

# CHAPTER 1: Bank reconciliation



## What you need to know (checklist):

| Topic  | I can do this |
|--|---------------|
| <b>Cash Journals entries</b><br>Cash payments and cash receipts entries  |               |
| <b>Bank entries</b><br>Service charges, bank fees, interest, stop orders, debit orders   |               |
| <b>Bank Reconciliation Statement</b><br>Recording the differences, reconciling CRJ and CPJ to bank statement, outstanding EFTs, outstanding deposits |               |



## 1.1 Cash Journals and entries made by the bank

- All cash transactions that are entered by the business in its own books are also entered by the bank in the account of the business.
- All cash received by the business is entered in the Cash Receipts Journal (CRJ). These are then posted as follows:
 

|  |  |
|--|--|
| <b>Business</b>                                      | <b>Bank</b>  |
| <b>Debits</b> <i>Bank</i> account (an <b>asset</b> ) | <b>Credits</b> the business's account (a <b>creditor</b> ) |
- The business enters all payments in the Cash Payments Journal (CPJ). These are then posted as follows:
 

|   |                                      |
|---|--------------------------------------|
| <b>Business</b>   | <b>Bank</b>                          |
| <b>Credits</b> <i>Bank</i> account (decrease the asset) | <b>Debits</b> the business's account |
- If all the transactions that were entered by the business in its own books agree exactly with the bank statement, the balance of the *Bank* account should be the same as the balance of bank statement. Remember: the balance of the *Bank* account is a **debit balance** and the balance of the bank statement is a **credit balance**.
- However, the two balances are never the same so the business must do a bank reconciliation every month. To compare the business's CRJ and CPJ with the bank statement:
  - Compare the CRJ with the credit side of the bank statement and circle all amounts that do not agree.
  - Compare the CPJ with the debit side of the bank statement and circle all amounts that do not agree.
  - Compare the previous month's Bank Reconciliation Statement with the current month's bank statement to see whether any amounts are still outstanding.
  - Make the necessary entries in the CRJ, CPJ and Bank Reconciliation Statement to reconcile the books of the business with the bank statement.

## 1.2 Possible differences

The **differences** are any amounts that have been circled. Remember: a circled amount **does not appear in the corresponding place**.

### Summary of differences when reconciling the CRJ and CPJ with the bank statement:

#### 1.2.1

| Items appearing in the debit column of the bank statement but not in the CPJ | What should you do?       |
|--|---------------------------|
| Interest on overdraft<br>Interest on loan<br>Bank charges                    | Enter in the <b>CPJ</b> . |
| Debit orders<br>Stop orders  |                           |

#### 1.2.2

| Items appearing in the credit column of the bank statement but not in the CRJ | What should you do?       |
|---|---------------------------|
| Interest on current account<br>Interest on fixed deposit                      | Enter in the <b>CRJ</b> . |
| Direct deposits from tenants for rent income<br>Direct deposits from debtors  |                           |

#### 1.2.3

| Items appearing in the CPJ but not in the debit column of the bank statement.            | What should you do?   |
|--|---|
| EFTs that were made after the bank statement was received or drawn from internet banking | Enter as outstanding EFTs in the debit column of the <b>BRS</b> . |

#### 1.2.4

| Items appearing in the CRJ but not in the credit column of the bank statement. | What should you do?  |
|--|--|
| Outstanding deposits   | Enter as outstanding deposits in the credit column of the <b>BRS</b> . |

#### 1.2.5

| Additional items   | What should you do?  |
|--|--|
| Errors made in the CRJ or CPJ where the correct amount appears on the bank statement | If too little is entered, then enter difference in same journal.<br>If too much entered, then enter difference in opposite journal.  |
| Errors on the bank statement   | If our account was incorrectly debited, then credit the <b>BRS</b> with the incorrect payment.<br>If our account was incorrectly credited, then debit the <b>BRS</b> with the incorrect deposit. |

## Basic introductory activities

### Activity 1.1

#### Required

Use the information below to do the following in the books of Crème Stores:

1. Complete the Cash Journals for March 2020. Total only the bank columns in both journals.
2. Draw up the *Bank* account and balance the account on 31 March 2020.
3. Draw up the Bank Reconciliation Statement on 31 March 2020.

#### Information

When the Cash Journals for March were compared with the bank statement for March, the items below were not crossed off.

