



Reconciliation

Bank Reconciliation

A **Bank Reconciliation Statement (BRS)** is a statement prepared to compare the **cash balance shown in the company's cash book** (bank column) with the **balance shown in the bank statement.**



We prepare a **Bank Reconciliation Statement** when there is a **difference between the cash book (bank column) balance and the bank statement balance**, to find out the reasons

Reasons for the difference

1 Errors or omissions in our books

→ e.g. Wrong entries or missed transactions.

2 Items recorded by the bank but not yet in our books

→ e.g. Bank charges, direct remittances, standing orders, interest income.

3 Items recorded by us but not yet in the bank statement

→ e.g. Unpresented cheques, unrealised (uncleared) cheques.

4 Errors made by the bank

→ e.g. Wrong debit or credit entries by the bank.

How to check

- You should compare **your cash book's debit side (cash receipts journal)** with the **bank statement's credit side**, because what **you receive (increase in bank balance)** is shown as a **credit by the bank**. 
- And compare **your cash book's credit side (cash payments journal)** with the **bank statement's debit side**, because what **you pay (decrease in bank balance)** is shown as a **debit by the bank**. 

Debits and credits are **reversed on bank statements** because the bank records transactions from **its own point of view**. 

Your money in the bank is creating a **liability to the BANK**, as they have to give your money when you ask.

Question

Followings are extracted from the bank account of Jayarathna Silva's business and the bank statement received from the bank as at 31.07.20xx.

Bank Account

Date	Description	L/F	Value Rs.	Date	Description	L/F	value Rs.
01.05.20xx	Balance b/f		16 000	04.05.20xx	Salaries (501)		8 500
06.05	Cash		20 000	09.05	Creditor (502)		17 500
12.05	Cheq. deposited(142)		14 000	18.05	Rent (503)		9 000
24.05	Cheq. deposited (234)		15 000	26.05	Purchases (505)		12 000
29.05	Cheq. deposited (184)		18 000	27.05	Creditor (506)		17 000
01.06	Balance b/f		83 000	31.05	Balance c/d		19 000
			19 000				83 000

Bank Statement

Jayarathna Silva
No. 45
Galle.

People's Bank
Galle Branch

Date	Description	Dr. Rs.	Cr. Rs.	Balanced Rs.
01.05.20xx	Balance b/f			16 000
06.05.20xx	Cash deposit		20 000	36 000
10.05.20xx	Cheque Payment(501)	8 500		27 500
12.05.20xx	Cheque Payment (502)	17 500		10 000
14.05.20xx	Cheque deposit (142)		14 000	24 000
15.05.20xx	Standing order (Bank loan)	19 000		5 000
26.05.20xx	Cheque deposit (234)		15 000	20 000
27.05.20xx	Direct remittance by a debtor		8 000	28 000
28.05.20xx	Cheque deposit (505)	12 000		16 000
30.05.20xx	Bank Charges	2 000		14 000

Prepare the adjusted cash a/c and bank reconciliation

Question

Information about Amal's business.

The Cash Receipts Journal of "Amal's business" for the month of April 2016 is given below:

Cash Receipts Journal						
Date	Details	Cheque No.	Amount Rs.	Analysis		
				Discount allowed Rs.	Debtors	Sales
2016.04.05	Sales	147585	16,000	---	---	16,000
2016.04.08	Chamara	218570	10,000	500	10,000	
2016.04.10	Sales	---	5,000	---	---	5,000
2016.04.15	Menaka	412870	12,000	800	12,000	
2016.04.20	Sampath	241711	8,000	300	8,000	
2016.04.22	Ruhan	281620	15,000	700	15,000	
2016.04.25	Sagara	---	19,000	1,000	19,000	
			85,000	3,300	64,000	21,000

The Cash Payments Journal of "Amal's business" for the month of April 2016 is given below:

Cash Payments Journal						
Date	Details	Cheque No.	Amount Rs.	Analysis		
				Discount Received Rs.	Creditors	Purchases Expenses Other expenses
2016.04.04	Purchases	211010	6,000			6,000
2016.04.06	Senaka	211011	15,000	500	15,000	
2016.04.08	Electricity	211012	6,000			6,000
2016.04.12	Kokila	211013	18,000	1,000	18,000	
2016.04.18	Petty Cash	211014	2,000			2,000
2016.04.25	Purchases	211015	5,000			5,000
2016.04.28	Building rent	211016	6,000			6,000
2016.04.29	Purchases	211017	4,000		4,000	
			62,000	1,500	33,000	10,000 12,000 7,000

Cash Control a/c for the month of April				
	Rs.			Rs.
4/1 Balance b/f	12,000	Creditors Control	33,000	
Sales	21,000	Purchases	1,000	
Debtors Control	64,000	Expenses	12,000	
		Other payments	7,000	
	4/30	Balance c/f	44,000	
	97,000		97,000	
Balance b/f	44,000			

- The Bank Statement received for the month of April 2016 is given below:

Bank Statement for the month of April 2016				
Date	Details	Debit Rs.	Credit Rs.	Balance Rs.
4/01	Balance		12,000	12,000
4/08	Cheque 147585		16,000	28,000
4/10	Cheque 211010	6,000		22,000
4/10	Cash		5,000	27,000
4/12	Cheque 211011	15,000		12,000
4/15	Cheque 412870		12,000	24,000
4/16	Cheque 211013	18,000		6,000
4/18	Cheque 211014	2,000		4,000
4/20	Cheque 218570		10,000	14,000
4/25	Cheque 211015	5,000		9,000
4/25	Cash		19,000	28,000
4/30	Cheque 211016	6,000		22,000
	Cheque book charges	1,000		21,000
	Profits		4,000	22,000

Prepare the revised cash control account and bank reconciliation statement

Question

On which side of the cash at bank general ledger account should the following unrecorded items be recorded?

- bank charges
- direct debits/standing orders
- direct credits
- dishonoured cheques received from customers
- bank interest received.

Question

In preparing an entity's bank reconciliation statement, the accountant finds that the following items have caused a difference between the cash at bank ledger account balance and bank statement balance:

- 1 Direct debit \$530.
- 2 Lodgements not credited \$1,200.
- 3 Cheque paid in by the entity and dishonoured \$234.
- 4 Outstanding cheques \$677.
- 5 Bank charges \$100.
- 6 Error by bank \$2,399 (cheque incorrectly credited to the account).

Which of these items will require an entry in the cash at bank ledger account?

- A 3, 4 and 6
- B 1, 3 and 5
- C 1, 2 and 4
- D 2, 5 and 6

Question

The following information has been extracted from the records of N Patel:

Cash at bank ledger account					
		\$		Chq no	\$
1 Dec	Balance b/f	16,491	1 Dec	Alexander	782 857
2 Dec	Able	962	6 Dec	Burgess	783 221
	Baker	1,103	14 Dec	Barry	784 511
10 Dec	Charlie	2,312	17 Dec	Cook	785 97
14 Dec	Delta	419	24 Dec	Hay	786 343
21 Dec	Echo	327	29 Dec	Rent	787 260
23 Dec	Cash sales	529			
30 Dec	Fred	119	31 Dec	Balance c/f	19,973
		22,262			22,262
		—			—

High Street Bank

Bank Statement – N. Patel

Date	Details	Withdrawals	Deposits	Balance
		\$	\$	\$
1 December	Balance b/f			17,478
2 December	780	426		
2 December	781	737		16,315
2 December	Deposit		176	16,491
5 December	782	857		
5 December	Bank charges	47		15,587
6 December	Deposit		2,065	17,652
10 December	Standing order (rates)	137		17,515
11 December	783	212		17,303
13 December	Deposit		2,312	19,615
17 December	784	511		19,104
17 December	Deposit		419	19,523
23 December	Deposit		327	19,850
24 December	Deposit		528	20,378
28 December	786	343		20,035
30 December	310923	297		19,738
31 December	Balance c/f			19,738

- (a) Prepare a bank reconciliation statement at 1 December.
- (b) Update the cash at bank ledger account for December.
- (c) Prepare a bank reconciliation statement at 31 December.



