

OHIO AUDITOR OF STATE
KEITH FABER

Reconciliations and Proof of Cash

Presented by:
Local Government Services

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Definitions

A bank reconciliation (**Required**) is the process of matching the balances in an entity's accounting records for a cash account to the corresponding information on a bank statement(s).

A proof of cash (**Not Required**) is essentially a roll forward of each line item in a bank reconciliation from one accounting period to the next, incorporating separate columns for cash receipts and cash disbursements. The columns (and formula) used for a proof of cash are:

- Beginning balance + Cash receipts in the period - Cash disbursements in the period = Ending balance

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Similarities and Differences

A proof of cash is a bank reconciliation that includes not only the prior-period and current-period balances but also reconciles the book receipts and disbursements for the periods with the bank statements.

The proof of cash differs from the bank reconciliation in that the proof reconciles the four parts that make up the cash balance: beginning balance, cash inflows (receipts), cash outflows (expenditures), and ending balances for both the bank statement balance and the ending book balance.

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Proof of Cash – If Not Required, Why?

While it may be a little more time consuming, the proof of cash provides a greater level of detail and thus makes it easier to spot errors than the standard reconciliation.

- As an example, because the proof of cash reconciles each total/column independently, if an unauthorized amount of \$10,000 is withdrawn from the entity's accounts at the beginning of the month and then the funds were replaced before the end of the month, the issue would not appear in a normal bank reconciliation. However, a proof of cash would be more likely to flag the extra cash withdrawal and cash deposit within the period.
- A proof of cash can also assist in ensuring all transactions are recorded in the accounting records for a particular period.

Thus, the proof of cash provides another safeguard, when used in conjunction with the standard bank reconciliation, to deter misappropriation of assets or to prevent financial statement errors.

Items Needed

- All bank statements
- Cash Position Report
- Revenue Journal
- Check Register
- Cash Journal
- Transfer/Advance Report
- Outstanding Check List

Terms

- Proof of Cash Period - The months that are to be reconciled.
(The Proof of Cash Period could be January 2020 - December 2022, but the reconciliation work might be done in 2023)
- Current Month - The month that you are working on currently.
- Book Section - All lines on the proof of cash from the "Balance per Books" line through the "Adjusted Book Balance" line.
- Bank Section - All lines on the proof of cash from the first bank account balance through the "Adjusted Bank Balance" line.
- Reconciling Item - A posting or transaction that does not match between the books and the bank statement.

Terms

- Outstanding Checks - Checks that are written in a certain month, that do not clear the bank in that month.
- Deposits in Transit - Receipts posted on the system in a certain month that do not clear the bank in that month or the following month. (If a receipt does not clear the bank in the month it is posted, or the following month, it is a reconciling item)
- Check figure - Numbers at the bottom of the proof of cash columns that compare the Adjusted Book Balance to the Adjusted Bank Balance.

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Proof of Cash Period

- Know what the Proof of Cash Period is and do not do any other months.
 However, if the Proof of Cash Period is January 2020 - December 2022, you will need to check the 2023 Year to Date system reports and bank statements to see if any of the outstanding reconciling items were corrected on the system in 2023. If so, those items would need to be backed out of the adjustment amounts. You would not actually reconcile any month in 2023 though.

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Important

- Work on one month at a time!!!
 Only set up a new tab for the next month once the current month is complete. Do NOT set up tabs for all months to start. The linking can create nightmares to try to go back to a previous month and add reconciling items once subsequent month's tabs are set up.
- Corrections to outstanding reconciling items are entered on the same line as the outstanding reconciling items.

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Important

- While you are doing a proof of cash, do not try and correct anything for the time period that the proof of cash covers. Do not make any adjustments on the system.
- Once the proof of cash is completed for the entire period that it covers, one number will be posted to the system to adjust for each fund.

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Tips

- Look for patterns - Once a few months are completed, patterns should become apparent.
- Auditor/Treasurer Fees and Returned Checks affect both columns.
- Fund Transfers and Bank Transfers need to be “eliminated”.
- Make notes on the proof of cash when each adjustment/reconciling item is first found.

