

# Monyetla Project – Accounting Gr 11

## Lesson 1: Bank Reconciliation notes

### BANK RECONCILIATION

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

Bank reconciliation takes place when the business compares its record of transactions and balances (CRJ and CPJ) to the bank's record of transactions and balances (Bank Statement). Bank reconciliation is an essential control process that should be performed every month. The bookkeeper must meticulously go through every transaction in their CRJ and CPJ to make sure their transactions and the bank's transactions agree.

#### It is important to go through the process of Bank reconciliation. Why?

- It is an essential part of a business' system of internal control.
- It plays an important role in identifying outstanding transactions not on the Bank Statement or in the CRJ and CPJ, as well as bank errors.
- It plays an important role in preventing and detecting fraud and dishonesty.
- To identify the correct bank balance and to update records.
- Deposits made and cheques issued must be verified.
- The accuracy of the records of the business and the records of the bank must be checked.
- The books of the business and that of the bank should agree.

If it is not done, the business may be exposed to a several risks. With regular bank reconciliation, problems can be picked up quickly and mistakes corrected.

#### Concepts:

- ✘ The CRJ and CPJ are the first books of entry for the business:
  - all transactions according to money received and paid
  - totals posted to the Bank account at the end of the month.
- ✘ The Bank Statement is the record that the bank keeps of all the transactions with the business → deposits and payments.
- ✘ The amounts in the Bank column of the CRJ will be compared to the deposits on the Bank Statement.
- ✘ The cheque numbers and amounts in the CPJ will be compared to the payments on the Bank Statement.
- ✘ **Bank charges** → The fees for administering the bank account of the business.  
These charges include: monthly service fee, cheque book fee, cash handling fee, transaction charges, etc.
- ✘ **Stop orders** → An instruction given to the bank to pay funds across to a third party, at a fixed amount on a regular basis.

- ✘ **Debit orders** → An agreement between the business and a third party in which the business allows them to take money out of the bank account. Debit orders may be fixed of variable amounts.
- ✘ **Interest on overdraft** → When the business has an overdrawn balance, it will pay interest on the amount that is overdrawn for the period of time that it is overdrawn.
- ✘ **Interest on current account** → When the business has a favourable bank balance, it will earn interest for the period of time that it is favourable.
- ✘ **Dishonoured cheques** → A cheque received, but dishonoured (not paid out) by the bank for several reasons, e.g. insufficient funds, the drawer is deceased or insolvent, there is a problem on the cheque like signature discrepancies or amounts in words not matching amounts in figures.
- ✘ **Post-dated cheque** → A cheque dated in the future.
- ✘ **Stale cheque** → A cheque is only valid for 6 months, after which the bank is not allowed to pay out the money.
- ✘ **Credit and debit card payments** → treated as cash.

The Bank account and the Bank Statement are **mirror images** of one another.

Bank account		Bank Statement		
+	-	Debit	Credit	Balance
		-	+	

RECORDS OF THE BUSINESS		RECORDS OF THE BANK
We have money in the bank – our bank balance is favourable (debit balance) → an <b>Asset</b> for the business	→	We have money in the bank – the bank owes us the money (credit balance) → a <b>Liability</b> for the bank
We owe the bank money – our bank balance is in an overdraft (credit balance) → a <b>Liability</b> for the business	→	We owe the bank money – we are a debtor to the bank (debit balance) → an <b>Asset</b> for the bank
Deposits are debits – they increase the Asset	→	Deposits are credits – they increase the bank's liability
Cheque payments are credits – they decrease the Asset	→	Cheque payments are debits – they decrease the bank's liability

Regular checking of accounting entries is essential to ensure that the records are accurate → Reconciliation once a month.

Why will the balance in the Bank account of the business differ from that shown in the Bank Statement? Because of:

1. Bank charges.
2. Interest on overdraft/Interest on current account.
3. Outstanding deposits not created by the bank yet.
4. Cheques not presented for payment at the bank.
5. Dishonoured cheques.
6. Stop orders and debit orders.
7. Direct bank deposits made by debtors/tenants, payments via the internet (EFT), cell phone banking.
8. Errors.

THUS, we must do some entries to reconcile the balance in the Bank account with the balance shown on the Bank Statement.

## **THE RECONCILIATION PROCESS:**

### **PART 1: Starting the bank reconciliation process**

- ✘ Step 1: Compare the credit entries (deposits) on the Bank Statement with the entries in the bank column of the CRJ.
- ✘ Step 2: Compare the debit entries (payments) on the Bank Statement with the entries in the bank column of the CPJ.
- ✘ Step 3: Tick off items which appear in both the Bank Statement and the journals.
- ✘ Step 4: Circle all the items that have not been ticked off.

