

Dear Client/Friend:

Since cash is vital to a business organization, it is imperative that bank reconciliations are performed monthly for every business. A business can succeed with cash, however, without it, failure is inevitable. A bank reconciliation is the process of comparing a general ledger cash balance to the bank's cash balance as of a specific date in order to note any discrepancies. It is a tool to track the cash flows in and out of a business. Thus, when prepared properly, bank reconciliations eliminate the guessing of how much money was withdrawn or deposited in the bank and allows the cash position to be known at all times.

The best time of the month to perform the reconciliation is at the end of the month when a bank statement is received. A bank reconciliation can be prepared by following these eight steps:

- 1) After the month end bank statement is received, check all entries in your general ledger cash account on the books against those in the bank statement. It is helpful to put a checkmark next to matching items on both the bank statement and the general ledger.
- 2) Any unchecked items on your general ledger represent items that your bank does not know about as of the end of the specified month. These may include checks written to vendors which have not been cashed at the bank as of the end of the month or money collected but not deposited in your bank account until the next reporting period. These items are called "outstanding checks" or "deposits in transit" and need to be subtracted or added to the bank balance. If there are any unchecked items on your bank statement, for example bank fees or interest payments made automatically to your bank account, these items need to be subtracted or added to your general ledger balance.
- 3) Now, you are ready to prepare a bank reconciliation statement. Start by recording the balance at the end of the month as reported on the bank statement.
- 4) Next, add any outstanding deposits.
- 5) Then subtract any outstanding checks.
- 6) Record your book balance per the general ledger as of the end of the month.
- 7) Add or subtract to (from) your general ledger balance any additional items on the bank statement that are not already recorded.
- 8) You now should have an ending book balance and a reconciled bank balance. If the two balances equal, your bank account is reconciled. If they do not equal, you will need to investigate any differences.

Several reasons could cause a difference such as mathematical errors, incorrect beginning balances, incorrect outstanding check balance or deposit in transit balance.

Examine the outstanding items to ensure they are reasonable. For example, a deposit listed as outstanding for two months is likely to be a mistake. Any deposit made to a bank should not take two months to clear. It could signal an employee who meant to

make a deposit but instead left the envelope of funds in the company safe (hopefully). Or a deposit could have been recorded, and when not made in a timely matter, the deposit amount could have been changed to a larger amount and been deposited later. In this case, the money actually reached the bank. The amount of the first deposit, however, was recorded twice on the books, once for the original amount, and then again as part of the larger deposit.

It is also important to examine outstanding checks to ensure they clear during the following month. If a check is outstanding for a number of months, you may want to attempt to verify that it reached the intended recipient. An outstanding check payable to a vendor may signal a payment was sent but never received. As a result, the vendor may have record of your account as delinquent as a result.

If the source of the difference is still undetected, check for arithmetical errors. If the difference is exactly divisible by 9, a transposition is likely. An example of a transposed figure would be 261 instead of 216.

Bank reconciliations are critical for the safeguarding of cash. It is essential that the individual responsible for preparing the bank reconciliation is not the individual making the deposits and writing checks. In some cases, the size of the business or the number of employees prevents this segregation of duties. When this constraint is present, an adequate procedure would be for a separate individual to perform the bank reconciliations at random throughout the year.

If you need assistance with bank reconciliation procedures or controls over cash in general, please do not hesitate to call.

Very Truly Yours,

Erin J. Kliesch