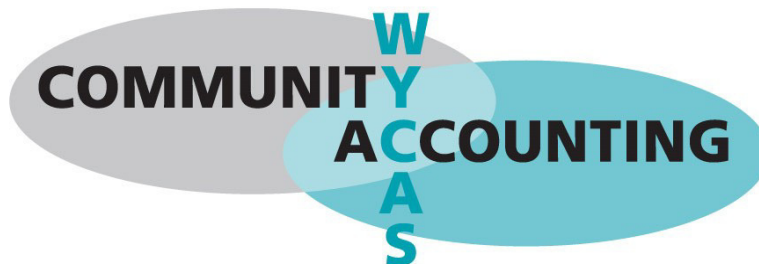


Good Practice Guide No 3

How to do a bank reconciliation

WYCAS provides a range of specialist services designed to meet the needs of the third sector

One to one support and training
Preparation of year-end accounts
Independent examination
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West Yorkshire Community Accounting Service

What is a bank reconciliation?

A bank reconciliation is the process that you go through to ensure that the bank statement and the cashbook agree. This is important to ensure that the organisation's records are both complete and accurate.

At a particular date the balance on the bank statement may be different to that of your cashbook due to:

- **Unpresented cheques** – cheques that your organisation has written, and which are included in the cashbook but which the person receiving the cheque has not yet paid into the bank, or which the bank has not yet cleared.
- **Receipts not credited** – money you have paid into your bank but which does not yet appear on your bank statement, because it has not been cleared through the banking system at the statement date.

These are valid differences that are called 'reconciling items' as they reconcile the cashbook and bank statement balances.

Other differences arise from items on the bank statement that need to be written into the cashbook before reconciliation can be performed. Such items may include:

- **Direct debits** – varying amounts paid directly to other organisations (with your authority) by the bank.
- **Standing orders** – regular payments of fixed amounts at stated dates to certain persons or companies paid directly by your bank.
- **Bank charges** – amounts that the bank has charged your organisation.
- **Bank interest** – interest that the bank pays on any balance in your account.

Finally there may be errors that require correction, such as duplicated entries. These could be errors on the part of the bank or the person keeping the organisation's books.

Remember that bank is not infallible!

How to do a bank reconciliation at the month end.

1. Draw a line under the **last day of the month** on the bank statement (N.B. This will not necessarily be the last day on the bank statement). The bank balance just above this line is the one you are working to.
2. Work through items on the bank statement up to the drawn line and match to items in the cashbook. If they match **tick** both items.
3. Check thoroughly the validity of unticked items on the bank statement. If it is valid e.g. a standing order or bank interest, enter into the cashbook and tick it on both the bank statement and the cashbook.

4. Any errors in the books must be corrected. Any errors by the bank should be chased up immediately.

The above steps should be done before totalling up the cashbook at the end of the month so that any additions or adjustments can be made to the cashbook before the columns are totalled up (for a paper cashbook). The same need to correct the spreadsheet exists if that is your bookkeeping system.

5. Draw a line across the cashbook and total up for the month (See our Good Practice Guide on Bookkeeping) OR enter / use the totaling formulae in your spreadsheet. Check for errors by 'cross-casting' (i.e. adding up all the analysed totals and checking it agrees with the total column).
6. All the items on your bank statement should now be ticked. In your cashbook. There may be unticked items that are:
- Cheques issued but not yet presented to the bank.
 - Income banked but not yet cleared in the banking system.
- These items should account for the difference between the bank balance and the cashbook balance.

See the example below. There is a form at the end of this guide that may be photocopied and used in performing your own bank reconciliations.

