

Chapter 4 Bank reconciliation statements (銀行往來調節表)

4.1 Introduction

A **bank reconciliation statement** (銀行往來調節表) can help us detect the errors made in the cash book and the bank statement.

4.2 Bank statements (銀行結單)

A **bank statement** (銀行結單) is a document sent by a bank to its customer, showing **details of transactions** (交易詳情) in the **customer's bank account** (客戶銀行帳戶) during the **statement period** (結單期內).

4.3 Causes of the difference between the bank balances and the bank statement (導致現金簿與銀行結單餘額出現差異的原因)

4.3.1 Entries made on the bank statement but not yet entered in the cash book (項目已記錄在銀行結單內，但尚未記錄在現金簿內)

The following items are usually **processed by the bank automatically** (銀行自動處理) without **giving prior notice** (事前通知) to the firm. The firm can only **ascertain** (得知) these items **upon receiving the bank statement** (收取銀行結單後).

1 Standing orders and direct debits (Withdraw) (定期支付指示及直接借記)

A **standing order** (定期支付指示) is an **instruction given by a bank customer** (客戶給銀行指示) to his bank to pay a fixed amount of money from his account to a named **payee** (收益人) (**beneficiary**) (受款人) at regular intervals.

A **direct debit** (直接借記) is an **authority** (授權) given to a named **payee** (一名指定受款人) to **claim payments** (支取款項) from **one's bank account** (從其銀行帳戶) and an **instruction** (指示) to the bank to allow **the payments to go through** (容許款項支取).

Direct debit have an **advantage** (優點) over standing orders. This is because when there is a change in payment amount, the **payer** (付款人) can **claim** (要求) the new amount automatically after **notifying** (通知) the bank of the change. If a standing order is used, the **payer** will need to cancel the existing standing order and set up a new standing order with the bank.

The following double entry is in the **firm's books** when a standing order or direct debit is on the bank statement

Dr Expense/Creditor's account
 Cr Cash book (bank column)

2 Direct credits (Deposit) (直接貸記)

A **direct credit** results in money (**revenue, liabilities**) from **third party** (從第三方) being **transferred into firm's bank account automatically** (自動轉帳到公司銀行帳戶內).

The following double entry is in the firm's books when a direct credit is on the bank statement

Dr Cash book (bank column)
 Cr Revenue/Debtor's account

3 Bank charge and interest (Withdraw) (銀行手續費和利息)

Bank charges (telegraphic transfer T/T (電匯費用), fees on stopping payment on a cheque (取消支票費取消支票費), charges on dishonoured cheques (拒付支票罰款), etc.) and **overdraft interest** (透支利息) is transferred from the firm's bank account to the bank company.

The following double entry is in the firm's books when a bank charge or overdraft interest is on the bank statement

Dr Expense account
 Cr Cash book (bank column)

4 Dishonoured cheques (Cancelled cheques) (拒付支票)

Dishonoured cheques, returned cheques (退票) refer to the cheques which received from a debtor rejected by the bank or the cheques which issued to a creditor rejected by the bank. The dishonoured cheques include **stale cheque** (過期支票). (exceeding 6 months after the date of issue) and **post-dated cheque** (期票). (the date of the cheque has not yet been reached).

The following double entry is in the firm's books when a dishonoured cheque is on the bank statement

received dishonoured cheque (withdraw)	issued dishonoured cheque (deposit)
Dr Debtor's account	Dr Cash book (bank column)
Cr Cash book (bank column)	Cr Creditor's account

4.3.2 Entries made in the cash book but not yet entered on the bank statement (項目已記錄在現金簿內，但尚未記錄在銀行結單內)

The following items were entered in the bank columns of the cash book when paid or received but have not yet been proceed by the bank.

1 Unpresented item (payment) (未兌現項目)

An **unpresented item** (e.g., **unpresented cheque** (未兌現支票)) refers to an item **issued** (發出) by the firm that **has not yet appeared** (尚未出現) on the bank statement. In the firm's books, items are recorded when they are issued and not when they are presented for payment. However, they will not appear on the bank statement until they are presented and **cashed** (兌現).

2 Uncredited item (receipt) (未貸記項目)

An **uncredited item** (e.g., **uncredited cheque** (未貸記支票), **bank lodgements** (尚未記錄在銀行結單的存款), **uncredited deposit** (銀行未貸記存款), **post-dated cheques** (期票)) refers to an item **received** (收取) by the firm that **has not yet appeared** (尚未出現) on the bank statement. In the firm's books, items are recorded when they are received and not when they are credited by the bank. However, they will not appear on the bank statement until they are deposited and **cashed** (兌現).

4.4 Bank reconciliation statements (銀行往來調節表)

4.4.1 Functions of a bank reconciliation statement

A bank reconciliation statement is used to show the **reasons** (原因) for the **difference** (不相等) between the bank balances of the cash book and the bank statement. This statement will not be **disclosed** (公開) to **external users** (); it is simply an **internal control tool** (內部控制工具) that helps to **detect errors** (檢查出錯). Note that it is not a **statement to correct errors** (更正錯誤的報表) even though it may show that errors were made by the firm or the bank (即使它可展示企業或銀行所犯的錯誤) and there may still have error in the cash book or bank statement after preparing bank reconciliation statement.

4.4.2 Preparation of a bank reconciliation statement (編製往來調節表)

The following are the cash book (bank columns) and the bank statement for the month of October 2009.

Cash Book									
2009					2009				
Oct	1	Balance b/d	18,500		Oct	5	P Sun	7,500	
"	13	D Fung	3,000		"	14	R Kwok	2,000	
"	22	W Pang	1,600		"	24	H Lo	4,300	
"	31	K Chan	2,200		"	30	C Man	1,900	
					"	31	Balance c/d	9,600	
			25,300					25,300	

Bank Statement									
Date	Details		Dr	Cr	Balance				
2009			\$	\$	\$				
Oct	1	Opening balance			18,500	Cr			
"	10	P Sun	7,500		11,000	Cr			
"	15	R Kwok	2,000		9,000	Cr			
"	18	D Fung		3,000	12,000	Cr			
"	19	Credit transfer – L Yeung		700	12,700	Cr			
"	20	Bank charges	300		12,400	Cr			
"	25	H Lo	4,300		8,100	Cr			
"	26	W Pang		1,600	9,700	Cr			
"	29	Loan interest	1,100		8,600	Cr			
"	31	Direct credit – Dividend		200	8,800	Cr			
"	31	Closing balance			8,800	Cr			

You can see that the balances of the cash book and the bank statements are unequal.

