

Unit 8

BANK RECONCILIATION STATEMENT

Contents

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Points to recall

The following points are to be recalled before learning bank reconciliation statement:

- When transactions are more in number, subsidiary books are used.
- Cash and bank transactions are recorded in the cash book.
- Deposit made into the bank is debited in the bank column of the cash book.
- Payment made by the bank is credited in the bank column of the cash book.
- Debit balance as per bank column of the cash book is favourable balance.
- Credit balance as per bank column of the cash book is overdraft.



Learning Objectives

To enable the students to

- Understand the meaning and purpose of preparing bank reconciliation statement
- Analyse the causes of disagreement between balance shown by bank column of the cash book and balance shown by bank statement
- Prepare bank reconciliation statement

Key terms to know

- Bank statement
- Bank overdraft
- Unpresented Cheques
- Uncleared Cheques
- Dishonoured cheques
- Standing instructions
- Bank reconciliation statement.

8.1 Introduction



Student activity

Imagine that you are the owner of a small shop. You maintain the three column cash book for your business. Now, think on the following points and discuss with the whole class:

- How often would you check your cash balance in hand? Everyday/once in a week?
- Why do you check your cash balance?
- How will you make sure that the bank column in cash book is correct and is the same as shown by the bank statement?

From the above activity, it is clear that physical cash in hand can be checked easily with the cash column of cash book. But, checking the accuracy of transactions in the bank column of the cash book cannot be done without bank statement (pass book).

8.1.1 Bank statement or bank pass book

It is very common in business these days, to deposit cheques received and cash, with the bank. Payments can also be made through bank. Because, dealing cash through bank is always safe. Also, it is legally necessary to operate the transactions through bank beyond a certain limit.

When any bank transaction is undertaken, two records are kept of the transactions. One is kept by the business [customers to the bank], which is the cash book. The other one is kept by the bank, which is bank record [bank statement]. In other words, it can be said that the cash book maintained by the business [customer of a bank] and the ledger accounts maintained by the bank, record the same transactions. Bank statement or bank pass book is simply a copy of the customer's account in the books of a bank. A bank may send a statement at regular intervals to its customers. It shows all the deposits, withdrawals and the balance available in its customer's account, on a particular date. In recent times, the copy of the records can be obtained by the customer electronically, which is called E-statement.

Various types of accounts such as savings account, fixed deposit account, current account, etc., can be opened with the bank by different types of customers. But, current account is the most suitable for business concerns. The facility of bank overdraft is not available to any account other than current account.

तिथि Date	लेन-देन का विवरण Particular of transactions	जमा Credit	निकासी Debit	शेष Balance	मुहर/हस्ता, Stamp/ Sign.

Inside the pass book

Transaction Details

THE ABC BANK LIMITED
 Regd. Office: Aluva
 Branch : KODUMUDI
 Email : kdi18federalbank.co.in
 MICR Code : 638049005
 Toll Free number: 1800 425 1199

Phone :
 Fax :
 IFSC : FDRL0001875
 Date : 16-05-2017
 Page : 1

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STATEMENT OF ACCOUNT FROM 16-06-2016 to 15-05-2017 A/C TYPE: CURRENT SCHEME: F

NAME : M/S. ABC ENTERPRISE
 ADDRESS:

E-mail :
 Communication address last updated on : 16-06-2016

Closing Balance : 243.00
 FFD Balance : 0.00

Avl balance : 243.00
 Eff. Avl Balance: 243.00

Joint Holder Name: MATHANKUMAR S
 MURUGAN A
 DHINESHKUMAR K M

A/C NO : 18750200000453 MODE OF OPERATION: JT CURRENCY: INR CUST ID: 28080974

DATE	PARTICULARS	CHQ. NO.	WITHDRAWALS	DEPOSITS	BALANCE
17-06-16	INITIAL REMITTANCE			5,000.00	5,000.00 C
24-06-16	CHQ. BOOK CHARGE 21		68.00		4,932.00 C
16-08-16	BY CASH			10,000.00	14,932.00 C
19-08-16	BY CASH			79,000.00	93,932.00 C
22-08-16	CASH			10,000.00	1,03,932.00 C
22-08-16	A MURUGAN	10003261	40,000.00		63,932.00 C
23-08-16	TO SREE SWAMI TRAD	10003262	40,000.00		23,932.00 C
26-08-16	BY CASH			10,000.00	33,932.00 C

Specimen of E-Statement**Student activity**

Think: Observe the above format. Why the withdrawals are shown as debit and deposits are shown as credit in a bank statement? [Remember: in the cash book it is the reverse]

When the entries in the bank statement are compared with the cash book, it will be found that the accounting treatment is reverse in the cash book. This is because the cash book is prepared from the point of view of business, whereas the bank statement is prepared from the bank's point of view.

Following the double entry system, the credit balance in the bank pass book represents the debit balance as per the cash book and vice-versa. This is because, bank is a debtor for the business and business unit (customer to the bank) is a creditor for the bank when there is a favourable balance in the bank. When money is deposited by the business into the bank, customer's account is credited in the bank's book, as this is the amount owed by the bank to its customer. Similarly, when the money is withdrawn or taken out of the bank by the business, customer's account is debited as this decreases the amount owed by the bank to the customer. As a result of this, favourable balance, as per bank statement (bank pass book), will appear as a credit balance and overdrawn balance as a debit balance.

8.1.2 Bank overdraft

It is not possible to have unfavourable cash balance in the cash book. But, it is possible to have unfavourable balance in the bank account. When the business is not having sufficient money in its bank account, it can borrow money from the bank. As a result of this, amount is overdrawn from bank.

Record	Debit balance	Credit balance
Bank statement	Overdraft (negative balance)	Favourable balance (positive balance)
Cash book	Favourable balance (positive balance)	Overdraft (negative balance)

8.1.3 Differences between bank column of cash book and bank statement

Following are the differences between bank column of cash book and bank statement:

S.No.	Bank column of cash book	Bank statement
1	It is prepared by business concern.	It is prepared by bank (banker).
2	Cash deposits are entered on the debit side.	Cash deposits are entered in the credit column.
3	Cash withdrawals are entered on the credit side.	Cash withdrawals are entered in the debit column.
4	Cheque deposits are debited on the day of deposit.	Cheque deposits are credited only at the time of realisation of cheque.
5	Cheques issued are credited on the day of issue of cheque.	Cheques issued by customers are debited by bank on the date on which the payment is made.
6	Collections and payments as per standing instructions of the business are entered only after checking with the bank statement.	Collections and payments as per standing instructions of the business are entered in the banker's book on the date of realisation or payment.
7	It is balanced at the end of a specific period.	It is balanced after each transaction.