#### Cash Receipts Journal for March 2020

| No. | Day | Details | Analysis of receipts | Bank         | Debtors control | Sundries     |         |
|-----|-----|---------|----------------------|--------------|-----------------|--------------|---------|
|     |     |         |                      |              |                 | Amount       | Details |
|     |     | ...     | ...                  | ...          | ...             | ...          |         |
| 99  | 30  | H Hawk  | 318                  |              | 318             |              |         |
| CRR |     | Sales   | 2 323                | 2 641        |                 |              |         |
|     |     |         |                      | <u>8 827</u> | <u>7 025</u>    | <u>1 727</u> |         |

#### Cash Payments Journal for March 2020

| No. | Day | Details       | Bank         | Creditors control | Debtors control | Sundries   |            |
|-----|-----|---------------|--------------|-------------------|-----------------|------------|------------|
|     |     |               |              |                   |                 | Amount     | Details    |
|     |     | ...           | ...          | ...               | ...             | ...        |            |
| 345 | 19  | Era & Co      | 291          |                   |                 | 291        | Stationery |
| 351 | 30  | Mondi Dealers | 275          | 275               |                 |            |            |
| 352 | 31  | Trim Stores   | 296          | 296               |                 |            |            |
|     |     |               | <u>8 177</u> | <u>5 927</u>      | <u>1 201</u>    | <u>689</u> |            |

**Money Bank**

**Bank statement for March 2020**

| Details              | Amount  | Date       | Balance |
|----------------------|---------|------------|---------|
| Credit               | 1 050 + | 28/02/2020 | .....   |
| 342                  | 25      | 28/02/2020 | .....   |
| 343                  | 130 –   | 28/02/2020 | .....   |
| .....                | .....   | .....      | .....   |
| Stop order           | 175 –   | 08/03/2020 | .....   |
| Stop order           | 75 –    | 20/03/2020 | .....   |
| Credit               | 600 +   | 22/03/2020 | .....   |
| Credit – C Chabalala | 120 +   | 24/03/2020 | .....   |
| Service fees         | 45 –    | 26/03/2020 | .....   |
| Cash handling fees   | 25 –    | 26/03/2020 | .....   |
| Interest             | 60 –    | 28/03/2020 | .....   |
| 345                  | 269 –   | 28/03/2020 | 1 963 – |

**Additional information in respect of the above bank statement:**

- The stop orders were in favour of Securimed for insurance, R175 for short-term insurance for the business and R75 for life insurance for the owner.
- The deposit of R600 was deposited directly in the current account by the tenant.
- Debtor C Chabalala was declared insolvent during March and the deposit of R120 was in payment of his debt.
- The correct amount of EFT no. 345 is R269. It appears as R291 in the CPJ.

**Bank Reconciliation Statement 29 February 2020**

|   | Debit        | Credit       |
|---|--------------|--------------|
| Debit balance according to bank statement       | 1 725        |              |
| Credit outstanding deposit                      |              | 1 050        |
| Debit outstanding EFTs:                         |              |              |
| no. 342   | 75           |              |
| no. 343   | 130          |              |
| Credit balance according to <i>Bank</i> account |              | 905          |
|   | <b>1 955</b> | <b>1 955</b> |

**Additional information in respect of the Bank Reconciliation Statement**

EFTs no. 342 and 343 appeared on the bank statement.

**Activity 1.2**

The inexperienced bookkeeper of Online Services closed off the Cash Journals for June 2020 and posted to the *Bank* account before receiving the bank statement for June 2020. The *Bank* account showed a favourable (debit) balance of R1 386. Once the bank statement was received, however, some differences were recorded.

**Required**

1. Draw up the *Bank* account by entering the differences directly into the *Bank* account.  
Balance the account.
2. Draw up the Bank Reconciliation Statement on 30 June 2020.

