

2-3 RECONCILIATION: DO THE BANK AND I AGREE?



Larry still watches in fascination as the \$10 and \$20 bills come tumbling down out of the automated teller machine at the convenience store down the street. The first time Larry used the machine, he wasn't sure he would know what buttons to push, but the instructions on the computer screen were very simple; after one visit, Larry knew what to do. In fact, one weekend Larry spent Saturday afternoon driving around town locating other machines that would accept his card, and he came home with \$240 in his pocket in tens and twenties. Driving around so much had made Larry a little hungry; he spent some money for pizza, some for a beef sandwich, some more for popcorn, and finally some for frozen yogurt.

Next to the yogurt store was one of Larry's favorite haunts—the music store. Larry spotted a new CD he wanted and bought two copies—the extra one for his girlfriend, Lorrie Anne. Larry considered making some notes on

the amounts of money he had spent, but he forgot about it while he was thinking how much Lorrie Anne would like the present.

As Larry was gathering up his keys and change and getting ready to drive to Lorrie Anne's house, one of the slips of paper from the ATM, which Larry had stuck in his pocket, fell to the floor and caught Larry's attention. Printed near the end of the receipt was "Available Balance: \$14.78." "Wait a minute, now," Larry thought. "I wrote two checks yesterday that haven't reached the bank yet. They totaled more than \$150. How can I only have \$14.78 left? Why, I deposited \$300 two days ago! What became of the \$300?"

Larry had a sinking feeling that he knew what had become of the money. What would happen at the bank tomorrow if those checks he wrote went through his account? Larry wondered whether there was any way to stuff some of that cash back into the machine.

OBJECTIVES: In this lesson, we will help Larry to:

- Assess the advantages and disadvantages of using electronic fund transfers.
- Reconcile a bank statement with the corresponding check register balance.

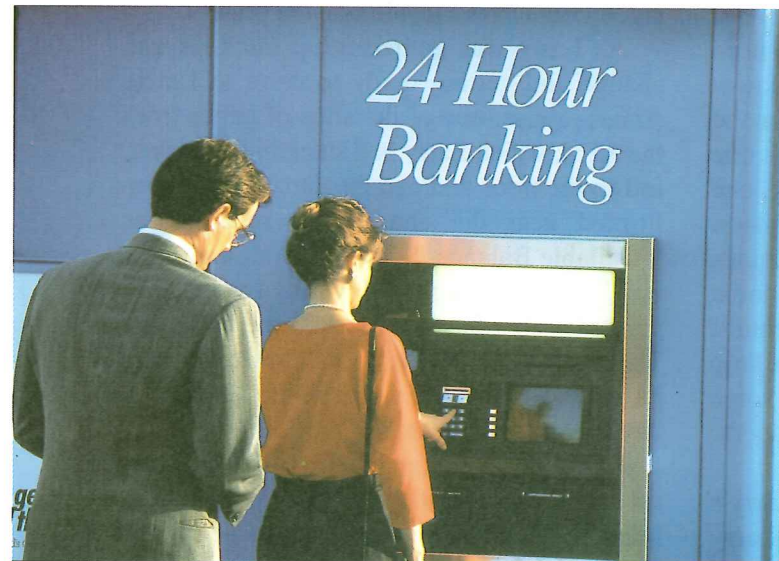
AUTOMATED TELLER MACHINES (ATMS)

No longer do customers have to rush to the bank before it closes. **Automated teller machines (ATMs)** allow customers easy access to their accounts during banking or nonbanking hours. By using a special ATM card and punching in a personal identification number, a customer can deposit or withdraw money and even obtain a loan at the site of an ATM. Automated teller machines are placed in convenient locations such as airports, shopping malls, and street corners. They may also be located on the premises of the bank.

But what if your ATM card is lost, stolen, or used without permission? If you lose or misplace your ATM card, you must notify the bank immediately. Usually, if you notify the bank within two business days, the most you will have to pay is \$50.