8.2 Bank Reconciliation Statement

If every entry in the cash book matches with the bank statement, then bank balance will be the same in both the records. But, practically it may not be possible. When the balances do not agree with each other, the need for preparing a statement to explain the causes arises. This statement is called bank reconciliation statement (BRS). The bank reconciliation statement is a statement that reconciles the balance as per the bank column of cash book with the balance as per the bank statement by giving the reasons for such difference along with the amount. As a result of this, internal record of a business (bank column of cash) can be reconciled with external record (bank statement).

8.2.1 Need for bank reconciliation statement

It is important to compare the bank statement and bank column of cash book. If the two balances do not match, it is necessary to reconcile them to explain why the differences have occurred. It may be prepared every month, every week or even daily depending on the number of transactions and the needs of the business.



The need for bank reconciliation statement is as follows:

- To identify the reasons for the difference between the bank balance as per the cash book and bank balance as per bank statement.
- To identify the delay in the clearance of cheques.
- To ascertain the correct balance of bank column of cash book.
- To discourage the accountants of the business as well as bank from misusing funds.

8.3 Reasons why bank column of cash book and bank statement may differ

The need for reconciliation arises only when there are differences in entries recorded in the cash book and bank statement. Sometimes, the bank balance as per both the records may be the same, but the entries may not match. In such cases also, bank reconciliation statement is to be prepared. But, before preparing the bank reconciliation statement, it is necessary to find out the reasons for the disagreement.

Difference between the two records (bank column of cash book and bank statement) generally occur because of the following reasons:

- (i) Timing differences – The different times at which the same items are entered
- (ii) Errors in recording - Difference arising due to errors in recording the entries

(i) Timing differences

- (a) cheques issued but not yet presented for payment
- (b) cheques deposited into bank but not yet credited
- (c) bank charges and interest on loan and overdraft
- (d) interest and dividends collected by the bank
- (e) dishonour of cheques and bills
- (f) amount paid by parties directly into the bank
- (g) payment made directly by the bank to others
- (h) bills collected by the bank on behalf of its customer

(ii) Errors in recording

- (a) errors committed in recording the transactions by the business in the cash book
- (b) errors committed in recording the transactions by the bank.

8.3.1 Timing differences

(a) Cheques issued but not yet presented for payment

When the cheques are issued by the business, it is immediately entered on the credit side of the cash book by the business. But, this may not be entered in the bank statement on the same day. It will be entered in the bank statement only after it is presented with the bank.

For example, the balances as per cash book and bank statement are ₹ 20,000 for X & Co. X & Co. issued a cheque in favour of Y & Co for ₹ 10,000, on 27th March 2017. So, X & Co's cash book is credited with ₹ 10,000 on 27th March 2017. But, the cheque is presented to bank on 2nd April 2017. In case, bank sends a statement to X & Co, upto 31st March 2017, it will not contain this transaction. As a result, there will be a difference of ₹ 10,000, between balance shown as per cash book and balance as per bank statement. As a result of this,



**Balance as per bank statement
(₹ 20,000) is more than
balance as per cash book**



**Balance as per cash book
(₹ 10,000) is less than balance
as per bank statement**



(b) Cheques deposited into bank but not yet credited

When the cheques are deposited into bank, the amount is debited in the cash book on the same day. But, these may not be shown in the bank pass book on the same day because these will be entered in the bank statement only after the collection of the cheques.

For example, the balances as per cash book and bank statement are ₹ 20,000 for X & Co. X & Co. receives a cheque on 25th March 2016, from ABC Limited for ₹ 5,000. On the same day, X & Co, debits its cash book with ₹ 5,000. But bank credits X & Co's account only when the cheque is collected from ABC Limited's bank. This shows that is a time gap between depositing the cheque by the customer (X & Co) and collection of cheque by the bank. As a result of this,



**Balance as per cash book
(₹ 25,000) is more than
balance as per bank statement**



**Balance as per bank statement
(₹ 20,000) is less than balance
as per cash book**

(c) Bank charges and interest on loan and overdraft charged by the bank

The bank has to cover the cost of running the customer's account. So debit is given to the account of the business towards bank charges. Also, if the business had taken any loan or overdrawn, interest has to be paid by the business. These entries for bank charges and interest are made in the bank statement. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the cash book shows more balance than bank statement.

For example, the opening balance as per cash book and the bank statement as on 1st March 2017 is ₹ 7,000. Bank debits for bank charges ₹ 300 as on 27th March 2017. But there is no entry for the same in the cash book as on such date. As a result of this,



**Balance as per cash book
(₹ 7,000) is more than balance
as per bank statement**



**Balance as per bank statement
(₹ 6,700) is less than balance as
per cash book**

(d) Interest and dividends collected by the bank

The bank may collect dividends on its customer's investment in shares and also interest on any investment. The entry for this will be made in the bank statement on the date of collection. But the entry is made in the cash book only when the bank statement is received by the customer. Till then, the cash book shows less balance than the bank statement.

For example, the balances as per cash book and bank statement are ₹15,000. The bank has collected dividends of ₹1,000. As a result of this, the balance as per bank statement is increased to ₹16,000, whereas until the customer receives such information and records the same, balance as per cash book is lesser by ₹1000. As a result of this,



**Balance as per bank statement
(₹ 16,000) is more than
balance as per cash book**



**Balance as per cash book
(₹ 15,000) is less than balance
as per bank statement**

(e) Dishonour of cheques and bills

When the cheque is received from outside parties, it is deposited with the bank and debited in the cash book. If the cheque is dishonoured, the bank cannot collect the amount of such cheque from outside parties' bank. It is not credited in the bank statement. As a result of this, the two records would differ.



