

CHAPTER-4

BANK RECONCILIATION STATEMENT

Bank Reconciliation Statement is prepared to reconcile the difference between the bank Balance shown by the Cash Book and Bank Pass Book.

LEARNING OBJECTIVES

- (1) Meaning of Bank Reconciliation statement.
- (2) Causes of Differences in Bank Balance as per Cash Book and Pass Book.
- (3) Importance of Bank Reconciliation Statement.
- (4) Procedure of preparation of bank Reconciliation statement
- (5) Preparation of Adjusted Cash Book.

Definition : A schedule showing the items of difference between the bank statement and the bank column of Cash Book is known as Bank Reconciliation Statement.

Causes of Differences in Cash Book and Pass Book

- (A) Transactions recorded in Cash Book but not in Pass Book.
 - (B) Transactions recorded in Pass Book but not in Cash Book.
 - (C) Others transactions errors.
-
- (A) Transactions recorded in Cash Book but not in Pass Book
 - (i) Cheques issued but not presented for payment in the bank.
 - (ii) Cheques deposited or paid into the bank for collection but not yet credited by bank.
 - (iii) Cheques deposited but dishonored.
 - (iv) Wrongly Debit or credit entered.
 - (B) Transactions recorded in Pass Book but not in Cash Book :-
 - (i) Interest allowed by the Bank
 - (ii) Interest on overdraft, bank charges and commission etc. charges by Bank.

- (iii) Direct deposit by the customers into Bank.
 - (iv) Interest, dividend etc. collected by the Bank.
 - (v) Direct payment made by the Bank on behalf of customer as per standing instruction.
- (C) Other transactions :-
- (i) Error in totaling or balancing of Cash Book.
 - (ii) Transactions recorded twice in Cash Book.
 - (iii) Transactions recorded twice in Pass Book.
 - (iv) Error of recording by wrong amount.
 - (v) Error of recording in wrong side like Debit instead of credit and vice-versa.

Need and importance

- It helps in locating and rectifying the errors or omissions committed either by the firm or by the bank.
- Customer becomes sure of the correctness of the bank balance shown by the cash book.
- Facilitates the preparation of amended or revised Cash Book.
- Reduces the chances of fraud by the staff of the firm or bank.
- Helps in keeping a track of the cheques deposited for collection.

Procedure of Preparing Bank Reconciliation Statement (BRS)

A Bank Reconciliation Statement is prepared when we get the duly completed Pass Book from the Bank.

- (1) First of all tally the Debit side entries of the cash book with the Credit side entries of the Pass Book and vice versa.
- (2) Tick the items appearing in both the books.
- (3) Unticked items will be the points of differences.
- (4) A BRS is then prepared by taking either the balance as per Cash Book or Pass Book as a starting point.

Important Points

- (1) If the Starting point is Cash Book Balance then the ending point will be Pass Book Balance.
- (2) If the starting point is Pass Book Balance then the ending point will be the Balance as per Cash Book.
- (3) Debit Balance as per Cash Book or Credit Balance as per Pass Book, means that the firm has that much amount of

deposit at the bank (also called favourable balance) write the amount under (+) items.

- (4) Credit Balance as per Cash Book or Debit Balance as per Pass Book, means that this much amount has been withdrawn in excess of deposit (also called overdraft or unfavorable balance) write the amount under (–) items.

Method of Preparing BRS Starting with the Balance/overdraft as per Bank Column of Cash Book.

Bank Reconciliation Statement as on

<i>Particulars</i>	+ ITEM	- ITEM
<i>Balance as per Cash Book</i>		
<i>Add : - Items Credit in Pass Book but not recorded in Cash Book.</i>		
<i>Less : - Items debit in Cash Book but not recorded in Pass Book.</i>		
Less : Item debit in Pass Book but not recorded in Cash Book		
Add: Items credit in Cash Book but not recorded in Pass Book		
Total	P	M
Balance as per Pass Book (P — M) =		

Note

- If total of (+) Items is more than the total of (-) items then Difference is Credit Balance or favourable balance as per Pass Book.
- Where as if the(-)total is more than the (+) items total then Difference is Debit Balance or overdraft as per Pass Book.
- If BRS is started with Balance as per Cash Book then ending point is Balance as per Pass Book and Vice-Versa.
- Debit balance of Cash Book means favourable balance or(+) Balance
- Debit balance of Pass Book means unfavorable balance or (-)balance.
- Credit balance of Pass Book means favourable balance or(+) balance
- Credit Balance of cash Book Means unfavourable balance or (–) Balance.