In order to find all the **reasons (原因)** for the **difference (不相等)**, we first need to **cross out (劃掉)** all the items that appear in both cash book and the bank statement.

Cash Book				
			Bank	Bank
			\$	\$
2009				
Oct	1	Balance b/d	18,500	
"	13	D Fung	3,000	
"	22	W Pang	1,600	
"	31	K Chan (A)	2,200	
			<u>25,300</u>	

			Bank	Bank
			\$	\$
2009				
Oct	5	P Sun		7,500
"	14	R Kwok		2,000
"	24	H Lo		4,300
"	30	C Man (B)		1,900
"	31	Balance c/d		9,600
				<u>25,300</u>

Bank Statement				
Date	Details	Dr	Cr	Balance
		\$	\$	\$
2009				
Oct	1	Opening balance		18,500
"	10	P Sun	7,500	11,000
"	15	R Kwok	2,000	9,000
"	18	D Fung		12,000
"	19	Credit transfer – L Yeung (C)		12,700
"	20	Bank charges (D)	300	12,400
"	25	H Lo	4,300	8,100
"	26	W Pang		9,700
"	29	Loan interest (E)	1,100	8,600
"	31	Direct credit – Dividend (F)		8,800
"	31	Closing balance		8,800

Before preparing reconciliation statement, we classify the remaining items in both cash book and bank statement.

(A)	(B)	(C)	(D)	(E)	(F)
uncredited cheque	unpresented cheque	Direct credit	Bank charges	Loan interest	Direct credit

A bank reconciliation statement can be presented in one of the following ways:

- Without updating the cash book
- With the cash book updated

1 Without updating the cash book (不先更新現金簿)

Starting with the unadjusted cash book balance (以未調整的現金簿餘額開始)

The bank reconciliation statement **starts with the unadjusted cash book balance (以未調整的現金簿餘額開始)** and **ends with the bank statement balance (以銀行結單餘額結束)**.

- We **need to add back (需要加回)** the items into the unadjusted cash book balance (bank columns). The adding items:
 - In the Cash Book: **unpresented items (未兌現項目)** because they **had been deducted (已扣減)** from the cash book and we need to **add them back (將其加回)** to **offset (抵銷)** these items.
 - In the Bank Statement: the **Deposit (revenues) items (Cr side) (存款項目)** because they **had not been added (還未有加入)** to the cash book and we need to **add them back (將其加回)**.
- We **need to deduct back (需要扣回)** the items from the unadjusted cash book balance (bank columns). The deducting items:
 - In the Cash Book: **uncredited items (未貸記項目)** because they **had been added (已加入)** to the cash book and we need to **deduct them back (將其扣減)** to **offset (抵銷)** these items.
 - In the Bank Statement: the **Withdraw (expenses) items (Dr side) (提取項目)** because they **had not been deducted (還未扣減)** from the cash book and we need to **deduct them back (將其扣減)**.

Bank Reconciliation Statement as at 31 October 2009

			\$	\$
Balance as per cash book				9,600
Add	Unpresented cheque (B)	Starting with the unadjusted cash book balance Unpresented cheque must be added Uncredited cheque must be deducted		
	Credit transfer (C)			
	Dividend received (F)			2,800
				<u>12,400</u>
Less	Uncredited cheque (A)		2,200	
	Bank charges (D)		300	
	Loan interest (E)		<u>1,100</u>	<u>(3,600)</u>
Balances as per bank statement				<u>8,800</u>

Starting with the bank statement balance (以銀行結單餘額開始)

The bank reconciliation statement **starts with the bank statement balance (以銀行結單餘額開始)** and **ends with the unadjusted cash book balance (以未調整的現金簿餘額結束)**.

- We need to **add back (需要加回)** the items into the bank statement. The adding items are:
 - In the Cash Book: **uncredited items (未貸記項目)** because they **had not been added to (還未有加入)** the bank statement and we need to **add them back (將其加回)**.
 - In the Bank Statement: the **Withdraw (expenses) items (Dr side) (提取項目)** because they **had been deducted (已扣減)** from the bank statement and we need to **add them back (將其加回)** to **offset (抵銷)** the items.
- We need to **deduct back (需要扣回)** the items from the bank statement. The deducting items are:
 - In the Cash Book: **unpresented items (未兌現項目)** because they **had not been deducted (還未扣減)** from the bank statement and we need to **deduct them back (將其扣減)**.
 - In the Bank Statement: the **Deposit (revneues) items (Cr side) (存款項目)** because they **had been added (已加入)** to the bank statement and we need to **deduct them back (將其扣減)** to **offset (抵銷)** the items.

Bank Reconciliation Statement as at 31 October 2009

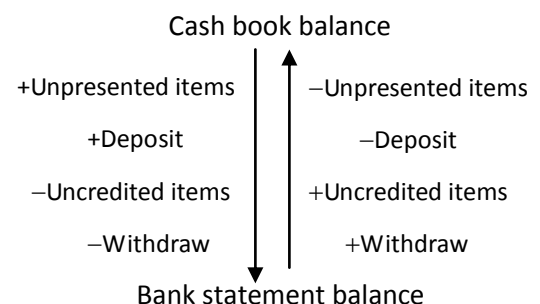
		\$	\$
Balance as per bank statement			8,800
Add Uncredited cheque	(A)	2,200	
Bank charges	(D)	300	
Loan interest	(E)	1,100	3,600
			12,400
Less Unpresented cheque	(B)	1,900	
Credit transfer	(C)	700	
Dividend received	(F)	200	(2,800)
Balances as per cash book			9,600

Class work 1

- Complete the following table

	Cash Book	Bank Statement
Balance b/f	\$100	\$100
Unpresented items (\$10)	-\$10	Nil
Deposit (\$20)	Nil	+20
Uncredited items (\$30)	+\$30	Nil
Withdraw (\$40)	Nil	-\$40
Balance c/f	\$120	\$80

cash book balance	→	bank statement balance
\$120	+ \$10 + \$20 - \$30 - \$40	\$80
bank statement balance	→	cash book balance
\$80	+ \$40 + \$30 - \$20 - \$10	\$120



