

# UNIT 10: FINANCIAL ACCOUNTING

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

# UNIT 10: FINANCIAL ACCOUNTING

**M3: APPLY THE RECONCILIATION PROCESS DEMONSTRATING THE USE OF DEPOSIT IN TRANSIT, OUTSTANDING CHEQUES AND NOT SUFFICIENT FUNDS (NSF) CHEQUE.**

# OVERVIEW

- › The essential process flow for a bank reconciliation is to start with the bank's ending cash balance, add to it any deposits in transit from the company to the bank, subtract any checks that have not yet cleared the bank, and either add or deduct any other items.

# BANK RECONCILIATION

- › The key terms to be aware of when dealing with a bank reconciliation are:
- › Deposit in transit. Cash and/or checks that have been received and recorded by an entity, but which have not yet been recorded in the records of the bank where the entity deposits the funds.

# BANK RECONCILIATION

- › If this occurs at month-end, the deposit will not appear in the bank statement, and so becomes a reconciling item in the bank reconciliation. A deposit in transit occurs when a deposit arrives at the bank too late for it to be recorded that day, or if the entity mails the deposit to the bank (in which case a mail float of several days can cause a delay), or the entity has not yet sent the deposit to the bank at all.

# BANK RECONCILIATION

- › **Outstanding cheque.** A cheque payment that has been recorded by the issuing entity, but which has not yet cleared its bank account as a deduction from cash. If it has not yet cleared the bank by the end of the month, it does not appear on the month-end bank statement, and so is a reconciling item in the month-end bank reconciliation.

# BANK RECONCILIATION

- › NSF cheque. A cheque that was not honored by the bank of the entity issuing the check, on the grounds that the entity's bank account does not contain sufficient funds. NSF is an acronym for "not sufficient funds." The entity attempting to cash an NSF cheque may be charged a processing fee by its bank. The entity issuing an NSF cheque will certainly be charged a fee by its bank.

# BANK RECONCILIATION

- › Differences between the bank statement and the cash book.
- › When attempting to reconcile the cash book with the bank statement, there are three differences between the cash book and bank statement:
  - › unrecorded items
  - › timing differences
  - › errors
- ›



# BANK RECONCILIATION

- › Cash book adjustments
- › Unrecorded items
- › These are items which arise in the bank statements before they are recorded in the cash book.
- › Such are unrecorded items may include:
  - › interest
  - › bank charges
  - › dishonoured cheques.

# BANK RECONCILIATION

- › They are not recorded in the cash book simply because the business does not know that these items have arisen until they see the bank statement.
- › The cash book must be adjusted to reflect these items.

# BANK RECONCILIATION

- › Bank reconciliation adjustments
- › Timing differences
- › These items have been recorded in the cash book, but due to the bank clearing process have not yet been recorded in the bank statement:
- › Outstanding/unpresented cheques (cheques sent to suppliers but not yet cleared by the bank).
- › Outstanding/uncleared lodgements (cheques received by the business but not yet cleared by the bank).

# BANK RECONCILIATION

- › The bank statement balance needs to be adjusted for these items:

	\$
Balance per bank statement	X
Less: Outstanding/unpresented cheques	(X)
Add: Outstanding/uncleared lodgements	X
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Balance per cash book (revised)	X

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# BANK RECONCILIATION

- › **Errors in the cash book**
- › The business may make a mistake in their cash book. The cash book balance will need to be adjusted for these items.
- › **Errors in the bank statement**
- › The bank may make a mistake, e.g. record a transaction relating to a different person within our business bank statement. The bank statement balance will need to be adjusted for these items.

# BANK RECONCILIATION

- › Outstanding or unpresented cheques
- › Suppose a cheque relating to a payment to a supplier of Poor boy is written, signed and posted on 29 March. It is also entered in the cashbook on the same day. By the time the supplier has received the cheque and paid it into his bank account, and by the time his bank has gone through the clearing system, the cheque does not appear on Poor boy statement until, say, 6 April. Poorboy would regard the payment as being made on 29 March and its cash book balance as reflecting the true position at that date.

# BANK RECONCILIATION

- › Outstanding deposits
- › In a similar way, a trader may receive cheques by post on 31 March, enter them in the cash book and pay them into the bank on the same day. Nevertheless, the cheques may not appear on the bank statement until 2 April. Again the cash book would be regarded as showing the true position. Outstanding deposits are also known as outstanding lodgements.

