

BANK RECONCILIATION STATEMENT

BANK PASS BOOK OR STATEMENT

Bank Pass Book (also known as Bank Statement) is an extract of the Ledger Account of the customer, as per the Bank's books of Accounts. It is a periodical statement of account in which all transactions, i.e., deposits and withdrawals made by the customer during the particular period is recorded.

Dr: +ve / Favourable Balance
Cr: -ve / Overdraft / Unfavourable

CUSTOMER
Cash Book

Date	Receipts	Cash	Bank	Date	Payments	Cash	Bank
------	----------	------	------	------	----------	------	------

Cr: +ve / Favourable Balance
Dr: -ve / Overdraft / Unfavourable

BANK
Pass Book [Bank statement / Ledger A/c of Customer]

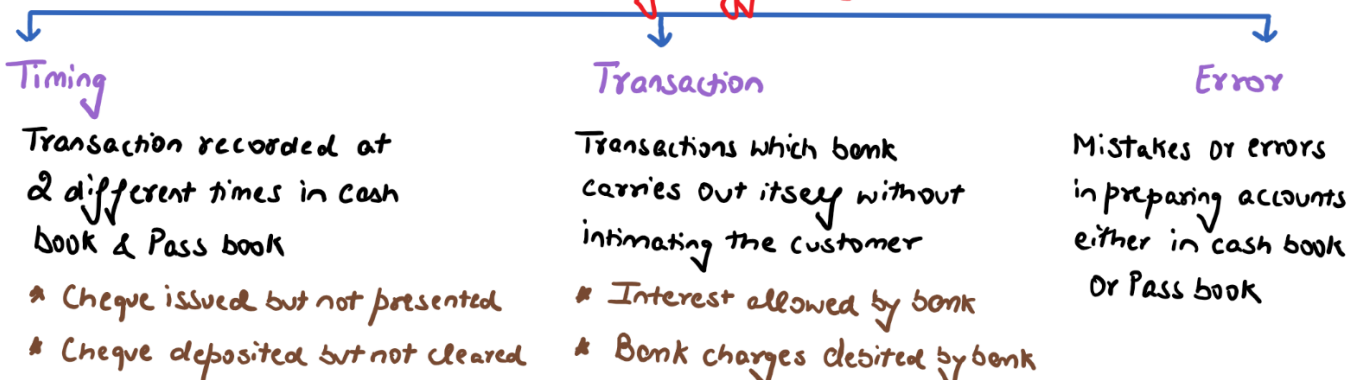
Date	Particulars	Ref. No.	Withdrawals	Deposits	Dr./Cr.	Balance
------	-------------	----------	-------------	----------	---------	---------

BANK RECONCILIATION STATEMENT

- Bank Reconciliation Statement:** At periodical intervals, the customer/ business entity (i.e. Account Holder in the Bank), should compare the balance in Bank as shown by the Cash Book, with the Pass Book. In case of any differences between the two, they should be analyzed by listing out the various reasons for such difference. Such a statement is called **Bank reconciliation statement**.
- Advantages:** The advantages of Bank reconciliation statement are-
 - To record entries which have been missed out in the Cash Book, e.g. Interest charged/allowed by the bank, bank charges, and direct collection by bank etc.
 - To identify any errors that may be committed either in cash book in bank statement,
 - To identify any undue delay in the clearance of cheque and
 - To act as a deterrent against embezzlement frauds.

DIFFERENCES BETWEEN BANK STATEMENT AND CASH BOOK

Causes of Difference



PROCEDURE FOR BANK RECONCILIATION STATEMENT

BRS may be prepared in two ways-

- (a) **Without** adjusting the Cash Book, i.e. Preparation of BRS only.
- (b) **After** adjusting Cash Book for Items 3 to 10 given below, i.e. Preparation of Adjusted Cash Book and BRS.

