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Course Code: <b>BBA-104</b>	Author: <b>Dr. Mahesh Chand Garg</b>
Lesson: <b>9</b>	Vetter:

## **RECONCILIATION OF BANK ACCOUNTS**

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### **9.0 OBJECTIVES**

After going through this chapter, you should be able to-

- Know the meaning and characteristics of bank reconciliation statement.
- Understand the causes of differences in the bank balance shown by cash book and pass book.
- Understand the procedure for preparation of bank reconciliation statement.

## **9.1 INTRODUCTION**

In modern business world, the major part of the business transactions is settled by cheques. For the purpose of business transactions through cheques, every businessman maintains current accounts with banks. He keeps money in his account and deposits cheques, etc. received from customers and draws cheques in favour of his creditors for making the payments. Current account facilitates business transactions in a smoother way than cash. For instance, no substantial cash is to be kept in the business, payments of cheques are themselves records of payments made, the payee is also relieved of the risk of carrying cash.

When a businessman opens a current account in a bank, the bank issues him a cheque book and pass book. At the same time, the businessman also keeps its records relating to bank transactions either through the bank columns of the cash book or through a separate bank account in the books of accounts. When the cash is deposited or a cheque is deposited in the bank, the bank account is debited in the cash book. But when the businessman withdraws cash from the bank, the same account is credited. Similarly, when cash is deposited into bank it increases the liability of the bank and bank gives credit to the account of the client in the pass book. The bank maintains the businessman's account in its ledgers and its copy is recorded in the pass book and given to the customers.

In other words, all entries appearing in the debit side of the bank column of the cash book will be appearing in the credit side of the businessman's account in the ledger of the bank. Conversely, all entries appearing in the credit side of the bank column of the cash book will be appearing in the debit side of the businessman's account in the ledger of the bank. Sometimes it happens that balance of the bank column of the

cash book does not show the same balance as that shown by the pass book. Both these balances may be correct, yet may show a difference. In order to reconcile the balance of the bank column of the cash book with that of the pass book, this statement is prepared.

The statement that is prepared for reconciling the balances of cash book and pass book is called a Bank Reconciliation Statement. Bank Reconciliation Statement is a statement which contains a complete and satisfactory explanation of the differences in the balances as per the cash book and the pass book. So, bank reconciliation is a periodical statement prepared by a trader on a particular date with the object of reconciling the two balances shown by cash book and pass book and locating the causes which are responsible for the disagreement of two balances on a particular date.

### **Features or characteristics of bank reconciliation statement**

From the above, the following features of the statement emerge:

- a) It is merely a statement not an account.
- b) This is a periodical statement.
- c) It is prepared on a particular day or this statement is valid for the day it is prepared.
- d) The preparation of bank reconciliation statement is not a part of the double entry book-keeping.
- e) The causes which are responsible for the disagreement of the two balances can easily be found out.

### **9.2 CAUSES/REASONS FOR DIFFERENCE IN TWO BALANCES**

The relationship between the customer and the banker is that of a creditor and a debtor. So, if the bank column of the cash book shows a debit balance as on a specified date, the pass book should show an equal amount of credit balance as on that date and vice-versa. However, the

balances shown by the two independent records may not agree due to the following:

- **Cheques issued but not yet presented for payment:** When a cheque is issued to a third party, it is entered in the cash book by crediting the bank account resulting in reducing the bank balance in the depositor's books. But bank debits the customer's account when the cheque is presented by that third party to the bank for payment. This means that if the cheque is not presented for payment upto the date of preparation of the bank reconciliation statement, the balance as per pass book will be higher than the balance shown by the cash book by the amount of cheque not presented for payment.
- **Cheques paid into bank but not yet collected by the bank:** Whereas a cheque is received by a businessman from a third party and he deposits it in a bank, he will debit bank account and credit the account of third party in his own books. His bank balance in cash book is therefore increased. But bank will credit that cheque not when it is deposited but only when that amount has been realised. Until the cheque has been collected, the balance appearing in the pass book would be less than the balance in the bank column of cash book.
- **Bank Charges:** The bank usually debits the account of the customer with interest on bank overdraft, collection charges, incidental charges for the various services rendered by the bank. These adjustments are shown in the pass book as and when they occur and hence the balance in the pass book decreases. Customer comes to know about it when he collects his pass book and verifies it. Until then, the bank

balance as per the pass book would be less than the bank balance as per the cash book.

