

BANK RECONCILIATION STATEMENT

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INTRODUCTION:

Bank reconciliation is the process of making the balance on the bank column of a cash book to agree with the balance on the bank statement received from the bank. Put differently, bank reconciliation statement is a report prepared to show the process of agreeing entries in the bank statement with those in the cash book with a view to arriving at a reconciled balance. The reconciliation becomes necessary as a result of differences between the cash book prepared by an account holder and the bank statement prepared by the bank. These differences are corrected using adjusted cash book and bank reconciliation statement.

Most of the time, the differences do not occur deliberately, but could be as a result of:

- i. Errors – These are mistake either by the bank and/or the customer.
- ii. Timing differences – These are due to unpresented cheques and uncredited lodgements.
- iii. Entries not brought to the notice of the company by the bank
e.g. bank charges, interests, transfers, commission on turnover etc.

Unpresented cheques

These are cheques which have been issued for payment by a bank account holder but have not been presented for payment at the bank as at the date the bank prepared the bank statement. Unpresented cheques will appear on the credit side of the cash book but will not be seen on the debit column of the bank statement.

Uncredited lodgements

These are cheques deposited into the bank, but which have not been credited to the customer's account by the bank as at the date of preparing the bank statement. This delay may be due to the cheque being banked other than at the customer's branch of the bank or delay in cheque clearing system which may take up to three working days for local cheques to clear or even more for upcountry cheques.

Direct transfers or Standing orders

These are payments made directly by the bank as a result of previous instructions given by the customer to the bank. They include an order to pay annual insurance premium, professional membership subscription etc.

Others

These include bank charges, account maintenance fee, interest on loan and overdraft account, dishonoured cheque etc. not brought to the notice of the account holder by the bank except through the bank statement.

Reasons for Dishonoured Cheques

A cheque may be dishonoured for the following reasons:

- i. If the cheque is not dated.
- ii. If the amount in words does not correspond to the amount written in figure on the cheque.
- iii. If the balance on the drawer's account is not sufficient to accommodate the amount to be drawn with the cheque.
- iv. Cheque mutilations (i.e. unsigned alteration).
- v. Stale cheques: The date on the cheque is more than six months before it is presented to the bank for payment.
- vi. Irregular signature from the issuer
- vii. Unsigned cheques.
- viii. Cheque post-dated: Presenting cheque at the bank before the date written on it.
- ix. Notice of death of customer received by the bank.

MERITS OF BANK RECONCILIATION STATEMENT

- i. It aids the bank customer to monitor unpresented cheques, uncredited lodgements etc.
- ii. It assists in detecting errors that might have occurred in the cash book or in the bank statement.
- iii. It is useful in detecting fraud either from the bank or office.
- iv. Where the bank reconciliation statement is prepared regularly, it helps to prevent fraud.

PREPARATION OF BANK RECONCILIATION STATEMENT

- i. Ensure that both cash book and bank statement are prepared up to the same date
- ii. Check off items in the cash book against the bank statement
- iii. Update the cash book by preparing adjusted cash book which will be credited with bank charges, commission on turnover, interest on overdraft and loans, dishonoured cheques, direct transfers, standing orders etc. Debit the adjusted cash book with direct payment to the bank like dividend received, interest on deposit account etc.
- iv. Check for errors which occur in the cash book and bank statement for corrections, and correct cash book errors. But include bank errors in the reconciliation statement for notification to the bank.
- v. Prepare the bank reconciliation statement using any of these two formats.

