Do you check your bank statements?

Do you check your bank statements against your own records? If not, you should. Here's what you need to know about bank reconciliation statements.

Accurate, up-to-date information is the lifeblood of any business.

Most businesses receive a regular bank statement, detailing all of the transactions passing through the business's current account in a particular period. Some businesses, however, neglect to act on the valuable information contained in the statement. They don't check this information against their own records and identify and reconcile any differences between the two. Failing to do this could prove very costly. For instance, the amount of available cash could be overestimated, and could expose the business to risk (the reason for discrepancy could be due to ongoing employee fraud, for example).

A manual bank reconciliation statement can be created relatively simply. Many businesses use a financial software package with a bank reconciliation facility but you can also do this manually. Doing bank reconciliations regularly will considerably improve your understanding and control of the business and its current performance, and help avoid nasty surprises.

Key steps

Before looking at the individual steps to be followed, it is worth considering the broad logic of what you are trying to achieve. The monthly bank statement is an account of the transactions involving your current account with a bank in a particular month. It records the various lodgements and withdrawals (cash, cheque or electronic) to and from the bank account.

The statement also records the bank's fees for various services provided. Fees are often charged on a quarterly, rather than monthly, basis. When a bank lodgement or withdrawal is made, or a cheque is written, it is also recorded in the business's financial records.

Sometimes there can be differences between bank and business records. For example, a bank statement may fail to record a lodgement made on the day the statement was issued, or may not take account of a cheque which has been issued to a supplier but which has not yet been presented for payment to the bank.

Preparing a bank reconciliation statement is a key business process designed to identify the differences between the bank's and business's records, to reconcile these, and to identify the correcting entries, if any, that need to be made either by the bank or the business in their respective records. It provides a more up-to-date record of the business's true cash position.

There are four key steps in the process