- **Interest credited by bank but not entered in cash book:**  
Some scheduled banks give interest on current accounts to their customers if they maintain certain minimum credit balance in their current accounts. When a bank allows interest to a customer it will credit his account and his bank balance will be increased. But the customer will know about when he will receive the pass book or bank statement and then he would pass an appropriate entry in the cash book. Until then, the bank balance as per pass book would be more than the bank balance as per cash book.
- **Interest or dividend on investments etc. collected by the bank:** The businessman may entrust the task of collection of interest or dividend on investments, rent on property etc. to the banker. After the collection of this income, the bank will give credit to the account of the businessman and will increase his balance whereas there may be no entry for this income in the cash book of the businessman for want of information. The relevant entry in the cash book is made only when communicated and hence cash and pass book balances vary in the mean time.
- **Amount directly deposited into the bank by customers:**  
When any amount is directly deposited into the bank account of a businessman by customers then the bank gives credit to the account of that businessman immediately. This results in an increase in the bank balance by that amount. The businessman would come to know about the deposit on receiving advice from the bank or intimation from the customer. Until then the bank balance would show more balance as compared to the balance as per cash book.

- **Payments made by the bank on behalf of clients:** The businessman may give standing instructions to his bank to make the payment of insurance, rent, licence fee and other payments on his behalf when they fall due. On the instructions of the customers, the bank makes the payment on due dates and debits the client's account. But the businessman enters the same in his books only when he receives the intimation from the bank. Till it is done, the two balances show a difference.
- **Bills Collected by the bank on behalf of Customers:** The customers may authorise his banker to collect the amount against certain bills receivable from the acceptor or a drawee as and when they become due. If the acceptor of a bill receivables honours the bill on its due date, the bank will give a credit to the customer's account for the amount so collected. As a result, the bank balance will be higher by that amount than the balance as per cash book until the necessary entry in this respect is recorded in cash book.
- **Dishonour of Bills or cheques:** When the businessman sends the bills or cheques to the bank for realisation, he enters them on the debit side of his cash book and thus increases the bank balance. But the bank does not make any entry in the customer's account if these are dishonoured. This is another cause of difference between the two balances.
- **Rebate on retiring of Bills:** When the businessman makes payment of his bills payable through bank or to bank before maturity he is allowed a rebate on such payments by the bank. The bank credits the businessman's account with this rebate. Thus, there will be a difference in the balances of cash book and pass book to the extent of amount of rebate.

- **Cheques paid into bank but omitted to be entered in cash book:** Sometimes the businessman deposits a cheque into the bank but forgets to enter the same in cash book. This also causes a difference between the two balances.
- **Wrong debit or credit given by the banks:** If there is a wrong debit or credit in the books of account of the bank then it also causes a difference in the balances of books of the customer and the bank. A wrong debit or credit may be given by the bank in the following ways:
  - a) Other account holders' cheque wrongly debited or credited in the customer account by the bank.
  - b) Recording of entry on the wrong side of the pass book by the bank.

### **9.3 PROCEDURE FOR PREPARATION OF BANK RECONCILIATION STATEMENT**

The bank reconciliation statement is prepared usually at the end of period, i.e. a month, a quarter, a half year or year as may be found convenient and necessary by the businessman taking into account the number of transactions involved. The following are the steps to be taken for preparing a bank reconciliation statement:

- a) Tick off all the items in the pass book with the entries in the bank column of the cash book and make a list of the entries as are found not ticked either in the cash book or the pass book. The unticked items are responsible for the difference in the balances shown by the cash book and the pass book.
- b) The balance shown by any book (i.e. cash book or pass book) should be taken as the base . This is as a matter of fact the starting point for determining the balance as shown by the other book after making suitable adjustments taking into account the causes of difference.

