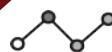


CHAPTER

3



BANK RECONCILIATION STATEMENT



LEARNING OUTCOMES

After studying this chapter, you will be able to:

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

CHAPTER OVERVIEW



Salient Features of Bank Reconciliation Statement

The reconciliation will bring out any errors that might have been committed either in the cash book or in the pass book

Any undue delay in the clearance of cheques will be shown up by the reconciliation

A regular reconciliation discourages the accountant of the bank from embezzlement

Causes of difference in the balances of pass book and cash book

Timing differences

Differences arising due to errors in recording the entries



1. INTRODUCTION

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

A Bank accepts from people, in general, deposits in various forms, and lends funds to those who need; it also invests some funds in profitable investments. Thus, money which would have been otherwise idle is put to use and is made available to those who need it. Those who deposit the money are able to withdraw it according to the settled terms and conditions. Apart

from receiving deposits from and handling cash transactions on behalf of its customers, the bank also renders some other useful services as indicated below:

- (i) The bank discounts promissory notes or hundies, i.e., it enables a customer to receive the cash before the due date in consideration of a small charge called discount.
- (ii) The bank allows overdraft to its good customers so that they can make payments even when they do not have sufficient balance in the bank. Of course, the overdraft facility is generally secured and must be cleared later.
- (iii) The bank grants different types of loans (eg. Working capital, term loan) for a specific period say a year or so, to its customers for smooth functioning of their operations in case of lack of self-funding available with customers'. Such financial assistance is of great help for business.
- (iv) The bank on behalf of the customer collects the amount of dividend warrants or interest on securities etc.
- (v) On instruction of the customer, the bank makes payments of insurance premium, rent etc. on the due dates.
- (vi) The bank sells and purchases shares, debentures or government securities on behalf of its customers.
- (vii) Money can be remitted to another place or persons through the bank at a low cost.
- (viii) The bank in return, for a consideration, furnishes security or guarantee for its customers whose credit is good.
- (ix) The bank also issues letter of credit or travellers' cheque to facilitate commerce or travel.
- (x) The bank also provides international banking services such as currency exchange, remittance from abroad, cross country payments, foreign letters of credit, export and import credit, etc.



2. BACKGROUND

In the past, many corporate frauds have incurred by the companies through manipulating entries either in bank statements or in cash book. For e.g. –A company's financial statement may present incorrect bank balance to mislead the stakeholders. Such kind of instances has made reconciliation of bank and cash balances an integral part of internal control maintained by management.

Over the period, reconciling the accounts became an important activity for businesses because it gives an opportunity to check for fraudulent activity happening in the organization and

helps to prevent the financial statement errors. Reconciliation is typically done at regular intervals, such as monthly or quarterly, as part of normal accounting procedures, however, frequency is largely dependent on the size of organization and the number of transactions that occur.



3. BANK PASS BOOK

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

PASS BOOK

Messers.....

in account with

Punjab National Bank

Daryaganj, New Delhi-110002

Account number –

Transaction Period -

Date	Particulars / Transaction	Cheque No.	Withdrawals Dr. (₹)	Deposits Cr. (₹)	Balance (₹)
					Dr. or Cr.

The bank statement of account also has a similar form except that it is on loose sheets or can be in an online format. The bank itself sends the statements to customers but if the customer wants to maintain a pass book then it is their duty to send the pass book to the bank periodically so that it is updated by the bank. These days, many banks' ATMs have the automated machines where one can get the passbook updated without any manual intervention and without visiting the branch of the bank.

Business houses should also obtain at the end of the year a certificate from the bank duly stamped and signed, showing the balance which, the firm carries with the bank as of date. The

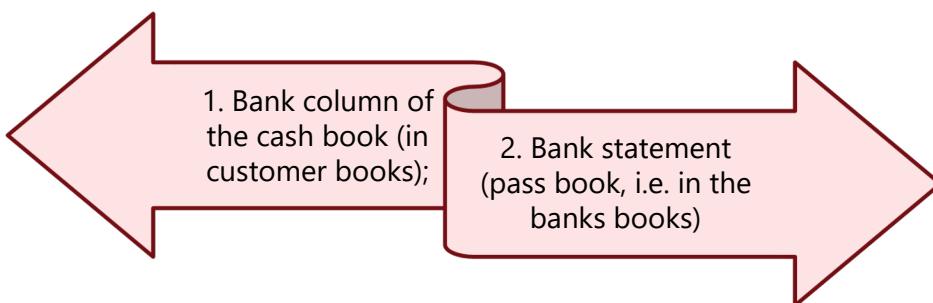
bank balance shown in the passbook is known as pass book balance for reconciliation purpose. The credit balance as per pass book at a particular point of time is the deposit made by the customer while debit balance as per pass book is the overdraft balance for the customer (i.e. customer owes to bank).

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



4. BANK RECONCILIATION STATEMENT

To reconcile means to identify or find out the difference between two different sources and eliminating that difference. Whenever we deposit or withdraws money from banks, it is always recorded at two places:-



The cash book is maintained by the person having the bank account whereas the bank statement is prepared by the bank. Therefore, the balance in both the books should be equal and opposite in nature. For eg:- if Mr. A deposited ₹ 1,00,000 in his bank account it will be recorded on the Dr. side of his cash book, but for the bank it's a receipt so it will be recorded as a Cr. Entry in the bank statement or the pass book.

But most of the times these two balances do not match. The reasons for difference in balances can be many and are explained later in this chapter. It is possible to eliminate this difference by matching all the facts and figures of the two statements. The process of eliminating this difference and bringing the two statements in line with each other is known as "Reconciliation", and the statement which reconciles the bank balance as per cash book with the balance as per the pass book by showing all the causes of difference is known as "BANK RECONCILIATION STATEMENT".



5. IMPORTANCE OF BANK RECONCILIATION STATEMENT

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

- (i) The reconciliation will bring out any errors that may have been committed either in the cash book or in the pass book;
- (ii) Any undue delay in the clearance of cheques will be shown up by the reconciliation;
- (iii) A regular reconciliation discourages the accountant of the bank from embezzlement of funds. There have been many cases when the cashiers merely made entries in the cash book but never deposited the cash in the bank; they were able to get away with it only because of lack of reconciliation.
- (iv) It helps in finding out the actual or true position of the bank balance by incorporating the effect of any uncleared funds as well.
- (v) It will ensure accounting of all the financial transactions incurred by the company during a particular financial year.

CAUSES OF DIFFERENCE

The difference in the both balances (bank balance as per cash book and pass book) may arise because of the following reasons:-

1. **TIMING:-** Sometimes a transaction is recorded at two different times in cash book and the pass book. This may happen in the following cases:-
 - ◆ Mr. A has issued a cheque to PQR Ltd., now it will be recorded in his cash book immediately but the bank will recognize this transaction only when the same cheque will be presented to it by PQR Ltd.
 - ◆ Similarly for PQR Ltd , entry in the cash book will be made immediately as the cheque is received from Mr. A but the bank account will be credited when it collects money in respect of that cheque.
2. **TRANSACTIONS:-** There are various transactions which the bank carries out by itself without intimating the customer. For e.g.: - interest received on a savings bank account,

it will be credited by the bank immediately but the entry in the cash book will be made only when the customer comes to know about it, which is usually at a later stage. Similar is the case with Bank charges (which are debited from the customer account by bank).