Ready Reference

Items which increase the Pass Book Balance or decreases the Cash Book Balance

- (1) Cheques issued but not yet presented.
- (2) Credits made by the bank for Interest.
- (3) Amount directly deposited by the customers in our bank A/c.
- (4) Interest and dividend collected by the bank.

- (5) Cheques paid into the bank but omitted to be recorded in the Cash Book.

Items which, decreases the Pass Book Balance or increase the Cash Book Balance

- (1) Cheques sent to the bank for collection but not yet credited by the - bank.
 (2) Cheques paid into the bank but dishonoured.
 (3) Direct payments made by the bank
 (4) Bank charges, commission etc. debited by the bank.
 (5) Cheques issued but omitted to be recorded in the Cash Book.

Example 1 : Balance as per Cash Book is given

Prepare Bank Reconciliation statement as on 31st July 2018

- (1) Dr. Balance as per Cash Book is ₹ 20,000 as on 31st Jul 2018.
 (2) Cheques for ₹ 5000 were deposited into the Bank in the month of July but only Cheques for ₹ 1000 were credited by bank till 31st July 2018.
 (3) Cheques issued for ₹ 33000 in July, out of which a cheque for ₹ 13,800 was presented for payment on 3rd August, 2018.
 (4) Bank charged ₹ 150 as Bank charges and credited interest of ₹ 400.
 (5) A Customer directly deposited ₹ 2,500 in firms's bank A/C.
 (6) Bank paid the insurance Premium of ₹ 1200 as per standing instruction on 25.7.2018.

Solution :

Bank Reconciling Statement as on 31st July 2018

Explanation

1. Balance as per Cash Book means favourable Balance, hence (+)

<i>Particulars</i>	+ Item (₹)	- Item (₹)
(1) <i>Balance as per Cash Book.</i>	20,000	
(2) <i>Cheques deposited but not yet collected by the bank (5,000-1,000)</i>	-	4,000
(3) <i>Cheques issued but not yet Present for payment</i>	13,800	-
(4) (a) <i>Bank. Charges</i>	-	150
(b) <i>Interest credited by the bank</i>	400	-
(5) <i>Directly deposited by the customers not recorded in the Cash Book</i>	2,500	-
(6) <i>Insurance Premium paid by the bank not recorded in Cash Book.</i>		1,200
<i>Total</i>	36,700	5,350
<i>Balance as per Pass Book (36,700- 5,350)</i>	31,350	

Item. If **nothing (i.e. Debit or Credit) is written the Balance given, it is treated as favourable.**

2. Cheques were deposited into the bank for ₹5,000 but credited by the bank for ₹1,000 in the month of July, implies that cheques for ₹4,000 (5,000-1,000) are entered in the Cash Book but not in the Pass Book Increasing the Cash Book Balance by ₹4,000 as compared to Pass Book. Hence to get pass Book Balance from the Cash Book ₹4,000 will have to be deducted.
3. Cheques issued but not presented for payment till 31st July is for ₹13800 which is entered on the credit side of Cash Book as compared to Pass Book (Cash book Balance is less by ₹13,800 as compared to Pass Book Item)
4. (a) Bank charges of ₹150 entered in the Pass Book will decrease the Balance of Pass Book. To reach Pass Book Balance from Cash Book Balance, this item has to be deducted i.e. minus item.
(b) Interest credited by the Bank ₹400 interest in Pass Book Increases the, balance of Pass Book, hence to reach the Balance from cash book and this item is to be added to (+) item.
5. Direct deposit by a customer ₹2,500 Increase the Pass Book Balance plus item.
6. Payment made by the bank for insurance premium decreases the Pass Book Balance Minus Item.
7. Plus items total ₹36,700 is more than Minus item total ₹5,350 by ₹31,350 Hence the difference of ₹31,350 will be (+) item i.e. Favourable Balance or Cr. balance as per Pass Book.

