

Community Sector Council
Newfoundland and Labrador

Learn to Reconcile Your Bank Account

15 February 2018

Bank Reconciliation

Cash Book Balance \$1500

Difference -\$260

Bank Statement Balance \$1760

Presented by:
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Project Co-Coordinator, **BY THE BOOKS**

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Directory of Services

Treasurers for Tomorrow

Skills-Building

Networking

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Demonstrating the Economic Contributions of Community Sector Organizations in the St. John's Region: A Pilot Study

Table 3: Total Annual Revenue for Community Organizations by Source, Based on Most Recent Financial Statements (N=45)

Source of Revenue	Value in CAD	Percentage
Government Sources - Provincial	\$ 22,923,964	37.6%
Earned Revenues	\$ 19,899,917	32.6%
Government Sources - Federal	\$ 5,757,400	9.4%
Fundraising	\$ 4,131,073	6.8%
Other Grants	\$ 3,806,470	6.2%
Donations	\$ 2,250,930	3.7%
Corporations - National	\$ 485,747	0.8%
Foundations - Provincial	\$ 457,623	0.8%
Government Sources - Municipal	\$ 442,396	0.7%
Corporations - Provincial	\$ 345,662	0.6%
Foundations - National	\$ 298,114	0.5%
Investment Income	\$ 191,650	0.3%
Foundation Sources - International	-	0.0%
Corporation Sources - International	-	0.0%
Total	\$ 60,990,944	100%


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Cash


There's a lot of it to account for!



- Board has ultimate responsibility
 - Safeguard assets and ensure assets used for intended purpose


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Cash

- Fortunately, we often have 2 sets of records to track cash
 - 1) Cash account in our general ledger ('books')
 - 2) Related bank account(s)
- Unfortunately, at any given time these 2 sets of records may not agree



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Bank \neq Books

This is normal!

Causes:


- Timing
- Electronic receipts/payments
- Errors (we're all human)
- Other



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Bank Reconciliation



A *bank reconciliation* is a listing of the items and amounts that cause the cash balance reported in the bank statement to differ from the balance of the cash account in the ledger.

The bank rec highlights:


- items that have gone through the books and not the bank
- items that have gone through the bank and not the books
- Adjustments that need to be made to the accounts

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Bank Reconciliation



A *bank reconciliation* is a listing of the items and amounts that cause the cash balance reported in the bank statement to differ from the balance of the cash account in the ledger.


Two 'sides' to bank rec:

- Adjusted balance per **BANK**
- Adjusted balance per **BOOKS**

These should agree!

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Bank Rec – BANK Side

- Start with Balance per Bank (statement) at bank rec date
- Note any timing differences:
 - Add receipts recorded on books but not yet in bank
 - Subtract payments recorded on books but not yet deducted by bank
 - ‘outstanding cheques’
- Add or subtract the effect of errors made by the **Bank**

TRACE FROM BOOKS TO BANK STATEMENT

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Bank Rec – BOOKS Side

- Start with Balance per general ledger (books) at bank rec date
- Note any timing differences:
 - Add receipts on bank statement not yet recorded on books
 - Less payments on bank statement not yet recorded on books
- Add or subtract the effect of errors made by the **ORGANIZATION**

TRACE FROM BANK STATEMENT TO BOOKS

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Keep in Mind...

	Bank (Your Cash Account is a Liability to the Bank)	Books (Cash is an Asset to the Company)
Cheque	Debit (decrease)	Credit (decrease)
Deposit	Credit (increase)	Debit (increase)

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Castle Park – Bank Rec Example (pg. 1)

Castle Park
Bank Reconciliation
September 30, 2012

Balance per bank statement	\$5,754.84
Plus: outstanding deposit	1,484.38
Less: outstanding cheques:	
Ch. # 567	(148.29)
Ch. # 573	(350.00)
Reconciled cash, September 30	6,740.93

This is the partial bank rec for Castle Park for September 2012. It shows the outstanding bank items for that month.