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Tips

- Format
- Month
- Receipt Reconciling Items
- Expenditure Reconciling Items
- Fees/Returned Checks

September 2022

Interest not posted XYZ Bank savings

Deposit not posted (quarterly business income tax)

Bank service charges not posted (main account)

Memo check 91238 is duplicate of 91221

Deposit item returned

Credit card processing fees not posted

Bank transfer posted as memo check 91240

Auditor and Treasurer fees on tax settlement deposit

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Tips

Reconciling Items in the Book Section of the Proof of Cash

Receipts

- Deposits on bank that are not posted
- Interest on the bank statement that is not posted
- Deposits in transit on bank statement that were a deposit (deposit understood)
- Returned checks on bank statement posted as a negative amount
- Fees posted contrary to procedure are reported that are posted at end instead of gross

Payments

- Deposits posted on the books that do not show the bank in the current month or the next month
- Bank transfers posted as revenues
- Auditor/Treasurer fees (gross on books not on bank)
- Deposit in transit on bank statement that were a deposit (deposit understood)

Reconciling Items

- Returned checks that clear the bank but are not posted
- Checks that clear the bank but are not cashed on the system
- Interest on check on bank statement that were a deposit (deposit understood)
- Bank service charges on the bank statement that are not posted
- Returned checks on bank statement that are not posted and are posted as a negative amount
- Fees not posted for a deposit posted at gross

Check that are posted, but do not clear the bank and are not an outstanding check for a certain reason

- Bank transfers posted as expenditures
- Auditor/Treasurer fees (gross on books not on bank)
- Interest on check in bank statement that were a deposit (deposit understood)

- Cheat sheet shows how reconciling items should be entered in the proof of cash, + or - and which column.
 - See Handout

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Common Issues

Jim Bob Jones
194 Blank Boulevard
Dayton, OH 45402

1906
6/4/22

PAY TO THE ORDER OF Village of LGS 28.02

Twenty-Eight DOLLARS

BANK OF DAYTON

MEMO Water Bill Jim Bob Jones

- In this case, the resident paid their water bill of \$28.02, which is what the entity posted on the system. However, banks go by what is written out on the line, not the numbers in the box, so this check only cleared the bank for \$28.00 which created a \$0.02 reconciling item.

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Common Issues

- Deposits in transit clear in the next month
- Payments automatically withdrawn from the bank account
- Returned checks
- Auditor and Treasurer Fees
- Fund Transfers
- Bank Transfers
- Corrections posted for outstanding reconciling items
- Bank statement dates are mid-month

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Township/Village of LGS				
Reconciliation of Cash Receipts and Cash Disbursements	Sample 1 - Completed Month			
Proof of Cash for the Month of September 2022				
	B	C	D	= + B + C - D
	Balance 9/1/22	September Receipts	September Payments	Balance 9/30/22
Balance per Books - Cash Summary by Fund	616,412.18	175,209.83	274,809.00	516,813.01
Fund transfers	0.00	(10,000.00)	(10,000.00)	0.00
June 2022				
Interest not posted XYZ Bank savings	2.59			2.59
Deposit overposted	(0.02)			(0.02)
Deposit not posted	2,318.45	(2,318.45)		0.00
Bank service charges not posted (main account)	(254.92)			(254.92)
Bank transfer recorded as expenditure	(5,000.00)			(5,000.00)
Credit card processing fees not posted	(569.15)			(569.15)
Check #91051 written for 192.45 cleared bank for \$195.45	(3.00)			(3.00)
Voided cleared check #89512 in system	1,137.29			1,137.29
July 2022				0.00
Interest not posted XYZ Bank savings	3.64			3.64
Deposit posted, not on bank (didn't clear in August)	(4,502.18)			(4,502.18)
Bank service charges not posted (main account)	(321.08)			(321.08)
InsuraCo electronic withdrawal not posted (insurance premiums)	(15,713.08)			(15,713.08)
Credit card processing fees not posted	(652.84)			(652.84)
August 2022				
Interest not posted XYZ Bank savings	2.91			2.91
Bank service charges not posted (main account)	(213.64)			(213.64)
InsuraCo electronic withdrawal more than posted	(900.00)			(900.00)
Auditor and Treasurer Fees not posted - receipt posted at gross	(1,597.59)			(1,597.59)
Credit card processing fees not posted	(507.49)			(507.49)
September 2022				
Interest not posted XYZ Bank savings	0.00	3.62		3.62
Deposit not posted (quarterly business income tax)	0.00	1,549.86		1,549.86
Bank service charges not posted (main account)	0.00		192.55	(192.55)
Memo check 91238 is duplicate of 91221	0.00		(459.87)	459.87
Deposit item returned	0.00		197.34	(197.34)
Credit card processing fees not posted	0.00		878.31	(878.31)
Bank transfer posted as memo check 91240	0.00		(36,621.31)	36,621.31
Auditor and Treasurer fees on tax settlement deposit	0.00	(347.37)	(347.37)	0.00
Adjusted Book Balances	589,642.07	164,097.49	228,648.65	525,090.91
Balance per Bank				
First Bank of ABC (Main Checking)	500,356.54	199,152.87	228,605.75	470,903.66
First Bank of ABC (Payroll)	127.95	39,725.18	39,725.18	127.95
XYZ Bank (Savings)	95,018.84	3.62	36,621.31	58,401.15
Bank Transfers	0.00	(76,346.49)	(76,346.49)	0.00
Outstanding Checks:				
August 2022	(5,861.26)		(5,861.26)	0.00
September 2022	0.00		5,904.16	(5,904.16)
Deposits in Transit				
August 2022	0.00	0.00	0.00	0.00
September 2022	0.00	1,562.31	0.00	1,562.31
Adjusted Bank Balances	589,642.07	164,097.49	228,648.65	525,090.91
Check Figures	0.00	0.00	0.00	0.00
				0.00

