

Principles of Accounting
Help Lesson #6

*Reconciling the Bank
Statement*

By Laurie L. Swanson

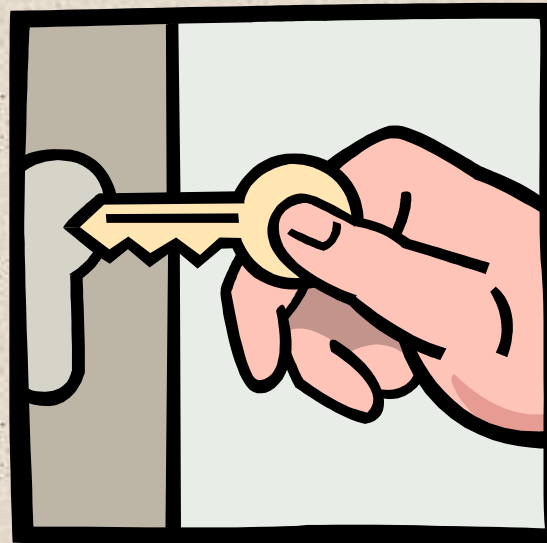
Cash

Cash is one of the most important assets a business owns. Cash is the primary asset used to acquire other assets as well as to pay for operating expenses.



Internal Control for Cash

Because Cash is a highly desirable asset and is readily transferable, **internal control** over cash is especially important.



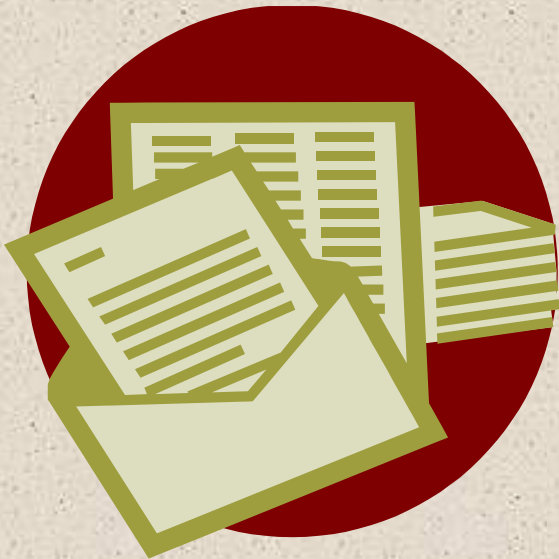
Internal Control for Cash

One of the most important tools in internal control over cash is the **bank statement**.



Internal Control for Cash

One of the most important tools in internal control over cash is the **bank statement**.



The bank statement provides an independent, objective record of the amount of cash a company has. However, the amount of cash reported on the bank statement and the amount of cash per the company's books rarely match.

Some Common Reasons For Discrepancies

Between the Books and the Bank Statement

Some Common Reasons For Discrepancies

Between the Books and the Bank Statement

Outstanding Checks

Deposits in Transit

Interest Earned

NSF Checks

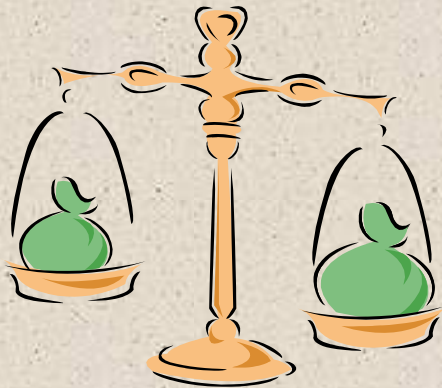
Bank Fees Charged

Notes Collected by the Bank for the Company

Errors

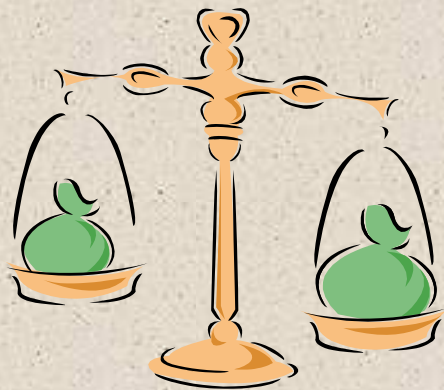
Reconciling the Bank Statement

Because of these differences, it is necessary to reconcile the bank statement.



Reconciling the Bank Statement

Because of these differences, it is necessary to reconcile the bank statement.



A **Bank Reconciliation** adjusts the balances per the bank statement and the company's books to arrive at the actual cash balance.

Steps in Reconciling the Bank Statement

When preparing a bank reconciliation, both the bank statement balance and the book balance of cash must be adjusted.

► First examine the bank balance and compare it to the company's records to determine any necessary adjustments to the bank balance.

Additions to the Bank Statement Balance

▶ Compare the company's records and the bank statement to determine any additions that should be made to the bank balance.

When looking for additions to the bank balance, deposits in transit (or outstanding deposits) are the most common item.

Deductions From the Bank Statement Balance

► The next step in reconciling the bank statement is to determine any items that should be deducted from the bank balance.

The most common deduction from the bank balance is outstanding checks.

The bank balance should also be adjusted for any errors that would be added to or deducted from it.

Adjusting the Book Balance

► After determining the adjusted bank balance, the book balance must be adjusted. Compare the book balance to the bank statement to determine any additions or deductions that should be made to the book balance.



Additions to the Book Balance

When looking for additions to the book balance, **interest and notes collected** by the bank are the most common items.



Deductions From the Book Balance

► Finally, determine deductions that should be made from the book balance.

The bank statement often reveals several deductions that should be made from the book balance. Among them are various **bank fees, and NSF checks.**

The book balance should also be adjusted for any errors made by the company in recording cash transactions.

Reconciling the Bank Statement

An Example

Jones Career Consulting

Bank Reconciliation

March 31, 2003

Balance Per Bank		\$23,982
Add: Deposits in Transit		2,000
Subtotal		25,982
Deduct: Outstanding Checks		5,171
Adjusted Bank Balance		<u>\$20,811</u>
Balance per Books		\$20,196
Add: Interest	\$200	
Note Collected by Bank	1,000	1,200
Subtotal		\$21,396
Deduct: NSF Check	560	
Bank Fee	25	585
Adjusted Book Balance		<u>\$20,811</u>

This Concludes
The Presentation on

*Reconciling the Bank
Statement*