

## Bank Account Reconciliations

An Important tool used to control cash is the **bank account reconciliation.**

**Timing differences** occur when the company have adjusted your bank account balance for items the company has not booked yet. and the bank record transactions at different times. A company may have adjusted the cash balance for items the bank is not aware of yet. Additionally, the bank may

**Errors** can be made either by the company or the bank.

- o A check for \$210 deposited in the bank may have been recorded by the accountant in the journal entry as \$120.

- o A check for \$500 mobile deposited may have been recorded by the accountant correctly and the bank read and processed it as \$50.

To complete a bank reconciliation, you need to do two steps:

- o Step 1: Adjust the bank balance to the corrected cash balance.

- o **deposits outstanding,** these represent cash and/or checks paid to the company but are not recorded by the bank before the cutoff date.

- o **checks outstanding,** these represent checks paid/written by the company and recorded as credits to cash but the bank didn't process by cutoff.

- o **bank errors.**

- o Step 2: Adjust the book balance to the corrected cash balance.

- o **collections** made by the bank on the company's behalf that the company is unaware of until the bank statement is received.

- o **service** and other charges and fees made by the bank that the company is unaware of until the bank statement is received.

- o **nonsufficient funds checks,** these represent checks previously deposited for which the payors do not have sufficient funds in their account to cover.

- o **company errors.**

Bank Reconciliation:

Green Company has a checking account at First National Bank. First National Bank provides a bank statement and cancelled checks at the end of the month. The cutoff date is the last day of the month.

The bank statement for March is summarized below:

First National Bank									
Account Holder: Green Company					Statement Date: March 31, 20X2				
Beginning Balance		Deposits and Cred			Withdrawals and Debits			Ending Balance	
March 1, 20X2		No.	Total	No.	Total		March 31, 20X2		
\$23,600		7	\$29,600	8	\$26,800		\$26,400		
Deposits and Credits			Withdrawals and Debits				Daily Balance		
Date	Amount	Desc	Date	No.	Amount	Desc	Date	Amount	
4-Mar	\$ 3,600	DEP	1-Mar		\$ 7,200	EFT	1-Mar	16,400	
8-Mar	5,900	DEP	12-Mar		4,500	EFT	4-Mar	20,000	
12-Mar	4,200	DEP	16-Mar		3,300	DC	8-Mar	25,900	
20-Mar	7,400	DEP	24-Mar	1416	2,700	CHK	12-Mar	25,600	
25-Mar	6,300	DEP	24-Mar		2,100	DC	16-Mar	22,300	
29-Mar	2,000	NOTE	24-Mar		4,100	EFT (Utilities)	20-Mar	29,700	
29-Mar	200	INT	31-Mar		2,800	NSF	24-Mar	20,800	
			31-Mar		100	SF	25-Mar	27,100	
	<u>29,600</u>				<u>26,800</u>		29-Mar	29,300	
							31-Mar	26,400	
Desc	DEP Customer deposit		INT Interest earned		SF Service fees				
	DC Debit card		CHK Customer check		NSF Nonsufficient funds				
	EFT Electronic funds transfer		NOTE Note Receivable collected						

Typo in MAP -- change book balance in cash to \$34,600

Green Company's books show \$34,600 in the cash account

The March cash records for Green Company are below:

Cash Receipts (CR)			Cash Payments (CP)			
Date	Description	Cash Debit	Date	Memo	Description	Cash Credit
1-Mar	Sales	3,600	5-Mar	Salaries	EFT	7,200
5-Mar	Sales	5,900	12-Mar	Rent	EFT	4,500
10-Mar	Sales	4,200	16-Mar	Advertising	DC	3,000
17-Mar	Sales	7,400	20-Mar	Supplies	CHK 1416	2,700
23-Mar	Sales	6,300	24-Mar	Repairs	DC	2,100
28-Mar	Sales	8,500	30-Mar	Insurance	CHK 1417	5,400

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Prepare the Bank Reconciliation:

Green Company  
Bank Reconciliation  
March 31, 20X2

Bank's Cash Balance		Company's Cash Balance	
Per bank statement	\$ 26,400	Per Books	\$ 34,600
Add: Deposits outstanding #	8,500	Add: NOTE	2,000
		INT	200
Deduct: Checks outstanding CHK 1417	(5,400)	Deduct: EFT (Utilities)	(4,100)
		NSF	(2,800)
		SF	(100)
		Bank Error	(300)
Bank balance per reconciliation	\$ 29,500	Company balance per reconciliation	\$ 29,500

Record Journal Entries:

Utilities Expense	4,100	
Cash		4,100
To record payment of utilities		
Accounts Receivable	2,800	
Cash		2,800
To record NSF check returned by bank		
Bank Service Fee Expense	100	
Cash		100
to record bank service fee		
Advertising Expense	300	
Cash		300
to correct error in recording advertising expense		
Cash	2,000	
Notes Receivable		2,000
To record collection of Notes Receivable		
Cash	200	
Interest Income		200
To record interest earned on bank account		