



CHAPTER - 3

BANK RECONCILIATION STATEMENT

BANK RECONCILIATION STATEMENT

Learning Objectives

After studying this chapter, you will be able to :

- ◆ Learn the design of a Bank Pass Book.
- ◆ Understand the reasons for difference between Cash Book balance and Pass Book balance and try to ascertain the amount of such differences.
- ◆ Learn, how to resolve such difference in a systematic manner.
- ◆ Try to understand the purpose for preparing the bank reconciliation statement and its utility.

1. INTRODUCTION

Banks are essential institutions in a modern society. With the increase in volume of trade, commerce and business, business entities faced difficulty in transacting in cash for each business activity. They discovered that dealing through bank, on regular basis, would be the better and safer option and finally large business entities switched over to banking transactions instead of dealing in cash. Now-a-days, most of the transactions of the business are done through bank whether it is a receipt or a payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit.

A Bank accepts from people, in general, deposits in various forms, and lends funds to those who need; it also invests some funds in profitable investments. Thus money which would have been otherwise idle is put to use and is made available to those who need it. Those who deposit the money are able to withdraw it according to the settled terms and conditions. Apart from receiving deposits from and handling cash transactions on behalf of its customers, the bank also renders some other useful services as indicated below :

- (i) The bank discounts promissory notes or hundies, i.e., it enables a customer to receive the cash before the due date in consideration of a small charge called discount.
- (ii) The bank allows overdraft to its good customers so that they can make payments even when they do not have sufficient balance at the bank. Of course the overdraft must be cleared later.
- (iii) The bank gives loans for a year or so, to its customers so that they can continue their operations. Such financial assistance is of great help for business.
- (iv) The bank on behalf of the customer collects the amount of dividend warrants or interest on securities etc.
- (v) On instruction of the customer, the bank makes payments of insurance premium, rent etc. on the due dates.
- (vi) The bank sells and purchases shares, debentures or government securities on behalf of its customers.
- (vii) Money can be remitted to another place or persons through the bank at a low cost.



(viii) The bank in return, for a consideration, furnishes security or guarantee for its customers whose credit is good.

(ix) The bank also issues letter of credit or travellers cheque to facilitate commerce or travel.

2. BANK PASS BOOK

Bank pass book is merely a copy of the customer's account in the book of a bank. The bank either sends periodical statements of account or gives a pass book to its customer in which all deposits and withdrawals made by the customer during the particular period is recorded. Both represent almost a copy of the ledger account of the customer in the books of the bank. Thus, it is the bank's way of keeping the customers informed of the entries made in his account. It is the customer's duty to check the entries and immediately inform the bank of any error that he may notice. The form of the pass book is given below :

PASS BOOK

Messers
in account with
Punjab National Bank
Daryaganj, New Delhi-110002

<i>Date</i>	<i>Particulars</i>	<i>Withdrawals</i>	<i>Deposits</i>	<i>Dr. or Cr.</i>	<i>Balance</i>
		<i>Dr.</i>	<i>Cr.</i>		
		₹	₹		₹

The bank statement of account also has a similar form except that it is on loose sheets. The bank itself sends the statements to customers but it is the customer's duty to send the pass book to the bank periodically so that it is written upto date. Business houses should also obtain at the end of the year a certificate from the bank duly stamped with revenue stamps, showing the balance which the bank has in the account of firm. The bank balance shown in the passbook is known as pass book balance for reconciliation purpose. The credit balance as per pass book at a particular point of time is the deposit made by the customer while debit balance as per pass book is the overdraft balance for the customer.

Students may note here that the nature of balance shown by pass book and cash book is quite different. The debit balance in the pass book represents the credit balance as per the cash book and vice-versa because the business enterprise treats the bank as a debtor/Trade receivable and bank treats the business enterprise as a creditor/Trade payable.

3. BANK RECONCILIATION STATEMENT

Bank reconciliation statement is a statement which reconciles the bank balance as per cash book with the balance as per bank pass book by showing all causes of difference between the two. Strictly speaking, there should be no difference between the balance shown by the pass book and the cash book. This is so, if all the entries are recorded in both. However, on a particular date it is

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possible that balances on both the books do not tally i.e., some entries may have been recorded in the cash book but not in the pass book and vice versa. After finding the reasons for non-agreement of the bank balances of pass book and cash book, efforts are made for their reconciliation. This reconciliation is prepared and presented in the form of a statement commonly known as Bank Reconciliation Statement.

4. IMPORTANCE OF BANK RECONCILIATION STATEMENT

Bank reconciliation statement is a very important tool for internal control of cash flows. It helps in detecting errors, frauds and irregularities occurred, if any, at the time of passing entries in the cash book or in the pass book, whether intentionally or unintentionally. Since frauds can be detected on the preparation of bank reconciliation statement therefore accountants are careful while preparing and maintaining the records of the business enterprise. Hence it works as an important mechanism of internal control. Following are the salient features of bank reconciliation statement :

- (i) The reconciliation will bring out any errors that may have been committed either in the cash book or in the pass book;
- (ii) Any undue delay in the clearance of cheques will be shown up by the reconciliation;
- (iii) A regular reconciliation discourages the accountant of the bank from embezzlement. There have been many cases when the cashiers merely made entries in the cash book but never deposited the cash in the bank; they were able to get away with it only because of lack of reconciliation.
- (iv) It helps in finding out the actual position of the bank balance.

5. ASCERTAINING THE CAUSES OF DIFFERENCE OF BANK BALANCE IN BANK COLUMN OF THE CASH-BOOK AND IN PASS-BOOK

The need for reconciliation arises only when there are differences in entries posted in cash book and pass book which in turn leads to difference in balances in the respective books. It may sometime happen that the balance shown by cash book and pass book is same but the entries posted do not tally with each other. In this case also there is a need to prepare bank reconciliation statement. Before reconciling the balances, one must ascertain the causes of differences. The difference in the balances of both the books can be because of the following two reasons :

1. Timing differences,
2. Differences arising due to errors in recording the entries.

Both of the above mentioned reasons can be explained in detail as follows :

5.1 TIMING DIFFERENCES

When the same entry is recorded in either of the book earlier and in the other book later, it is termed as timing difference. The timing difference may arise on account of the following :



- (i) **Cheques issued but not presented for payment** : The entry in the cash book is made immediately on issue of cheque but naturally entry will be made by the bank only when the cheque is presented for payment. There will thus be a gap of some days between the entry in the cash book and in the pass book.

