



# COMMUNITY ACCOUNTANCY PROJECT - GUIDANCE NOTES

## Bank Reconciliations

### ***Why do a bank reconciliation?***

Bank reconciliation checks the accuracy of your Bank Analysis Book entries and Bank Statements. It proves the accuracy of your book-keeping, or helps you identify where there are problems.

Your bank statement details payments made into your account and withdrawals from your account. You might think that the total on your bank statement would equal that in your Bank Analysis Book, but there are several reasons why the two balances differ:

- £ Cheques have been issued, but are still to be presented
- £ Items have been paid into your account, but have not yet appeared on the bank statement,
- £ Interest appears on the bank statement but has yet to be entered in the Bank Analysis Book,
- £ Credit transfers - direct debits, standing orders, bacs - appear on the bank statement but have yet to be entered in the Bank Analysis Book,
- £ There are errors in your organisations book-keeping, or the bank has made a mistake - banks make mistakes too!

The information sheet assumes monthly bank reconciliation and single entry book-keeping. It also assumes a knowledge of basic book-keeping.

To begin your bank reconciliation, first complete these first four easy steps. Go back one step if you think you may have gone wrong.

### **Step 1**

Compare entries in your Cash Paid Analysis Book with items paid out indicated on your bank statement. In your Cash Paid Analysis Book put a tick against each cheque payment that appears on your bank statement. Now place a tick against the corresponding payment on your Bank Statement.

### **Step 2**

In your Cash Received Analysis Book, put a tick in the 'Banked' column for each deposit indicated on your Bank Statement. Now place a tick against the corresponding deposits on your Bank Statement.

### **Step 3**

Don't forget to check and tick - both on the Bank Statement and in the Cash Analysis Books - outstanding items from the previous bank reconciliation that have now cleared the bank.

### **Step 4**

Now look at the bank statement. Are there any items without a tick? If there are any, they should be entered in the corresponding Cash Analysis Book. Such items may include interest, bank charges, direct debits and standing orders. Once entered in your Cash Paid Analysis Book tick these items off on your Bank Statement.

*When these four steps have been completed, all items on your Bank Statement will be in your Cash Analysis Books.*

### **Step 5**

First rule off the Cash Analysis Books and add up the columns. Then 'crosscast' (check totals vertically and horizontally) to ensure that the adding-up is correct. Now fill in a Bank Reconciliation Form (there is a model here). Calculate the Cash Book Closing Balance for the month as follows:

Balance brought forward (b/f)	+	Receipts for the month	-
Payments for the month	=	Balance carried forward (c/f)	

You will now have a completed and balanced the Cash Analysis Book. Next you have to deal with what is in your Cash Analysis Book, but not on your Bank Statement.

### **Step 6**

On the Bank Reconciliation Form, enter the balance for the end of the month as shown on your Bank Statement.

### **Step 7**

Look for entries in the Cash Received Analysis Book that do not have a tick. Outstanding receipts is the name given to items that have been banked, but have not cleared (cheques, cash etc). Do you have entries without ticks? On the Bank Reconciliation Form they should be listed in the outstanding receipts section. Normally there should be no receipts outstanding for more than two weeks.

### **Step 8**

Look for entries in the Cash Paid Analysis Book which do not have a tick. Unpresented cheques is the name given to cheques that have been issued, but have not yet been cashed. On the Bank Reconciliation Form they should be listed in the outstanding cheques section. The last step is to add the outstanding receipts to the Bank Statement balance and subtract the outstanding cheques. You then have the Adjusted Bank Statement Balance.

At the end of the bank reconciliation you are looking for the Closing Cash Analysis Book Balance and Adjusted Bank Statement Balance to agree. If your book-keeping has been accurate, there should be no discrepancies between your Cash Analysis Book and your Bank Statement.

### **Trouble shooting**

What if your bank reconciliation does not work? Listed on the following page are possible causes.

If the closing Cash Analysis Book balance is more than the adjusted Bank Statement balance:

- £ You may have mistakenly ticked off an item in the Bank Received Analysis Book that has yet to clear the bank - and so has been omitted from the outstanding receipts list.
- £ You have not ticked off an item in the Bank Paid Analysis Book - it appears in the outstanding cheques list even though it has been cashed.
- £ Bank charges, a standing order etc. has not been entered in the Bank Paid Analysis Book.
- £ In the Bank Received Analysis Book you have entered something more than once, or overstated its value.

If the adjusted Bank Statement balance is more than the closing Cash Analysis Book balance:

- £ You have mistakenly ticked off an outstanding cheque and so it has been omitted from the outstanding cheques list.
- £ You have failed to tick off an item in the Bank Received Analysis Book that has cleared and so falsely appears in the outstanding receipts list.
- £ You have not entered in the Bank Received Analysis Book an item credited by the bank i.e. interest.
- £ In the Bank Paid Analysis Book you have entered something more than once, or overstated its value.

Other errors:

There is an arithmetical mistake in your Bank Reconciliation.

If the mistake is exactly divisible by 9, you have probably transposed a figure e.g. £631 instead of £136 or £49.23 instead of £42.93.

There is a mistake on the Bank Statement - banks make mistakes too!

## **Sample Bank Reconciliation Form**

<b>Anywhere Community Association</b>	
<b>Bank Reconciliation Form</b>	
<b>for month ending 31 March 2005</b>	
<b>Balance as per Bank Statement at 31 March 2005</b>	<b>£ 2,155.00</b>
<i>Less unrepresented cheques</i>	
10038	£ 56.84
10041	£ 102.45
TOTAL	£ 159.29
<i>Plus outstanding receipts</i>	
Cash Donation	£ 579.35
TOTAL	£ 579.35
<b>Adjusted Bank Balance</b>	<b>£ 2,575.06</b>
<b>Balance brought forward from Cash Analysis Book</b>	<b>£ 2,575.06</b>

*This information sheet is based on material produced by Cash online.*