LO 3-Perform Bank Reconciliations to ensure company and bank records are correct

A bank reconciliation is the process involved in analysing entries of bank statements presented to match the financial records held within the organisation .

Any errors or items not yet presented can then be reconciled to ensure these match and balance records held.

With regards to businesses this would involve analysing financial statements, general ledgers etc.

What is Bank Reconciliation?

To reconcile your accounts, compare your record of transactions and balances to your monthly bank statement. Go through each transaction individually, making sure the amounts match perfectly.

You’ll also want to make sure that your bank statements show an ending account balance that you agree with.

If you’re familiar with balancing your cheque book , then you’re already familiar with bank reconciliation. You’re essentially doing the same thing for the same reason.

It’s normal to see minor differences due to timing, but you should be able to easily explain those differences. For example, you might write a cheque to a vendor and reduce your account balance accordingly, but your bank will show a higher balance until it hits your account (these are also known as outstanding cheques).

Likewise, an automatic electronic payment might hit your account a day before or after the end of the month, and you might have expected to see it in a different month. As long as these discrepancies can easily be accounted for, there’s probably no need to worry.

Why it’s Important to Reconcile

A regular review of your accounts can help you identify problems before they get out of hand.

Business bank accounts are not as protected as consumer accounts under law, which means you can’t count on the bank to cover fraud and errors in your account. A drained business account can be devastating.

Fraud prevention and detection are increasing problems and by reconciling we can identify suspicious transactions and activities which we may not be able to account for.

Are there unauthorized transfers out of the account, or has anybody made unauthorized withdrawals?

Patterns and trends can be established with regards to cash flow and any abnormal values which require further review and investigation.

Know how much you really have available in your accounts

Avoid bouncing cheques (or making failed electronic payments) to partners and suppliers

Avoid bank fees for insufficient funds or going into lines of credit when you don’t really need to

Know if customer payments have bounced or failed and if any action is needed

Keep track of your outstanding cheques

Make sure everything is going into your accounting system properly

Catch bank errors

When to Reconcile

It’s wise to review your accounts at least monthly. For high-volume businesses or situations where fraud is a risk, more often is better.

Some businesses reconcile their bank accounts daily dependent on the volume of transactions.

How to Reconcile

The process can be as formal or informal as you like. Some businesses create a bank reconciliation statement, but the most important thing is to review each and every transaction from each source (your records and the bank’s records): match those transactions, and compare your account balance at the end of each period. Again, the period could be monthly, daily, or any other period you choose.

Where can you find the information you need? Your accounting system should have everything you need, or you might just keep it in a check register( cash disbursements journal). Your bank should provide online access to your account, allowing you to view and download transactions regularly.

The general ledger is the master ledger in which all transactions are recorded and provides the opportunity to match all source documents which have been entered.

The concept of reconciling the general ledger can also refer to examining the general ledger as a whole to ensure that all accounts are being aggregated into the financial statements. This reconciliation process involves the following steps:

Summarize the closing balances in all revenue accounts and verify that the aggregate amount matches the revenue total in the income statement.

Summarize the closing balances in all expense accounts and verify that the aggregate amount matches the expense total in the income statement. This can be conducted at the individual expense line item level in the income statement.

Summarize all asset, liability, and equity accounts and verify that the aggregate amounts match the respective line items in the balance sheet.

Reconciling the general ledger may also mean the investigation of an unbalanced general ledger, which is when the total of all debits does not match the total of all credits in the trial balance. This process involves investigating debit and credit totals at the individual account level to see which account contains the mismatched debits and credits.

Example of a simple bank reconciliation statement.

|  |  |
| --- | --- |
|  | £ |
| Opening Cash Account Balance |  |
|  |  |
| Add receipts |  |
|  |  |
| Less payments |  |
|  |  |
| Closing Cash Account Balance |  |
|  |  |
| Closing balance of Bank Account (as per bank statement) |  |
|  |  |
| Add receipts not banked |  |
|  |  |
| Less cheques written but not yet presented |  |

Variances

As a result of the carrying out the bank reconciliation there well be differences that may occur and could indicate a positive or negative variance.

A positive variance can indicate a more favourable response than expected and might suggest costs were lower than expected or sales and revenue were greater. Conversely , an adverse or negative variance might give rise to higher costs incurred and lower sales revenue figures obtained.

Variance analysis should be considered in terms of the overall financial statements presented and circumstances for their occurrence. Positive and negative variances should be reviewed in light of any unforeseen circumstances, exceptions and potential trends to determine their occurrence, size and amount of variance.