3. **ERRORS:-** Mistakes or errors made in preparing the accounts either by the bank or the customer can also result in disagreement of the two statements. For e.g. omission of cheques issued. For this reason rectification of errors is required to be done in both the statements before preparing any Bank Reconciliation Statement.

SOME OF THE ITEMS THAT FREQUENTLY CAUSE A DIFFERENCE:-

When bank balance as per Cash Book > Pass Book	When bank balance as per Cash Book < Pass Book
i) Cheques deposited with the bank but not cleared:	i) Cheques issued but not presented for payment
ii) Interest and expenses charged by the bank	ii) Interest allowed by bank
iii) Direct payments by the bank	iii) Interest and dividends collected by the bank
iv) Dishonour of a bill discounted with the bank	iv) Direct payment into the bank by a customer
	v) Bills collected by the bank on behalf of the customer

Above each scenario is explained in detail below along with examples:

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

Example 1: The balance as per Cash Book and Pass Book are ₹10,000. Cheque of ₹ 2,000 is issued but not presented for payment. Then the balances as per cash book and pass book will be as follows:

Cash book (bank column only)

Particulars	₹	Particulars	₹
To balance b/f	10,000	By Vendor A/c (to whom cheque is issued)	2,000
		By balance c/f	8,000
	10,000		10,000

Bank statement (pass book)

Date	Particulars	Dr. (withdrawn)	Cr. (deposited)	Balance
	Balance b/f			10,000(cr.)

On the issue of aforesaid cheque, the bank account in Cash Book is credited by ₹2,000 and so balance is reduced to ₹ 8,000. Whereas balance in the Pass Book remains ₹10,000 until the cheque is presented for payment.

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

Example 2 : The balance as per Cash book and Pass Book are ₹ 12,000. Cheque of ₹ 3,000 is deposited but not cleared.

Cash book

Particulars	₹	Particulars	₹
To balance b/f	12,000	By balance c/f	15,000
To Vendor A/c	3,000		
	15,000		15,000

Bank statement (Pass Book)

Date	Particulars	Dr. (withdrawn)	Cr. (deposited)	Balance
	Balance b/f			12,000 (cr.)

When cheque is deposited into bank, the bank account in Cash Book is increased to ₹ 15,000, but the balance in the Pass Book remains ₹ 12,000 until the cheque is cleared.

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

Example 3: The balance as per Cash Book and Pass Book are ₹ 10,000. The bank has allowed ₹ 1,000 interest on saving account to customer.

Cash book

Particulars	₹	Particulars	₹
To balance b/f	10,000	By balance c/f	10,000
	10,000		10,000

Bank statement (Pass Book)

Date	Particulars	Dr. (withdrawn)	Cr. (deposited)	Balance
	Balance b/f			10,000 (cr.)
	Interest		1,000	11,000(cr.)

Because of such interest, balance of Pass Book is increased to ₹11,000. Whereas balance in the Cash Book remains ₹10,000 until information reaches to the customer and he records such transaction.

(iv) Interest and expenses charged by the bank: Like (iii) above, the interest charged by the bank and the amount of the bank charges are entered in the customer account and later in the pass book. The customer makes the required entries only after he sees the pass book or bank statement. These are debited to customer account by bank therefore till such entry is passed in cash book, bank balance as per pass book is less than bank balance as per cash book.

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

Example 4: The balance as per Cash Book and Pass Book are ₹15,000. The bank has collected dividend of ₹ 2,000.

Cash book

Particulars	₹	Particulars	₹
To balance b/f	15,000	By balance c/f	15,000
	15,000		15,000

Bank statement (Pass Book)

Date	Particulars	Dr. (withdrawn)	Cr. (deposited)	Balance
	Balance b/f			15,000(cr.)
	Dividend		2,000(Cr.)	17,000(cr.)

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

(vi) Direct payments by the bank: The bank may be given standing instructions for certain payments such as insurance premium, equated monthly installments of loan (EMIs). In these cases also, the customer comes to know of the payment only after viewing the pass book or bank statement. The entries in the pass book and in the cash book may thus be on different dates.

Example 5: The balance as per Cash Book and Pass Book of Mr. X are ₹ 20,000. The bank has instruction to pay insurance premium of ₹ 1,500 directly to insurance company at the end of each month.

Cash book

Particulars	₹	Particulars	₹
To balance b/f	20,000	By balance c/f	20,000
	20,000		20,000

Bank statement (pass book)

Date	Particulars	Dr. (withdrawn)	Cr. (deposited)	Balance
	Balance b/f			20,000 (cr.)
	Insurance premium	1,500		18,500 (cr.)

On payment of insurance premium bank debits the customer's account by ₹ 1,500 so balance in Pass Book is decreased to ₹ 18,500. Whereas balance in the Cash Book remains ₹ 20,000 until the information of such payment reaches to the customer and he records such transaction.

(vii) Direct payment into the bank by a customer: If such a payment is received by the bank, it will be entered in the customer's account and also in the pass book; the account holder may come to know of the amount only when he sees the pass book. (e.g. Customers' these days prefers using banking facilities like NEFT, RTGS to transfer funds online)

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

Example 6: The balances as per Cash Book and Pass Book of Mr. X are ₹ 20,000. Mr. X deposited a cheque of ₹ 3,000 and debited to his bank account ₹ 3,000 immediately. But bank will credit X's account on realization of amount. Now the cheque is dishonoured for non-payment. Bank charges ₹ 100 in this connection.

Cash book

Particulars	₹	Particulars	₹
To balance b/f	20,000	By balance c/f	23,000
To bank a/c	3,000		
	23,000		23,000

Bank statement (Pass Book)

Date	Particulars	Dr. (withdrawn)	Cr. (deposited)	Balance
	Balance b/f			20,000 (cr.)
	Bank charges	100		19,900 (cr.)

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

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

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

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

Sl. No.	Transaction	Time of recording in cash book	Time of recording in pass book
1.	Payment done by the account holder through issuing a cheque	At the time of issuing the cheque	At the time of presenting the cheque to the bank for payment or clearing of funds.
2.	Receipt by the account holder through a cheque	At the time of depositing the cheque into the bank.	At the time of collection of amount from the account of the issuing party.

3.	Collection of bills/cheque directly on behalf of the account holder	When the entry posted in the pass book comes into notice.	When the amount is collected by the bank.
4.	Direct payment to the third party on behalf of the account holder	When the entry posted in the pass book comes into notice.	When the amount is paid by the bank
5.	Dishonour of cheque/bills receivable.	When the entry posted in the pass book comes into notice.	When the cheque is dishonoured.
6.	Bank charges levied by the bank	When the entry posted in the pass book comes into notice.	When charges are levied by the bank
7.	Interest and dividend credited by the bank	When the entry posted in the pass book comes into notice.	When interest or dividend is allowed or collected by the bank.
8.	Interest debited by the bank	When the entry is posted in the pass book comes into notice.	When interest is charged by the bank

To illustrate this, we give below an extract from a pass book and the bank column of the cash book in Illustration 1:

ILLUSTRATION 1

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

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

PASS-BOOK

Date		Particulars	Withdrawals ₹	Deposits ₹	Dr. or Cr.	Balance ₹
2022						
Jan.	2	<i>By Cash</i>		4,00,000	Cr.	4,00,000
"	4	<i>To Furniture Dealers Ltd.</i>	60,000		Cr.	3,40,000
"	4	<i>To Das & Co.</i>	1,25,000		Cr.	2,15,000
"	10	<i>By J. Johnson & Co.'s cheque</i>		35,000	Cr.	2,50,000
"	12	<i>To Roy & James</i>	1,00,000		Cr.	1,50,000

