

LECTURE 9

**BANK
RECONCILIATION
STATEMENTS**

LEARNING OUTCOMES

Upon completion of the lecture, the students should be able to:

- Explain why bank reconciliation are done.
- Reconcile the Cash-book balances with the Bank reconciliation statement balances.
- Understand why the cheques may be dishonoured and what the effect will be upon the bank balances.

Purpose of preparing the Bank Reconciliations

In the books of a business, funds are paid into and out of the bank are entered into the bank columns of the Cash Book. At the same time, the bank will also be recording the flows of funds into and out of the business bank account.

Hence, there may be items paid into or out of the business bank account which have not been recorded in the Cash Book. In addition, there may be items that are entered in the Cash Book but have not been entered in the bank's records of the account.

Therefore, the Cash Book entries need to be compared to the record of the account held by the bank.

Where Closing Balance Differ

The business may be able to keep the Cash Book up to date, but it obviously cannot alter the bank's own record. Therefore, there may still exist a difference between the Cash Book balance and the balance on the bank statement.

- **For example:**

The balance in the Cash Book is \$600 [debit] and the balance in the bank statement is \$330. After comparing the entries in the Cash Book with the bank statement, two items are in the Cash Book but are not shown in the bank statement.

- **A cheque had been paid to M on January 30. He deposited it in his bank on January 31 but his bank didn't collect the money from the business's bank until February 2. This is known as unpresented cheque.**

- **A cheque for \$470 received from N on January 31 and the business deposited it with the bank on that date, but the bank did not receive the funds from N's bank until February. This is known as bank lodgement not yet credited to the business bank account.**

Bank Reconciliation Statement as at 31 December 20x7

	[\$]
Balance as per cash book	600
Add: Unpresented cheque	200
	800
Less: Bank lodgement not on statement	[470]
Balance per bank statement	330

- If the two balances cannot be reconciled, there will be an error somewhere. This will have to be located and then corrected.

Alternative Approach to Bank Reconciliations

- **In order to avoid confusion that may arise concerning what figure to include in the Balance Sheet, many accountants use a different form of Bank Reconciliation.**
- **In this approach, the balance as shown in the bank statement and the balance in the Cash Book before making any adjustments that are identified when it is compared to the bank statement. Then, the two balances are reconcile to arrive at the balance that should appear in the Balance Sheet.**
- **After reconciliation, update the Cash Book so that it balances at the correct amount [Balance Sheet balance].**

- **For example:**

The Cash Book balance is \$267 and the balance shown on the bank statement is \$204. After comparing the entries on the Cash Book and the bank statement, there exist two items missing from the cash Book and two items missing from the bank statement.

- **Items missing from the Cash Book:**

- **A bank giro credit of \$24 made on December 30 by A.**
- **Bank Charges of \$40.**

- **Items missing from the bank statement:**

- **A cheque paid to D for \$25 on December 31 has not yet been presented**
- **A bank lodgement has not yet been credited [the cheque for \$72 received from S on 31 December].**

Bank Reconciliation Statement as at 31 December 20x7

	[\$]
Balance as per cash book	267
Add: Bank giro credit not yet entered	24
	291
Less: Bank lodgement not on Balance Sheet	[40]
Balance in balance Sheet	251
Add: Cheque not yet presented	25
	276
Less: Bank lodgement not on statement	[72]
Balance per bank statement	204

Bank Overdrafts

- **The adjustment needed to reconcile a bank overdraft according to the business's books [shown by a credit balance in the Cash Book] with that shown in the bank's records are the same as those needed when the account is not overdrawn.**
- **For example:**

	[\$]
Balance / overdraft per Cash Book	[xxxx]
Adjustments:	
Unpresented cheque	Plus
Bank lodgement not on bank statement	Less
Balance / overdraft per Cash Book	[xxxx]

Dishonoured Cheques

- **When a cheque is received from a customer and paid into the bank, it is recorded on the debit side of the Cash Book. It is also shown on the bank statement as a deposit increasing the balance on the account. However, at a later date it may be found that the customer's bank will not pay the amount due on the cheque. The customer's bank has failed to honour the cheque. This cheque is known as a dishonoured cheque.**
- **Several possible reasons for a cheque to be dishonoured are listed below:**
 - **The amount written on the cheque is not the same as the figure on the cheque.**
 - **The customer did not have sufficient funds in the bank.**
 - **The cheque is outdated. Normally a cheque is considered stale six months after the date on the cheque.**

Recording Dishonoured Cheque

- **For example:**

A debtor paid \$5 000 with a cheque.

- The initial double-entry record

Debit Cash Book with \$5 000

Credit the Debtor Account with \$5 000

- When the cheque is dishonoured

Debit the Debtor Account back with \$5 000

Credit the Cash Book with \$5 000