Example : The balance as per Cash Book and Pass Book are ₹ 10,000. Cheque of ₹ 2,000 is issued but not presented for payment. On issues of cheque, the bank account in Cash Book is credited by ₹ 2,000 and so balance is reduced to ₹ 8,000. Whereas balance in the Pass Book remains ₹ 10,000 until the cheque is presented for payment.

- (ii) **Cheques paid into the bank but not cleared** : As soon as cheques are sent to the bank, entries are made on the debit side of the bank column of the cash book. But usually banks credit the customer's account only when they have received the payment from the bank concerned-in other words, when the cheques have been cleared. Again there will be some gap between the depositing of the cheques and the credit given by the bank.

Example : The balance as per Cash book and Pass Book are ₹ 12,000. Cheque of ₹ 3,000 is deposited but not cleared. When cheque is deposited into bank, the bank account in Cash Book is increased to ₹ 15,000, but the balance in the Pass Book remains ₹ 12,000 until the cheque is cleared.

- (iii) **Interest allowed by bank** : If the bank has allowed interest to the customer, the entry will normally be made in the customer's account and later shown in the pass book. The customer usually comes to know the amount of the interest by pursuing the pass book and only then he makes relevant entry in the cash book.

Example : The balance as per Cash Book and Pass Book are ₹ 10,000. The bank has allowed ₹ 1,000 interest on saving account to customer. Because of such interest balance of Pass Book is increased to ₹ 11,000. Whereas balance in the Cash Book remains ₹ 10,000 until information reaches customer and he records such transaction.

- (iv) **Interest and expenses charged by the bank** : Like (iii) above, the interest charged by the bank and the amount of the bank charges are entered in the customer account and later in the pass book. The customer makes the required entries only after he sees the pass book.

- (v) **Interest and dividends collected by the bank** : Sometimes investments are left with the bank in the safe custody; the bank itself sees to it that the interest or the dividend is collected on the due dates. Entries are made as indicated in (iii) above.

Example : The balance as per Cash Book and Pass Book are ₹ 15,000. The bank has collected dividend of ₹ 2,000. On collection of dividend bank credits the amount to customer's account, so balance in Pass Book is increased to ₹ 17,000. Whereas balance in the Cash Book remains ₹ 15,000 until the information of such dividend collection reaches the customer and he records such transaction.

- (vi) **Direct payments by the bank** : The bank may be given standing instructions for certain payments such as for insurance premium. In this case also, the customer may come to know of the payment only on seeing the pass book. The entries in the pass book and in the cash book may thus be on different dates.

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Example : The balance as per Cash Book and Pass Book of Mr. X are ₹ 20,000. The bank has instruction to pay insurance premium of ₹ 1,500 directly to insurance company at the end of each month. On payment of insurance premium bank debits the customer's account by ₹ 1,500 so balance in Pass Book is decreased to ₹ 18,500. Whereas balance in the Cash Book remains ₹ 20,000 until the information of such payment reaches the customer and he records such transaction.

(vii) **Direct payment into the bank by a customer** : If such a payment is received by the bank, it will be entered in the customer's account and also in the pass book; the account holder may come to know of the amount only when he sees the pass book.

(viii) **Dishonour of a bill discounted with the bank** : If the bank is not able to receive payment on promissory notes discounted by it, it will debit the customer's account together with the charges it may have incurred. The customer will naturally make the entry only when he sees the pass book.

Example : The balances as per Cash Book and Pass Book of Mr. X are ₹ 20,000. Mr. X deposited a cheque of ₹ 3,000 and debited to his bank account ₹ 3,000 immediately. But bank will credit X's account on realization of amount. Now the cheque is dishonoured for non-payment. Bank charges ₹ 100 in this connection.

Thus, balance of Mr. X's account in Pass Book stands ₹ 19,900 after this transaction while balance as per Cash Book stand ₹ 23,000. So Mr. X should deduct ₹ 3,000 the amount of dishonoured cheque, plus ₹ 100 the amount of bank charges for reconciliation.

(ix) **Bills collected by the bank on behalf of the customer** : If goods are sold, the documents may be sent through the bank. If the bank is able to collect the amount, it will credit the customer's account. The customer may make the entry only on receiving the pass book.

All these timing differences will lead to difference in balances as shown by the cash book and the pass book.

Following is the table summarising in brief the timings of different transactions :

Sl. No.	Transaction	Time of recording in cash book	Time of recording in pass book
1.	Payment done by the account holder through issuing a cheque	At the time of issuing the cheque	At the time presenting the cheque to the bank for payment
2.	Receipt by the account holder through a cheque	At the time of depositing the cheque into the bank	At the time of collection of amount from the account of the issuing party.
3.	Collection of bills/cheque directly on behalf of the account holder	When the entry is posted in the pass book	When the amount is collected by the bank



Sl. No.	Transaction	Time of recording in cash book	Time of recording in pass book
4.	Direct payment to the third party on behalf of the account holder	When the entry is posted in the pass book	When the amount is paid by the bank
5.	Dishonour of cheque/bills receivable	When the entry is posted in the pass book	When the cheque is dishonoured
6.	Bank charges levied by the bank	When the entry is posted in the pass book	When charges are levied by the bank
7.	Interest and dividend credited by the bank	When the entry is posted in the pass book	When interest or dividend is allowed or collected by the bank
8.	Interest debited by the bank	When the entry is posted in the pass book	When interest is charged by the bank

5.2 DIFFERENCES ARISING DUE TO ERRORS IN RECORDING THE ENTRIES

While recording the entries, errors can occur both in the cash-book and in the pass book. A bank rarely commits an error but, if it does, the balance shown in pass book will naturally differ from that shown in the cash book. Similarly, if any error is committed in the cash book then too the balance shown in it will differ from that of the pass book. Errors include omission of entry, wrong recording of amount, recording of entry on wrong side of the book, wrong totaling of account or wrong balancing of the book and recording of transactions of other party.