Follow these rules of bookkeeping when using electronic fund services:

1. Always keep the record of your transaction. Check the date, amount, location, and type of transaction. You will later use this information to verify your monthly statement.
2. If a mistake is made at the time of the transaction, call your bank for direct customer service. If you cannot get service at the time, contact the bank as soon as possible.
3. Enter your debit transactions (that is, money taken out) in your check register just as you would a check transaction. This practice allows you to maintain an accurate running total of how much money you have.



The Checkless Society A few years ago, people thought that the checkless society, in which all transactions are made electronically, would soon be upon us. But this was not to be. Many bank customers are still reluctant to use ATMs and computers. They fear breakdowns of the electronic equipment or computer errors that could tie up their funds for days or weeks. Nonetheless, electronic banking is widely used and will continue to grow.

KEEPING A RECORD OF YOUR MONEY

Customers receive monthly **statements** from their banks that reflect all checking account transactions: deposits, checks cleared, service charges, and the ending balance of the account at the close of the statement period. Several days elapse from the time the statement is prepared to the time the customer receives the statement. During this time, additional checks may be written and deposits made and recorded in the register. Also, if the owner of the checking account has written a check but the recipient has not yet cashed it, the bank will not have subtracted the amount of that check from the account. Such checks are called **outstanding checks**. Each of these reasons will cause the customer's check register and statement to differ. The process of finding the correct balance is called **reconciliation**. (The procedure to follow for reconciling your bank statement and check register is described in detail in Sharpen Your Skills.)

After the reconciliation procedure is completed, the adjusted balances should agree. They represent the correct amount of money that remains in the checking account.

Each month you should reconcile the bank's statement with the balance in your register. Then make a brief notation in the register to record the fact that your account is in balance.

If the check register and statement do not agree, you should first check your own arithmetic and then—even though the statement was probably created on a computer and is therefore likely to be accurate—check the bank's arithmetic as well. You will have received your checks back from the bank with your statement. These are called **canceled checks**. Compare these checks with your register to see whether you missed any outstanding checks. Compare the amount you recorded for each check with the register amount and the statement amount for that check. When you find an error, recalculate the balance affected, and compare it with the other balance.

If there is still no agreement, report the matter to the bank. You should do this within ten working days of receiving the statement. Bank bookkeeping departments work with customers to determine whether there has been an error by the bank and will help customers find the reason for the differences. Some banks charge a fee for assistance with reconciliation.

Ask Yourself

1. What should you do if you lose your ATM card?
2. What is a monthly statement?
3. What are outstanding checks?

ALGEBRA REVIEW

Solve each equation for x .

1. $x - 2 = 0$
2. $x + 5 = 2$
3. $2x - 8 = 0$
4. $2x - 1 = 5$
5. $3x = 2x + 1$
6. $5x - 1 = 2x + 8$
7. $x - 1 = 8 - 2x$
8. $1.2x = 7 + 1.4x$
9. $2(x - 1) = 3(x - 2)$
10. $2.5x - 1.75 = 3.25 - 1.25x$

SHARPEN YOUR SKILLS

SKILL 1

EXAMPLE 1 The bank statement below shows the monthly transactions for Larry Lender. Notice the following entries on the statement.

1. Account balance at the beginning of the period, \$186.43.
2. Service charge, \$1.90. It is important to record this in your checkbook.
3. The record of checks written, received, and processed by the bank.
4. Deposits made by Larry Lender during the month.
5. Balance at the close of the statement period.

INLAND BANK							
BANK STATEMENT							
TO: LARRY LENDER 4115 N. LINCOLN INLAND, IN 47304				ACCOUNT NUMBER: 75-197-66			
DATE	YOUR BALANCE WAS	WE SUBTRACTED		SERVICE CHARGE	WE ADDED		MAKING YOUR PRESENT BALANCE
		NO.	CHECKS		NO.	DEPOSITS	
8/31/--	1 186.43	14	586.65	1.90	2	706.09	5 303.97
DATE	CHECKS			DEPOSITS		BALANCE	
8/2					286.75	186.43	
8/6	125.00	3				473.18	
8/9	23.46	40.00				348.18	
8/10	9.45	15.00				284.72	
8/12	15.74	139.00				260.27	
8/15	34.10					105.53	
8/16					419.34	71.43	
8/17	21.19					490.77	
8/19	8.00					469.58	
8/22	14.86	10.00	45.00			461.58	
8/27	85.85					391.72	
8/31	1.90SC	2				305.87	
						303.97	
Please notify bank immediately of any change of address. The account will be considered correct if errors are not reported immediately.					Symbol code: SC Service Charge OD Overdrawn Account SP Stop Payment EC Error Correction		

The balance in Larry's check register is \$405.87. There are no outstanding checks, but he has made one deposit for \$100 that does not appear on the statement.

