

# Bank Reconciliation: What Is It, Examples, and Best Practices



## IN THIS ARTICLE

- What Is a Bank Reconciliation?
- Why Do We Do a Bank Reconciliation?
- What Is Included in Bank Reconciliations?
- What Are the Steps in the Bank Reconciliation?
- Example of a Bank Reconciliation
- How Often Should You Perform Bank Reconciliation?
- What Are Common Issues That Can Be Identified During Bank Reconciliation?
- Best Practices for Managing Your Bank Reconciliations
- Completing Bank Reconciliations Monthly Is a Must

Accounting is a matter of checks and balances, and one of the most important checks and balances that business owners need to complete is the bank reconciliation process.

Even with the popularity of accounting software applications that are designed to complete the majority of the reconciliation, the bank reconciliation process remains one of the most important jobs of the accounting department.

# What Is a Bank Reconciliation?

## ■ What Is a Bank Reconciliation?



A bank reconciliation compares the amount shown on a bank statement to the amount recorded in a general ledger.

PLANERGY™

A bank reconciliation compares the amount shown on a bank statement to the amount recorded in a general ledger.

The purpose of the bank reconciliation process is to locate and record any transactions that may be missing from either the bank statement balance or the cash balance shown in the general ledger.

Completing a bank reconciliation takes into account things like checks that have not yet been cashed, bank fees recorded on the bank account but not yet in the general ledger, and deposits that may be in transit.

## Why Do We Do a Bank Reconciliation?

The purpose of the bank reconciliation is to account for the differences in your financial records.

Every active checking account or other business account your business currently has should be reconciled at the end of the month.

For a variety of reasons, the balance on your bank statement will rarely match your book balance or general ledger balance.

Your bank statement balance may be overstated since it doesn't include any outstanding checks that have not yet been cashed.

On the other hand, your general ledger account will not reflect bank fees or other administrative charges, or any returned checks.

It may also not reflect deposits made into your account electronically that have not yet been accounted for.

Aside from having your bank account and general ledger account balance match, there are other reasons why a bank reconciliation should be completed regularly.

The reconciliation process also helps spot potential fraud or bank errors.

Let's say that you wrote a check for \$50 to a vendor, but the check was later altered and cleared by the bank for \$500.

The only way you may even know about the fraud is by completing a bank reconciliation.

Completing a bank reconciliation also helps you keep track of any bank service fees or interest income that appears on the statement, allowing you to address them if they've been applied in error.

A reconciliation can also assist with spotting possible errors reflected in the general ledger or on the bank statement.

For instance, you may have written a check to the plumber who was in last week to fix a leaky faucet and failed to record it in your accounting software application. Or your bank may have posted a check to your account in error.

Again, the only way to find out about the error or omission is to complete a bank reconciliation.

Finally, completing a bank reconciliation regularly can help make audits an easier process, since all banking and general ledger activity has already been reviewed for accuracy.

# **What Is Included in Bank Reconciliations?**

Both banking activity and all activity going into and out of the general ledger account are included in the bank reconciliation.

This includes all deposits made into the bank account, checks written, withdrawals made, and any bank charges or other fees.

# **What Are the Steps in the Bank Reconciliation?**

Completing a bank reconciliation involves a series of steps that should be followed.

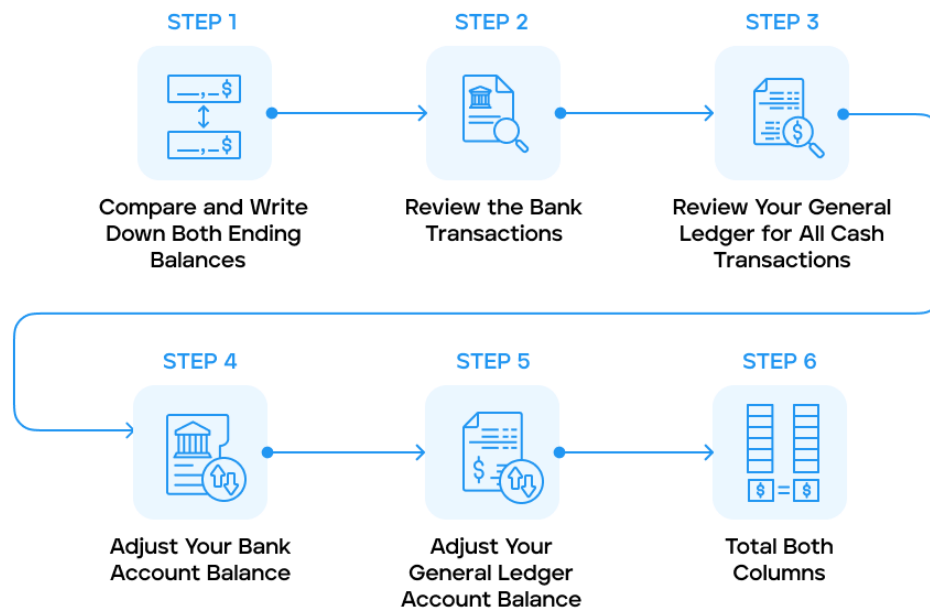
Before starting the reconciliation, you should have a copy of your bank records for the period that you're reconciling along with any relevant accounting records.