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Castle Park – Bank Rec Example (pg. 1)

G/L Account #100X: Cash				
Period Oct 1 - Oct 31 2012				
		Debits	Credits	Balance
30-Sep				6,740.93
2-Oct	cheque #575		372.96	6,367.97
2-Oct	cheque #576		780.62	5,587.35
2-Oct	cheque #577		587.50	4,999.85
7-Oct	receipt	843.86		5,843.71
12-Oct	cheque #578		1,687.50	4,156.21
12-Oct	cheque #579		234.15	3,922.06
15-Oct	receipt	941.54		4,863.60
16-Oct	cheque #580		157.00	4,706.60
20-Oct	cheque #581		578.84	4,127.76
24-Oct	cheque #582		921.30	3,206.46
24-Oct	receipt	808.58		4,015.04
28-Oct	cheque #583		246.03	3,769.01
31-Oct	receipt	1,067.00		4,836.01
		3,660.98	5,565.90	

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Castle Park – Bank Rec Example (pg. 2)

Regal Bank Limited				
Bank Statement for: Castle Park				
Date: October 2012				
	Debits	Credits	Balance	Date
Bal carried forward			5,754.84	1-Oct
deposit		1,484.38	7,239.22	2-Oct
cheque #575	372.96		6,866.26	6-Oct
deposit		843.86	7,710.12	7-Oct
cheque #567	148.29		7,561.83	9-Oct
cheque #576	708.62		6,853.21	12-Oct
deposit		941.54	7,794.75	15-Oct
credit memo		1,000.00	8,794.75	17-Oct
nsf cheque	220.00		8,574.75	19-Oct
nsf fee	30.00		8,544.75	19-Oct
cheque #579	234.15		8,310.60	22-Oct
cheque #580	157.00		8,153.60	23-Oct
cheque #581	578.84		7,574.76	23-Oct
deposit		808.58	8,383.34	24-Oct
cheque #582	921.30		7,462.04	29-Oct
interest		200.00	7,662.04	31-Oct
cheque #583	246.03		7,416.01	31-Oct
service charges	15		7,401.01	31-Oct

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Castle Park – Bank Rec Example (pg. 2)

Other information:

- ✓ The bank did not make any errors.
- ✓ Cheque #576 was for a payment on accounts payable.
- ✓ The credit memo was a \$1,000 sponsorship for the annual fundraiser
- ✓ The NSF cheque relates to a payment by an individual for tickets for the annual fundraiser.
- ✓ Interest was received relating to a short-term GIC.



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Bank Rec – example (cont'd)

We will be completing the Bank Rec for **October 2012** (using the handout provided).


Start with the **BANK** side of the bank rec

- Hint: it will look very similar to the partial bank rec for September that you were given

- Enter the balance as per the bank statement at October 31.



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Bank Rec – example (cont'd)


BANK Side

- Next, add any cash receipts recorded on the books in Oct 2012 but not appearing in the bank
 - Called *outstanding deposits* or *deposits in transit*
 - Also check to see if outstanding deposits in the prior month (if any) 'cleared' the bank; if not, they are still outstanding and must be added again this month

Be sure to cross off items as you trace them through (it will benefit you when doing the 'Books' side)




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Bank Rec – example (cont'd)

BANK Side

- Now subtract any *outstanding cheques* in Oct 2012 (cheques that were recorded on the books but have not yet cleared the bank)
 - Also check to see if outstanding cheques in the prior month cleared the bank (if not, they are still outstanding)
- Finally, add or subtract the correcting effect of any error made by the bank
 - The bank did not make any errors in our example




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Bank Rec – example (cont'd)

BANK Side

Castle Park Bank Reconciliation October 31, 2012			
BANK			
Bal per bank	31-Oct		7,401.01
Add: outstanding deposits			
	31-Oct		1,067.00
Less: outstanding cheques			
	#573	350.00	
	#577	587.50	
	#578	1,687.50	
		2,625.00	-2,625.00
Adjusted bal per bank	31-Oct		5,843.01