While discounting the bills receivables, in the cash book it is entered in the debit side and in the bank statement it is credited. When the bill is presented by the bank to the drawee of the bill and the payment is not received, the bank debits the same to cancel the credit. But, credit is made in the cash book only when the customer gets the entries made in the bank statement is received. The bank may also charge some amount for such dishonour.

For example, opening balance as per cash book and bank statement is ₹ 5,000 as on 1st January, 2017. A cheque for ₹ 1,000 deposited by the business into bank on 25th January, 2017 is dishonoured and no entry for such transaction is made in the cash book as on that date. As a result of this,



Balance as per cash book
(₹ 6,000) is more than balance
as per bank statement



Balance as per bank statement
(₹ 5,000) is less than balance as
per cash book

(f) Amount paid by parties directly into the bank

Sometimes, debtors or the customers of the business may directly deposit the money into bank account of the business. It may be done by directly visiting the branch of the bank by paying cash (including NEFT, RTGS) or swiping debit or credit or business card or depositing the money in cash deposit machine or transfer through online banking facility. This will be credited in the banker's book. But the entry is made in the cash book only when the bank statement is received by the customer. Until then, the cash book shows less balance than bank statement.

For example, as on 1st January, 2017, the balance as per cash book and the balance as per bank statement show the same balance of ₹ 10,000, but on 22nd January, a debtor directly deposits ₹ 5,000 into the bank account of the business. But no entry is made in the cash book as on that date. As a result of this,



Balance as per bank statement
(₹ 15,000) is more than
balance as per cash book



Balance as per cash book
(₹ 10,000) is less than balance
as per bank statement

(g) Amount paid directly by the bank to others

Sometimes the bank may be instructed to make payments such as, insurance premium, instalment of loan, etc., as an agent of the customer on behalf of its customer. In all such cases, debit is made in bank statement. But, the entry is made in the cash book only when the bank statement is received by the customer. Till then, the cash book shows more balance than bank statement.

For example, on 1st, March, 2017, balance as per cash book and balance as per bank statement show the same amount of ₹12,000. But, as per the standing instruction of its customer the bank pays ₹ 2,000 as insurance premium as on 28th March, 2017. But, no entry for such transaction is made in the cash book as on such date. As a result of this,



Balance as per cash book
(₹ 12,000) is more than
balance as per bank statement



Balance as per bank statement
(₹ 10,000) is less than balance
as per cash book

(h) Bills collected by the bank on behalf of its customers

When goods are sold by the business, the documents may be sent through the bank. When the bank collects the amount, it is credited in bank records. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the bank statement shows more balance than cash book.



Balance as per bank statement
is more than balance as per
cash book



Balance as per cash book
is less than balance as per bank
statement

8.3.2 Errors in recording

(a) Errors committed in recording the transactions by the business in the cash book

Sometimes, errors may be committed in the cash book. For example, omission or wrong recording of transaction relating to cheques deposited or issued, wrong balancing, etc. In these cases, obviously, there will be differences between bank balance as per bank statement and bank balance as per cash book.

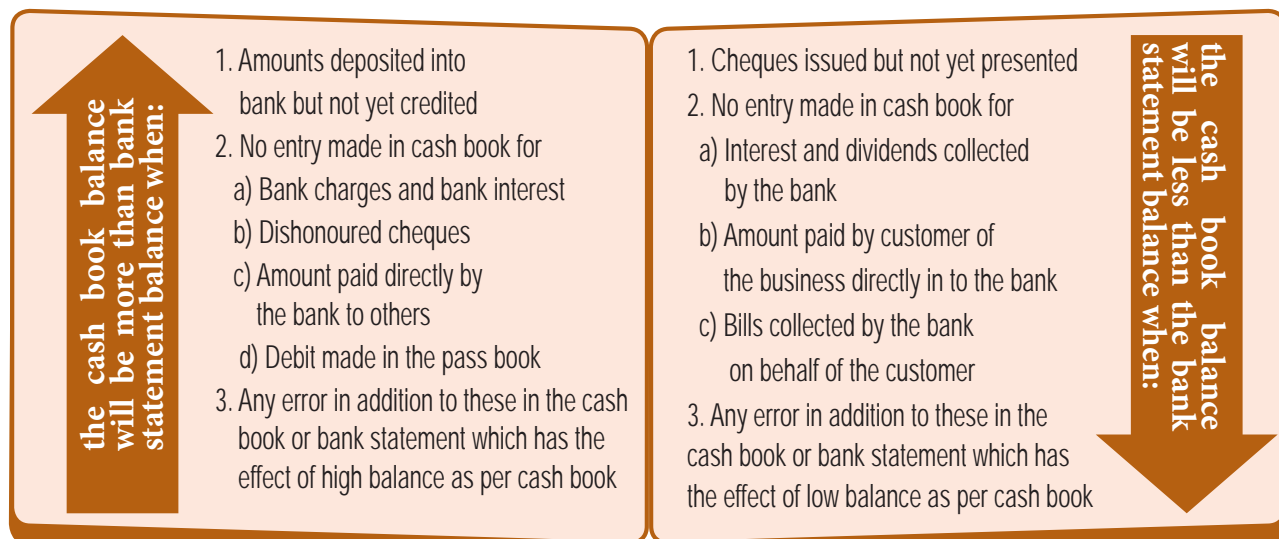
For example, the cheque received for ₹ 10, 000 is not entered in the cash book, but has been deposited with the bank. As a result, on collecting the money the balance as per bank statement will be more by ₹ 10, 000.

(b) Errors committed in recording the transactions by the bank

Sometimes errors may be committed in the banker's book. For example, omission or wrong recording of transaction relating to cheques deposited and wrong balancing. In these cases, obviously, there will be differences between bank balance as per bank statement and bank balance as per cash book.

For example, the cheque deposited for ₹ 50000, wrongly entered by the bank as ₹ 15, 000. This will lead to a difference of ₹ 35, 000 between the cash book balance and the balance as per bank statement.

In a nutshell, based on the differences,



8.4 Preparation of bank reconciliation statement

After having identified the causes of differences, the reconciliation may be done in the following way:

Bank reconciliation statement can be prepared either from the balance as per cash book or bank statement. If it is prepared from the balance of cash book, the effect of the transaction will be studied on the balance as per bank statement. If it is prepared from the balance as per bank statement, the effect of the transaction will be studied on the balance as per cash book.