To illustrate this, we give below an extract from a pass book and the bank column of the cash book :

Messer's Tall & Short, Faiz Bazar, New Delhi-110002

in accounts with

Punjab National Bank, Daryaganj, New Delhi-110002

PASS-BOOK

Date	Particulars	With- drawals ₹	Deposits ₹	Dr. or Cr.	Balance ₹
2011					
Jan. 2	By Cash		4,000	Cr.	4,000
" 4	To Furniture Dealers Ltd.	600		Cr.	3,400
" 4	To Das & Co.	1,250		Cr.	2,150
" 10	By J. Johnson & Co.'s cheque		350	Cr.	2,500
" 12	To Roy & James	1,000		Cr.	1,500

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<i>Date</i>	<i>Particulars</i>	<i>With- drawals</i> ₹	<i>Deposits</i> ₹	<i>Dr. or Cr.</i>	<i>Balance</i> ₹
" 15	By B. Babu & Co's cheque		760	Cr.	2,260
" 16	By Cash		300	Cr.	2,560
" 20	To Cash	500		Cr.	2,060
" 26	By J. Rai & Bros cheque		430	Cr.	2,490
" 31	To Premium paid as per standing instructions	250		Cr.	2,240
	To Bank Charges	10		Cr.	2,230
	By Interest collected on Government Securities		200	Cr.	2,430

CASH-BOOK (Bank column only)

<i>Date</i>	<i>Particulars</i>	<i>Amount</i> ₹	<i>Date</i>	<i>Particulars</i>	<i>Amount</i> ₹
2011			2011		
Jan. 1	To Cash	4,000	Jan. 2	By Furniture Dealers Ltd.	600
Jan. 2	To J. Johnson & Co.	350	Jan. 2	By Roy & Jame	1,000
Jan. 8	To B. Babu & Co.	760	Jan. 2	By Das & Co.	1,250
Jan. 10	To Cash	300	Jan. 4	By K. Nagpal & Co.	730
Jan. 16	To J. Rai & Bros.	430	Jan. 17	By Cash	500
Jan. 20	To M. Mohan & Co.	1,050	Jan. 20	By B. Babu & Co.	780
Jan. 22	To N. Nandy & Sons	340	Jan. 31	By Balance c/d	2,370
		7,230			7,230
Feb. 1	To Balance b/d	2,370			

It will be seen that whereas the pass book shows a credit balance of ₹ 2,430, the cash-book shows a debit balance of ₹ 2,370. We shall compare the two to establish the reasons for the difference.

If we compare the debit side of the cash book with the deposits column of the pass book, we find that the following cheques have been sent to the bank but not yet credited by the bank :

M. Mohan & Co.	₹ 1,050	
N. Nandy & Sons	₹ 340	Total ₹ 1,390



Had these two cheques been entered in the deposits column of the pass book also, the pass book balance of ₹ 3,820; i.e., ₹ 2,430 + ₹ 1,390.

Looking at the withdrawals column of the pass book and the credit side of the cash book, we find that under mentioned two cheques have not yet been paid by the bank :

K. Nagpal & Co.	₹ 730	
B. Babu & Co.	₹ 780	Total ₹ 1,510

Had these cheques been presented and paid, the balance at the bank would have been ₹ 2,310, i.e., ₹ 3,820 - ₹ 1,510

In addition to the above, two amounts appear in the withdrawals column of the pass book but not on the credit side of the cash book; these are ₹ 250 premium, and ₹ 10 bank charges. Had these amounts been omitted from the withdrawals also, the balance at the bank would have been ₹ 2,570, i.e., ₹ 2,310 + ₹ 260.

There is one amount ₹ 200, interest collected, which has been entered in the deposit column of the pass book but not on the debit side of the cash book: Omission of this amount from the pass book also would reduce the balance to ₹ 2,370, i.e., ₹ 2,570 - ₹ 200. This agrees with the cash book balance.

This process shows that the difference between the two balance arise only because there are some entries made in the cash-book but not in the pass book and some entries which are made in the pass book but not in the cash book. A comparison of the two shows up such entries and then, on that basis, the reconciliation is prepared. To illustrate it again, let us proceed from the cash book balance to ₹ 2,370. Since cheques totalling ₹ 1,390 have not been entered in the pass book, let us assume that they are also omitted from the cash book, this will reduce the cash book balance to ₹ 980. Cheques totalling ₹ 1,510 have been entered on the credit side of the cash book but not in the pass book their omission from the cash book will increase the cash book balance to ₹ 2,490. Amounts totalling ₹ 260 have been entered in the withdrawals column of the pass book but not in the cash book; an entry on the credit side of the cash book for these amounts will reduce the balance to ₹ 2,230. The deposits column shows an entry of ₹ 200 not found on the debit side of the cash book; the entry made in the cash book will increase balance to ₹ 2,430 as shown in the pass book.

6. PROCEDURE FOR RECONCILING THE CASH-BOOK BALANCE WITH THE PASS-BOOK BALANCE

Before proceeding further students must understand that 'Dr. balance as per cash book' means deposits in the bank or cash at bank or Cr. balance as per pass book. Similarly 'Cr. balance as per cash book' means excess amount over deposits withdrawn by the account holder or overdraft balance or Dr. balance as per pass book.

It means that students can start bank reconciliation from any of the following four balances given in the question :

1. Dr. balance as per cash book

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2. Cr. balance as per cash book
3. Dr. balance as per pass book
4. Cr. balance as per pass book

When *causes of differences are known* then students can start reconciliation by taking any of the balance stated above and proceed further with the causes. Given the causes of disagreement, the balance of the other book can be either more or less on account of the said causes. If the balance of the other book is more on account of the said causes then add the amount. If the balance of the other book is less on account of the said causes then subtract the amount.

For example, if the reconciliation is initiated with Dr. balance as per the cash book and there is a cheque deposited in the bank but not cleared, then on account of non-clearance of the cheque, the Cr. balance of the pass book would be less. In this case, the amount of cheque should be subtracted from the cash book balance to arrive at the balance as per the pass book. Similarly, after making all the adjustments the balance as per the other book is obtained. It is necessary to note here that if a student starts from debit balance of cash book and after all adjustments the balance arrived is positive then it is known as Cr. balance as per the pass book and if the balance is negative then it is said to be Dr. balance as per the pass book and vice-versa.