If you can't complete the reconciliation process using your accounting software, you can create a reconciliation template using a Microsoft Excel spreadsheet, which can be helpful when adding up your adjustments.

Any reconciliation sheet you use for your bank reconciliation should have two columns; one for the bank account and one for the general ledger account.

To get started with the bank reconciliation process, follow this step-by-step process:

## Steps in the Bank Reconciliation



PLANERGY™

### 1. Compare and Write Down Both Ending Balances

Compare the ending balance to the ending balance currently recorded in your general ledger. If they match, then no reconciliation is needed.

However, it's highly unlikely that the two totals will match, which means some adjustments will need to be made in both columns.

### 2. Review the Bank Transactions

Review the transactions in your statement to see if you notice any unusual activity such as unidentified charges or debits.

You'll also want to view any bank charges or service charges for accuracy and review other items such as NSF check fees.

You'll also want to compare checks cleared with checks written to ensure that they match what's recorded in your general ledger.

For example, if you wrote a check for \$100 that cleared but was never

recorded in the general ledger, you'll have to record it now as an adjustment.

Both the bank fees and the check should be adjusted on the general ledger side of your bank reconciliation form.

### 3. **Review Your General Ledger for All Cash Transactions**

Outstanding checks are one of the biggest reasons for a discrepancy between your bank statement and your general ledger account.

Your general ledger has already recorded these checks as an expense, but they have not yet been deposited, so you'll need to adjust your bank balance to reflect those outstanding checks.

### 4. **Adjust Your Bank Account Balance**

Once you've reviewed your general ledger account, you're ready to make adjustments.

Be sure to consider which side of the reconciliation sheet you'll need to place your adjustments.

For example, any outstanding checks that have been factored into your general ledger account balance that has yet to clear the bank will need to be subtracted from your ending bank balance.

If you completed a deposit that has yet to show up in the bank, you will need to add the amount of the deposit to the bank balance.

### 5. **Adjust Your General Ledger Account Balance**

Your next step is to write down any adjustments that you'll need to make to your general ledger balance.

Interest paid on an account will be added to your general ledger balance while any bank charges or overdraft fees will need to be subtracted from

your ending general ledger balance.

## 6. Total Both Columns

Once all of your adjustments have been recorded, you'll need to total up both columns. Hopefully, the two accounts are now in balance.

If they remain out of balance, you'll need to continue researching to determine where the discrepancy is.

# Example of a Bank Reconciliation

Using the following information, we're going to complete a bank reconciliation for ABC Company for December 2024.

ABC Company's bank statement for December reflects an ending balance of \$46,125, while the ending balance in their general ledger account for December is \$43,250.

During the reconciliation process, the bookkeeper identified the following discrepancies:

- There was a \$25 bank fee that was not recorded as an expense in the general ledger.
- There was a \$1,000 mail deposit that is in transit.
- There are two checks written in December that have not yet cleared the bank; one check is for \$1,200 and the other check is for \$1,600.
- There was an electronic payment made by a customer that has not been recorded in the general ledger.

Once all of the discrepancies have been identified, the bookkeeper is ready to complete the bank reconciliation to see if the two ending balances now match.

<b>ABC Company Bank Statement - December, 2024</b>		
<b>Bank Account</b>		<b>General Ledger Account</b>

Beginning Balance	\$46,125	Beginning Balance	\$43,250
Adjustments		Adjustments	
Deposit in Transit	\$1,000	Bank Fees	(\$25)
Outstanding Check	(\$1,200)	Customer Deposit	\$1,100
Outstanding Check	(\$1,600)		
<b>Ending Adjusted Balance</b>	<b>\$44,325</b>	<b>Ending Adjusted Balance</b>	<b>\$44,325</b>

With the adjustments made, ABC Company's ending bank balance and ending general ledger balance now match; at least on paper.

But you want your general ledger account to reflect the correct balance, which means you'll need to prepare journal entries for the adjustments on the general ledger account side.

There is no need to make any adjustments on the bank side since those will likely happen during the next month.

To complete the reconciliation process, you'll need to make the following journal entries:

<b>Date</b>	<b>Account</b>	<b>Debit</b>	<b>Credit</b>
12-13-2024	Cash Account	\$1,000	\$25
	Sales		\$1,000
	Bank Fees	\$25	
	To record bank reconciliation adjustments		

In the journal entry above, we've debited or increased cash with the customer deposit of \$1,000, while decreasing it by \$25 for the bank fees.

In turn, we've credited our sales account for the customer deposit while also recording the bank fee expense.

Completing these journal entries will ensure that your beginning balance for January will reflect the actual reconciled total.

# How Often Should You Perform Bank Reconciliation?

Even small businesses should complete a bank reconciliation monthly.

