

# Introduction to Bank Reconciliation

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*Purpose: Align the cash balance shown in a company's accounting records with the balance reported by its bank.*

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## 1. Why Bank Reconciliation Matters

| Reason                           | Impact if Ignored                                              |
|----------------------------------|----------------------------------------------------------------|
| Accuracy of financial statements | Over? or under?stated cash balances, misleading profit figures |
| Fraud detection                  | Unidentified unauthorized withdrawals or deposits              |
| Cash?flow management             | Poor planning, missed payments or overdraft fees               |
| Compliance                       | Failure to meet audit standards or regulatory requirements     |

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## 2. Core Concepts & Terminology

| Term                        | Definition                                                                               |
|-----------------------------|------------------------------------------------------------------------------------------|
| Bank statement              | Periodic (usually monthly) record from the bank showing all transactions on the account. |
| Cash book (or cash ledger)  | Internal record of cash receipts and payments maintained by the company.                 |
| Outstanding checks          | Checks issued by the company that have not yet cleared the bank.                         |
| Deposits in transit         | Cash or checks received by the company but not yet reflected on the bank statement.      |
| Bank fees & service charges | Costs deducted by the bank (e.g., monthly fees, wire fees).                              |
| Interest earned             | Interest credited by the bank to the account.                                            |
| Errors                      | Mistakes made by either the bank or the company (e.g., wrong amount, duplicate entry).   |

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## 3. The Reconciliation Process – Step?by?Step

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## 1. Gather Documents

- Latest bank statement.
- Company's cash book (or general ledger cash account).
- Any supplemental records (e.g., deposit slips, check stubs).

## 2. Adjust the Bank Statement

- **Add:** Deposits in transit, interest earned, collection of notes receivable.
- **Subtract:** Bank service charges, NSF (non-sufficient funds) checks, automatic withdrawals (e.g., loan payments).

## 3. Adjust the Cash Book

- **Add:** Interest earned, collections made by the bank on the company's behalf.
- **Subtract:** Bank fees, NSF checks, any errors discovered in the cash book.

## 4. Identify Outstanding Items

- List all **outstanding checks** and **deposits in transit**.
- Verify dates and amounts against supporting documents.

## 5. Compare Adjusted Balances

- **Adjusted bank balance** (original statement balance  $\pm$  adjustments).
- **Adjusted cash-book balance** (original cash-book balance  $\pm$  adjustments).
- The two adjusted balances should **match**.

## 6. Investigate Discrepancies

- If balances differ, re-examine each step: check for transcription errors, omitted items, or timing differences.
- Document any unresolved items for future follow-up.

## 7. Record Reconciliation Adjustments

- Post journal entries for bank fees, interest, NSF checks, etc., to the general ledger.
- Keep a reconciliation worksheet (or software report) as evidence.

## 8. File Supporting Documentation

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- Store the bank statement, cash?book extracts, reconciliation worksheet, and any related documents together for audit purposes.
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## 4. Sample Reconciliation Worksheet (Illustrative)

| Description     | Bank Statement | Adjustments (Bank) | Adjusted Bank Balance | Cash Book | Adjustments (Cash) | Adjusted Cash Balance |
|-----------------|----------------|--------------------|-----------------------|-----------|--------------------|-----------------------|
| Opening balance | \$12,500       | —                  | \$12                  |           |                    |                       |