- The bank columns of the cash book for the business showed a debit balance of \$4,500 as at 31 December 2009. The bank statement showed a credit balance of \$4,630 as at the same date. Prepare a bank reconciliation statement for the business as at 31 December 2009 with the following additional information. Start with the balance as per cash book
 - A standing order of \$600 for insurance payment. (less)
 - A cheque for \$400 received and recorded in the cash book had not been credited by the bank. (less)
 - Dividends of \$720 received. (add)
 - Bank charges of \$90. (less)
 - A cheque of \$500 issued during November 2009 had not been presented for payment. (add)

Bank Reconciliation Statement as at 31 December 2009

	\$	\$
Balance as per cash book		4,500
Add Dividend received (iii)	720	
Unpresented cheques (v)	500	1,220
		5,720
Less Standing order: insurance payment (i)	600	
Uncredited cheque (ii)	400	
Bank charges (vi)	90	1,090
Balance as per bank statement		4,630

3. Bank balances for Nana Chong's business are as follows:

Balance as per bank statement, 31 July 2012	\$12,345 (Cr)
Balance as per cash book (bank column), 31 July 2012	\$37,888 (Dr)

posted-dated cheque (receipt) = uncredited cheque
posted-dated cheque (payment) = unpresented cheque

The following events were not yet recorded in the cash book:

- (i) A trade debtor's cheque for \$5,000 was returned because of insufficient funds.
- (ii) Monthly bank charges amounted to \$120.
- (iii) During the month, the following sums were paid by standing orders: Rent \$3,820
- (iv) A customer deposited a cheque for \$3,900 directly into Nana Chong's business bank account on 20 July 2010.

Additional information:

- (v) A cheque for \$2,500 deposited into the bank account on 31 July 2012 did not appear on the bank statement.
- (vi) Post-dated cheques totalling \$23,000 were held in the cash till on 31 July 2012, but had already been recorded in the cash book as banked.
- (vii) The following cheques issued by the business were not presented to the bank for payment:

Cheque No.	Amount
445216	\$4,997

dishonoured cheque (receipt) = uncredited cheque

- (a) Classify each event in the question.
- (b) Prepare a bank reconciliation statement for the business as at 31 July 2012. Start with the balance as per cash book.
- (c) Prepare a bank reconciliation statement for the business as at 31 July 2012. Start with the balance as per bank statement.

(a)

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)
Dishonoured cheque	Bank charges	Standing order	Direct credit	Uncredited cheque	Post-dated cheques	Unpresented cheques

(b)

Nana Chong
Bank Reconciliation Statement as at 31 July 2012

	\$	\$
Balance as per cash book		37,888
Add Direct credit (iv)	3,900	
Unpresented cheques (vii)	4,997	8,897
		46,785
Less Dishonoured cheque (i)	5,000	
Bank charges (ii)	120	
Standing order: Rent (iii)	3,820	
Uncredited cheque (v)	2,500	
Post-dated cheques (vi)	23,000	(34,440)
Balance as per bank statement		12,345

(c)

Nana Chong
Bank Reconciliation Statement as at 31 July 2012

	\$	\$
Balance as per bank statement		12,345
Add Dishonoured cheque (i)	5,000	
Bank charges (ii)	120	
Standing order: Rent (iii)	3,820	
Uncredited cheque (v)	2,500	
Post-dated cheques (vi)	23,000	34,440
		46,785
Less Direct credit (iv)	3,900	
Unpresented cheques (vii)	4,997	(8,897)
Balances as per cash book		37,888

4. Rex received a bank statement which showed a credit balance of \$86,920 at 31 March 2007 but the bank columns in the cash book showed a debit balance of \$80,580. On investigation, the following were discovered:

- (i) The cheque written back of \$3,000 on 8 March 2007 was dishonoured by the bank on 9 March 2007.
- (ii) The lodgement of \$1,650 on 30 March 2007 had not yet been recorded by the bank.
- (iii) Cheques drawn totaling \$9,050 had not yet been presented by the bank.
- (iv) An autopay was made by the bank for rates of \$860.
- (v) A direct deposit of \$2,800 had been lodged by a customer in respect of a debt which had been written off in 2006.

Receipt

You are required to:

Prepare a bank reconciliation statement as at 31 March 2007, commencing with the balance as per cash book.

Bank Reconciliation Statement as at 31 March 2007

	\$	\$
Balance as per cash book		80,580
Add Unpresented cheque (iii)	9,050	
Direct deposit by customer (v)	2,800	11,850
		92,430
Less Cheque honoured by bank (i)	3,000	
Lodgement not yet recorded by bank (ii)	1,650	
Autopay for rates (iv)	860	(5,510)
Balances as per bank statement		86,920

5. A bank statement for December 2008 was received by the club. An examination of the club's bank account and the bank statement disclosed the following:

- (i) Direct deposits of \$6,000 for subscriptions had been lodged by members.
- (ii) An autopay was made by the bank for utilities expenses of \$420.
- (iii) Cheques issued amounting to \$2,930 had not been presented to the bank for payment. Among these cheques was one for \$223 drawn nine months ago for the payment of bar purchases. The club decided to cancel the cheque on 31 December 2008.
- (iv) Lodgement of \$4,260 from the sale of audio equipment had not yet been recorded by the bank.

You are required to:

Prepare a bank reconciliation statement as at 31 December 2008, commencing with the bank balance of \$37,020 and ending with the balance as per bank statement.

Bank Reconciliation Statement as at 31 December 2008

	\$	\$
Balance as per cash book		37,020
Add Direct deposits by members (i)	6,000	
Unpresented cheques (\$2,930 – \$223) (iii)	2,707	
Cancelled cheque (iii)	223	8930
		45,950
Less Autopay for utilities (ii)	420	
Lodgement not yet recorded by bank (iv)	4,260	4,680
Balances as per bank statement		41,270

2 With the cash book updated (先更新現金簿)

Actually, a bank reconciliation statement can be prepared after **adjusting the cash book (調整現金簿) for the entries made on the bank statement but had not yet been entered in the cash book (那些已記錄在銀行結單上、但還未記錄在現金簿內的項目)** and **all incorrect entries (所有不正確入帳)** of the cash book.

