Week 2 DQ 2 Bank Reconciliation

Hi, today we are going to learn how to do a bank reconciliation. Remember the bank reconciliation is done at the end of every month and what we're trying to do is figure out how much actual cash we have. When we get our bank statement in the mail, the bank statement says we have a certain amount of money but our general ledger account says that we have another amount of money. Rarely do those two match.

The purpose of the bank reconciliation then is to reconcile those two numbers and find out exactly how much cash we have. What we're going to do is draw an outline to help us facilitate that bank reconciliation so the first thing we are going to do is we are going to write a cash balance per bank statement. Then we are going to add some things to that and we're going to subtract some things to get an adjusted balance per bank. Down below that we're going to continue, but we are going to do it for books.

So we have cash balance per our books, this is for our general ledger. Then we're going to add some things and we're going to subtract some things to get an adjusted balance per books. We're looking at our bank statement, and our bank statement shows that we have $1,000. If we look at our general ledger account our general ledger is showing that we don't have $1,000, it says that we have $900. We need to reconcile these two numbers.

If we're looking at our general ledger cash account then, this is our general ledger. It's showing we have $900. The other thing that is on our bank statement, so we're going back to our bank statement and we're looking at it. Our bank statement shows that we have a note that the bank collected for us. So the bank collected a note from one of our customers. Instead of the customer sending us a check in the mail, it sent it directly to our bank and the bank then deposited it to our account and the note that was collected the amount was $150. So we're going to add that to our balance in our bank statement or excuse me, to our general ledger account. The bank has already added it to this number and we want to add it to our general ledger cash account.

The other thing that was on our bank statement were two charges that they charged us and reduced our account. The first thing the bank charged us for was for monthly bank charges. Those monthly bank charges were $25. We're going to subtract those out. The other thing that was on the bank statement that we looked at was a check that one of our customers wrote us that bounced. The bank then reduced our account for that bounced check. This is called an NSF check and this is from one of our customers. Let's say it's from Jay Little. The check amount was $175, so quite a bit of money that bounced. We're going to reduce our general ledger book account by those two charges and then also we're going to increase it for the note that was collected from our customer. If we add from the $900 add the $150 and we subtract out these two charges of $25 and $175 that gives us an adjusted balance in our books of $850.

So let's go back up to the top here, and look at some things that might have affected our bank statement balance. One of the things is checks that we wrote that have not cleared the bank yet. We know we wrote them and we've already taken them out of our general ledger number, but they haven't cleared the bank and we want to subtract those out of that bank statement balance. There's $200. The other thing that we know happened but is not included on the bank statement balance yet is a deposit we made and that deposit may have been made like after three o'clock on a business day. That deposit will not show up until the following business day. So as of the date of this bank statement the bank is not showing it included in this number and that was for $50. We're going to add that to the bank statement balance. This will give us an adjusted balance per the bank of $850.

So, $1,000 plus the deposit transit less those outstanding checks gives us $850. Notice that both the bank balance and the general ledger numbers now match and they have to match in order for us to show that we have reconciled our account. We really have $850 but right now the cash in our general ledger account is still showing $900. We need to make some adjustments and we're going to make adjustments for this note that was collected. We're going to make an adjustment for the bank charges and we're going to make an adjustment for that NSF check written by one of our customers.

So we go to our general journal and we make up a general journal page here on the board anyway. Let's say that this was made as the date of the reconciliation. Let's say it was October 31st and the first one was for this note that was collected. So cash went up, and cash went up $150 so we're going to debt cash $150. We're going to reduce or credit our note receivable account for that $150. So this was for note collected, so we've recorded that $150 and when we post that as a debit to our cash account, it's increasing our general ledger account.

The next adjustment we might need to make is for these two subtractions. So we skip a line. The first one is for the bank charges. We are going to go ahead and call it bank charges or bank charges expense or bank service charges. Since I don't have a lot of space I'm going to call it bank charges. Our bank charges were $25. We also have an NSF check. We do not have an account called NSF check. This is really a customer's check that bounced. That customer still owes us money. So we are going to debit our accounts receivable for Jay Little. I'm going to abbreviate though I don't like to do that, but I'm going to do that here because I'm running out of room. So that was for the $175 bad check. He still owes us the money we want to make sure we debit his accounts receivable. Then we're going to reduce our cash account by those two numbers. That's a total of 200. We're going to go ahead and post this journal entry and that reduces our general ledger account by 200. After posting then, we should show a correct adjusted balance of $850 and we are done with our bank reconciliation.