But *if causes of differences are not known* then one has to compare the debit entries of cash book with the credit entries of the pass-book and vice-versa. The entries, which do not tally in the course, are the causes of difference in the balances of both the books. Once the causes are located their effects on both the books are analysed and then reconciliation statement is prepared to arrive at the actual bank balance.

In this procedure students should also take into care that whether opening balance of both the books at particular point of time from where the books are compared, tallies or not. If opening balances are not same then unticked items are divided into two categories i.e., one relating to reconciliation of opening balance and other relating to reconciliation of closing balance.

7. METHODS OF BANK RECONCILIATION

There are following two methods of reconciling the bank balances :

7.1 BANK RECONCILIATION STATEMENT WITHOUT PREPARATION OF ADJUSTED CASH-BOOK

For reconciliation purposes students can take any of the four balances as the starting point and can proceed further with the causes of differences.

Based on the earlier explanation the following table has been prepared for student's ready reference when reconciliation is done on the basis of 'Balance' presentation. The final balance, which will come after addition and subtraction, will be the balance as per the other book.



<i>Causes of differences</i>	<i>Favourable balance (Dr.) as per cash-book</i>	<i>Unfavourable balance (Cr.) as per cash-book</i>	<i>Favourable balance (Cr.) as per pass-book</i>	<i>Unfavourable balance (Dr.) as per pass-book</i>
Cheque deposited but not cleared	Subtract	Add	Add	Subtract
Cheque issued but not presented to bank	Add	Subtract	Subtract	Add
Cheque directly deposited in bank by a customer	Add	Subtract	Subtract	Add
Income (e.g., interest from UTI) directly received by bank	Add	Subtract	Subtract	Add
Expenses (e.g., telephone bills) directly paid by bank on standing instructions	Subtract	Add	Add	Subtract
Bank charges levied by bank	Subtract	Add	Add	Subtract
Locker rent levied by bank	Subtract	Add	Add	Subtract
Wrong debit in the cash book	Subtract	Add	Add	Subtract
Wrong credit in the cash book	Add	Subtract	Subtract	Add
Wrong debit in the pass book	Subtract	Add	Add	Subtract
Undercasting of Dr. side of bank account in the cash book	Add	Subtract	Subtract	Add
Overcasting of Dr. side of bank account in cash book	Subtract	Add	Add	Subtract
Undercasting of Cr. side of bank account in cash book	Subtract	Add	Add	Subtract
Overcasting of Cr. side of bank account in cash book	Add	Subtract	Subtract	Add
Bill receivable collected directly by bank	Add	Subtract	Subtract	Add
Interest on bank overdraft charged	Subtract	Add	Add	Subtract
Final Balance	If answer is <i>positive</i> then favourable balance (Cr.) as per pass-book and if <i>negative</i> then unfavourable balance (Dr.) as per pass-book.	If answer is <i>positive</i> then unfavourable balance (Dr.) as per pass-book and if <i>negative</i> then favourable balance (Cr.) as per pass-book.	If answer is <i>positive</i> then favourable balance (Dr.) as per cash-book and if <i>negative</i> then unfavourable balance (Cr.) as per cash-book.	If answer is <i>positive</i> then unfavourable balance (Cr.) as per cash-book and if <i>negative</i> then favourable balance (Dr.) as per cash-book.

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It is proper to prepare a neat statement showing the reconciliation of the two balances. Taking the example given in the para 5.2, the statement may be prepared as follows:

1. 'Balance' presentation.
2. 'Plus & Minus' presentation.

Bank Reconciliation Statement		
<i>as on 31st January, 2011</i>		
<i>Particulars</i>	<i>Details</i>	<i>Amount</i>
Balance as per Pass Book	₹	₹
<i>Add</i> : Cheques paid but not yet credited :		2,430
M. Mohan & Co.	1,050	
N. Nandy & Sons	340	1,390
<i>Add</i> : Premium paid and bank charges entered in the Pass book but not yet entered in the Cash-Book		260
		4,080
<i>Less</i> : Cheques issued but not yet presented :		
K. Nagpal & Co.	730	
B. Babu & Co.	780	
		1,510
		2,570
<i>Less</i> : Interest credited by bank but not yet entered in the Cash Book		200
Balance as per Cash Book		2,370
<i>OR</i>		
Balance as per Cash Book		2,370
<i>Add</i> : Cheques issued but not yet presented :		
K. Nagpal & Co.	730	
B. Babu & Co.	780	1,510
<i>Add</i> : Interest entered in the Pass Book, but not yet in the Cash Book		200
		4,080
<i>Less</i> : Cheques paid in but not yet credited :		
M. Mohan & Co.	1,050	
N. Nandy & Sons	340	1,390
		2,690
<i>Less</i> : Premium paid and bank charges entered in the Pass Book but not yet in the Cash Book		260
Balance as per Pass Book		2,430



Illustration 1

From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st December, 2011.

- (1) The bank overdraft as per Cash Book on 31st December, 2011 ₹ 6,340.
- (2) Interest on overdraft for 6 months ending 31st December, 2011 ₹ 160 is entered in Pass Book.
- (3) Bank charges of ₹ 30 are debited in the Pass Book only.
- (4) Cheques issued but not cashed prior to 31st December, 2011, amounted to ₹ 1,168.
- (5) Cheques paid into bank but not cleared before 31st December, 2011 were for ₹ 2,170.
- (6) Interest on investments collected by the bank and credited in the Pass Book ₹ 1,200.

Solution

Bank Reconciliation Statement <i>As on 31st December, 2011</i>	
<i>Particular</i>	<i>Amount</i> ₹
Overdraft as per Cash Book	6,340
<i>Add</i> : Interest debited in the Pass Book but not yet entered in the Cash Book	160
<i>Add</i> : Bank charges debited in the Pass Book but not entered in the Cash Book	30
<i>Add</i> : Cheques deposited but not yet credited in the Pass Book	2,170
	8,700
<i>Less</i> : Cheques issued but not yet presented	(1,168)
<i>Less</i> : Interest collected and credited by bank but not yet entered in Cash Book	(1,200)
Overdraft as per Pass Book	6,332

The above illustration can also be presented with the column for “Plus” and “Minus.”