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Bank Rec – example (cont'd)

BOOKS Side


Start with the Balance per G/L (books) at Oct 31

Add: amounts added on bank statement that are not yet recorded in G/L

Subtract: amounts deducted on bank statement that are not yet recorded in G/L

Add/Subtract: effect of errors made by the organization

= **Adjusted Balance per Books**



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Bank Rec – example (cont'd)

BOOKS Side

If you have been crossing items off as you looked at them (when doing the bank side), now you only need to look for items on the bank statement that have not been marked

- Remember, debits in the G/L are credits on the bank statement, and vice versa!

Bank Rec – example (cont'd)

BOOKS Side

BOOKS			
Bal per g/l		31-Oct	4,836.01
Add:	credit memo		1,000.00
	interest		200.00
	error in chq #576		72.00
Less:	NSF cheque		-220.00
	NSF fee		-30.00
	service charges		-15.00
Adjusted bal per books		31-Oct	5,843.01

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Bank Rec – example (cont'd)

BANK			BOOKS		
Bal per bank	31-Oct	7,401.01	Bal per g/l	31-Oct	4,836.01
Add: outstanding deposits			Add: credit memo		1,000.00
	31-Oct	1,067.00	interest		200.00
Less: outstanding cheques			error in chq #576		72.00
#573	350.00		Less: NSF cheque		-220.00
#577	587.50		NSF fee		-30.00
#578	1,687.50		service charges		-15.00
	2,625.00	-2,625.00			
Adjusted bal per bank	31-Oct	5,843.01	Adjusted bal per books	31-Oct	5,843.01

Adjusted Bal per Bank = Adjusted Bal per Books

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Errors

Whether errors are added or subtracted depends on the error and who made it

- Use logic
 - if the bank subtracted too much for a cheque (that was recorded correctly on the books), then the amount of the error (the difference in amounts) gets added back to the *bank* side of the bank rec
 - If the organization recorded cash receipts higher than they actually were (and the correct amount was deposited into the bank), the amount of the error gets subtracted from the *books* side of the bank rec

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Required Journal Entries

All adjustments to the 'Books' side of the bank rec will require a journal entry (the G/L balance has to be updated for these items)


- We can't make adjustments to the bank statement, so no journal entries are made for adjustments on that part of the bank rec

Required Journal Entries

Journal entries for Castle Park:


Dr. Cash	1,000.00	
Cr. Sponsorship revenue		1,000.00
Dr. Cash	200.00	
Cr. Interest revenue		200.00
Dr. Cash	72.00	
Cr. Accounts payable		72.00
Dr. Accounts receivable	220.00	
Cr. Cash		220.00
Dr. Bank charges expense (30 + 15) *	45.00	
Cr. Cash		45.00

* Alternatively, you could add the fee the bank charged for the NSF cheque (\$30) to the accounts receivable in the previous entry and try to recover it from the individual.




Reviewing the Bank Rec

- The bank rec should be reviewed by a person independent from the preparer
- Verify that it reconciles! (Re-add, agree balances)
- Is it prepared on a timely basis?
- Reconciling items should be assessed for reasonableness i.e. are they common, expected, etc.




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Reviewing the Bank Rec

- Review the bank statement:
 - Ideally review copy received directly from bank
 - Ensure you have all pages
 - Scan bank statements for unauthorized electronic payments/transfers
 - Scan cancelled cheques for unauthorized suppliers, signatures, adjustments to amounts



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Upcoming *BY THE BOOKS* Sessions

Internal Financial Controls – Protecting Your Organization


Tues Feb 20 2018 6:30p.m. – 8:30p.m.


In-Person at CSC NL Boardroom, 25 Anderson Ave.

<http://communitysector.nl.ca/csc/events>

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EVALUATION

- Excellent
- Good
- Average
- Poor

Please complete the feedback form provided.

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Thank-You!

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