

## Bank Reconciliation Statement

Every business needs to know how much they have in the bank. At the end of each month the business will receive a statement from the bank. The figure shown at the end of the bank statement will usually be different from the figure at the end of the business's bank account in its ledger. As a result, a bank **reconciliation statement** is prepared to sort out the two different balances.

### What is the purpose of a bank reconciliation statement?

- It is used to make the two accounts consistent with each other and make the two balances consistent.
- When reconciled a business will know exactly how much cash it has in the bank or on a particular date.
- The correct figure for the bank can be found for the preparation of final accounts.

### Why are the balances different?

#### Time Delay

- Money lodged into the bank, recorded in own accounts, but the statement was sent out the same day so it did not show this.
- A cheque that hasn't yet been presented for payment will not appear in the bank statement but appears in the owner's bank account.

#### Unknown Transactions

- Bank charges and interest charges on an overdraft are in the statement but not in the owner's books.
- If a cheque is dishonoured, it will show up in the statement but not in the owner's books.
- Credit transfers and direct debits will appear in the statement but might not in the owner's books.

### Errors

- This could be simply entering the wrong amounts into the books.
- Or simply entering the amounts on the wrong side.

## Bookkeeping

We simply follow these steps,

- Contrast both the bank account and the bank statement, marking each item that is not in both.
- Start a new bank account beginning with the balance b/d at the end of the old one.
- Put all marked items from the bank statement into the adjusted bank account. If they are debit on the bank statement enter them as credit into the bank account, if they are credit on the bank statement enter them as debit into the bank account.
- We then balance the bank account.
- We make a bank reconciliation statement and into it put all of the items in the bank account which don't correspond.

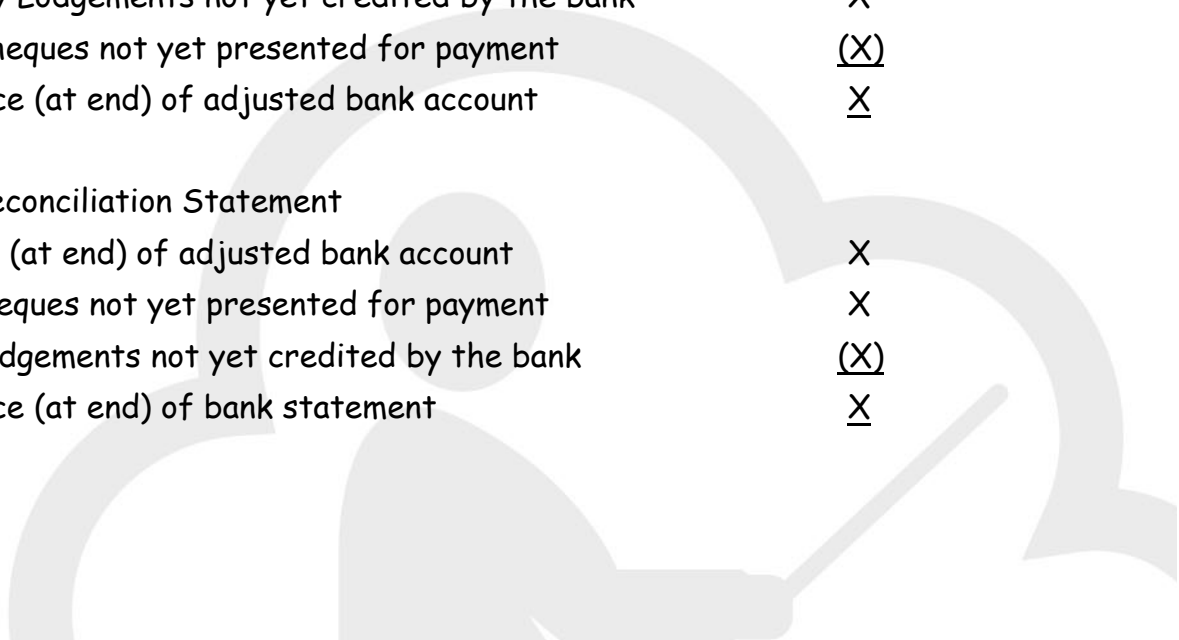
A **Bank Reconciliation Statement** can be prepared in two different ways.