- c) The effect of the particular cause of difference should be studied on the balance shown by the other book.
- d) In case, the cause has resulted in an increase in the balance shown by the other book, the amount of such increase should be added to the balance as per the former book which has been taken as the base.
- e) In case, the cause has resulted in decrease in the balance shown by the other book, the amount of such decrease should be subtracted from the balance as per the former book which has been taken as the base.
- f) In case, the books show an adverse balance (i.e. an overdraft) the amount of the overdraft should be put in the minus column. Bank Reconciliation Statement should then be prepared on the same pattern as if there is a favourable balance instead of their being an overdraft.

The following table will help to learn the preparation of the bank reconciliation statement-

	Dr. balance as per Cash Book or Overdraft as per Pass Book	Cr. Balance as per pass Book or Overdraft as per Cash Book
I. <i>Those items which affect the debit side of Cash Book:</i>	-	+
i) Cheques deposited but not collected by bank		
ii) Cheque though entered in Cash Book but omitted to be sent to the Bank.		
II. <i>Those items which affect the credit side of Cash Book:</i>	+	-
i) Cheques issued but not presented for payment.		
III. <i>Those items which affect the Credit side of pass Book:</i>	+	-
i) Interest/Dividend credited by bank.		
ii) Amount deposited direct by a customer into bank account.		
iii) Cheques sent to the bank but omitted to be entered into the Cash Book.		
IV. <i>Those items which affect the debit side of Pass Book:</i>	-	+
i) Bank charges charged by bank.		
ii) Interest on overdraft.		
iii) Payment made by bank on standing instructions of customer.		



The above technique will be clear with it help of the illustrations given in the following pages.

### **9.3.1 Where causes of differences are given**

**Illustration:** From the following particulars prepare a Bank Reconciliation Statement as on 31<sup>st</sup> December, 2006.

- i) Balance as per Cash Book Rs.5,800.
- ii) Cheques issued but not presented for payment Rs. 2,000.
- iii) Cheques sent for collection but not collected upto 31<sup>st</sup> December, 2005 Rs. 1,500.
- iv) The Bank had wrongly debited the account of the firm by Rs. 200 which was rectified by them after 31<sup>st</sup> December.

Balance as per Pass Book is Rs. 6,100.

#### **Solution**

There is a difference of Rs.300 between the balance as shown by the Cash Book and the balance as shown by the Pass Book. A reconciliation statement can be prepared to reconcile on the following basis the balances shown by the two books.

- i) The balance as shown by the Cash Book will be taken as the starting point.
- ii) The cheques issued but not presented for payment have not been recorded in the Pass Book. The balance as per Pass Book has to be found out. The Bank has not yet passed the entry for the payment of these cheques since they have not been presented for payment. The balance, therefore, in the Pass Book should be more. The amount of Rs.2,000 should, therefore, be added to the balance as shown by the Cash Book.

- iii) Cheques sent for collection but not yet collected must have been entered in the Cash Book, but must not have been credited by the Bank to the firm's account since they have not yet been collected. The balance in the Pass Book should, therefore, be less as compared to the Cash Book. The amount of Rs. 2,000 should, therefore, be deducted out of the balance as shown by the Cash Book.
- iv) The Bank has wrongly debited the firm's account. This must have resulted in reducing balance as per the Bank Pass Book. The amount should, therefore, be deducted out of the balance shown as per the Cash Book.

The Bank Reconciliation Statement will now appear as follows:

#### BANK RECONCILIATION STATEMENT

	Particulars	+(Rs.)	- (Rs.)
i)	Balance as per Cash Book	5,800	
ii)	Add Cheques issued but not presented for payment	2,000	
iii)	Less Cheques sent for collection but not yet collected		1,500
iv)	Less Amount wrongly debited by the Bank.		200
		7,800	1,700
	Balance as per Bank Pass Book	6,100	

OR

Bank Reconciliation Statement can be prepared as per the balance shown by Pass Book as the starting point.

### BANK RECONCILIATION STATEMENT

	Particulars	+(Rs.)	- (Rs.)
i)	Balance as per Pass Book	6,100	
ii)	Less Cheques issued but not presented for payment		2,000
iii)	Add Cheques sent for collection but not yet collected	1,500	
iv)	Add Amount wrongly debited by the Bank.	200	
		7,800	2,000
	Balance as per Bank Cash Book	5,800	

### 9.3.2 Where cash book balance/pass book balance has to be adjusted

**Illustration II:** On 31st December, 1997, the Cash Book of a firm showed a bank balance of Rs.3,000. From the following information, prepare a Bank Reconciliation Statement, showing the balance as per Pass Book.