Outstanding Checks List		
	Check #	Amount
May-21	89745	170.00
Dec-21	90817	130.80
Jan-22	90845	19.01
Mar-22	90997	269.40
Mar-22	90998	440.00
Apr-22	91015	240.00
May-22	91042	29.00
Jun-22	91068	48.67
Aug-22	92049	139.00
Aug-22	92050	59.94
Aug-22	92055	65.00
Aug-22	92056	400.00
Sep-22	92102	1,191.00
Sep-22	92104	103.68
Sep-22	92107	664.85
Sep-22	92111	257.00
Sep-22	92112	908.87
Sep-22	92114	10.40
Sep-22	92115	150.00
Sep-22	92116	356.00
Sep-22	92117	251.54
		5,904.16

Township/Village of LGS				
Reconciliation of Cash Receipts and Cash Disbursements				
Proof of Cash for the Month of September 2022				
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Balance per Books - Cash Summary by Fund	616,412.18	175,209.83	274,809.00	516,813.01
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Interest not posted XYZ Bank savings	2.59			2.59
Deposit overposted	(0.02)			(0.02)
Deposit not posted	2,318.45	(2,318.45)		0.00
Bank service charges not posted (main account)	(254.92)			(254.92)
Bank 1	(5,000.00)			(5,000.00)
Credit	(569.15)			(569.15)
Check	(3.00)			(3.00)
Voiced	1,137.29			1,137.29
July 2022				0.00
Interest	3.64			3.64
Deposits	(4,502.18)			(4,502.18)
Bank service charges not posted (main account)	(321.08)			(321.08)
InsuraCo electronic withdrawal not posted (insurance premiums)	(15,713.08)			(15,713.08)
Credit card processing fees not posted	(652.84)			(652.84)
August 2022				
Interest not posted XYZ Bank savings	2.91			2.91
Bank service charges not posted (main account)	(213.64)			(213.64)
InsuraCo electronic withdrawal more than posted	(900.00)			(900.00)
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Credit card processing fees not posted	(507.49)			(507.49)
September 2022				
Interest not posted XYZ Bank savings	0.00	3.62		3.62
Deposit not posted (quarterly business income tax)	0.00	1,549.86		1,549.86
Bank service charges not posted (main account)	0.00		192.55	(192.55)
Memo check 91238 is duplicate of 91221	0.00		(459.87)	459.87
Deposit item returned	0.00		197.34	(197.34)
Credit card processing fees not posted	0.00		878.31	(878.31)
Bank transfer posted as memo check 91240	0.00		(36,621.31)	36,621.31
Auditor and Treasurer fees on tax settlement deposit	0.00	(347.37)	(347.37)	0.00
Adjusted Book Balances	589,642.07	164,097.49	228,648.65	525,090.91
Balance per Bank				
First Bank of ABC (Main Checking)	500,356.54	199,152.87	228,605.75	470,903.66
First Bank of ABC (Payroll)	127.95	39,725.18	39,725.18	127.95
XYZ Bank (Savings)	95,018.84	3.62	36,621.31	58,401.15
Bank Transfers	0.00	(76,346.49)	(76,346.49)	0.00
Outstanding Checks:				
August 2022	(5,861.26)		(5,861.26)	0.00
September 2022	0.00		5,904.16	(5,904.16)
Deposits in Transit				
August 2022	0.00	0.00	0.00	0.00
September 2022	0.00	1,562.31	0.00	1,562.31
Adjusted Book Balances	589,642.07	164,097.49	228,648.65	525,090.91
Check Figures	0.00	0.00	0.00	0.00

