

Financial management

Section eight Bank reconciliation

8.1 What is bank reconciliation?

Bank reconciliation is the process of comparing your cash book entries with your bank statement balances at the end of each month, explaining any differences. Your organisation should receive a bank statement for your current account at the beginning of each month, detailing all transactions (that is, money coming in and going out of the account) for the month just ended.

Organisations which make few transactions each month may find that, unless they insist on monthly statements, they will receive them only when a statement sheet is full – and that may take several months. **If you do not currently receive monthly statements, ask your bank to start sending them.**

The balance shown on the bank statement may not be the same as that shown in the cash analysis books, and it is likely that neither shows the true financial situation of the organisation. This is because there is a delay between the date the entries are made in the books and their appearance on the bank statements, and some items on the bank statement may have gone unrecorded in the cash analysis book (such as bank charges, interest, standing orders, direct debits). Also, cheques issued by the organisation, particularly towards the end of the month, may not yet have cleared through the account, and therefore do not appear on the statement.

8.2 Why do you need to do a bank reconciliation?

The main reason for the bank reconciliation is to make sure that your accounting records are complete. There may still be errors – you may have put something under the wrong heading, but at least you will know that you have recorded everything you should.

Without the bank reconciliation, there is a serious risk that your accounting records are unreliable.

8.3 How do you do a bank reconciliation?

It is very straightforward to do a bank reconciliation as long as you follow the nine steps below – **one at a time and in the correct order** using the sample: 'bank reconciliation form' below.

Figure 8 – Sample bank reconciliation form

Bank reconciliation for the month of _____

Section A: Cash book summary for the month

Cash book balance brought forward from last month: _____

Add: Total Cash Received for the month: _____
(from Cash Received Analysis Book)

Sub-total: _____

Less: Total cash paid for the month: _____
(from cash paid analysis book)

Equals: Closing cash book balance: _____
(to carry forward)

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COMPARED TO:

Section B: Bank statement summary for the month

Bank statement balance at the end of the month: _____

Add: Outstanding receipts
(unticked in cash received analysis book)

<u>date</u>	<u>reference no.</u>	<u>amount</u>
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Total of outstanding receipts: _____

Sub-total: _____

Less: Outstanding cheques
(unticked in cash paid analysis book)

<u>date</u>	<u>cheque no.</u>	<u>amount</u>
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Total of outstanding cheques: _____

Equals: Adjusted bank statement balance: _____

Signature: _____ Date: _____
(by person who has prepared the bank reconciliation)

Signature: _____ Date: _____
(counter signature)

1. Place a small pencil tick against each cheque payment in the cash paid analysis book that also appears on the bank statement. Tick the bank statement entry too. (If you are using an electronic spreadsheet such as Excel, you could create a spare column, in which you could type 'r' = received.)
2. Place a pencil tick against each entry in the 'banked' column of the cash received analysis book that also appears on the bank statement. Tick the bank statement entry too.
3. Check the bank statement for any entries which have not been ticked (which means they did not appear in the cash books), and enter them into the corresponding cash analysis book. For example, bank charges should be entered into the cash paid analysis book, and bank interest should be entered into the cash received analysis book (direct debits and standing orders should be dealt with in the same way). Once any entry has been made, tick it off in the cash book and on the bank statement.

When you have completed these three steps, you know that every entry on the bank statement also appears in the cash analysis books.

4. Underline the end of month row in your Excel spreadsheet (or rule off your manual cash received and cash paid analysis books) and sum all the columns (in your manual books, add up all the columns) 'crosscast' (see **Section eleven** for the glossary of financial terms) to check that the adding-up is correct.
5. Complete the 'Cash book summary' (Section A) on the **bank reconciliation form**, using the figures from the 'total' columns in the cash received and cash paid analysis books. Calculate the 'closing cash book balance' for the month.

You are now ready to complete Section B of the bank reconciliation form.

6. Look at the bank statement. Find the balance at the end of the month and enter this figure on the bank reconciliation form.
7. Check the cash received analysis book for any entries (in the relevant month) which have not been ticked. These are called **outstanding receipts** - they have been banked but have not yet cleared through the account. They should be entered in the 'outstanding receipts' section of the bank reconciliation form.
8. Check the cash paid analysis book for any entries (in the relevant month) which have not been ticked. These are called **outstanding cheques** - the cheques have been issued but have not yet cleared through the account. They should be entered in the 'outstanding cheques' section of the bank reconciliation form.

Do not forget! - there may be some items from the previous bank reconciliation process that are still outstanding and these need to be listed here as well.

9. Finally, **add** all the outstanding receipts to the bank statement balance and **subtract** all the outstanding cheques. This will give you the **adjusted bank statement balance**.

The closing cash book balance should be the same as the adjusted bank statement balance, which proves the accuracy of your bookkeeping for the month. If the two figures are different, then you should first check your calculations and make sure that you have not missed anything. If, after checking, the figures still do not correspond, then it may mean that you have made a mistake with your cash book entries for that month, and you will need to check all of them carefully.

Following all of these checks, if the figures still do not add up properly, then it is possible that the bank has made an error (it does happen!), and it will need to be contacted immediately.

For further information, see Bank reconciliation on Community Accountancy Self Help's (CASH) website www.cash-online.org.uk/cashfacts

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