's Cash account result from the company entering an incorrect amount, entering a transaction that does not belong in the account, or omitting a transaction that should be in the account. For instance, if the bank records a deposit that the company forgot to write down in its books, it must add that amount in the adjustment of the book balance. If the company incorrectly records the amount of a payment cheque, it must add or deduct the difference (depending on whether the book value is too large or too small)
- Deduct any bank service charges or NSF as noted in the bank balance.

	Book Balance
	Adjustments:
	Add: <b>Interest earned</b>
	Add or Deduct: <b>Errors</b> in company's <b>Cash</b> account
	Deduct: <b>Bank service charges</b>
	Deduct: <b>NSF cheques &amp; fees</b>
	Deduct: <b>Cheque printing charges</b>
	<b>Reconciled Balance per Books</b>

## Step 3: Comparing the Adjusted Balances

After adjusting the *balance per bank* (Step 1) and the *balance per books* (Step 2), the two adjusted amounts (*reconciled balance*) should be equal.

*Example:* A bakery specializing in birthday cakes completes monthly bank reconciliations as part of its internal control process. The bank statement for the month of January shows a bank balance of \$7,224.28. The company's book balance on January 31 was \$7,510.74. The bank statement indicated that the bakery received \$28.96 in interest and was charged \$4.00 for bank service charges, \$32.00 for a new checks, and \$200.00 for an NSF check. Deposits in-transit were \$1,884.52 and outstanding checks totalled \$1,805.10. Prepare the bank reconciliation for the month ended January 31.

*Solution:*

Bank Balance Statement	\$7,224.28	Book Balance	\$7,510.74
Add: Deposits in transit	\$1,884.52	Add: Interest earned	\$28.96
Subtotal	\$9,108.80	Subtotal	\$7,539.70
Less: Outstanding checks	<u>(\$1,805.10)</u>	Less: Bank service charges	\$4.00
		Less: New checks	\$32.00
		Less: NSF checks	<u>\$200.00</u>
		Subtotal	(\$236.00)
<b>Reconciled Balance</b>	<b><u>\$7,303.70</u></b>	<b>Reconciled Balance</b>	<b><u>\$7,303.70</u></b>



## Practice Problems

- The following actions relate to bank statement reconciliation. Match the lettered items to the numbered items. (A numbered item can have more than one lettered item.)
  - NSF charge made by the bank.
  - A check listed as outstanding last month that is still outstanding.
  - A deposit of \$221 was recorded as \$212 in the company's book.
  - Interest earned on a company's bank account.
  - A deposit made by the company, but not recorded on the bank statement.
    - \_\_\_\_\_ Add to the company's book balance.
    - \_\_\_\_\_ Deduct from the company's book balance.
    - \_\_\_\_\_ Add to the bank statement balance.
    - \_\_\_\_\_ Deduct from the bank statement balance.
- The July 31 bank statement for a catering company reported a balance of \$15,014. The company's book balance shows \$19,960. Two checks written by the company are outstanding, #333 and #336 in the amounts of \$1,680 and \$1,120, respectively. Interest earned and paid to the catering company was \$428 and had not been recorded in the company's accounts. The bank had, in error, charged a check of another company to the catering company in the amount of \$140. The bank charged the firm \$24 for service charges. A deposit in the amount of \$8,010 remains in transit, since it was not deposited in time to be shown in the July bank statement. Prepare the bank reconciliation for July.
- The bank reconciliation at the end of March, bank statement of April, and book statement of April is given. Prepare the bank reconciliation for the end of April.

<b>Bank Reconciliation (March)</b>	
<b>Bank Balance</b>	<b>\$10,000</b>
Add: Deposits in transit	\$200
Total	\$10,200
Less: Outstanding checks	
# 201	\$60
# 209	\$70
<b>Adjusted Balance</b>	<b><u>\$10,070</u></b>

<b>Cash Book Statement (April)</b>			
<b>Cash Book Balance</b>		<b>\$10,070</b>	
<u>Cash receipts</u>		<u>Cash payments</u>	
Apr 10	\$220	# 210	\$36
Apr 20	\$340	# 211	\$64
Apr 28	\$400	# 212	\$18
Apr 30	\$250	# 213	\$199
<b>Total</b>	<b>\$1,210</b>	# 215	\$300
		# 216	\$120
		# 217	\$107
		# 218	\$120
		# 219	\$57
		<b>Total</b>	<b>\$1,021</b>
<b>Balance</b>			<b><u>\$10,259</u></b>

<b>Bank Statement (April)</b>			
<b>Bank Balance</b>		<b>\$10,000</b>	
<u>Deposits</u>		<u>Checks &amp; Debits</u>	
Apr 01	\$200	# 201	\$60
Apr 10	\$220	# 212	\$18
Apr 20	\$340	# 213	\$199
Apr 25	\$600	# 215	\$300
Apr 28	\$400	# 216	\$210
<b>Total</b>	<b>\$1,760</b>	# 217	\$107
		NSF	\$250
		S.C	\$30
		<b>Total</b>	<b>\$1,174</b>
<b>Balance</b>			<b><u>\$10,586</u></b>



## Solutions

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- 1.
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| i. c, d<br>ii. a | iii. e<br>iv. b |
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2.

### Bank Reconciliation

Bank Balance Statement	\$15,014	Book Balance	\$19,960
Add: Deposit in transit	\$8,010	Add: Interest earned	\$428
Add: Bank error	\$140	Subtotal	\$20,388
Subtotal	\$23,164		
		Less: Bank service charges	(\$24)
Less: Outstanding checks			
#333	\$1,680		
#336	\$1,120		
Total:	<u>(\$2,800)</u>		
<b>Reconciled Balance</b>	<b><u>\$20,364</u></b>	<b>Reconciled Balance</b>	<b><u>\$20,364</u></b>

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3.

### Bank Reconciliation

Bank Balance Statement	\$10,586	Book balance	\$10,259
Add: Deposits in transit	250	Add: Deposit (Apr 25)	600
		Subtotal	\$10,859
Subtotal	\$10,836		
Less: Outstanding Checks		Less: NSF	\$250
# 209	\$70	Less: Bank Service charges	\$30
# 210	\$36	Less: Error in #216	<u>\$90</u>
# 211	\$64	Total	(\$370)
# 218	\$120		
# 219	<u>\$57</u>		
Total:	(\$347)		
<b>Reconciled Balance</b>	<b><u>\$10,489</u></b>	<b>Reconciled Balance</b>	<b><u>\$10,489</u></b>

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