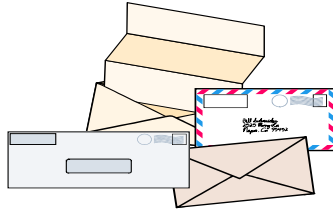


BANK RECONCILIATIONS



CASH AND ITS CONTROL

In most firms, transactions involving the receipt and disbursement of cash far outnumber any other kinds of transactions. Cash is the most liquid asset and most subject to theft and fraud. It is therefore essential to have a system of accounting procedures and records that will maintain adequate control over cash.

CONTROLLING CASH RECEIPTS

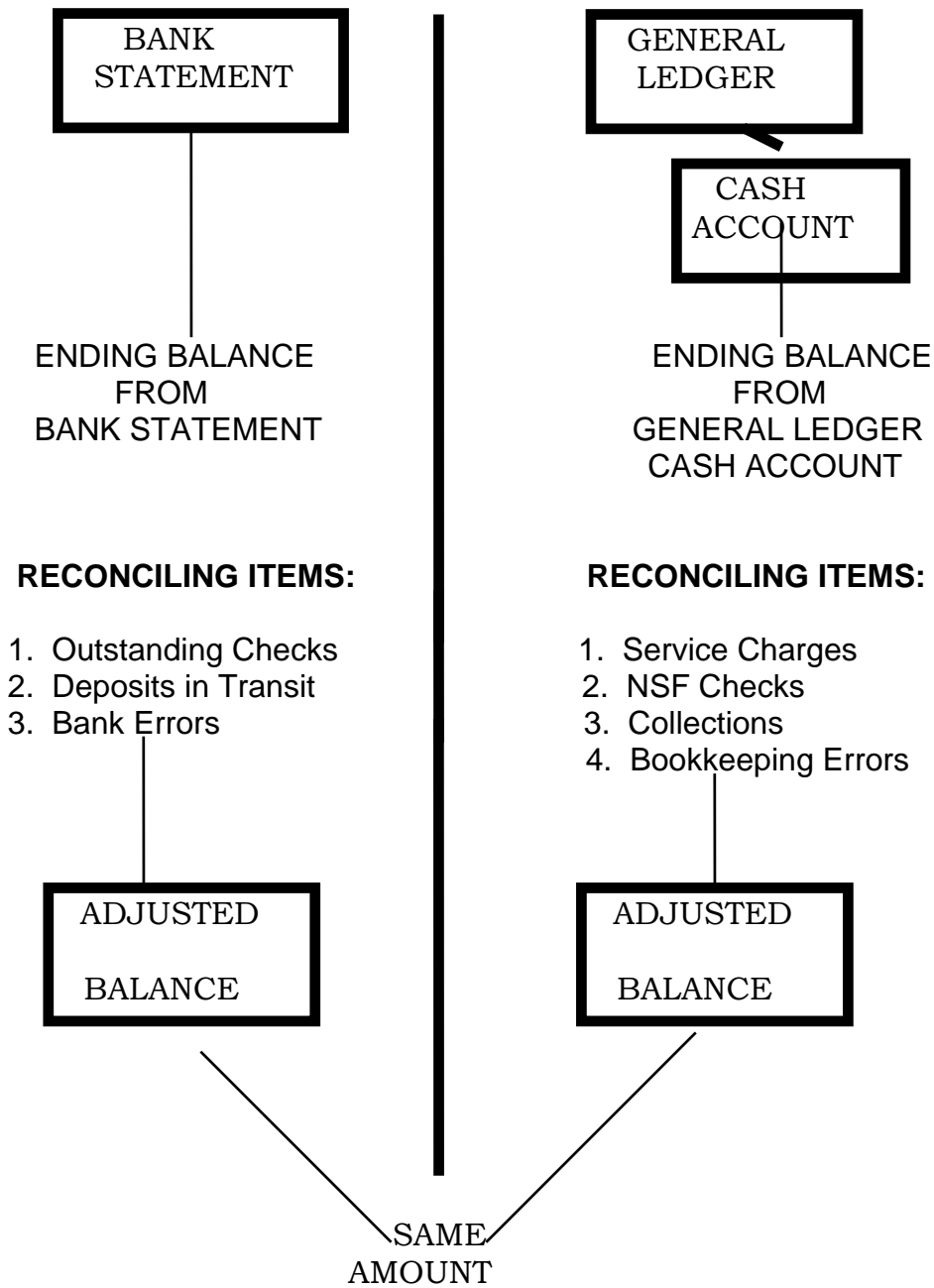
1. All receipts should be banked promptly.
2. Receipts from cash sales should be supported by sales tickets, cash register tapes, and so on.
3. Accountability should be established each time cash is transferred.
4. Persons receiving cash should not make disbursements of cash, record cash transactions, or reconcile bank accounts.

CONTROLLING CASH DISBURSEMENTS

1. All disbursements, except petty cash payments, should be made by prenumbered check.
2. Supporting documents should be submitted for review when checks are signed.
3. Persons who sign checks should not have access to cash receipts, should not have custody of funds or record cash entries, and should not reconcile bank accounts.

CONTROLLING CASH BALANCES

1. The bank reconciliation is a means of comparing recorded cash, as shown by the accounting records, with the amount of cash reported by the bank.
2. It provides for finding and correcting errors and irregularities.
3. Bank reconciliations should be prepared by persons who do not receive cash or sign checks.
4. Bank statements and paid checks should be received unopened by the person reconciling the account.
5. All cash funds on hand should be closely watched and surprise counts at intervals.



STEPS IN PREPARING A BANK RECONCILIATION:

1. Individual deposits listed on the bank statement are compared with unrecorded deposits appearing in the preceding period's reconciliation and with deposit receipts or other records of deposits. *Deposits not recorded by the bank are added to the bank balance.*
2. Paid checks are compared with outstanding checks appearing on the preceding period's reconciliation and with checks recorded. *Checks issued that have not been paid by the bank are outstanding and are deducted from the bank balance.*
3. Bank credit memorandums are compared to entries in the journal. For example, a bank would issue a credit memorandum for a note receivable and interest that it collected for a customer. *Credit memorandums that have not been recorded are added to the book balance.*
4. Bank debit memorandums are compared to entries recording cash payments. For example, a bank normally issues debit memorandums for service charges and check printing charges. A bank also issues debit memorandums for not-sufficient-funds checks. An NSF check is a customer's check that was recorded and deposited but was not paid when it was presented to the customer's bank for payment. NSF checks are normally charged back to the customer's account receivable. *Debit memorandums that have not been recorded are deducted from the book balance.*
5. Errors discovered during the preceding steps are listed separately on the reconciliation. For example, if an amount has been recorded incorrectly by the depositor, the amount of the error should be added to or deducted from the book balance. Similarly, errors by the bank should be added to or deducted from the bank balance.
6. To complete the process, all items that reconcile the book balance to the adjusted amount of cash need to be journalized so they are posted to the Cash ledger account. This is necessary so the records are updated. Items reconciling the bank balance will be handled by the bank.