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BANK RECONCILIATION STATEMENT

LEARNING OBJECTIVES

After studying this chapter, you should be able to understand:

- ◇ After studying this chapter, you should be able to understand:
- ◇ Meaning of Bank Pass Book (or Bank Statement)
- ◇ Method of Recording Banking Transactions
- ◇ Timings of Recording Banking Transactions in Cash Book
- ◇ Meaning and Purpose of Bank Reconciliation Statement
- ◇ Distinction between Bank Statement and Bank Reconciliation Statement
- ◇ Causes of disagreement between the Balance shown by the Cash Book and the Balance shown by the Pass Book
- ◇ Practical Steps for preparing the Bank Reconciliation Statement
- ◇ Format of Bank Reconciliation Statement
- ◇ Preparation of Bank Reconciliation Statement with adjusted/amended Cash Book Balance

1.0 MEANING OF BANK PASS BOOK (OR BANK STATEMENT)

1. Bank Pass Book (also known as Bank Statement) is merely a copy of the Customer's Account in the books of a bank.
2. The bank usually supplies this statement periodically (e.g., fortnightly/monthly) or when the ledger page is completed (in case where a duplicate copy of the ledger sheet is sent) or on demand.
3. The proforma of a Bank Pass Book or Bank Statement is shown below:

PROFORMA OF A BANK PASS BOOK/BANK STATEMENT

Date	Particulars	Dr. Withdrawals	Cr. Deposits	Dr. or Cr.	Balance	Initials
					₹	

2.0 METHOD OF RECORDING BANKING TRANSACTIONS

RECORDING OF DEPOSITS

In case of deposits into the bank, the customer debits the Bank Account because bank is the receiver and the bank credits the Customer's Account because customer is the giver.

RECORDING OF WITHDRAWALS

In case of withdrawals from the bank, the customer credits the Bank Account because bank is the giver and the bank debits the Customer's Account because customer is the receiver.

ITEMS TO BE SHOWN ON THE DEBIT SIDE AND CREDIT SIDE

1. What is shown on the debit side of the Customer's Cash Book (Bank Column) appears on the credit side of the Customer's Account in the bank ledger.
2. What is shown on the credit side of the customer's Cash Book (Bank Column) appears on the debit side of the Customer's Account in the bank ledger.

Nature of Balance in Cash Book and Pass Book

1. When the Cash Book (Bank Column) shows debit balance, the Pass Book shows credit balance.
2. When the Cash Book (Bank Column) shows credit balance (i.e., Overdraft), the Pass Book shows debit balance (i.e., Overdraft.).

TUTORIAL NOTES

1. Debit Bank Balance as per Cash Book = Credit Bank Balance as per Pass Book
2. Credit Bank Balance (i.e., Overdraft) as per Cash Book = Debit Bank Balance (i.e., Overdraft) as per Pass Book.

3.0 TIMINGS OF RECORDING BANKING TRANSACTIONS IN CASH BOOK

Timings of recording Banking transactions in Cash Book and Pass Book need not necessarily be same. These may differ due to various reasons. Timings of recording some of the banking transactions in Cash Book and Pass Book are summarised as follows:

<i>Transactions</i>	<i>Timings of Recording in Cash Book</i>	<i>Timings of Recording in Pass Book</i>
1. Cash Deposits	when Cash is deposited	when Cash is deposited
2. Cash Withdrawn	when Cash is withdrawn	when Cash is withdrawn
*3. Cheque issued	when Cheque is issued	when Cheque is presented for payment
*4. Cheque Deposited	when Cheque is deposited	when Cheque is collected
*5. Bank Charges	when Pass Book is received	when charges are levied
*6. Interest Charged by Bank	when Pass Book is received	when interest is charged by the Bank
*7. Interest Allowed by Bank	when Pass Book is received	when interest is allowed by Bank
*8. Direct Payment by Bank	when Pass Book is received	when payment is made by Bank on behalf of customer
*9. Direct Collection by Bank	when Pass Book is received	when amount is collected by Bank on behalf of customer
*10. Dishonour of Cheque/Bills receivable	when Pass Book is received	when Cheque/B/R is dishonoured

* Because of Difference in the timings of recording of these transactions the Bank Balance as per Cash Book differs from Pass Book.

4.0 MEANING AND PURPOSE OF BANK RECONCILIATION STATEMENT

WHAT A PRUDENT CUSTOMER SHOULD DO?

When the customer receives the Bank Pass Book (or Bank Statement), he should compare its entries with those in the Cash Book. Normally, entries in the Bank Column of Cash Book should tally with those in the Pass Book and the balances shown by both the books should also be the same. But in practice, these balances generally differ due to difference in the timings of recording of some transactions. In case of disagreement in the balances of the Cash Book and the Pass Book, the need for preparing Bank Reconciliation Statement arises. Now the question arises, What is Bank Reconciliation Statement?

MEANING OF 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 (or Statement), by showing all causes of differences between the two.

PURPOSE OF BANK RECONCILIATION STATEMENT

Bank Reconciliation Statement is prepared to reconcile the Bank Balance as per Cash Book with the Balance as per Bank Pass Book (or Bank Statement) by showing all causes of differences between the two and to take necessary follow-up action.