Example 2 : When overdraft as per Cash Book is given

- (1) Overdraft as per Cash Book is ₹41,000 on 30th June 2018.
- (2) Cheques deposited but not yet collected ₹13,000.
- (3) Cheques issued but not yet presented for payment of ₹2,500.
- (4) Bank Charges of ₹100 and Interest on overdraft of ₹300 are charged by the bank.
- (5) A customer directly deposited ₹1,500 into the Bank.
- (6) Insurance Premium of ₹2,500 is paid by the bank as per standing instructions.

Prepare Bank Reconciliations Statement for the month of June 2018.

Bank Reconciliations Statement as on 30th June 2018

Particulars	(+) Items (Rs.)	(-) Items (Rs.)
(1) Overdraft as per Cash Book*.	-	41,000
(2) Cheques deposited but not yet collected	-	13,000
(3) Cheques issued but not yet Presented for payment	2,500	-
(4) (a) Bank Charges	-	100
(b) Interest on overdraft charged	-	300
(5) Directly deposited by a customer in the bank.	1,500	-
(6) Insurance Premium paid by the bank not entered — in Cash Book.	-	2,500
Total	4,000	56,900
Overdraft as per Pass Book 56,900 - 4,000		52,900

Overdraft means unfavorable balance or Negative Balance Hence put it under (-ive) items.

Explanation for all other items is similar as example 1 except the following.

1. Item No. 4 (b)- Interest on overdraft decreases the Pass Book Balance hence it is to be deducted from Cash Book Balance to reach at Pass Book Balance (- item)
2. This time the total of (-) items ₹ 56,900 is more than the total (+) items ₹ 4,000 by ₹ 52,900 by
3. At the end (+) item and (-) item are totalled
 - (a) If total of (+) items is more than the total of (-) items Difference is favourable Balance or Debit Balance as per Cash Book.
 - (b) Where as if the total of (-) items is more than the total of (+) items. Difference is unfavourable or overdraft as per Cash Book.

READY REFERENCE

Items which increases the Cash Book Balance or decreases the Pass Book Balance

- (1) Cheques deposited into the bank but dishonoured.
- (2) Cheque sent for collection but not yet collected.
- (3) Direct Payments made by the bank.
- (4) Bank charges, commission etc. debited by the bank.
- (5) Cheques issued but omitted to be recorded in the Cash Book.

Items which decreases the Cash Book Balance or increase the Pass Book Balance

- (1) Cheques issued but not yet presented.
- (2) Credits made by the bank for interest.
- (3) Amount directly deposited by the customers into the Bank.
- (4) Interest and dividend collected by the Bank.
- (5) Cheques paid into the bank but omitted to be recorded in the Cash Book.

Examples 3 : Balance as per Pass Book is given

Given (1) Balance as per Pass Book is Rs. 70,000 Point No. (2) to (6) are same as given in example (1) Prepare Bank Reconciliation Statement as on July 31.2018.

Solution :

Bank Reconciliation Statement as on 31st July 2018

<i>Particulars</i>	(+) Items (Rs.)	(-) Items (Rs.)
(1) <i>Balance as per Pass Book (Cr).</i>	70,000	—
(2) <i>Cheques deposited but not yet collected by the Bank (5,000 -1,000).</i>	4,000	-
(3) <i>Cheques issued but not yet Presented for payment</i>		13,800
(4) (a) <i>Bank Charges</i>	150	-
(b) <i>Interest allowed by Bank.</i>	-	400
(5) <i>Directly deposited by the customer, not recorded in the Cash Book.</i>	-	2,500
(6) <i>Insurance Premium paid by the Bank, not recorded in Cash Book.</i>	1,200	-
<i>Total</i>	75,350	16,700
<i>Balance as per Cash Book (75,350- 16,700)</i>	58,650	

Important Points :

- Starting and Ending points are reversed compared to Example No. 1 Hence (+) items (-) items are interchanged.

