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Senior High School

12

Activity Sheet **in** **Fundamentals of** **Accountancy, Business and** **Management 2**

Bank Reconciliation
ABM_FABM12- IId-10-ABM_FABM12- IId-12
& ABM_FABM12- IId-13



GOVERNMENT PROPERTY
NOT FOR SALE

Bank Reconciliation



LET US KNOW

We have learned from our previous lesson how important cash as an asset. For this reason, firms strictly implementing cash management as part of their internal control. Cash as one of the vulnerable assets subject to fraud. Fraud as define in auditing theory, it is intentional act by one or more individuals among management, those charged with governance, employees, or third parties involving the use of deception to obtain an unjust or illegal advantage. The auditors is primary concerned with fraudulent acts that cause a material misstatement in the financial statements or record. All accounting practitioner aim to report an objective and correct financial report and result of business operation. As fraud become prevalent, error is also one of the predictable circumstances. Error is defined as unintentional misstatements in the financial statements and report including the omission of an amount or disclosure.

In this module we will give an emphasis on the nature and process of bank reconciliation as one of the cash controls that we do in business. From the article of accounting tools authored by Steven Bragg, he defined bank reconciliation as 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.



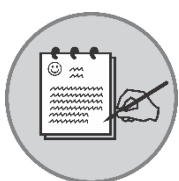
LET US REVIEW

Choose the letter of the correct answer. Write your answer on separate sheet of paper.

1. How do you record the outstanding checks?
 - a. Add to the book balance
 - b. Deduct to the book balance
 - c. Add to bank balance
 - d. Deduct to bank balance
2. Bank service is recorded as _____?
 - a. Add to the book balance
 - b. Deduct to the book balance
 - c. Add to bank balance
 - d. Deduct to bank balance
3. Interest credited to the is recorded as _____?
 - a. Add to the book balance
 - b. Deduct to the book balance
 - c. Add to bank balance
 - d. Deduct to bank balance

4. Interest charged to the bank is recorded as _____?
 - a. Add to the book balance
 - b. Deduct to the book balance
 - c. Add to bank balance
 - d. Deduct to bank balance

5. Deposit in transit is recorded as _____?
 - a. Add to the book balance
 - b. Deduct to the book balance
 - c. Add to bank balance
 - d. Deduct to bank balance



LET US STUDY

Bank Reconciliation is an internal control that ensures that the cash in its (bank) accounts is equal to what it has recorded in the books.

- It is a company's policy **to deposit ALL cash receipts (in company's bank) using the DEPOSIT SLIPS** and use **CHECKS for disbursements (If Checking account) Or WITHDRAWAL SLIPS** (if Savings Account)
- The procedure is to determine whether the company's **Cash Record agrees with the Cash Bank Balance.**
- Discrepancies may occur between the Bank Balance and Book Balance due to **Timing differences.**
- The **records of the depositor's Cash in Bank** are reported by the bank (to the depositor) through the issuance of a **monthly Bank Statement.**
- **RECONCILING ITEMS** need to be identified to compare the postings of Cash balance per book and Cash Balance per bank.

Bank Reconciling Items on the Bank Side .

Outstanding Checks, checks already recorded in the book as Cash DISBURSEMENT (expenses) , but the check has **not yet cleared the bank account** on which it is drawn.

| | |
|----------------------|--|
| June 28, 2019 | Trisia's Garden and Events prepared a BPI check for Harold Bueno's Catering amounting ₱50,000 as their accredited caterer in one of its event. On this date is already recorded in the book of disbursement |
| June 29, 2019 | Trisia informed Harold that the check payment is now ready . |
| June 30, 2019 | Harold Bueno pick-up the check and deposited the check to his BDO personal account . The check issued , is subject to three (3) days clearing, for the check deposited to his personal account comes from different bank . |
| July 2, 2019 | The ₱50,000 check is already cleared and credited to Harold Bueno's personal account . BPI debited the ₱50,000 to Trisia's Garden and Events checking account as payment to Harold Bueno's catering services. |

Since Bank Reconciliation is prepared EVERY MONTH, we can see the TIMING DIFFERENCE. The Check represents disbursement for the month of JUNE but reflected in the bank statement in the month of JULY. Thus, it should be DEDUCTED from the Unadjusted Bank Balance.

Example 1. Amount that is deposited in the bank after the cut-off date .

| | |
|----------------------|--|
| June 30, 2019 | |
| 1:00 PM | Trisia's Garden and Events received a BPI check from their wedding client Mae Sapno amounting ₱150,000. On the day it was received it was recorded in their book as collection. |
| 2:30 PM | Trisia deposited the ₱150,000 check in BPI bank. The bank teller informed trisia about their cut-off time for check clearance is until 1:00 PM only . Late deposit is stamped on their deposit slip. |
| July 1, 2019 | Check deposit was credited in Trisia's Garden and Events Account |

If the check was deposited beyond cut-off time, it will be reflected on the Bank account in the next working day. Deposits received during weekends are recorded on the succeeding Monday.