5.0 DISTINCTION BETWEEN BANK STATEMENT AND BANK RECONCILIATION STATEMENT

Bank Statement differs from the Bank Reconciliation Statement in the following respects:

Basis of Distinction	Bank Statement/Pass Book	Bank Reconciliation Statement
1. Who prepares	It is prepared by the Bank .	It is prepared by the bank Customer i.e., account holder.
2. Object	It is prepared to inform the customer about all transactions which have taken place during the period covered by the Statement.	It is prepared to reconcile the bank balance as per cash book with the bank balance shown by the Bank Statement.
3. Timing When Prepared	It is prepared for a particular period .	It is prepared on a particular date .
4. Necessity	It is compulsory for the bank to prepare it.	It is not compulsory .
5. Contents	It shows — (a) Dates of Transactions (b) Particulars of Transactions (c) Withdrawals (d) Deposits (e) Balances	It shows — (a) Causes of disagreement & (b) Amount thereof
6. Starting Amount	It starts with the balance as per customer's account in bank ledger.	It may start with bank balance as per cash book or Bank Statement.
7. Final Result	It shows the balance in customer's account as per bank ledger at the end of the period.	It may show the bank balance as per cash book or Bank Statement at the end of period.

6.0 CAUSES OF DISAGREEMENT BETWEEN THE BALANCE SHOWN BY THE CASH BOOK AND THE BALANCE SHOWN BY THE PASS BOOK

Basically the differences between the Book Balance as per Cash Book and Bank Balance as per Pass Book are caused by:

- (a) Timing Difference of recording of the transactions
- (b) Errors in Cash Book committed by the account holder
- (c) Errors in Pass Book committed by the Bank.

The causes of disagreement between the balance shown by the Cash Book and the balance shown by the Pass book can be classified as follows:

1. **Transactions that usually appear in the Cash Book but not in the Pass Book:**
 - (a) Cheques issued but not yet presented for payment,
 - (b) Cheques deposited but not yet collected by Bank.
2. **Transactions that usually appear in the Pass Book but not in the Cash Book:**
 - (a) Bank charges and interest on overdraft debited in Pass Book only,
 - (b) Interest allowed in Pass Book only,
 - (c) Direct Payment by a customer into the bank but not yet recorded in Cash Book,
 - (d) Direct Payment made by a Bank under the standing instructions of the customer but not yet recorded in Cash Book,
 - (e) Bills Receivable directly collected by Bank,
 - (f) Cheque deposited for collection, returned dishonoured and recorded in Pass Book only,
 - (g) Discounted Bills dishonoured but not yet recorded in Cash Book.
3. **Errors in Cash Book (e.g. Cheques/Cash Deposited but not recorded)**
4. **Errors in Pass Book (e.g. Cheques/Cash Deposited recorded in another Customer's account).**

7.0 PRACTICAL STEPS FOR PREPARING THE BANK RECONCILIATION STATEMENT

Step 1 → Compare the items appearing on the debit side of the Cash Book with those appearing on the credit side of the Pass Book (deposit column), and place a tick mark against items appearing in both the books and note down the unticked off entries which are considered as causes of difference.

Step 2 → Compare the items appearing on the credit side of the Cash Book with those appearing on the debit side of the Pass Book (withdrawal column), and place a tick mark against items appearing in both the books and note down the unticked off entries which are considered as causes of difference.

Step 3 → Take the Balance as per Cash Book as the starting point and add items which have the effect of higher balance in the Pass Book and deduct those which have the effect of lower balance in the Pass Book [Refer to Table 1]

OR

Take the Balance as per Pass Book as the starting point and add items which have the effect of higher balance in the Cash Book and deduct those which have the effect of lower balance in the Cash Book [Refer to Table 2].

TABLE 1. FORMAT OF BANK RECONCILIATION STATEMENT WHEN THE BANK BALANCE AS PER CASH BOOK IS TAKEN AS A STARTING POINT

Bank Reconciliation Statement
As at . . . (here enter the date on which the statement is being prepared) . . .

<i>Particulars</i>	Plus Items ₹	Minus Items ₹
A. Bank Balance as per Cash Book (Favourable i.e., Debit Balance)	xxx	
<i>or</i>		
Overdraft as per Cash Book (Unfavourable i.e., Credit Balance)		xxx
B. Add: Transactions having the effect of higher balance in Pass Book		
(a) Cheques deposited into the bank but not recorded in Cash Book	xxx	
(b) Cheques issued but not yet presented for payment	xxx	
(c) Interest allowed in Pass Book only	xxx	
(d) Bills Receivable directly collected by bank	xxx	
(e) Direct payment by a customer into bank but not recorded in Cash Book	xxx	
(f) 'Cheques issued' returned on technical grounds	xxx	
(g) A wrong credit given by bank in Pass Book	xxx	
C. Less: Transactions having the effect of lower balance in Pass Book.		
(a) Cheques received and recorded in Bank Column but not yet sent to bank for collection		xxx
(b) Cheques deposited but not yet collected by bank		xxx
(c) Bank charges, Interest on overdraft debited in Pass Book only		xxx
(d) Insurance Premium paid directly by bank under standing advice		xxx
(e) Cheques deposited for collection, returned dishonoured and recorded in Pass Book only		xxx
(f) Discounted Bills Dishonoured but not recorded in Cash Book		xxx
(g) A wrong debit given by bank in Pass Book		xxx
	xxx	xxx
D. Balance as per Pass Book		
(If Total of Plus Items > Total of Minus Items)	xxx	
<i>or</i>		
Overdraft as per Pass Book		xxx
(If Total of Plus Items < Total of Minus Items)		

TABLE 2. FORMAT OF BANK RECONCILIATION STATEMENT WHEN THE BANK BALANCE AS PER PASS BOOK IS TAKEN AS A STARTING POINT

Bank Reconciliation Statement
As at... (here enter the date on which the statement is being prepared)...