**Information****Bank Reconciliation Statement on 31 May 2020**

|  | Debit | Credit |
|--|-------|--------|
| Credit balance according to bank statement     |       | 1 216  |
| Credit outstanding deposit                     |       | 3 078  |
| Debit outstanding EFTs:                        |       |        |
| no. 695  | 528   |        |
| no. 696  | 556   |        |
| Debit balance according to <i>Bank</i> account | 2 520 |        |
|  | 4 294 | 4 294  |

**Additional information**

- The bank statement for June 2020 showed the following amounts that were not crossed off after it was compared with the CRJ and CPJ for June 2020:
  - Deposit, R3 078
  - Deposit of R1 440, deposited by H Hire for the rent for July 2020
  - EFT no. 695 for R528 and EFT no. 696 for R556 from previous month's reconciliation
  - Cash handling fee, R22
  - Service fees, R72
  - Interest on current account, R16
  - Stop order to Insurnet, R1 354, for insurance
- Entries in the CRJ that do not appear on the bank statement:  
Deposit R1 606
- Entries in the CPJ that do not appear on the bank statement:  
EFT no. 831 R914  
EFT no. 832 R502
- Errors found when comparing the CPJ with the bank statement:
  - EFT no. 828 for R936, made on 28 June 2020 for advertising, was entered in the CPJ as R752.
  - The bank statement showed a favourable (credit) balance of R1 020 on 30 June 2020.

**Exam-type questions****Activity 1.3****Required**

1. Calculate the correct balance of the *Bank* account of Penny Traders on 30 November 2020.  
Show your calculations (you may draw up the *Bank* account as part of your calculations).
2. Draw up the Bank Reconciliation Statement on 30 November 2020.

**Information**

The *Bank* account was completed before the bank statement was received and before the necessary supplementary entries were made in the Cash Journals.

The *Bank* account had a credit balance of R2 670,90.

**Bank Reconciliation Statement on 31 October 2020**

|   | Debit |    | Credit |    |
|---|-------|----|--------|----|
| Debit balance according to bank statement       | 3 350 | 30 |        |    |
| Credit outstanding deposit                      |       |    | 2 303  | 74 |
| Debit outstanding EFTs:                         |       |    |        |    |
| no. 1268  | 700   | 92 |        |    |
| no. 1269  | 142   | 78 |        |    |
| Credit incorrect entry                          |       |    | 540    | 00 |
| Debit amount incorrectly credited               | 240   | 00 |        |    |
| Credit balance according to <i>Bank</i> account |       |    | 1 950  | 26 |
|   | 4 794 | 00 | 4 794  | 00 |

**Additional information**

- The bank statement of November 2020 showed an unfavourable (debit) balance of R1 434,86.
- The following differences came to light when the Cash Journals for November were compared with the bank statement for November:
  - **Entries on the bank statement that do not appear in the Cash Journals:**
    - Credit entries*
    - Deposit                      R2 303,74
    - Deposit                      R540,00
    - Deposit                      R1 169,52 (This incorrect deposit should have been credited to the account of Kenny Traders.)
    - Deposit                      R1 640,00 (This deposit was made in the account of Penny Traders by the tenant R Renty.)
    - Debit entries*
    - Error corrected              R240,00
    - Stop order                    R191,90 (This was in favour of Allied Insurance for the business' insurance.)
    - EFT no. 1268                R700,92
    - EFT no. 1269                R142,78
    - Cash handling fee          R25,40
    - Service fees                 R53,68
    - Interest on overdraft       R36,92
  - **Entries in the CRJ that do not appear on the bank statement:**
    - Deposit                      R3 560,10
  - **Entries in the CPJ that do not appear on the bank statement:**
    - EFT no. 1287                R1 231,80
    - EFT no. 1288                R702,72

**Activity 1.4**

A list of transactions are provided from the books of Buffalo Stores that indicates differences that came to light during the comparison of the Cash Journals for September 2020, the bank statement for September 2020 and the Bank Reconciliation Statement for August 2020.

**Required**

Analyse the given transactions as shown in the example.

**Example**  
 Tenant deposited his rent, R200, directly in the business's account.

| No.     | Cash Journals |     | Bank Reconciliation Statement |        | No entry |
|---------|---------------|-----|-------------------------------|--------|----------|
|         | CRJ           | CPJ | Debit                         | Credit |          |
| Example | 200           |     |                               |        |          |

**Transactions**

- The bank statement for September 2020 showed an amount of R99 for service fees.
- EFT no. 301 for R675 was entered as an outstanding EFT on the Bank Reconciliation Statement for August, but does appear on the bank statement for September.
- A deposit of R450 on the bank statement for September was for interest on fixed deposit.
- A deposit of R6 450 was incorrectly entered in the account of Buffalo Stores and will have to be corrected by the bank.
- Monthly stop order in favour of EXA Insurance for the business's insurance, R1 650, appeared on the bank statement for September 2020.
- EFT no. 324 for R770 was shown as an outstanding EFT on the Bank Reconciliation Statement for August 2020. Upon investigation it was found that the EFT amount had been incorrectly entered in the CPJ as R700.
- Credit on the bank statement for September for interest on current account, R123.
- EFT no. 319 for R459 appeared as a payment in the CPJ on 30 September 2020, but did not show on the bank statement for September 2020.