- i) Cheques have been issued for Rs.2,500 out of which cheques worth Rs.2,000 only were presented for payment.
- ii) Cheques worth Rs.700 were paid on 28th December but had not been credited by the Bank. One cheque for Rs.250 was entered in the Cash Book on 30th December but was banked on 3rd January, 1998.
- iii) A cheque from Mohan for Rs.200 was paid in on 26th December but was dishonoured and the advise was received on 2nd January, 1998.
- iv) Pass Book showed bank charges Rs.10 debited by the bank. It also showed Rs. 400 collected by the bank as interest.
- v) One of the debtors deposited a sum of Rs.250 in the account of the firm on 20th December. Intimation in this respect was received from the bank on 2nd January, 1998.

### Solution

#### BANK RECONCILIATION STATEMENT AS ON 31<sup>ST</sup> DECEMBER, 2006

	Particulars	+(Rs.)	- (Rs.)
i)	Dr. Balance as per Cash Book	3000	
ii)	Add Cheques issued but not yet presented for payment (Rs.2,500-Rs.2,000).		500
iii)	Add Interest collected by the bank not recorded in the Cash Book	400	
iv)	Add Amount deposited by the Customer direct into the bank not recorded in the Cash Book.	250	
v)	Less Cheques paid into bank but not yet credited by the bank		700
vi)	Less Cheque entered in the Cash Book but was omitted to be banked upto 31 <sup>st</sup> December.		250
vii)	Less Cheque from Mohan paid into bank dishonoured but not yet recorded in the Cash Book.		200
viii)	Less Bank charges as per Pass Book		10
		4,150	1,160
	Cr. Balance as per Pass Book	2,990	

### 9.3.3 Where abstracts from the cash book and the pass book are given

**Illustration III:** From the following entries in the Bank column of Cash Book and the corresponding Pass Book, prepare Bank Reconciliation Statement as on 30<sup>th</sup> June, 2006.

### CASH BOOK (BANK COLUMN ONLY)

Dr.

Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2006			2006		
June 1	To Balance b/d	4,600	June 3	By Cash (Self Cheque)	800
June 4	To Maninder	3,200	June 5	By Drawings	1,000
June 8	To Devinder	500	June 10	By Kailsash	2,200
June 18	To Narinder	3,700	June 15	By Shyam Lal	1,300
June 21	To Dayal	1,400	June 28	By Salaries	1,800
June 28	To Amrinder	100	June 29	By Mohanto	1,900
June 30	To Kashmiri Lal	450	June 30	By Des Raj	1,700
			June 30	By Commission	20
			June 30	By Balance b/d	3,230
		13,950			13,950

### BANK PASS BOOK

Date	Particulars	Dr.	Cr.	Balance	
		withdrawals	Deposits	Dr./Cr.	Amount
2006					
June 1	By Bal. b\ d	-	-	Cr.	4,600
June 3	To Cash (Self)	800	-	Cr.	3,800
June 5	To Self (Drawings)	1,000	-	Cr.	2,800
June 6	By Maninder	-	3,200	Cr.	6,000
June 10	By Devinder	-	500	Cr.	6,500
June 14	To Kailash	2,200	-	Cr.	4,300
June 16	By Narinder	-	3,700	Cr.	8,000
June 20	To Shyam Lal	1,300	-	Cr.	6,700
June 25	By Dividend on shares	-	700	Cr.	7,400
June 28	To Salaries	1,800	-	Cr.	5,600
June 30	To Collection charges	4	-	Cr.	5,596
June 30	To Commission	20	-	Cr.	5,576
June 30	To Electricity Board	80	-	Cr.	5,496