<i>Particulars</i>	Plus Items ₹	Minus Items ₹
A. Bank Balance as per Pass Book (Favourable i.e., Credit Balance)	xxx	
<i>Or</i>		

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TUTORIAL NOTES

An overdraft (i.e., Credit Balance in Cash Book or Debit Balance in Pass Book appears as a 'Minus Items'. The treatment with regard to items causing difference between the balances of the two books remains the same.

8.0 PREPARATION OF BANK RECONCILIATION STATEMENT

Preparation of Bank Reconciliation Statement has been explained below with respect to each cause of disagreement between the balance as shown by Cash Book (Bank Column) and the balance as shown by the Bank Pass Book:

CHEQUES ISSUED BUT NOT YET PRESENTED FOR PAYMENT

Due to the time gap between the issue of cheques and their presentment for payment at bank, the bank balance as per Pass Book will be higher than the Bank balance as per Cash Book since the customer credits the bank's account as soon as a cheque is issued but the bank debits the customer's account only when the cheque is actually presented for payment.

Example X Ltd. issued a cheque in favour of a creditor on 28th March, for a sum of ₹ 5,000. The cheque is presented for payment at bank on 4th April. In case, the bank sends a statement of account upto 31st March, there will be a difference of ₹ 5,000 between the balance as shown by the Cash Book and the balance as shown by the Pass Book. If the bank balance as per Cash Book as on 31st March, is ₹ 50,000, the Bank Reconciliation Statement may be prepared as under:—

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

Particulars	₹
A. Balance as per Cash Book	50,000
B. Add: Cheques issued but not yet presented for payment till 31st March	5,000
C. Balance as per Pass Book (A + B)	55,000

CHEQUES DEPOSITED BUT NOT YET COLLECTED

Due to the time gap between the deposits of cheques and their collection, the Bank Balance as per Pass Book will be lower than the Bank balance as per Cash Book since the customer debits the Bank's account as soon as a cheque is deposited but the bank credits the customer account only when the cheque is actually collected.

Example X Ltd. deposited a cheque on 28th March, for a sum of ₹ 5,000. The cheque is collected on 4th April. In case the bank sends a statement of account upto 31st March, there will be a difference of ₹ 5,000 between the balance as shown by the Cash Book and the balance as shown by the Pass Book. If the Bank Balance as per Cash Book as on 31st March is ₹ 50,000, the Bank Reconciliation Statement may be prepared as under:

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

Particulars	₹
A. Balance as per Cash Book	50,000
B. Less: Cheques deposited but not yet collected till 31st March	5,000
C. Balance as per Pass Book (A – B)	45,000

BANK CHARGES AND INTEREST CHARGES

Bank Charges includes the Draft Commission, charges for collecting the outstation cheques or B/R, Half years' charges. Due to the charges levied by the Bank for its services, the Bank balance as per Pass Book will be lower than the Bank balance as per Cash Book since the Bank debits the customer's account as soon as the service is rendered but the customer credits the bank's account only when he comes to know of such charges on the receipt of the statement of account.

Example A bank debited X Ltd's account for its charges amounting to ₹ 500 on 31st March. In case the bank sends a statement of account up to 31st March, there will a difference of ₹ 500 between the balance as shown by the Cash Book and the balance as shown by Pass Book. If the Bank Balance as per Cash Book as on 31st March is ₹ 50,000, the Bank Reconciliation Statement may be prepared as follows:

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

<i>Particulars</i>	₹
A. Balance as per Cash Book	50,000
B. Less: Bank Charges levied by the bank but not yet recorded in Cash Book	500
C. Balance as per Pass Book (A – B)	49,500

INTEREST ALLOWED BY BANK

Due to Interest (if any) allowed by the bank, the bank balance as per Pass Book will be higher than the bank balance as per Cash Book since the bank credits the customer's account when interest is allowed but the customer debits the bank's account only when he comes to know of such interest on the receipt of Bank Pass Book.

Example A bank credited X Ltd's account for interest amounting to ₹ 500 on 31st March. In case the bank sends a statement of account upto 31st March, there will be a difference of ₹ 500 between the balance as shown by the Cash Book and the balance as shown by the Pass Book. If the Bank Balance as per Cash Book as on 31st March, is ₹ 50,000, the Bank Reconciliation Statement may be prepared as under:

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

<i>Particulars</i>	₹
A. Balance as per Cash Book	50,000
B. Add: Interest allowed by bank but not yet recorded in Cash Book	500
C. Balance as per Pass Book [A + B]	50,500

DIRECT PAYMENTS ON BEHALF OF CUSTOMERS

Due to the direct payments on behalf of customers under standing instructions of the customers (e.g. payment of Insurance premium, payment of a Bills Payable), the Bank balance as per Pass Book will be lower than the Bank balance as per Cash Book since the bank debits the customer's account as soon as it makes the payments but the customer credits the Bank's account only when it comes to know of such payments on the receipt of Bank Pass Book or Statement of Account.

