Steps for Preparing a Bank Reconciliation

A bank reconciliation should be performed at regular intervals (usually monthly) to ensure the accuracy of cash balances and to detect potential fraud or errors.

1. Gather Necessary Documents

Collect the two primary records for the period you are reconciling:

- **Bank Statement:** The official record from your bank showing all processed transactions and the ending balance.
- **General Ledger (Cash Account):** Your internal record of all cash receipts and disbursements.
- **Previous Reconciliation:** To ensure all outstanding items from the prior month have now cleared.

2. Compare the Deposits

Match the deposits in your internal records against the deposits shown on the bank statement.

- **Identify Deposits in Transit:** These are deposits you recorded in your books that do not yet appear on the bank statement (often due to being made late in the day or over a weekend).
- **Adjustment:** Add these to the **Bank Balance**.

3. Compare the Withdrawals and Checks

Trace every check issued and every electronic withdrawal from your records to the bank statement.

- **Identify Outstanding Checks:** These are checks you have written and recorded, but which the recipient has not yet cashed or the bank has not yet processed.
- **Adjustment:** Subtract these from the **Bank Balance**.

4. Identify Bank-Only Transactions

Review the bank statement for items you have not yet recorded in your internal ledger.

- **Service Fees & Charges:** Monthly maintenance or processing fees.
- **NSF Checks:** "Non-Sufficient Funds" checks from customers that were originally deposited but later bounced.
- **Interest Earned:** Credit interest paid by the bank to your account.
- **Adjustment:** Update your **Book Balance** (Subtract fees/NSF, Add interest).

5. Check for Errors

Look for discrepancies in amounts. For example, a check written for $540 might have been incorrectly recorded in the books as $450 (a transposition error).

- **Bank Errors:** If the bank made a mistake, adjust the Bank side.
- **Book Errors:** If you made a mistake, adjust the Book side.

6. Practical Example Scenario

As of October 31, 2023:

- **Cash Balance per Books:**$10,250
- **Balance per Bank Statement:**$11,400
- **Deposit in Transit:**$1,200
- **Outstanding Checks:**#101 $500 and #104 $1,800
- **Bank Service Fee:**$25
- **Interest Earned:**$15
- **NSF Check (from customer):**$200
- **Error:** Check#102 for utilities was for $140, but recorded in books as $410.

7. Bank Reconciliation Form (Tabular)

Section	Bank Statement Side	Amount	Book Ledger Side	Amount
I. Starting Balance	**Unadjusted Bank Balance**	$11,400	**Unadjusted Book Balance**	$10,250
II. Additions	Add: Deposits in Transit	$1,200	Add: Interest Earned	$15
			Add: Book Error Correction (#102)	$270
III. Subtractions	Less: Outstanding Check #101	($500)	Less: Bank Service Fees	($25)
	Less: Outstanding Check #104	($1,800)	Less: NSF Check	($200)

IV. Final Total	**Adjusted Bank Balance**	$10,300	**Adjusted Book Balance**	$10,300

8. Verify and Post Journal Entries

The **Adjusted Bank Balance** must equal the **Adjusted Book Balance**. Once they match, you must record journal entries for all items on the **Book Ledger Side** so your records match reality.

Journal Entries for the Example:

1. **To record interest revenue:**
   - Debit: Cash ...$15
   - Credit: Interest Revenue ...$15
2. **To record bank service charges:**
   - Debit: Bank Service Expense ...$25
   - Credit: Cash ...$25
3. **To record NSF check from customer:**
   - Debit: Accounts Receivable ...$200
   - Credit: Cash ...$200
4. **To correct recording error for utilities:**
   - Debit: Cash ...$270
   - Credit: Utilities Expense ...$270