Bank Reconciliation Statements

The bank reconciliation statements are used to agree the bank balance in the cash books with the balance shown in the bank statements.

The cash book and bank statement may differ due to:

Unpresented cheques- time delay between the cheque being written, recorded in the cash book, the cheque being banked and recorded on the bank statement

Amounts not yet credited- amounts paid into the bank that haven't been recorded on the bank statement yet

Some items show in the bank statement that needs to be entered into the cash books:

Receipts

- Credit transfer and bank transfer amounts received by the bank
- Debit card receipts from customers
- Interest credited by the bank

Payments

- Standing order and direct debit payments
- Debit card payments
- Bank charges and interest
- Dishonoured cheques debited by the bank

Upon receipt of a bank statement reconciliation of the statement and cash book takes place by

- Ticking off items that appear in both cash book and bank statement
- The unticked items on the bank statement are entered into the bank column of the cash book to bring it up to date
- The bank columns of the cash book are now balanced to find the revised figure
- The remaining unticked items from the cash book will be the timing differences
- The timing differences are used to prepare the bank reconciliation statement.

Forming the bank reconciliation statement:

1. Start the bank reconciliation statement with the balance brought down figure shown in the cash book
2. In the bank reconciliation statement add the unticked payments shown in the cash book – unprecedented cheques
3. Deduct the unticked receipts shown in the cash book – amounts not yet credited
4. The resultant amount on the bank reconciliation statement is the balance of the bank statement

Unusual items on the bank statement:

Out of date cheques- cheques that are more than 6 months old will appear on the bank reconciliation statement but not the bank statement. They can be written back into the cash books as the bank will not pay these cheques.

Dishonoured cheques- cheques that: have been cancelled by the payer, the payer has no money or a there is technical problem with the cheque. This should be entered as a payment (credit side) in the cash book and as a debit to the trade receivables account in the sales ledger (if it’s a credit sale) or sales account (if it’s a cash sale).

Bank error- 1. A cheque deducted from the bank account which has not been issued by the business. 2. A bacs or bank transfer receipt shown on the bank statement for which the business is not the only correct recipient. 3. Standing orders and direct debits paid at the wrong time or for wrong amounts. If an error is found it should not be entered into the cash book until it has been resolved. If the bank reconciliation statement should be prepared, the bank error should be shown separately.

Bank charge and interest- banks will debit businesses customers’ accounts with amounts for service charges and interest. Banks usually notify the customers before debiting the accounts,

Importance of bank reconciliation statements

- It is proof that the bank statement and the cash book were agreed at a particular date.
- The reconciliation statement is an independent accounting record that deters fraud by verifying the cash book.
- Unprecedented cheques can be identified and written back into the cash book.