Example The Bank made a payment of an Insurance Premium under the standing instructions of X Ltd. amounting to ₹ 5,000 on 28th March. In case, the bank sends a statement of account upto 31st March, there will be a difference of ₹ 5,000 between the balance as shown by the Cash Book and the balance as shown by the Pass Book. If the Bank balance as per Cash Book as on 31st March is ₹ 50,000, the Bank Reconciliation Statement may be prepared as follows:

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

<i>Particulars</i>	₹
A. Balance as per Cash Book	50,000
B. Less: Direct Payment by Bank but not yet recorded in Cash Book	5,000
C. Balance as per Pass Book (A – B)	45,000

DIRECT COLLECTIONS ON BEHALF OF CUSTOMERS

Due to direct collections on behalf of customers under the standing instructions of the customers (e.g. collection of B/R, Rent, Interest, Dividend etc.) the Bank balance as per pass book will be higher than the Bank balance as per Cash Book since the Bank credits the customers account as soon as it gets the payment but the customer debits the Bank's account only when it comes to know of such collections on the receipt of Bank Pass Book or Statement of Account.

Example The Bank collected a Bill Receivable of ₹ 5,000 under standing instructions of X Ltd. on 28th March. In case the Bank sends a Statement of account upto 31st March, there will be a difference of ₹ 5,000 between the balance as shown by the Cash Book and the balance shown by the Pass Book. If the Bank Balance as per Cash Book as on 31st March is ₹ 50,000, the Bank Reconciliation Statement may be prepared as under:

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

<i>Particulars</i>	₹
A. Balance as per Cash Book	50,000
B. <i>Add:</i> Direct Payments collected by the bank but not yet recorded in Cash Book	5,000
C. Balance as per Pass Book (A + B)	55,000

**DISHONOUR OF A CHEQUE DEPOSITED
AND DISCOUNTED BILLS RECEIVABLE**

Due to dishonour of a cheque (already credited in the Customer's Account) and Discounted Bills Receivable, the Bank balance as per Pass Book will be lower than the Bank balance as per Cash Book since the Bank debits the customer's account as soon as the cheque/B/R is dishonoured but the customer credits the Bank's account only when it comes to know of such dishonour on the receipt of statement of account.

Example A discounted Bill dishonoured for ₹ 5,000 on 28th March. In case the Bank sends a Statement of Account upto 31st March there will be a difference of ₹ 5,000 between the balance as shown by the Cash Book and the balance as shown by the Pass Book. If the Bank balance as per Cash Book on 31st March, is ₹ 50,000 the Bank Reconciliation Statement may be prepared as under:

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

<i>Particulars</i>	₹
A. Balance as per Cash Book	50,000
B. <i>Less:</i> Discounted B/R dishonoured but not yet recorded in Cash Book	5,000
C. Balance as per Pass Book (A – B)	45,000

ERRORS IN CASH BOOK

Due to errors in Cash Book, there may be difference between the Bank balance as shown by the Pass Book and the Bank balance as shown by the Cash Book. The examples of the errors in Cash Book may include the items given below:

1. **Errors of Omission** e.g. cheques/cash deposited but not recorded in the Cash Book, Cheques issued but not recorded in the Cash Book, Cash withdrawn from the Bank but not recorded in the Cash Book.
2. **Errors of Recording** e.g. cheques deposited into the bank but recorded in the Cash Column/ Discount Column, cheque deposited into the bank but recorded in the Bank column on the payments side of the Cash Book, a cheque of ₹ 1,552 deposited into the bank but recorded as ₹ 1,525, a discount allowed ₹ 100 recorded in Bank Column, Cash received ₹ 1,000 recorded in Bank Column.
3. **Errors of Casting** e.g. Under/Over casting of Bank Column of the Cash Book.
4. **Errors of Carrying Forward** e.g. the debit balance on the previous day brought forward as a credit balance, the Bank balance carried forward as ₹ 15,889 instead of ₹ 15,898.
5. **Other Errors** e.g. cheque received from a debtor recorded in the Cash Book but not deposited into the Bank for collection.

Example A cash deposit of ₹ 1,589 was recorded as ₹ 1,598 in Cash Book on 28th March. In case the bank sends a statement of account upto 31st March there will be difference of ₹ 9 between both the balances. If the Bank balance as per Cash Book on 31st March is ₹ 50,000, the Bank Reconciliation Statement may be prepared as under:

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

Particulars	₹
A. Balance as per Cash Book	50,000
B. Less: Excess Debit for Cash Deposited in Cash Book	9
C. Balance as per Pass Book [A – B]	49,991

ERRORS IN PASS BOOK

Due to error in the Pass Book, there may be difference between the balance as shown by the Bank Pass Book and the balance as shown by the Cash Book. The examples of errors in Pass Book may include the following:

1. Errors of Omission e.g. cheque collected by bank but not recorded in pass book due to wrong posting in another customer's account.
2. Errors of Recording e.g. deposit recorded on withdrawal side and vice versa; deposit of ₹ 1,589 recorded as ₹ 1,598.
3. Errors of Casting e.g. Deposit Column/withdrawal columns under/over cast.
4. Errors of Carrying Forward e.g. debit balance on the previous page brought forward as a credit balance on the next page, the balance of ₹ 15,889 carried forward as ₹ 15,898.

