

Bank Reconciliation

A company's cash balance at bank and its cash balance according to its accounting records usually do not match. This is due to the fact that, at any particular date, checks may be outstanding, deposits may be in transit to the bank, errors may have occurred etc. Therefore companies have to carry out bank reconciliation process which prepares a statement accounting for the difference between the cash balance in company's cash account and the cash balance according to its bank statement.

Following are the transactions which usually appear in company's records but not in the bank statement:

- **Deposits in Transit:** Deposits which have been sent by the company to the bank but have not been received by the bank at proper time before the issuance of bank statement.
- **Checks Outstanding:** Checks which have been issued by the company but were not presented or cleared before the issuance of bank statement.

Following are the transactions which usually appear in bank statement but not in company's cash account:

- **Service Charges:** Service charges may have been deducted by the bank. Such charges are usually not known to the company before the issuance of bank statement.
- **Interest Income:** If any interest income has been earned by the company on its bank account, it is not usually entered in company's cash account before the issuance of bank statement.
- **NSF Checks:** NSF stands for "not sufficient funds". These are the checks deposited by the company in bank account but the bank is unable to receive payment on those checks due to insufficient funds in the payer's account.

Example

Company A's bank statement dated Dec 31, 2011 shows a balance of \$24,594.72. The company's cash records on the same date show a balance of \$23,196.79. Following additional information is available:

1. Following checks issued by the company to its customers are still outstanding:

No. 846 issued on Nov 29	\$320.00
No. 875 issued on Dec 26	49.21
No. 878 issued on Dec 29	275.00
No. 881 issued on Dec 31	186.50
2. A deposit of \$400.00 made on Dec 31 does not appear on bank statement.
3. An NSF check of \$850 was returned by the bank with the bank statement.
4. The bank charged \$50 as service fee.
5. Interest income earned on the company's average cash balance at bank was \$1,237.22.
6. The bank collected a note receivable on behalf of the company. Amount received by the bank on the note was \$550. This includes \$50 interest income. The bank charged a collection fee of \$10.
7. A deposit of \$430 was incorrectly entered as \$340 in the company's cash records.

Prepare a bank reconciliation statement using the above information.

Solution:

Company A
Bank Reconciliation
December 31, 2011

Balance as per Bank, Dec 31		\$24,594.72
Add: Deposit in Transit		400.00
		<u>\$24,994.72</u>
Less: Outstanding Checks:		
No. 846 issued on Nov 29	\$320.00	
No. 875 issued on Dec 26	49.21	
No. 878 issued on Dec 29	275.00	
No. 881 issued on Dec 31	186.50	
	<u>830.71</u>	
Adjusted Bank Balance		<u>\$24,164.01</u>
Balance as per Books, Dec 31		\$23,196.79
Add:		
Interest Income from Bank	\$1,237.22	
Note Receivable Collected by Bank	500.00	
Interest Income from Note Receivable	50.00	
Deposit Understated	90.00	
	<u>1,877.22</u>	
		<u>\$25,074.01</u>
Less:		
NSF Check	850.00	
Bank Service Fee	50.00	
Bank Collection Fee	10.00	
	<u>910.00</u>	
Adjusted Book Balance		<u>\$24,164.01</u>

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Source: <https://accountingexplained.com/financial/cash-and-equiv/bank-reconciliation>