

CHAPTER EIGHT

BANK RECONCILIATION STATEMENT

CHAPTER OUTLINE

- 1. ♦ Bank reconciliation statement
- ♦ Causes of discrepancies in bank statement and cash book
- ♦ Steps involved in bank reconciliation statement.
- ♦ Preparation of bank reconciliation statement/Adjusted Cash Book.

Learning Objectives:

At the end of this chapter, the student should be able to:

- Explain the operation of banks
- Identify causes of discrepancies between bank statement and cash book
- Prepare bank reconciliation statement.

8.1. BANK RECONCILIATION STATEMENT

Banks maintain their customers' account, recording their transactions or money deposited in the bank while the customers independently record their transactions with the bank in the bank column of their cash books. At the end of the month, there will be the need for the records kept by the bank and that of the customers to be reconciled, bearing in mind that there may be entries made by either of the parties which the other party has not recognized.

The statement at the end of a period, usually a month, produced by the bank to show a customer's transaction is known as the bank statement. The statement produced after reconciliation of the bank statement with the bank column balance of the cash book by the account holder is known as bank reconciliation statement.

A typical bank statement of XYZ looks like this:

Date	Transaction	Dr N	Cr N	Balance ₦
01/01/2012	Bal. b/f			200,000Cr
03/01/2012	Cash deposit	10,000		210,000Cr
04/01/2012	Cash Withdrawal-Self	20,000		190,000Cr
06/01/2012	Cheque deposit	50,000		240,000Cr
15/01/2012	Cheque No 00112	40,000		200,000Cr
18/1/2012	Cash withdrawal	50,000		150,000Cr
23/1/2012	Standing order (Rent)	20,000		130,000Cr
30/1/2012	COT + VAT	1,000		129,000Cr
30/1/2012	Direct Payment- John	20,000		149,000Cr
31/1/2012	SMS Alert Charges	200		148,800Cr

Summary

Opening Balance	200,000Cr
Total debit	131,200
Total Credit	80,000
Closing Balance	148,800Cr.

Consequently, the XYZ Cash book Bank Column appeared like this:

Date	Particulars	Folio	Amount ₦	Date	Particulars	Folio	Amount ₦
1/1/12	Balance Bf		200,000	4/1/12	Withdrawal		20,000
3/1/12	Cash		10,000	15/1/12	Cheque		40,000
6/1/12	Cheque		50,000	15/1/12	Cheque		50,000
					Bal c/d		130,000
			260,000				260,000

Comparing the two statements, one could notice the following:

1. The entries in the debit column of the bank statement appeared in the cash book credit column
2. The entries in the credit column of the bank statement appeared in the cash book debit column.
3. Some entries appeared only in the bank statement but not in the cashbook.
4. Sometimes, entries may appear in the cash book but not in the bank statement.

Based on the above observations, and the fact that the balances of the two statements do not agree, there is need to identify the cause(s) of the

difference(s) so as to reconcile the bank statement with the cash book.

8.2 CAUSES OF DISCREPANCIES IN BANK STATEMENT AND CASH BOOK

The causes of the disagreements may be traced to the following factors:

1. Unpresented Cheques: These are cheques given to customers in settlement of debts which are not yet presented to the bank for payment. The implication of this action is that the cash book of the business has been credited whereas the transaction is not yet debited in the bank statement.

2. Uncredited Cheques: These are cheques deposited in the bank which are yet to be credited in the bank statement. The business would have recorded the transaction in the debit column of the cash book whereas it is still not recorded in the bank statement.

3. Bank Charges: These are charges made by the bank to cover certain transaction expenses. The account owner requires no further information before such charges are made; hence it will be deducted from or debited to his account while it will not appear on the credit column of the cash book. Such charges include Commission on Turnover (COT), bank cheque charges, Value Added Tax, SMS alert charges, e.t.c.

4. Dishonoured Cheques: Cheques can be dishonoured by the bank for various reasons. When such happens and the customer has not been informed, it will cause some disagreement at the end of the period.

5. Direct Payment: When payments are made on behalf of a customer into his account or payments made on behalf of the customer from his account, such payments whether in or out, will cause differences in the two reports.

Having identified the likely causes of the differences, we need to look at the process of reconciliation.

8.3 STEPS INVOLVED IN BANK RECONCILIATION

The following steps are usually adopted in bank reconciliation:

1. Tick the entries on the debit side of the cash book against entries on

the credit column of the bank statement. In other words, tick items that appear in both cash book and bank statement. Note that any item not ticked in the cash book represents uncredited cheque(s). These may be cheque(s) or cash paid into the bank the previous day that are not yet credited. Those not ticked in the bank statement may be direct payment into the bank or interest credited.