Cash Book					
				Bank	
				\$	
2009					2009
Oct	31	Balance b/d		9,600	Oct 31 Bank charges (D)
"	31	Credit transfer – L Yeung (C)		700	" 31 Loan interest (E)
"	31	Direct credit – Dividend (F)		200	" 31 Balance c/d
				<u>10,500</u>	<u>10,500</u>

After adjusting the cash book, the difference would be due to item which appeared in the cash book but which had not yet been shown on the bank statement (調整了現金簿後，兩者的差異就是由那些已記錄在現金簿內、但還未反映在銀行結單上的項目造成). This can make the preparation of bank reconciliation statement simpler:

Starting with the adjusted cash book balance (以調整後的現金簿餘額開始)

Bank Reconciliation Statement as at 31 October 2009				\$
Adjusted balance as per cash book				9,100
Add Unpresented cheque (B)				<u>1,900</u>
				11,000
Less Uncredited cheque (A)				<u>(2,200)</u>
Balances as per bank statement				<u>8,800</u>

Starting with the bank statement balance (以銀行結單餘額開始)

Bank Reconciliation Statement as at 31 October 2009				\$
Balance as per bank statement				8,800
Add Uncredited cheque (A)				<u>2,200</u>
				10,000
Less Unpresented cheque (B)				<u>(1,900)</u>
Adjusted balances as per cash book				<u>9,100</u>

Note: there should not be any adjusted balances as per bank statement because the company can't make any changes in the bank statement even though there are any incorrect entries in the bank statement.

Class work 2

1. The bank column of Angie Lam's cash book showed a debit balance of \$15,800 as at 31 December 2010 with the following information:

- A standing order of \$280 for gas payment appeared on the bank statement but no entry was made in the cash book.
- A cheque received from T Chan of \$2,000 was returned from the bank. No entry was made in the cash book.
- A cheque of \$1,800 issued to M Wong was dishonoured by the bank. No entry was made in the cash book.
- Charges of \$100 were made by the bank.
- A trade debtor, Mr Lee, paid \$1,900 directly into the business bank but this amount did not appear in the cash book.
- A cheque from J Lam for \$12,200 deposited in the bank had been entered in the cash book as \$21,200.

Update the cash book, showing all the necessary adjustments.

Cash Book (Bank)							
2010			\$	2010			\$
Dec	31	Balance b/d	15,800	Dec	31	Gas – Standing order (i)	280
"	31	M Wong – Dishonoured cheque (iii)	1,800	"	31	T Chan – Dishonoured cheque (ii)	2,000
"	31	Mr Lee – Direct credit (v)	1,900	"	31	Bank charges (iv)	100
				"	31	J Lam – Incorrect amount entered (vi) (\$21,200 – \$12,200)	9,000
				"	31	Balance c/d	8,120
			<u>19,500</u>				<u>19,500</u>

2. The bank column of Angie Lam's cash book showed a **credit balance** of \$5,894 as at 31 March 2009 with the following information:

- (i) A personal cheque of \$1320 received from a friend had been banked in the business bank account. No entry had been made for this receipt in the cash book.
- (ii) Cheques issued totaling \$11,763 had not been presented for payment. (unpresented item, no adjustment for cash book)
- (iii) A cheque paid to a creditor in settlement of his account of \$5,280 less a cash discount of 5%, had been entered in the cash book as a receipt with the gross amount.
- (iv) A cash receipt of \$3,180 from a debtor in settlement of his account which was banked on 30 March 2009, had not yet been shown on the bank statement. (uncredited item, no adjustment for cash book)
- (v) A cheque received from Chung Hwa Ltd of \$2,484 was returned by the bank on 30 March 2009 marked 'insufficient funds: refer to drawer'. The returned cheque had not been recorded in the cash book.
- (vi) Overdraft interest of \$862 was shown on the bank statement but had not been entered in the cash book.
- (vii) A standing order of \$4,739 for electricity was paid by the bank on 29 March 2009 but had not been entered in the cash book.

Update the cash book, showing all the necessary adjustments.

Cash Book (Bank)

2010			\$	2010			\$
Mar	31	Balance c/d	24,275	Mar	31	Balance b/d	5,894
				"	31	Creditor (\$5,280 + \$5,016) (iii)	10,296
				"	31	Chung Hwa Ltd — Dishonoured cheque (v)	2,484
				"	31	Overdraft interest (vi)	862
				"	31	standing order - Electricity (vii)	4,739
			24,275				24,275

3. The bank column of Danny Ma's cash book showed a credit bank balance of \$34,766 as at 31 March 2010 with the following information:

- (i) An amount of \$2,180 was paid directly into the bank by a trade debtor, Ellenor, but this did not appear in Danny's books.
- (ii) A bank interest charge of \$771 appeared in the bank statement but was not recorded in the cash book.
- (iii) During the month, the bank returned a cheque for \$690, drawn by a trade debtor, Besa Chan. This cheque was marked 'insufficient funds' by the bank. Danny had not yet dealt with the dishonoured cheque in the books.
- (iv) A standing order of \$6,600 for the payment of office rent was not recorded in the cash book.
- (v) The bank statement showed that a rates refund of \$2,100 was credited directly to the bank account, but this was not reflected in the books of the business.
- (vi) A cheque for \$4,000 drawn on 1 March 2009 to settle a trade creditor's account had not been presented to the bank. The cheque was dated 1 March 2009.
- (vii) A debt of \$3,320 that was written off as bad was recovered and a cheque dated 2 May 2010 was received. This cheque had been recorded in the cash book (bank column) but was not yet banked.
- (viii) A cheque for \$2,100 issued to pay for office equipment was mistakenly recorded as \$1,200 in the cash book.
- (ix) The debit side of the cash book (bank column) was understated by \$700 due to a casting error.