BANK RECONCILIATION STATEMENT

3.13

"	15	<i>By B. Babu & Co's cheque</i>		76,000	Cr.	2,26,000
"	16	<i>By Cash</i>		30,000	Cr.	2,56,000
"	20	<i>To Cash</i>	50,000		Cr.	2,06,000
"	26	<i>By J. Rai & Bros cheque</i>		43,000	Cr.	2,49,000
"	31	<i>To Premium paid as per standing instructions</i>	25,000		Cr.	2,24,000
	31	<i>To Bank Charges</i>	1,000		Cr.	2,23,000
	31	<i>By Interest collected on Government Securities</i>		20,000	Cr.	2,43,000

CASH-BOOK (Bank column only)

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2022			2022		
Jan. 1	<i>To Cash</i>	4,00,000	Jan. 2	<i>By Furniture</i>	
Jan. 2	<i>To J. Johnson & Co.</i>	35,000		<i>Dealers Ltd.</i>	60,000
Jan. 8	<i>To B. Babu & Co.</i>	76,000	Jan. 2	<i>By Roy & James</i>	1,00,000
Jan. 10	<i>To Cash</i>	30,000	Jan. 2	<i>By Das & Co.</i>	1,25,000
Jan. 16	<i>To J. Rai & Bros.</i>	43,000	Jan. 4	<i>By K. Nagpal & Co.</i>	73,000
Jan. 20	<i>To M. Mohan & Co.</i>	1,05,000	Jan. 17	<i>By Cash</i>	50,000
Jan. 22	<i>To N. Nandy & Sons</i>	34,000	Jan. 20	<i>By B. Babu & Co.</i>	78,000
			Jan. 31	<i>By Balance c/d</i>	2,37,000
		7,23,000			7,23,000
Feb. 1	<i>To Balance b/d</i>	2,37,000			

It will be seen that whereas the pass book shows a credit balance of ₹ 2,43,000, the cash-book shows a debit balance of ₹ 2,37,000. We shall compare the two to establish the reasons for the difference. The reconciliation of the two statements can be done in two ways:-

1. *Arrive at pass book balance from cash book.*
2. *Arrive at cash book balance from pass book.*

Let us start with the pass book balance and arrive at the balance as per cash book.

Step: 1. Compare the debit side of cash book with the deposits column of pass book:-

We find that the following cheques are recorded in the cash book but not in the pass book. Therefore if we enter these two cheques in the deposit side of the pass book the balance becomes:-

Existing balance	2,43,000
Add:- M Mohan & Co.	1,05,000
N. Nandy & Sons	34,000
Total	3,82,000

Step: 2 Compare the credit side of the cash book with the withdrawal column of the pass book

We find that the following cheques are not recorded. Therefore, if we enter these two cheques on the withdrawal side of the pass book the balance becomes:-

Existing balance	3,82,000
Less:- K Nagpal & Co.	(73,000)
B Babu & Co.	(78,000)
Total	2,31,000

There is an item 'Interest on Government Securities' which appears on the deposit side of the pass book but not in the debit side of the cash book, so this item should be deducted from pass book balance:-

Existing balance	2,31,000
Less:- Interest on govt. securities	(20,000)
Total	2,11,000

Further, there are two items which appear on the withdrawal side of the pass book i.e. they have been deducted from the bank balance but not on the credit side of the cash book, so these items should be added in order to reconcile the balance:-

Existing balance:-	2,11,000
Add: Insurance premium	25,000
Add: Bank charges	1,000
Total	2,37,000

Therefore, we have arrived at the balance as per the cash book from the pass book.

This process shows that the difference between the two balance arise only because there are some entries made in the cash-book but not in the pass book and some entries which are made in the pass book but not in the cash book. A comparison of the two shows up such entries and then, on that basis, the reconciliation is prepared. To illustrate it again, let us proceed from the cash book balance of ₹ 2,37,000. Since cheques totalling ₹ 1,39,000 have not been entered in the pass book, let us assume that they are also omitted from the cash book, this will reduce the cash book balance to ₹ 98,000. Cheques totalling ₹ 1,51,000 have been entered on the credit side of the cash book but not in the pass book their omission from the cash book will increase the cash book balance to ₹ 2,49,000. Amounts totalling ₹ 26,000 have been entered in the withdrawals column of the pass book but not in the cash book; an entry on the credit side of the cash book for these amounts will reduce the balance to ₹ 2,23,000. The deposits column shows an entry of ₹ 20,000 not found on the debit side of the cash book; the entry made in the cash book will increase balance to ₹ 2,43,000 as shown in the pass book.

(x) Errors: While recording the entries errors can occur both in the cash book and in the pass book. A bank rarely makes an error but if it does, the balance in the pass book will naturally differ from cash book. Similarly if any error is committed in the cash book then its balance will be different from that of the pass book.

Some of the errors include commission of entry, recording of an incorrect amount, recording of entry on the wrong side of the book, wrong totalling of the account or wrong balancing of the book and recording of transactions of other party.

Example 7: Mr. A's cash book shows following transactions:

CASH-BOOK (Bank column only)

Date	Particulars	Amount ₹	Date 2022	Particulars	Amount ₹
			Mar 31	By balance c/d	1,00,000
April 7	To Wayne Ltd.	60,000	Apr 1	By balance b/d	10,000
April 11	To Cash A/c	80,000	April 29	By Cash A/c	2,000
		1,40,000		By Balance c/d	1,28,000
					1,40,000

PASS-BOOK

Date		Particulars	Withdrawals ₹	Deposit ₹	Balance ₹ (cr.)
2022					
April	1	Balance b/d			1,00,000

April	7	By Wayne Ltd.		60,000	1,60,000
April	11	By Cash		80,000	2,40,000
April	13	To Vandy Ltd.	90,000		3,30,000
April	29	To Cash A/c	2,000		3,28,000

Here there are several errors made by accountant:

April 1: Balance should be have bought down in debit side as ₹ 1,00,000

April 13: Also a cheque issued to Vandy Ltd. has been omitted in the books of ₹ 90,000

So, on correcting these entries balance as per Cash Book will be:

Existing Balance	₹ 1,28,000
Add: Correct Opening Balance	₹ 1,00,000
Add: Incorrect Opening Balance (Since it was bought down on credit side it will be added back)	₹ 10,000
Less: Cheque issued not recorded	₹ 90,000
Closing Balance as per Cash Book	₹ 1,48,000
Balance as per Pass Book	3,28,000
Less: Cheque to Vandy Ltd wrongly added to existing balance instead of being subtracted	1,80,000
Difference in balances between cash book and pass book	₹ 1,48,000
	Nil



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

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

It means that students can be required to start bank reconciliation from any of the following four balances as may be given in the question:

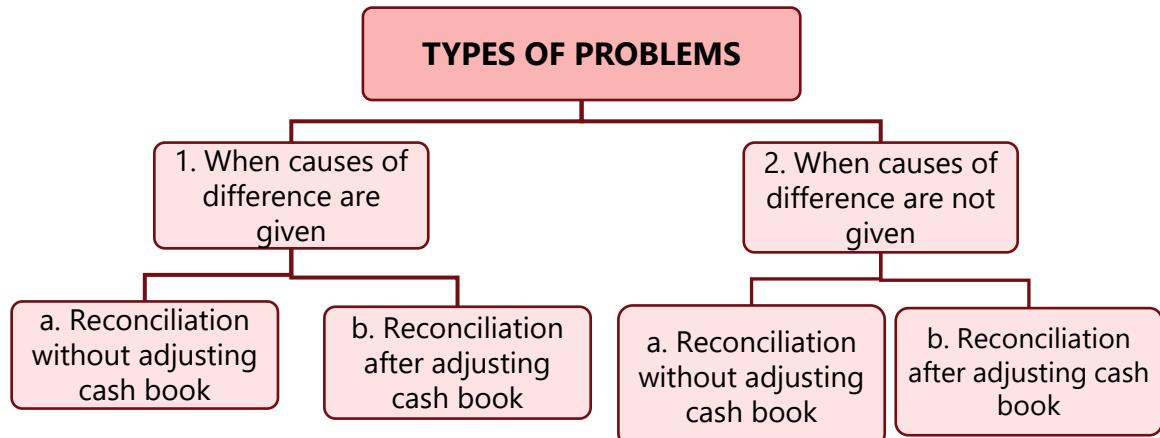
Dr. balance as per cash book

Cr. balance as per cash book

Dr. balance as per pass book

Cr. balance as per pass book

While doing reconciliation, the following types of problems can be given:-



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

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

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

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

Example 8: Jolly Ltd has following entries in its cash book and pass book:

CASH-BOOK (Bank column only)

Date 2022	Particulars	Amount ₹	Date 2022	Particulars	Amount ₹
May 1	To Balance b/d	70,000	May 15	By Richa Ltd.	20,000
May 9	To Avengers Ltd.	50,000			
May 13	To Cash A/c	80,000	May 30	By Balance c/d	<u>1,80,000</u>
		_____			2,00,000
		2,00,000			

PASS-BOOK

Date	Particulars	Withdrawals ₹	Deposits ₹	Dr. or Cr.	Balance ₹
2022					
May 1	Balance b/d			Cr.	1,00,000
May 7	To Mr. A	30,000		Cr.	70,000
May 12	By Avengers Ltd.		50,000	Cr.	1,20,000
May 13	By Cash A/c		80,000	Cr.	2,00,000
May 23	To Richa Ltd.	20,000		Cr.	1,80,000
May 29	Bank Charges	2,000		Cr.	1,78,000

Here when we compare Cash Book and Pass Book we found that following 2 entries remain unticked in pass book i.e. they don't appear in cash book:

Cheque to Mr. A - ₹ 30,000

Bank Charges - ₹ 2,000

Excess withdrawals as per pass book - ₹ 32,000

However if we notice that difference between closing balances of two books is only ₹ 2,000 but at the same time there is a difference of ₹ 30,000 in opening balances as well. Thus, we need to bifurcate the unticked items as:

Regarding Opening Balance	Regarding Closing Balance
Cheque to Mr. A - ₹ 30,000 This is an item which must have been recorded in Cash book during previous month when cheque would have been issued and would have appeared as a reconciling item in BRS of that month. Since, it has been presented to bank by Mr. A in April, it has been recorded now by the bank.	Bank Charges - ₹ 2,000 These have been charged by the bank but not recorded in books.



7. METHODS OF BANK RECONCILIATION

There are following two methods of reconciling the bank balances:

7.1 Bank Reconciliation Statement without Preparation of adjusted Cash-Book

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

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

Causes of differences	Favourable balance (Dr.) as per cash-book	Unfavourable balance (Cr.) as per cash-book	Favourable balance (Cr.) as per pass-book	Unfavourable balance (Dr.) as per pass-book
Cheque deposited but not cleared	Subtract	Add	Add	Subtract
Cheque issued but not presented to bank	Add	Subtract	Subtract	Add
Cheque directly deposited in bank by a customer	Add	Subtract	Subtract	Add
Income (e.g., interest from UTI) directly received by bank	Add	Subtract	Subtract	Add
Expenses (e.g., telephone bills, Insurance charges) directly paid by bank on standing instructions	Subtract	Add	Add	Subtract
Bank charges levied by bank	Subtract	Add	Add	Subtract
Locker rent levied by bank	Subtract	Add	Add	Subtract
Wrong debit in the cash book	Subtract	Add	Add	Subtract
Wrong credit in the cash book	Add	Subtract	Subtract	Add

Wrong debit in the pass book	Subtract	Add	Add	Subtract
Wrong credit in pass book	Add	Subtract	Subtract	Add
Undercasting of Dr. side of bank account in the cash book	Add	Subtract	Subtract	Add
Overcasting of Dr. side of bank account in cash book	Subtract	Add	Add	Subtract
Undercasting of Cr. side of bank account in cash book	Subtract	Add	Add	Subtract
Overcasting of Cr. side of bank account in cash book	Add	Subtract	Subtract	Add
Bill receivable collected directly by bank	Add	Subtract	Subtract	Add
Interest on bank overdraft charged	Subtract	Add	Add	Subtract
Final Balance	If answer is positive then favourable balance (Cr.) as per pass-book and if negative then unfavourable balance (Dr.) as per pass-book.	If answer is positive then Unfavourable balance (Dr.) as per pass-book and if negative then Favourable balance (Cr.) as per pass-book	If answer is positive then favourable balance (Dr.) as per cash-book and if negative then unfavourable balance (Cr.) as per cash-book	If answer is positive then Unfavourable balance (Cr.) as per cash-book and if negative then Favourable balance (Dr.) as per cash-book

It is proper to prepare a neat statement showing the reconciliation of the two balances. Taking the example given in the illustration 1, the statement may be prepared as follows:

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

1. As per Balance Presentation:

Bank Reconciliation Statement as on 31st January, 2022

Particulars	Details(₹)	Amount(₹)
Balance as per Pass Book		2,43,000
<i>Add: Cheques deposited but not yet credited:</i>		
M. Mohan & Co.	1,05,000	
N. Nandy & Sons	34,000	1,39,000
<i>Add: Premium paid and bank charges entered in the Pass Book but not yet entered in the Cash-Book</i>		26,000
		4,08,000
<i>Less: Cheques issued but not yet presented</i>		
K. Nagpal & Co.	73,000	
B. Babu & Co.	78,000	1,51,000
<i>Less: Interest credited by bank but not yet entered in the Cash Book</i>		2,57,000
		20,000
Balance as per Cash Book		2,37,000
OR		
Balance as per Cash Book		2,37,000
<i>Add: Cheques issued but not yet presented:</i>		
K. Nagpal & Co.	73,000	
B. Babu & Co.	78,000	1,51,000
<i>Add: Interest entered in the Pass Book, but not yet in the Cash Book</i>		20,000
		4,08,000
<i>Less: Cheques deposited but not yet credited:</i>		
M. Mohan & Co.	1,05,000	
N. Nandy & Sons	34,000	1,39,000
<i>Less: Premium paid and bank charges entered in the Pass Book but not yet in the Cash Book</i>		2,69,000
		26,000
Balance as per Pass Book		2,43,000

2. As per Plus-Minus Presentation:

Bank Reconciliation Statement as on 31st January, 2022

Particulars	Plus Amount (₹)	Minus Amount (₹)
Balance as per Cash Book	2,37,000	
Cheques issued but not yet presented: K. Nagpal & Co.	73,000	
B. Babu & Co.	78,000	
Interest entered in pass book but not yet entered into cash book	20,000	
Cheques deposited but not yet credited: M. Mohan & Co.		1,05,000
N. Nandy & Sons		34,000
Premium paid and bank charges entered in pass book		26,000
Balance as per pass book		2,43,000
	4,08,000	4,08,000

ILLUSTRATION 2

From the following particulars, prepare a Bank Reconciliation Statement for Jindal offset Ltd.