Example A Cash deposit of ₹ 1,589 was recorded as ₹ 1,598 in Pass Book on 31st March. In case the bank sends a statement of account upto 31st March, there will be a difference of ₹ 9 between both the balances. If the Bank Balance as per Cash Book as on 31st March is ₹ 50,000, the Bank Reconciliation Statement may be prepared as under:

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

Particulars	₹
A. Balance as per Cash Book	50,000
B. Add: Excess Credit for Cash Deposited in Pass Book	9
C. Balance as per Pass Book [A + B]	50,009

ILLUSTRATION 1

Tulsian Ltd. provides you the following information as at 31st March:

	₹
1. Cheque deposited but not yet collected by bank	1,500
2. Cheques issued but not yet presented for payment	2,500
3. Bank charges debited in Pass Book only	200
4. Interest allowed in Pass Book only	100
5. Insurance Premium paid directly by bank under standing advice	500
6. Bills receivables directly collected by bank	2,000
7. A wrong debit given by bank in Pass Book	3,800
8. A wrong credit given by bank in Pass Book	400\
9. Direct payment by a customer into the bank but not recorded in Cash Book	700

Required: Prepare a Bank Reconciliation Statement as at 31st March in each of the following alternative cases:

Case I If the debit balance as per Cash Book was ₹ 200

Case II If the credit balance as per Pass Book was ₹ 200

Case III If an overdraft as per Cash Book was ₹ 200

Case IV If an overdraft as per Pass Book was ₹ 200

SOLUTION

Case I

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

<i>Particulars</i>	<i>Plus Items ₹</i>	<i>Minus Items ₹</i>
A. Debit Balance as per Cash Book	200	
B. <i>Add:</i> Transactions having the effect of higher balance as per Pass Book		
1. Cheque issued but not yet presented for payment	2,500	
2. Interest allowed in pass book only	100	
3. Bills receivable directly collected by bank	2,000	
4. A wrong credit given by bank in Pass Book	400	
5. Direct payment by a customer into bank but not recorded in Cash Book	700	
C. <i>Less:</i> Transactions having the effect of lower balance as per Pass Book		
1. Cheque deposited but not yet collected by bank		1,500
2. Bank charges debited in pass book only		200
3. Insurance premium paid directly by bank under standing advice		500
4. A wrong debit given by Bank in Pass Book		3,800
	5,900	6,000
D. Overdraft as per Pass Book		100

Case II

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

<i>Particulars</i>	<i>Plus Items ₹</i>	<i>Minus Items ₹</i>
A. Credit Balance as per Pass Book	200	
B. <i>Less:</i> Transactions having the effect of lower balance as per Cash Book		
1. Cheque issued but not yet present for payment		2,500
2. Interest allowed in pass book only		100
3. Bills receivables directly collected by bank		2,000
4. A wrong credit given by bank in pass book		400
5. Direct payment by a customer into bank but not recorded in Cash Book		700

C. Add: Transactions having the effect of higher balance as per Cash Book		
1. Cheque deposited but not yet collected by bank	1,500	
2. Bank charges debited in pass book only	200	
3. Insurance premium paid directly by bank under standing advice	500	
4. A wrong debit given by Bank in Pass Book	3,800	
	6,200	5,700
D. Debit Balance as per Cash Book	500	

Case III

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

Particulars	Plus Items ₹	Minus Items ₹
A. Overdraft as per Cash Book		200
B. Add: Transactions having the effect of higher balance as per Pass Book		
1. Cheque issued but not yet presented for payment	2,500	
2. Interest allowed in pass book only	100	
3. Bills receivables directly collected by bank	2,000	
4. A wrong credit given by bank in Pass Book	400	
5. Direct payment by a customer into bank but not recorded in Cash Book	700	
C. Less: Transactions having the effect of lower balance as per Pass Book		
1. Cheque deposited but not yet collected by bank		1,500
2. Bank charges debited in pass book only		200
3. Insurance premium paid directly by bank under standing advice		500
4. A wrong debit given by bank in Pass Book		3,800
	5,700	6,200
D. Overdraft as per Pass Book		500

Case IV

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

Particulars	Plus Items ₹	Minus Items ₹
A. Overdraft as per Pass Book		200
B. Less: Transactions having the effect of lower balance as per Cash Book		
1. Cheque issued but not yet presented for payment		2,500
2. Interest allowed in Pass Book only		100
3. Bills receivables directly collected by bank		2,000
4. A wrong credit given by bank in Pass Book		400
5. Direct payment by a customer into bank but not recorded in Cash Book		700

C. Add: Transactions having the effect of higher balance as per Cash Book		
1. Cheque deposited but not yet collected by bank	1,500	
2. Bank charges debited in pass book only	200	
3. Insurance premium paid directly by bank under standing advice	500	
4. A wrong debit given by bank in Pass Book	3,800	
	6,000	5,900
D. Debit Balance as per Cash Book	100	

ILLUSTRATION 2

On comparing the Cash Book of Mr Tulsian with the Bank Pass Book, the following discrepancies were noted:

- Out of ₹ 20,500 paid in cash and by cheques into the bank on 27th March, cheque amounting to ₹ 7,500 were collected on 7th April.
- Cheque and cash amounting to ₹ 4,800 were deposited in bank on 26th March but credit was given for ₹ 3,800 only.
- Out of cheques amounting to ₹ 7,800 drawn on 26th March a cheque for ₹ 2,500 was encashed on 3rd April.
- Cheques issued to creditor amounting to ₹ 20,000 on 25th March of which cheques worth ₹ 3,000 were presented to bank up to 31st March.
- A cheque for ₹ 1,000 entered in Cash Book but omitted to be banked on 31st March.
- A cheque for ₹ 600 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 30th March.
- A bill receivable for ₹ 520 previously discounted (Discount ₹ 20) with the bank had been dishonoured but advice was received on 1st April.
- A bill for ₹ 10,000 was retired/paid by the bank under a rebate of ₹ 150 but the full amount of the bill was credited in the bank column of the Cash Book.
- A cheque of ₹ 1,080 credited in the Pass Book on March 28 being dishonoured is debited again in the Pass Book on 1st April. There was no entry in the Cash Book about the dishonour of the cheque until 15th April.
- A cheque of ₹ 200 drawn on his Saving Deposit Account has been shown as drawn on Current Account in Cash Book.

Required: Prepare a Bank Reconciliation Statement as at 31st March if the Balance as per Cash Book on 31st March was ₹ 39,570.

SOLUTION

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

Particulars	Plus Items ₹	Minus Items ₹
Debit Balance as per Cash Book	39,570	
(a) Cheque deposited on 27th March but not yet collected till 31st March		7,500
(b) Cheques deposited on 26th March but not yet collected till 31st March		1,000
(c) Cheques issued on 26th March but not yet presented for payment till 31st March	2,500	
(d) Cheque issued on 25th March but not yet presented for payment till 31st March	17,000	

(e) A Cheque entered in Cash Book but not yet banked		1,000
(f) A Cheque deposited into bank but not yet entered in Cash Book	600	
(g) Discounted B/R dishonoured, not yet entered in Cash Book		520
(h) Rebate on bill not entered in Cash book	150	
(i) Cheque drawn on Saving Bank A/c but recorded in Current A/c	200	
	60,020	10,020
Credit Balance as per Pass Book	50,000	

Note: A cheque of ₹ 1,080 credited in Pass book on March 28, later debited in Pass Book on 1st April has no effect on Bank Reconciliation Statement as at 31st March.

ILLUSTRATION 3 [EFFECT OF ERRORS IN THE CASH BOOK]

From the following particulars, prepare a Bank Reconciliation Statement as on 31st March.

- Bank Balance as per Cash Book is ₹ 10,000
- A Cheque for ₹ 1,000 deposited but not recorded in the Cash Book. (Note: Bank has collected and credited this cheque.)
- A Cash deposit of ₹ 200 was recorded in the Cash Book as if there is no Bank Column therein.
- A Cheque issued for ₹ 250 was recorded as ₹ 205 in the Cash Column. (Note: Bank has made the payment of this cheque.)
- The debit balance of ₹ 1,500 as on the previous day was brought forward as a credit balance.
- The payment side of the Cash Book (Bank column) was under cast by ₹ 100.
- A cash discount allowed of ₹ 112 was recorded as ₹ 121 in the Bank Column.
- A cheque of ₹ 500 received from a debtor was recorded in the Cash Book but not deposited in the Bank for collection.
- One outgoing cheque of ₹ 300 was recorded twice in the Cash Book.

SOLUTION

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

Particulars	Plus Items ₹	Minus Items ₹
A. Debit Balance as per Cash Book	10,000	
B. Add: (a) Error in carrying forward	3,000	
(b) Cheque recorded twice in Cash Book	300	
(c) Cash deposit but not recorded in Bank Column	200	
(d) Cheque deposited but not recorded	1,000	
C. Less: (a) Under Casting of Payment Side		100
(b) Cheque issued but not entered		250
(c) A cash discount wrongly recorded in Bank Column		121
(d) Cheque recorded but not deposited		500
	14,500	971
D. Credit Balance as per Pass Book	13,529	

ILLUSTRATION 4

The Cash book of Mr Avinash shows ₹ 8,364 as the balance at bank as on 31st March, but you find that this does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies.

- (a) On 15th March, the payments side of the Cash Book was undercast by ₹ 100.
 - (b) A cheque for ₹ 131 issued on 25th March, was recorded in the Cash column.
 - (c) One deposit of ₹ 150 was recorded in the Cash Book as if there is not Bank Column therein.
 - (d) On 18th March, the debit balance of ₹ 1,526 as on the previous day, was brought forward as a credit balance.
 - (e) Of the total cheques amounting to ₹ 11,514 drawn in the last week of March, cheques aggregating ₹ 7,815 were encashed in March.
 - (f) Dividends of ₹ 250 collected by the Bank and subscription of ₹ 100 paid by it, were not recorded in the Cash Book.
 - (g) One outgoing cheque of ₹ 350 was recorded twice in the Cash Book.
- Required: Prepare a Bank Reconciliation Statement as on 31st March.

