

Visual Learning Maps

Introductory Financial Accounting



Click to Go to the Website

VIRTUAL TEXT BOOK

BANK RECONCILIATION Journal Entry 1 OF 2

WHY, WHEN & WHAT?

The bank reconciliation must be completed and the Journal Entry booked **BDFORE** the financial statements can be prepared for the month.

Moments after the bank reconciliation has been completed, the Journal Entry must be prepared, approved and processed. This Journal Entry, booked through the General Journal, correctly records the items that have been processed through the bank account that have not been recorded in the books.

Here is a **complete list** of items that the bank reconciliation Journal Entry records and the accounts they affect – not all of them are on all bank reconciliations.

ITEM

ACCOUNT / CATEGORY

Interest paid to bank	expense
Interest earned from bank	miscellaneous revenue
Bank service charges	expense
Debit memos	depends on the memo
Credit memos	depends on the memo
Bank collections from customers	accounts or notes receivable
EFT receipts	revenue or accounts receivable
EFT payments	depends on payment type – usually expense
NSF cheques deposited	NSF receivable
Book Errors	Same as original entry

NEVER

Never use the plus and minus totals from the 'Bank' section of the Bank Reconciliation Worksheet in the Journal Entry. The two major types of 'Bank' sub-section items, outstanding checks and outstanding deposits, relate to timing realities. They are in motion and will get to the bank soon.

Bank Errors, the only other type, get solved by phoning the bank and getting them to take corrective action.

BANK RECONCILIATION Journal Entry – 2 OF 2

How to Do It

The Journal Entry to record the adjustments to the books is **ALWAYS** made from the completed Bank Reconciliation Worksheet.

The first step is to record the adjustments to the bank in total. Write Cash or Bank under the ACCOUNT heading. The figures entered under the Debit AND Credit headings are the two sub totals from the sub-section in the 'Book' section; the 'PLUS' sub total and the 'MINUS' sub total.

<u>ACCOUNT</u>	<u>Debit</u>	<u>Credit</u>
Cash / Bank - The PLUS sub total goes here	→	↑
The MINUS sub total goes here	←	↑
<i>NOW THE BANK IS CORRECT</i>		
<i>NEXT: Implement the Bookkeeping Rule that total debits must equal total credits</i>		
<i><u>HERE'S HOW Step 1:</u></i>		
<i>Put all the details of the MINUS sub total, account names and amounts, in the DEBIT column</i>		
<i><u>HERE'S HOW Step 2:</u></i>		
<i>Put all the details of the PLUS sub total, account names and amounts, in the CREDIT column</i>		
<i><u>HERE'S HOW Step 3:</u></i>		
<i>Add the DEBIT and CREDIT columns and write the total at the bottom – they MUST be the same total</i>		
TOTAL	\$	\$

