

4.4 | Bank reconciliation statement

- Bank statement
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- Bank reconciliation statement

Bank statement

- A bank statement is a record that summarizes all the transactions in an account for a particular period. It is typically sent by the bank once a month to the account holder.
- The cash control a/c is an asset account in the point of view of the business:
 - Transactions in the cash receipts journal are DR to the cash control a/c
 - Transactions in the cash payments journal are CR to the cash control a/c
- The current account maintained by the bank on behalf of the business is a liability account from the point of view of the bank:
 - Transactions in the cash receipts journal are CR to the bank statement
 - Transactions in the cash payments journal are DR to the bank statement

| Current account (bank statement) | | | | |
|----------------------------------|---------------------|----|----|---------|
| Date | Description | DR | CR | Balance |
| | B/b/f | | | XX |
| | Cash deposit | | X | |
| | Cheque deposit | | X | |
| | Direct transfers | | X | |
| | Cheque payment | X | | |
| | Bank charges | X | | |
| | Cheque book charges | X | | |
| | B/c/d | | | XX |

Differences arising between the bank statement and cash books

- Included in the bank statement but missed in the cash receipts journal:
 - Direct transfers
 - Debtor payments
 - Deposited income: investment income, dividend income, interest income
- Included in the bank statement but missed in the cash payments journal:
 - Standing orders
 - Bank charges
 - Cheque book charges
 - Interest charges
- Included in the cash receipts journal but missed in the bank statement
 - Unrealized cheque
 - Deposited cheque dishonoured
- Included in the cash payments journal but missed in the bank statement
 - Unpresented cheque
 - Issued cheque dishonoured

- Other differences
 - Errors and omissions made by the business
 - Errors and omissions made by the bank

Some differences arising between the Cash a/c and Bank Statement

| | |
|-------------------------------------|---|
| Unpresented cheque | Cheques issued by the business but not yet encashed by the receiver. The business has already CR to cash a/c, but bank statement will not have it <ul style="list-style-type: none"> ○ <i>Bank statement balance > Cash book balance</i> |
| Unrealized cheque | Cheques that have been deposited but not yet realized by the bank. The business has already DR to cash a/c, but bank statement will not have it <ul style="list-style-type: none"> ○ <i>Cash book balance > Bank statement balance</i> |
| Deposited cheque dishonoured | Cheques that have been deposited but dishonoured by the bank. The business has already DR to cash a/c, but bank statement will not have it <ul style="list-style-type: none"> ○ <i>Cash book balance > Bank statement balance</i> |
| Issued cheque dishonoured | Cheques issued by the business but have been dishonoured by the bank. The business has already CR to cash a/c, but bank statement will not have it <ul style="list-style-type: none"> ○ <i>Bank statement balance > Cash book balance</i> |
| Direct transfers | Direct deposits to the current a/c, known after receiving bank statement <ul style="list-style-type: none"> • Examples: rent income, dividend income, interest income ○ <i>Bank statement balance > Cash book balance</i> |
| Standing orders | Order made in writing to the bank to pay a fixed amount on a regular basis. Business records after receiving the bank statement. <ul style="list-style-type: none"> • Examples: bank loan instalments, credit card payments, bills ○ <i>Cash book balance > Bank statement balance</i> |
| Bank charges | Charges deducted by the bank for services rendered. Business records after receiving the bank statement. <ul style="list-style-type: none"> • Example: cheque book charges, monthly service charges ○ <i>Cash book balance > Bank statement balance</i> |

| Reasons for the difference | Cash book | Bank statement | Balances |
|----------------------------|-----------|----------------|-----------|
| Direct transfers | X (CR) | ✓ | CB < BS ↑ |
| Debtor payment | X (CR) | ✓ | CB < BS ↑ |
| Dividend income | X (CR) | ✓ | CB < BS ↑ |
| Standing order | X (CP) | ✓ | CB > BS ↓ |
| Bank charges | X (CP) | ✓ | CB > BS ↓ |
| Cheque book charges | X (CP) | ✓ | CB > BS ↓ |
| Interest charges | X (CP) | ✓ | CB > BS ↓ |
| Unrealized cheque | ✓ (CR) | X | ↑CB > BS |
| Unpresented cheque | ✓ (CP) | X | ↓CB < BS |
| Deposited chq dishonoured | ✓ (CR) | X | ↑CB > BS |
| Issued chq dishonoured | ✓ (CP) | X | ↓CB < BS |

Revised cash control a/c

- When correcting the cash control a/c balance, only the following reasons are relevant:

| Items debited to the Cash Control a/c | Items credited to the Cash Control a/c |
|---|---|
| <ul style="list-style-type: none"> Direct transfers made to the bank Errors & Omissions made by the business when recording transactions. | <ul style="list-style-type: none"> Payments deducted by the bank in respect of Standing Orders Bank and cheque book charges Mistakes made by the business when recording transactions. |

| Cash account / Cash Control account (Revision) | | | |
|--|-----|---------------------------------|-----|
| | Rs. | | Rs. |
| Balance b/f | xxx | Standing Orders not recorded | xxx |
| Direct transfers not recorded | xx | Bank charges | xx |
| Issued cheques returned | x | Cheque book charges | x |
| Reduction in value of cheques deposited | x | Cheque deposits dishonoured | x |
| | | Cheques issued but not recorded | x |
| | | Balance c/f | xx |
| | xxx | | xxx |
| Balance b/f | xx | | |

Bank reconciliation statement

- The bank reconciliation statement will be prepared after the cash control a/c balance is corrected. The following adjustments will be made to the revised cash control a/c balance:
 - Unpresented cheques should be added
 - Unrealized cheques must be deducted
 - Any errors made by the bank must be added or deducted as appropriate
- When the adjustments have been completed, the final balance should tally with the bank statement balance

| Bank Reconciliation Statement | | |
|-------------------------------|-----|------|
| | Rs. | Rs. |
| Cash Control A/c as revised | | xxx |
| Add: | | |
| Cheques not presented | x | |
| Errors made by the bank | x | xx |
| | | |
| Less: | | |
| Cheques not realised | xx | |
| Errors made by the bank | xx | (xx) |
| Balance as per Bank Statement | | xxx |