Update the cash book, showing all the necessary adjustments.

stale cheque = dishonoured cheque
post-dated cheque = dishonoured cheque

Cash Book (Bank)

2010			\$	2010			\$
Mar	31	Elle Or — Credit transfer (i)	2,180	Mar	31	Balance b/d	34,766
"	31	Rates refund — Credit transfer (v)	2,100	"	31	Bank charges (ii)	771
"	31	Accounts payable — Stale cheque (vi)	4,000	"	31	Besa Chan — Dishonoured cheque (iii)	690
"	31	Understatement of debit side of cash book (ix)	700	"	31	Rent — Standing order (iv)	6,600
"	31	Balance c/d	38,067	"	31	Accounts receivable — Post-dated cheque (vii)	3,320
						Office equipment — Incorrect amount entered (viii) (\$2,100 – \$1,200)	900
			47,047				47,047

- 4 The bank columns in the cash book of C Chan's business for June 2009 and the bank statement for the same month are as follows:

Cash Book (Bank)									
2009				\$	2009				\$
Jun	1	Balance b/d		2,379	Jun	5	D Wong		150
"	7	B Man		158	"	12	J Yau		433
"	16	A Sun		93	"	16	B Shek		88
"	28	M Bai		307	"	29	Orange Club		57
"	30	K Ng		624	"	30	Balance c/d		2,833
				3,561					3,561

Bank Statement					
Date		Details	Dr	Cr	Balance
2009			\$	\$	\$
Jun	1	Balance b/d			2,379 Cr
"	8	Cheque		158	2,537 Cr
"	11	Cheque	150		2,387 Cr
"	17	Cheque		93	2,480 Cr
"	17	Cheque	433		2,047 Cr
"	18	Cheque	88		1,959 Cr
"	29	Cheque		307	2,266 Cr
"	29	Standing order – Union Credit	44		2,222 Cr
"	30	Credit transfer – RS Ltd		90	2,312 Cr
"	30	Bank charges	70		2,242 Cr

You are required to:

- (a) Update the cash book

Cash Book (Bank)							
2009			\$	2009			\$
Jun	30	Balance b/d	2,833	Jun	30	Standing order – Union Credit	44
"	30	Credit transfer – RS Ltd	90	"	30	Bank charges	70
				"	30	Balance c/d	2,809
			2,923				2,923

- (b) Draw up a bank reconciliation statement as at 30 June 2009, starting with the corrected cash book balance.

Bank Reconciliation Statement as at 30 June 2009		\$
Adjusted balance as per cash book		2,809
Add Unpresented cheque – Orange Club		57
		2,866
Less Uncredited cheque – K Ng		(624)
Balances as per bank statement		<u>2,242</u>

- (c) Draw up a bank reconciliation statement as at 30 June 2009, starting with the bank statement balance.

Bank Reconciliation Statement as at 30 June 2009		\$
Balance as per bank statement		2,242
Add Uncredited cheque – K Ng		624
		2,866
Less Unpresented cheque – Orange Club		(57)
Adjusted balances as per cash book		<u>2,809</u>

4.5 Bank overdrafts (銀行透支)

Bank overdrafts appear as a **credit bank balance** (貸方餘額) in the cash book and as a **debit balance** (借方餘額) on the **bank statement** (銀行結單). Sometimes, the overdraft balance would simply be marked with the **abbreviation** (縮寫) 'O/D' on the bank statement. The following are the cash book (bank columns) and the bank statement of a sole proprietor for the month of November 2009.

Cash Book									
				Bank					Bank
				\$					\$
2009					2009				
Nov	5	A Ho		3,080	Nov	1	Balance b/d		7,090
"	24	L Mok		1,200	"	9	C Fang (No. 32156)		1,400
	30	H Poon	(A)	1,060		27	K Wai (No. 32157)	(B)	630
"	30	Balance c/d		3,780					
				9,120					9,120

Bank Statement				
Date	Details	Dr	Cr	Balance
		\$	\$	\$
2009				
Nov	1	Opening balance		7,090
"	6	Cheque deposit	3,080	4,010
"	14	Cheque (No. 32156)	1,400	5,410
"	25	Cheque deposit	1,200	4,210
"	29	Credit transfer – K King (C)	1,240	2,970
"	29	Standing order – Ace Management Ltd (D)	770	3,740
"	30	Bank charges (E)	490	4,230
"	30	Closing balance		4,230

In practice, the bank statement will show 'cheque' and 'cheque deposit' on the bank statement instead of payee's name or the payer's name.

Adjusted balance cash book (更新現金簿)

Cash Book									
				Bank					Bank
				\$					\$
2009					2009				
Nov	30	Credit transfer – K King (C)		1,240	Nov	30	Balance b/d		3,780
“	30	Balance c/d		3,800	“	30	Standing order – Ace Management Ltd (D)		770
					“	30	Bank charges (E)		490
				<u>5,040</u>					<u>5,040</u>

Starting with the adjusted cash book balance (以調整後的現金簿餘額開始)

Bank Reconciliation Statement as at 31 October 2009				
				\$
Adjusted overdraft balance as per cash book				(3,800)
Add Unpresented cheque (B)				630
				<u>(3,170)</u>
Less Uncredited cheque (A)				(1,060)
Overdraft balance as per bank statement				<u><u>(4,230)</u></u>

Starting with the bank statement balance (以銀行結單餘額開始)

Bank Reconciliation Statement as at 31 October 2009				
				\$
Overdraft balance as per bank statement				(4,230)
Add Uncredited cheque (A)				1,060
				<u>(3,170)</u>
Less Unpresented cheque (B)				(630)
Adjusted overdraft balances as per cash book				<u><u>(3,800)</u></u>

Class work 3

1. The following is the cash book (bank columns) of C Hung's business for December 2008.

Cash Book (Bank)							
2008			\$	2008			\$
Dec	6	T Lui	155	Dec	5	Balance b/d	3,872
"	20	K Po	189	"	10	P Woo	206
"	31	H Tang	211	"	19	M Kwok	315
"	31	Balance c/d	3,922	"	29	T Fang	84
			<u>4,477</u>				<u>4,477</u>

Bank Statement						
Date		Details	Dr	Cr	Balance	
2008			\$	\$	\$	
Dec	1	Balance b/d			3,872	Dr
"	7	Cheque		155	3,717	Dr
"	13	Cheque	206		3,923	Dr
"	21	Cheque		189	3,734	Dr
"	22	Cheque	315		4,049	Dr
"	30	Standing order – Mercantile Ltd	200		4,249	Dr
"	31	Direct credit – K Sung		180	4,069	Dr
"	31	Bank charges	65		4,134	Dr

(a) Update the cash book

Cash Book (Bank)							
2008			\$	2008			\$
Dec	31	Direct credit – K Sung	180	Dec	31	Balance b/d	3,922
“	31	Balance c/d	4,007	“	31	Standing order – Mercantile Ltd	200
				“	31	Bank charges	65
			4,187				4,187

(b) Draw up a bank reconciliation statement as at 31 December 2008, starting with the corrected cash book balance.

Bank Reconciliation Statement as at 31 December 2008

	\$
Adjusted overdraft balance as per cash book	(4,007)
Add Unpresented cheque	84
	(3,923)
Less Uncredited cheque	(211)
Overdraft balance as per bank statement	<u>(4,134)</u>

(c) Draw up a bank reconciliation statement as at 31 December 2008, starting with the bank statement balance.