### Solution

#### BANK RECONCILIATION STATEMENT AS ON 30<sup>TH</sup> JUNE, 2006

	Particulars	+(Rs.)	- (Rs.)
i)	Dr. Balance as per Cash Book	3,230	
ii)	Add Cheques issued but not yet presented(Mohanto Rs.1,900 +Des Raj Rs.1,700 +Dividend Rs.700).	4,300	
iii)	Less Cheques paid but not yet credited by Bank (Dayal Rs.1,400 + Amrinder Rs.100 + Kashmiri Lal Rs.450)		1,950
iv)	Less Collection charges charged by Bank		4
v)	Less Payment to Electricity Board		80
		7,530	2,034
	Cr. Balance as per Pass Book.	5,496	

### 9.3.4 When overdraft balance is given

**Illustration IV:** From the following particulars, prepare the Bank Reconciliation Statement:

		Rs.
(i)	Bank overdraft as per the Cash Book.	16,200
(ii)	A cheque deposited as per Bank Statement but not recorded in the Cash Book.	700
(iii)	Debit side of the Bank Column cast short.	100
(iv)	A cheque for Rs.5,000 deposited but collection as per the Bank Statement only.	4,996
(v)	A party's cheque returned dishonoured as per the Bank Statement only.	530
(vi)	Bills collected directly by the bank.	3,500
(vii)	Bank charges recorded twice in the Cash Book.	25
(viii)	A bill for Rs.8,000 discounted for Rs.7,960 returned dishonoured by the bank, noting charges being	15
(ix)	Cheques deposited but not yet collected by the bank.	2,320
(x)	Cheques issued but not yet presented for encashment.	1,250

### Solution

#### BANK RECONCILIATION STATEMENT

	Particulars	+ Rs.	-Rs.
(i)	Bank Overdraft per the Cash Book	16,200	
(ii)	Add Cheque for Rs.5,000 deposited but collection as per Bank statement Rs.4,996.	4	
(iii)	Add Cheque returned dishonoured as per the Bank statement only.	530	
(iv)	Bill for Rs.8,000 discounted for Rs.7,960 returned dishonoured by the bank noting charges being Rs.15.	8,015	
(v)	Add Cheque deposited but not collected.	2,320	
(vi)	Less Cheque deposited but not recorded in the Cash Book.		700
(vii)	Less Debit side of the bank column cast short.		100
(viii)	Less Bills collected directly by the bank.		3,500
(ix)	Less Bank charges recorded twice in the Cash Book.		25
(x)	Less Cheques issued but not yet presented for encashment.		1,250
		27,069	5,575
	Bank overdraft as per the Pass Book (Dr.)		21,494

### 9.4 SUMMARY

Bank reconciliation statement is a statement which is prepared for reconciling the balances of cash book and pass book. It is a statement which contains a complete and satisfactory explanation of the differences in the balances as per the cash book and the pass-book. The balances shown by the cash book and pass book may not agree due to (i) cheques issued but not presented for payment; (ii) cheques paid into bank but not

yet collected by the bank; (iii) bank charges; (iv) interest credited by bank but not entered in cash book; (v) interest or dividend on investments etc. collected by the bank; (vi) amount directly deposited into the bank by customers; (vii) payment made by the bank on behalf of client; (viii) bills collected by the bank on behalf of customers; (ix) dishonour of cheques; (x) rebate on retiring of bills; (xi) cheques paid into bank but omitted to the entered in cash book; (xii) wrong debit or credit given by the banks. Bank reconciliation statement can be prepared with the (i) debit balance of cash book; (ii) credit balance of cash book; (iii) debit balance of pass book; (iv) credit balance of pass book.

## 9.5 KEYWORDS

**Pass Book:** Copy of firm's account with bank.

**Overdraft:** Withdrawals in excess of bank deposits.

**Favourable Balance:** Debit balance of cash book.

**Reconciliation:** Agreement of cash bank and pass book.

## 9.6 SELF ASSESSMENT QUESTIONS

1. What is a Bank Reconciliation Statement? How is it prepared? Submit a proforma of a Bank Reconciliation Statement with Imaginary figures.
2. "Balance as shown by the pass book should tally with the balance as shown by the cash book of the business", Do you agree? If not, explain the reasons with suitable examples of differences between the two.
3. Prepare a Bank Reconciliation Statement as on 30th September, 1988 from the following extracts from the Bank pass Book and the Cash Book (Bank column only).