Sample 2 - Completed month (with notes)

Balance per books line matches cash summary by fund/cash position report

In June, this deposit was on the bank statement, but was not posted. In September, it was posted. The reconciling item in June "recorded" the deposit, so when the entity posts it in September, the reconciling item from June is reversed.

Revenues and expenses include transfers between funds, since these aren't an actual revenue or expense, both must be reduced by the amount of the transfers.

All check figures being 0.00 indicates that all activity from the bank statements has been accounted for.

Township/Village of LGS				
Reconciliation of Cash Receipts and Cash Disbursements				
Proof of Cash for the Month of September 2022				
	B	C	D	= + B + C - D
	Balance	September	September	Balance
	9/1/22	Receipts	Payments	9/30/22
Balance per Books - Cash Summary by Fund	616,412.18	175,209.83	274,809.00	516,813.01
Fund transfers	0.00	(10,000.00)	(10,000.00)	0.00
June 2022				
Interest not posted XYZ Bank savings	2.59			2.59
Deposit overposted	(0.02)			(0.02)
Deposit not posted	2,318.45	(2,318.45)		0.00
Bank service charges not posted (main account)	(254.92)			(254.92)
Bank transfer recorded as expenditure	(5,000.00)			(5,000.00)
Credit card processing fees not posted	(569.15)			(569.15)
Check #91051 written for 192.45 cleared bank for \$195.45	(3.00)			(3.00)
Voided cleared check #89512 in system	1,137.29			1,137.29
July 2022				0.00
Interest not posted XYZ Bank savings	3.64			3.64
Deposit posted, not on bank (didn't clear in August)	(4,502.18)			(4,502.18)
Bank service charges not posted (main account)	(321.08)			(321.08)
InsuraCo electronic withdrawal not posted (insurance premiums)	(15,713.08)			(15,713.08)
Credit card processing fees not posted	(652.84)			(652.84)
August 2022				
Interest not posted XYZ Bank savings	2.91			2.91
Bank service charges not posted (main account)	(213.64)			(213.64)
InsuraCo electronic withdrawal more than posted	(900.00)			(900.00)
Revenues and expenses are off by the same amount. This could be caused by a deposit which was correctly posted at gross with a memo expense for fees. (Common on property tax receipts, but can occur with any transaction when fees are deducted from the deposit.) In these cases, it is as though the entity received the gross amount and paid the County Auditor/Treasurer the fees, which is why it is proper for the entity to post the gross amount as revenue and the fees as an expense. However, in reality, the County Auditor/Treasurer will withhold the fees and give the entity the net amount. Therefore, the bank statement only shows the net amount which creates a variance in the amount of the fees in both columns of the proof of cash. Another common issue that can cause both columns to have the same variance is when the entity deposits a check that later bounces. When the entity originally makes the deposit, it shows on the bank statement as a deposit. However, when the check bounces, it shows on the bank statement as a withdrawal of some sort. On the books, the entity should post a bounced check as a negative revenue.	(1,597.59)			(1,597.59)
	(507.49)			(507.49)
	0.00	3.62		3.62
	0.00	1,549.86		1,549.86
	0.00		192.55	(192.55)
	0.00		(459.87)	459.87
	0.00		197.34	(197.34)
	0.00		878.31	(878.31)
	0.00		(36,621.31)	36,621.31
	589,642.07	164,444.86	228,996.02	525,090.91
	500,356.54	199,152.87	228,605.75	470,903.66
	127.95	39,725.18	39,725.18	127.95
	95,018.84	3.62	36,621.31	58,401.15
	0.00	(76,346.49)	(76,346.49)	0.00
	(5,861.26)		(5,861.26)	0.00
	0.00		5,904.16	(5,904.16)
	0.00	0.00	0.00	0.00
	0.00	1,562.31	0.00	1,562.31
	589,642.07	164,097.49	228,648.65	525,090.91
Check Figures	0.00	347.37	347.37	0.00
				(0.00)

