

Preparation of a Bank Reconciliation

What is Needed:

- The Bank statement for the month that includes a listing of the deposits and other credits to the checking account and the listing of checks that were processed by the bank along with any other debits (charges) to the account
- The up-to-date checking account ledger or “checkbook” that is kept by the Treasurer
- The bank reconciliation prepared for the previous month
- A template for the format of the bank reconciliation

Steps in Preparing a Bank Reconciliation:

1. Head up the template of the bank rec with the AVO name, the checking account number and the ending date of the bank statement.
2. At the top of the bank rec template write down the ENDING BALANCE found on the bank statement (Note, make sure it is the ending balance and not the beginning balance or some other subtotal on the statement.).
3. Check off all the deposits on the bank statement matching them to the ones recorded in the Treasurer’s checkbook. There may be one deposit in the checkbook (There really should never be more than one if any at all.) made at the very end of the month that did not get to the bank in time for it to appear on the bank statement. This is called a deposit in transit and if there is one, it should be entered on the template as an addition to the ending bank balance.
4. Look at the bank rec completed for the prior month and check if there was a deposit in transit listed on it. If there was, make sure it appears as a deposit on the bank statement for the current month (If there was a deposit in transit last month it should appear as the first deposit on the statement for this month.).
5. Next, the checks deducted on the statement by the bank must be compared to the checks recorded in the Treasurer’s checkbook. If there are a lot of checks written care must be taken to match up the exact check numbers and amounts; this is very important. Check off in the checkbook each check that is deducted by the bank on the bank statement (There is usually a place for a checkmark in a checkbook for just this purpose.). Any checks that have been written and recorded in the checkbook that are not deducted on the bank statement are ones that the people to whom the checks were written have not cashed yet. These are called outstanding checks. List the outstanding check numbers, dates they were written and the amounts on the back of the template for the bank rec. Now, what is in these instructions next should actually be done before what was just stated but it would not have made sense until grasping the concept of outstanding checks. Again, look at the bank rec for the prior month and make sure that all outstanding checks were deducted by the bank this month. If there are any that weren’t cashed, then they are still outstanding and should be listed again with the new outstanding checks found this month. This should probably be done before determining the new outstanding checks of this

month because of the prior month's checks having earlier check numbers making sense that they should be listed before the new ones.

6. Total the outstanding checks and insert that total as a subtraction from the ending bank balance on the bank rec template.

7. Draw a line on the template under the outstanding check total and compute a subtotal taking the numbers entered on the template so far: the ending bank balance plus the deposit in transit (which may be 0) minus the outstanding checks. Enter the subtotal on the bank rec template. **THIS IS THE ACTUAL (REAL) BALANCE OF THE CHECKING ACCOUNT AT THE END OF THE MONTH.**

8. If the bank recorded transactions on the bank statement that the Treasurer did not list in the checkbook (because he or she did not know about them such as interest earned or fees deducted) they must be added or subtracted next on the template. This is confusing but if one rule is followed it will always be done correctly. The rule: If the item was added by the bank (like interest earned) it will be subtracted on the bank rec template. If the item was deducted by the bank (like fees charged) then it will be added on the bank rec template. This seems the opposite of what it should be, and it is, but there is a good and logical reason for it. When these items are subtracted and added on the template, the total should be the ending balance per the Treasurer's checkbook. The Treasurer did not know about these when he or she computed the balance so his or her balance is out of date and you are "backing into" that out of date balance just to ensure that everything reconciles.

9. So, draw a line on the template and subtract and add any items recorded by the bank from the "REAL" account balance arrived at in step 7 and enter the "bottom line" amount on the template. **THIS IS THE NUMBER THAT SHOULD MATCH THE ENDING BALANCE IN THE TRESURER'S CHECKBOOK. IF THE NUMBERS DO NOT MATCH, THE DIFFERENCE NEEDS TO BE TRACKED DOWN AND RECONCILED.**

10. Once any differences are reconciled let the Treasurer know if he or she needs to make any adjustments to the checkbook for items the bank had processed like interest earned or fees charged.

11. Keep the bank rec so that it is available to prepare the bank rec for the next month.

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