Adjusting the cash book before preparing the bank reconciliation statement is not compulsory, 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 updated so as to reflect the correct bank balance in the balance sheet.

Given the causes of disagreement, the balance of one record (cash book or bank statement) can be either more or less compared to the other record (cash book or bank statement).

Bank reconciliation statement can be prepared on the basis of

- (a) 'Balance' presentation, or
- (b) 'Plus & Minus' presentation

8.4.1 Balance presentation method

When balance of cash book or bank statement is given:

Format

Bank Reconciliation Statement as on -----

Particulars	Amount ₹	Amount ₹
Balance as per cash book (favourable balance)		xxx
Add:		
1. Cheques issued but not presented	xxx	
2. Credits in the pass book only		
(a) Interest credited in bank statement	xxx	
(b) Dividend and other income	xxx	
(c) Direct deposit by a party	xxx	
3. Any error in cash book/ bank statement which has the effect of increasing the balance as per bank statement	xxx	xxx
		xxx
Less:		
1. Cheques deposited but not credited	xxx	
2. Cheques dishonoured but not entered in cash book	xxx	
3. Debits in bank statement only		
(a) Interest debited	xxx	
(b) Insurance premium, loan instalment, etc., paid as per standing instructions	xxx	
(c) Direct payment by banker	xxx	
4. Any error in cash book/ bank statement which has the effect of decreasing the balance as per bank statement	xxx	xxx
Balance as per bank statement		xxx

The abridged version of the above statement is given below:

Bank Reconciliation Statement as on _____

Particulars	Amount ₹	Amount ₹
Balance as per cash book		
Add: The transactions which increase the balance as per bank statement	-----	-----
Less: The transactions which decrease the balance as per bank statement	-----	-----
Balance as per bank statement		-----

If unfavourable balance as per cash book is the starting point, then reverse is the procedure for preparing bank reconciliation statement. This means that, items that are added are to be subtracted and items that are subtracted are to be added.

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

Sl. No	Causes of differences	Favourable balance (Dr.) as per cash book	Unfavourable balance (Cr.) as per cash book	Favourable balance (Cr.) as per bank statement	Unfavourable balance (Dr.) as per bank statement
1	Cheque issued but not presented to bank	Add	Subtract	Subtract	Add
2	Cheque directly deposited in bank by a customer	Add	Subtract	Subtract	Add
3	Income directly received by bank	Add	Subtract	Subtract	Add
4	Wrong credit in the cash book	Add	Subtract	Subtract	Add
5	Under casting of debit side of bank column of the cash book	Add	Subtract	Subtract	Add
6	Over casting of credit side of bank column of the cash book	Add	Subtract	Subtract	Add
7	Bill receivable collected directly by bank	Add	Subtract	Subtract	Add
8	Cheque deposited but not cleared	Subtract	Add	Add	Subtract



9	Expenses directly paid by bank on standing instructions	Subtract	Add	Add	Subtract
10	Bank charges levied by bank	Subtract	Add	Add	Subtract
11	Locker rent levied by bank	Subtract	Add	Add	Subtract
12	Wrong debit in the cash book	Subtract	Add	Add	Subtract
13	Wrong debit in the bank statement	Subtract	Add	Add	Subtract
14	Over casting of debit side of bank column of the cash book	Subtract	Add	Add	Subtract
15	Under casting of credit side of bank column of the cash book	Subtract	Add	Add	Subtract
16	Interest on bank overdraft charged	Subtract	Add	Add	Subtract
17	Final balance	If answer is positive, then favourable balance (Cr.) as per bank statement and If, negative then unfavorable balance (Dr.) as per bank statement	If answer is positive, then unfavourable balance (Dr.) as per bank statement and If, negative then favorable balance (Cr.) as per bank statement	If answer is positive, then favourable balance (Dr.) as per cash book and If, negative then unfavorable balance (Cr.) as per cash book	If answer is positive, then unfavourable balance (Cr.) as per cash book and If, negative then favorable balance (Dr.) as per cash book



Student activity

Think: Remember, an item entered on the debit side of cash book is entered on the credit side of bank statement and vice-versa. Now, keep this in mind, think on the following:

Is it possible to prepare bank reconciliation statement with bank statement as starting point and ascertain the cash book balance? Prepare a specimen of bank reconciliation statement with balance as per bank statement as the starting point.



When balances of cash book and/or bank statement is given:

Illustration 1 (When balance as per cash book is favourable)

From the following information, prepare bank reconciliation statement to find out balance as per bank statement on 31st March, 2017.

Particulars	₹
(i) Cheques deposited but not yet collected by the bank	500
(ii) Cheque issued but not yet presented for payment	1,000
(iii) Bank interest charged	100
(iv) Rent paid by bank as per standing instruction	200
(v) Cash book balance	300

Solution

Bank reconciliation statement as on 31st March, 2017

Particulars	Amount ₹	Amount ₹
Balance as per cash book		300
Add: Cheque issued but not yet presented for payment		1,000
		1,300
Less: Cheques deposited but not yet collected by the bank	500	
Bank interest charged	100	
Rent paid by bank as per standing instruction	200	800
Balance as per bank statement		500



Student activity

Think: In the above illustration, what will be the bank statement balance if the cash book balance is unfavourable?

Illustration 2

On 31st March, 2018, the bank column of the cash book of Senthamarai Traders showed a debit balance of ₹ 40,200. On examining the cash book and the bank statement, it was found that:

- A cheque for ₹ 2,240 deposited on 29th March, 2018 was credited by the bank only on 4th April, 2018.
- A payment made through net banking for ₹ 180 has been entered twice in the cash book.

- (c) Cheques amounting to ₹ 500 which were issued to trade payables and entered in the cash book before 31st March, 2018 were not presented for payment until that date.
- (d) Cheque amounting to ₹ 2,000 had been recorded in the cash book as having been deposited into the bank on 30th March, 2018, but was entered in the bank statement on 3rd April, 2018.
- (e) Transport subsidy amounting to ₹ 3,000 received from the Government of Tamilnadu directly by the bank, but not advised to the Senthamarai Traders.
- (f) A sum of ₹ 1,500 was wrongly debited to Senthamarai Traders by the bank, for which no details are available.

