

## BANK RECONCILIATION

08 MAY 2014

### Lesson Description

In this lesson we:

- Focus on Bank Reconciliation

### Summary

In the business world, control of cash is facilitated by depositing cash sales and other receipts **intact** into the current bank account and ensuring that all payments are made by cheque. This makes it easy to verify the balance on the *bank statement* (an external document) with the *bank account*, (internal record)

No	Bank Document	Transaction	Entry in cash journals
1	Bank statement	Bank charges: Service fees Cash deposit fee Deposit book Cheque book Government levy (duty) Levy on credit card Transactions	CPJ: Bank charges
2	Stop order/ Debit order/ Bank statement	Direct payments by bank to third parties, e.g. insurance premium, rates, etc.	CPJ: Insurance, Rates, etc.
3	Bank statement	Interest on overdraft	CPJ: Interest on overdraft
4	Bank debit note/ Bank statement	Debtor's cheque dishonoured	CPJ: Name of debtor/Debtors control
5	Bank statement	Interest earned on current account credit balances	CRJ: Interest on current account
6	Bank statement/ duplicate deposit slip	Direct deposit by debtor	CRJ: Name of debtor
7	Bank statement/ duplicate deposit slip	Direct deposit by tenant	CRJ: Rent income

*notes for...*

8	Bank statement	Cancellation (reversal) Stop Payment Stale Cheque	CRJ: The contra account e.g. Trading Stock
9	Bank statement and cheque counterfoil number (verification)	ERROR in CPJ - amount undercast - amount overcast	CPJ: The contra account e.g. Trading stock, Stationery, etc.
			CRJ: The contra account e.g. Creditors control
10	Duplicate Deposit Slip	Deposit not yet credited by Bank. (CRJ)	ENTRY IN THE BRS Cr. Outstanding Deposit



## Test Yourself

### Question 1

A debit balance in the books of a business bank account is reflected as a .....in the books of the bank

- A. Debit
- B. Credit
- C. Zero balance
- D. None of the above

### Question 2

A post- dated cheque that is issued to a creditor is treated as follows in the financial statements at the end of the year:

- A. Debit Creditors control; Credit Bank
- B. Debit Accrued expenses; Credit Bank
- C. Debit Bank; Credit Creditors control
- D. Debit Bank; Credit Pre Paid Creditors

### Question 3

Errors made by the bank are corrected in the;

- A. Cash receipts Journal
- B. Cash payments Journal
- C. Bank Reconciliation Statement
- D. Bank account

**Question 4**

A cheque become stale after;

- A. 2 Months
- B. 3 months
- C. 5 Months
- D. 6 Months

**Question 5**

If a cheque is understated ,it is corrected in the:

- A. Cash payments Journal
- B. Cash receipts Journal
- C. Bank Reconciliation Statement
- D. Bank account

**Improve your Skills****Question 1****RECONCILIATIONS****BANK RECONCILIATION**

You are provided with information relating to Ace Traders for September 2011.

**REQUIRED:**

- 1.1 Indicate whether the following statements are TRUE or FALSE:
  - a.) An internal auditor will want to inspect the Bank Reconciliation Statement at the end of each month. (2)
  - b.) A debit balance on the Bank Statement reflects an unfavourable balance. (2)
  - c.) Service fees and interest on an overdraft will be recorded as Bank Charges in the Cash Payments Journal. (2)
  - d.) A post-dated cheque issued by Ace Traders in September 2011, but dated February 2012, will only be entered in the Cash Payments Journal of Ace Traders in February 2012. (2)
- 1.2 Calculate the correct bank balance of Ace Traders on 30 September 2011, using figures that should be entered in the Cash Journals. Show ALL workings. (5)
- 1.3 Use the information below to prepare the Bank Reconciliation Statement of Ace Traders on 30 September 2011. (7)
- 1.4 Refer to the outstanding deposit of R43 000, dated 11 September 2011. Why should the internal auditor be concerned? State TWO points. (4)

**INFORMATION ON 30 SEPTEMBER 2011:**

▪ **Balances prior to doing the bank reconciliation:**

Balance of the Bank Account in the Ledger on 30 September 2011	R60 000	Favourable
Balance per Bank Statement on 30 September 2011	R17 600	Favourable
Difference	<u>R42 400</u>	

▪ **Individual differences noticed between the books of Ace Traders and the Bank Statement for September 2011:**

	DETAILS	AMOUNT
1.	Cheque No. 657, dated 2 March 2011, still not reflected in Bank Statement	R2 000
2.	Deposit, dated 11 September 2011, not reflected in Bank Statement	R43 000
3.	Dishonoured cheque, originally received from a debtor on 15 September 2011, reflected in Bank Statement but not in Journals	R9 500
4.	Cheque No. 931, dated 18 September 2011, not reflected in Bank Statement	R4 800
5.	Cheque No. 936, dated 30 October 2011, not reflected in Bank Statement	R10 200
6.	Deposit, dated 28 September 2011, not reflected in Bank Statement	R5 700
7.	Bank charges in Bank Statement, but not in Journals	R1 200

**Answer Booklet**

1.1

Indicate whether the statements are TRUE or FALSE.

(a)	
(b)	
(c)	
(d)	

8