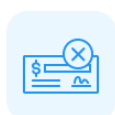
It becomes much more difficult to pinpoint errors or find issues when you need to reconcile more than a single month for any account.

It also becomes more difficult to address any fraud issues that may arise if a bank reconciliation is not completed regularly.

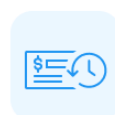
## What Are Common Issues That Can Be Identified During Bank Reconciliation?

Completing a bank reconciliation enables you to spot potential issues ranging from checks cleared that don't belong to your account to bank fees charged when they shouldn't be, in most cases, you'll be encountering one of these common problems when completing a bank reconciliation.

### ■ Common Issues That Can Be Identified During Bank Reconciliation



Returned Checks



Voided or Old Checks  
That Clear



Outstanding Checks



Unauthorized  
Activity

## • **Returned Checks**

Checks are returned for a variety of reasons.

A bank may deem a check suspicious and not deposit it, which will directly impact both your bank balance and your general ledger account balance.

The same premise is true when a check is returned for insufficient funds.

When a check is returned, you'll need to reduce the amount of the deposit that is recorded in your general ledger account and increase your accounts receivable balance accordingly.

## • **Voided or Old Checks That Clear**

Many businesses have a set timeframe they adhere to for checks clearing their account.

Once that timeframe has passed, the accounting department will typically void that check, perhaps reissuing a new one if new information has been received.

However, in some cases, a check may be paid by the bank, even though it may be months or even years old.

If a stop-payment was issued by the bank, the check should not be cleared, but in many cases, businesses void a check on their end and don't put a stop-payment on the uncashed check in question.

No matter what the reason, if the bank does clear the check you will need to adjust your general ledger account to reflect the adjustment.

This can become a major issue if a new check has been processed to replace the old one and both checks clear the bank. In that case, you'll need to address the duplicate payment with your vendor or supplier.

## • **Outstanding Checks**

Outstanding checks usually make up the biggest difference between the

ending bank balance and the general ledger balance, particularly if you mail out checks later in the month.

The best way to identify outstanding checks is to compare the list of checks issued to the list of checks that have cleared, noting which are still outstanding on your bank reconciliation.

## • **Unauthorized Activity**

Unauthorized activity can range from bank charges you weren't aware of to altered checks or unapproved debits that were made to your account.

The only way to identify and address these unauthorized charges made to your account is to reconcile all of your bank statements regularly.

This is particularly important because many banks have a limited window to report fraud, and if you notice fraudulent activity months after it's taken place, it may be more difficult to have the fraudulent charges reversed.

# **Best Practices for Managing Your Bank Reconciliations**

If you're using a manual or spreadsheet accounting system, completing bank reconciliation procedures can be a time-consuming process.

However, there are some things you can do to streamline the reconciliation process.

# Best Practices for Managing Your Bank Reconciliations



Create and Maintain  
a Schedule



Complete the Necessary  
Journal Entries



Turn to Technology

PLANERGY™

## • Create and Maintain a Schedule

It's easy to set aside your monthly bank statement when it arrives.

However, scheduling time to complete bank reconciliations at regular intervals will make sure they get done promptly.

Also designating a staff member to handle the reconciliation process can expedite completion.

## • Complete the Necessary Journal Entries

Completing the bank reconciliation process includes making the necessary adjustments in your general ledger account.

If adjustments are not completed by the end of the next month, it will be even more difficult to complete the reconciliation.

## • Turn to Technology

Using technology such as online banking can help streamline your entire accounting department, including the bank reconciliation process.

Newer accounting software applications often complete much of the reconciliation work for you.

Though numbers will need to be double-checked in some cases for

accuracy, using technology can help quickly pinpoint necessary items such as uncleared checks while advising you immediately when a bank debits your account for service fees.

## **Completing Bank Reconciliations Monthly Is a Must**

Whether you're doing your reconciliations on your computer, assisted by accounting software, or manually using your cash book, completing the bank reconciliation process for all of your company's bank accounts remains one of the most important processes that businesses need to undertake regularly.

### **What's your goal today?**

#### **1. Use PLANERGY to manage purchasing and accounts payable**

We've helped save billions of dollars for our clients through better spend management, process automation in purchasing and finance, and reducing financial risks. To discover how we can help grow your business:

- Read our case studies, client success stories, and testimonials.
- Visit our Accounts Payable Automation Software page to see how PLANERGY can automate your AP process reducing you the hours of manual processing, stopping erroneous payments, and driving value across your organization.
- Learn about us, and our long history of helping companies just like yours.

Book a Live Demo

#### **2. Download our guide "Preparing Your AP Department For The Future"**

Download a free copy of our guide to future proofing your accounts payable department. You'll also be subscribed to our email newsletter and notified about

new articles or if have something interesting to share.

download a free copy of our guide

### **3. Learn best practices for purchasing, finance, and more**

Browse hundreds of articles, containing an amazing number of useful tools, techniques, and best practices. Many readers tell us they would have paid consultants for the advice in these articles.

## **Related Posts**