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<i>Particulars</i>	<i>Plus Amount ₹</i>	<i>Minus Amount ₹</i>
Overdraft as per Cash Book		6,340
Interest debited in Pass Book but not yet in Cash Book		160
Cheque issued but not yet presented	1,168	
Cheques paid in but not yet credited by the Bank		2,170
Bank charges		30
Interest collected and credited by the Bank in the Pass Book but not yet entered in Cash Book	1,200	
	2,368	
Overdraft as per Pass Book (₹ 8,700 - 2,368)	6,332	
Total	8,700	8,700

7.2 BANK RECONCILIATION STATEMENT AFTER THE PREPARATION OF ADJUSTED CASH-BOOK

Adjusting the cash-book before preparing the bank reconciliation statement is completely optional, if reconciliation is done during different months. But if reconciliation is done at the end of the accounting year or financial year, the cash-book must be adjusted so as to reflect the correct bank balance in the balance sheet.

While adjusting the cash-book all the errors (like wrong amount recorded in the cash-book, entry posted twice in the cash-book, over/under casting of the balance etc.) and omissions (like bank charges recorded in the pass-book only, interest debited by the bank, direct receipt or payment by the bank, dishonour of cheques/bills etc.) by the cash-book are taken into care but delay in recording in the pass-book due to difference in timing (like cheque issued but not presented for payment, cheque deposited but not collected) is taken to bank reconciliation statement. This adjusted cash-book balance is taken to bank reconciliation statement.

Errors occurred in the pass-book are not to be adjusted in the cash book. All the adjustments considered in the adjusted cash-book are not carried again to the bank reconciliation statement.

Illustration 2

On 30th September, 2011, the bank account of X, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 4,062. On the same date the bank statement showed a balance of ₹ 1,400 in favour of X. An examination of the Cash Book and Bank Statement reveals the following :

1. A cheque for ₹ 1,140 deposited on 29th September, 2011 was credited by the bank only on 3rd October, 2011.



2. A payment by cheque for ₹ 160 has been entered twice in the Cash Book.
3. On 29th September, 2011, the bank credited an amount of ₹ 1,740 received from a customer of X, but the advice was not received by X until 1st October, 2011.
4. Bank charges amounting to ₹ 58 had not been entered in the Cash Book.
5. On 6th September, 2011, the bank credited ₹ 2,000 to X in error.
6. A bill of exchange for ₹ 1,000 was discounted by X with his bank. This bill was dishonoured on 28th September, 2011 but no entry had been made in the books of X.
7. Cheques issued upto 30th September, 2011 but not presented for payment upto that date totalled ₹ 3,760.

You are required :

- (a) to show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on 30th September, 2011 and
- (b) to prepare a bank reconciliation statement as on that date.

Solution

(a) Cash Book (Bank Column)					
Date 2011	Particulars	Amount ₹	Date 2011	Particulars	Amount ₹
Sept. 30	To Party A/c	160	Sept. 30	By Balance b/d	4,062
	“ Customer A/c (Direct deposit)	1,740		“ Bank charges	58
	“ Balance c/d	3,220		“ Customer A/c (B/R dishonoured)	1,000
		<u>5,120</u>			<u>5,120</u>

(b) Bank Reconciliation Statement as on 30th September, 2011	
Particulars	₹
Overdraft as per Cash Book	3,220
Add : Cheque deposited but not collected upto 30th Sept., 2011	1,140
	<u>4,360</u>
Less : Cheques issued but not presented for payment upto 30th Sept., 2011	(3,760)
Credit by Bank erroneously on 6th Sept.	(2,000)
Balance as per bank statement	<u>1,400</u>

Note : Bank has credited X by 2,000 in error on 6th September, 2011. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 3,760 resulting in debit balance of ₹ 600 as per pass-book.

BANK RECONCILIATION STATEMENT

Illustration 3

On 30th December, 2011 the bank column of A. Philip's cash book showed a debit balance of ₹ 461. On examination of the cash book and bank statement you find that :

1. Cheques amounting to ₹ 630 which were issued to trade payables and entered in the cash book before 30th December, 2011 were not presented for payment until that date.
2. Cheques amounting to ₹ 250 had been recorded in the cash book as having been paid into the bank on 30th December, 2011, but were entered in the bank statement on 1st January, 2012.
3. A cheque for ₹ 73 had been dishonoured prior to 30th December, 2011, but no record of this fact appeared in the cash book.
4. A dividend of ₹ 38, paid direct to the bank had not been recorded in the cash book.
5. Bank interest and charges amounting to ₹ 42 had been charged in the bank statement but not entered in the cash book.
6. No entry had been made in the cash book for a trade subscription of ₹ 10 paid vide banker's order in November, 2011.
7. A cheque for ₹ 27 drawn by B. Philip had been charged to A. Philip's bank account by mistake in December, 2011.

You are required :

- (a) to make appropriate adjustments in the cash book bringing down the correct balance, and
- (b) to prepare a statement reconciling the adjusted balance in the cash book with the balance shown in the bank statement.

Solution

(a) A. Philip					
Dr.		Cash Book (Bank column)		Cr.	
Date 2011	Particulars	Amount ₹	Date 2011	Particulars	Amount ₹
Dec. 30	To Balance b/d	461	Dec. 30	By Trade receivables- Cheque	73
	To Dividend received	38		dishonoured	
				By Bank interest and charges	42
				By Trade Subscription	10
			Dec. 31	By Balance c/d	374
		499			499
2012					
Jan. 1	To Balance b/d	374			



(b) Bank Reconciliation Statement as at 30th December, 2011		
Particulars	Amount ₹	Remarks
Balance per cash book	374	In hand
<i>Add</i> : Cheques not yet presented	630	
	1,004	In hand
<i>Deduct</i> : Lodgement not yet recorded by bank	(250)	
	754	
<i>Deduct</i> : Cheque wrongly charged (confirmed with)	(27)	
	727	

Illustration 4

From the following information, prepare a Bank reconciliation statement as at 31st December, 2011 for Messrs New Steel Limited :