2. Tick the entries on the credit side of the cash book against entries on the debit column of the bank statement. Note also that items not ticked in the cash book represents unpresented cheque(s) while items not ticked in the debit column of the bank statement may possibly be bank charges, cost of cheque, dishonoured cheques, e.t.c.

8.4 PREPARATION OF BANK RECONCILIATION STATEMENT/ADJUSTED CASH BOOK FORMAT

Stage 1: After the preliminary stage of ticking and identifying the causes of the differences, an adjusted cash book is prepared to capture all the entries in the bank statement such as bank charges, standing orders, direct credits e.t.c that are not in the cash book.

An adjusted cash book format is shown below:

ADJUSTED CASH BOOK FORMAT.

N		N	
Bal b/d	X	Standing Order	X
Direct Debit	X	Dishonoured Cheque	X
Add Direct Credit	X	Bank Charges	X
Understatement	X	Overstatement of cash	X
		Adjusted cash balance	<u>XX</u>

Note that the adjusted cash balance is the amount that will be shown in the statement of affairs.

Stage 2: Reconcile the adjusted cash balance with bank statement balance. The bank reconciliation could begin with either "balance as per cash book or

"balance as per bank statement". The two formats are shown below:

Format 1. Balance as per cash book

Balance as per adjusted cash book	N
Add: Unpresented Cheque(s)	X
Error of Overstatement by Bank	X
Less: Uncredited Cheque(s)	(X)
Error of Understatement	(X)
Balance as per bank statement	<u>XX</u>

Format 2: Balance as per Bank Statement

Balance as per bank statement	N
Add: Uncredited Cheque(s)	X
Error of Understatement	X
Less: Unpresented cheque(s)	(X)
Error of Overstatement	(X)
Balance as per Cash book	<u>XX</u>

Sometimes, the balance of the cash book might be an overdraft. In such a situation, we might start with balance as per cash book but the second procedure as in balance as per bank statement will be adopted thus:

Balance as per cash book (Overdraft)	X
Add Unpresented Cheque(s)	X
Error of Overstatement	X
Less: Uncredited Cheque(s)	(X)
Error of Understatement	(X)
Balance as per bank Statement	<u>XX</u>

Illustration 8.1

The bank column of the cash book of Messrs Ltd at the end of its accounting year 2015 shows a debit balance of N500, while the bank statement shows a credit balance of N485. On examination of the cash book and bank statement the following were revealed:

- (a) A cheque of N200 deposited with the bank on 1st November, 2015 was yet to be collected on that date.
- (b) Cheques amounting to N300 issued and recorded in the cash book are yet to be presented to the bank for payment.

- (c) A cheque of ₦50 had been dishonoured within the accounting period but not recorded in the cash book.
- (d) A dividend of ₦20 collected by the bank directly has not been recorded in the cash book.
- (e) Bank charges of ₦5 have not been recorded in the cash book.
- (f) A cheque of ₦80 drawn by Messrs Ltd had been wrongly debited by bank in Messrs Ltd account.

Required:

- Prepare a bank reconciliation statement without an adjusted cash book.
- Prepare an adjusted cash book
- Prepare a bank reconciliation statement after adjustment in b above.

Solution 8.1.

Messrs Ltd's

(a) Bank reconciliation statement as at 31st December, 2015.

Balance as per cash book	₦	500
Add: Unpresented cheques	300	
Direct collections (Dividend)	20	320
	820	
Less: Uncredited cheque	200	
Dishonored cheque	50	
Bank charges	5	
(X) Wrong debits	80	335
Balance as per bank statement	485	

(b) Preparation of an adjusted cash book.(bank column only)

Dr.	Cr
Date	Particulars
2015 Dec 31	Bal b/d
	500
	Dividend
	20
	5,20
2016 Bal b/d	465

(c).

Messrs Ltd's

Bank reconciliation statement

	N
Balance as per cash book	465
Add: Unpresented cheque	300
Less: Uncredited cheque	200
Wrong debit	80
	485

Illustration 8.2.

Euro Link Enterprises' bank column of the cash book shows a balance of ₦300 overdrawn as at 31 December, 2013 while the bank statement shows a balance of ₦180 overdrawn. It was further revealed as follows:

- A cheque of ₦300 was deposited but not yet credited by the bank.
- A cheque of ₦500 was unpresented by Euro Link customer.
- A dividend of ₦70 was collected on behalf of Euro Link but not yet recorded in the cash book.
- Bank charges of ₦50 was made against Euro Link but not yet recognized by the Enterprise.
- A cheque of ₦100 has been dishonored by the bank.