QUESTION What might be the reasons why Larry's balance is not the same as the balance on the bank statement?

SOLUTION

The first reason is that the deposit is not on the bank statement. Add the deposit to the bank balance:

$$303.97 + 100.00 = 403.97$$

Compare the adjusted bank balance with Larry's balance:

$$405.87 - 403.97 = 1.90$$

Look on the bank statement for an amount of 1.90. There is a service charge of 1.90. Larry discovers that he has not subtracted this charge from his balance. When he does, the adjusted balances are the same.

SKILL 2

In the process of reconciling the balance on the bank statement with the balance in your checkbook, it generally happens that you must adjust both balances. This adjustment or correction does not mean that one or the other of the balances is wrong; it simply means that with new information the balances must be brought up to date.

How is the process of adjusting the bank statement balance similar to the process of adjusting the checkbook balance and how is it different?

The procedures for making the adjustments are similar. In both cases, amounts that were not available earlier must be added to or subtracted from the initial balance to find the adjusted balance. Adjustments of the bank statement and checkbook follow the equation

$$\begin{aligned} \text{Balance} + \text{deposits not recorded} - \text{checks and fees not recorded} \\ = \text{new balance} \end{aligned}$$

Differences are found in the numbers used. The beginning balance and the amounts of the unrecorded deposits, checks, and fees might all be different. But if all of the information is correct and the computations are done correctly, then the adjusted balances will be the same.

With each bank statement the bank also sends the customer a reconciliation form. This form is set up to help you compare the bank's records with your records and reconcile the account. That is, you adjust your balance and the bank's balance to arrive at the correct current balance.

EXAMPLE 2 In another month Larry received a bank statement showing a balance of \$254.78. Larry's checkbook balance is \$211.23. Larry compares the statement with his checkbook and finds the following, not shown on the statement: deposit, \$60; checks, No. 226, \$23.65, and No. 231, \$82.30. On the statement, but not in his checkbook, is a bank charge of \$2.40.

QUESTION How does Larry use the reconciliation form to reconcile his checkbook with the bank and to find new adjusted balances?

SOLUTION

The transactions in question are listed on the reconciliation form below. Notice where each transaction appears and how it is used.

1. The balance on the bank statement and in the checkbook.
2. Deposits not on the statement.
3. Checks not on the statement.
4. Service charges not in the checkbook.
5. Adjusted balances.

YOU CAN EASILY BALANCE YOUR CHECKBOOK BY FOLLOWING THIS PROCEDURE			
FILL IN BELOW AMOUNTS FROM YOUR CHECKBOOK AND BANK STATEMENT			
BALANCE SHOWN ON BANK STATEMENT	(1)	\$ 254.78	
ADD DEPOSITS NOT ON STATEMENT	(2)	\$ 60.00	
		TOTAL	\$ 314.78
SUBTRACT CHECKS ISSUED BUT NOT ON STATEMENT			
# 226	\$ 23.65		(3)
237	82.30		
		TOTAL	\$ 105.95
BALANCE	(5)	\$ 208.83	
BALANCE SHOWN IN YOUR CHECKBOOK			
	(1)	\$ 211.23	
ADD ANY DEPOSITS AND OTHER CREDITS NOT ALREADY ENTERED IN CHECKBOOK			
		TOTAL	
SUBTRACT SERVICE CHARGES AND OTHER BANK CHARGES NOT IN CHECKBOOK			
		\$ 2.40	(4)
		TOTAL	\$ 2.40
BALANCE	(5)	\$ 208.83	
THESE TOTALS REPRESENT THE CORRECT AMOUNT OF MONEY YOU HAVE IN THE BANK AND SHOULD AGREE. DIFFERENCES, IF ANY, SHOULD BE REPORTED TO THE BANK WITHIN TEN DAYS AFTER THE RECEIPT OF YOUR STATEMENT			