Bank Reconciliation Statement as at 31 December 2008

	\$
Overdraft balance as per bank statement	(4,134)
Add Uncredited cheque	211
	(3,923)
Less Unpresented cheque	(84)
Adjusted overdraft balances as per cash book	<u>(4,007)</u>

2. The bank columns of the cash book for K Tang's business showed a debit balance of \$4,500 as at 31 December 2009. The bank statement showed a credit balance of \$8,850 as at the same date.

The bank statement was later checked against the cash book and it was found that the following had been entered on the bank statement but not in the cash book:

- (i) A standing order of \$600 for insurance payment.
- (ii) Dividends of \$720 received.
- (iii) Bank charges of \$90.
- (iv) A refund of \$780 from Hong Kong Finance Ltd.
- (v) A transfer of \$4,200 from the savings account.
- (vi) A returned cheque **drawn by C Ho (由何先生發出)** of \$210.

It was also found that two cheques, payable to L Yeung for \$750 and K Chen for \$870, had been entered in the cash book but had not been presented for payment. In addition, a cheque of 2,070 was paid into the bank on 31 December 2009, but was not credited by the bank until 2 January 2010.

- (a) Show the necessary adjustments in the cash book.

Cash Book (Bank)							
2009			\$	2009			\$
Dec	31	Balance b/d	4,500	Dec	31	Standing order – insurance (i)	600
"	31	Dividend revenue (ii)	720	"	31	Bank charges (iii)	90
"	31	HK Finance Ltd – Refund (iv)	780	"	31	C Ho – Dishonoured cheque (vi)	210
"	31	Transfer from saving a/c (v)	4,200	"	31	Balance c/d	9,300
			<u>10,200</u>				<u>10,200</u>

- (b) Draw up a bank reconciliation statement as at 31 December 2009, commencing with the corrected cash book balance.

K Tang	
Bank Reconciliation Statement as at 31 December 2009	
	\$
Adjusted balance as per cash book	9,300
Add Unpresented cheque (\$750 + \$870)	1,620
	<u>10,920</u>
Less Uncredited cheque	(2,070)
Balances as per bank statement	<u>8,850</u>

- (c) Draw up a bank reconciliation statement as at 31 December 2009, commencing with the bank statement balance.

K Tang	
Bank Reconciliation Statement as at 31 December 2009	
	\$
Balance as per bank statement	8,850
Add Uncredited cheque	2,070
	<u>10,920</u>
Less Unpresented cheque (\$750 + \$870)	(1,620)
Adjusted balances as per cash book	<u>9,300</u>

3. On 31 March 2006, the cash book of Mr Chu showed a debit balance of \$225,000, which did not agree with the credit balance \$166,350 on his bank statement. The following items account for the difference:
- A cheque for \$800 payable to a supplier had been recorded twice in the cash book.
 - The bank wrongly debited overdraft interest of \$1,000 on the bank statement.
 - A cheque for \$6,800 from Mr Lo had been dishonoured and returned by the bank. This had not yet been recorded in the company's books.
 - A cheque payment of \$2,750 to a supplier had been wrongly recorded on the debit side of the cash book.
 - An unpresented cheque for \$1,400, which appeared in the bank reconciliation statement as at 28 February 2006, was still not yet presented as at 31 March 2006.
 - A cheque from a customer for \$20,150 had been recorded in the cash book on 31 March 2006 but it did not appear on the bank statement until 3 April 2006.
 - A credit transfer of \$6,600 from a customer had not been entered in the cash book.
 - A standing order payment for rent of \$34,000 had not been entered in the cash book.
- Prepare the cash book, showing all the necessary adjustments, to calculate the correct cash book balance as at 31 March 2006.
 - Using the correct cash book balance calculated in (a) above, prepare a bank reconciliation statement commencing with the adjusted cash book balance for Mr Chu as at 31 March 2006.
 - Using the bank statement balance calculated in (b) above, prepare a bank reconciliation statement commencing with the bank statement balance for Mr Chu as at 31 March 2006.
 - Briefly state two reasons for preparing a bank reconciliation statement.

(a)

Cash Book (Bank)

2006			\$	2006			\$
Mar	31	Balance b/f	225,000	Mar	31	Dishonoured cheque (iii)	6,800
"	31	Trade creditors (i)	800	"	31	Payment to supplier ((\$2,750 × 2)(iv)	5,500
"	31	Credit transfer (vii)	6,600	"	31	Standing order – Rent (viii)	34,000
				"	31	Balance c/f	186,100
			<u>232,400</u>				<u>232,400</u>

(b)

Bank Reconciliation Statement as at 31 March 2009

	\$	\$
Adjusted balance as per cash book		186,100
Add Unpresented cheques (v)		1,400
		<u>187,500</u>
Less Overdraft interest wrongly debited (ii)	(1,000)	
Uncredited cheque (vi)	(20,150)	(21,150)
Balances as per bank statement		<u>166,350</u>

(c)

Bank Reconciliation Statement as at 31 March 2009

	\$	\$
Balance as per bank statement		166,350
Add Overdraft interest wrongly debited (ii)	1,000	
Uncredited cheque (vi)	20,150	21,150
		<u>187,500</u>
Less Unpresented cheques (v)		(1,400)
Adjusted balances as per cash book		<u>186,100</u>

- To discover any errors or irregularities, and
 - To detect any missing transactions in the cash book

4. At the close of business on 30 April 2010, the cash book of Panda Club showed a debit balance of \$53,000. The bank statement however showed a credit balance of \$51,780. The following items account for the difference.
- Bank charges of \$150 had not been entered in the cash book.
 - A standing order of \$20,000 for rent payment had not been entered in the cash book.
 - A debtor's cheque of \$3,560 was returned by the bank. No record had been made in the cash book.
 - A cheque of \$6,200 presented to the bank had been wrongly recorded on the credit side of the cash book.
 - A credit transfer of \$5,800 had not been entered in the cash book.
 - Loan interest of \$4,800 had been wrongly debited as \$2,400 by the bank.
 - Dividends of \$1,190 received had not been entered in the cash book.
 - A cheque for \$700 paid to a creditor had not been presented for payment.
- (a) Prepare the cash book, incorporating any adjustments necessary to calculate the correct cash book balance for Panda Club as at 30 April 2010.