# BANK RECONCILIATION

## 3 Proforma bank reconciliation

### Cash book

Bal b/f	X	Bal b/f	X
Adjustments	X	Adjustments	X
Revised bal c/f	X	Revised bal c/f	X
	—		—
	X		X
	—		—
Revised bal b/f	X	Revised bal b/f	X

Bank reconciliation statement as at 31/12/2019

	\$
Balance per bank statement	X
Outstanding cheques	(X)
Outstanding lodgements	X
Other adjustments to the bank statement	X/(X)
	—
Balance per cash book (revised)	X

- Beware of overdrawn balances on the bank statement.
- Beware of debits/credits to bank statements.
- Beware of aggregation of deposits in a bank statement.
- **Note that the bank balance on the statement of financial position is always the balance per the revised cash book.**



# BANK RECONCILIATION

- › Bank Reconciliation Procedure:
- › 1. On the bank statement, compare the company's list of issued checks and deposits to the checks shown on the statement to identify uncleared checks and deposits in transit.
- › 2. Using the cash balance shown on the bank statement, add back any deposits in transit.
- › 3. Deduct any outstanding checks.
- › 4. This will provide the adjusted bank cash balance.
- › 5. Next, use the company's ending cash balance, add any interest earned and notes receivable amount.
- › 6. Deduct any bank service fees, penalties, and NSF checks. This will arrive at the adjusted company cash balance.
- › 7. After reconciliation, the adjusted bank balance should match with the company's ending adjusted cash balance.

# BANK RECONCILIATION

## Cash Book (after being completed to date)

20X9		£	20X9		£
Jan	1	Balance b/d	Jan	10	C Morgan
"	16	R Lomas	"	20	M McCarthy
"	24	V Verity	"	28	Cheshire CC rates
"	31	J Soames	"	30	M Peck
"	31	R Johnson	"	31	Balance c/d
		<u>90</u>			<u>600</u>
		<u>1,180</u>			<u>1,180</u>
Feb	1	Balance b/d			
		600			

## Bank Statement

20X9		Withdrawals £	Deposits £	Balance £
Jan	1			320
"	12	10627		210
"	16	Deposit	160	370
"	23	10628		280
"	24	Deposit	140	420
"	28	Direct debit: Cheshire CC		240
"	31	Bank Giro credit: R Johnson	90	330

# BANK RECONCILIATION

› BANK RECONCILIATION STATEMENT AS AT FEBRUARY 1,2009

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		£
Balance as per cash book		600
Add Unpresented cheque	(i)	<u>200</u>
		800
Less Bank lodgement not on statement	(ii)	<u>(470)</u>
Balance per bank statement		<u><u>330</u></u>

# BANK RECONCILIATION

- › When there is overdraft the situation will just opposite to that when there is a favourable balance. Hence, reverse steps would, of course, be taken while preparing Bank Reconciliation Statement. When there is an overdraft, the bank Pass Book shows a debit balance and the Bank Account in the Cash Book shows a credit balance. The reasons for the discrepancies mentioned earlier are the same, under overdraft, but in opposite direction. The following template can be used to prepare the bank reconciliation statement:

	£
Balance/overdraft per cash book	xxxx
Adjustments	
Unpresented cheque	Plus
Bank lodgement not on bank statement	<u>Less</u>
Balance/overdraft per bank statement	<u>xxxx</u>

# BANK RECONCILIATION

Cash Book							
20X8			£	20X8			£
Dec	5	I Howe	308	Dec	1	Balance b/d	709
"	24	L Mason	120	"	9	P Davies	140
"	29	K King	124	"	27	J Kelly	(B) 63
"	31	G Cumberbatch	(A) 106	"	29	United Trust	77
"	31	Balance c/d	380	"	31	Bank charges	49
			<u>1,038</u>				<u>1,038</u>

Bank Statement				
20X8		Dr	Cr	Balance
		£	£	£
Dec	1	Balance b/d		709 O/D
"	5	Cheque		401 O/D
"	14	P Davies	140	541 O/D
"	24	Cheque		421 O/D
"	29	K King: Credit transfer		297 O/D
"	29	United Trust: Standing order	77	374 O/D
"	31	Bank charges	49	423 O/D

# BANK RECONCILIATION

› BANK RECONCILIATION STATEMENT AS AT JANUARY 1, 2009

	£
Overdraft as per cash book	(380)
Add Unpresented cheque	<u>63</u>
	(317)
Less Bank lodgement not on bank statement	<u>(106)</u>
Overdraft per bank statement	<u><u>(423)</u></u>

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