

The Importance of a Bank Reconciliation

A bank reconciliation is simply the process one goes through to determine exactly how much money you have available to spend; whether you're a billion dollar company or you're a single person working a part time job the process is basically the same.

When you're reconciling your bank account you're comparing what your internal records show to be your cash availability verses what your bank statement says it is. These two dollar amounts are rarely the same and for many different reasons. For example, the checks that you write towards the end of the month may not have had a chance to clear out of your account; this means the bank doesn't know about them yet. Since they are not aware of these checks the cash balance stated doesn't reflect them but your records do. On the other side of it, the bank might have charged you a service charge at the end of the month or a wire transfer might have come thru that you weren't aware of. Sometimes it's as simple as human error on either side, whether it's you forgetting to record a check you wrote or the bank cashed one of your checks incorrectly.

Making sure that you can determine why these two dollar amounts differ is very important. Knowing the reasons behind this, i.e. outstanding checks, services charges or human error, will insure that you or your bank have not made any mistakes in any of the many transactions that have been made throughout the month. This will also bring to your attention any unauthorized transactions. If a withdrawal from your account were to occur by either a forged check or fake debit card purchase; by taking the time to reconcile your bank account you will see these unauthorized transactions sooner rather than later giving you and the bank enough time to deal with the problem and get your money back.

A bank reconciliation is a very basic but yet crucial practice that any responsible business owner or even individual should make a daily, weekly or at most monthly exercise. Making this part of your routine will insure that you never are taken advantage of, charged those very expensive overdraft fees or find yourself in that embarrassing situation of bouncing a check or being declined a debit card purchase.