Question

The following is a summary of Adin's cash at bank ledger account as presented to you for the month of December 20X6:

Cash at bank ledger account			
	\$		\$
Receipts	1,469	Balance b/f	761
Balance c/f	554	Payments	1,262
	—		—
	2,023		2,023
	—		—

All receipts are banked and all payments are made by cheque.

Upon investigation you discover:

- 1 Bank charges of \$136 entered on the bank statement had not been entered in the cash at bank ledger account.
- 2 Cheques drawn amounting to \$267 had not been presented to the bank for payment.
- 3 The accounting entries for a cheque payment of \$22 had been reversed and accounted for as a receipt in the cash at bank ledger account instead of as a payment;
- 4 A cheque drawn for \$6 had been incorrectly entered in the cash at bank ledger account as \$66.

What balance is shown on the bank statement at 31 December 20X6?

- A \$913
- B \$941 overdraft
- C \$941
- D \$407 overdraft

Supplier Reconciliation

When a purchase invoice is received:

- Dr Purchases
- Cr Payables

When payment is made:

- Dr Payables
- Cr Cash at bank

The **total of the payables control account** should equal the **total of individual supplier accounts**, but this doesn't guarantee all transactions are correctly recorded.

To check accuracy, a **supplier statement** (sent monthly) is compared with the **individual supplier ledger account**. Ideally, both balances should match.

However, **differences** may arise due to:

- Payments made but not shown in supplier statement
- Invoices not yet recorded in the books
- Discounts or credit notes not yet updated
- Goods returned but not included
- Wrong amounts entered

After investigation, any correction in the supplier's ledger must also be adjusted in the **payables control account** using a **journal entry**.

Question

BDC Co received the following statement of account from its supplier SWY Co:

SWY Co – STATEMENT OF ACCOUNT

Customer	BDC Co				
Date	Transaction	Total \$	Current \$	30+ \$	60+ \$
1 May 20X2	Invoice 321	374.50			374.50
21 Jun 20X2	Invoice 334	104.56			104.56
4 July 20X2	CN 2008	(65.00)		(65.00)	
29 July 20X2	Invoice 369	206.72	206.72		
	TOTALS	620.78	206.72	(65.00)	479.06

Credit terms: 30 days.

BDC Co's payable account for SWY Co was as follows:

SWY Co					
	\$			\$	
04 Jul 20X2 CN	65.00	01 May 20X2	Invoice 321	374.50	
		21 Jun 20X2	Invoice 334	104.56	
Balance c/f	414.06			479.06	
	—			—	
	479.06			479.06	
	—			—	
	Balance b/f			414.06	

What could be a possible reason for the difference between the two documents?

- A There is an arithmetic error in the statement prepared by SWY Co
- B BDC Co has taken credit for goods returned but this has not yet been recorded by SWY Co
- C An invoice from SWY CO has not been recorded by BDC Co
- D BDC Co made a payment to SWY Co of \$206.72

Question

JAX CO received a statement of account from a supplier showing a balance outstanding of \$777. Jax Co's payable account for that supplier shows a balance of \$852.

What could be a possible reason for the difference between the two documents?

- A The supplier has allowed discount of \$75 which JAX Co has not yet recorded
- B JAX Co has made a payment of \$75 which has not yet been received and recorded by the supplier
- C JAX Co has returned goods to the supplier for a refund or credit note
- D The supplier has issued an invoice which JAX Co has not yet received

Summary