SOLUTION

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

Particulars	Plus Items ₹	Minus Items ₹
A. Debit Balance as per Cash book	8,364	
B. Add: Error in bringing forward ₹ 1,526 debit balance as a credit balance on 18th December,	3,052	
C. Add: Cheques issued but not presented (₹ 11,514 – ₹ 7,815)	3,699	
D. Add: Dividends directly credited by the bank but not entered in the Cash Book	250	
E. Add: Outgoing cheque recorded twice in Cash Book	350	
F. Add: Deposit not recorded in the Bank Column	150	
G. Less: Payment side undercast		100
H. Less: Cheques issued but not entered in Bank Column		131
Less: Subscription paid by the bank directly not yet recorded in the Cash Book		100
	15,865	331
I. Credit Balance as per Pass Book	15,534	

ILLUSTRATION 5 [EFFECT OF ERRORS IN PASS BOOK]

From the following particulars, prepare the Bank Reconciliation Statement of Shri Krishan as on 31st March.

- (a) Balance as per Pass Book is ₹ 10,000.
- (b) Bank collected a cheque of ₹ 500 on behalf of Shri Krishan but wrongly credited it to Shri Kishan's A/c (another customer).
- (c) Bank recorded a Cash deposit of ₹ 1,589 as ₹ 1,598.
- (d) Withdrawal column of the Pass Book undercast by ₹ 100.

- (e) The credit balance of ₹ 1,500 as on page 5 of the Pass Book was recorded on page 6 as the debit balance.
- (f) The payment of a cheque of ₹ 350 was recorded twice in the Pass Book.
- (g) The Pass Book showed a credit for a cheque of ₹ 1,000 deposited by Shri Kishan (another customer of the Bank).

SOLUTION

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

Particulars	Plus Items ₹	Minus Items ₹
A. Credit Balance as per Pass Book	10,000	
B. Add: (a) Cheque wrongly credited to another customers A/c	500	
(b) Error in carrying forward	3,000	
(c) Cheque recorded twice	350	
C. Less: (a) Excess credit for Cash Deposit		9
(b) Undercasting of withdrawal column		100
(c) Wrong credit		1,000
	13,850	1,109
D. Debit Balance as per Cash Book	12,741	

9.0 PREPARATION OF BANK RECONCILIATION STATEMENT WITH ADJUSTED/AMENDED CASH BOOK BALANCE

1. In case the Bank Reconciliation Statement is required to be prepared at the end of an accounting period, it is recommended that first, the Cash Book (with amended Bank column) should be prepared in order to ascertain the correct Bank Balance as per Cash Book and then the Bank Reconciliation Statement should be prepared to reconcile this correct Bank Balance as per Cash Book with the balance as per Bank Pass Book.
2. It may be noted that it is the adjusted Cash Book Balance which is taken to the Balance Sheet. Now the question arises, **"How to calculate the adjusted Cash Book Balance?"**
3. The adjusted Cash Book Balance can be ascertained:
 - (a) **By Passing Adjusting entries in respect of correct items which appear only in Pass Book** (e.g. Bank Charges, Interest charged on overdraft, Interest allowed by Bank, Dividend/Interest/Bills Receivable directly collected by Bank, Direct Payment by Bank under standing instructions of customers). and
 - (b) **By Passing Rectifying entries in respect of errors committed in the Cash Book** (e.g. cheque issued but recorded in Cash Column/Discount Column, Cheques issued recorded in Bank Column with wrong amount, over/under cast of Bank Column, error in Balancing the Bank Column, error in carry forward/brought forward of bank balance).
4. Format of Bank Reconciliation Statement when Adjusted Balance as per Cash Book is taken as starting point

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...
[With Adjusted Bank Balance as per Cash Book]

<i>Particulars</i>	<i>Plus Items ₹</i>	<i>Minus Items ₹</i>
A. Adjusted Bank Balance as per Amended Cash Book	xxx	
B. Add: Cheques issued but not yet presented for payment A wrong credit given by Bank in Pass Book	xxx	
C. Less: Cheques received and recorded in Bank column but not yet sent to Bank for collection Cheques deposited but not yet collected by the Bank A wrong debit given by Bank in Pass Book	xxx	xxx xxx xxx
D. Balance as per Pass Book	xxx	xxx

ILLUSTRATION 6

From the following particulars, prepare Bank Reconciliation Statement as on 31st March, (a) without amended Cash Book (b) with amended Cash Book.

	₹
1. Balance as per Cash Book	400
2. Cheques received and recorded in Bank Column but not yet sent to Bank for collection	1,000
3. Cheques deposited into the bank but not recorded in the Cash Book	2,000
4. Cheques deposited but not yet collected by the Bank	1,500
5. Cheques issued but not yet presented for payment	2,500
6. Bank Charges debited in Pass Book only	200
7. Interest allowed in Pass Book only	100
8. Insurance Premium paid directly by Bank under standing advice	500
9. Bills receivables directly collected by the Bank	2,000
10. Cheques deposited for collection, returned dishonoured and recorded in Pass Book only	1,000
11. 'Cheques Issued' returned on technical grounds	300
12. A wrong debit given by bank in pass book	800
13. A wrong credit given by bank in pass book	400
14. Bills discounted dishonoured but not recorded in Cash Book	4,000
15. Direct payment by a customer into the bank but not recorded in Cash Book	700
16. A Cash receipt recorded in Bank Column	1,000
17. A Cash payment recorded in Bank Column	600