- Favourable balance whether of Cash Book or Pass Book is always a (+) items.
- If (+) items total is more than (–) items total then the difference in the two totals is always a favourable Balance
- Where as if + items total is less than the (–) items total then the difference in the two totals is overdraft.

Example 4 : Overdraft as per Pass book is ₹ 48,000 Rest of the contents (points 2 to 6) are same as given example No. 2

Prepare Bank Reconciliation Statement as on June 30, 2018

Bank Reconciliations Statement as on 30th June 2018

Particulars	(+) Item (₹)	(-) Item (₹)
(1) Over draft as per Pass Book.	-	48,000
(2) Cheques deposited but not yet collected	13,000	-
(3) Cheques issued but not yet presented for payment	-	2,500
(4) (a) bank Charges not entered in Cash Book	100	-
(b) Interest on overdraft charged by the bank	300	-
(5) Directly deposited by a customer in the Bank	-	1,500
(6) Insurance Premium paid by the Bank	2,500	-
Total	15,900	52,000
Overdraft as per Cash Book (52,000–15,900)	-	36,100

Important Points

- Overdraft whether as per Cash Book or Pass Book is always a (-) items.
- Starting and Ending points are interchanged as compared to Example No. 2 hence (+) items and (-) are also interchanged.
- Here (-) items total is more as compared to (+) items total, therefore, the difference in the two balance is a negative items i.e. overdraft as per Cash Book.

Amended Cash Book Method

Introduction : So far we have studied the preparation of Bank Reconciliation Statement simply by reconciling the causes of differences between the Cash Book and Pass Book. In actual practice adjustments are done in the Cash

Book by comparing the Bank column of Cash Book with the Bank Statement and after that, B.R. Statement is prepared. It is called Amended Cash Book Method.

Procedure

- (1) Adjusted Cash book is prepared starting with the Balance of the Cash Book given in the question.
- (2) All errors that have been committed in the Cash Book will have to be rectified by passing adjusting entries in the Cash Book.

Usual General Errors are

- (a) Overcasting or Under casting of Debit/Credit Column of Cash-Book.
 - (b) Cheques deposited or Issued but omitted to be entered in the Cash Book.
 - (c) Incorrect amount (if any) entered in the Cash Book.
 - (d) Entries on the correct side or in the wrong column of Cash Book.
 - (e) Any amount recorded twice in the Cash Book.
- (3) Certain amounts for which Bank has debited our A/c will be recorded on the Credit side of Cash Book. Such items are
 - (a) Interest charged by the bank on overdraft, etc.
 - (b) Debits made by the bank for the bank charges, commission etc.
 - (c) Direct payments made by the Bank on behalf of the A/c holder
 - (d) Cheques sent for collection but dishonoured.
 - (4) Cash Book is then balanced : and the new Balance of the Cash book is taken as the starting point for preparing the B.R. Statement.

Important :

It should be noted that the following items must not be recorded in the Amended Cash Book.

- Cheques deposited into the Bank but not yet credited by the Bank.
- Cheques Issued but yet not presented for payment.
- Any wrong Entry in pass Book.
-

Example : The cash Book of Mr. Sagar showed a balance, of ₹ 3,560 as on 31st Dec. 2018 at the bank where as Pass Book showed a balance of ₹4,230. Comparison of the Cash Book and Pass Book revealed the following :

- (1) The Bank has debited Mr. Sagar With ₹ 460. the annual premium of his life Policy according to his standing instructions and ₹ 20 as Bank charges.
- (2) Mr. Sagar paid into the Bank cheques totalling ₹ 3,100 on Dec. 26, 2018 of which those for ₹ 2,500 were collected in December. One cheque for ₹ 200 was returned dishonored on 2nd Jan. 2019.
- (3) The Bank has credited Mr. Sagar by ₹ 1,600. the proceeds of a bill.
- (4) Cash collected, on 31st Dec. 2018 totaling ₹ 850 was entered in the Cash Book in the Bank column on the same date but banked on 2.1.2019.
- (5) Mr. Sagar issued cheques totalling ₹ 2,300 in the month of Dec. out of which cheques for ₹ 1,000 have not been presented for payment for payment till 31st Dec.