Example 2. Amount that is received by the company but not yet deposited in the bank

| | |
|----------------------|--|
| June 30, 2019 | |
| 3:00 PM | Trisia's Garden and Events received ₱150,000 for event reservation |
| 4:00 PM | Accounting staff prepared a deposit slip for the check |
| July 1, 2019 | Check was deposited to Trisia's Garden and Events Bank Account. |

- If the check was received after the normal bank closing time of 3:00pm only deposit slip was prepared but it will be credited on the bank once it was deposited on the next day. The correct adjustment is to Add the amount of deposit to the unadajusted bank balance.

Reconciling items on the book side

- **Collection received by the bank**, when a customer directly deposit their payment to the suppliers bank . For some reason that they did not inform the suppliers about the payment, deposit is already recorded at the bank but not in the book of account . To adjust the amount collected by the bank to the unadjusted book balance. The journal entry will be;

| |
|---|
| Cash-----xxx Accounts Receivable ----- xxx |
|---|

A **debit** in bank is a deduction and a **credit** in bank is an addition

- **Debit and Credit Memo**

Debit Memo refers to the deduction made by bank that are initiated by the account holder through withdrawal slips or bank checks such as bank service. A deduction in the bank records on the date of payment, however there will be no basis of recording the debit memo in accounting records until the statement of account is received. Therefore to correct or adjust the deduction is to debit to the unadjusted book balance

| | |
|--|-----|
| Accounts Payable / Accrued Expense-----xxx | |
| Cash ----- | xxx |

Credit Memo, means that bank have already recorded the additions to your account. However there is no basis to record the credit memo in accounting books prior to receiving the bank statement. Therefore to correct or adjust the credit;

| | |
|---------------------------|-----|
| Cash-----xxx | |
| Accounts Receivable ----- | xxx |

- **Non- Sufficient Fund (NSF) Check**, also known as bouncing check or bad checks, refers to the status of a checking account that does not have enough money to cover transactions. NSF check is correctly deducted in bank records. Therefore, to adjust and correct the book balance journal entry will be made.

| | |
|---------------------------|-----|
| Accounts Receivable ----- | xxx |
| Cash----- | xxx |

Bank Reconciliation Proforma

| Bank Balance | | Book Balance | |
|-------------------------|--|---------------------------------|--|
| Unadjusted Bank Balance | | Unadjusted Book Balance | |
| Add: | | Add: | |
| Deposit in transit | | Credit Memo | |
| | | Interest Income | |
| | | Collection Received by the bank | |
| Less: | | Less : | |
| Outstanding Checks | | Debit Memo | |
| | | Bank Fees | |
| | | NSF Check Received | |
| Adjusted Bank Balance | | Adjusted Book Balance | |

Errors is a common for either the bank or the company 's accountant to make an erroneous entry in their books. It should be carefully analyzed and adjustment should be made on the side that committed the error.

Example Trisia's Garden and Events

The balance of the general ledger cash account as of December 31, 2019 is ₱7120. On the other hand, the bank statement showed a December 31, 2019 balance of ₱6580. You were tasked to prepare the bank reconciliation statement for the company 's bank account .

| RECONCILING ITEMS | | | | |
|--|-----------|--|--|--|
| Deposit in Transit | ₱1,345.00 | | | |
| Credit Memo for direct collection of a note receivable | ₱755.00 | | | |
| Credit memo for interest income | ₱65.00 | | | |
| Auto debit of cell phone bill | ₱290.00 | | | |
| Customers NSF check | ₱455.00 | | | |
| Outstanding Check | ₱575.00 | | | |
| Debit memo for bank charges | ₱25.00 | | | |
| | | | | |
| | | | | |
| | | | | |

A check received from customer was recorded in the accounting book for ₱ 3,280. The bank statement revealed that the customer check cleared at the correct amount of ₱ 3,820. The bank deducted ₱ 360 from the account of Trisia for a check issued by Harold Catering.

Required: Prepare the bank reconciliation statement as of December 31,2019 for Trisia's bank account.

| BANK BALANCE | | | BOOK BALANCE | | |
|-------------------------|--|------------------|--|--|------------------|
| Unadjusted Balance | | ₱6,580.00 | Unadjusted Balance | | ₱7,120.00 |
| ADD : | | | ADD: | | |
| | | | Credit Memo for direct collection of a note receivable | | 755.00 |
| Deposit in Transit | | 1,345.00 | Credit Memo for Interest income | | 65.00 |
| Errors | | 360.00 | Errors | | 540.00 |
| | | | Total | | ₱8,480.00 |
| LESS: | | | LESS; | | |
| Outstanding Checks | | 575.00 | Auto Debit of Cell Phone Bill | | 290.00 |
| | | | Debit Memo Bank Charges | | 25.00 |
| | | | Customers NSF Checks | | 455.00 |
| | | | Total | | ₱770.00 |
| Adjusted Balance | | ₱7,710.00 | Adjusted Balance | | ₱7,710.00 |