METHOD 1: PREPARATION OF BRS ONLY (i.e. WITHOUT ADJUSTING CASH BOOK)

Prepare Bank Reconciliation Statement as under-

Starting Point	Cash Book Balance	Pass Book Balance
Balance as per Starting Point	Dr. Balance in Cash Book (Favourable)	Cr. Balance in Pass Book (Favourable)
1. Cheques issued but not yet presented for payment (Item1)	Add	Subtract
2. Cheques deposited into Bank but not yet credited/ cleared (Item2)	Subtract	Add
3. Interest allowed by Bank (Item3)	Add	Subtract
4. Interest & Dividends collected by Bank (Item4)	Add	Subtract
5. Direct payments into Bank by a customer (Item5)	Add	Subtract
6. Bills Receivable collected by bank on behalf of the customer (Item6)	Add	Subtract
7. Interest & Expenses charged by Bank (Item7)	Subtract	Add
8. Direct Payments by bank (Item8)	Subtract	Add
9. Dishonour of a bill discounted with the Bank (Item9)	Subtract	Add
10. Wrong Entries (Item 10)		
(a) Wrong Debit in Cash Book or in Pass Book, under-casting of Cr. Side of Cash Book, overcasting of Dr. side of cash book etc.	Subtract	Add
(b) Wrong Credit in Cash Book or Pass Book, overcasting of Cr. side of Cash book, under-casting of Dr. side of cash book	Add	Subtract
Balances as per End Point	Pass Book Balance	Cash Book Balance

METHOD 2: PREPARATION OF ADJUSTED CASH BOOK AND BRS

Step1: Prepare Adjusted Cash Book with the following Debits and Credits

Receipts	Rs.	Payments	Rs.
To balance b/d (in case of Favourable Balance as per Cash Book)		To balance b/d (in case of Overdraft Balance as per Cash Book)	
To Interest allowed by Bank	Item 3	By interest & expenses charged by bank	Item 7
To Interest & Dividends collected by Bank	Item 4	By Direct payments by bank as per SI	Item 8

To Direct Payments into Bank by firm's customers (being Firm's receipts)	Item 5	By dishonour of a bill discounted with the bank	Item 9
To Bill Receivable collected by bank on behalf of firm	Item 6		
To Rectification of Error in Cash Book, e.g. double credit posting, credit overcast, debit under cast, debit entry omission etc.	Item 10	By Rectification of error in cash book, e.g. double debit posting, debit overcast, credit undercast, credit entry omission etc.	Item 10
To balance c/d (in case of Overdraft balance as per Cash Book)		By balance c/d (in case of Favourable balance as per Cash Book)	
Total		Total	

Note:

- The closing balance in the above Adjusted Cash Book is called Adjusted Cash Balance. This will be taken to the BRS.
- In Item 10, Errors made in Cash Book will be adjusted, but errors made in Pass Book will not be given effect in Cash Book.

Step 2: Prepare Bank Reconciliation Statement as under-

Starting Point	Cash Book Balance	Pass Book Balance
Balance as per Starting Point	Dr. Balance in Cash Book (Favourable)	Cr. Balance in Pass Book (Favourable)
1. Cheques issued but not yet presented for payment (Item1)	Add	Subtract
2. Cheques deposited into Bank but not yet credited/cleared (Item2)	Subtract	Add
3. Wrong Cr. in Pass Book (Item10)	Add	Subtract
4. Wrong Dr. in Pass Book (Item10)	Subtract	Add
Balance as per End Point	Pass Book Balance	Cash Book Balance

Question 1

Prepare a Bank Reconciliation Statement from the following particulars as on 31st March, 2021:

Particulars	Amount
Debit balance as per bank column of the cash book	18,60,000
Cheque issued to creditors but not yet presented to the bank for payment	3,60,000
Dividend received by the bank but not entered in the Cash book	2,50,000
Interest allowed by the Bank	6,250
Cheques deposited into the bank for collection but not collected by bank upto this date	7,70,000
Bank Charges not entered in Cash Book	1,000
A cheque deposited into bank was dishonored but no intimation received	1,60,000
Bank paid house tax on our behalf but no intimation received from bank in this connection	1,75,000
Insurance premium paid by bank as per standing instruction not intimated	15,900
Cash sales wrongly recorded in the Bank column of the cash-book	2,55,000
Wrong credit given by the bank	1,50,000
Payments side of the Cash-book was under cast by	350
On 20 th March, 2021 the debit balance as on the previous day, was brought forward as credit balance in Cash-book	2,500
A customer, who received a cash discount of 5% on his account of Rs. 2,000, paid cheque on 24 th March, 2021. The cashier erroneously entered the gross amount in the Cash-Book.	2,000
Bank recorded a Cash deposit of Rs. 1,550 as Rs. 1,505	

