

BANK RECONCILIATION

METHODS OF BANK RECONCILIATION

- **Adjusted Balance Method:** This is the preferred method as it reconciles both the bank and book balances to arrive at the correct cash balance for the balance sheet.
- **Unadjusted Bank to Book Balance Method:** Adjusts the bank balance to match the unadjusted book balance. This does not result in the correct cash balance for financial reporting.
- **Unadjusted Book to Bank Balance Method:** Adjusts the book balance to match the unadjusted bank balance. Like the first method, it does not provide the correct cash balance for the balance sheet.

RECONCILING ITEMS

Differences between the bank and book balances are caused by several factors:

BANK STATEMENT RECONCILE ITEMS

- **Deposit in Transit:** Deposits recorded in the company's books but not yet reflected in the bank records.
- **Outstanding Checks:** Checks issued by the company that have not yet been paid or cleared by the bank.
- **Bank Errors:** Mistakes made by the bank in recording transactions, such as incorrect amounts.

BOOK/LEDGER RECONCILE ITEMS

- **Credit Memos:** Additions to the bank account not yet recorded in the company's books, such as notes receivable collected by the bank or interest earned.
- **Debit Memos:** Deductions from the bank account not yet recorded in the company's ledger, including bank service charges and **NSF (Not Sufficient Funds)** checks.
- **Book Errors:** Erroneous entries made by the company in its own accounting records.

SUMMARY

Bank Balance Adjustments

- + Deposit in transit
- - Outstanding checks
- +/- Bank Errors

Book Ledger Balance Adjustments

- + Notes collected by the bank
- + Interest earned
- - NSF Checks
- - Service charges
- +/- Book Errors

FABM2: LESSON 8

**thank
you**

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