Example Cashbook Extract

Receipts				Payments					
Date	Details	Ref		Total	Date	Details	Chq no.		Total
5/4	Community Fund	1	√	3,000.00	7/4	Petty Cash	100	√	70.00
5/4	Halifax	2	√	800.00	8/4	Post Office	101	√	21.50
30/4	Lloyds TSB	3		500.00	9/4	Viking Direct	102	√	200.00
					13/4	Hewlett Packard	103		660.00
					15/4	Spoilt Cheque	104	√	0.00
					21/4	VA-L payroll	SO	√	1,000.00
					28/4	BT	DD	√	75.00
					28/4	Third Sector	105		40.00
					30/4	B Khan	106	√	30.00
	April Totals			4,300.00		April Totals			2,096.50
	Brought forward cashbook balance (1)				1,250.00				
	Receipts in month				4,300.00				
	Payments in month				(2,096.50)				
	Carried forward cashbook balance				3,453.50				

(1) Brought forward cashbook balance is the cashbook balance from the previous month**Bank reconciliation**

Balance per bank statement 30 April		3,653.50
	Ref	
Unpresented cheques:	103 660.00	
	105 40.00	(700.00)
Uncleared receipt	3	500.00
Adjusted bank balance		<u>3,453.50</u> Agreed to cashbook

Reviewing the bank reconciliation

The adjusted bank balance should agree to the cashbook balance. If it does not the reason for the difference should be identified and corrected. This may involve checking:

- The addition of the cashbook.
- That the bank balance has been correctly copied from the statement.
- That the cashbook balance has been correctly calculated.
- The ticked items to ensure that the amounts per the statement and the cashbook agreed exactly.
- That all un-ticked items on the cashbook are represented correctly in the reconciliation.
- That there are no un-ticked items still on the bank statement.

Once the two balances have been reconciled review the reconciling items to ensure that they appear valid. Any item that appears unexpectedly should be investigated to ensure it is correct. With regard to receipts remember that income should never take more than a few days to clear the banking system and hence any 'old' uncleared receipts are suspect. These should be checked to ensure, for instance, that the income has not been entered in the cashbook twice in error.

What to do with...?**Out of date cheques**

Cheques actually remain legally valid for 6 years and the only way to cancel it is to pay for a 'stop' to be placed on it. However, banks usually reject cheques over 6 months old – at their discretion. If a cheque appears on your reconciliation as unpresented for six consecutive months, in the seventh month you may choose to write it back into the cashbook (as it is unlikely to be cashed after 6 months). This is done by entering the item on the **payments** side of the cashbook as a minus figure (in red or in brackets) analysing it in an identical way to the original entry. When totalling your payments this figure will be deducted hence correcting the total payments in the year for this adjustment.

When reconciling your statement at the end of the seventh month you will mark off both the original entry and the written back entry in your cashbook with a small **C** instead of a tick to indicate a contra entry.

Cancelled cheques

A cheque may have to be cancelled for a number of reasons e.g. where there is an error on the cheque or you think it has got lost in the post. If a cheque has to be cancelled, you should record it in one of the following ways as appropriate:

- If the cheque is being cancelled in the **same** month that it was issued and you still have the cheque, write CANCELLED across the cheque and **file it** in cheque number order with the paid invoices. Draw a line right through the entry in the cashbook (do not use correction fluid) and write CANCELLED across the description column. Do not include the figure when totalling your month's transactions and ignore the entry when you are doing the bank transaction.
- If the cheque is being cancelled **after** the month it has been issued and you still have the cheque, write CANCELLED across the cheque and file it as previously explained. You should then write back the entry in the cashbook in the same way as for out of date cheques (see above).
- If the cheque to be cancelled has already been sent, telephone your bank immediately and ask them to stop the cheque: your bank may charge for this service. They will need the account name and number, the cheque number, the payee's name and the value of the cheque. They may also need to know if the cheque is to be replaced with another for the same value, if so they may ask for the new cheque number. Follow this up the same day with a letter to confirm the instruction. Deal with the entry as above.