Solution**Bank Reconciliation Statement**

Particulars	Amount
Balance as per Cash book	18,60,000
Add : Cheque issued but not presented	3,60,000
Add : Dividend collected by the bank directly but not recorded in the cash book	2,50,000
Add : Interest allowed by bank	6,250
Less : Cheque deposited in bank but not yet credited	(7,70,000)
Less : Bank charges debited by the bank not entered in cash book	(1,000)
Less : Cheque deposited into bank was dishonored but no intimation received	(1,60,000)
Less : Bank paid house tax on our behalf but no intimation received from bank	(1,75,000)
Less : Insurance premium paid by bank as per standing instruction	(15,900)
Less: Cash sales wrongly recorded in the Bank column of the cash-book	(2,55,000)
Add: Wrong credit given by the bank	1,50,000
Less: Undercasting of payment side of cash book	(350)
Add: Debit balance brought forward as credit balance (2,500*2)	5,000
Less: Discount recorded in Bank column (2000*5%)	(100)
Less: Cash deposit wrongly recorded by bank (1550-1505)	(45)
Balance as per Pass Book	12,53,855

Question 2

On 30th November, 2020, the Bank Statement of Mr. Hari showed Rs. 3,200 overdrawn. An examination of the records showed the following errors:

- (i) The debit side of the Cash Book was undercast by Rs. 400.
 - (ii) A cheque for Rs. 1,600 in favour of Y suppliers Ltd. was omitted by the bank from the statement, the cheque was debited to another customer's Account.
 - (iii) A cheque for Rs. 172 drawn for payment of telephone bill was recorded in the Cash Book as Rs. 127 but was shown correctly in the Bank Statement.
 - (iv) A cheque for Rs. 425 from Mr. Pal paid into bank was dishonoured and shown as such on the Bank Statement, although no entry relating to the dishonoured cheque was made in the Cash Book.
 - (v) The Bank had debited a cheque for Rs. 150 to Mr. Hari's Account by mistake, it should have been debited by them to Mr. Kar's Account.
 - (vi) A dividend of Rs. 100 was collected by the bank but not entered in the Cash Book.
 - (vii) Cheque for Rs. 1,200 deposited on 30th November was not credited by the Bank.
 - (viii) Interest amounting to Rs. 300 was debited by the Bank but yet to be entered in the Cash Book.
 - (ix) A cheque worth Rs. 400 directly deposited into Bank by customer but no entry was made in the Cash Book.
 - (x) Out of cheques issued worth Rs. 34,000, cheques amounting to Rs. 20,000 only were presented for payment till 30th Nov, 2020.
 - (xi) A cheque for Rs. 4,000 received and entered in the Cash Book but it was not sent to the Bank.
 - (xii) Cheques worth Rs. 20,000 had been sent to Bank for collection but the collection was reported by the Bank as under.
 - (1) Cheques collected before 30th Nov, 2020, Rs. 14,000
 - (2) Cheques collected on 10th Dec, 2020, Rs. 4,000
 - (3) Cheques collected on 12th Dec, 2020, Rs. 2,000.
 - (xiii) The Bank made a direct payment of Rs. 600 which was not recorded in the Cash Book.
- You are required to prepare a Bank Reconciliation Statement on 30th November, 2020.