- (1) Balance as per cash book is ₹ 2,40,000
- (2) Cheques issued but not presented in the bank amounts to ₹ 1,36,000.
- (3) Cheques deposited in bank but not yet cleared amounts to ₹ 90,000.
- (4) Bank charges amounts to ₹ 300.
- (5) Interest credited by bank amounts to ₹ 1,250.
- (6) The balance as per pass book is ₹ 2,86,950.

SOLUTION

Bank Reconciliation Statement

Particulars	Amount ₹
Balance as per Cash Book	2,40,000
Add: Cheque issued but not presented	1,36,000
Interest credited by bank	1,250
	3,77,250

BANK RECONCILIATION STATEMENT

3.23

Less : Cheque deposited but not yet cleared	(90,000)
Bank charges debited by bank	<u>(300)</u>
Balance as per Pass Book	2,86,950

ILLUSTRATION 3

On 31st March 2022, the Bank Pass Book of Namrata showed a balance of ₹ 1,50,000 to her credit while balance as per cash book was ₹ 1,12,050. On scrutiny of the two books, she ascertained the following causes of difference:

- i) She has issued cheques amounting to ₹ 80,000 out of which only ₹ 32,000 were presented for payment.
- ii) She received a cheque of ₹ 5,000 which she recorded in her cash book but forgot to deposit in the bank.
- iii) A cheque of ₹ 22,000 deposited by her has not been cleared yet.
- iv) Mr. Gupta deposited an amount of ₹ 15,700 in her bank which has not been recorded by her in Cash Book yet.
- v) Bank has credited an interest of ₹ 1,500 while charging ₹ 250 as bank charges.

Prepare a bank reconciliation statement.

SOLUTION

Bank Reconciliation Statement as on 31st March, 2022

Particulars	Details ₹	Amount ₹
Balance as per Pass Book (Cr.)		1,50,000
Add: Cheque deposited but not yet cleared	22,000	
Add: Cheque recorded in Cash Book but not yet deposited	5,000	
Add: Bank Charges debited by bank	250	27,250
Less: Cheque issued but not yet presented	48,000	
Less: Amount deposited but not recorded in Cash Book	15,700	
Less: Interest allowed by bank	1,500	65,200
Balance as per Cash Book		1,12,050

ILLUSTRATION 4

From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st December, 2022.

- (1) The bank overdraft as per Cash Book on 31st December, 2022 ₹ 6,340.
- (2) Interest on overdraft for 6 months ending 31st December, 2022 ₹ 160 is entered in Pass Book.
- (3) Bank charges of ₹ 400 are debited in the Pass Book only.
- (4) Cheques issued but not cashed prior to 31st December, 2022, amounted to ₹ 11,68,000.
- (5) Cheques paid into bank but not cleared before 31st December, 2022 were for ₹ 22,17,000.
- (6) Interest on investments collected by the bank and credited in the Pass Book ₹ 12,00,000.

SOLUTION**Bank Reconciliation Statement****As on 31st December, 2022**

Particulars	Amount ₹
Overdraft as per Cash Book	6,340
Add: Interest debited in the Pass Book but not yet entered in the Cash Book	160
Add: Bank charges debited in the Pass Book but not entered in the Cash Book	400
Add : Cheques deposited but not yet credited in the Pass Book	22,17,000
	22,23,900
Less: Cheques issued but not yet presented	(11,68,000)
Less: Interest collected and credited by bank but not yet entered in Cash Book	(12,00,000)
Balance as per Pass Book (Credit/Favourable balance)	(1,44,100)

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

Particulars	Plus Amount ₹	Minus Amount ₹
Overdraft as per Cash Book		6,340
Interest debited in Pass Book but not yet in Cash Book		160
Cheque issued but not yet presented	11,68,000	
Cheques paid in but not yet credited by the Bank		22,17,000

Bank charges		400
Interest collected and credited by the Bank in the Pass Book but not yet entered in Cash Book	12,00,000	
Balance as per Pass Book		1,44,100
Total	23,68,000	23,68,000

7.2 Bank Reconciliation Statement after the Preparation of adjusted Cash-Book

7.2.1 Meaning of adjusted cash book

When the balance in the cash book is first adjusted for certain adjustments before taking it to the bank reconciliation statement, then it is known as adjusted cash book balance. Adjusting the cash-book before preparing the bank reconciliation statement is completely optional, if reconciliation is done during different months. But if reconciliation is done at the end of the accounting year or financial year, the cash-book should be adjusted so as to reflect the correct bank balance in the balance sheet.

While adjusting the cash-book the following adjustments are considered:-

1. All the errors (like incorrect amount recorded in the cash-book, entry posted twice in the cash-book, over/undercasting of the balance etc.) and
2. Omissions (like bank charges recorded in the pass-book only, interest debited by the bank, direct receipt or payment by the bank, dishonour of cheques/bills etc.) by the cash-book are taken into care

Only above transactions are considered for adjusting cash book. Apart from this, any delay in recording in the pass-book due to difference in timing (like cheque issued but not presented for payment, cheque deposited but not cleared) is taken to bank reconciliation statement. This adjusted cash-book balance is taken to bank reconciliation statement. Student may note that adjusted cash-book is prepared as per the requirement of the question.

Errors occurring in the pass-book are not to be adjusted in the cash book. All the adjustments considered in the adjusted cash-book are not carried again to the Bank Reconciliation Statement.

ILLUSTRATION 5

On 30th September, 2022, the bank account of X, according to the bank column of the Cash-Book, was overdrawn to the extent of ₹4,062. On the same date the bank statement showed a credit balance of ₹20,758 in favour of X. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for ₹ 13,14,000 deposited on 29th September, 2022 was credited by the bank only on 3rd October, 2022.
2. A payment by cheque for ₹ 16,000 has been entered twice in the Cash Book.
3. On 29th September, 2022, the bank credited an amount of ₹ 1,17,400 received from a customer of X, but the advice was not received by X until 1st October, 2022.
4. Bank charges amounting to ₹ 580 had not been entered in the Cash Book.
5. On 6th September, 2022, the bank credited ₹ 20,000 to X in error.
6. A bill of exchange for ₹ 1,40,000 was discounted by X with his bank. This bill was dishonoured on 28th September, 2022 but no entry had been made in the books of X.
7. Cheques issued upto 30th September, 2022 but not presented for payment upto that date totalled ₹ 13,26,000.

You are required :

- (a) to show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on 30th September, 2022 and
- (b) to prepare a bank reconciliation statement as on that date.

