

Bookkeeping from Bank Statements – FYI to Small Business Owners

To most new/small businesses, doing bookkeeping entries from bank statement is normal task. Anyone with accounting education or who has worked as an accountant knows this is not right.

Absolutely the books must reflect bank statement balances less any outstanding items in recon, but the true source document used to input entry should be from the 3rd party in a transaction.

Third party in this case is the customer who sends you money or the vendor you send money to which could also be employees, consultant, subcontractor or temporary worker, any cash paid.

Point being the transaction did not exist without that 3rd party so that is the party that has the opposite transaction on their books and the bank is just the mechanical player in the processes.

The other party has the numbers you spoke about and agreed upon for the transaction to occur whether in person, phone or any online initiation of the bank transaction on a bank statement.

Normally they send you an invoice either before or after your purchase and that is your actual source document that would be required in audit, even if just an email invoice as a document.

This is the actual source document that you as the buyer want to confirm you pay right amount and likewise should be the source document for input of a transaction into accounting system.

The bank statement reconciliation process is intended to be a secondary comparison of all the transactions on the bank statements to the accounting records, just matching entries to Cash.

This task is best completed by someone other than the person who made accounting entries to maintain internal control where separation of duties is one of the key controls GAAP requires.

Having two separate people to do any task at a small business does not happen until they grow to be able to afford that, which makes accrual-basis accounting even better to give that review.

Think about a huge company, do you think someone plows through thousands of pages of bank statements to figure out how to make accounting transactions? Oh hell no, not even feasible.

I never heard of bookkeeping from bank statement until I had worked in accounting for years. Even as entry-level AP Clerk you input invoices from vendors, never even saw bank statement.

These days with everything coming to us payable electronically vs. paper invoices via U.S. Mail, it is easy to see how we would not think of or expect to receive a confirming document usually.

Regardless of how the transaction is actually initiated into accounting records, they ultimately are expected to match those actual source documents and that is audit support for each entry.

So those documents should all be retrievable if requested in IRS, DCAA or any other audit ever. Business owner must decide level of risk of not keeping the documents on hand if ever asked.