

CASH-ONLINE: BANK RECONCILIATION

Why do a bank reconciliation?

Bank reconciliation checks the accuracy of your Bank Analysis Book entries and Bank Statements. It proves the accuracy of your book-keeping, or helps you identify where there are problems.

Your bank statement details payments made into your account and withdrawals from your account. You might think that the total on your bank statement would equal that in your Bank Analysis Book, but there are several reasons why the two balances differ:

- cheques have been issued, but are still to be presented,
- items have been paid into your account, but have not yet appeared on the bank statement,
- interest appears on the bank statement but has yet to be entered in the Bank Analysis Book,
- credit transfers - direct debits, standing orders, bacs - appear on the bank statement but have yet to be entered in the Bank Analysis Book,
- there are errors in your organisations book-keeping, or the bank has made a mistake - banks make mistakes too!

The factsheet assumes monthly bank reconciliation and single entry book-keeping. It also assumes a knowledge of basic book-keeping. Note that CASHFACTS uses the term Bank Analysis Book - instead of Cash Analysis Book.

Nine steps

To begin your bank reconciliation, first complete these first four easy steps. Go back one step if you think you may have gone wrong.

Step 1 | Compare entries in your Bank Paid Analysis Book with items paid out indicated on your bank statement. In your Bank Paid Analysis Book put a tick against each cheque payment that

appears on your bank statement. Now place a tick against the corresponding payment on your Bank Statement.

Step 2 | In your Bank Received Analysis Book, put a tick in the 'Banked' column for each deposit indicated on your Bank Statement. Now place a tick against the corresponding deposits on your Bank Statement.

Step 3 | Don't forget to check and tick - both on the Bank Statement and in the Bank Analysis Books - outstanding items from the previous bank reconciliation which have now cleared the bank.

Step 4 | Now look at the bank statement. Are there any items without a tick? If there are any, they should be entered in the corresponding Bank Analysis Book. Such items may include interest, bank charges, direct debits and standing orders. Once entered in your Bank Paid Analysis Book tick these items off on your Bank Statement.

When these four steps have been completed, all items on your Bank Statement will be in your Bank Analysis Books.

Step 5 | First rule off the Bank Analysis Books and add up the columns. Then 'crosscast' to ensure that the adding-up is correct. Now fill in a Bank Reconciliation Form (there is a model here). Calculate the Bank Book Closing Balance for the month as follows:

Balance brought forward (b/f)

$$\begin{array}{r} + \\ \text{Receipts for the month} \\ - \\ \text{Payments for the month} \\ = \\ \text{Balance carried forward (c/f)} \end{array}$$

You will now have a completed and balanced Bank Analysis Book. Next you have to deal with what is in your Bank Analysis Book, but not on your Bank Statement.

Step 6 | On the Bank Reconciliation Form, enter the balance for the end of the month as shown on your Bank Statement.

Step 7 | Look for entries in the Bank Received Analysis Book which do not have a tick. Outstanding receipts is the name given to items that have been banked, but have not cleared (cheques, cash etc). Do you have entries without ticks? On the Bank Reconciliation Form they should be listed in the outstanding receipts section. Normally there should be no receipts outstanding for more than two weeks.

Step 8 | Look for entries in the Bank Paid Analysis Book which do not have a tick. Outstanding cheques is the name given to cheques which have been issued, but have not yet been cashed. On the Bank Reconciliation Form they should be listed in the outstanding cheques section. The last step is to add the outstanding receipts to the Bank Statement balance and subtract the outstanding cheques. You then have the Adjusted Bank Statement Balance.

At the end of the bank reconciliation you are looking for the Closing Bank Analysis Book Balance and Adjusted

Bank Statement Balance to agree. If your book-keeping has been accurate, there should be no discrepancies between your Bank Analysis Book and your Bank Statement.

The troubleshooting guide on the next page will help highlight where you might have gone wrong.

Trouble shooting

What if your bank reconciliation does not work? Listed below are possible causes.

If the closing Bank Analysis Book balance is more than the adjusted Bank Statement balance:

- You may have mistakenly ticked off an item in the Bank Received Analysis Book which has yet to clear the bank - and so has been omitted from the outstanding receipts list.
- You have not ticked off an item in the Bank Paid Analysis Book - it appears in the outstanding cheques list even though it has been cashed.
- Bank charges, a standing order etc. has not been entered in the Bank Paid Analysis Book.
- In the Bank Received Analysis Book you have entered something more than once, or overstated its value.

If the adjusted Bank Statement balance is more than the closing Bank Analysis Book balance:

- You have mistakenly ticked off an outstanding cheque and so it has been omitted from the outstanding cheques list.
- You have failed to tick off an item in the Bank Received Analysis Book which has cleared and so falsely appears in the outstanding receipts list.
- You have not entered in the Bank Received Analysis Book an item credited by the bank ie. interest.

- In the Bank Paid Analysis Book you have entered something more than once, or overstated its value.

Other errors:

- There is an arithmetical mistake in your Bank Reconciliation.
- If the is exactly divisible by 9, you have probably transposed a figure eg. £631 instead of £136 or £49.23 instead of £42.93.
- There is a mistake on the Bank Statement - banks make mistakes too!

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