

Bonus Report: Reconciling Your Bank Account

Many people find balancing their bank account difficult, especially if there are many different accounts and money regularly transferring between them.

In this report we're going to outline a simple yet effective way of reconciling your bank account. The first time you do it you may find the going a bit slow, but persevere and take back control of your finances.

What Is Reconciliation?

A great money habit to develop is to know how much money is in the bank. You may be wondering, 'Isn't it as simple as looking at the bottom line dollar figure?' It would be, except the money you think you have very rarely equals the money the banks say you have.

Explaining this difference is what a reconciliation aims to achieve.

Why Is It Important To Do A Reconciliation?

Doing a regular reconciliation helps you to understand your spending patterns and also the flow of money through your bank account. Only a tiny percentage of the population ever takes the time to do this...which may be one reason why so many people are such poor money managers.

Carrying out a reconciliation also ensures that only valid transactions occur in your account. Sadly, you can't always trust what is shown on your statement to be true (especially credit card statements!)

It's always wise to check what's on your statement and any fees charged on your account as banks are notorious for charging fees in error!

How often have you heard someone complain that they've been charged fees on their "fee free" bank account? If they didn't reconcile their account they wouldn't know about the invalid charge.

Why Do Differences Occur?

The major reason for differences between the bank balance you think you have and the bank balance you do have is the timing of transactions and in particular:

1. Unpresented Cheques

Sometimes you write a cheque and it might take the person you send

it to some time to bank it. Your bank account will not reflect the cheques you have written out until that cheque is presented.

2. Deposits Not Yet Credited

If you don't bank a deposit, then there's no way for the bank to credit it to your account...this is straightforward. But you also need to be mindful that banks often allow up to three days for cheques to clear before making the funds available for withdrawal from your account.

3. Bank Fees

Quite often the fees that your bank charges are unknown until you see it on your bank statement.

Different Types Of Reconciliation

There are many different types of reconciliations, which you can do. Your choice will be determined by whether or not you have a computerised record keeping system, your available time and the complexity of your banking activities.

In any event, here is a step by step guide to walk you through a reconciliation which you could do when you receive your bank statement.

Step One - Gather Your Receipts

Make sure you keep all your EFTPOS (electronic funds transfer), ATM (automatic teller machine) and credit card receipts together in a safe place. You may also retain any deposit slips here too.

When it comes time to do your reconciliation, gather all the receipts, deposit slips and a cup of coffee and proceed to the next step.

If you don't have any receipts then you can continue on, but the reconciliation exercise may not be as beneficial.

Step Two - Find Your Bank Statement

You'll also need your bank statement. Make sure the opening balance on your bank statement equals your closing balance from the period before to ensure you are looking at the right document.

Now that you have the right bank statement and also your receipts, it's time to start.

Step Three - Compare One Against The Other

The next step involves ticking off all the receipts and deposit slips against your bank statement. This will leave you with:

RESULTS

Mentoring Program

Your notes:

- **Bank Items You Don't Have Receipts For**

Normally such items may be automatic deductions, bank fees and charges or items you have lost the receipt for.

Importantly, scan these items carefully to make sure they are valid. If you are operating a computerised record keeping package then you'll need to enter these into your system.

If you keep manual records you may need to adjust the running balance you thought you had to reflect this.

If you have any concerns about the validity of the item then question it with your bank as soon as possible - especially credit card items.

- **Items Not On Your Bank Statement**

These items usually make up most of the reconciling items on your bank reconciliation and fall into two categories, either unrepresented cheques or deposits not yet recorded.

Step Four - The Reconciliation

We now have all the data we need for our reconciliation and it is just a matter of expressing it in a written manner. Here's how to do it:

What's the closing balance on your bank statement? <i>(If it's in overdraft then put brackets around it)</i>	\$
+ 'Deposits Not Yet Credited'	\$
- 'Unpresented Cheques'	\$
= Money left after adjusting for reconciling items	\$

Example One

Glenn's bank statement shows he has \$620 in the bank. He thinks this is great and more than he expected, so much so that he's thinking about buying a new Sony Play Station. If he did a reconciliation he'd find:

What's the closing balance on your bank statement? <i>(If it's in overdraft then put brackets around it)</i>	\$620
+ 'Deposits Not Yet Credited'	\$Nil
- 'Unpresented Cheques'	\$500
= Money left after adjusting for reconciling items	\$120

Glenn has a problem because he has less money in his account than

he thinks. Phil has not presented the cheque yet for the \$500 that Glenn owes him for the plumbing job he did. If Glenn writes another cheque and both are presented then there won't be enough funds in the account.

Example Two

Paula receives the shock of her life when she receives her bank statement saying she owes \$500 when she in fact thinks she has \$3,000 in the bank. Here's why:

What's the closing balance on your bank statement? <i>(If it's in overdraft then put brackets around it)</i>	(\$500)
+ 'Deposits Not Yet Credited' <ul style="list-style-type: none">• Outstanding Pay \$4,200• Dividend Cheque \$300	\$4,500
- 'Unpresented Cheques' <ul style="list-style-type: none">• Cheque #33, 04/05/2005 for \$120• Cheque #40, 01/06/2005 for \$880	\$1,000
= Money left after adjusting for reconciling items	\$3,000

Paula's problem in this case arises because she has not received the pay she was expecting. On further analysis it turns out there was a problem and the money was credited against the wrong bank account.

She only banked her dividend cheque the day before and the funds have not yet cleared and she also has written two cheques that haven't yet been presented.

The Benefit Of Reconciliations

As a quick recap, reconciliations are helpful to:

- Maintain control of your expenditure by ensuring you keep receipts and then reconcile your receipts to your bank statement. By doing this you'll know how much money you really have in the bank after reconciling items.
- Check the validity and accuracy of your expenses, ensuring you are not billed for something which you did not buy and that all your deposits have been properly banked and credited to your account.
- Monitor the flow of funds through your account and identify possible ways of saving bank fees, reducing the need for overdraft accounts and potentially saving you interest.

Making A Start

The hardest point in reconciling is making a start. We recommend you give it a go and seek help if you become lost or confused! Don't let fear hold you back.