UNIT 13: BANK RECONCILIATION STATEMENTS

The use of the bank contributes significantly to good internal control over cash. The use of the bank minimises the amount of currency that must be kept on hand. The bank also facilitates control of cash because a double record is maintained of all bank transactions – one by the business and the other by the bank.

The asset account cash maintained by the company is the reciprocal of the bank's liability account for that company. The two can be reconciled – make them agree at any time.

CASH CONTROLS

Just as cash is the beginning of a company's operating cycle, it is usually a starting point for a company's system of internal control. Cash is one asset that is easily convertible into any other type of asset, it is easily concealed and transported and it is highly desired. Because of these characteristics, cash is the asset most susceptible to improper diversion and use.

Moreover, because of the large volumes of cash transactions, numerous errors may occur in executing and recording cash transactions. To safeguard cash and to ensure the accuracy of the accounting records for cash, effective internal control over cash is imperative.

BANK STATEMENTS

Each month, the company receives from the bank, a bank statement showing its bank transactions and balances. The bank statement will show:

1. The beginning balance
2. Cheques paid and other debits that reduce the balance in the depositor's account
3. Deposits and other credits that increase the balance in the depositors account
4. The account balance after each transaction.

Essentially the bank statement is a copy of the bank's records sent to the customer for periodic review.

When you deposit money into your bank account, the bank becomes indebted to you for this money, and so when you make a debit entry in the cash book bank column, the bank will make a credit entry in its record of the business's account.

On the other hand, when you make a withdrawal from your bank account you will credit your cashbook bank column, showing the money taken out.

From the bank's point of view this represents a reduction in the amount it owes you and so it will debit your account in its books.

A Sample of a bank statement

BANK STATEMENT
LUMPENI BANK LIMITED
77 Jambo Drive Road, Zoo Corner, Kitwe

In account with 31 August 2005
Bungwee Enterprises
Chambeshi Road Telephone:260-112233
Kitwe
e-mail:lumpeni@zoo.zm

Account Number:00516589817

Date	Particulars	Debit(Dr)	Credit (Cr)	Balance (K)
2 Aug	Brought forward			434.00
5 Aug	Cash	20.00		414.00
5 Aug	Cash	40.00		374.00
5 Aug	Cheque 054	37.20		336.80
6 Aug	Cheque deposit		182.00	518.80
10 Aug	Cash	24.00		494.80
12 Aug	Cash deposit		89.00	583.80
13 Aug	Cheque deposit		168.00	751.80
13 Aug	Cash	24.00		727.80
20 Aug	Cheque book	20.00		707.80
20 Aug	Cheque deposit		154.00	861.80
21 Aug	Cheque 055	24.00		837.80
21 Aug	Cheque 056	144.00		693.80
27 Aug	Cash deposit		146.46	840.26
31 Aug	Cash	24.00		816.26
31 Aug	Insurance paid direct	21.00		795.26
31 Aug	Cheque deposit		32.00	827.26

Dr = Overdrawn balance

BANK RECONCILIATION STATEMENTS

The purpose of the bank reconciliation statement is to check the accuracy of an organisation's bank account record by comparing it with the record of the account held by the bank. Because the bank and the company maintain independent records of the company's cash book, you might assume that the respective balances will always agree. Rarely will the balance of the company's cash book-bank column exactly equal the bank balance shown on the bank statement.

Certain transactions shown in the company's records may not have been recorded by the bank, and certain bank transactions may not appear in the company's cashbook. A necessary step in internal control is to prove both the balance shown on the bank statement and the balance of the company's cash book.

Bank reconciliation is the process of accounting for the difference between the balance appearing on the bank statement and the balance on the company's cash book.

There are three common explanations for the lack of agreement between the balances

i. Error – errors in calculation, or recording income and payments, are more likely to have been made by you than by the bank, but it is conceivable that the bank has made a mistake too.
ii. bank charges or bank interest – the bank might deduct charges for interest on an overdraft or for its services which you are not informed about until you receive the bank statement
iii. Time lags/time differences –
    - There might be some cheques that are received and paid into the bank but which have not been cleared and added to our company's account.
    - Similarly, there might have been some payments by cheque that reduced the balance in our account, but the person who receives the cheque might not bank it for a while.