SOLUTION

(a) Without Amended Cash Book

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

<i>Particulars</i>	<i>Plus Items ₹</i>	<i>Minus Items ₹</i>
A. Debit Balance as per Cash Book	400	
B. Add: Cheques deposited into the bank but not recorded in Cash Book	2,000	
Cheques issued but not yet presented for payment	2,500	
Interest allowed in pass book only	100	
Bills receivables directly collected by Bank	2,000	
'Cheques Issued' returned on technical grounds	300	
A wrong credit given by bank in Pass Book	400	
Direct payment by a customer into the bank but not recorded in Cash Book	700	
A Cash payment wrongly recorded in Bank Column	600	
C. Less: Cheques received and recorded in Bank column but not yet sent to Bank for collection		1,000
Cheques deposited but not yet collected by the Bank		1,500
Bank Charges debited in pass book only		200
Insurance a premium paid directly by bank under standing advice		500
Cheques deposited for collection, returned dishonoured and recorded in Pass Book only		1,000
A wrong debit given by Bank in Pass Book		800
Bills dis. dishonoured but not recorded in Cash Book		4,000
A Cash receipt wrongly recorded in Bank Column		1,000
	9,000	10,000
D. Overdraft as per Pass Book		1,000

(b) With Amended Cash Book

DR. CASH BOOK (AMENDED BANK COLUMN) CR.

<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
To Balance b/d	400	By Bank charges	200
To Cheque deposited but not recor.	2,000	By Insurance premium	500
To Bills Receivables	2,000	By Cheques dishonoured	1,000
To Interest allowed	100	By Bill discounted	4,000
To Cheques issued returned	300	By Cash receipt wrongly recor.	1,000
To Direct Payment by Customers	700		
To Cash Payment wrongly recor.	600		
To Balance c/d	600		
	6,700		6,700

BANK RECONCILIATION STATEMENT AS AT 31ST MARCH ...

<i>Particulars</i>	<i>Plus Items ₹</i>	<i>Minus Items ₹</i>
A. Adjusted Bank Overdraft as per Amended Cash Book		600
B. Add: Cheques issued but not yet presented for payment	2,500	
A wrong credit given by bank in Pass Book	400	
C. Less: Cheques received and recorded in Bank column but not yet sent to Bank for collection		1,000
Cheques deposited but not yet collected by the Bank		1,500
A wrong debit given by Bank in Pass Book		800
	2,900	3,900
D. Overdraft as per Pass Book		1,000

ILLUSTRATION 7

On 31st March, 2018, the bank account of Miss Meenu, according to the Bank Column of the Cash Book, was over drawn to the extent of ₹ 2,315. On scrutiny, you find that:

- (a) On 27th March, Cheques of ₹ 21,500 were collected from customers and recorded in the Cash Book of which:
 - (i) A cheque for ₹ 1,000 was omitted to be banked in March and the rest were sent to bank on 28th March.
 - (ii) A Cheque of ₹ 5,100 was recorded as ₹ 1,500 on the credit side of the Cash Book as if there is no Bank Column therein and
 - (iii) Cheques of ₹ 13,000 collected by the bank in March.
- (b) On 28th March, Cheques of ₹ 20,000 were drawn of which:
 - (i) A Cheque issued for ₹ 250 was recorded as ₹ 205 on the debit side of the Cash Book as if there is no Bank Column therein
 - (ii) One outgoing cheque of ₹ 300 was recorded twice in the Cash Book
 - (iii) Cheques of ₹ 3,000 were presented to the bank in March.
- (c) A bill for ₹ 10,000 was retired by the bank under a rebate of ₹ 150 but the full amount of the bill was credited in the Bank Column of the Cash Book.
- (d) A bill receivable for ₹ 520 previously discounted for ₹ 500 with bank had been dishonoured and recorded in the Pass Book but not in the Cash Book
- (e) The Bank has charged Interest of ₹ 521 instead of ₹ 512 but not recorded in the Cash Book
- (f) The debit balance of ₹ 1,500 as on the previous day was brought forward as a credit balance of ₹ 5,100 in Cash Book.
- (g) A deposit of ₹ 5,432 was recorded in withdrawal column as ₹ 5,342 in pass book.
- (h) A cheque of ₹ 2,345 issued by Mrs Meena was recorded in deposit column as ₹ 2,435 in pass book.

Required: Prepare Bank Reconciliation Statement with amended Cash Book Balance.

SOLUTION:

DR.

CASH BOOK (WITH AMENDED BANK COLUMN)

CR.

Date	Particulars	₹	Date	Particulars	₹
31.03.2018	To Customer A/cs	6,600	31.03.2018	By Balance b/d	2,315
	To Creditors A/c	300		By Creditors A/cs	455
	To Rebate A/c	150		By Drawee's A/c	520
	To Error in carry forward	6,600		By Bank Interest	512
				By Balance c/d	9,848
		13,650			13,650

(B) BANK RECONCILIATION STATEMENT AS AT 31.3.2018

Particulars	Plus items ₹	Minus items ₹
A. Balance as per Cash Book (amended)	9,848	
B. Less: Cheque deposited but not collected upto 31st Mar. [₹ 21,500 – ₹ 13,000]		8,500
C. Add: Cheques issued but not presented for payment up to 31st Mar. [₹ 20,000 – ₹ 3,000]	17,000	
D. Less: Wrong Debit of Interest by Bank [₹ 321 – ₹ 312]		9
E. Less: Wrong Debit by Bank in withdrawal column [₹ 5,432 + ₹ 5,342]		10,774
F. Add: Wrong Credit by Bank in deposit column	2,435	
	29,283	19,283
G. Balance as per Bank Statement	10,000	