Required:

- Prepare an adjusted cash book
- Prepare a bank reconciliation statement from the adjusted cash book.

Solution 8.2

Euro Link Enterprises

Adjusted Cash book (Bank Column Only)

Dr.	Cr
Date	Particulars
2013 Dec 31	Bal b/d
	300
	Dividend
	70
	380
	450
Jan.1 2014	Bal b/d
	380

Bank reconciliation statement as at 31 December, 2013.

Balance as per cash book (overdrawn)	N 380
Add: uncredited cheque	N 300
Less: Unpresented cheque	N 680
Balance as per bank statement (overdrawn)	N 180.

Illustration 8.3

The cash book of Udi & Sons showed an overdraft of N1,294 on December 31, 2016 while the bank statement revealed an overdraft of N1,491. The book-keeper investigated and discovered the following:

1. Cheque paid into the bank but not yet credited totalled N400
2. Cheque drawn to customers not yet presented N266.
3. Direct credit transfer was made by Ezeagu Enterprises
4. The bank honoured a standing order and paid Limca Enterprises the sum of N1,125
5. The bank equally deducted bank charges of N60.

Required:

Prepare the bank reconciliation statement of Udi & Sons at the end of December, 2016.

Solution 8.3

Udi & Sons' Adjusted Cash Book.	
Credit transfer	N 122
Balance c/d	N 1,357
	<u>1,479</u>
Bal b/d	N 1,294
Standing order	N 125
Bank charges	N 60
	<u>1,479</u>
2016 Bal b/d	N 380

Bank Reconciliation statement as at December, 2016.

Adjusted overdraft as per cash book	N 1,357
Add: Uncredited Cheque	N 400
Less: Unpresented cheque	N 266
Bank statement balance (overdraft)	N 1,491
	<u>1,491</u>

Illustration 8.4

On June 30, 2014 the bank column of Akpan Enterprises cash book showed a debit balance of N 13,850 and a credit balance of N21,810 in the bank.

Learning Objectives:

The following are the other information in the cash book and bank statement.

- (i) Unpresented cheque N18,900
- (ii) uncredited lodgement N7,500
- (iii) Dishonoured cheque N2,190
- (iv) Dividened of N1,140 paid directly to the bank was not recorded in the cash book
- (v) Bank charges of N1,260 had been charged in the bank statement but not entered in the cash book.
- (vi) Entry was not made in the cash book for a subscription of N300 paid by standing order.
- (vii) Cheque for N810 drawn by Mr. J. Knor was charged to Mr. Akpan's account in error in June, 2014 by the bank.

Required:

- a. Make appropriate adjustments in the cash book
- b. Prepare a statement reconciling the adjusted balance in the cash book with the balance shown in the bank statement as at June 30, 2014.

- c. State five reasons for which a bank may dishonour a cheque.

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Recall that there is a difference between Income Statement and Income received, so also between expenses incurred and expenses paid. In doubt, then refer to the realization principle earlier discussed in this book. The difference between the income earned and expenses incurred is the profit or

Solution 8.4

(a)

Akpan Enterprises' Adjusted Cash Book as at June 30, 2014

	N		N
Bal b/f	13,830	Dishonoured cheque	2,190
Direct lodgement (Dividened)	1,140	Bank charges	1,260
	<hr/>	Standing order	300
	<hr/>	Balance c/d	<u>11,220</u>
	<hr/>		<u>14,970</u>

(b)

Akpan Enterprises' Bank Reconciliation Statement as at June 30, 2014

	N	N
Balance as per Bank Statement		21,810
Add:		
-Uncredited lodgement	7,500	
- Cheques drawn by another customer wrongly charged	<u>810</u>	
		<hr/>
		8,310
		<hr/>
Less: Unpresented cheque		30,120
Balance as per adjusted cash book		<u>18,900</u>
		<hr/>
		11,220

(c). A cheque may be dishonoured by the bank for any of the following reasons:

- I. When the cheque is stale.
- ii. If there is insufficient fund in the drawer's account.
- iii. When there are alterations on the cheque that have not been acknowledged by endorsement.
- iv. Where the amount stated in words differ from that in figures.
- v. When there is irregular signature of the drawer.
- vi. Where the drawer gives a "stop" order on the cheque.
- vii. If the cheque has been crossed and it is presented for payment over the counter.
- viii. If the cheque has been post dated and it is presented for payment before the due date.