**Activity 1.5**

You are provided with information from the Bank Reconciliation Statement of Monsoon Stores on 31 August 2018. The business banks with Secure.

**Information**

After completing the bank reconciliation process, the bookkeeper submitted the Bank Reconciliation Statement for August 2018 to the internal auditor.

|   |         |
|---|---------|
| Overdrawn balance on the bank statement | R35 260 |
| Outstanding deposit (31 August 2018)    | 7 380   |
| Outstanding EFTs:                       |         |
| no. 619                                 | 4 500   |
| no. 620                                 | 6 800   |
| Balance in the <i>Bank</i> account      | ?       |

**Required**

- Why is it important for a business to prepare a monthly Bank Reconciliation Statement? Provide two points.
- Which GAAP principle is applied when bank charges and interest on overdraft is shown separately in the Cash Journals?
- Calculate the correct balance in the bank account on 31 August 2018. Does the bank account have a debit or credit balance?
- The internal auditor noticed that the deposit of R7 380 that appeared in the Bank Reconciliation Statement for August was incorrect. This deposit shows as R22 380 in the Bank column of the CRJ. Securebank confirms that they received R7 380 on 31 August.
  - Why should the internal auditor be seriously concerned about the difference of R15 000? The bookkeeper says that he cannot account for the missing money.
  - How should the internal auditor go about investigating the possible theft or fraud? Provide two points.

- 4.3 If you were the owner of Monsoon Stores, what steps would you take against the bookkeeper? Provide two points.
- 4.4 Explain why the GAAP rule of prudence will be used to account for the missing R15 000 in the books and in the financial statements.
- 4.5 List three control measures that the internal auditor should put in place to avoid this type of error occurring again.

## Test yourself 1.1

Time: 25 minutes

Marks: 40

The information below appeared in the books of Tembisa Traders on 30 April 2020.

### Required

1. Complete the Cash Journals for April 2020. (14)
2. Post to the Bank account in the General Ledger and balance the account. (7)
3. Draw up the Bank Reconciliation statement on 30 April 2020. (19)

Note: Tembisa Traders has an account with Trust Bank.

### Information

The totals of the CRJ and CPJ for April 2020 are shown below.

#### Cash Receipts Journal – April 2020

|                 |        |
|-----------------|--------|
| Bank            | 37 390 |
| Debtors control | 2 650  |
| Sundry accounts | 34 740 |

#### Cash Payments Journal – April 2020

|                 |        |
|-----------------|--------|
| Bank            | 39 128 |
| Debtors control | –      |
| Sundry accounts | 39 128 |

#### Bank Reconciliation Statement on 31 March 2020

|   | Debit | Credit |
|---|-------|--------|
| Debit balances according to bank statement      | 2 572 |        |
| Credit outstanding deposit                      |       | 4 004  |
| Debit outstanding EFTs:                         |       |        |
| no. 549   | 1 282 |        |
| no. 550   | 1 616 |        |
| no. 551   | 2 690 |        |
| Credit balance according to <i>Bank</i> account |       | 4 156  |
|   | 8 160 | 8 160  |

Upon comparing the Cash Journals with the Bank statements, the differences below came to light.

- The bank statement of 30 April 2020 showed a debit balance of R4 692.
- The following entries appeared on the bank statement for April 2020, but not in the Cash Journals for April:
 

|             |        |
|-------------|--------|
| EFT no. 549 | R1 282 |
| EFT no. 550 | R1 616 |
| EFT no. 551 | R2 690 |
| Deposit     | R4 004 |



- The bank statement showed the following debit entries:
  - EFT no. 562 appears on the bank statement as R1 200, but was entered in the CPJ as R1 900. The amount on the bank statement is correct.
  - Cash handling fee      R24,00
  - Credit card levy      R147,00
  - Tax levy      R13,00
  - Service fees      R115,80
  - Interest on overdraft   R62,20
  - Stop order in favour of Secury Insurers for insurance on the owner’s private vehicle, R344
- Interest on fixed deposit at Wen Bank was directly deposited in the business’s account, R720.
- The following EFTs were still outstanding on 30 April 2020:
 

|         |           |
|---------|-----------|
| no. 592 | R259,50   |
| no. 593 | R608,00   |
| no. 594 | R1 226,50 |
- A deposit of R1 406 on 30 April was not credited by the bank on the bank statement.