#### 1. Bank Reconciliation Statement

Balance (at end) as per bank statement	X
<b>Add</b> any Lodgements not yet credited by the bank	X
<b>Less</b> Cheques not yet presented for payment	<u>(X)</u>
= balance (at end) of adjusted bank account	<u>X</u>

#### 2. Bank Reconciliation Statement

Balance (at end) of adjusted bank account	X
<b>Add</b> Cheques not yet presented for payment	X
<b>Less</b> Lodgements not yet credited by the bank	<u>(X)</u>
= balance (at end) of bank statement	<u>X</u>



## Remember

- Any Lodgements not yet credited will appear on the debit side of the bank account.
- Cheques that have not yet been presented for payment will appear on the credit side of a bank account.

## Now let's take a look at example question 2.1

Q 2.1 Below is the bank account and bank statement of John Smith for the month of January. You are asked to

- Adjust the bank account as necessary.
- Prepare a bank reconciliation statement as at 31<sup>st</sup> January.

Bank Account					
J an-01	Balance b/ d	€ 3,000.00	J an-02	S.Ryan	€ 600.00
J an-11	Sales lodged	€ 7,000.00	J an-04	R.Smit h	€ 300.00
J an-21	Lodgement	€ 5,000.00	J an-05	Light & Heat	€ 150.00
J an-27	Lodgement	€ 2,000.00	J an-12	Rent	€ 1,000.00
			J an-16	P.Tracey	€ 400.00
			J an-22	Insurance	€ 350.00
			J an-27	A.Leonard	€ 4,000.00
			J an-31	Balance c/ d	€ 10,200.00
		€ 17,000.00			€ 17,000.00
Feb-01	Balance b/ d	€ 10,200.00			

Bank Statement on 31 January				
Date	Details	Debit	Credit	Balance
J an-01	Balance b/ d			€ 3,000.00
J an-05	R.Smit h	€ 300.00		€ 2,700.00
J an-10	Elect ricit y	€ 150.00		€ 2,550.00
J an-12	Lodgement		€ 7,000.00	€ 9,550.00
J an-15	S.Ryan	€ 600.00		€ 8,950.00
J an-18	St anding Order	€ 250.00		€ 8,700.00
J an-20	Rent	€ 1,000.00		€ 7,700.00
J an-22	Credit Transfer		€ 300.00	€ 8,000.00
J an-23	Lodgement		€ 5,000.00	€ 13,000.00
J an-27	Bank Charges	€ 100.00		€ 12,900.00

## Now let's take a look at example question 2.2

Q 2.2 Below is a bank account and bank statement of Sean Smith for the month of March. You are asked to

- Adjust the bank account as necessary.
- Prepare a bank reconciliation statement as at 31st March.
- The € 150 entered into the bank statement on 26 March was credited in error to Sean Smith's account.
- Balance of € 2,000 in bank account does not match balance of € 1,500 in bank statement. This is due to a cheque received from F.Fenton for €500 which was due **last month** i.e. the balance does actually agree.

Bank Account					
Mar-01	Balance b/d	€ 2,000.00	Mar-02	B.Ryan	€ 900.00
Mar-11	Sales Lodged	€ 4,000.00	Mar-04	C.Carly	€ 500.00
Mar-21	Lodgement	€ 3,000.00	Mar-05	Elect ricit y	€ 200.00
Mar-27	Lodgement	€ 2,000.00	Mar-12	B.Cowen	€ 1,000.00
			Mar-16	M.Mat t hews	€ 400.00
			Mar-18	Rent	€ 1,000.00
			Mar-22	Insurance	€ 200.00
			Mar-27	E.Egan	€ 4,000.00
			Mar-31	Balance c/d	€ 2,800.00
		€ 11,000.00			€ 11,000.00
Apr-01	Balance b/d	€ 2,800.00			