	₹
(1) Bank overdraft as per Cash Book on 31st December, 2011	2,45,900
(2) Interest debited by Bank on 26th December, 2011 but no advice received	27,870
(3) Cheque issued before 31st December, 2011 but not yet presented to Bank	66,000
(4) Transport subsidy received from the State Government directly by the Bank but not advised to the company	42,500
(5) Draft deposited in the Bank, but not credited till 31st December, 2011	13,500
(6) Bills for collection credited by the Bank till 31st December, 2011 but no advice received by the company	83,600
(7) Amount wrongly debited to company account by the Bank, for which no details are available	7,400

BANK RECONCILIATION STATEMENT

Solution

M/s. New Steel Ltd.		
Bank Reconciliation Statement as on 31st Dec. 2011		
Particulars	₹	₹
Overdraft as per Cash Book		2,45,900
Add : Interest charged by the bank	27,870	
Draft deposited in bank but not yet credited	13,500	
Wrong debit by the bank, under verification	7,400	48,770
		<hr/>
		2,94,670
Less: Cheque issued but not yet presented	(66,000)	
Transport subsidy not yet recorded in the Cash Book	(42,500)	
Bills for collection credited in the bank not yet entered in the Cash Book	(83,600)	(1,92,100)
Overdraft as per Bank Statement		<hr/>
		1,02,570

Illustration 5

The Cash Book of Mr. Gadbadwala shows ₹ 8,364 as the balance at Bank as on 31st December, 2011, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies :

- (1) On 15th December, 2011 the payment side of the Cash Book was undercast by ₹ 100.
- (2) A cheque for ₹ 131 issued on 25th December, 2011 was not taken in the bank column.
- (3) One deposit of ₹ 150 was recorded in the Cash Book as if there is no bank column therein.
- (4) On 18th December, 2011 the debit balance of ₹ 1,526 as on the previous day, was brought forward as credit balance.
- (5) Of the total cheques amounting to ₹ 11,514 drawn in the last week of December, 2011, cheques aggregating ₹ 7,815 were encashed in December.
- (6) Dividends of ₹ 250 collected by the Bank and subscription of ₹ 100 paid by it were not recorded in the Cash Book.
- (7) One out-going Cheque of ₹ 350 was recorded twice in the Cash Book. Prepare a Reconciliation Statement.



Solution

(If the books are not closed on 31st December, 2011)

Bank Reconciliation Statement of Mr. Gadbadwala as on 31st Dec., 2011			
<i>Particulars</i>		<i>Details</i> ₹	<i>Amount</i> ₹
Balance as per the Cash Book			8,364
<i>Add</i> : Mistake in bringing forward ₹ 1,526 debit balance as credit balance on 18th Dec., 2011		3,052	
Cheques issued but not presented :	₹		
Issued	11,514		
Cashed	7,815	3,699	
Dividends directly collected by bank but not yet entered in the Cash Book		250	
Cheque recorded twice in the Cash Book		350	
Deposit not recorded in the Bank column		150	7,501
			15,865
<i>Less</i> : Wrong casting in the Cash Book on 15th Dec.		100	
Cheques issued but not entered in the Bank column		131	
Subscription paid by the bank directly not yet recorded in the Cash Book		100	(331)
Balance as per the Pass Book			15,534
(If the books are to be closed on 31st December, 2011)			
Corrected Balance as per Pass Book :			
Balance as given			8,364
<i>Add</i> : Mistake in bringing forward the balance on 18th December			3,052
Dividends collected by the bank			250
Cheques recorded twice in the Cash Book			350
Deposit not recorded in the bank column			150
			12,166
<i>Less</i> : Wrong casting of the Cash Book on 15th Dec.		100	
Cheques issued but not entered in the Bank Column		131	
Subscription paid by the Bank		100	(331)
Correct Balance (for Balance Sheet purposes)			11,835

BANK RECONCILIATION STATEMENT

Bank Reconciliation Statement	
Particulars	₹
Balance as per the Cash Book (corrected)	11,835
<i>Add:</i> Cheques issued but not yet presented	3,699
Balance as per the Pass Book	15,534

Illustration 6

The following are the Cash Book and Pass Book of Jain for the month of March, 2011 and April, 2011.

Cash Book (Bank Column only)					
<i>Dr.</i>					<i>Cr.</i>
<i>Date</i>	<i>Particulars</i>	<i>Amount</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount</i>
		₹			₹
01/3/2011	To Balance b/d	6,000	03/3/2011	By Cash A/c	2,000
06/3/2011	To Sales A/c	3,000	07/3/2011	By Modi	6,000
10/3/2011	To Ram	6,500	12/3/2011	By Patil	3,000
18/3/2011	To Singhal	2,700	18/3/2011	By Suresh	4,000
25/3/2011	To Goyal	3,300	24/3/2011	By Ramesh	1,500
31/3/2011	To Patel	6,500	30/3/2011	By Balance c/d	11,500
		28,000			28,000

Pass Book					
Date	Particulars	Amount		Dr. or Cr.	Balance
		Dr.	Cr.		
		₹	₹		₹
1/4/2011	By Balance b/d		3,200	Cr.	3,200
3/4/2011	By Goyal		3,300	Cr.	6,500
5/4/2011	By Patel		6,500	Cr.	13,000
7/4/2011	To Naresh	2,800		Cr.	10,200
12/4/2011	To Ramesh	1,500		Cr.	8,700
15/4/2011	To Bank Charges	200		Cr.	8,500
20/4/2011	By Usha		1,700	Cr.	10,200
25/4/2011	By Kalpana		3,800	Cr.	14,000
30/4/2011	To Sunil	6,200		Cr.	7,800

Reconcile the balance of cash book on 31/3/2011.

Solution

On scrutiny of the debit side of the Cash Book of March 2011 and receipt side of the Pass Book of April, 2011 reveals that :



1. Two cheques deposited in Bank (Goyal ₹ 3,300 and Patel ₹ 6,500) in March were not credited by the Bank till 31/3/2011 and on scrutiny of the credit side of the cash book and payment side of the Pass Book reveals that :
2. A cheque issued to Ramesh for ₹ 1,500 in March 2011, had not been presented for payment in Bank till 31/3/2011. Therefore the Bank Reconciliation statement on 31/3/2011 will appear as follows :-

Bank Reconciliation Statement as on 31/3/2011	
<i>Particulars</i>	<i>Amount</i> ₹
Balance as per the Cash Book	11,500
<i>Add</i> : Cheque issued but not presented for payment	1,500
	13,000
<i>Less</i> : Cheque deposited but not credited by Bank	(9,800)
Balance as per the Pass Book	3,200

Illustration 7

When Nikki & Co. received a Bank Statement showing a favourable balance of ₹ 10,392 for the period ended on 30th June, 2011, this did not agree with the balance in the cash book.

