Bank Reconciliation TIPS

Bank Reconciliation is a statement you prepare to find and explain any differences between your fund balances and the bank statement balance for a given month.

There are numerous deposits, checks, bank charges etc. that are entered by you and the bank each month. Your fund balances and bank statement balance may not agree at the end of the month for various reasons. The reason a bank reconciliation is prepared is to find these various reasons and bring both the fund balances and bank statement balance to match.

The various reasons the fund balances and bank statement balance won't match are: outstanding checks, deposit in transit, interest earned, services charges and NSF checks. Let's examine each reason.

Outstanding Checks: Those are checks that have been written by you to pay vendors, but the vendors haven't presented the checks for payment to the bank.

Example: You write a check to a vendor for $100.00 on March 31 and entered it into your accounting records. You send the check in the mail and the vendor receives it April 1. Your March bank statement will not show the entry for the $100.00 because the vendor didn't receive it in time to present for payment at your bank until after March 31. This will create a balance difference of $100.00 between your accounting records and the bank statement.

Deposit in Transit: Cash you have received and recorded into your accounting records, but the deposit has not been entered by the bank. This usually occurs on the last day of the month.

Example: You receive cash payment of $125.00 from a customer paying a water bill on March 31. You immediately write a receipt and enter it into your accounting system. You make a $125.00 deposit and send it to the bank, but it reaches the bank to late to be entered for the month of March. This will a create a balance difference of $125.00 between your accounting records and the bank statement.

Interest Earned: Interest which has been credited by the bank to your account. Banks pay interest to some accounts.

Example: The bank credits $21.00 interest on March 31 to your bank account. You have not recorded the $21.00 interest into you accounting system for March because you receive the bank statement April 1. This will create a balance difference of $21.00 between your accounting records and the bank statement.

Service Charges: There are services that banks provide to their customers, such as monthly maintenance fees and minimum balance fees which are deducted from your bank account. You usually are not aware of these deductions. These charges of will create a difference on the bank statement and your accounting records.

Example: The bank charges your account a $12.00 per month maintenance fee. It will show as a deduction on your bank account and you will have to enter the $12.00 deduction into you accounting records.

NSF Check: NSF means Not Sufficient Funds. When you deposit a check into your bank account the bank credits your account. If the person issuing the check didn't have sufficient funds to honor the check that was written, the bank will reduce your bank account for the amount of the check and return the dishonored check as an NSF check to you.

Example: A customer pays their water bill with a check $55.00. You make a deposit for $55.00 and take it to the bank. The bank credits your account for $55.00. Two days later the bank informs you the customer who wrote the check didn't have enough money in their account to cover the $55.00. The bank deducts $55.00 from your account and sends back the $55.00 check as an NSF check. The bank statement will have a balance difference of $55.00 from your accounting records.

Steps to take to prepare a bank reconciliation statement.

Step 1. Look for deposits in transit. Compare monthly deposits in your accounting records with those on the bank statement. If you find a deposit in your accounting records, but it is not showing on the bank statement, that means that deposit is in transit. Add that deposit to the bank statement balance.

Step 2. Look for outstanding checks and subtract them from the bank statement balance. Compare all checks written in you accounting system with the checks paid on your bank statement. If your accounting system shows checks written but are not showing on the bank statement, it means those checks are outstanding. Deduct from the bank statement balance those checks written in your accounting system but not showing on the bank statement.

Step 3. Look for credit memorandums on the bank statement. The bank will sometimes issue a credit memorandum when it collects a note receivable on behalf of you. If you find any credit memorandum on the bank statement that you have not entered in your accounting records, add the credit memorandum to your accounting records.

Step 4. Look for debit memorandums on the bank statement. The bank will sometimes issue a debit memorandum for services it provides to you such as printing checks, deposit slips and processing NSF checks. The bank will deduct these services from your bank account and issue a debit memorandum on the bank statement. If you find any debit memorandum on the bank statement that has not been entered in your accounting system, deduct those debit memorandums from your accounting records.

Step 5. Check to see if the adjusted balance in your accounting records equal to the adjusted balance in your bank statement.

Step 6. Make the appropriate journal entries for the items you had not recorded in your accounting records.