When the Bank Reconciliation Statement of the previous month is given,

- ✘ Step 5: Compare the new Bank Statement with the Bank Reconciliation Statement of the previous month → tick off and circle differences.

### **PART 2: Completing the bank reconciliation process**

- ✘ Step 1: Enter the totals from the Bank columns into the “new” CRJ and CPJ.
- ✘ Step 2: Start the Bank account with the given balance on the 1<sup>st</sup> day of the month.
- ✘ Step 3: Update the CRJ with the circled amounts in the credit column of the Bank Statement.
- ✘ Step 4: Update the CPJ with the circled amounts in the debit column of the Bank Statement.
- ✘ Step 5: Total the bank columns of the CRJ and CPJ and post these totals to the Bank account.

### PART 3: Drawing up the Bank Reconciliation Statement

- ✘ Step 1: Enter the closing balance on the Bank Statement on the Bank Reconciliation Statement.
- ✘ Step 2: Circled amounts in the CRJ and on the BRS of the previous month, must be entered into the credit column of the Bank Reconciliation Statement.
- ✘ Step 3: Circled amounts in the CPJ and on the BRS of the previous month, must be entered into the debit column of the Bank Reconciliation Statement.
- ✘ Step 4: Enter the closing balance in the bank account into the Bank Reconciliation Statement – **on the same side!** – and see that it balance.

#### Possible reasons for circled items and where to take it:

##### Circled items in the Bank column of the CRJ



##### Bank Reconciliation Statement (BRS) on the CREDIT (+) side

1. Deposit made on the last day of the month or after the Bank Statement was printed.  
↓  
**BRS:** Credit (+) outstanding deposit.

##### Circled items in the Bank column of the CPJ



##### Bank Reconciliation Statement (BRS) on the DEBIT (-) side

1. Cheques issued by the business, but not yet presented for payment at the bank.  
↓  
**BRS:** Debit (-) outstanding cheques - in number order.  
→ Including cheques written out during the previous month, but not yet presented for payment.  
→ Including salary cheques in the CPJ not yet presented for payment.

##### Circled items in the debit column of the Bank Statement



##### Update in the CPJ

1. Service fees, cash deposit fees, cheque book fees, levies on credit card sales, transaction charges.  
↓  
**CPJ:** Bank charges
2. Interest paid to the bank/on overdraft account → NOT part of Bank charges!  
↓  
**CPJ:** Interest on overdraft

3. Dishonoured cheques received from the bank.  
↓  
**CPJ:** Cancel the money for the same reason and contra account – Debtors control / Rent income
4. Stop orders / Debit orders  
↓  
**CPJ:** e.g. Insurance, Water and electricity, Rent expense, Cell phone contract
5. Electronic payments by the business  
↓  
**CPJ:** Rent expense

**Circled items in the credit column of the Bank Statement**

↓  
**Update in the CRJ**

1. Deposits made directly in the bank account of the business  
↓  
**CRJ:** Debtors control / Rent income
2. Interest earned on the favourable bank account  
↓  
**CRJ:** Interest on current account
3. Electronic payments made to the business  
↓  
**CRJ:** Debtors control / Rent income

**Others:**

**Cancelling a cheque written out**

- Reasons:
- The cheque becomes stale.
  - A cheque that gets lost or was stolen.
  - The business (payee) does not exist anymore.

↓  
**Where to?**

Cancel the cheque in the **CRJ** (put the money back) for the same reason and contra account.

**Post-dated cheques issued**

↓  
**Where to?**

- Record the cheque in the **CPJ** in number order
- List the cheque as outstanding on the **BRS**

### Post-dated cheques received



#### Where to?

- **NO ENTRY!**
- Put in a safe place until the due date, issue receipt on due date.
- **NOTE:** If this cheque was recorded in the CRJ by mistake, the cheque will bounce (RD – Refer to drawer) on the Bank Statement. You must then cancel this cheque in the **CPJ** and ask the debtor (drawer) for a new cheque.

### Stale cheque

After six months, the bank will not be able to pay out the cheque anymore.



#### Where to?

The payee will have to return the cheque to the drawer and request a new cheque.

### Errors in the CPJ – the cheque amount was incorrectly entered in the CPJ



#### Where to?

- If **undercast** (too little), add the difference in the **CPJ** (same journal) for the same reason and contra account.  
E.g. R1 200 was entered in the CPJ instead of R2 100 → enter R900 in the CPJ.
- If **overcast** (too much), reverse the difference in the **CRJ** (opposite journal) for the same reason and contra account.  
E.g. R2 100 was entered in the CPJ instead of R1 200 → enter R900 in the CRJ.