Solution

Bank reconciliation statement of Senthamarai traders as on 31st March, 2018

Particulars	Amount ₹	Amount ₹
Balance as per cash book		40,200
Add:		
Net payment entered twice in the cash book	180	
Cheques issued to trade payables not yet presented	500	
Transport subsidy collected by bank	3,000	3,680
Less:		43,880
Cheques deposited but not yet credited by bank	2,240	
Cheques deposited but not yet credited by bank	2,000	
Wrong debit by bank	1,500	5,740
Balance as per bank statement		38,140

Illustration 3 (When balance as per cash book shows overdraft)

From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

Particulars	₹
(i) Overdraft as per cash book	10,000
(ii) Cheques deposited but not yet credited	5,000
(iii) Cheque issued but not yet presented for payment	1,000
(iv) Payment received from the customer directly by the bank	500
(v) Interest on overdraft debited by bank	1,000
(vi) Amount wrongly debited by bank	300

Solution

Bank reconciliation statement as on 31st December, 2017

Particulars	Amount ₹	Amount ₹
Overdraft as per cash book		10,000
Add: Cheques deposited but not yet credited	5,000	
Interest on overdraft debited by bank	1,000	
Amount wrongly debited by bank	300	6,300
		16,300
Less: Cheque issued but not yet presented for payment	1,000	
Payment received from the customer directly by the bank	500	1,500
Overdraft balance as per bank statement		14,800

Illustration 4

Rony is the proprietor of Veena photos. The bank column of cash account of his business was balanced on 31st March 2018. It showed an overdraft of ₹ 12,000. The bank statement of Veena photos showed a credit balance of ₹ 5,000. Prepare a bank reconciliation statement taking the following into account.

- The bank had directly collected dividend ₹ 11,200 but was not entered in the cash book.
- Cheques amounting to ₹ 9,000 were issued on 27th March, 2018, of which, cheques amounting to ₹ 7,000 were not presented for payment before 31st March 2018.
- Cheque book charges of ₹ 200 debited by the bank but not recorded in cash book.
- Bank locker rent of ₹ 1,000 debited by the bank but not recorded in cash book.

Solution

Bank reconciliation statement of Veena photos as on 31st March, 2018

Particulars	Amount ₹	Amount ₹
Overdraft as per cash book		12,000
Add: Cheque book charges not recorded in cash book	200	
Bank locker charges debited by bank	1,000	1,200
		13,200
Less: Dividend directly collected by the bank	11,200	
Cheque issued but not yet presented for payment	7,000	18,200
Favourable balance as per bank statement*		–5,000

***Note:** Since the balance obtained is negative, it is favourable balance.

Illustration 5 (When balance as per bank statement is favourable)

Prepare bank reconciliation statement as on 31st December, 2017 from the following information:

- (a) Balance as per bank statement (pass book) is ₹ 25,000
- (b) No record has been made in the cash book for a dishonour of a cheque for ₹ 250
- (c) Cheques deposited into bank amounting to ₹ 3,500 were not yet collected
- (d) Bank charges of ₹ 300 have not been entered in the cash book.
- (e) Cheques issued amounting to ₹ 9,000 have not been presented for payment

Solution

Bank reconciliation statement as on 31st December, 2017

Particulars	Amount ₹	Amount ₹
Balance as per bank statement		25,000
Add: Dishonour of a cheque	250	
Cheques deposited into bank , but not yet collected	3,500	
Bank charges not entered in the cash book	300	4,050
		29,050
Less: Cheques issued, but not presented for payment		9,000
Balance as per cash book		20,050

Illustration 6

From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

Particulars	₹
(i) Balance as per bank statement	6,000
(ii) Cheques deposited on 28th December, 2017 but not yet credited	2,000
(iii) Cheques issued for 10,000 on 20th December, 2017 but not yet presented for payment	3,000
(iv) Interest on debentures directly collected by the bank not recorded in cash book	4,000
(v) Insurance premium on building directly paid by the bank	1,000
(vi) Amount wrongly credited by bank	500

Solution

Bank reconciliation statement as on 31st December, 2017

Particulars	Amount ₹	Amount ₹
Balance as per bank statement		6,000
Add:		
Cheque deposited but not yet credited	2,000	
Insurance premium on building directly paid by the bank	1,000	3,000
Less:		9,000
Cheque issued but not yet presented for payment	3,000	
Interest on debentures directly collected by the bank not entered in cash book	4,000	
Amount wrongly credited by bank	500	7,500
Balance as per cash book		1,500

Illustration 7 (When balance as per bank statement is an overdraft)

From the following data, ascertain the cash book balance as on 31st December, 2017.

Particulars	₹
1) Overdraft balance as per bank statement	6,500
2) Cheques deposited into the bank but not yet credited	10,500
3) Cheques issued, but not yet presented for payment	3,000
4) Wrong debit by the bank	500
5) Interest and bank charges debited by bank	180
6) Insurance premium on goods directly paid by the bank as per standing instructions	100

Solution

Bank reconciliation statement as on 31st December, 2017

Particulars	Amount ₹	Amount ₹
Overdraft balance as per bank statement		6,500
Add: Cheques issued, but not yet presented for payment	3,000	3,000
		9,500
Less: Cheques deposited into the bank but not credited	10,500	
Wrong debit by the bank	500	
Interest and bank charges debited by bank	180	
Insurance premium directly paid by the bank as per standing order	100	11,280
Balance as per cash book*		-1,780

* **Note:** Since the balance obtained is negative, it is favourable balance.



Student activity

Think: In the above illustration, what will be the cash book balance, if the balance as per bank statement is favourable?

Illustration 8

The bank statement of Sudha and Company showed an overdraft of ₹ 10,000 on 31st December, 2017, prepare a bank reconciliation statement.