### BANK PASS BOOK

Date	Particulars	Withdrawls Rs.	Deposits Rs.	Dr./Cr.	Balance Rs.
2006	By Balance b/d			Cr.	9,810
Sept. 1	To Mahesh Chander	740		Cr.	9,070
Sept. 3	To Balwant Garg	580		Cr.	8,490
Sept. 7	By Salaria & Co.		200	Cr.	8,690
Sept. 8	By Cash		1,000	Cr.	9,690
Sept. 12	By Santosh Arora		500	Cr.	10,190
Sept. 18	To Rameshwar Vohra	440		Cr.	9,750
Sept. 21	To Insurance Premium	400		Cr.	9,350
Sept. 26	To Bank Charges	20		Cr.	9,330
Sept. 30	To Cash	3,000		Cr.	6,330
Sept. 30	By Interest		70	Cr.	6,400
Sept. 30	By Interest on Investments		600	Cr.	7,000

### CASH BOOK (BANK COLUMN ONLY)

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2006					
Sept. 1	To Balance b/d	9,810	Sept. 2	By Mahesh Chander	740
Sept. 6	To S.P. Roy	300	Sept. 6	By Balwant Garg	580
Sept. 10	To Salaria & Co.	200	Sept. 11	By Jagan Nath	470
Sept. 12	To Cash	1,000	Sept. 15	By Ashok Sood	350
Sept. 14	To Santosh Arora	500	Sept. 18	By Rameshwar Vohra	440
Sept. 19	To Baljeet Grewal	460	Sept. 24	By Ashok Kumar	630
Sept. 26	To Bharat Singh	780	Sept. 30	By Cash	3,000
			Sept. 30	By Balance c/d	6,840
		13,050			13,050
Oct. 1	To Balance b/d	6,840			

4. From the following particulars prepare a Bank Reconciliation Statement as at 31<sup>st</sup> December, 2006 of M/s. A.B. & Co. who

had cash at bank as per cash book Rs.10,500.40 and as per pass book Rs.12,350.60:

(a) The following cheques were deposited on 30<sup>th</sup> and 31<sup>st</sup> December but were not collected by 31<sup>st</sup> December, 2006.

(i) Rs.300.25 (ii) Rs. 500 (iii) Rs.200.15

(b) The following cheques were issued but not cashed by 31<sup>st</sup> December, 2006.

(i) Rs.600.25, (ii) Rs.200 (iii) Rs.489.25, (iv) Rs.50

(c) The bank collected a bill of Rs.1,500 on the 31<sup>st</sup> December, 2006 but the intimation was received by the firm on 1<sup>st</sup> January, 2007.

(d) The bank allowed interest Rs.20.30 and a commission was charged Rs.9.20 on 31<sup>st</sup> December, 2006.

5. The Cash Book of a trader showed an overdraft balance of Rs.32,750 on 31<sup>st</sup> December, 2005. On scrutiny of the Cash Book and Pass Book it was discovered that:

a) On 22<sup>nd</sup> December, sundry cheques totalling Rs.6,500 were sent to Bank for collection out of which a cheque for Rs.1,500 was wrongly recorded on the credit side of the Cash Book and cheques amounting to Rs.3,300 could not be collected by the Bank till 6<sup>th</sup> January next.

b) A cheque for Rs.4,00 was issued to a supplier on 28<sup>th</sup> December. This cheque was not presented to Bank till 10<sup>th</sup> January.

c) Bank had debited Rs. 2,000 towards interest on overdraft and Rs. 600 for Bank charges, but the bank advice was sent on 15<sup>th</sup> January.

d) Credit side of the bank Column of the Cash Book was undercast by Rs.100.

- e) Cheques for Rs.2,000 drawn for office expenses were not encashed till 2nd January.
- f) A cheque for Rs.1,000 was issued to a creditor on 27<sup>th</sup> December and was omitted to be entered in the Cash Book. It was, however, presented to Bank within 31<sup>st</sup> December.
- g) Dividends amounting to Rs. 500 had been paid direct to the Bank and not entered in the Cash Book.

You are required to make necessary corrections in the Cash Book and starting with the amended balance, prepare a Bank Reconciliation Statement as at 31<sup>st</sup> December, 2006.

## **9.7 REFERENCES/SUGGESTED READINGS**

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