SOLUTION

(a)

Cash Book (Bank Column)

Date 2022	Particulars	Amount ₹	Date 2022	Particulars	Amount ₹
Sept. 30	To Party A/c	16,000	Sept. 30	By Balance b/d	4,062
	To Customer A/c (Direct deposit)	1,17,400		By Bank charges	580
	To Balance c/d	11,242		By Customer A/c (B/R dishonoured)	1,40,000
		1,44,642			1,44,642

(b)

Bank Reconciliation Statement as on 30th September, 2022

Particulars	Amount ₹
Overdraft as per Cash Book	11,242
Add: Cheque deposited but not collected upto 30th September, 2022	13,14,000
	13,25,242

Less: Cheques issued but not presented for payment upto 30th September, 2022	(13,26,000)
Credit by Bank erroneously on 6th September	(20,000)
Credit balance as per bank statement	20,758

Note: Bank has credited X by 20,000 in error on 6th September, 2022. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 13,26,000 resulting in credit balance of ₹ 758 as per pass-book.

ILLUSTRATION 6

On 30th December, 2022 the bank column of A. Philip's cash book showed a debit balance of ₹ 4,610. On examination of the cash book and bank statement you find that:

1. Cheques amounting to ₹ 6,30,000 which were issued to trade payables and entered in the cash book before 30th December, 2022 were not presented for payment until that date.
2. Cheques amounting to ₹ 2,50,000 had been recorded in the cash book as having been paid into the bank on 30th December, 2022, but were entered in the bank statement on 1st January, 2023.
3. A cheque received for ₹ 73,000 had been dishonoured prior to 30th December, 2022, but no record of this fact appeared in the cash book.
4. A dividend of ₹ 3,80,000, paid direct to the bank had not been recorded in the cash book.
5. Bank interest and charges amounting to ₹ 4,200 had been charged in the bank statement but not entered in the cash book.
6. No entry had been made in the cash book for a trade subscription of ₹ 10,000 paid vide banker's order in November, 2022.
7. A cheque for ₹ 27,000 drawn by B. Philip had been charged to A. Philip's bank account by mistake in December, 2022.

You are required:

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

SOLUTION

(a)

A. Philip

Dr.	Cash Book (Bank column)				Cr.
Date 2022	Particulars	Amount ₹	Date 2022	Particulars	Amount ₹
Dec. 30	To Balance b/d	4,610	Dec. 30	By Trade receivables- Cheque dishonoured	73,000
	To Dividend received	3,80,000		By Bank interest and charges	4,200
			Dec. 31	By Trade Subscription	10,000
				By Balance c/d	2,97,410
		3,84,610			3,84,610
2023					
Jan. 1	To Balance b/d	2,97,410			

(b)

Bank Reconciliation Statement as at 30th December, 2022

Particulars	Amount ₹
Balance per cash book	2,97,410
Add: Cheques not yet presented	6,30,000
	9,27,410
Less: Lodgement not yet recorded by bank	(2,50,000)
	6,77,410
Less: Cheque wrongly charged	(27,000)
Balance as per the bank statement	6,50,410

ILLUSTRATION 7

From the following information, prepare a Bank reconciliation statement as at 31st December, 2022 for Messrs New Steel Limited :

₹

(1)	<i>Bank overdraft as per Cash Book on 31st December, 2022</i>	22,45,900
(2)	<i>Interest debited by Bank on 26th December, 2022 but no advice received</i>	2,78,700
(3)	<i>Cheque issued before 31st December, 2022 but not yet presented to Bank</i>	6,60,000
(4)	<i>Transport subsidy received from the State Government directly by the Bank but not advised to the company</i>	14,25,000
(5)	<i>Draft deposited in the Bank, but not credited till 31st December, 2022</i>	13,50,000
(6)	<i>Bills for collection credited by the Bank till 31st December, 2022 but no advice received by the company</i>	8,36,000
(7)	<i>Amount wrongly debited to company account by the Bank, for which no details are available</i>	7,40,000

SOLUTION**M/s. New Steel Ltd.****Bank Reconciliation Statement as on 31st Dec, 2022**

Particulars	Details ₹	Amount ₹
Overdraft as per Cash Book		22,45,900
Add : Interest charged by the bank	2,78,700	
Draft deposited in bank but not yet credited	13,50,000	
Wrong debit by the bank, under verification	7,40,000	23,68,700
		46,14,600
Less: Cheque issued but not yet presented	(6,60,000)	
Transport subsidy not yet recorded in the Cash Book	(14,25,000)	
Bills for collection credited in the bank not yet entered in the cash book	(8,36,000)	(29,21,000)
Overdraft as per bank statement		16,93,600

ILLUSTRATION 8

The Cash Book of Mr. Gadbadwala shows ₹ 8,36,400 as the balance at Bank as on 31st December, 2022, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

- (1) On 15th December, 2022 the payment side of the Cash Book was undercast by ₹ 10,000.
- (2) A cheque for ₹ 1,31,000 issued on 25th December, 2022 was not taken in the bank column.
- (3) One deposit of ₹ 1,50,000 was recorded in the Cash Book as if there is no bank column therein.
- (4) On 18th December, 2022 the debit balance of ₹ 15,260 as on the previous day, was brought forward as credit balance in the Cash book.
- (5) Of the total cheques amounting to ₹ 11,514 drawn in the last week of December, 2022, cheques aggregating ₹ 7,815 were encashed in December.
- (6) Dividends of ₹ 25,000 collected by the Bank and subscription of ₹ 1,000 paid by it were not recorded in the Cash Book.
- (7) One out-going Cheque of ₹ 3,50,000 was recorded twice in the Cash Book. Prepare a Reconciliation Statement.

Prepare bank reconciliation statement:

- (i) If the books are not closed on 31st December, 2022
- (ii) If the books are closed on 31st December, 2022

SOLUTION

(If the books are not closed on 31st December, 2022)

Bank Reconciliation Statement of Mr. Gadbadwala as on 31st Dec., 2022

Particulars	Details	Amount ₹
Balance as per the Cash Book		8,36,400
Add : Mistake in bringing forward ₹ 15,260 debit balance as credit balance on 18th Dec., 2022	30,520	
Cheques issued but not presented :		
Issued	11,514	
Cashed	7,815	3,699
Dividends directly collected by bank but not yet entered in the Cash Book		25,000
Cheque recorded twice in the Cash Book		3,50,000
Deposit not recorded in the Bank column		1,50,000
		5,59,219
Less : Wrong casting in the Cash Book on 15th Dec.	10,000	13,95,619

BANK RECONCILIATION STATEMENT

3.31

Cheques issued but not entered in the Bank column		1,31,000	
Subscription paid by the bank directly not yet recorded in the Cash Book		1,000	(1,42,000)
Balance as per the Pass Book			12,53,619

If the books are to be closed on 31st December, then adjusted cash book will be prepared as given below:

Cash Book (Bank Column)

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	8,36,400	By wrong casting	10,000
To error for wrong posting	30,520	By cheques not entered	1,31,000
To dividends collected by bank	25,000	By subscription	1,000
To cheques recorded twice	3,50,000	By balance c/d	12,49,920
To deposit not recorded	1,50,000		
	13,91,920		13,91,920

Bank Reconciliation Statement

Particulars	₹
Balance as per the Cash Book (corrected)	12,49,920
Add: Cheques issued but not yet presented	3,699
Balance as per the Pass Book	12,53,619

ILLUSTRATION 9

The following are the Cash Book (bank column) and Pass Book of Jain for the months of March, 2022 and April, 2022:

Cash Book (Bank Column only)