TRY YOUR SKILLS

1. What amounts must be added to the bank statement balance or to the check register balance in preparing the adjusted balance?
2. What amounts must be subtracted from the bank statement or from the check register balance in preparing the adjusted balance?
3. Your bank statement shows a closing balance of \$75.65. There are no outstanding checks or deposits. Your checkbook shows a balance of \$77.95. What might account for the different balances?

Your bank statement shows a closing balance of \$102.60. The following are not on the statement: deposit, \$50.00; check, \$23.88; ATM withdrawal, \$40.00. There is a service charge of \$1.50 on the statement but not in your checkbook.

4. What amount(s) must be added to the bank statement balance?
5. What amount(s) must be subtracted from the bank statement balance?
6. What should be the balance in your checkbook before you do a reconciliation?
7. What should be the balance after you do a reconciliation?
8. Roger has a balance of \$218.52 in his check register. The balance on his bank statement is \$487.35. Not reported on his bank statement are a deposit for \$335.56 and checks for \$572.00, \$39.83, and \$77.11. The service charge was \$7.43. Roger noticed checks for \$52.12 and \$28.00 were not in his check register. He had not recorded the service charge and a check for \$250 in his check register. What should the balance be in his check register after he reconciles his account?



EXERCISE YOUR SKILLS

1. What are two advantages of ATMs?
2. What is a disadvantage of ATMs?
3. Why is the current balance on the bank's statement often different from the balance in your check register?
4. What can you do to balance your account if the initial use of the reconciliation form does not yield matching balances?

KEY TERMS

automated teller machine (ATM)
 canceled checks
 outstanding checks
 reconciliation statement

Larry received the following monthly statement from his bank.

INLAND BANK							
BANK STATEMENT							
TO: LARRY LENDER 4115 N. LINCOLN INLAND, IN 47304				ACCOUNT NUMBER: 75-197-66			
DATE	YOUR BALANCE WAS	WE SUBTRACTED		SERVICE CHARGE	WE ADDED		MAKING YOUR
		NO.	CHECKS		NO.	DEPOSITS	PRESENT BALANCE
9/30/--	303.97	11	561.45	2.30	2	400.00	140.22
DATE	CHECKS			DEPOSITS	BALANCE		
							303.97
9/1	100.25						203.72
9/3	75.00						128.72
9/9					200.00		328.72
9/11	214.00						114.72
9/16	12.95	15.45					86.32
9/19					200.00		286.32
9/21	11.15	20.00	34.50				220.67
9/24	5.40	7.75					207.52
9/28	65.00						142.52
9/30	2.30SC						140.22
Please notify bank immediately of any change of address. The account will be considered correct if errors are not reported immediately.					Symbol code: SC Service Charge OD Overdrawn Account SP Stop Payment EC Error Correction		

5. How many check amounts are reported on the statement?
6. What is the initial balance for the account?
7. What is the closing balance for the account?
8. What is the total dollar amount of the deposits reported on the statement?
9. What service charge is reported on the statement?
10. Not reported on Larry's bank statement are two checks: No. 238, \$25.00, and No. 241, \$38.05. Also not reported is a deposit for \$50.00. The service charge listed on the statement is not recorded in Larry's check register. The balance in Larry's check register is \$129.47. Use this information to reconcile Larry's account using a reconciliation form provided by your teacher, or copy the one shown earlier in the lesson.
11. Cheryl has a balance of \$478.83 in her check register. The balance on her bank statement is \$345.75. Not reported on her bank statement are a deposit for \$250 and three checks for \$85.00, \$54.32, and \$129.75. She forgot to record two ATM withdrawals of \$50 and \$100 in her check register. She also needs to record the service charge of \$2.15 in her check register. What should the balance be in her check register after she reconciles her account?
12. Following are a portion of Rachel Rosen's check register and the bank statement that she received. Reconcile her bank statement with her check register. Obtain a reconciliation form from your teacher, or make a copy of the one shown earlier in the lesson.