### Errors in the CRJ – the amount of the deposit was incorrectly entered in the CRJ



#### Where to?

- If **undercast** (too little), add the difference in the **CRJ** (same journal) for the same reason and contra account.  
E.g. R270 was entered in the CRJ instead of R720 → enter R450 in the CRJ.
- If **overcast** (too much), reverse the difference in the **CPJ** (opposite journal) for the same reason and contra account.  
E.g. R720 was entered in the CRJ instead of R270 → enter R450 in the CPJ.

### Errors on the Bank Statement

**Don't take errors made by the Bank into the books of the business!**



#### Where to?

A correction entry is made on the **Bank Reconciliation Statement**.

- **BRS:** Debit (-) incorrect credit.
- **BRS:** Credit (+) incorrect debit.

**Cheques stopped for payment at the bank, issue a new cheque**



**Where to?**

- **CRJ**: Cancel the cheque in the CRJ for the same reason and contra account (old cheque number).
- **CPJ**: Record the new cheque in the CPJ for the same reason and contra account (new cheque number).
- **BRS**: List the cheque as outstanding on the Bank Reconciliation Statement (new cheque number) because a new cheque written out on the last day of the month cannot be through the bank.

**If the Bank Reconciliation Statement of the previous month (for example January) is given:**

Description	What to do?
Debit/Credit balance as per Bank Statement (end of January)	Do nothing
Credit outstanding deposit	Most of the time it <b>will appear</b> on the Bank Statement of this month (Feb) → just tick it off!  If this deposit did not appear on the Bank Statement of February, the matter must be investigated and the deposit must be cancelled in the CPJ.
Debit outstanding cheques	There can be a stale cheque – a cheque issued 6 months ago and not yet presented for payment. This cheque must be cancelled in the CRJ for the same reason and contra account, and tick it off.
	Some of these cheques will appear on the Bank Statement for February – just tick it off!  You will not see these cheques in the CPJ for February because it already appeared in the CPJ for January or earlier months.
	Some of these cheques will not appear on the Bank Statement for February. It will have to be listed again as outstanding on the Bank Reconciliation Statement for February.
Credit incorrect debit / Debit incorrect credit	Most of the time this corrections will appear on the Bank Statement of this month (Feb) → just tick it off!
Debit/Credit balance as per Bank account (end of January)	Start your bank account with this balance as on 1 February.

How to study this unit:

- ✘ Understand the “mirror image” thing so when you correct errors you understand that a debit in our books (Bank account) is a credit in the books of the bank (Bank Statement/Bank Reconciliation Statement) and visa versa.
- ✘ Know how to compare the entries in the Journals with the entries on the Bank Statement.
- ✘ Compare your Bank Statement with the Salaries Journal, because the specific cheque numbers for salaries paid are not shown in the CPJ.
- ✘ Know how to use the Bank Reconciliation Statement of the previous month when comparing the entries.
- ✘ Know how to update the CRJ, CPJ and posting to the Bank account.
- ✘ Practice drawing up the Bank Reconciliation Statement.

## SUMMARY

Transaction	CRJ	CPJ	Bank Reconciliation Statement		No entry
			Dr	Cr	
Direct deposit into Bank account (on BS)	√				
Interest on favourable bank balance (on BS)	√				
Cancelled cheque (stale, stop payment, stolen or altered cheques)	√				
Error in the CPJ where the amount in the CPJ is more than the original cheque	√				
Error in the CRJ where the amount in the CRJ is less than the original receipt	√				
Debit orders, stop orders, electronic payments (on BS)		√			
Bank charges, interest on overdraft (on BS)		√			
Dishonoured cheques (on BS)		√			
Error in the CPJ where the amount in the CPJ is less than the original cheque		√			
Error in the CRJ where the amount in the CRJ is more than the original receipt		√			



Transaction	CRJ	CPJ	Bank Reconciliation Statement		No entry
			Dr	Cr	
Cheques issued but not appearing on the BS			√		
Cheques outstanding on previous BRS and still not appearing on current BS			√		
Post-dated cheques issued			√		
Amount incorrectly credited on BS			√		
Outstanding deposits				√	
Amount incorrectly debited on BS				√	
Cheques outstanding on previous BRS, but appearing on current BS					√
Deposits outstanding on previous BRS, but appearing on current BS					√
Post-dated cheques received					√