An examination of the Cash Book and Bank Statement disclosed the following-

1. A deposit of ₹ 3,092 paid on 29th June, 2011 had not been credited by the Bank until 1st July, 2011.
2. On 30th March, 2011 the company had entered into hire purchase agreement to pay by bank order a sum of ₹ 3,000 on the 10th of each month, commencing from April, 2011. No entries had been made in Cash Book.
3. A customer of the firm, who received a cash discount of 4% on his account of ₹ 4,000 paid the firm a cheque on 12th June. The cashier erroneously entered the gross amount in the bank column of the Cash Book.
4. Bank charges amounting to ₹ 300 had not been entered in Cash-Book.
5. On 28th June, a customer of the company directly deposited the amount in the bank ₹ 4,000, but no entry had been made in the Cash Book.
6. ₹ 1,200 paid into the bank had been entered twice in the Cash Book.
7. A debit of ₹ 100 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into Bank again on 5th July, 2011.

Prepare Bank Reconciliation Statement on 30 June, 2011.

BANK RECONCILIATION STATEMENT

Solution:

Bank Reconciliation Statement on 30 June, 2011		
Particulars	Details ₹	Amount ₹
Balance as per the Pass Book		10,392
<i>Add:</i>		
Deposited with bank but not credited	3,092	
Payment of Hire Purchase installments not entered in the Cash Book	9,000	
Discount allowed wrongly entered in bank column	160	
Bank charges not entered in the Cash Book	300	
Deposit entered in the Cash Book twice	1,200	
Cheque returned 'out of date' entered in the Cash Book	100	13,852
		24,244
<i>Less :</i> Direct deposit by customer not entered in the Cash Book		(4,000)
Balance as per the Cash Book		20,244

Illustration 8

The bank account of Mukesh was balanced on 31st March, 2011. It showed an overdraft of ₹ 5,000. The bank statement of Mukesh showed a credit balance of ₹ 76,750. Prepare a bank reconciliation statement taking the following into account :

- (1) Cheques issued but not presented for payment till 31.3.2011 ₹ 12,000.
- (2) Cheques deposited but not collected by bank till 31.3.2011 ₹ 20,000.
- (3) Interest on term-loan ₹ 10,000 debited by bank on 31.3.2011 but not accounted in Mukesh's book.
- (4) Bank charges ₹ 250 was debited by bank during March, 2011 but accounted in the books of Mukesh on 4.4.2011.
- (5) An amount of ₹ 1,00,000 representing collection of Murukesh's cheque was wrongly credited to the account of Mukesh by the bank in their bank statement.



Solution :

In the books of Mukesh Bank Reconciliation Statement as on 31.3.2011		
<i>Particulars</i>	<i>Details</i>	<i>Amount ₹</i>
Overdraft as per the cash book		5,000
<i>Add:</i> Cheques deposited in bank but not collected and credited by bank till 31.3.2011	20,000	
Interest on term loan not accounted in books	10,000	
Bank charges not accounted in books	250	30,250
		35,250
<i>Less:</i> Cheques issued but not presented for payment till 31.3.2011		(12,000)
		23,250
<i>Less:</i> Erroneous credit by bank to Mukesh's account		(1,00,000)
Balance as per the bank statement		(76,750)

Illustration 9

From the following information (as on 31.3.2011), prepare a bank reconciliation statement after making necessary amendments in the cash book.

	<i>Amount (₹)</i>
Bank balances as per the cash book (Dr.)	3,25,000
Cheques deposited, but not yet credited	4,47,500
Cheques issued but not yet presented for payment	3,56,200
Bank charges debited by bank but not recorded in the cash-book	1,250
Dividend directly collected by the bank	12,500
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	25,500
Customer's cheque dishonoured by bank not recorded in the cash-book	13,000
Wrong credit given by the bank	15,000

Also show the bank balance that will appear in the trial balance as on 31.3.2011.

BANK RECONCILIATION STATEMENT

Solution:

Cash Book as on 31.3.2011 (after making necessary amendments)			
<i>Dr.</i> <i>Particulars</i>	<i>Amount</i> ₹	<i>Particulars</i>	<i>Cr.</i> <i>Amount</i> ₹
To Balance b/d	3,25,000	By Bank charges	1,250
To Dividend	12,500	By Insurance premium	15,900
		By Cash sales (wrongly recorded)	25,500
		By Trade receivables (cheque dishonoured)	13,000
		By Balance c/d	2,81,850
	<u>3,37,500</u>		<u>3,37,500</u>

Bank Reconciliation Statement as on 31.3.2011

<i>Particulars</i>	<i>Details</i> ₹	<i>Amount</i> ₹
Bank balance as per the cash book		2,81,850
<i>Add:</i> Cheques issued but not yet presented for payment	3,56,200	
Wrong credit given by bank	15,000	3,71,200
		<u>6,53,050</u>
<i>Less:</i> Cheques deposited but not yet credited by bank		(4,47,500)
Balance as per the pass book		<u>2,05,550</u>

The bank balance of ₹ 2,81,850 will appear in the trial balance as on 31st March, 2011.

Illustration 10

On 31st March, 2011 the pass-book of a trader showed a credit balance of ₹ 1,565, but the pass book balance was different for the following reasons from the cash book balance:

1. Cheques issued to 'X' for ₹ 600 and to 'Y' for ₹ 384 were not yet presented for payment.
2. Bank charged ₹ 35 for bank charges and 'Z' directly deposited ₹ 816 into the bank account, which were not entered in the cash book.
3. Two cheques one from 'A' for ₹ 515 and another from 'B' for ₹ 1,250 were collected in the first week of April, 2011 although they were banked on 25.03.2011.
4. Interest allowed by bank ₹ 45.

Prepare a bank reconciliation statement as on 31st March, 2011.