### Test yourself 1.2

Time: 24 minutes

Marks: 30

The following information relates to Bulls Suppliers for July 2021. They downloaded the bank statement for July 2021 and asked you to reconcile it with the CRJ and CPJ for July, as well as the Bank reconciliation Statement for June 2021.

#### Required

1. Compare the bank statement from Sure Bank with the the Cash Journals from July 2021, and do adjusted entries in the CRJ and CPJ. (12)
2. Prepare the Bank Reconciliation Statement on 31 July 2021. (12)
3. As the internal auditor you are not happy with the way in which cash is being controlled in this business.
  - 3.1 Identify the problem. Quote a figure to support your answer. (2)
  - 3.2 Give TWO points of advice on how this problem can be avoided in future. (4)

#### Information

A. Bank Reconciliation Statement on 30 June 2021:

|  |         |
|--|---------|
| Favourable balance as per bank statement             | R39 550 |
| <b>Outstanding deposit:</b> Dated 10 June 2021       | R12 675 |
| <b>Outstanding EFTs:</b>                             |         |
| No. 613  | R14 300 |
| No. 614  | R6 950  |
| Favourable balance as per Bank account in the ledger | R30 975 |

- B. On 31 July 2021, the provisional totals in the Cash Journals were:
  - Cash Receipts Journal, R515 407
  - Cash Payments Journal, R512 235
- C. On comparing the July 2021 bank statement, received from Sure Bank, with the Bank Reconciliation Statement of June 2021, the following were noted:
  - The outstanding deposit of R12 675 appeared on the bank statement on 5 July.
  - EFT no. 614, R6 950, was presented for payment.
  - EFT no. 613 appear on the bank statement for July 2021 as R13 400. The amount on the bank statement is correct. The EFT was for consumable goods paid to Green Stores.

- D. The following items appeared only on the bank statement for July 2021:
- Bank charges, R1 425
  - Interest on favourable bank balance, R145
  - A direct deposit of R6 250 from a tenant, J Little
  - A debit order of R1 850 for the monthly insurance from AllSure appeared twice on the bank statement. The bank will rectify this on the bank statement next month.
- E. EFT no. 633 appeared correctly on the bank statement as R 6 230. The Cash Journal shows it as R2 630. The payment was made to Dirksen Traders for equipment purchased.
- F. The following entries were in the Cash Journals for July 2021 only:
- A deposit of R10 000
  - EFT no. 654, R5 650
  - EFT no. 655, R1 443
- G. The bank statement shows a favourable balance of R29 810 on 31 July 2021.

### Test yourself 1.3

Time: 25 minutes

Marks: 39

The information below describes some of the bank transactions of Kenny Stores for July 2020.

#### Required

Copy the table. Then analyse each of the transactions in the columns, as shown by the example.

#### Example

A deposit of R2 400 appeared in the Cash Journal but not on the bank statement.

| No.     | Cash Journals |     | Bank Reconciliation Statement |        | No entry |
|---------|---------------|-----|-------------------------------|--------|----------|
|         | CRJ           | CPJ | Debit                         | Credit |          |
| Example |               |     |                               | 2 400  |          |
|         |               |     |                               |        |          |

#### Transactions

1. The bank statement showed an overdraft of R3 640 on 31 July 2020.
2. EFT no. 324 for R580 made in favour of Truli Stores on 30 June 2020 did appear on the bank statement for July 2020.
3. A deposit of R1 672, previously received from debtor K Kim was entered in the CRJ as R1 762.
4. A tenant deposited his rent directly in the current account of the business, R1 440.
5. The bank statement correctly showed an EFT for R1 096. However, the Cash Payments Journal showed the same EFT as R960. Correct the error.
6. The bank incorrectly debited the debit order of R850 for insurance twice. They will correct the error.
7. A debit order of R3 700 to Vodacom for cellphones and internet appeared on the bank statement only.
8. Interest on fixed deposit was deposited directly in the current account of the business, R1 500.
9. The bank credited the business's account with interest on current account, R224.
10. The bank statement showed EFT no. 888 for R239. Upon closer inspection, this turned out to be a mistake by the bank. They will correct the error.