Check Register				
CHECK NUMBER	DATE	CHECKS/DEPOSITS	AMOUNT	BALANCE
				\$1840 63
201	3/7	TO: FOREVER PHOTOS FOR: CAMERA	183 70	1656 93
202	3/8	TO: LIGHTNING DEVELOPING FOR: PICTURES	63 50	1593 43
203	3/8	TO: WE-HAVE-IT DEPT. STORE FOR: ALBUMS	23 80	1569 63
204	3/9	TO: FLASH BACK FOR: CAMERA CASE	12 95	1556 68
	3/10	TO: DEPOSIT FOR: PAYCHECK	363 90	1920 58
205	3/12	TO: M-MART FOR: FILM	12 50	1908 08
ATM	3/15	TO: ATM FOR: CASH	50 00	1858 08
206	3/17	TO: CAMERA CASE FOR: LENSES	85 60	1772 48
	3/17	TO: DEPOSIT FOR:	250 00	2022 48
ATM	3/17	TO: ATM FOR: CASH	50 00	1972 48
207	3/19	TO: LIGHTNING DEVELOPING FOR: CHEMICALS	26 85	1945 63
208	3/21	TO: ELECTRIC COMPANY FOR: ELECTRIC BILL	95 75	1849 88

Checking Account Statement						ACCT. 190-12866
						DATE 3/31/--
						PAGE 1
National City Bank				RACHEL ROSEN 717 NORTH WILSON PLACE INLAND, IN 47304		
BALANCE FORWARD	NO. OF CHECKS	TOTAL CHECK AMOUNT	NO. OF DEP.	TOTAL DEPOSIT AMOUNT	SERVICE CHARGE	BALANCE THIS STATEMENT
1840.63	7	577.80	2	613.90	6.50	1870.23
CHECKS AND OTHER DEBITS				DEPOSITS AND OTHER CREDITS	DATE	BALANCE
201	183.70				3/10	1686.93
202	63.50				3/10	1593.43
203	23.80				3/11	1569.63
204	12.95			363.90	3/11	1920.58
205	12.50				3/15	1908.08
206	85.60				3/20	1822.48
208	95.75			250.00	3/22	1976.73
	50.00ATM				3/23	1926.73
	50.00ATM				3/24	1876.73
	6.50SC				3/25	1870.23
PLEASE EXAMINE AT ONCE. IF NO ERRORS ARE REPORTED WITHIN 10 DAYS, THE ACCOUNT WILL BE CONSIDERED CORRECT.				KEY TO SYMBOLS		
PLEASE ADVISE US IN WRITING OF ANY CHANGE IN YOUR ADDRESS				AD AUTOMATIC DEPOSIT	DM DEBIT MEMO	
				AP AUTOMATIC PAYMENT	EC ERROR CORRECTED	
				AR AUTOMATIC REVERSAL	IE INTEREST EARNED	
				CB CHARGE BACK	OD OVERDRAWN	
				CC CERTIFIED CHECK	RC RETURN CHECK CHG	
				CM CREDIT MEMO	RT RETURN ITEM	
				CO CHARGE OFF	SC SERVICE CHARGE	

13. Jose has a balance of \$899.10 in his check register. The balance on his bank statement is \$569.93. Not reported on his bank statement are two checks for \$120.60 and \$53.77 and a deposit for \$175. He had forgotten to record in his check register a transfer payment to his credit card for \$125 and two ATM withdrawals of \$100 each. He had also not recorded the service charge of \$3.54. What should the balance be in his check register after he reconciles his account?
14. Both the bank and the customer who has an account at the bank want records to be accurate. But their reasons are not exactly the same. Think of yourself as a banker, and write a paragraph on why you want all accounts to be accurate and up to date. Then think of yourself as a person with a bank account, and write a paragraph about why you try to keep your banking records accurate and up to date.