Bank Statement as at 31 March				
Date	Details	Debit	Credit	Balance
Mar-01	Balance b/d			€ 1,500.00
Mar-05	B.Ryan	€ 900.00		€ 600.00
Mar-07	F.Fenton		€ 500.00	€ 1,100.00
Mar-10	Elect ricit y	€ 200.00		€ 900.00
Mar-12	Lodgement		€ 400.00	€ 4,900.00
Mar-15	C.Carly	€ 500.00		€ 4,400.00
Mar-18	St anding Order	€ 100.00		€ 4,300.00
Mar-20	Rent	€ 1,000.00		€ 3,300.00
Mar-22	Dividends		€ 200.00	€ 3,500.00
Mar-23	Lodgement		€ 300.00	€ 6,500.00
Mar-24	Direct Debit	€ 280.00		€ 6,220.00
Mar-25	M.Mat t hews	€ 400.00		€ 5,820.00
Mar-26	J ones Lt d		€ 150.00	€ 5,970.00
Mar-27	Bank Charges	€ 20.00		€ 5,950.00

Now let's take a look at example question 2.3

Q 2.3 Given below is the bank account and bank statement for Joe Twomey for the month of January. You are asked to

- Adjust the bank account as necessary
- Prepare a bank reconciliation statement as at 31/1/2015

Bank Account							
Jan-01	Balance b/d	€	3,650.00	Jan-02	N. Egan	€	1,120.00
Jan-11	Sales lodged	€	1,450.00	Jan-04	P. Durack	€	430.00
Jan-21	Lodgement	€	2,390.00	Jan-05	ESB	€	120.00
Jan-27	Lodgement	€	1,200.00	Jan-12	Wages	€	210.00
				Jan-13	B. Rourke	€	1,450.00
				Jan-22	Insurance	€	320.00
				Jan-24	Wages	€	210.00
				Jan-27	D. Ryan	€	2,660.00
				Jan-28	Balance c/d	€	2,170.00
		€	8,690.00			€	8,690.00
Feb-01	Balance b/d	€	2,170.00				

Bank Statement				
Date	Details	Debit	Credit	Balance
Jan-01	Balance b/d			€ 3,650.00
Jan-07	ESB	€ 120.00		€ 3,530.00
Jan-09	N. Egan	€ 1,120.00		€ 2,410.00
Jan-12	Interest Received		€ 250.00	€ 2,660.00
Jan-13	Lodgement		€ 1,450.00	€ 4,110.00
Jan-14	Wages	€ 210.00		€ 3,900.00
Jan-16	Insurance	€ 320.00		€ 3,580.00
Jan-21	Direct Debit	€ 140.00		€ 3,440.00
Jan-22	Credit Transfer		€ 60.00	€ 3,500.00
Jan-23	Lodgement		€ 2,390.00	€ 5,890.00
Jan-27	Bank Charges	€ 24.00		€ 5,866.00

## Q2.4 Bank Reconciliation Statement

Set out below are the Bank Account and Bank Statement of Julia Lyons for the month of March 2015.

Dr		Bank Account			Cr
		€			€
March 1	Balance	5,200	March 2	P. Roche 0014	1,200
March 6	Sales Lodged	12,900	March 5	Rent 0015	900
March 16	Lodgement	16,340	March 10	Insurance 0016	600
March 29	Sales Lodged	9,450	March 14	T. Mulvey 0017	1,800
			March 18	Purchases 0018	3,950
			March 22	R. McHugh 0019	790
			March 29	Wages 0020	1,400
			March 31	Balance c/d	33,250
		<u>43,890</u>			<u>43,890</u>
April 1	Balance b/d	33,250			

### Bank Statement on 31/03/2015

		Debit	Credit	Balance
		€	€	€
March 1	Balance b/d			5,200
March 3	Interest Received		75	5,275
March 4	P. Roche 0014	1,200		4,075
March 8	Lodgement		12,900	16,975
March 12	Rent 0015	900		16,075
March 16	Standing Order	510		15,565
March 18	Insurance 0016	600		14,965
March 21	M. Nolan cheque dishonoured	420		14,545
March 22	Lodgement		16,340	30,885
March 23	Purchases 0018	3,950		26,935
March 25	R. McHugh 0019	790		26,145
March 26	Dividend Received		1,200	27,345
March 28	Bank Charges	90		27,255
March 29	J. Lyons	160		27,095

**Note:** The €160 entered in the Bank Statement on March 29 was entered in error to Julia Lyons account instead of John Lyons Account.

**Required:**

- (a) Show Julia Lyons's **Adjusted Bank Account** and bring down the adjusted balance. (35)  
 (b) Prepare a statement on 31/03/2015 **reconciling** the adjusted Bank Account balance with the Bank Statement balance.

