

Bank Reconciliations

Items That Cause the Difference

Items recorded in ledger, but not on bank statement

1. Deposits in transit
 - Deposits not yet received by bank
2. Outstanding checks
 - Written checks not yet received by bank
3. Errors

Items listed on bank statement, but not yet recorded in ledger

1. Collections (CM)
 - Bank collections not recorded by company
2. Interest income (CM)
 - Revenue not yet recorded by company
3. NSF (DM)
 - If customer ck, not recorded by company (increase A/R, decrease Cash)
4. Service charge (DM)
 - Not recorded by company
5. Errors

Steps in the Reconciliation

**Journal Entries
Come from
This Side**

Bank side

- Start with
 - Bank statement balance
- Add
 - Deposits in transit
 - Bank errors that understate balance
- Deduct
 - Outstanding checks
 - Bank errors that overstate balance
- Arrive at
 - Adjusted bank statement balance

Depositor side

- Start with
 - Ledger balance of Cash
- Add
 - Credit memos (bank collections on note)
 - Book errors that understate balance
- Deduct
 - Debit memos (bank service charges, NSF)
 - Book errors that overstate balance
- Arrive at
 - Adjusted ledger balance of Cash

Must Be Equal



Bank Reconciliation – Preparation Steps

1. Canceled Checks

- Compare the checks that were outstanding from the prior month reconciliation to confirm they have cleared, if not, the checks remain outstanding this month
- Compare the checks written by the firm during the current month to the checks cleared on the bank statement
Determine checks not cleared by the bank and deduct as outstanding checks in arriving at the adjusted bank balance on the reconciliation
- Determine each check amount is the same between the book and bank records, if not, correct the error(s) on the bank reconciliation

Bank Reconciliation – Preparation Steps

2. Deposits

- Compare deposits in transit from the prior month bank reconciliation to deposits listed on current month bank statement and confirm receipt by the bank, if not listed, the deposit remains in transit on the bank reconciliation
- Compare deposits from the firm's records for the current period to the deposits listed on the bank statement, checks not listed are considered deposits in transit and added to the bank balance in the bank reconciliation
- Determine each deposit amount is the same between the book and bank records, if not, correct the error(s) on the bank reconciliation

Bank Reconciliation – Preparation Steps

3. Bank memoranda from bank statement
 - Check the journal to determine if previously recorded (in case an earlier memo was received from the bank and already recorded)
 - If not recorded, add or deduct the debit or credit memos in the book (ledger) balance section of the bank reconciliation

Bell Video Bank Reconciliation

Example of bank reconciliation:

- Bank statement balance = \$8,966.00
- Ledger balance of Cash = \$8,330.50
- After verifying canceled checks
 - Deposit in transit = \$1,303.00
 - Outstanding checks
 - #1916 \$461.00
 - #2022 \$119.00
 - #2023 \$827.00
 - #2024 \$67.00
- Credit memo on bank statement: note collected by bank from Lee & Brock
 - Promissory note repayment = \$600.00
 - Interest on note = \$6.00
- Ck. No. 2001 mistakenly recorded in journal as \$532.00 (correct amount is \$523.00) for payment on account to Davis, Inc.
 - Initially recorded Dr AP, Cr Cash, adjust Dr Cash Cr AP for \$9.00
- Debit memos on bank statement
 - Collection/service charge = \$ 5.50
 - NSF check from D. M. Scott, a customer = \$125.00
 - ATM withdrawal not recorded in journal = \$20.00

**Bell Video
Bank Reconciliation
October 31, 20--**

Bank Statement Balance		\$8,966.00
Add:		
Deposit in transit		1,303.00
		\$10,269.00
Deduct:		
Outstanding checks		
No. 1916	\$461.00	
No. 2022	119.00	
No. 2023	827.00	
No. 2024	67.00	1,474.00
Adjusted Bank Statement Balance		\$8,795.00
Ledger Balance of Cash		\$8,330.50
Add:		
Note collected by bank from Lee & Brock	\$606.00	
Error amount for Ck. No. 2001 payable to Davis, Inc.	9.00	615.00
		\$8,945.50
Deduct:		
Bank service/collection charge	\$5.50	
NSF check from D. M. Scott	125.00	
ATM withdrawal for personal use	20.00	150.50
Adjusted Ledger Balance of Cash		\$8,795.00

**Must
Be
Equal**