

Objectives

At the end of this chapter, students should be able to:

- Understand and explain the terminologies used in bank reconciliation;
- Interpret a bank statement;
- Adjust the cash book;
- Reconcile cash balance with bank balance.

7.1 Introduction

A bank supplies her customer with a bank statement which contains a copy of the ledger account of a customer as it appears in the bank's books. The statement is sent to the customer periodically for him to examine and compare with his own bank column in the cash book. These two records should correspond, however, they rarely do. If they do not, it is a matter for the book-keeper to account for the disagreement. The process of making these two balances agree by taking the items that causes the disagreement into consideration is known as reconciling the two balances. Reconciliation here means making different things match or agree. The document used in showing the difference between the cash book and the bank statement is known as Bank Reconciliation Statement.

7.2 Types of Bank Documents

Usually, a business person will prefer to keep his money in the bank for safety and for convenience. To do this, he has to open a current account with the bank. The bank, on the other hand, opens an account for the business person. The bank thus owes the business man and becomes his debtors while the business person is owed by the bank and he or she becomes their creditor. A current account enables the business person to make deposits and withdraw money at will. With the opening of a current account, the business person is given a pay-in-slip book and a cheque book to enable him deposit money and withdraw money respectively. He always needs to fill in the pay-in-slip anytime he or she pays in or deposits money into the current account and uses a cheque to withdraw money. A pay-in-slip has two sides to it, and the two sides are filled out by the depositor. The depositor then deposits the money to be paid in triplicate pay-in-slip with the cashier who counts the money and initials the deposit slip that the money is correct. The cashier then tears off one side and gives it to the depositor. This will be a proof that the depositor has made such a deposit. When a withdrawal is to be made, the current account holder writes out a cheque to the person he owes money or to himself if it is for personal use. Again, this is deposited with a paying cashier who lets it go through the books of the bank to make sure that the depositor has some money to his credit before the money is paid out to the

depositor. Therefore, the two most important documents used by current account depositors are; the pay-in-slip and the cheque book.

7.3 Terminologies Used in Bank Reconciliation

As already mentioned, the bank balance might sometimes not agree with the balance in a firm's cash book as shown by the bank statement. This might be owing to the following reasons:

1. **Dishonoured Cheques:** A dishonoured cheque is one that has been sent back by the bank to the person that issued it as a result of insufficient amount, wrong signature etc. A difference will occur in the cash book and bank statement balances because the books of the issuing firm must have been debited with the amount immediately the cheque is presented to the bank for collection.
2. **Uncredited Cheques:** These are cheques that are paid into the bank and may not have been credited yet by the banker. This will cause a difference in the two balances since the cash book must have been credited.
3. **Unpresented Cheques:** Cheques might have been drawn in someone's favour, who for one reason or the other has not presented them for payment. This will also cause a difference in the bank balance because they must have been entered in the businessperson's cash book as having been paid out.
4. **Commission/Interest:** The banker might charge the customer's account for commission, cost of cheque books, recorded in the bank statement but not appearing in the cash book.
5. **Bank interest:** Interest on overdrafts shown in the bank statement may not be entered in the cash book.
6. **Standing Order:** A customer might authorise his banker to make regular payments on his behalf to certain organisations when they fall due e.g. insurance premium, magazine subscriptions etc. This is known as standing order. It may happen that money is paid directly to a customer's account in the bank by someone or an organisation e.g. salaries, dividends, etc. All these will create differences between the two balances because they will appear in the bank statement but not in the cash book.
7. **Errors and Omissions:** An error or omission either on the part of the customer or the banker will also create a difference between the two balances.
8. **Overdraft:** An overdraft is an account drawn over and above a customer's balance in the bank.

7.4 Interpretations of Bank Statements

A bank statement is a periodic (monthly, quarterly) statement sent by the bank to the customer showing the financial position as at a given date. In order to make the balances shown in the bank statement and the cash book agree, a bank reconciliation statement must be drawn up. Before this is done, the bank statement should be examined and interpreted to understand what is paid in and what is withdrawn.

Let us look at a bank statement and see what it looks like and try to interpret the content.

