

Ch 7 The Bank Reconciliation Statement

7.1 Introduction

- Trial balance is used to test the arithmetical accuracy of entries in the ledgers accounts.
- The bank reconciliation statement is to detect omission and errors in cash book and the bank statement.

7.2 Bank statement

- When a firm receives a cheque or makes a payment by cheque, it will record the transaction in the bank column of its cash book. At the end of a period, the bank will send a bank statement to the firm, showing all the transactions made in the firm's bank account for that period.
- A firm's positive bank balance is recorded as a debit balance in cash book. However, it is regarded as a liability of the bank, so the balance is shown as a credit balance in the bank statement.
- In contrast, when there is a bank overdraft, it is recorded as a credit balance in cash book. However, the negative balance is shown as a debit balance in the bank statement.

7.3 Causes of the difference between the cash book and bank statement balances

1. Entries made in the bank statement but not yet entered in the cash book
 - Standing order (cash book(bank column) ↓)
 - Direct debits (cash book(bank column) ↓)
 - Direct credits / credit transfer (cash book(bank column) ↑)
 - Bank charges and interests (cash book(bank column) ↓)
 - Bank interests revenue (cash book(bank column) ↑)
 - Dishonoured cheques** (cash book(bank column) ↓)

2. Entries made in the cash book but not yet entered in the bank statement
 - Unpresented cheques** (reduced the money from cash book , but no change in bank account yet)
 Refers to a cheque issued by a firm that has not yet appeared in the bank statement
 - Uncredited cheques** (Increase the money from cash book , but no change in bank account yet)
 Refers to a cheque received by a firm that has no yet appeared in the bank statement

Example of Bank reconciliation statements

1a. Without an updated the cash book (1. 2.)

Start with cash book balance, end with bank statement balance

S Chan		
bank reconciliation statement as at 31 October 2015		
	\$	\$
Balance as per cash book		1,000
Add direct credits(Remember to write the account name)	1,000	
Credit transfer (Remember to write the account name)	500	
Unpresented cheque	2,500	4,000
		5,000
Less Standing order (Remember to write the account name)	100	
Direct debits (Remember to write the account name)	100	

Bank charges and interests	100	
Dishonoured cheques	100	
Uncredited cheques	100	500
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Balance as per bank statement		4,500
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1b. Without an updated the cash book (1. 2.)

Start with bank statement balance, end with cash book balance

S Chan

bank reconciliation statement as at 31 October 2015

	\$	\$
Balance as per bank statement		4,500
Add Standing order (Remember to write the account name)	100	
Direct debits (Remember to write the account name)	100	
Bank charges and interests	100	
Dishonoured cheques	100	
Uncredited cheques	100	500
	<hr/>	<hr/>
		5,000
Less direct credits(Remember to write the account name)	1,000	
Credit transfer (Remember to write the account name)	500	
Unpresented cheque	2,500	4,000
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Balance as per cash book		1,000
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Example of Bank reconciliation statements

2a. With an updated the cash book (2.)

Start with adjusted cash book balance, end with bank statement balance

S Chan	
bank reconciliation statement as at 31 October 2015	
	\$
Adjusted balance as per cash book	2,100
Add Unpresented cheque	2,500
	<u>4,600</u>
Less Uncredited cheque	100
Balance as per bank statement	<u><u>4,500</u></u>

2b. With an updated the cash book (2.)

Start with bank statement balance, end with adjusted cash book balance

S Chan	
bank reconciliation statement as at 31 October 2015	
	\$
Balance as per bank statement	4,500
Add Uncredited cheque	100
	<u>4,600</u>
Less Unpresented cheque	2,500
Adjusted balance as per cash book	<u><u>2,100</u></u>