

# UNIT 10: FINANCIAL ACCOUNTING

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

# UNIT 10: FINANCIAL ACCOUNTING

**D3: PREPARE ACCURATE BANK RECONCILIATIONS THAT APPLY APPROPRIATE TOOLS AND TECHNIQUES TO CHECK GENERAL ACCOUNTS AND BALANCE SHEETS.**

# OVERVIEW

- › There is usually a difference in the amount of cash reported on the balance sheet and the actual balance in the bank account for the same period. This difference is neither a good nor a bad thing, but instead highlights the timing difference between when the business remits payments and when they clear the bank.

# BANK RECONCILIATION

- › It is normal for a company's bank balance as per accounting records to differ from the balance as per bank statement due to timing differences. Certain transactions are recorded by the entity that are updated in the bank's system after a certain time lag. Likewise, some transactions are accounted for in the bank's financial system before the company incorporates them into its own accounting system. Such timing differences appear as reconciling items in the Bank Reconciliation Statement.

# BANK RECONCILIATION

- › The purpose of preparing a Bank Reconciliation Statement is to detect any discrepancies between the accounting records of the entity and the bank besides those due to normal timing differences. Such discrepancies might exist due to an error on the part of the company or the bank.

# BANK RECONCILIATION

- › Some of the reasons for a difference between the balance on the bank statement and the balance on the books include:
- › Outstanding checks
- › Deposits in transit
- › Bank service charges and check printing charges
- › Errors on the company's books
- › Electronic charges and deposits that appear on the bank statement but are not yet recorded in the company's records

# BANK RECONCILIATION

- › How to Document the Differences
- › Any items that are already recorded in the company's general ledger accounts, but have not yet appeared on the bank statement (outstanding checks, deposits in transit), will be noted as an adjustment to the balance per bank statement.

# BANK RECONCILIATION

- › Outstanding checks are a deduction to the balance per bank; deposits in transit are an addition to the balance per bank.
- › If an item is on the bank statement but has not yet been entered on the books, the items are noted as an adjustment to the balance per books.



# BANK RECONCILIATION

- › Bank service charges, check printing charges, and other electronic deductions that are not yet recorded in the company's accounts will become deductions from the cash balance per the books. Electronic deposits not yet recorded by the company will become additions to the cash balance per books.

# BANK RECONCILIATION

- › Preparation of bank reconciliation helps in the identification of errors in the accounting records of the company or the bank.
- › Cash is the most vulnerable asset of an entity. Bank reconciliations provide the necessary control mechanism to help protect the valuable resource through uncovering irregularities such as unauthorized bank withdrawals.

# BANK RECONCILIATION

- › However, in order for the control process to work effectively, it is necessary to segregate the duties of persons responsible for accounting and authorizing of bank transactions and those responsible for preparing and monitoring bank reconciliation statements.

# BANK RECONCILIATION

- › If the bank balance appearing in the accounting records can be confirmed to be correct by comparing it with the bank statement balance, it provides added comfort that the bank transactions have been recorded correctly in the company records.

# BANK RECONCILIATION

- › Monthly preparation of bank reconciliation assists in the regular monitoring of cash flows of a business.

# BANK RECONCILIATION

- › Reconciling the bank account regularly serves two purposes. The first is to provide the user with an accurate cash balance at the end of the period, preventing overdrafts on the account and stale outstanding checks.

# BANK RECONCILIATION

- › The second is to ensure that all transactions that cleared the bank account are recorded in the general ledger (for example: wire and ACH receipts, or receipts going directly to a lockbox that is deposited into the bank account but that the business might not physically see).

# REFERENCES

- › What are some reasons that cause the balance on the bank statement to differ from the cash balance on the books? | AccountingCoach. (2019). Retrieved from <https://www.accountingcoach.com/blog/balance-bank-statement-difference>
- › Bank Reconciliation Statement | Explanation. (2019). Retrieved from <https://accounting-simplified.com/financial/bank-reconciliation/>
- › Halt, V., & Halt, M. (2019). Reconcile Differences Between Bank Statements and Business Cash Balance | Halt, Buzas & Powell, LTD. Retrieved from <https://www.cpas4you.com/reconcile-differences-between-bank-statements-and-business-cash-balance/>