Olawale Adedayo

Date	Particulars	Dr ₦	Cr ₦	Balance
July 1	Balance b/f			42,655
July 2	Cash	21,075		21,580
July 3	Cash		8,000	29,580
July 7	Cheque (A. Ayokunle)		5,000	34,580
July 13	Cheque (A. Ayokunle)		5,678	40,258
July 13	Cheque (Bube Yisa)	3,750		36,508
July 15	Cash		14,047	50,555
July 16	Cheque (Holt Eng.)	6,000		44,555
July 17	Cheque (Nigerian Breweries)		7,300	51,855
July 18	Cheque (Nig Airways)	10,000		41,855
July 28	Cash		6,485	48,340
July 28	Cheque (dishonoured)	7,300		41,040
July 29	Dividend (Delta steel)		1,000	42,040
July 29	Bank charges	27,500		41,765

Fig. 7.1: Specimen of a Bank Statement

The bank statement is a copy of the customer's account in the books of the bank as indicated in the above heading.

Chris Okeke; Account With Union Bank Limited, Enugu Branch

The debit side of a bank statement contains all the withdrawal that a customer makes from his accounts while the credit side shows all the money or cheques that he has deposited into the account. On the other hand, the bank statement is a copy of the bank's account in the books of the customer, and is written, thus:

Payments are debited and withdrawals credited. The last figure in the balance column shows the customer how much he has in his account at the bank. If the figure is written in red, this indicates an overdraft. A credit balance in the cash book indicates an overdraft while a debit balance in the bank statement indicates an overdraft.

Activity 7.1

Write short notes on the following:

- i. Dishonoured cheque
- ii. Uncredited cheque
- iii. Unpresented cheque
- iv. Commission/interest

7.5 Adjustment of Cash Books

When a firm receives its bank statement as shown in figure 7.1 and reads the balances, it then proceeds to compare the cash book with the statement. The entries in the debit side of the cash book are checked against those in the credit column of the bank statement. With this, any item not checked off in the cash book represents uncredited cheques, dishonoured cheques, bank charges etc. Also, entries on the credit side of the cash book are checked against entries in the debit column of the bank statement. Items not checked off represent unpresented cheques.

Let us look at an example of a cash book belonging to Olawale Adedayo who owns the bank statement in Fig. 7.1 for the month of July, 2009.

Dr							Cr
Date	Particulars	Fo.	Amount	Date	Particulars	Fo.	Amount
2000							
July 1	Balance b/f		42,655	July 2	Salaries		21,075
July 3	Cash		8,000	" 13	Baba Yisa		3,750
July 7	A Ayokunle		5,000	" 16	Holt Eng.		6,000
July 13	C. Aremu		5,678	" 18	Nig. Airways		10,000
July 15	Cash		14,047	" 25	B. Ojijola		2,500
July 17	Nigeria Breweries		7,300	" 29	Karimu		2,097
July 22	Breweries		4,000	" 31	Balance c/d		47,743
July 28	N. Obianwu		6,485				
			93,165				93,165
Aug. 1	Balance b/f		47,743				

Fig. 7.2: Specimen showing entries in a cash book

The cash book (bank column) balance shows that Mr. Olawale Adedayo has N48,743 in the bank as against N41,765 being the amount in the bank statement as indicated by the bank. The book-keeper then goes ahead to adjust the cash book taking into consideration the information from the bank statement.

Dr	Cash Book (Bank Column) Adjustment					Cr	
Date	Particulars	Fo.	Amount N	Date	Particulars	Fo.	Amount N
2009				2009			
July 31	Balance b/f		47,743	July 1	Bank charges		275,000
" 29	Dividend		1,000	" 31	Balance c/d		48,468
			48,743				48,743
	Balance b/d		48,468				

Adjusted balance as per cash book N48,743

There are items that are in the bank statement but not indicated in the cash book.