Common transactions shown in the company's records but not entered in the banks records

i. Unpresented cheques – These are cheques that the company has issued and recorded in the cash book but do not yet appear on the bank statement. The payees have not yet presented them for payment, so there will be no record on the bank statement.
ii. Deposits – You may make a deposit into your bank account and enter it in your cash book after the bank has sent out its statement. These are deposits taken to the bank but not received in time to be recorded on the bank statement. Other terms used in examinations are uncredited receipts, uncredited lodgements or outstanding deposits.

Transactions that may appear on the bank statement but not in the company's record (or things the bank knows that you don't)

i. Bank charges – These are charges that the bank has made for operating your account which you will not be aware of until you receive your statement.

ii. Standing orders – These are orders that you have given the bank telling them to pay certain amounts for at regular internals until further notice.. You will be aware of these inasmuch as you instructed the bank to pay them, but you might not enter them into your cash book until you receive the bank statement e.g DDAC.

iii. Direct debits - These are transfers out of the business account to your creditors. Cheques are not involved because the instructions are given to the bank to transfer money from your account to your creditor‘s account on your behalf. Standing orders are direct debits but direct debits may not be standing orders.

iv. Direct credits – These are direct receipts or transfers into the business account by clients. No entry has yet been made in the cash book until you receive the bank statement.

v. Interest received – Interests from savings or deposit accounts may be paid by the bank into your bank current account and you may not be aware of this until you receive your statement.

vi. Returned cheques/Dishonoured cheques – If you have deposited a cheque from someone into your bank account and it is dishonoured (bounces) you may not be aware of this until you see the statement.

vii. Errors – Clerical errors (incorrect entries) by either the bank or the depositor will, of course require immediate correction. The bank may have included (or not included) something on your statement that should or should not be there.

RECONCILING THE CASH WITH THE BANK STATEMENT

As earlier stated, the purpose of the bank reconciliation is to reconcile (explain) the differences between the balance in the cash book and the balance on the bank statement. (People are often told to reconcile, it means to sort out their differences)
Bank reconciliation is a check to make sure that no errors have been made and it provides a means by which you can bring your cashbook up to date with the items on the bank statement.

To obtain maximum benefit from bank reconciliation, as also as part of internal controls, the reconciliation should be prepared by an employee who has no other responsibilities pertaining to cash.

STEPS IN BANK RECOCILIATION

1. Compare the debit entries in the cash book (bank column) with the credit entries (deposits) on the bank statement placing a tick (√) on each of the entries which appear in both records.
2. Compare the credit entries (payments) in the cash book- bank column with the debit entries-withdrawals on the bank statement placing a tick on each of the entries which appear on both records.
3. All the entries remaining unticked are outstanding items and therefore require reconciliation
4. Items remaining unticked in the credit column of the bank statement represent collections made by the bank on the company’s behalf. These should now be entered into the debit side of the cashbook (bank column). The items on the bank statement must be ticked as they are adjusted.

5. Items remaining unticked in the debit column of the bank statement represent charges and other payments made on our behalf by the bank. These should now be entered into the credit side of the cash book bank column ticking the same items on the bank statement as they are adjusted.
6. Entries remaining unticked in the cashbook-bank column form the adjusting items.
7. Items remaining unticked on the credit side of the cashbook bank column are cheques paid out to creditors that have not been presented to the bank for payments(unpresented cheques)
8. Entries remaining unticked on the debit side of the cashbook – bank column are receipts or deposits already made to the bank but are not yet credited by the bank (uncredited receipts).
9. All errors discovered are reconciling items
   a) If a paid cheque correctly written by the company as K1,950,000 was mistakenly recorded as K1,590,000, the error of K360,000 is deducted from the balance per cashbook. All errors made by the depositor are reconciling items in determining the adjusted cash book balance.
   b) In contrast, all errors made by the bank are reconciling items in determining the adjusted cash balance per the bank statement.

