BANK RECONCILIATION 31 JANUARY 2013

Lesson Description:

In this lesson we will consider the following:

- Bank Reconciliation
- Reasons for Differences
- Procedure for Reconciliation
- Bank Reconciliation Statement
- Internal Audit
- Internal Control

Key Concepts

Bank Reconciliation

Both the business and the bank keep a record of the transactions .Entries are made by both parties and must correspond. The BANK STATEMENT is received from the bank at the end of each month. This is then compared with the cash journals.

Reasons for Differences

- Bank charges
- Interest on overdraft
- Interest on current account
- Dishonoured cheques
- Direct deposits
- Stop or debit orders
- Errors in the cash payments journal

Procedure for Reconciliation

- Compare the previous month bank reconciliation
- Compare the CRJ against the CREDIT side of the bank statement
- Compare the CPJ against the DEBIT side of the bank statement.
- Compare the salaries journal against the bank statement

Bank Reconciliation Statement

- DR/CR balance as per BANK statement
- Debit outstanding cheques
- Credit Outstanding deposits
- Errors made by the bank
- DR incorrect credit

- CR incorrect debit
- DR/CR balance as per BANK Account

Internal Audit

- Management is responsible for implementing an establishing an effective control and auditing process.
- This process should safeguard the assets of a business. In this case cash

Internal Control

- All incomes received must be properly recorded
- All the accounting records must be accurate and reliable
- All expenditure must be authorised and entered
- DIVISION of duties
- Proper documentation/authorisation

Questions

Question 1:

Complete the following sentences in your own words:

It is important to prepare a Bank Reconciliation Statement each month because... (2)

Question 2:

You are provided with information relating to Cravenby Traders.

a.) Refer to Information B. The bookkeeper has decided to write off the amount of R40 000.
- Which GAAP principle will the bookkeeper apply in this case? Briefly explain this principle. (3)
- The bookkeeper wants to prevent a problem such as this in future. Give TWO solutions to improve internal control in this regard.

(14)

b.) Prepare the Bank Reconciliation Statement on 31 May 2012. (13)

INFORMATION:

A The following balances were identified in the books of the business and the Bank Statements:

	30 APRIL 2012	**31 MAY 2012**
Bank account in Ledger	R12 720	**?**
Bank Statement	R24 700	R19 310 (overdraft)

B Items appearing in the Bank Reconciliation Statement on 30 April 2012:

- A deposit of R40 000, dated 2 April 2012, does not appear on any Bank Statement. This money cannot be traced and the cashier has disappeared.
- Cheque No. 962, for R2 340, dated 10 April 2012, appeared on the Bank Statement on 2 May 2012.
- Cheque No. 967, for R4 790, dated 20 April 2012, has still not been presented at the bank by the payee, S Smit.

C The Bank Statement for May reflected bank charges, R1 850 and interest on an overdraft, R920.

D Items appearing in the Cash Journals but not in the Bank Statement:

- Cheque No. 1122 for R4 650, dated 18 May 2012
- Cheque No. 1129 for R8 540, dated 25 August 2012
- A deposit of R11 550, dated 31 May 2012

E The bank overcharged on the bank charges for May by R960. The bank has agreed to correct the error during June 2012.