Solution :

Bank Reconciliation Statement as on 31st March, 2011			
<i>Particulars</i>	<i>Details</i>		<i>Amount</i>
	₹	₹	₹
Credit balance as per the pass book			1,565
<i>Add:</i> Cheques deposited into bank but not yet collected	A: 515		
	B: 1,250	1,765	
Bank charges debited by the bank		35	1,800
			3,365
<i>Less:</i> Cheques issued but not presented for payment	X: 600		
	Y: 384	984	
Direct deposit of cash in bank by Z		816	
Interest allowed by the bank		45	(1,845)
Debit balance as per the cash book			1,520

SELF EXAMINATION QUESTIONS

Pick up the correct answer from the given choices :

- When the balance as per Cash Book is the starting point, direct deposits by customers are:
(a) Added (b) Subtracted;
(c) Not required to be adjusted (d) None of these
- A Bank Reconciliation Statement is a
(a) Part of Cash Book; (b) Part of Bank Account;
(c) Part of financial statements, (d) None of the above.
- When balance as per Pass Book is the starting point, interest allowed by Bank is
(a) Added (b) Subtracted
(c) Not required to be adjusted. (d) None of the above.
- A Bank Reconciliation Statement is prepared with the help of:
(a) Bank statement and bank column of the Cash Book.
(b) Bank statement and cash column of the Cash Book
(c) Bank column of the Cash Book and cash column of the Cash Book
(d) None of the above.

BANK RECONCILIATION STATEMENT

5. Debit balance as per Cash Book of ABC Enterprises as on 31.3.2011 is ₹ 1,500. Cheques deposited but not cleared amounts to ₹ 100 and Cheques issued but not presented of ₹ 150. The bank allowed interest amounting ₹ 50 and collected dividend ₹ 50 on behalf of ABC Enterprises. Balance as per pass book should be
- (a) ₹ 1,600. (b) ₹ 1,450.
(c) ₹ 1,850. (d) ₹ 1,650.
6. The cash book showed an overdraft of ₹ 1,500, but the pass book made up to the same date showed that cheques of ₹ 100, ₹ 50 and ₹ 125 respectively had not been presented for payments; and the cheque of ₹ 400 paid into account had not been cleared. The balance as per the pass book will be
- (a) ₹ 1,100. (b) ₹ 2,175.
(c) ₹ 1,625. (d) ₹ 1,375.
7. When drawing up a Bank Reconciliation Statement, if you start with a debit balance as per the Bank Statement, the unpresented cheques should be:
- (a) Added; (b) Deducted; (c) Not required to be adjusted. (d) None of these.
8. A debit balance in the depositor's Cash Book will be shown as:
- (a) A debit balance in the Bank Statement.
(b) A credit balance in the Bank Statement.
(c) An overdrawn balance in the Bank Statement.
(d) None of the above.
9. When preparing a Bank Reconciliation Statement, if you start with a debit balance as per the Cash Book, cheques issued but not presented within the period should be:
- (a) Added (b) Deducted
(c) Not required to be adjusted (d) None of the above.
10. When the balance as per Pass Book is the starting point, direct payment by bank are:
- (a) Added in the bank reconciliation statement
(b) Subtracted in the bank reconciliation statement
(c) Not required to be adjusted in the bank reconciliation statement.
(d) Neither of the above.
11. When balance as per Cash Book is the starting point, uncollected cheques are:
- (a) Added in the bank reconciliation statement
(b) Subtracted in the bank reconciliation statement
(c) Not required to be adjusted in the bank reconciliation statement
(d) Neither of the above.



-
12. A Bank Reconciliation Statement is prepared to know the causes for the difference between:
- (a) The balances as per cash column of Cash Book and the Pass Book.
 - (b) The balance as per bank column of Cash Book and the Pass Book.
 - (c) The balance as per bank column of Cash Book and balances as per cash column of Cash Book
 - (d) Neither of the above.
13. When the balance as per Pass Book is the starting point, uncollected cheques are:
- (a) Added in the bank reconciliation statement
 - (b) Subtracted in the bank reconciliation statement
 - (c) Not required to be adjusted in the bank reconciliation statement.
 - (d) Neither of the above.
14. When balance as per Cash Book is the starting point, interest charged by Bank is:
- (a) Added in the bank reconciliation statement
 - (b) Subtracted in the bank reconciliation statement
 - (c) Not required to be adjusted in the bank reconciliation statement
 - (d) Neither of the above.
15. A Bank Reconciliation Statement is prepared by
- (a) The Bank
 - (b) The Government
 - (c) The Bank Account holder
 - (d) The user of financial statements
16. A Bank Statement is a copy of
- (a) Cash column of the cash book
 - (b) Bank column of the cash book
 - (c) A Customer's account in the bank's book
 - (d) None of the above
17. The difference in the balances of both the cash-book and the pass-book can be because of
- (a) Errors in recording the entries either in the cash-book or pass-book.
 - (b) Omission of same entry in both cash-book and pass-book.
 - (c) Debit balance of cash book is the credit balance of pass-book.
 - (d) None of the above.

BANK RECONCILIATION STATEMENT

18. Direct payment to the third party on behalf of the account holder is entered in
- (a) The cash-book when the amount is paid by the bank
 - (b) The cash-book when the entry is posted in the pass-book
 - (c) The pass-book when the entry is posted in the pass-book
 - (d) None of the above
19. Payment done by the account holder through issuing a cheque is entered in
- (a) The pass-book at the time of issuing the cheque
 - (b) The cash-book at the time of presenting the cheque to the bank for payment
 - (c) The pass-book at the time of presenting the cheque to the bank for payment
 - (d) The cash-book when informed by the third party
20. Which of the following is not the salient feature of bank reconciliation statement?
- (a) Any undue delay in the clearance of cheques will be shown up by the reconciliation
 - (b) Reconciliation statement will help in finding the person doing any fraud
 - (c) Reconciliation is done by the bankers
 - (d) It helps in finding out the actual position of the bank balance.

[Ans. : 1(a), 2(d), 3(b), 4(a), 5(d), 6(c), 7(a), 8(b), 9(a), 10(a), 11(b), 12(b), 13(a), 14(b), 15 (c), 16 (c), 17 (a), 18 (b), 19 (c), 20 (c)]