Township/Village of LGS				
Reconciliation of Cash Receipts and Cash Disbursements				
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	Balance	September	September	Balance
	9/1/22	Receipts	Payments	9/30/22
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Bank service charges not posted (main account)	0.00		192.55	(192.55)
Memo check 91238 is duplicate of 91221	0.00		(459.87)	459.87
Deposit item returned	0.00		197.34	(197.34)
Credit card processing fees not posted	0.00		878.31	(878.31)
Bank transfer posted as memo check 91240	0.00		(36,621.31)	36,621.31
	0.00	(347.37)	(347.37)	0.00
	589,642.07	162,547.63	228,648.65	523,541.05
	500,356.54	199,152.87	228,605.75	470,903.66
	127.95	39,725.18	39,725.18	127.95
	95,018.84	3.62	36,621.31	58,401.15
	0.00	(76,346.49)	(76,346.49)	0.00
	(5,861.26)		(5,861.26)	0.00
	0.00		5,904.16	(5,904.16)
	0.00	0.00	0.00	0.00
	0.00	1,562.31	0.00	1,562.31
	589,642.07	164,097.49	228,648.65	525,090.91
	0.00	(1,549.86)	0.00	(1,549.86)
				(1,549.86)

Sample 4 - Receipts not working

If one column is not working (the check figure is not 0.00), use the information from the proof of cash to know where to look. In this case, the adjusted bank balance is higher than the adjusted book balance. This could be that something that was on the withdrawal side of the bank statement was posted as a negative receipt, however since the payments column is tied out, that cannot be the case. Another thing that could cause this is if we missed a bank to bank transfer on the bank statements, however that would also affect both columns. Another thing that could cause this is if there was a deposit on the bank statement that was not posted, which is what we would find to be the problem in this case if we went back and looked at the documents carefully again.

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First Bank of ABC (Payroll)	127.95	39,725.18	39,725.18	127.95
XYZ Bank (Savings)	95,018.84	3.62	36,621.31	58,401.15
Bank Transfers	0.00	(76,346.49)	(76,346.49)	0.00
Outstanding Checks:				
August 2022	(5,861.26)		(5,861.26)	0.00
September 2022	0.00		5,904.16	(5,904.16)
Deposits in Transit				
August 2022	0.00	0.00	0.00	0.00
September 2022	0.00	1,562.31	0.00	1,562.31
Adjusted Bank Balances	589,642.07	164,097.49	228,648.65	525,090.91
Check Figures	0.00	0.00	0.00	878.31
				0.00

Sample 5 - Formula Error

If the check figures in the ending balance column do not match each other, there is a formula error above. The adjusted book balances line is a sum of the line above it through the balance per books line. The adjusted bank balances line is a sum of the cell above it through the first cell in the bank section. The formula in all of the other cells in the ending balance column is the beginning balance + receipts-payments.

When there is a formula error, instead of checking every row in column E, check the formula column E of the balance per books line and copy that formula all the way down to the line above the adjusted book balances line. Then do the same for the first bank statement and copy the formula all the way down to the line above the adjusted bank balances line.

Reconciling Items in the Book Section of the Proof of Cash

Receipts

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- Deposits on bank that are not posted
- Interest on the bank statement that is not posted
- Deposit is higher on bank statement than what is posted (deposit underposted)
- Returned check on bank statement (posted as a negative revenue)
- Fees posted correctly as expense on a deposit that is posted at net instead of gross

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- Deposits posted on the books that do not clear the bank in the current month or the next month
- Bank transfers posted as revenues
- Auditor/Treasurer fees (gross on books net on bank)
- Deposit is lower on bank statement than what is posted (deposit overposted)

Payments

+

- Withdrawals or checks that clear the bank but are not posted
- Checks that clear the bank but are voided on the system
- Withdrawal or check is higher on bank statement than what is posted (expense underposted)
- Bank service charges on the bank statement that are not posted
- Returned check on bank statement (if it is not posted, or if it is posted as a negative revenue)
- Fees not posted for a deposit posted at gross

-

- Checks that are posted, but do not clear the bank and are not an outstanding check for a certain reason
- Bank transfers posted as expenditures
- Auditor/Treasurer fees (gross on books net on bank)
- Withdrawal or check is lower on bank statement than what is posted (expense overposted)