- A cheque deposited on 30th December 2017 for ₹ 15,000 was not credited by the bank.
- Interest on term loan ₹ 500 was debited by bank on 31st December, 2017 but not accounted in the books of Sudha and Company.
- A cheque issued for ₹ 550 on 24th December, 2017 was paid by the bank. It was recorded as ₹ 505 in the bank column of the cash book.
- One outgoing cheque on 27th December, 2017 of ₹ 200 was recorded twice in the cash book.
- Bank recorded a cash deposit of ₹ 2,598 as ₹ 2,589.
- A sum of ₹ 2,000 deposited in cash deposit machine by a customer of the business on 31st December, 2017 was not recorded in the books of Sudha and Company.
- Interest on overdraft of ₹ 600 was not recorded in the books of Sudha and Company.
- Two cheques issued on 29th December, 2017 for ₹ 500 and ₹ 700, but only the first cheque was presented for payment before 31st December, 2017.

Solution

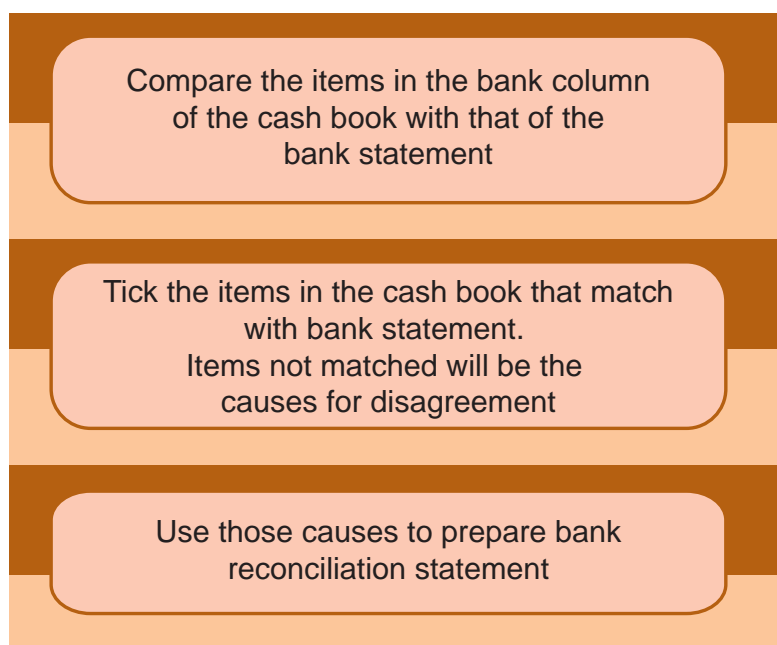
Bank reconciliation statement of Sudha and Company as on 31st December, 2017

Particulars	Amount ₹	Amount ₹
Overdraft as per bank statement (debit balance)		10,000
Add:		
Cheque issued recorded twice in cash book	200	
Direct cash deposit not entered in cash book	2,000	
Unpresented cheque	700	2,900
		12,900
Less:		
Cheque deposited but not credited by bank	15,000	
Interest on term loan not entered in cash book	500	
Cheque issued amount entered lesser in cash book (550-505)	45	
Cash deposit recorded lesser in bank statement (2,598-2,589)	9	
Interest on overdraft not entered in cash book	600	16,154
Favourable balance as per cash book*		-3,254

* **Note:** Since the balance obtained is negative, it is favourable balance.

When an extract of cash book and bank statement is given

When an extract of the cash book and bank statement is given, the following points are to be remembered:



Remember, the starting balance in the bank reconciliation statement can be either cash book balance or balance as per bank statement.

Illustration 9 (When an extract of cash book and bank statement is given)

Given below are the entries in the bank column of the cash book and the bank statement. Prepare a bank reconciliation statement as on 31st October, 2017.

Cash book (Bank column)

Dr.			Cr.		
Date	Receipts	Amount ₹	Date	Payments	Amount ₹
2017			2017		
Oct. 1	To Balance b/d	20,525	Oct. 8	By Kamala A/c	12,000
18	To Ram A/c	6,943	26	By Magesh A/c	9,740
19	To Sales A/c (Ravi)	450	28	By Mala A/c	11,780
20	To Commission A/c (Kala)	200	30	By Salaries A/c	720
20	To Nirmala A/c	7,810	31	By Balance c/d	1,688
		35,928			35,928
Nov. 1	To Balance b/d	1,688			

Bank statement

Date	Particulars	Dr. Withdrawals ₹	Cr. Deposits ₹	Balance Dr./Cr. ₹
1.10.17	By Balance b/d			20525 Cr
9.10.17	To Kamala	12,000		8525 Cr
19.10.17	By Ram		6,943	15468 Cr
25.10.17	By Ravi		450	15918 Cr
26.10.17	To Magesh	9,740		6178 Cr
27.10.17	By Kala		200	6378 Cr
28.10.17	To Rajan (salaries)	720		5658 Cr
30.10.17	By Bills receivable		20,000	25658 Cr
	By Interest on Investment		1,820	27478 Cr
31.10.17	To Bills payable	4,000		23478 Cr

Solution

Bank reconciliation statement as on 31st October 2017

Particulars	Amount ₹	Amount ₹
Balance as per cash book		1,688
Add: Bills receivable collected, not entered in cash book	20,000	
Interest on investment collected, not entered in cash book	1,820	
Cheques issued but not presented – Mala	11,780	33,600
		35,288
Less: Cheques deposited into bank, but not yet collected –Nirmala	7,810	
Bills payable paid, not entered in cash book	4,000	11,810
Balance as per bank statement		23,478

8.4.2 Plus or Minus presentation

Bank reconciliation statement can also be presented in an alternative method. In such presentation, two columns are given, one to record items that increase the balance (plus items) and the other one to record items that decrease the balance (minus items). Balances as per the cash book or bank statement are written as the starting balance.

***Note:** Students will be tested on balance presentation method only.



Banks provide facility to maintain savings bank account for individuals and trusts. Banks allow interest for such accounts. In such cases, adjustments need to be made in bank reconciliation statement for interest allowed by the bank on savings bank account.

Points to remember

- Debit balance as per cash book is favourable
- Credit balance as per bank column of the cash book is an overdraft
- Debit balance as per bank statement is unfavourable
- Credit balance as per bank statement is favourable
- Bank reconciliation statement is prepared by the business entity
- The purpose of preparing bank reconciliation statement is to explain the causes of disagreement between balance as per bank column of cash book and bank statement
- Most of the differences are caused by differences in the time at which items are recorded.
- Some items cannot be recorded in the bank column of the cash book until the bank statement is received.

