



Bank Reconciliations – A Step by Step Guide

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Rationale for Bank Reconciliations

Bank Reconciliations are crucial in a business as it helps to ensure that the financial records are accurate and up to date which allows management to make informed decisions. Bank Reconciliations are an integral subset of the normal monthly or yearly financial statements. Bank Reconciliations also help to identify potentially fraudulent activities to safeguard the business against losses.

Bank Reconciliations

A bank reconciliation is the process of comparing the transactions appearing in a bank statement with the accounting records of the bank account of the company. The process involves matching the amounts from the bank statements to the company bank account records and from the company bank account records to the bank statements to ensure that they are accurate and consistent. Any differences or errors need to be fixed and reconciled for the bank reconciliation to balance.

Advantages of Bank Reconciliations

Advantages of preparing a bank reconciliation include:

- Errors can be identified and corrected at an early stage;
- Reduces the risk of fraud and theft;
- Stale cheques can be identified; and
- Ensures that the bank account in the financial statements is correct.

Step by Step Approach:

Step 1: Opening Balances

Reconcile the opening balance on the bank account with the opening balance on the bank statement.

- Take the opening balance on the bank account and add items not yet debited or take items not yet credited from the bank account.
- Take the opening balance on the bank statement and add unrepresented/ unrecorded lodgements or take unrepresented/unrecorded cheques from the bank statement amount.

The opening balance should now balance between the bank account and the bank statement.

Step 2: Compare the bank account with the bank statement and cross out anything that matches exactly in relation to the amount and details for example, lodgements, cheques, direct debits, standing orders etc.

Typical errors in the bank account that need to be reconciled include;

Failure to record all transactions;

Recording entries incorrectly re amount or the side that the amount is included; and

Failure to account for bank fees, bank charges and direct debits/standing orders.

Step 3: When reconciling the bank account, one does the following:

- Credit the bank account with any direct debits or standing orders relating to expenses that haven't been included in the bank account;
- Debit the bank account with any unrecorded lodgements which have gone through the bank statement but have not been included in the bank account;
- Debit or credit any differences that have occurred on lodgements and cheques in the bank account when compared to the bank statement.

Step 4: When reconciling the bank statement, one does the following:

- Reduce the bank statement balance by deducting any unrepresented cheques at the month or year-end;
- Add on any lodgements not yet cleared through the bank; and
- Plus or minus any bank errors depending on the details of the bank errors.

The closing balances should now reconcile.

Example:

The bank account of Deinat Limited for the month of December 202X was as follows:

Bank Account of Deinat Limited						
<u>Dr.</u>		<u>€</u>	<u>Date</u>	<u>Payments</u>	<u>Cheque No.</u>	<u>Cr.</u>
<u>Date</u>	<u>Receipts</u>					<u>€</u>
01/12/202X	Balance b/d	14,587	01/12/202X	H. Chadda	10542	245
06/12/202X	T. Nash	2,450	05/12/202X	Bank Charges	D.D.	256
07/12/202X	M. Sheehan	3,457	08/12/202X	Rates	D.D.	1,240
12/12/202X	M. O'Sullivan	2,000	09/12/202X	J. Collins	10543	12,548
14/12/202X	Cash Lodgement	1,560	12/12/202X	Bank Fees	D.D.	90
28/12/202X	T. Galvin	9,800	14/12/202X	Fergha Limited	10544	3,240
			17/12/202X	M. Carroll	10545	652
			19/12/202X	Treanen Limited	S.O.	850
			22/12/202X	J. Quigley	10546	830
			27/12/202X	E. Sadlier	10547	1,574
			31/12/202X	Balance c/d		12,329
		<u>33,854</u>				<u>33,854</u>

31/12/202X Balance b/d 12,329

Bank Statement for Deinat Limited for December 202X

<u>Date</u>	<u>Description</u>	<u>Details</u>	<u>Payments</u>	<u>Lodgment</u>	<u>Balance</u>
			<u>€</u>	<u>€</u>	<u>€</u>
01/12/202X	Balance				16,987
02/12/202X	Cheque	10541	2,400		14,587
05/12/202X	Bank Charges	D.D.	256		14,331
06/12/202X	Lodgement			2,450	16,781
07/12/202X	Lodgement			3,547	20,328
08/12/202X	Cheque	10542	245		20,083
08/12/202X	Rates	D.D.	1,240		18,843
10/12/202X	Cheque	10543	12,548		6,295
13/12/202X	Lodgement			2,000	8,295
14/12/202X	Cheque	10544	3,420		4,875
14/12/202X	Bank Fees	D.D.	90		4,785
16/12/202X	4587215		800		3,985
16/12/202X	Lodgement			1,560	5,545
18/12/202X	Cheque	10545	652		4,893
19/12/202X	Treanen Limited	S.O.	850		4,043
20/12/202X	Credit Transfer			4,210	8,253

Due to a IT infrastructure glitch, the bank has admitted that it made an error in the account of Deinat Limited on the 16 December 202X.