Solution

Bank Reconciliation Statement as on 30th November, 2020

	Particulars	Amount
	Bank Overdraft as per Bank Statement	(3,200)
Less:	Debit side of the Cash Book was undercast	(400)
Less:	Cheque issued but debited by the Bank to another customer's account by mistake	(1,600)
Add:	Cheque issued for 172 posted in the Cash Book as 127	45
Add:	Cheque dishonoured but not recorded in the Cash Book	425
Add:	Wrong debit by the Bank to Hari's A/c	150
Less:	Dividend directly collected by the Bank but not entered in the Cash Book	(100)
Add:	Cheque deposited but yet to be credited	1,200
Add:	Interest debited by Bank and yet to be entered in the Cash Book	300
Less:	Cheques deposited into the Bank by Customer but not entered in Cash Book	(400)
Less:	Cheques issued but not presented Rs. (34,000-20,000)	(14,000)
Add:	Cheques received, recorded in cash Book but not sent to the Bank	4,000
Add:	Cheques sent to the Bank but not collected	6,000
Add:	Direct payment made by the bank not recorded in the Cash book	600
	Bank overdraft as per the Cash Book (Cr.)	(6,980)

Question 3

On 30th September, 2021, the bank account of XYZ, according to the bank column of the cash book, was overdrawn to the extent of Rs. 8,062. An examination of the Cash book and Bank Statement reveals the following:

- A cheque for Rs. 11,14,000 deposited on 29th September, 2021 was credited by the bank only on 3rd October, 2021.
- A payment by cheque for Rs. 18,000 has been entered twice in the Cash book
- On 29th September, 2021, the bank credited an amount of 1,15,400 received from a customer of XYZ, but the advice was not received by XYZ until 1st October, 2021.
- Bank charges amounting to Rs. 280 had not been entered in the cash book.
- On 6th September 2021, the bank credited Rs. 30,000 to XYZ in error.
- A bill of exchange for Rs. 1,60,000 was discounted by XYZ with his bank. The bill was dishonoured on 28th September, 2021 but no entry had been made in the books of XYZ.
- Cheques issued upto 30th September, 2021 but not presented for payment upto that date totalled Rs. 13,46,000.
- A bill payable of Rs. 2,00,000 had been paid by the bank but was not entered in the cash book and bill receivable for Rs. 60,000 had been discounted with the bank at a cost of Rs. 1,000 which had also not been recorded in cash book.
- A cheque for Rs. 70,000 had been dishonoured prior to 30th September, 2021, but no record of this fact appeared in the cash book.
- A dividend of Rs. 1,80,000, paid direct to the bank had not been recorded in the cash book.
- No entry had been made in the cash book for a trade subscription of Rs. 10,000 paid vide banker's order in August, 2021.
- A cheque for Rs. 27,000 drawn by ABC had been charged to XYZ's bank account by mistake in September, 2021.

You are required:

To show the appropriate rectifications required in the cash book of XYZ, to arrive at the correct balance on 30th September, 2021 and to prepare a Bank Reconciliation Statement as on that date.

Solution**Cash Book (Adjusted/Revised)**

Particulars	Amount	Particulars	Amount
To Party A/c (Twicely Credited, now rectify)	18,000	By Balance b/d	8,062
To Customers A/c	1,15,400	By Bank charges A/c	280
To Bills receivables A/c	59,000	By Customer (B/R dishonoured)	1,60,000
To Dividend Received	1,80,000	By Bills payable A/c	2,00,000
To Balance c/d (Bal. Fig.)	75,942	By Trade receivables (Cheque dishonoured)	70,000
		By Trade Subscription	10,000
	4,48,342		4,48,342

Bank Reconciliation Statement As on 30th September, 2021

Particulars	Amount
Credit Balance (Overdraft) as per cash Book	(75,942)
Less: A cheque for Rs. 11,14,000 deposited on 29th Sep. 2021 was credited by the bank only on 3rd October, 2021	(11,14,000)
Add: On 6th Sep., 2021 the bank Credited Rs. 30,000 to XYZ in error	30,000
Add: Cheque issued up to 30th Sep., 2021 but not presented for payment up to that date totalled Rs. 13,46,000	13,46,000
Less: Cheque wrongly charged	(27,000)
Credit Balance (Favourable) as per pass book	1,59,058