LET US PRACTICE

From the item on the box prepare the correct pro-forma of bank and book reconciliation. Indicate whether it is an addition or deduction. Write your answer on a separate sheet of paper

| | |
|-------------------------------|----------------------|
| Deposit in transit | Bank Errors |
| Direct collection of the bank | Book Errors |
| Credit Memo | Customer's NSF check |
| Deposit in Transit | Debit Memo |
| Bank Service Charge | |

| Bank Balance | Book Balance |
|--------------|--------------|
| | |
| | |
| | |
| | |
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| | |

Problem 1

Use the following information to prepare the bank reconciliation for Katy's Enterprise for the month of June 2019. Using the bank reconciliation that you have prepared determine the adjusted cash balance as of June 2019. Write your answer on separate sheet of paper.

| | |
|--|------------|
| Balance per bank statement June 30 ,2019 | ₱60,280.00 |
| Outstanding Checks June 30, 2019 | ₱10,400.00 |
| NSF check returned with June 30, 2019 | ₱900.00 |
| Deposit in transits June 30,2019 | ₱8,000.00 |
| Bank Service Charges for April | ₱40.00 |

| Bank Balance | Book Balance |
|--------------|--------------|
| | |
| | |
| | |
| | |
| | |



LET US REMEMBER

Bank reconciliation is an internal control that ensures that the cash in its (bank) accounts is equal to what it has recorded in the books. Difference between bank record and book record due to timing issue . Remember that a bank has a different perspective in recording its transaction, A **debit** in bank is a deduction and a **credit** in bank is an addition. The books will adjust its transaction based on the bank statement .



LET US APPRECIATE

Problem Solving

Analyze and answer the following bank reconciliation problem. Present your answer using the MS Excel office application .

- A. The G.Y company has an unadjusted book balance of ₱ 200,000. It has deposit in transit worth ₱56,000 and outstanding check worth of ₱12,000 The bank statement received from the bank shows that the interest income worth ₱37,000 was credited and service charge of ₱19,000 was deducted.

- How much is the adjusted cash balance for the period ?
- How much is the unadjusted bank balance ?

- B. II. Nenellie's Gift Shop received the bank statement for the month with an unadjusted balance of ₱544,000. It includes a debit memo worth ₱29,000 and a credit memo for ₱100,000. The company observed that there is a deposit in transit worth 20,000 and an outstanding checks amounting ₱34,000

- How much is the adjusted cash balance for the period ?
- How much is the unadjusted bank balance ?



LET US PRACTICE MORE

Analyze and answer the following bank reconciliation problem. Present your answer using the MS Excel office application

The general ledger cash account of Hazel's Book Shop showed a balance of ₱ 54,400 as of December 31, 2019, Also, the following items were found in the company's safe on December 31.

- Gerard Timbol Inc. check for ₱1000 was received on December 30, 2019. The check was not recorded in the cash ledger account.
- The December bank statement inside the vault reported interest income of ₱1,450. This was not recorded in the cash ledger account
- The check issued by May company amounting to ₱1,400 was returned by bank on December 29 due to insufficient funds.

Prepare the bank reconciliation to adjust the Hazel's Book Shop cash ledger account to correct cash balance as of December 31, 2019.

Prepare the adjusting journal entries in the following situations:

1. The check to be deposited was received by the bank after the normal closing time (4Pm) on June 30, 2019 and was credited the next day in the bank. What is the journal entry to adjust for collections?
2. The June Bank Statement inside the vault reported interest income of P 1,400. This was not recorded in the Cash Ledger account. What is the journal entry?
3. The check issued by Aleihsor company amounting to P14,000 was returned by the bank for insufficient funds. Prepare the adjusting journal entry.
4. There was a Bank service charge according to June Bank Statement of P 320 that was not recorded in the books. Prepare the journal entry.
5. The accountant made an error in recording the June 26 deposit. It was reflected in the books for P 1,875 instead of P1,700. What is your adjustment?



EVALUATION

I. Read Each sentence carefully and determine whether the statement is True or False to test what you know about the nature of Bank Reconciliation. Write your answer on separate sheet of paper.

1. _____ A company keeps a detailed record of its Cash transactions through Cash Receipt Journal, Cash Disbursement Journal and Accounts Receivable Ledger Account.
2. _____ A Bank Reconciliation is an internal control to ensure that the Cash Balance per Bank is equal to the Cash Balance per book.
3. _____ Not every company's deposit to its Bank Balance is accompanied by deposit slips.
4. _____ The Bank statement is a detailed transaction that summarizes the company's activity associated with its Cash Transactions.
5. _____ Any differences between the Bank Statement and the Company's Business Records needs not to be adjusted.
6. _____ Reconciling items appear because of Timing differences between company and Bank Transactions.
7. _____ A Bank statement frequency of reporting is generally yearly.
8. In this time of Pandemic situation, organizations can access their Bank Statements through online banking facilities.
9. _____ Banks can offer auto debit facilities, means that the supplier can claim payment from the bank and the bank will automatically charge the payment from the account holder's savings or checking account.
10. _____ NSF (No Sufficient Fund) Checks means that the issuer's account has insufficient balance



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