

# Bank Reconciliation

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## Bank Statement / Statement of Account

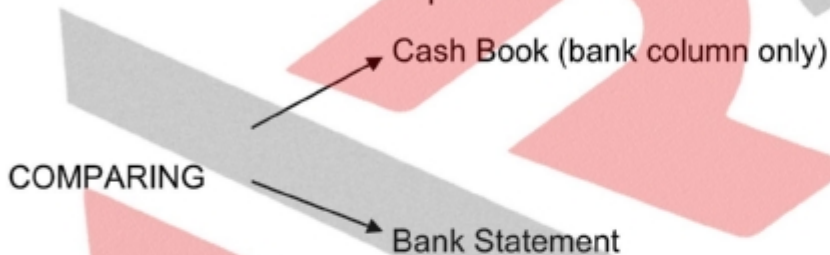
A bank statement is a copy of the customer's account in the books of the bank. It is a detailed statement of customer transactions for a given period of time (All deposits and withdrawals).

- When money is deposited into the bank, it is credited in the customer account.
- When money taken out / withdrew from the bank. It would be debited in his account.

## Cash Book (Bank Column):

It is an account prepared by the company to show all the deposits into the bank and withdrawals from the bank.

Re-conciliation means to compare or match.



## Reasons for Disagreement

1. Un-credited Cheques / Deposits / Bank Lodgment.
2. Un-presented Cheques / Outstanding
3. Credit Transfer / Bank Giro / Direct-Transfer
4. Dishonored Chq / Unpaid Chq / Un-cleared Chq
5. Dividends
6. Interest Credited / Received
- 7: Interest Debited / Interest Charged
8. Standing Order
9. Direct Debits
10. Bank Charges

## Cheques

Cheque is a mode of payment through bank from current account or a deposit account|

## Cheque Book

It is a book containing cheques (25, 50 or 100), to pay someone

## Current Account

A bank account that is normally used for day to day transactions and it does not carry interest

## **Savings / Deposit Account**

These Accounts generally earn interest and are not accessible on frequent or regular basis

## **Pay-in-Slip**

When we want to deposit cash or cheque into our account or any other account we use pay-in-slip to deposit funds into our account. We need to write account no, name of account holder amount with date and signature.

## **Validity of Cheque**

Cheques remains valid for six months from the date of issue. Cheque can be cleared transferred in an account in minimum one day and maximum three days.

## **Cheques / Deposits / Bank Lodgment**

Cheques deposited in the bank, but they are still in banking channel. Not yet appeared in bank statement

## **Un-Presented Cheques / Outstanding Cheques**

Cheques issued to suppliers, but the supplier has not presented them to the bank for payment. Bank has not yet deducted the amount from our account

## **Credit Transfer / Bank Giro / Direct Transfer.**

When bank directly collects money from the customer of the company it is known as Direct transfer which has been recorded in bank but not yet recorded in cashbook.

## **Dishonored Cheques / Unpaid Cheques / Uncleared Cheques.**

When a cheque is received from a customer and paid into the bank, it is recorded on the debit side of the Cash Book. It is also shown on the bank statement as a deposit increasing the balance on the account. However, at a later date it may be found that the customer's bank will not pay the amount due on the cheque. The customer's bank has failed to 'honor' the cheque. The cheque is described as a dishonored cheque.

## **Dividend**

When company invests money in shares, it receives dividend as income directly into the bank, it is already recorded in bank but not yet added in cashbook.

## **Interest Credited / Interest Received**

when company receives interest on its deposits it is known interest received, Bank has already credited it into our account, but not recorded yet in cashbook. So we have to add amount in the cashbook.

## **Interest Debited / Interest Charged**

When companies pay the interest on loan known as interest debited, it has been deducted from the company's bank account, but not yet deducted from cashbook so we will do it.

## **Standing Order**

When companies instruct its bank to pay fixed amount regularly at stated dates to a particular firm/person, it is known as standing order. It has been already deducted from bank, but we have to make an adjustment in cashbook.

## **Direct Debits**

these are payments which have to be made, such as gas bills, electricity bills, telephone bills, rates, and insurance premiums. Instead of asking the bank to pay the money, as with standing orders, you give permission to the creditor to obtain the money directly from your bank account. This is particularly useful if the amounts payable may vary from time to time, as it is the creditor who changes the payments, not you. With standing orders, if the amount

is ever to be changed, *you* have to inform the bank. With direct debits it is *the creditor* who informs the bank.

### Bank Charges

Amount deducted by the bank directly from company's bank account for the services they are providing to the company (e.g. Account operation, safe deposit, cheque book, deposit slip etc). We have to deduct this amount from cashbook.

### Updated / Revised / Amended Cash Book

Balance b/d	XXX	OR	Balance b/d (Overdraft)	XXX
Trader's Credit / Transfer	XXX		Direct Debit	XXX
Interest Credited	XXX		Standing Order	XXX
Dividend Received	XXX		Bank Charges	XXX
Debtor Paid Directly	XXX		Interest Charged	XXX
		OR	Dishonored / Unpaid Cheque	XXX
Balance c/d (Overdraft)	<u>XXX</u>		Balance c/d	<u>XXX</u>
	<u>XXX</u>			<u>XXX</u>
Balance b/d	XXX		Balance b/d (Overdraft)	XXX

### Bank Reconciliation Statement

Bal as per Updated Cash book	XXX
Add: Un-Presented cheques	XXX
Less: Un-Credited lodgments	(XXX)
Balance as per bank statement	XXX





(b) Prepare the bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 30 April 2006.

Kylie Johnson  
Bank Reconciliation Statement as at 30 April 2006

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(c) Explain how the following would appear in the ledger accounts of Kylie Johnson:

(i) Bank overdraft;

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(ii) Short term loan from the business to Kylie Johnson.

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**[Total: 17]**





**Q3** The following extract was taken from Abbie's cash book on 30 September 2015.

Cash Book (Bank Columns)

Date	Details	\$	Date	Details	\$
Sept 1	Balance b/d	290	Sept 8	Husna	102
9	L Lee	475	17	Yang Stores	849
15	Ng	150	23	Lam	364
21	JG Supplies	980	26	Xevera	500
29	Sampson	<u>625</u>	30	Balance c/d	<u>705</u>
		<u>2520</u>			<u>2520</u>
Oct 1	Balance b/d	705			

Abbie received the following bank statement on 1 October 2015.

Date	Details	Debit	Credit	Balance
		\$	\$	\$
Sept 1	Balance			290 Cr
9	L Lee		475	765 Cr
10	Husna	102		663 Cr
15	Ng		150	813 Cr
22	JG Supplies		980	1793 Cr
23	Bank charges	35		1758 Cr
24	Ng – Dishonoured	150		1608 Cr
25	YJ Electric	250		1358 Cr

Abbie compared the bank statement with her cash book.



- (a) Bring Abbie's cash book up to date. Balance the cash book and bring down the balance on 1 October 2015.

Cash Book (Bank Columns)

Date	Details	\$	Date	Details	\$
Oct 1	Balance b/d	705			

[4]

- (b) Prepare the bank reconciliation statement at 1 October 2015.

Bank Reconciliation Statement at 1 October 2015

	\$	\$
Balance as per bank statement		1358
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Less		
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Balance as per cash book .....		

[5]



- (b) Prepare a bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 31 July 2004.

Vigo  
Bank Reconciliation Statement as at 31 July

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- (c) Explain how the cash book is **both** a book of prime entry **and** a ledger account.

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[Total: 13]