Self-examination questions

I Multiple choice questions

Choose the correct answer



1. A bank reconciliation statement is prepared by
 - (a) Bank
 - (b) Business
 - (c) Debtor to the business
 - (d) Creditor to the business
2. A bank reconciliation statement is prepared with the help of
 - (a) Bank statement
 - (b) Cash book
 - (c) Bank statement and bank column of the cash book
 - (d) Petty cash book
3. Debit balance in the bank column of the cash book means
 - (a) Credit balance as per bank statement
 - (b) Debit balance as per bank statement
 - (c) Overdraft as per cash book
 - (d) None of the above
4. 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) Cheques issued by the business
5. A bank reconciliation statement is prepared to know the causes for the difference between:
 - (a) The balance as per the cash column of the cash book and bank column of the cash book
 - (b) The balance as per the cash column of the cash book and bank statement
 - (c) The balance as per the bank column of the cash book and the bank statement
 - (d) The balance as per petty cash book and the cash book



6. When money is withdrawn from bank, the bank
(a) Credits customer's account (b) Debits customer's account
(c) Debits and credits customer's account (d) None of these
7. 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 discourage the accountant of the bank from embezzlement
c) It helps in finding the actual position of the bank balance
d) Reconciliation statement is prepared only at the end of the accounting period
8. Balance as per cash book is ₹ 2, 000. Bank charge of ₹ 50 debited by the bank is not yet shown in the cash book. What is the bank statement balance now?
(a) ₹ 1,950 credit balance (b) ₹ 1,950 debit balance
(c) ₹ 2,050 debit balance (d) ₹ 2,050 credit balance
9. Balance as per bank statement is ₹ 1, 000. Cheque deposited, but not yet credited by the bank is ₹ 2, 000. What is the balance as per bank column of the cash book?
(a) ₹ 3,000 overdraft (b) ₹ 3,000 favourable
(c) ₹ 1,000 overdraft (d) ₹ 1,000 favourable
10. Which one of the following is not a timing difference?
(a) Cheque deposited but not yet credited
(b) Cheque issued but not yet presented for payment
(c) Amount directly paid into the bank
(d) Wrong debit in the cash book

Answer

1. (b)	2. (c)	3. (a)	4. (c)	5. (c)	6. (b)	7. (d)	8. (a)	9. (b)	10. (d)
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II Very short answer questions

1. What is meant by bank overdraft?
2. What is bank reconciliation statement?
3. State any two causes of disagreement between the balance as per bank column of cash book and bank statement.
4. Give any two expenses which may be paid by the banker as per standing instruction.
5. Substitute the following statements with one word/phrase
(a) A copy of customer's account issued by the bank
(b) Debit balance as per bank statement
(c) Statement showing the causes of disagreement between the balance as per cash book and balance as per bank statement





6. Do you agree on the following statements? Write “yes” if you agree, and write “no” if you disagree.
- (a) Bank reconciliation statement is prepared by the banker.
 - (b) Adjusting the cash book before preparing the bank reconciliation statement is compulsory.
 - (c) Credit balance as per bank statement is an overdraft.
 - (d) Bank charges debited by the bank increases the balance as per bank statement.
 - (e) Bank reconciliation statement is prepared to identify the causes of differences between balance as per bank column of the cash book and balance as per cash column of the cash book.

III Short answer questions

- 1. Give any three reasons for preparing bank reconciliation statement.
- 2. What is meant by the term “cheque not yet presented?”
- 3. Explain why does money deposited into bank appear on the debit side of the cash book, but on the credit side of the bank statement?
- 4. What will be the effect of interest charged by the bank, if the balance is an overdraft?
- 5. State the timing differences in BRS with examples.

IV Exercises

- 1. From the following particulars prepare a bank reconciliation statement of Jayakumar as on 31st December, 2016.
 - (a) Balance as per cash book ₹ 7,130
 - (b) Cheque deposited but not cleared ₹ 1,000
 - (c) A customer has deposited ₹ 800 into the bank directly

(Answer: Balance as per bank statement ₹ 6,930)

- 2. From the following particulars of Kamakshi traders, prepare a bank reconciliation statement as on 31st March, 2018.
 - (a) Debit balance as per cash book ₹ 10,500
 - (b) Cheque deposited into bank amounting to ₹5,500 credited by bank, but entered twice in the cash book
 - (c) Cheques issued and presented for payment amounting to ₹ 7,000 omitted in the cash book
 - (d) Cheque book charges debited by the bank ₹ 200 not recorded in the cash book.
 - (e) Cash of ₹ 1,000 deposited by a customer of the business in cash deposit machine not recorded in the cash book.

(Answer: Overdraft as per bank statement ₹ 1,200)

3. From the following information, prepare bank reconciliation statement to find out the bank statement balance as on 31st December, 2017.

Particulars	₹
1. Balance as per cash book	15,000
2. Cheques deposited but not yet credited	1,000
3. Cheques issued and entered in the cash book before 31st December 2017 but not presented for payment until that date	1,500
4. Dividend directly received by bank	200
5. Direct payment made by bank for rent	1,000
6. Locker rent charged by the bank not recorded in cash book	1,200
7. Wrong debit given by the bank on 30th December 2017	500
8. A payment made through net banking has been entered twice in the cash book	300

(Answer: Balance as per bank statement ₹ 13,300)

4. From the following particulars of Raheem traders, prepare a bank reconciliation statement as on 31st March, 2018.
- Overdraft as per cash book ₹ 2,500. On the same day the balance as per bank statement is ₹ 1,99,000.
 - Interest on debentures of ₹ 700 was received by the bank directly.
 - Amount received by bank through RTGS amounting to ₹ 2,00,000, omitted in the cash book.
 - Two cheques issued for ₹ 1,800 and ₹ 2,000 on 29th March 2018. Only the second cheque is presented for payment.
 - Insurance premium on car for ₹ 1,000 paid by the bank as per standing instruction not recorded in the cash book.
5. From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

Particulars	₹
(i) Bank overdraft as per cash book	20,000
(ii) Cheques deposited but not yet credited	4,000
(iii) Cheque issued but not yet presented for payment	1,000
(iv) Rent collected by the bank as per standing instruction	500
(v) Interest on overdraft debited by bank	2,000
(vi) Amount wrongly debited by bank	300
(vii) Cheque issued on 30th December 2017 dishonoured by the bank	5,000
(viii) A customer's cheque deposited in the bank dishonoured by bank not recorded in the cash book	2,000

(Answer: Overdraft as per bank statement ₹ 21,800)

6. Prepare bank reconciliation statement from the following data and find out the balance as per cash book as on 31st March, 2018.