Solution :

Bank Reconciliation Statement

Receipt side	Payment side	
Particulars	(+) Items (Rs.)	(-) Items (Rs.)
(1) Balance as per Adjusted Cash Book (Dr.)	4,680	-
(2) Cheques paid into the Bank but not Credited by Dec. 31, 2018 (3,100-2,500)	-	600
(3) Cash collected entered in the Cash Book but not banked.		850
(4) Cheques issued but not presented till date	1,000	-
Total	5,680	1,450
Balance as per Pass Book (5,680 -1,450)	4,230	

Amended Cash Book (Bank Column only) as on 31st Dec. 2018

Particulars	Rs.	Particulars	Rs.
Top Balance b/d	3,560	By Drawings	460
To B/R (Proceeds of a Bill)	1,600	By Bank charges	20
		By Balance c/d/	4,680
	5,160		5,160

POINTS TO REMEMBER

- Amended or adjusted Cash Book is started with the given balance of bank as per Cash Book.

- Closing Balance of the adjusted Cash Book is the opening balance of bank Reconciliations statement.
- Entry for the dishonour of the cheques of ₹ 200 is not done.
 - (a) In the Cash Book as it was dishonoured after 31st Dec.
 - (b) In Bank Reconciliation Statement it is included in the adjustment (₹3,100-2,500)

Methodology Suggested

Teachers are suggested to show the actual Bank Statement to students and the topic can be explained through discussion and Project Method.

- 1. In the following Bank Reconciliation statement determine the missing amounts”**

Bank Reconciliation Statement as on

Particulars	Plus Item ₹	Minus Item ₹
(a) Overdraft as per cash book (CR) ₹ 65000
(b) Bank charges debited in the pass book but not yet entered in the cash book ₹ 500
(c) Cheque issued but not yet presented ₹ 11,000
(d) Interest debited in the pass book but not yet entered in the cash book amounting ₹ 1,500
(e) Cheque paid in but not yet called by the bank ₹ 1600
(f) Overdraft Balance as Per Pass Book (Dr.)

- | | |
|----------------|--------------|
| (a) (₹ 65,000) | (b) (500) |
| (c) (11,000) | (d) (1,500) |
| (e) (1,600) | (d) (57,600) |

- 2. Bank Reconciliation statement is prepared by**
- (a) Debtors of firm
 - (b) Creditors of firm
 - (c) Account holder of bank
 - (d) Bank
- 3. A Bank reconciliation statement is prepared with the balance of**
- (a) Pass Book
 - (b) Cash book
 - (c) Neither cash book nor pass book
 - (d) Either cash book or pass book

4. Unfavorable bank balance means

- (a) Credit balance in the cash book
- (b) Credit balance in the pass book
- (c) Debit balance in the cash book
- (d) Favorable balance in the cash book

5. A Bank Reconciliation statement is prepared to

- (2) c (3) d (4) a (5) Reconcile the balance of cash book and pass book.

Overdraft balance shown by the pass book of Mrs. Nidhi is ₹ 25,000.

Prepare Bank Reconciliation statement on December 31, 2018:

- (i) Bank charges debited as per pass book ₹ 500.
- (ii) Cheques recorded in the cash book but not sent to the bank for collection ₹ 7,000.
- (iii) Received a payment directly from a customer ₹ 7,500.
- (iv) Cheques issued but not presented for payment ₹ 6,840
- (v) Interest debited by the bank ₹ 380.
- (vi) Cheques deposited into bank but not yet collected ₹ 4,750.
- (vii) Interest on investment collected by the bank and credited in the pass book ₹ 700.
- (viii) A bill receivable for ₹ 3,600 previously discounted with the bank had been dishonoured and debited in the pass book.