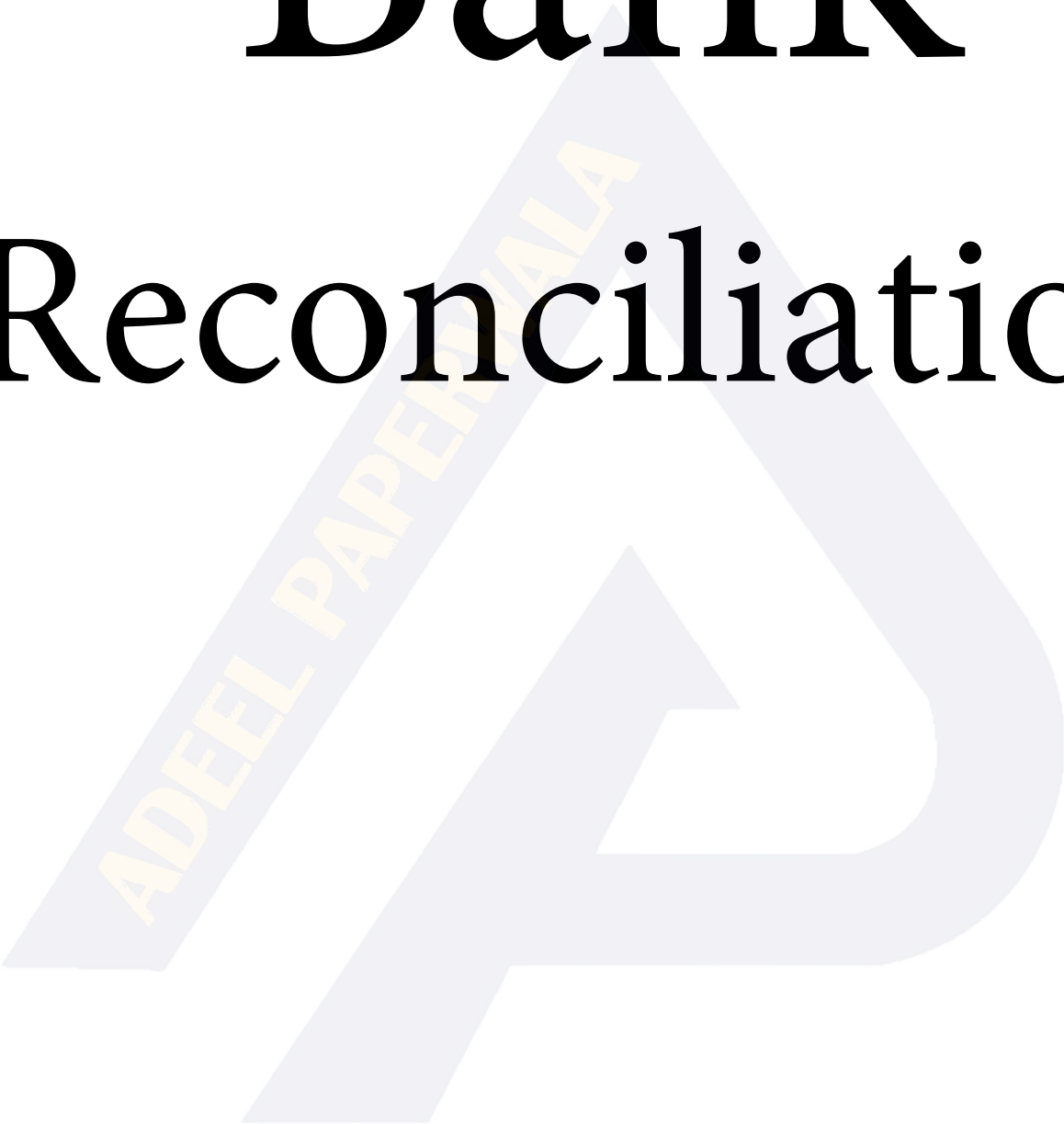


Bank Reconciliation



Reconciliation and verification

Bank reconciliation statements

Candidates should have an understanding of:

- updating of cash books
- how to prepare bank reconciliation statements
- the benefits and limitations of preparing a bank reconciliation statement



2 Sergio is a sole trader. His book-keeper prepares regular bank reconciliation statements.

(a) State **two** benefits of preparing regular bank reconciliation statements.