Date	Particulars	Amount Dr. ₹	Date	Particulars	Amount Cr. ₹
01/3/2022	To Balance b/d	60,000	03/3/2022	By Cash A/c	2,00,000
06/3/2022	To Sales A/c	3,00,000	07/3/2022	By Modi	60,000
10/3/2022	To Ram	65,000	12/3/2022	By Patil	30,000
18/3/2022	To Singhal	2,70,000	18/3/2022	By Suresh	40,000

25/3/2022	To Goyal	33,000	24/3/2022	By Ramesh	1,50,000
31/3/2022	To Patel	65,000	31/3/2022	By Balance c/d	3,13,000
		7,93,000			7,93,000

Pass Book

Date	Particulars	Amount Dr. ₹	Amount Cr. ₹	Dr. or Cr.	Balance ₹
1/4/2022	By Balance b/d		3,65,000	Cr.	3,65,000
3/4/2022	By Goyal		33,000	Cr.	3,98,000
5/4/2022	By Patel		65,000	Cr.	4,63,000
7/4/2022	To Naresh	2,80,000		Cr.	1,83,000
12/4/2022	To Ramesh	1,50,000		Cr.	33,000
15/4/2022	To Bank Charges	200		Cr.	32,800
20/4/2022	By Usha		17,000	Cr.	49,800
25/4/2022	By Kalpana		38,000	Cr.	87,800
30/4/2022	To Sunil	6,200		Cr.	81,600

Reconcile the balance of cash book on 31/3/2022.

SOLUTION

- On scrutiny of the debit side of the Cash Book of March 2022 and receipt side of the Pass Book of April, 2022 reveals that two cheques deposited in Bank (Goyal ₹ 33,000 and Patel ₹ 65,000) in March were not credited by the Bank till 31/3/2022.
- On scrutiny of the credit side of the cash book and payment side of the Pass Book reveals that a cheque issued to Ramesh for ₹ 1,50,000 in March 2022, had not been presented for payment in Bank till 31/3/2022. Therefore the Bank Reconciliation statement on 31/3/2022 will appear as follows :

Bank Reconciliation Statement as on 31st March, 2022

Particulars	Amount (₹)
Balance as per the Cash Book	3,13,000
Add : Cheque issued but not presented for payment	1,50,000
	4,63,000
Less : Cheque deposited but not credited by Bank	(98,000)
Balance as per the Pass Book	3,65,000

ILLUSTRATION 10

When Nikki & Co. received a Bank Statement showing a favourable balance of ₹ 10,39,200 for the period ended on 30th June, 2022, this did not agree with the balance in the cash book.

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

1. A deposit of ₹ 3,09,200 paid on 29th June, 2022 had not been credited by the Bank until 1st July, 2022.
2. On 30th March, 2022 the company had entered into hire purchase agreement to pay by bank order a sum of ₹ 3,00,000 on the 10th of each month, commencing from April, 2022. No entries had been made in Cash Book.
3. A customer of the firm, who received a cash discount of 4% on his account of ₹ 4,00,000 paid the firm a cheque on 12th June. The cashier erroneously entered the gross amount in the bank column of the Cash Book.
4. Bank charges amounting to ₹ 3,000 had not been entered in Cash-Book.
5. On 28th June, a customer of the company directly deposited the amount in the bank ₹ 4,00,000, but no entry had been made in the Cash Book.
6. ₹ 11,200 paid into the bank had been entered twice in the Cash Book.
7. A debit of ₹ 11,00,000 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into Bank again on 5th July, 2022.

Prepare Bank Reconciliation Statement on 30 June, 2022.

SOLUTION**Bank Reconciliation Statement on 30th June, 2022**

Particulars	Details (₹)	Amount (₹)
Balance as per the Pass Book		10,39,200
Add: Deposited with bank but not credited	3,09,200	
Payment of Hire Purchase installments not entered in the Cash Book (₹ 3,00,000 x 3)	9,00,000	
Discount allowed wrongly entered in bank column	16,000	
Bank charges not entered in the Cash Book	3,000	
Deposit entered in the Cash Book twice	11,200	
Cheque returned 'out of date' entered in the Cash Book	11,00,000	23,39,400

		33,78,600
Less: Direct deposit by customer not entered in the Cash Book		(4,00,000)
Balance as per the Cash Book		29,78,600

ILLUSTRATION 11

Mr. Manoj is employed by Century Rayon and Carpets Pvt Ltd. as their cashier. The main responsibility of Mr. Manoj is to maintain the company's cash book and prepare a bank reconciliation statement at the end of each month. The cash book (only bank column) is set out below together with a copy of the bank statement for the month of February 2022.

You are required to :

- a) Reconcile the cash book with the bank statement.
- b) Make necessary entries to update the cash book.
- c) Start with the balance as per cash book, list any unpresented cheques and sub-total on the reconciliation statement.

Century Rayon and Carpets Pvt Ltd**Cash Book (Bank Column only)**

Date	Particulars	Amount Dr. ₹	Date	Particulars	Amount Cr. ₹
01/02/2022	To Balance b/d	1,42,500	03/02/2022	By Bhagwandas	1,980
01/02/2022	To Blue and Co	1,570	07/02/2022	By Maruti Ltd (400460)	1,500
04/02/2022	To GM Ltd	2,430	12/02/2022	By Jackson Ltd (400461)	54,000
08/02/2022	To Robinson Ltd	910	18/02/2022	By PC computers (400462)	1,420
13/02/2022	To Donald	750	24/02/2022	By Shiv garage (400463)	49,000
20/02/2022	To Avenue Super mart	4,200	28/02/2022	By Petty cash (400465)	1,500
28/02/2022	To Sleep Well Ltd	940		By Shweta & Co (400464)	2,100
				By AV Partners (400466)	5,200
				By Balance c/d	36,600
		1,53,300			1,53,300

Customer: Century Rayon and Carpets Pvt Ltd
Account No – xxxxx0439

Account Statement for the month of February 2022

Date	Particulars	Amount Dr.	Amount Cr.	Dr. or Cr.	Balance ₹
1/02/2022	Balance b/d				1,42,500
3/02/2022	Cheques		1,570	Cr.	1,44,070
5/02/2022	Maruti Ltd	1,500		Dr.	1,42,570
7/02/2022	Bhagwandas	1,980		Dr.	1,40,590
12/02/2022	GM Ltd		2,430	Cr.	1,43,020
15/02/2022	Robinson Ltd		910	Cr.	1,43,930
20/02/2022	Premium of New India Insurance Ltd	3,800		Dr.	1,40,130
14/02/2022	Donald		750	Cr.	1,40,880
14/02/2022	400463	49,000		Dr.	91,880
23/02/2022	cheques		4,200	Cr.	96,080
26/02/2022	Savita	1,030		Dr.	95,050
26/02/2022	400465	1,500		Dr.	93,550
27/02/2022	Shreya		2,200	Cr.	95,750
28/02/2022	Bank charges	2,538		Dr.	93,212

SOLUTION

In the books of Century Rayon and Carpets Pvt Ltd

a) Journal entries to be posted:

Bank A/c	Dr 2200	
To Shreya A/c		2200
Bank Charges A/c	Dr 2538	
Insurance premium A/c	Dr 3800	
Savita A/c	Dr 1030	
To Bank A/c		7368

After posting above entries, following will be the updated book of the company.