Particulars	₹
(i) Bank balance as per bank statement	15,000
(ii) Cheques issued but not yet presented for payment	2,500
(iii) Bank charges not recorded in the cash book	250
(iv) Interest charged by bank not recorded in the cash book	500
(v) Bank paid insurance premium as per standing instruction but not recorded in the cash book	300
(vi) Cheques deposited but not yet credited	900

(Answer: Balance as per cash book ₹ 14,450)

7. From the following particulars of Raja traders, prepare a bank reconciliation statement as on 31st January, 2018.

- Balance as per bank statement ₹ 5,000
- Cheques amounting to ₹ 800 had been recorded in the cash book as having been deposited into the bank on 25th January 2018, but were entered in the bank statement on 2nd February 2018.
- Amount received by bank through NEFT amounting to ₹ 3,000, omitted in the cash book.
- Two cheques issued for ₹ 3,000 and ₹ 2,000 on 29th March 2018. Only the first cheque is presented for payment.
- Insurance premium on motor vehicles for ₹1,000 paid by the bank as per standing instruction not recorded in the cash book.
- Credit side of cash book was undercast by ₹ 700
- Subsidy received directly by the bank from the state government amounting to ₹ 10,000, not entered in cash book.

(Answer: Overdraft as per cash book ₹ 7,500)

8. From the following particulars of Simon traders, prepare a bank reconciliation statement as on 31st March, 2018.

- Debit balance as per bank statement ₹2,500
- Cheques deposited amounting to ₹ 10,000, not yet credited by bank.
- Payment through net banking for ₹2,000, omitted in the cash book

(Answer: Balance as per cash book ₹ 9,500)

9. From the following particulars, ascertain the cash book balance as on 31st December, 2016.

- Overdraft balance as per bank statement ₹1,26,640
- Interest on overdraft entered in the bank statement, but not yet recorded in cash book ₹ 3,200
- Bank charges entered in bank statement, but not found in cash book ₹600
- Cheques issued, but not yet presented for payment ₹ 23,360
- Cheques deposited into the bank but not yet credited ₹ 43,400
- Interest on investment collected by the bank ₹ 24,000

(Answer: Overdraft as per cash book ₹ 1,26,800)

10. Prepare bank reconciliation statement as on 31st March, 2017 from the following extracts of cash book and bank statement.

Dr. **Cash book (Bank column only)** Cr.

Date	Receipts	Amount ₹	Date	Payments	Amount ₹
2017 March 1	To Balance b/d	9,000	2017 Mar 4	By Drawings	1,700
3	To Ram	2,200	8	By Sumi	3,300
9	To Prem	1,500	12	By Salary	2,800
16	To Pavithra	3,400	16	By Kayal	1,700
23	To Devi	2,600	18	By Pooja	4,200
27	To Mani	1,100	26	By Sam	2,000
30	To Shankar	350	28	By Raheem	1,100
			30	By Rent	1,100
			30	By Balance c/d	2,250
		20,150			20,150

Bank statement

Date	Particulars	Dr. Withdrawals ₹	Cr. Deposits ₹	Balance Dr./Cr.
2017 March 1	By balance b/d			9000 Cr.
4	To cheque- drawings			8,300 Cr.
5	By cheque- Ram	700	2,200	10,500 Cr.
9	To cheque – Sumi			7,200 Cr.
11	By cheque- Prem	3,300	1,500	8,700 Cr.
12	To cheque – Salary			5,900 Cr.
17	To cheque – Kayal	2,800		4,200 Cr.
20	By cheque- Devi	1,700	2,600	6,800 Cr.
30	By interest received		900	7,700 Cr.
30	To bank charges	15		7,685 Cr.



Student activity

Think: Ram enterprises received a bank statement on 31st March, 2018, which showed a credit balance of ₹ 13,500. On the same date, the balance as per cash book was ₹ 11,000.

Think of minimum five possible causes of difference [with amount] between these two balances.



CASE STUDY

Magesh, an enthusiastic young entrepreneur, started a business on 1st December, 2017. He opened a current account with a nationalised bank for his business transaction. In the same bank, he maintains his personal savings bank account too. He did not find time to maintain his cash book. So he appointed a person called Dinesh to take care of bank transactions. But that person was inexperienced.

On 1st December, 2017, the opening balance as per cash book and bank record was the same. On 2nd December, Magesh issued a cheque for ₹ 2,000 to a supplier, but the same was entered in the credit side of the cash book as ₹ 200.

On 3rd, December, Magesh issued his savings bank account cheque for his personal expenses amounting to ₹ 2,500, but Dinesh assumed this as current account cheque and the same was entered in the cash book as drawings.

Dinesh was asked to deposit cash of ₹1,000 in cash deposit machine in order to make a payment to one of the business' supplier. He credited the same in the bank column of the cash book.

On 15th December, one of his customers made online payment to Magesh's current account, amounting to ₹ 1,000. There was no entry in the cash book for this.

Dinesh received his salary in cash for ₹ 5,000. He credited this amount in the bank column of cash book.

Bank made payment on 23rd December, amounting to ₹ 2,500, as per standing instruction. But, there is no entry in the cash book for the same.

On 31st, December 2017, Magesh received a bank statement from his bank, which showed a credit balance of ₹19,700. He instructed Dinesh to check the statement with the cash book. On comparing both, Dinesh found that the cash book showed a balance of ₹14,500. He was puzzled. He needs your help to reconcile the balances.

To explore further

- Are there ways to reduce the number of entries in the bank reconciliation statement? If so, what is to be done?
- "Ten years from now, there will not be any need to prepare bank reconciliation statement" - Do you agree? Why?
- Can the concept of reconciliation be used other than banking transactions?

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