Format of Bank Reconciliation Statement Starting with Cash Book Balance

KAJOLA Ventures
Bank Reconciliation Statement
As at 31st December 2025

₦

| | | |
|------------------------------------|------------|-----------------|
| Balance as per adjusted cash book | x x | Add unpresented |
| cheques | <u>x x</u> | x x |
| Less uncredited lodgements/cheques | (x) | x |
| | | x |
| Add or deduct bank error(s) | x | |
| Balance as per bank statement | <u>x x</u> | |

Format of Bank Reconciliation Statement Starting with Bank Statement Balance

BINTU & Company
Bank Reconciliation Statement
As at 30th April 2025

N

| | | |
|-------------------------------|------------|-------------------------|
| Balance as per bank statement | x x | Add uncredited cheques/ |
| lodgements | <u>x x</u> | x x |
| Less unpresented cheques | (x) | x x |
| Add or less bank error(s) | x | |
| Balance as per cash book | <u>x x</u> | |

NOTE:

Where the balance from the bank statement or adjusted cash book is an overdraft, it does not change the formats above. Overdraft should be indicated in bracket to show that it is a negative balance.

A bank reconciliation statement will only contain those entries that are necessary for the bank to make correction in future bank statements. Adjusted cash book should take care of all necessary entries to be made by the company.

Example 1: TOLLY Investment Company has the following transactions in its cash book and bank statement for July 2025.

| | | Cash Book | | |
|---------------------|--------|-----------------|-------------|---------------|
| Lodgement into bank | | Payment ordered | | |
| Chq. | 6789 | 14,000 | Chq. 123456 | 4,000 |
| Chq. | 4591 | 12,000 | Chq. 123457 | 6,000 |
| Chq. | 4826 | 9,500 | Chq. 123458 | 7,500 |
| Chq. | 4725 | 19,000 | Chq. 123459 | 12,500 |
| Chq. | 4228 | 9,000 | Chq. 123460 | 8,000 |
| Cash | 66,000 | Chq. 123461 | | 1,500 |
| | | — | Bal. c/d | <u>90,000</u> |
| | | | | |
| | | 129,500 | | 129 |
| 500 | | | | |
| Bal. b/d | | 90,000 | | |

| BANK STATEMENT | | Debit | Credit | Balance |
|--------------------------|-------------|--------|--------|----------|
| Chq. | 123459 | 12,500 | | (12,500) |
| Chq. | 123458 | 7,500 | | (20,000) |
| Chq. | 4826 | | 9,500 | (10,500) |
| Chq. | 6789 | | 14,000 | 3,500 |
| Chq. | 123460 | 8,000 | | (4,500) |
| Chq. | 4826 contra | | 9,500 | (14,000) |
| ICAN- Standing order 250 | | | | (14,250) |
| Account maintenance fee | | 500 | | (14,750) |
| Commission | | 1,750 | | (16,500) |
| Chq. | 4228 | | 9,000 | (7,500) |
| Chq. | 123457 | | 6,000 | (13,500) |
| Cash | | 66,000 | | 52,500 |

You are required to

1. Prepare an adjusted cash book
2. Reconcile the adjusted cash book balance with bank statement.

SUGGESTED SOLUTION TO EXAMPLE 1

TOLLY Investment Company

Adjusted Cash Book

| | | | |
|----------|---------------|-------------------------------|---------------|
| Bal. b/d | 90,000 | ICAN – Standing order Account | 250 |
| | | maintenance fee | 500 |
| | | Commission | 1,750 |
| | | Bal. c/d | <u>87,500</u> |
| | <u>90,000</u> | | <u>90,000</u> |
| Bal. b/d | 87,500 | | |

TOLLY Investment Company
Bank Reconciliation Statement

As at 31st July 2025

| | £ | £ |
|-----------------------------------|---------------|---------------|
| Balance as per bank statement Add | | 52,500 |
| uncredited lodgements: | | |
| Chq. 4591 | 12,000 | |
| Chq. 4826 | 9,500 | |
| Chq. 4725 | <u>19,000</u> | <u>40,500</u> |
| | | 93,000 |
| Less unpresented cheques: | | |
| Chq. 123456 | 4,000 | |
| Chq. 123461 | <u>1,500</u> | <u>5,500</u> |
| Balance as per cash book | | <u>87,500</u> |

**I WISH YOU ALL THE
BEST**

ADEWUMI A. PETER (FCA)