BANK RECONCILIATION STATEMENT MASTER STUDY GUIDE

Step-by-Step Diagnostic Framework, Adjusting Entries & Solved Example • ***EverythingAboutAccounting.info***

Core Purpose: A Bank Reconciliation compares the cash balance on a company's general ledger (Book Balance) with the balance reported on the bank statement. Differences arise from timing delays (transit items) and items known by only one party. **Golden Rule:** Only items affecting the Book Balance require adjusting journal entries!

1. The Two-Sided Reconciliation Framework

BANK STATEMENT SIDE (Adjustments to Bank)	COMPANY BOOK SIDE (Adjustments to Books)
Unadjusted Bank Statement Ending Balance **+ Add: Deposits in Transit** (Receipts recorded by company but not yet cleared by the bank) **- Deduct: Outstanding Checks** (Checks written by company but not yet presented for payment) **± Add/Deduct: Bank Errors** (Corrections for unauthorized debits/credits made by bank) **= ADJUSTED BANK BALANCE** **Note: Bank side adjustments require NO journal entries by company.*	**Unadjusted Company Cash Ledger Ending Balance** **+ Add: Electronic Customer Payments (EFT)** collected directly by bank **+ Add: Bank Interest Earned** on checking/deposit accounts **- Deduct: NSF (Bounced) Checks** from customers (insufficient funds) **- Deduct: Bank Service Charges**, check printing & wire fees **± Add/Deduct: Book Errors** (Transposition or error in recording checks/receipts) **= ADJUSTED BOOK BALANCE**

2. Mandatory Adjusting Journal Entries (Required for Book Side Only)

Reconciling Item	Debit Entry (Dr)	Credit Entry (Cr)	Financial Impact
1. Direct Customer Collection (EFT)	Cash	Accounts Receivable	Assets Cash ↑, AR ↓ (Net 0)
2. Bank Interest Earned	Cash	Interest Revenue	Cash ↑, Equity / Net Profit ↑
3. NSF (Bounced) Customer Check	Accounts Receivable (Restore debt)	Cash	Cash ↓, AR ↑ (Bill customer)
4. Bank Fees & Wire Charges	Bank Service Charge Expense	Cash	Cash ↓, Equity / Net Profit ↓

3. Solved Comprehensive Numerical Example

Bank Statement Reconciliation	Amount ($)	Company Cash Ledger Reconciliation	Amount ($)
Ending Bank Balance (Nov 30)	$24,850	Ending Book Balance (Nov 30)	$22,940
Add: Deposit in transit (Nov 30 night drop)	+ $3,200	**Add:** Electronic EFT collection from customer	+ $1,800
Deduct: Outstanding Check #402 ($850) & #408 ($1,420)	- $2,270	**Add:** Interest earned on checking account	+ $35
Add: Bank error (wrongly debited another firm's check)	+ $150	**Deduct:** NSF check from client Apex Corp	- $750
		Deduct: Monthly bank processing fee	- $45
		Deduct: Book error on check #398 (actual $490, recorded $440)	- $50
ADJUSTED BANK BALANCE	**$25,930**	**ADJUSTED BOOK BALANCE**	**$25,930**