

# Bank Reconciliation

(Cheat Sheet)

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## Bank Reconciliation

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The bank reconciliation is also known as the *bank statement reconciliation* or the *bank rec.* In accounting, a corporation's checking account is considered to be part of its cash (which is reported on the corporation's balance sheet). We will assume that the corporation has a separate general ledger cash account for each of its bank checking accounts.

It is unusual for the balance in the bank account (*balance per bank*) to be the same as the balance in the corporation's general ledger account (*balance per books*). Further, it is likely that neither of these balances is the true amount to be reported on the corporation's balance sheet.

Our approach to the bank reconciliation is to add and/or subtract the necessary adjustments so that both the *balance per bank*, and the *balance per books* will show the same, true amount of cash.

## Adjustments to the Balance per Bank

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A simple tip for listing the adjustments for the bank reconciliation is: "*Put the item where it isn't.*" For example, a check that had been written and recorded in the company's books, but has not yet cleared the bank account, will be an *adjustment to the balance per bank*. (The balance per bank is the ending balance on the bank statement or the balance available through the bank's online access.)

Here is a list of the common *adjustments to the balance per bank*:

- Deduct: outstanding checks
- Add: deposits in transit
- Add/deduct: bank errors

The adding and subtracting of these adjustments should result in the *Adjusted (or Corrected) Balance per Bank*.

## Adjustments to the Balance per Books

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Again, a simple tip for listing the adjustments is: "*Put the item where it isn't.*" For example, the bank service charge is on the bank statement, but it is not yet on the books. Therefore the bank service charge is an *adjustment to the balance per books*.

The following are some of the common *adjustments to the balance per books*:

- Deduct: bank service charge for maintaining the company's checking account
- Deduct: bank fee for processing a returned check
- Deduct: bank deduction for a deposited check that was not paid by the bank on which it was drawn (for example, an NSF check or a check drawn on a closed bank account)
- Deduct: check printing charge
- Deduct: automatic loan payment
- Add: electronic transfer into the account
- Add: interest received from the bank
- Add/deduct: correction of company errors

The adding and subtracting of these adjustments should result in the *Adjusted (or Corrected) Balance per Books*.

## Journal Entries for Adjustments to Books

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Without journal entries to record these adjustments, Cash and at least one other account will have incorrect balances. (The reason is the double-entry system of accounting and bookkeeping.)

## Internal Control

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For internal control purposes (to safeguard a company's assets), it is best if the company's bank balance is reconciled by someone that does NOT write checks, record receipts, or enter amounts in the company's general ledger cash account. For instance, at a small business it would be best if the owner reconciled the bank statement instead of the bookkeeper.

## Balance per Bank

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The balance per bank is the ending balance appearing on the bank statement (and/or in the bank account) before the bank reconciliation adjustments for outstanding checks and deposits in transit.

## Balance per Books

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The balance per books is the ending balance appearing in a general ledger account before the bank reconciliation adjustments for bank fees, deposited checks that were returned, electronic transfers, errors, etc.

## Adjusted Balance per Bank

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The adjusted balance per bank is the true or corrected balance after the bank statement balance has been adjusted for items such as outstanding checks and deposits in transit. When the *adjusted balance per bank* is equal to the *adjusted balance per books*, the bank statement is said to be "reconciled". This adjusted, true balance is the amount that should be reported on the company's balance sheet.

## Adjusted Balance per Books

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The adjusted balance per books is the true or corrected balance after the general ledger accounts have been adjusted for items such as bank fees, deposited checks that were returned, etc. When the *adjusted balance per books* is equal to the *adjusted balance per bank*, the bank statement has been reconciled. This adjusted, true balance is the amount that should be reported on the company's balance sheet. The adjustments to the balance per books must be journalized and posted to the company's general ledger accounts.

## Outstanding Checks

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Outstanding checks are the checks that a company has written but which have not yet cleared the company's bank account.

## Deposits in Transit

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Deposits in transit are a company's receipts (such as checks and currency from customers) that are recorded in a company's general ledger account, but are not yet recorded in the company's bank account.

## Bank Service Charge

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The bank service charge is often a monthly fee charged by a company's bank for maintaining the company's bank account. This will be an adjustment to the balance per books that will result in a credit to the company's general ledger account Cash and a debit to an account such as Bank Fee Expenses.

## NSF Check

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An NSF check is a check that was not paid by the bank on which it was drawn because the checking account on which it was drawn did not have a sufficient balance. NSF is the acronym for *not sufficient funds* and is also described as being returned because of *insufficient funds* in the account on which it was drawn. An NSF check is also referred to as a "rubber check" since the check is said to have "bounced." An NSF check that was deposited by a company will result in a deduction by the company's bank for the amount of the check and also a fee for handling the returned check. The company will need to credit the general ledger account Cash for the amount of the NSF check and debit another account (which is often Accounts Receivable).

## NSF Check Bank Fee

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An NSF check bank fee is a charge to a company's bank account because the bank had to process a deposited check that had been returned due to insufficient funds in the account on which it was drawn. This will be an adjustment to the balance per books that will result in a credit to the company's general ledger account Cash (and a debit to another account).

## Bank Credit Memo

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A bank credit memo is a document used by a bank to indicate that an amount is being added to a company's bank account. This will be an adjustment to the balance per books that will result in a debit to the company's general ledger account Cash (and a credit to another account).

## Bank Debit Memo

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A bank debit memo is a document used by a bank to indicate that an amount is being deducted from a company's bank account. This will be an adjustment to the balance per books that will result in a credit to the company's general ledger account Cash (and a debit to another account).

## Journal Entries

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In the context of the bank reconciliation, journal entries are required in order to record in the company's general ledger accounts the items shown as *adjustments to the balance per books*.