

UNIT 10: FINANCIAL ACCOUNTING

**LO 3: PERFORM BANK RECONCILIATIONS TO ENSURE COMPANY AND BANK RECORDS ARE
CORRECT**

UNIT 10: FINANCIAL ACCOUNTING

**P5: APPLY THE BANK RECONCILIATION PROCESS TO PREPARE A NUMBER OF BANK
RECONCILIATION.**

OVERVIEW

- › A bank reconciliation statement is a document that matches the cash balance on a company's balance sheet to the corresponding amount on its bank statement.
- › Reconciling the two accounts helps determine if accounting changes are needed. Bank reconciliations are completed at regular intervals to ensure that the company's cash records are correct. They also help detect fraud and any cash manipulations.

BANK RECONCILIATION

- › A bank reconciliation is the process of matching the balances in an entity's accounting records for a cash account to the corresponding information on a bank statement. The goal of this process is to ascertain the differences between the two, and to book changes to the accounting records as appropriate.

BANK RECONCILIATION

- › The objective of a bank reconciliation is to reconcile the difference between:
- › the cash book balance, i.e. the business' record of their bank account, and
- › the bank statement balance, i.e. the bank's record of the bank account.

BANK RECONCILIATION

- › The cash book is the double entry record of cash and bank balances contained within the nominal ledger accounting system. It is, in effect, the cash control account.
- › Note that debits and credits are reversed in bank statements because the bank will be recording the transaction from its point of view, in accordance with the business entity concept.

BANK RECONCILIATION

- › A bank reconciliation should be completed at regular intervals for all bank accounts, to ensure that a company's cash records are correct. Otherwise, it may find that cash balances are much lower than expected, resulting in bounced checks or overdraft fees.

BANK RECONCILIATION

- › A bank reconciliation will also detect some types of fraud after the fact; this information can be used to design better controls over the receipt and payment of cash.

BANK RECONCILIATION

- › The reconciliation statement will include the balance on the bank statement, the balance on the cash book, the value of cheques issued but not yet presented at the bank (un-presented cheques) and the value of deposits which have not yet been processed/cleared by the bank (un-credited lodgements).

BANK RECONCILIATION

- › Uses of Bank Reconciliation Statement
- › (1) The bank reconciliation statement constitutes a comparison between the cash book and the independent bank statement, allowing for items in transit (including six months old out-of-date cheques).

BANK RECONCILIATION

- › (2) Non agreement of the two adjusted balances indicates an error which can be corrected or advised to the bank, if the bank statement is wrong.
- › (3) Agreement of the two adjusted balances provides completeness of the cash book.

BANK RECONCILIATION

- › (4) When cash book is updated and corrected, the organization has an amended and correct figure for the bank balance to be shown in the trial balance and balance sheet.

BANK RECONCILIATION

- › (5) The bank statement is an independent accounting record; therefore it will assist in deterring fraud by providing a means of verifying the cash book balance.

BANK RECONCILIATION

- › (6) A trial balance difference may have indicated an error somewhere in the accounting system, the same amount showing up, as a bank reconciliation difference, indicates that any search for an error can be restricted to the bank accounting system.

BANK RECONCILIATION

- › Math Errors
- › One of the most common reasons a bank reconciliation doesn't come out right is because of math errors. This can happen in one of two ways. You might make an error when you're recording a transaction in your general ledger.

BANK RECONCILIATION

- › Outstanding Checks
- › Another reason bank statements and general ledgers may not agree is because a payment recorded in the general ledger might have been a check that did not clear your bank until after your statement closing date.

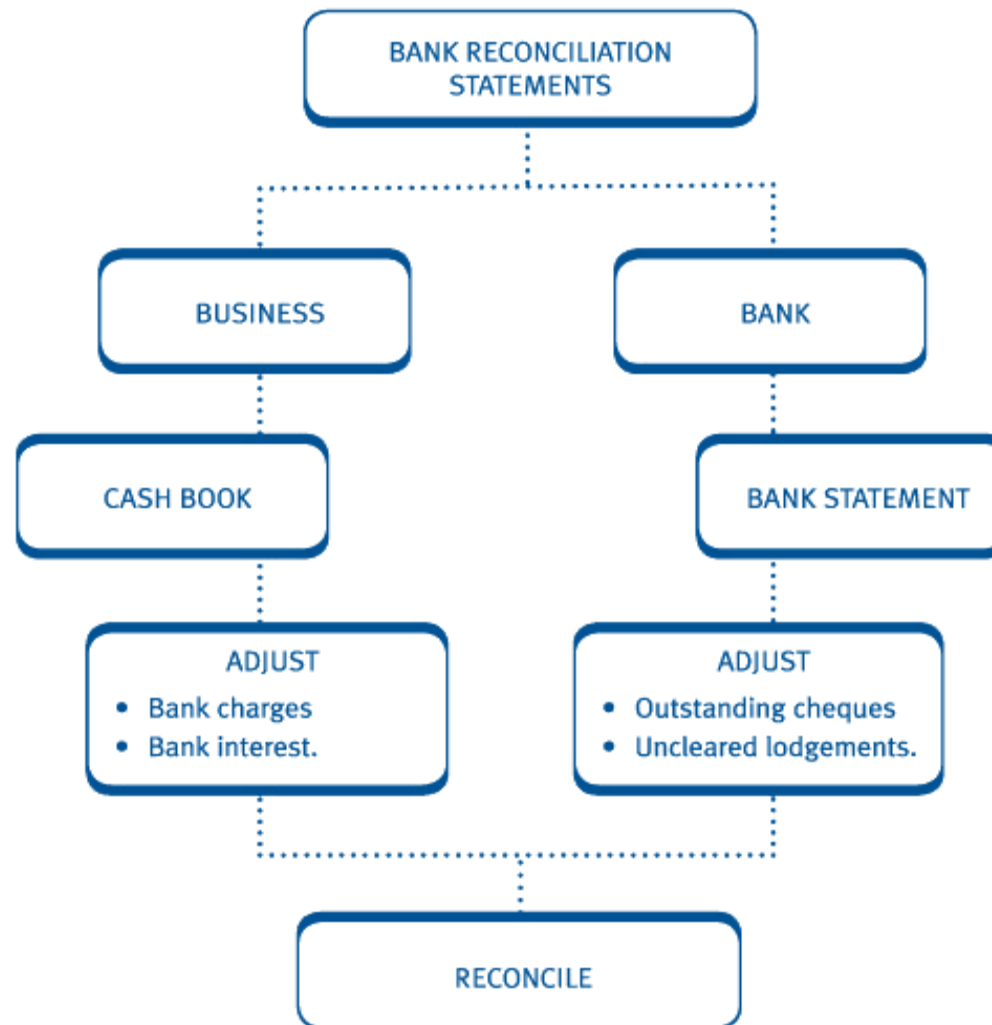
BANK RECONCILIATION

- › Electronic Fees
- › With more and more businesses using electronic transactions, the different fees charged can cause confusion.

BANK RECONCILIATION

- › Potential Fraud
- › Another reason a bank reconciliation statement might show a difference is because someone has stolen from you. A person making general ledger entries might record cash transactions in your general ledger, but not deposit the money.

BANK RECONCILIATION



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