Cash Book (Bank)							
2010			\$	2010			\$
Apr	30	Balance b/d	53,000	Apr	30	Bank charges (i)	150
"	30	Cheque wrongly recorded on credit side (\$6,200x2) (iv)	12,400	"	30	Standing order – rent (ii)	20,000
"	30	Credit transfer (v)	5,800	"	30	Debtor – Dishonoured cheque (iii)	3,560
"	30	Dividend revenue (vii)	1,190			Balance c/d	48,680
			72,390				72,390

- (b) Starting with the corrected cash book balance in (a), prepare a bank reconciliation statement as at 30 April 2010.

Panda Club	
Bank Reconciliation Statement as at 30 April 2010	
	\$
Adjusted balance as per cash book	48,680
Add Loan interest undercharged (vi) (\$4,800 – \$2,400)	2,400
Unpresented cheque (viii)	700
Balances as per bank statement	51,780

- (c) Starting with the bank statement balance, prepare a bank reconciliation statement as at 30 April 2010.

Panda Club	
Bank Reconciliation Statement as at 30 April 2010	
	\$
Balance as per bank statement	51,780
Less Loan interest undercharged (vi) (\$4,800 – \$2,400)	(2,400)
Unpresented cheque (viii)	(700)
Adjusted balance as per cash book	48,680

- (d) Suggest two reasons for the returned cheque mentioned in (iii).

- The drawer does not have enough money in the **current account** for the **payment**
- The cheque is a **post-dated cheque**

5. The bank column of Angie Lam's cash book showed a debit balance of \$23,080 as at 31 December 2010. On the same date, the bank statement showed a credit balance of \$13,648.

The following information was obtained:

- (i) A standing order of \$2,390 for electricity payment appeared on the bank statement but no entry was made in the cash book.
- (ii) A cheque of \$3,210 issued to Mr Lai was dishonoured by the bank as the amount in words differed from the amount in figures.
- (iii) A cheque received from a trade debtor of \$6,020 was returned from the bank. No entry was made in the cash book.
- (iv) A cheque for \$2,960 was issued to settle credit purchases and was recorded in the cash book, but had not yet been presented for payment.
- (v) A cheque was issued to settle a trade creditor's account of \$34,500. A discount of 2% was received but the gross amount had been entered in the cash book.
- (vi) A cheque for \$6,402 representing disposal proceeds of a van was entered in the cash book but had not yet been banked.
- (vii) Charges of \$100 were made by the bank.
- (viii) A cheque for \$1,380 was deposited into the bank account at the end of December 2010, but was not shown on the bank statement.

Required:

- (a) Update the cash book, showing all the necessary adjustments.
- (b) Prepare a bank reconciliation statement as at 31 December 2010.

Answer:

(a)

Cash Book (Bank)							
2010			\$	2010			\$
Dec	31	Balance b/d	23,080	Dec	31	Electricity – Standing order (i)	2,390
"	31	Mr Lai – Dishonoured cheque (ii)	3,210	"	31	Debtor – Dishonoured cheque (iii)	6,020
	31	Discount received (\$34,500x2%) (v)	690	"	31	Bank charges (vii)	100
				"	31	Balance c/d	18,470
			26,980				26,980

(b)

Starting with the corrected cash book balance

Angie Lam
Bank Reconciliation Statement as at 31 December 2010

	\$
Adjusted balance as per cash book	18,470
Add Unpresented cheque (iv)	2,960
	21,430
Less Uncredited cheque (\$6,402 + \$1,380) (vi, viii)	(7,782)
Balances as per bank statement	13,648

Starting with the bank statement balance

Angie Lam
Bank Reconciliation Statement as at 31 December 2010

	\$
Balances as per bank statement	13,648
Add Uncredited cheque (\$6,402 + \$1,380) (vi, viii)	7,782
	21,430
Less Unpresented cheque (iv)	(2,960)
Adjusted balance as per cash book	18,470

A Fully worked example

The bank account for a business as at 30 September 2011 did not agree with the debit balance of \$19,997 shown on the bank statement as at the same date. The following discrepancies were found upon investigation:

- (i) Cheques for \$350, \$600 and \$2,100 were issued by the business during the month but had not been presented for payment.
- (ii) On 30 September 2011, the bank paid the business office rent of \$13,300 under a standing order. This item had not been recorded in the cash book.
- (iii) On 29 September 2011, the owner transferred \$11,200 from her personal bank account to the business bank account. This item had not been recorded in the cash book.
- (iv) A trade debtor paid \$340 directly into the business bank account. This item was shown on the bank statement but had not been recorded in the cash book.
- (v) An amount of \$900 was paid into the bank account on 30 September 2011 but had not yet been credited by the bank.
- (vi) A cheque issued to Albert Au for \$3,880 was correctly recorded in the bank statement but had been recorded in the cash book as \$3,180.
- (vii) A cheque receipt of \$7,122 was wrongly recorded on the credit side of the cash book as \$7,211.
- (viii) Due to a casting error, the total of the debit side of the cash book was overstated by \$800.

- Show the necessary adjustments in the cash book.
- Prepare a bank reconciliation statement starting with the adjusted cash book balance.

Answer:

The original bank balance in the cash book (before any adjustments) is not always given. In this case, first of all we have to deduce an adjusted balance figure (balancing figure) of updated cash book from the bank reconciliation statement. This can be done by preparing the bank reconciliation statement starting with the bank statement balance. Then we use the adjusted balance of cash book to find the original bank balance in the cash book. Note that we only concern with the item **appeared in the cash book (unpresented items, uncredited items) and the bank errors in the bank statement.**

- (a)

Bank Reconciliation Statement as at 30 September 2011

	\$
Balance as per bank statement	(19,997)
Add Uncredited item (v)	900
	<u>(19,097)</u>
Less Unpresented cheque (\$350 + \$600 + \$2,100) (i)	(3,050)
Adjusted balances as per cash book	<u>(22,147)</u>

Cash Book (Bank)

2011			\$	2011			\$
Sept	30	Capital – Credit transfer (iii)	11,200	Sept	30	Balance b/d (balancing figure)	33,220
"	30	Debtor – Credit transfer (iv)	340	"	30	Rent – Standing Order (ii)	13,300
"	30	Cheque receipt wrongly recorded on credit side with (\$7,211 + \$7,122) (vii)	14,333	"	30	Incorrect amount entered (\$3,880 – \$3,180) (vi)	700
"	30	Balance c/d	22,147	"	30	Debit side total of cash book overstated (viii)	800
			<u>48,020</u>				<u>48,020</u>

From the cash book, the original bank balance in the cash book as at 30 September 2011

$$= \$48,020 - (\$13,300 + \$700 + \$800) = \$33,220$$

- (b)

Bank Reconciliation Statement as at 30 September 2011

	\$
Adjusted balance as per cash book	(22,147)
Add Unpresented cheque (\$350 + \$600 + \$2,100) (i)	3,050
	<u>(19,097)</u>
Less Uncredited item (v)	(900)
Adjusted balances as per cash book	<u>(19,997)</u>

Class work 4

1 On 7 April 2010, M Cheng received his firm's bank statement for the one month ended 31 March 2010. The balance shown on the statement of \$161,800 (credit) did not agree with the bank balance in the cash book.