(25)

## Solutions

### Q 2.1

Adjusted Bank Account					
Jan-31	Balance b/d	€ 10,200.00	Jan-31	Standing Order	€ 250.00
	Credit Transfer	€ 300.00		Bank Charges	€ 100.00
				Balance c/d	€ 10,150.00
		€ 10,500.00			€ 10,500.00
Feb-01	Balance b/d	€ 10,150.00			

Bank Reconciliation Statement			
Balance at end as per bank statement			€ 12,900.00
<b>Add</b> any lodgements not yet credited by bank			€ 2,000.00
			€ 14,900.00
<b>Less</b> cheques not yet presented for payment	P. Tracey	€ 400.00	
	Insurance	€ 350.00	
	A. Leonard	€ 4,000.00	€ 4,750.00
Balance at end of adjusted bank account			€ 10,150.00

### Q 2.2

Adjusted Bank Account					
Mar-31	Balance b/d	€ 2,800.00	Mar-31	Standing Order	€ 100.00
	Dividends	€ 200.00		Direct Debit	€ 280.00
				Bank Charges	€ 20.00
				Balance c/d	€ 2,600.00
		€ 3,000.00			€ 3,000.00
Apr-01	Balance b/d	€ 2,600.00			

Bank Reconciliation Statement			
Balance (at end) as per bank statement			€ 5,950.00
<b>Add</b> lodgements not yet credited by bank			€ 2,000.00
			€ 7,950.00
<b>Less</b> cheques not yet presented for payment	B. Cowen	€ 1,000.00	
	Insurance	€ 200.00	
	E. Egan	€ 4,000.00	€ 5,200.00
			€ 2,750.00
<b>Less Error Jones Ltd</b>			€ 150.00
Balance at end of adjusted bank account			€ 2,600.00

Q 2.3

Adjusted Bank Account					
Jan-31	Balance b/d	€ 2,170.00	Jan-31	Direct Debit	€ 140.00
	Interest Received	€ 250.00		Bank Charges	€ 24.00
	Credit Transfer	€ 60.00		Balance c/d	€ 2,316.00
		€ 2,480.00			€ 2,480.00
Feb-01	Balance b/d	€ 2,316.00			

Bank Reconciliation Statement			
Balance at end as per bank statement		€ 5,866.00	
<b>Add</b> any lodgements not yet credited		€ 1,200.00	
			€ 7,066.00
<b>Less</b> cheques not yet presented for payment	P. Durack	€ 430.00	
	Wages	€ 210.00	
	D. Ryan	€ 2,660.00	
	B. Rourke	€ 1,450.00	€ 4,750.00
Balance at end of Adjusted Bank Account			€ 2,316.00





### 3. Bank Reconciliation

[35]

(a)

		€				€	
Mar	Balance b/d	33,250	[5]	Mar	Standing Order	510	[6]
	Interest Received	75	[6]		Cheque dishonoured	420	[5]
	Dividend Received	1,200	[6]		Bank charges	90	[6]
					Balance c/d	<u>33,505</u>	[1]
		<u>34525</u>				<u>34525</u>	

[25]

(b) Bank Reconciliation Statement				€	
Adjusted Cash Book Balance				33,505	[3]
<b>Add:</b> Cheques drawn not yet cashed					
	0017 T. Mulvey	1,800	[4]		
	0020 Wages	<u>1,400</u>	[4]	<u>3,200</u>	
				36,705	
<b>Less:</b> Lodgement not yet credited					
	Sales			<u>9,450</u>	[4]
				27,255	
<b>Less:</b> Bank Error				<u>160</u>	[8]
				<u>27,095</u>	[2]

#### Alternative

				€	
Balance as per Bank Statement				27,095	[3]
<b>Add:</b> Lodgement not yet credited					
	Sales			<u>9,450</u>	[4]
				36,545	
<b>Less:</b> Cheques drawn not yet cashed					
	0017 T. Mulvey	1,800	[4]		
	0020 Wages	<u>1,400</u>	[4]	<u>3,200</u>	
				33,345	
<b>Add:</b> Bank Error				<u>160</u>	[8]
				<u>33,505</u>	[2]