Dishonoured cheques

When a cheque is received by your organisation and paid into the bank, it is recorded on the income (or receipts side) of your cashbook, and it will appear on your bank statement. However at a later date it may be found that the cheque has not been cleared through the bank account of the organisation/individual that sent you the cheque. This is known as a dishonoured cheque, or colloquially as a bounced cheque, and usually occurs because there are not enough funds in the other organisation/individual's bank account. Your bank will automatically show the original banking as being cancelled by showing the cheque as being paid back out of your bank account. In the cashbook it should be dealt with in the following way:

Enter the item on the income side of the cashbook using an identical analysis to the original entry, but put a minus or brackets on the figure, and deduct it when totalling the cashbook for the month. When you do the bank reconciliation you can tick this entry and the paid back entry on the bank statement. This ensures that your cashbook accurately shows the correct amount of income received in the year.

The bank may try to present your cheque a number of times so there may be a number of contra entries. Take great care to ensure the cashbook reflects the final position with regard to the cheque i.e. if there are equal number of

receipts and payments shown on the bank statement the cheque has not been honoured, if however there are an odd number the cheque may have been honoured on the last attempt.

Bank reconciliation dates

In small organisations bank reconciliations are normally done monthly. In larger organisations or where bank statements are received more regularly bank reconciliations may be done weekly or fortnightly.

If more than one statement sheet is received, check one page at a time - if it doesn't balance there isn't as much to recheck!

Bank reconciliation on a spreadsheet

If you are recording receipts and payment on a spreadsheet you still need to do a bank reconciliation. You could colour the cells when the transaction has cleared, or use the next column to make an entry to show this.

Bank reconciliation on accounting software

The process still needs to be done, but most (if not all) accounting software will have a reconciliation process built in. You still need to check historic uncleared items to confirm whether they are still valid.

WYCAS Advice Line: 0113 270 6269

Website: www.wycas.org.uk

Bank Reconciliation Form

Name of Organisation

Bank Reconciliation for the month of

Balance as per Bank Statement					A
Less:					
Cheques not yet presented					
Date	Cheque No	Payee	Amount		
Total of cheques not yet presented				()	B
Add:					
Receipts not yet credited					
Date	Payer	Amount			
Total of receipts not yet credited					C
Adjusted Bank Balance A-B+C=D					D

Cashbook balance brought forward			E
Add:			
Money received in the month			
Less:			
Payments made during the month			
Cashbook balance carried forward E+F-G=H			H

Difference (D-H) – this should be zero!	
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Signed Date

To complete the bank reconciliation form, fill in the figures as follows:

The balance as per the bank statement (A)

This will be the final balance on the last working day of the month you are reconciling. This will only be the final balance on the bank statement if your statements run to the calendar month ends.

Cheques issued not yet presented (B)

These will be all the cheques not ticked in your cashbook, including any cheques still not presented from the previous months. These should be listed with oldest items first, totalled up, and the resulting figure put in the end column (the brackets on the form show that this is a minus figure).

Money received not credited (C)

These will be items you have paid into your bank account, but which have not yet appeared on your bank statement, and which you have not ticked in your cash book. These should be listed and totalled up and the resulting figure put in the end column.

The adjusted bank balance (D)

This will be the balance as per the statement (A), minus cheques issued not yet presented (B), plus money received not yet credited (C).

This now needs to be reconciled to your cashbook.

Cashbook balance brought forward (E)

This will be the carried forward figure from the previous month i.e. the figure at (H) on the previous month's bank reconciliation statement.

Receipts during month (F)

This will be the total receipts in the month taken from the total receipts column in your cashbook.

Payments during month (G)

This will be the total payments in the month taken from the total payments column in your cashbook.

Cashbook balance to carry forward (H)

Add (E) to (F) and subtract (G). The resulting figure (H) (cashbook balance figure carried forward) should be the same as the adjusted bank balance (D).

Not reconciled?

If there is a difference between the adjusted bank balance and the cashbook balance then check your cashbook quickly to see if you can spot the figure straight away. If not you need to check your workings thoroughly to find the difference. You should always end up with the adjusted bank balance and the carried forward cashbook balance being the same.

N.B. When you do the reconciliation next month the carried forward figure (H) from this month will be the new brought forward figure (E) for that month.