7.6 Bank Reconciliation

We have seen that the cash book and the bank statement balances do not always agree. This means that there are some discrepancies in the statement, adding any items paid in but not yet credited and deducting any cheques drawn but not yet presented for payments. Using Olawale Adedayo's bank statement and his cash book (bank column) let us now reconcile the two statements:

Reconciliation A: Starting from the bank statement balance

Bank Reconciliation Statement as at 31st July, 2009

	N	N
Balance as per bank statement		41,765
Add:		
Uncredited cheque (N. Obianwu)	4,000	
Dishonoured cheque (Nigerian breweries)	7,300	
Bank charges	275,00	<u>11,573</u>
		<u>53,340</u>
Deduct:		
Unpresented cheques		
Ajijola	2,500	
Adigun Karimu	2,097	
Dividend paid directly to bank	1,000	<u>5,597</u>
Balance as per cash book		<u>47,743</u>

	N	N
Ajijola	2,500	
Adigun Karimu	2,097	47,743
Dividend paid directly to the bank	1,000	<u>5,597</u>
		<u>53,340</u>
Deduct:		
Uncredited cheque (N. Obiawu)	4,000	
Dishonoured cheque (Nigerian breweries)	7,300	
Bank charges	275	<u>11,575</u>
Balance as per bank statement		<u>41,765</u>

This shows that bank reconciliation statement could be made beginning either from the bank statement or the cash book (bank column) balance. Whichever method adopted, it is

important that you arrive at the correct balance which is always the other balance you did not begin with.

7.7 The Cash Book Before Reconciliation

The preparation of the cash book known as adjusted cash book is the best approach to this method of bank reconciliation statement. First, you begin with finding out the items that are on the bank statement but not entered in the cash book. Put right these facts and prepare the cash adjustment book to minimise the number of necessary adjustments in the bank reconciliation statement.

Bank Reconciliation Statement when only Closing Balance is given

In the example given above, two closing balances were given, these are: cash book balance and bank statement balance. The two balances were reconciled to agree. Where only closing balance is given; we need to reconcile the given balance with the unadjusted second balance. For example, if cash balance is given, it will be adjusted as done in Fig. 7.3.

From the adjusted balance; we need to work back to arrive at the unadjusted balance on the bank statement. In this case, uncredited cheques are to be deducted from the adjusted cash book balance because it is not reflected in the bank statement. The unpresented cheques are to be added to the adjusted cash book balance to get the bank balance.

Example 7.3

At the end of March 31, 2009, the bank statement of Bosade was not in agreement with the balance shown in the cash book of N96,000. An examination of the cash book and the bank statement disclosed the following:

- i. A deposit of N50,000 paid on March 29, 2009 was not credited by the bank until April 2, 2009.
- ii. Bank charges amounting to N1,000 had not been entered in the cash book.
- iii. A debit of N20,000 appeared on the bank statement for an expired unpaid cheque which was returned. The cheque was later re-presented by the customers for payment on April 10, 2009.
- iv. Cheques of Bosade amounting to N19,000 were not presented for the payment by the payee.
- v. Cheque for N7,000 had been dishonoured before March, 31, 2009 but there was no record of it in the cash book.
- vi. Cheque 5,000 drawn on O. A. Adefemi had been charged to O. O. Adefemi's account in error.
- vii. A dividend of 4,000 paid directly to the bank had not been recorded in the cash book.
- viii. A payment of 4,000 made by the bank on standing order for annual subscription is not yet reflected in the cash book.

Solution

Adjusted cash book of Bosade as at 31stMarch, 2009

		₦		₦
31 Mar. 2009	Balance b/f	96,000	Bank Charges	1,000
	Dividends	4,000	Annual subscription	4,000
			Dishonoured cheque	7,000
			Standing order	4,000
			Expired cheque	20,000
			Balance c/d	<u>64,000</u>
		<u>100,000</u>		<u>100,000</u>
2 April 2009	Balance b/d	<u>64,000</u>		

Bank Reconciliation as at 31st March, 2009

	₦	₦
Adjusted cash book balance		64,000
Add unpresented cheques		<u>19,000</u>
		83,000
Less uncredited cheques	50,000	
* cheque drawn by O. O.		
Adefemi but charged in error to O. O. Adefemi	<u>5,000</u>	<u>55,000</u>
balance as per bank statement		28,000

Note that when starting a bank reconciliation statement with cash book, figures added and deducted will be deducted and added when starting with bank balance.

Activity 7.2

Collect specimen of the bank statement forms from banks.