Prepare the bank reconciliation statement for Deinat Limited at the 31 December 202X

Solution:

Step 1: Reconcile the Opening Balances

Looking through the question, there are no items that affect the opening balance of the bank account i.e., there is no items not yet added to be debited and no items not yet taken to be credited.

On reviewing the bank statement and comparing it to the bank account, one can see that the first cheque written in December 202X is cheque number 10542 on 1 December 202X.

However, a cheque with a cheque number in advance of this (Cheque No. 10541) was cashed in the bank statement on 2 December 202X so therefore, this cheque had to have been written before 1 December 202X and consequently is a reconciling item at the start of the month.

Therefore, the opening balance reconciled is as follows:

	€
Balance per Bank Account – 01/12/202X	14,587
Add items not yet debited	0
Take items not yet credited	<u>0</u>
	<u>14,587</u>
Balance per Bank Statement – 01/12/202X	16,987
Plus unrepresented lodgements	0
Less unrepresented cheques 10541	<u>- 2,400</u>
	<u>14,587</u>

Step 2: Eliminate all amounts and details that match exactly

The items that completely match between the bank account and the bank statement are as follows:

Lodgements of €2,400, €2,000 and €1,560:

Cheques No.'s 10542 (€245), 10543 (€12,548), and 10545 (€652); and

Bank Charges of €256, Rates of €1,240, Bank Fees of €90 and Treanen Limited Standing order of €850.

Step 3: Reconcile the bank account

The bank account is reconciled by comparing the entries in it to the bank statement.

There is a difference of €90 in the lodgement of €3,457 on 7 December 202X in the bank account to the lodgement of €3,547 in the bank statement that needs to be reconciled. The bank statement is always assumed to be more accurate so therefore, the under recording of the lodgement in the bank account will ensure that the difference of €90 is included on the debit side of the bank account.

The credit transfer on 20/12/202X of €4,210 has not been written into the bank account. Therefore, this amount will be debited to the bank account.

There is a difference of €180 in cheque number 10544 of €3,240 on 14 December 202X in the bank account compared to the amount in the bank statement for the same cheque on 14 December 202X of €3,420. Given that the bank statement has a higher amount means that the bank account is understated and consequently, the difference of €180 will be credited to the bank account.

The reconciled bank account now looks as follows:

Adjusted Bank Account			
December	€	December	€
31 Balance	12,329		
31 Lodgement (07/12/202X) - Difference	90	31 Cheque 10544 - Difference	180
31 Lodgement - Credit Transfer (20/12/202X)	4,210		
	<u>16,629</u>	31 Closing Balance	<u>16,449</u>
			<u>16,629</u>

Step 4: Reconcile the bank statement

There are two cheques which were written in December that are unrepresented in the bank statement by the end of the month. These two cheques, Cheque No. 10546 (€830) and 10547 (€1,574) will need to be taken from the bank statement balance.

The lodgement of €9,800 that is included in the bank account on 28/12/202X has not yet appeared in the bank statement so that has to be included as an unrecorded lodgement and added to the bank statement balance.

There is a bank error on 20 December 202X that has not been accounted for. Given that this amount was taken in error by the bank, it needs to be added back to the bank statement balance.

The bank statement reconciled is as follows:

Bank Reconciliation Statement		
Closing Balance per Bank Statement - 31/12/202X		8,253
Less Unpresented Cheques		
Cheque 10546	830	
Cheque 10547	1,574	
		- 2,404
Add Lodgement not yet Cleared		
Lodgement - 31/12/202X	9,800	9,800
Bank Errors		
4587215 - 16/12/202X	800	800
Balance as per Adjusted Bank Account		<u>16,449</u>

As the closing balance of the bank account now balances with the closing balance of the bank statement, the bank reconciliation is complete as the balances reconcile (€16,449 in both).