EXAMPLE 1

BUNGWE ENTERPRISES
CASHBOOK
FOR THE MONTH ENDING 31 AUGUST 2003

DATE	DETAILS	F	BANK	DATE	DETAILS	F	BANK
01 Aug	Balance	b/d	434.00	2 Aug	P/cash		20.00
05 Aug	Walcott		182.00	3 Aug	B.Smith		37.20
10 Aug	Sales		89.00	5 Aug	Drawings		40.00
11 Aug	S.Hall		168.00	6 Aug	Wages		24.00
18 Aug	Windies		154.00	10 Aug	T.Thompson		144.00
21 Aug	Sales		146.46	13 Aug	Wages		24.00
30 Aug	P.Cole		32.00	20 Aug	Wages		24.00
31 Aug	B.Rich		459.10	27 Aug	S.Beckles		70.48
				28 Aug	Wages		24.00
				29 Aug	M.Gomez		8.00
				30 Aug	B.Clever		96.00
				31 Aug	Balance	c/d	1152.88
			1664.56				1664.56
1 Sept	balance	b/d	1152.88				

BANK STATEMENT
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77 Jambo Drive Road, Zoo Corner, Kitwe

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Bungwee Enterprises
Chambeshi Road Telephone:260-112233
Kitwe
e-mail:lumpeni@zoo.zm

Account Number:00516589817

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12	Aug	Cash deposit		89.00	583.80
13	Aug	Cheque deposit		168.00	751.80
13	Aug	Cash	24.00		727.80
20	Aug	Cheque book	20.00		707.80
20	Aug	Cheque deposit		154.00	861.80
21	Aug	Cheque 055	24.00		837.80
21	Aug	Cheque 056	144.00		693.80
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31	Aug	Insurance paid direct	21.00		795.26
31	Aug	Cheque deposit		32.00	827.26

Dr = Overdrawn balance

Cashbook balance	1152.88
Less: insurance paid direct	21.00
Less: Cheque book	20.00
Adjusted cash book balance	**1111.88**

Bank reconciliation statement of Bungwe Ent.
as at 31 August 2003

Cashbook balance		1111.88
Add Cheques not yet presented		
S. Beckles	70.48	
M.Gomez	8.00	
B.Clever	96.00	
		174.48
		1286.36
Less: deposits not yet credited		
B.Rich		459.10
Balance as per bank statement		**827.26**

Bank reconciliation statement of Bungwe Ent.
as at 31 August 2003

Bank statement balance		827.26
Less: Cheques not yet presented		
S. Beckles	70.48	
M.Gomez	8.00	
B.Clever	96.00	
		174.48
		652.78
ADD: deposits not yet credited		
B.Rich		459.10
Balance as per adjusted cashbook		**1111.88**

Class exercise

On 10 January 1999, Malibu Haambote received his monthly bank statement for December 1998. The statement showed the following:

UNION BANK

Malibu Haambote

Statement of Account

DATE 1998	DETAILS	DEBITS K	CREDITS K	BALANCE K
Dec. 1	Balance			1,862,000.00
5	000864	243,000.00		1,619,000.00
5	Dividend		26,000.00	1,645,000.00
5	Bank Giro Credit		212,000.00	1,857,000.00
8	000866	174,000.00		1,683,000.00
10	000867	17,000.00		1,666,000.00
11	Sundry Credit		185,000.00	1,851,000.00
14	Standing Order	32,000.00		1,819,000.00
20	000865	307,000.00		1,512,000.00
20	Bank Giro Credit		118,000.00	1,630,000.00
21	000868	95,000.00		1,535,000.00
21	000870	161,000.00		1,374,000.00
24	Bank Charges	18,000.00		1,356,000.00
27	Bank Giro Credit		47,000.00	1,403,000.00
28	Direct Debit	88,000.00		1,315,000.00
29	000873	12,000.00		1,303,000.00
29	Bank Giro Credit		279,000.00	1,582,000.00
31	000871	25,000.00		1,557,000.00

His Cash Book for the corresponding period showed:

CASH BOOK

DATE 1998	DETAILS	CHEQUE NO.	DEBIT	CREDIT
Dec, 1	Balance brought forward		1,862,000	
1	Electricity	864		243,000
2	J. Tembo	865		307,000
4	J. Shansonga		212,000	
5	D. Banda	866		174,000
6	A, Dabwisha	867		175000
9	M. Limpe		185,000	
10	T. Umimtu	868		95,000
14	B. Osadabwa	869		71,000
16	Rent	870		161,000
19	G. Hakabwe		118,000	
20	M. Pondala	871		25,000
21	L. Phales	872		37,000
22	W. Hamilton	873		12,000
26	M. Evans		47,000	
27	J. Smith		279,000	
29	V. Owen		98,000	
30	K. Wadabwa		134,000	
31	Balance c/d			1,793,000
			2,935,000	2,935,000

Required:

(a) Bring the cash book balance of Kl, 793,000 up to date as at 31 December 1998.

(b) Draw up a bank reconciliation statement as at 31 December 1998.