An examination of the cash book and the bank statement disclosed the following:

1. Two cheques paid to creditors had not been presented to the bank. One of them, amounting to \$12,000, was drawn on 10 September 2009, while the other, amounting to \$16,400, was drawn on 2 March 2010.
2. A cheque of \$11,500 received on 30 March 2010 was not credited by the bank until 2 April 2010.
3. A cheque of \$19,000 dated 20 March 2010 was deposited into the bank. It was dishonoured but no entry had been made for this in the cash book.
4. A payment of \$6,500 by cheque was wrongly recorded on the debit side of the cash book.
5. The bank balance at 28 February 2010 of \$132,300 (debit) in the cash book was mistakenly brought down as \$122,300 (debit).
6. Bank service fee of \$200 was wrongly debited by the bank as \$2,000.
7. The following items were shown on the bank statement, but were not yet entered in the cash book:
 - (i) Loan interest of \$5,000 charged by the bank.
 - (ii) A direct credit of \$18,600 made by a debtor.
 - (iii) An autopay of \$1,400 for an electricity bill of January – February 2010.

(a) Show the necessary adjustments in the cash book.

(b) Prepare a bank reconciliation statement starting with the adjusted cash book balance.

Answer:

(a)

M Cheng Bank Reconciliation Statement as at 31 October 2009

			\$		\$
Balance as per bank statement					161,800
Add Uncredited cheque (2)			11,500		
Bank error – Services fee overcharged (\$2,000 – \$200) (6)			1,800		13,300
					175,100
Less Unpresented cheque (1)					(16,400)
Adjusted balances as per cash book					158,700

Cash Book (Bank)

2009			\$	2009			\$
Mar	31	Balance b/d (balancing figure)	156,500	Mar	31	Debtor – Dishonoured cheque (3)	19,000
"	31	Creditor – Stale cheque (1)	12,000	"	31	Payment understated (\$6,500×2) (4)	13,000
"	31	Opening balance understated		"	31	Loan interest 7(i)	5,000
		(\$132,300 – \$122,300) (5)	10,000	"	31	Electricity – Autopay 7(iii)	1,400
	31	Debtor – Direct credit 7(ii)	18,600	"	31	Balance c/d (from bank	
						Reconciliation statement)	158,700
			197,100				197,100

(b)

M Cheng Bank Reconciliation Statement as at 31 October 2009

			\$		\$
Adjusted balance as per cash book					158,700
Add Unpresented cheque (1)					16,400
					175,100
Less Uncredited cheque (2)			11,500		
Bank error – Services fee overcharged (\$2,000 – \$200) (6)			1,800		(13,300)
Balances as per bank statement					161,800

2. Jimmy Chan received a bank statement for his business on 4 April 2009, which is showed a debit balance of \$14,372 as at 31 March 2009. He found that this balance did not agree with that shown in his cash book. Upon examining the cash book and the bank statement, the following items were found:

- (i) A personal cheque of \$1320 received from a friend had been banked in the business bank account. No entry had been made for this receipt in the cash book. (correct action for the cash book, no any adjustment for cash book)
- (ii) Cheques issued totaling \$11,763 had not been presented for payment. (unpresented item, no adjustment for cash book)
- (iii) A cheque paid to a creditor in settlement of his account of \$5,280 less a cash discount of 5%, had been entered in the cash book as a receipt with the gross amount.
- (iv) A cash receipt of \$3,180 from a debtor in settlement of his account of \$3,200 which was banked on 30 March 2009, had not yet been shown on the bank statement. (uncredited item, no adjustment for cash book)
- (v) A cheque received from Chung Hwa Ltd of \$2,484 was returned by the bank on 30 March 2009 marked 'insufficient funds: refer to drawer'. The returned cheque had not been recorded in the cash book.
- (vi) Overdraft interest of \$862 was shown on the bank statement but had not been entered in the cash book.
- (vii) A standing order of \$4,739 for electricity was paid by the bank on 29 March 2009 but had not been entered in the cash book.

You are required to:

- (a) Show the necessary adjustments in the cash book.
- (b) Prepare a bank reconciliation statement as at 31 March 2009.
- (c) What is the bank account balance to be shown in the balance sheet as at 31 March 2009?

(a)

Bank Reconciliation Statement as at 31 March 2009

	\$	\$
Balance as per bank statement		(14,372)
Add Uncredited item (iv)		3,180
		(11,192)
Less Personal cheque wrongly deposited into bank (i)	1,320	
Unpresented cheques (ii)	11,763	(13,083)
Adjusted balances as per cash book		(24,275)

Cash Book (Bank)

2009			\$	2009			\$
Mar	31	Balance c/d (found in the bank reconciliation statement)	24,275	Mar	31	Balance b/f (balancing figure)	5,894
				"	31	Creditor (\$5,280 + \$5,016) (iii)	10,296
				"	31	Chung Hwa Ltd — Dishonoured cheque (v)	2,484
				"	31	Overdraft interest (vi)	862
				"	31	standing order - Electricity (vii)	4,739
			24,275				24,275

(b)

Bank Reconciliation Statement as at 31 March 2009

	\$	\$
Adjusted balance as per cash book		(24,275)
Add Personal cheque wrongly deposited into bank (i)	1,320	
Unpresented cheques (ii)	11,763	13,083
		(11,192)
Less Uncredited cheque (iv)		(3,180)
Balances as per bank statement		(14,372)

- (c) The bank balance to be shown in the balance sheet as at 31 March 2009 would be \$24,275 (overdraft).