Record the item below and compare entries:

- On Jan. 1st balance brought forward on Alhaji Hassan's bank account was N30,000.
- On Jan 2nd he paid N1,000 in cash.
- On Jan 3rd he withdraw N2,500 for his personal use.
- On Jan. 18th he was charged a commission they made on his behalf.
- On Jan. 27th; Kingsway stores presented a cheque issued by him to his bank N5,000.
- On Jan. 28th his bankers paid his life insurance premium worth N4,000 to universal insurance from his standing order.
- On Jan.30th he received dividends worth N1,500 from Etim carpets.

7. 8 Summary

In this chapter, students have learnt:

- Bank statements are sent periodically to customers to check against their own cash book(bank column) balance.
- Different types of bank documents.

- iii. Terminologies used in bank reconciliation.
- iv. The different items that can cause the discrepancies between bank statements and cash book (bank column) balance.
- v. How to adjust the cash book (bank column).
- vi. How to read and interpret a bank statement.
- vii. The two methods of reconciling a cash book (bank column) balance with bank statement balance.
- viii. The difference between a bank statement and a bank reconciliation statement.

Babatunde's Bank Statement

Date	Particulars	Debit ₦	Credit ₦	Balance ₦
Jan 1	Balance b/f			92,000
* 2	Fatima & Co	52,000		40,000
* 2	Bassey		30,000	70,000
* 2	Monach Breweries	4,000		66,000
* 2	A. Emeka		7,000	73,000
* 2	Ganiya Ltd		18,000	91,000
* 2	N. Chukwuma	30,000		61,000
* 2	Ganiyat	35,000		26,000
* 2	Oloranju		49,000	75,000
* 2	E. Solarin	11,000		64,000

Below is the bank column of Babatunde's cash book and the bank statement for the month of Dec, 2009.

Babatunde's Cash Book

Dec	₦	Dec	₦
* 6 Balances	38,000	* 3 Drawings	20,000
* 8 Chinedu & Co	42,000	* 10 C. Okoro	119,000
* 17 Taiwo Bros	100,000	* 17 Cheque	1,000
* 22 Awesu	31,000	* 21 Adisa & Co	52,000
* 30 Joko & Co	30,000	* 30 Sola & Co	38,000
* 31 Olamide Ltd	18,000	* 31 E. Solarin	11,000
		* 31 Commission	1,000
		* 31 Wages & salaries	40,000
		Balance c/d	77,000
	359,000		359,000
Jan 1 Balance b/d	77,000		

	N
Balance overdrawn per bank statement	3,720
Cheques received and paid into the bank but not yet entered on the bank statement	9,860
cheques drawn and entered in the cash book but not yet presented to the bank for payment	3,040
Bank charges made by the bank but not entered in the cash book	280
Dividend received by the bank had not been recorded in the cash book	2,000
Balance at bank as per cash book	1,380

7.9 Revision Questions

1. Which of the following may have been recorded in the cash book and not recorded in the bank statement?
 - A. Bank charges
 - B. Bank lodgment
 - C. Standing order
 - D. Cheques issued and presented for cash payment
2. Which of the following would be added to the bank balance in a bank reconciliation statement?
 - A. Cheques outstanding
 - B. Uncredited cheques
 - C. Service charges
 - D. None of the above
3. Which of these items appearing on a bank reconciliation statement would need an adjustment entry?
 - A. Uncredited cheques
 - B. Outstanding cheques
 - C. Adjusted cash balance
 - D. None of the above
4. If a banker refuses payment for a cheque on presentation, it is referred to as:
 - A. a stale cheque
 - B. a crossed cheque
 - C. a dishonoured cheque
 - D. an uncredited cheque
5. Regular payment made on behalf of customer by the bank is called a _____.
 - A. standing order
 - B. loan
 - C. credit transfer
 - D. bank charge

6. List eight items that may cause disagreement between cash book and bank statement balances.

7. On June 30th 2009, the balance on the cash book of C.

Ekpo showed a debit balance of N48,000. On checking the cash book with the bank statement, the following

differences were discovered:

- i. Cheques credited in the cash book but not yet presented for payment: N15,400
- ii. Cheques debited in the cash book but not yet received by the bank: N10,300
- iii. The bank charges for cheques book: N1,000. This has not been credited with the cash book
- iv. His account has been credited with N2,200 representing interest on his deposit account, this has also not been recorded in the cash book.

From the given data above, you are required to:

- i. adjust the cash book balance.
- ii. reconcile the adjusted balance showing the amount which would appear on the bank statement.