- 1
-
- 2
-

[2]

Additional information

Sergio is preparing his financial statements to 31 May 2020.

His bank statement shows the following for the first week of June 2020:

Date	Details	Debit	Credit	Balance	
2020		\$	\$	\$	
31 May	Balance			12 350	Debit
1 June	Cash and cheques banked		1 211	11 139	Debit
2 June	Cheque 1681	527		11 666	Debit
	Cheque 1682	361		12 027	Debit
	Cash and cheques banked		2 170	9 857	Debit
3 June	Cheque 1683	1 260		11 117	Debit
4 June	Standing order adjustment		225	10 892	Debit
6 June	BACS Sofia	536		11 428	Debit
7 June	Balance			11 428	Debit

The following information is also available.

- The deposits on 1 June and 2 June both relate to amounts received and recorded by Sergio in his cash book for the month of May.
- The last cheque that Sergio issued in May 2020 was number 1683.
- The adjustment on 4 June 2020 related to a standing order debited by the bank in error on 27 May 2020.
- On 5 June 2020 Sergio received a letter from the bank that had been delayed in the post. The letter stated that on 29 May 2020:

bank charges of \$90 and bank interest of \$120 had been debited to his account

an amount of \$360 had been received electronically from Alvaro, a credit customer.

Additional information

Sergio’s bank manager has asked Sergio to repay the overdraft within the next three months.

Sergio has identified two possible options.

Option 1: Miguel, a close friend, would provide Sergio with a loan of \$10 000 repayable in five annual instalments of \$2500.

Option 2: Sergio could take a seven-year bank loan from another bank for \$16 000. This bank would require annual interest of \$1000 and security for the loan.

(c) Explain the benefits and drawbacks to Sergio of each option.

Option 1

benefits

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.....

drawbacks

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.....

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Option 2

benefits

.....

.....

drawbacks

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.....

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[6]

[Total: 15]

- 2 Noor, a sole trader, prepares bank reconciliation statements at the end of each month.

REQUIRED

- (a) State **four** benefits to a business of preparing a bank reconciliation statement.

1

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2

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3

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4

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[4]

- (b) State **two** differences between a bank standing order and a direct debit.

1

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.....

2

.....

.....

[2]

Additional information

On 31 October 2019 Noor received the following bank statement for her business account.

Date	Details	Dr \$	Cr \$	Balance \$
1 Oct	Balance b/d			292.22 Cr
3 Oct	Credit		927.40	1 219.62 Cr
6 Oct	Direct debit: P Ltd	334.80		884.82 Cr
7 Oct	Cheque 626344	118.48		766.34 Cr
9 Oct	Cheque 626346	723.21		43.13 Cr
18 Oct	Credit transfer: Tahir		184.95	228.08 Cr
21 Oct	Bank charges	59.60		168.48 Cr
22 Oct	Direct debit: Ayesha	172.80		4.32 Dr
24 Oct	Credit		841.67	837.35 Cr
27 Oct	Cheque 626347	1 206.22		368.87 Dr
29 Oct	Credit transfer: H Ltd		229.48	139.39 Dr

Noor's cash book (bank columns) for October 2019 was as follows.

Cash Book (bank columns)			
		\$	\$
Oct			
1	Balance b/d	292.22	
1	Sales	927.40	
22	Tahir (credit transfer)	184.95	
23	Sales	841.67	
29	Sales	773.25	
31	Balance c/d	625.48	
		<u>3644.97</u>	
Oct	2	Z Ltd (cheque 626344)	118.48
	4	J Ltd (cheque 626345)	276.93
	5	Ayan (cheque 626346)	723.21
	6	P Ltd (direct debit)	334.80
	22	Huma (cheque 626347)	1206.22
	26	Usman (cheque 626348)	985.33
			<u>3644.97</u>
Nov	1	Balance b/d	625.48

REQUIRED

(c) Prepare Noor's updated cash book.

Cash Book (bank columns)			
		\$	\$
		Balance b/d	625.48

[4]

(d) Prepare a bank reconciliation statement at 31 October 2019.

Start with the balance per the bank statement.

Bank reconciliation statement at 31 October 2019

	\$
Balance per bank statement	

[5]

