

Bank Reconciliation



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Bank Reconciliation Essentials

The Bank Account in the General Ledger

- Every business maintains a bank account to securely handle receipts and payments.
- All bank transactions are recorded in a "Bank Account" within the General Ledger.
- It is an asset account and follows the double-entry rules for assets.
- A positive balance appears as a debit; an overdrawn account shows a credit balance.

The Bank Statement

- Issued monthly by the bank, this statement shows all transactions processed during the month.
- It displays an opening balance, transactions, and a running balance.

Key Principle:

- Bank statements use the opposite logic to business books:
- Deposits appear as credits (money owed to the account holder).
- Withdrawals appear as debits.

Common Bank Transactions

Money In

Cash/cheque lodgements

Credit transfers

Interest credited

Refund of charges

Money Out

Cash withdrawals

Cheques issued

Direct debits

Standing orders

Bank charges

Differences Between Bank Account and Bank Statement

Upon receiving the bank statement, compare it with the business's bank account records. Differences are usually due to:

A. Timing Differences

A cheque issued by the business may not yet be presented. Lodged cheques may not be cleared immediately.

B. Unknown Transactions

Direct deposits or direct debits made without the business's prior knowledge.

Interest or charges applied directly by the bank.

C. Errors

Mistakes by the business or the bank (e.g. wrong amounts, double entries, or misposts).

Purpose of Reconciliation:

To reconcile the bank account with the bank statement, accounting for all differences and ensuring accuracy.

Preparing the Bank Reconciliation Statement

Example:

Jane Byrne's bank ledger and statement don't match as of 31 January. After investigating:

- A cheque for €1,500 was dishonoured.
- A cheque for €3,800 was not yet presented.
- An €800 credit transfer was received from a debtor.

Steps to Adjust the Bank Account

Match opening balances.

Tick items appearing in both the ledger and the statement.

Identify unticked (unmatched) transactions.

Post missing items and correct errors.

Format for Bank Reconciliation Statement:

Bank Reconciliation Statement as at [Date]	
Closing Balance per Bank Statement	€XXX
Add: Lodgements not yet credited	€XXX
Adjustments for bank errors	€XXX

	€XXX
Less: Cheques not yet presented	€XXX
Adjustments for bank errors	€XXX

Balance per adjusted Bank Account	€XXX

Self-Test Question

Q1

Scenario: Sam Lyons has a bank balance of €17,800 but his bank statement shows €14,740.

The differences are:

- A lodgement of €2,380 is not yet credited.
- A cheque for €560 was dishonoured.
- Bank charges of €90 are missing from the ledger.
- Cheques of €740 are unpresented.
- A direct debit of €270 is unrecorded.
- A lodged cheque was recorded as €825 instead of €325.

Tasks:

- (a) Prepare an adjusted bank account.
- (b) Prepare the bank reconciliation statement.



Thank You