Bank Reconciliation

A company's *book balance* contains a record of the transactions (checks written, receipts from customers, etc.) that involve its checking account. The bank also creates a record of the company's checking account, known as a *bank statement*, when it processes the company's checks, deposits, service charges, and other items. When the company receives its bank statement, they verify the consistency in the amounts on the *bank statement* with the amounts in the company's *book balance* account. This process of confirming the amounts is referred to as *bank reconciliation*. There are three steps in the bank reconciliation process:

Step 1: Adjusting the Balance per Bank

	Adjustments:
	Add: **Deposits in transit**
	Deduct: **Outstanding cheques**
	Add or Deduct: **Bank errors**
	Adjusted/Corrected Balance per Bank

Deposits in transit are amounts already received and recorded by the company, but are not yet recorded by the bank.

Outstanding checks are checks that have been written and recorded in the company's Cash account, but have *not* yet cleared the bank account.

Bank errors are mistakes made by the bank. Depending on the error, the correction could increase or decrease the balance shown on the bank statement. For instance if the bank incorrectly debited a transaction to the company's account that had not been a check drawn by the company, this amount would be added back into the bank balance.

Step 2: Adjusting the Balance per Books

	Adjustments:
	Add: **Interest earned**
	Add: **Notes Receivable** collected by bank
	Add or Deduct: Errors in company's **Cash** account
	Deduct: **Bank service charges**
	Deduct: **NSF cheques & fees**
	Deduct: **Cheque printing charges**
	Adjusted/Corrected Balance per Books

Interest earned is the amount of money a bank gives a company based on its account balances.

Notes Receivable are assets. Banks collect notes receivable and charge a fee for it.

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