CHAPTER 8 – CASH & BANK RECONCILIATION (2026)

- Money can be kept as cash in hand, in a bank account or in a safe/cash register.
- Cash in bank = cash deposited with the bank.
- Business pay money either in cash, by cheque or by electronic funds transfer.

DOUBLE ENTRIES

Transaction	Double Entries
Payment to suppliers	Dr Trade payables (– liability) Cr Cash at bank/Cash in hand (+ asset)
Received cash discount	Dr Trade payables (– liability) Cr Discount received (+ asset)
Received payment from customers	Dr Cash at bank/Cash in hand (+ asset) Cr Trade receivables (– asset)
Give cash discount	Dr Discount allowed (– expense) Cr Trade receivables (– asset)
Dishonoured cheque	Dr Trade receivables (– asset) Cr Cash at bank (– asset)
Cash discount withdrawn	Dr Trade receivables (– asset) Cr Discount allowed (– expense)

REASONS FOR DISHONOURED CHEQUES

Cheque has expired	• The date was wrong.
Cheque is post-dated	• The cheque was written for a future date.
Information on cheque is not consistent	• Amount in numbers does not match amount in words. • Signature is different from the authorised version in the bank's record.
Information on cheque is not complete	• No date or amount paid or signature.
Payer's bank account	• Insufficient funds in payer's bank account. • Payer's account is closed. • Payer's account is frozen.

WAYS OF INTERNAL CONTROLS

(NOT FOOL PROOF BUT HELPS TO SAFEGUARD THE BUSINESS' CASH)

Segregation of duties between different parties	• Cash handling and custody among different employees so no single person has control over the entire process.
Custody cash	• Secure cash and cheque in a locked storage. • Limit access of cash to authorised personnel. • Provide combinations, passwords or other access codes to authorised personnel only. • Deposit cash daily into the bank to minimise the amount of cash kept in the business.
Authorisation	• Obtain proper approvals for all payments from authorised personnel. • Require at least 2 persons to review and approve all payments. • Require valid supporting documents for all payments.
Bank Reconciliation	• Compare the business' records with the bank's records to identify items that caused the differences between the ending balance in the business cash at bank account and the bank statement.

ERRORS CAUSED BY TIMING DIFFERENCES

Time Differences	Examples	Record in
Direct deposits	• Customer deposits cash/cheques directly into the business bank account. • Bank credits the deposit before it appears in the business records.	Cash in bank
Direct payments	• Bank makes payment via standing order or transfers funds directly. • Bank deducts charges, interest on overdraft and loan interest directly from the business bank account.	Cash at bank
Cheques not yet presented	• Business issues a cheque but supplier has not presented it to the bank.	Bank Reconciliation
Deposits in transit	• Business has deposited the cheque but the bank has not yet processed it.	Bank Reconciliation
Dishonoured cheques	• Bank rejects a cheque that the business has previously deposited.	Cash at bank

PURPOSE OF INTERNAL CONTROLS

- Internal controls are policies and procedures established to:
  - Safeguard assets of the business
  - Ensure business transactions are recorded accurately
  - Comply with laws and regulations
  - Detect or deter the occurrence of fraud
- Internal controls over cash reduce the possibility of theft or the likelihood of error. Otherwise, errors, discrepancies or irregularities may not be detected on time and cash may be misappropriated.

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BANK RECONCILIATION

- To check the cash at bank balance of the business against the bank's record as shown in the bank statement.
- To check for missing items, errors and frauds
- Determine the correct cash at bank balance

FORMAT

Cash at bank account				
Date	**Particulars**	**Debit $ (−)**	**Credit $ (+)**	**Balance $**
Last day of the month	Bal b/d (derived from cash book ending balance)			X (Dr or Cr)
	Receipts	x		X (Dr or Cr)
	Payments		x	X (Dr or Cr)
1st day of the month	Bal b/d			X (Dr or Cr)

Note: For Cash book, credit balance means bank overdraft (negative).

XXX Bank reconciliation as at DD MMM YYYY	$
Balance as per bank statement	X (will be negative if bank statement is DR)
Add: Deposit in transit	x
Less: Cheques not yet presented	x
Balance as per adjusted cash book	x (negative if the cash book is credit)

A debit balance in the bank statement means that the business has a **negative bank balance (bank overdraft) because the business owes money to the bank.** Therefore, it is a **liability** to the business.

STEPS TO DOING A BANK RECONCILIATION

Check carefully!

1. **Compare the Bank Statement and Cash Book**
   - Cross out the common items in the Bank Statement and Cash Book.
   - Circle the items that are not cancelled.
2. **Check the Beginning Balance**
   - Check whether the beginning balance in the Cash Book and Bank Statement is the same.
   - If they are different, locate the difference and cancel it.
   - The difference may be due to timing differences, where a transaction has been recorded by the business but has not yet been recorded by the bank.
3. **Calculate the updated cash at bank**
   - Update the Cash at Bank Account with items that are shown in the Bank Statement but not recorded in the Cash Book. (Direct payments, Direct deposits, dishonoured cheques and errors)
4. **Prepare the Bank Reconciliation Statement**
   - Start with the ending balance of the Bank Statement.
5. **Check Your Answer**
   - The ending balance of the Cash at Bank Account and the Bank Reconciliation Statement

3 Prepare the Cash at Bank Account

- Start with the ending balance of the Cash Book.
- Update the Cash at Bank Account with items that are shown in the Bank Statement but not recorded in the Cash Book. (Direct payments, Direct deposits, dishonoured cheques and errors)

4 Prepare the Bank Reconciliation Statement

- Start with the ending balance of the Bank Statement.
- Dr (Debit) means a negative bank balance (the business owes money to the bank).
- Cr (Credit) means a positive bank balance.
- Update the Bank Reconciliation Statement with items that are recorded in the Cash Book but not shown in the Bank Statement or any errors. (deposit in transit, cheques not yet presented and errors)

5 Check Your Answer

- The ending balance of the Cash at Bank Account and the Bank Reconciliation Statement should be the same.

Balance to appear on statement of financial position
Ending balance of UPDATED cash book/bank statement

INTERPRETATION OF ACCOUNTS

Cash at bank Account				
Date	**Particulars**	**Debit**	**Credit**	**Balance**
2024		$	$	$
Nov 1	Balance b/d			4000 Dr
Nov 8	Trade receivables – Toh Provision	1960		5960 Dr
Nov 13	Inventory	720		6680 Dr
Nov 17	Cash in hand		95	6585 Dr
Nov 27	**Trade Payable** – Hot farm		1170	5415 Dr
Nov 30	Trade Receivables – POA		1746	3669 Dr

Answer	
1 November	The business has $4000 in the bank account
8 November	The business received a cheque of $1 960 from credit customer, Toh Provision
13 November	The business bought inventory of $720 by cheque.
17 November	The business withdrew $95 from the business bank account to use as office cash
27 November	The business paid $1 170 by cheque to its credit supplier, Hot Farm
30 November	A cheque of $1746, which was previously received from credit customer, POA was dishonoured.

If the cash at bank has a credit balance, the business has bank overdraft of $x.