TOPIC 3:

BANK RECONCILIATION STATEMENT

Its a statement that explains the difference between the bank balance as per the cashbook and the bank balance as per the bank statement.

Causes of differences.

1. Items appearing in the cashbook and not reflected in the bank statement. These are

(a) Unpresented cheques - These are cheques issued by the firm for payments to creditors or to other suppliers but have not been presented to the firm's bank for payment.

(b) Uncredited cheques - These are cheques received from customers and other sources for which the firm has banked but the bank has not yet availed the funds by crediting the firm account

(c) Errors made in the cashbook. These include:

-> Payments - Over/understatement

-> Deposits - over/understatement.

-> Deposits and payments misposted.

-> Overstatement or understatement of opening balance.

2. Items appearing in the bank statement and not reflected in the cashbook

(a) Bank charges - These charges include: Service and commission.

(b) Direct debits / standing orders.

(c) Dishonored cheques - cheques would be dishonored because they are:

(i) stale.

(ii) Post dated.

(iii) Insufficient funds

(iv) Difference in amounts in words and figures.

(d) Direct credits

(e) Errors made by the bank such errors include: overstating / understating deposits or withdrawals

Bank reconciliation statement – Format

Adjusted cashbook balance	xxx
Add: Unpresented cheques	xxx
" Errors on bank statement (note 1)	xxx
Less: Uncredited cheques	(xxx)
" Error on bank statement (note 2)	(xxx)
Balance as per the bank statement	xxx

Note 1 → These errors have an effect of increasing the balance at bank e.g an overstated deposit or an understated payment by the bank.

Note 2 → These errors will have an effect of decreasing the balance at bank e.g understated deposits or an overstated payment by the bank or making unknown payment

OR

Balance as per the bank statement	xxx
Add: Uncredited cheques	xxx
" Errors on bank statement (note 2)	xxx
Less: Unpresented cheques	(xxx)
Errors on bank statement (note 1)	(xxx)
Balance as per the cashbook	xxx

Example 1

The Following are extracts From the Cashbook and the bank statement of J. Richards

Cashbook

2012			2012		
Dec			Dec		
1	Bal b/d	1740	~~7~~	A. Dailey	349 ✓
7	J. Map	88 ✓	15	R. Mason	33 ✓
22	J. Cream	73 ✓	28	G. Small	115
31	K. Wood	249	31	Bal c/d	1831
31	M. Barret	178			2328
		2328			

Bank Statement.

Dec	Details	DR.	CR.	Balance.
1.	Bal b/d.			1740
7	~~A. Dailey.~~ J. Map.		88 ✓	1828
11	A. Dailey.	349 ✓		1479
20	R. Mason	33 ✓		1446
22	Cheque.		73 ✓	1519
31	Transfer J. Walker		54	1573
11	Bank Charges	22		1551

Required:

(i) ~~Und~~ updated Cashbook balance on 31st December 2012.

(ii) Bank reconciliation statement on 31st December 2012.

Adjusted Cashbook

Bal b/d	1831	Bank charges	22
Transfer	54	Bal c/d	1863
	1885		1885

Bank Reconciliation statement:

Adjusted cashbook balance	1863 ~~1885~~
Add: Unpresented cheques	115
Less: Uncredited cheques (249+178)	(427)
Balance as per bank statement	1551

Example 2, CPA NOV 2001 Q4

Ssemakula, a sole trader received his bank Statement for the month of June 2001. At that date the bank balance was sh. 706,500 whereas his cashbook balance was Sh. 2,366,500. His accountant investigated the matter and discovered the following discrepancies:

1. Bank charges of Sh 3000 had not been entered in the Cashbook.
2. Cheques drawn by Ssemakula totaling Sh. 22500 had not yet been presented to the bank on 30th June 2001.
3. He had not entered receipts of Sh 26500 in his cashbook.
4. The bank had not credited Mr. Ssemakula with a receipt of Sh 98,500 paid into the bank on 30th June 2001.
5. Standing order payment amounting to Sh 62000

had not been entered into the Cashbook.

6. In the Cashbook Ssemakula had entered a payment of Sh 74900 as Sh 79400

7. A Cheque for Sh 15000 from a debtor had been returned by the bank marked "refer to drawer" but had not yet been written back in the Cashbook

8. Ssemakula had brought forward the opening cash balance of Sh 329250 as a debit balance instead of a credit balance.

9. An old cheque payment amounting to Sh 44000 had been written back in the Cashbook, but the bank had already honored it.

10. Some of Ssemakula's Customers had agreed to settle their debts by paying directly into his bank account. Unfortunately the bank had credited some deposits amounting to Sh 832500 to another Customers account. However, acting on information from his Customers Ssemakula had actually entered the expected receipts from the debtor in the cashbook.

Required:

(a) Explain the term bank reconciliation and state the reasons for its preparation.

(b) A statement showing Ssemakula adjusted Cashbook balance as at 30th June 2001.

(c) A bank reconciliation statement as at 30th June 2001.

Adjusted Cashbook

	Sh.		Sh.
Bal b/d	2 366 500	Bank Charges	2000
Omitted receipt	26500	Standing order	62000
Overstated payment	4500	Dishonored Cheques	15000
		Error bal b/d	329250
		Bal b/d	329250
		Cheque payment	44000
		Bal c/d	1 615000
	2 397 500		2397500

Bank Reconciliation Statement as at 30th June 2001

Adjusted Cashbook balance	1615000
Add: Unpresented cheques	22500
Less: Uncredited cheques	(98500)
Less: Error on bank statement	(832500)
Balance as per bank statement	706500

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Cashbook

Bal b/d (bal figure)	1 304300	Miriam Ltd	234000
		Electricity	130000
Rado Ltd	46500	Cheques	84500
Cheques	352 500	Bal c/d	1 254 800
	1 703 300		1 703 300

Bank Statement

	DR.	CR.	Balance.
Bal bld			1304300
Miriam Ltd	324000		980300
Commission	24500		955800
Interest	18100		937700
Electricity	65000		872700
Rent	98000		774700
Jamil Ltd		285000	1059700

Updated Cashbook

Bal bld	1254800	Underpayment	90000
Electricity	65000	Commission	24500
Jamil Ltd	285000	Interest	18100
		standing order	98000
		Dishonored Cheque	46500
		Bal cld	1327700
	1604800		1604500

Bank Reconciliation Statement.

Adjusted Cashbook balance	1327700
Add: Unpresented cheques	84500
Less: Uncredited cheques	(352500)
Balance as per bank statement	1059700

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Purposes of Bank Reconciliation.

1. To update the cashbook with items appearing in the bank statement and not appearing in the cashbook, except for errors in the bank statement.
2. Compare the debit side of the cashbook with the credit side of the bank statement to determine the uncredited deposits by the bank.
3. To detect and prevent errors or frauds relating to the cashbook.
4. To detect and prevent errors or frauds relating to the bank.