

# AccountAble™

A Bank Reconciliation is somewhat like a routine medical check-up. If you do it regularly, you will never feel the need for it. If you don't do it regularly, one day you will wish you had gone to the doctor every month.

## What is a Bank Reconciliation ?

Do a simple experiment to understand this. Take out one of the pass books which has frequent transactions. Note down the balance in the pass book on any date, say 31st July 1995. Open your cash book or ledger<sup>1</sup>. Check the bank balance on 31.7.95 shown in the cash book or ledger. Note it down in the second line:

Pass book balance on 31.7.95	_____
Ledger/ Cash book balance	_____
Difference	

Compare the two balances. Chances are that the two balances will be different<sup>2</sup>.

## Why a difference?

A difference may be simply due to some cheque which has not reached your bank for payment. Or it may be due to normal clearing delay for some cheque which you deposited.

Sometimes the problem can be more serious. The difference may be due to a dishonored cheque. Or the bank may not have credited some deposit to your account. In either case, the earlier you know, the better it is. You can then contact the bank and have the problem corrected.

Apart from this, small charges like collection charges, bank charges etc. are levied on your account from time to time. Normally the bank does not send you any intimation. Also the bank credits interest to your account twice a year. You have to pass entries in your books for these transactions.

Sometime the bank makes totaling errors. Also someone may alter a cheque and draw a large sum of money from your account.

When a difference appears between your ledger balance and the pass book, you have to prepare a Bank Reconciliation to understand the reasons.

## Making a Bank Reconciliation

You need four things to prepare a bank reconciliation. (i) Your Pass Book; (ii) Your Cash Book or Ledger containing the Bank Account; (iii) A color pencil or pen; (iv) Previous reconciliation, if there

<sup>1</sup> If the cash book is not updated, note the balance from your cheque book counterfoil.

<sup>2</sup> If there is no difference, then it is only a temporary relief.

was difference in opening balance. After having armed yourselves with these, proceed as follows, with extreme caution:

### 1. Ticking Off common items

- First decide the period for which you want to reconcile. Let's say you decided on 1.4.95 to 31.7.95.
- Compare the opening balance (1.4.95) of the Pass book and the Ledger.
- If there is a difference in the opening balances, locate the previous reconciliation<sup>3</sup>. Your auditors will probably have a copy.
- Now you have to start ticking off the common items in the pass book and the ledger.
- For this see the first entry in the ledger<sup>4</sup> on debit side. Locate this entry in the pass book also (in Deposits column).
- Compare both the entries – are the amounts same? If there is a small difference, it may be due to collection charges. Note the difference separately.
- Tick off both the entries if these match.
- In this manner, tick off all matching entries on debit side right upto 31.7.95.
- Now look at the Credit side of the ledger<sup>5</sup>. Compare these entries with those in Withdrawal column of pass book. Match cheque numbers also if possible.
- Tick off all common entries one by one.

### 2. Correcting Our Ledger Balance

Now we can prepare the first part of the Reconciliation:

- Take a fresh sheet of paper and note down the closing balance as per ledger.
- From this deduct any bank charges (or collection charges) or cheques that may have been dishonored.
- This will give you the corrected ledger balance<sup>6</sup>.

### 3. Reconciling the Pass Book balance

Finally we reconcile the Pass Book balance:

- Note down the balance as per pass book.
- To this balance add those cheques which have been deposited but not yet cleared. You will find

<sup>3</sup> The previous reconciliation shows the unticked items of the previous ledger. Compare these with the pass book and tick off all the items that match. Rest of the items will appear again in the new reconciliation.

<sup>4</sup> In case of cash book, see entries on Receipts side.

<sup>5</sup> In case of cash book, see entries on Payments side.

<sup>6</sup> Later on, you should pass entries for these in your ledger or cash book.

these as unticked items on the Debit side of the ledger.

- Then deduct the cheques which you have issued but which have not reached your bank. These will appear as unticked items on the Credit side of the ledger.
- The resulting balance should be the same as the corrected Ledger balance.

If a difference remains, scan the pass book and ledger for unticked items. Check the totaling and the manner in which you have added or deducted items. If the difference still remains, you will have to tick the items again. Use a different color pen this time. And be more careful!

### Follow-up Steps

After reconciling the bank, you must look into the items that appear on the list. Pass entries in the ledger for bank charges, interest etc. Pass entry for dishonored cheque also. Depending on reasons for dishonor, talk to the concerned party or your bank.

If the amount for any cheque which you issued is different from your records, approach the bank immediately. Find out the reason for the difference. If there is a mistake at the bank, have it corrected. If there is an unauthorized alteration, consult your auditors. They will be able to guide you.

**Figure 1: Bank Pass Book**

Date	Particulars	Withdrawals	Deposits	Balance	Initial
	B/F			66,714	sn
12/4/95	ch. 470181	6,000			
29/4	To cash: 470182	1,000			
4/5	Clg. 470183	4,500			
12/5	By Deposit		23,150		
15/5	Ch. ret.	23,150		55,214	ds
20/5	By clg.		23,150		
20/5	Coll. fee	50			
25/6	To cash	2,000			
1/7/95	S. Das - 470186	1,450			
4/7/95	Cash	5,000			
30/7	Cash	5,000		64,864	s.n
	Total c/o			64,864	

Contra items (items that appear on both sides of the same record) are marked with a 'C' like this.

Collection charges of bank are not entered in our ledger. We should reduce this from our balance.

**Figure 2: Bank Reconciliation - 31.7.95**

Balance as per our Ledger	Dr.	66,914
Deduct: Collection fees charged by bank on 20/5		-50
Corrected Balance as per our Ledger	Dr.	66,864
Balance as per Bank Pass Book	Cr.	64,864
Add: Grant cheque deposited but not cleared (28.7.95)		10,000
Deduct: Cheque issued but not presented (470188 for Rent Deposit: 27.7.95)		-8,000
Corrected Balance as per Bank Pass Book	Cr.	66,864

For the second part of Reconciliation, start with closing balance as per Pass book.

Start the first part of Reconciliation by writing down the bank balance as per our ledger.

**Figure 3: Bank Account in our ledger**

Date	Particulars	Debit	Credit	Dr/ Cr	Balance
1.4.95	Opening Balance	66,714		Dr.	66,714
12.4.95	By Ch. 470181: Mr. S.		6,000		
29.4	By cash: 470182		1,000		
30.4	By Ch 470183		4,500		
12.5	To Grant received	23,150		Dr.	
24.6	By Cash drawn - 470184		2,000		
30.6	By Mr. Das - 470186		1,450		
4.7	By Cash 470187		5,000		
27.7	By Rent deposit: 470188		8,000		
28.7.95	To Grant cheque	10,000			
29.7.95	By Cash - 470189		5,000	Dr.	66,914

This cheque has not been collected yet. When collected it will increase the balance.

When this cheque is presented, bank balance will reduce. Therefore, we deduct it from the Pass Book Balance