Cash Book (Bank Column)

Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d	36,600	By bank charges	2,538
To direct receipt in bank	2,200	By insurance premium	3,800
		By direct payment to Savita	1,030
		By balance c/d	31,432
	38,800		38,800

Bank Reconciliation Statement as on February 28, 2022

Particulars	Details	Amount ₹
Updated Balance as per Cash book		31,432
Add: Cheques issued but not yet presented for payment		
Jackson Ltd	54000	
P C Computers	1,420	
Shweta & Co	2,100	
A.V. Partners	5,200	62,720
		94,152
Less: Cheques deposited but not yet credited		
Sleep Well Ltd	940	940
Balance as per the bank statement		93,212

SUMMARY

- ◆ Bank pass book is merely a copy of the customer's account in the books of bank.
- ◆ Bank reconciliation statement is a statement which reconciles the balance as per cash book with the balance as per bank pass book by showing all causes of difference between the two.
- ◆ The salient features of bank reconciliation statement:
 - ◆ The reconciliation will bring out any errors that may have been committed either in the cash book or in the pass book;
 - ◆ Any undue delay in the clearance of cheques will be shown up by the reconciliation;

- ◆ ✤ A regular reconciliation discourages the accountant of the bank from embezzlement. There have been many cases when the cashiers merely made entries in the cash book but never deposited the cash in the bank; they were able to get away with it only because of lack of reconciliation.
- ◆ ✤ It helps in finding out the actual position of the bank balance.
- ◆ The difference in the balances of both the books can be because of the following reasons:
 1. Timing differences,
 2. Transactions;
 3. Errors.
- ◆ Bank reconciliation can be started from any of the following four balances given in the question:
 1. Dr. balance as per cash book
 2. Cr. balance as per cash book
 3. Dr. balance as per pass book
 4. Cr. balance as per pass book
- ◆ There are two methods of reconciling the bank balances :
 1. Bank reconciliation statement without preparation of adjusted cash-book.
 2. Bank reconciliation statement after the preparation of adjusted cash-book.

TEST YOUR KNOWLEDGE

True or False

1. *Bank Reconciliation is the process of reconciling cash column of the cash book and bank column of the cash book.*
2. *There are 3 types of differences between cash book and pass book namely Timing, Transactions & Errors.*
3. *Adjusting the cash book for any errors and/or omissions before preparing bank reconciliation is optional when the reconciliation is done at the end of the financial year.*
4. *Debit balance in cash book is same as overdraft as per pass book.*
5. *Bank charges debited by the bank is an example of timing difference for the purposes of bank reconciliation.*

6. Overcasting of the debit side of the cash book is an example of a difference that is due to error.
7. When we start bank reconciliation with a debit balance in cash book, then cheques issued but not yet presented should be added back to arrive at the balance as per pass book.
8. The bank charges charged by the bank should be deducted when bank reconciliation statement is being prepared starting from a credit balance of pass book.
9. When the causes of differences between pass book balance and cash book is not known, then the bank reconciliation statement can be prepared by matching the two books and identifying any unticked items in both sets.
10. While preparing the bank reconciliation statement starting with debit balance as per pass book or bank statement, the deposited cheques that are not yet cleared need not be adjusted.
11. Cash book shows a debit balance of ₹ 50,000 and the only difference from the balance as shown in pass book relates to cheques issued for ₹ 60,000 but not yet presented for payment. The balance as per pass book should be ₹ 1,10,000.
12. Overcasting of credit side of the cash book shall result in a higher bank balance in cash book when compared with pass book balance.
13. A cheque for ₹ 25,000 that was issued and was also presented for payment in same month but erroneously recorded on debit side of the cash book would cause a difference of ₹ 50,000 from the balance in pass book.
14. A direct debit by bank on account of any payment as may be instructed by customer should be recorded on credit side of cash book.
15. Bank Reconciliation Statement can be prepared in two formats – "Balance" presentation and "Plus & Minus" presentation.
16. The difference between cash book & pass book that relates to errors are those mostly made by Bank.
17. A cheque for ₹ 80,000 that was discounted from bank was dishonoured and the bank charged ₹ 1,600 as the charges on account of same. While starting with debit balance in cash book for preparing bank reconciliation statement, we need to deduct ₹ 78,400 to reconcile with pass book.
18. Interest on savings bank that is allowed or credited by bank is generally recorded in cash book prior to it being recorded by bank.
19. A regular bank reconciliation discourages the accountants to be involved in any kind of funds embezzlement.

20. *Timing difference relates the transactions that are recorded in the same period in both cash book and also the bank pass book.*

Multiple Choice Questions

1. *When the balance as per Cash Book is the starting point, direct deposits by customers are:*
 - (a) *Added*
 - (b) *Subtracted*
 - (c) *Not required to be adjusted.*
2. *A debit balance in the depositor's Cash Book will be shown as:*
 - (a) *A debit balance in the Bank Statement.*
 - (b) *A credit balance in the Bank Statement.*
 - (c) *An overdrawn balance in the Bank Statement.*
3. *When balance as per Pass Book is the starting point, interest allowed by Bank is*
 - (a) *Added*
 - (b) *Subtracted*
 - (c) *Not required to be adjusted*
4. *A Bank Reconciliation Statement is prepared with the help of:*
 - (a) *Bank statement and bank column of the Cash Book.*
 - (b) *Bank statement and cash column of the Cash Book*
 - (c) *Bank column of the Cash Book and cash column of the Cash Book.*
5. *The cash book showed an overdraft of ₹ 1,50,000, but the pass book made up to the same date showed that cheques of ₹ 10,000, ₹ 5,000 and ₹ 12,500 respectively had not been presented for payments; and the cheque of ₹ 4,000 paid into account had not been cleared. The balance as per the pass book will be:*
 - (a) ₹ 1,10,000
 - (b) ₹ 2,17,500
 - (c) ₹ 1,26,500

6. When drawing up a Bank Reconciliation Statement, if you start with a debit balance as per the Bank Statement, the cheque issued but unpresented should be:
- Added;
 - Deducted;
 - Not required to be adjusted.
7. When drawing up a BRS if you start with a Dr. Balance as per Bank Statement, the following are added:
- Cheque issued but not presented to bank
 - B/R collected directly by bank
 - Overcasting of the Dr. Side of bank A/c in the cash book.
- only 1
 - only 1& 2
 - all of the above
8. A bank reconciliation statement is mainly prepared to:
- Reconcile the cash balance of the cash book
 - Reconcile the difference between the bank balance shown by the cash book and bank passbook
 - both a & b

Theory Questions

- Write short note on Bank reconciliation statement.
- State the causes of difference between the balance shown by the pass book and the cash book.

Practical Questions

- From the following particulars prepare a bank reconciliation statement as on 31st December 2022:
 - On 31st December, 2022 the cash-book of a firm showed a bank balance of ₹ 60,000 (debit balance).
 - Cheques had been issued for ₹ 15,00,000, out of which cheques worth ₹ 4,00,000 only were presented for payment.

- (iii) Cheques worth ₹ 11,40,000 were deposited in the bank on 28th December, 2022 but had not been credited by the bank. In addition to this, one cheque for ₹ 5,00,000 was entered in the cash book on 30th December, 2022 but was banked on 3rd January, 2023.
- (iv) A cheque from Susan for ₹ 4,00,000 was deposited in the bank on 26th December 2022 but was dishonoured and the advice was received on 2nd January, 2023.
- (v) Pass-book showed bank charges of ₹ 2000 debited by the bank.
- (vi) One of the debtors deposited a sum of ₹ 5,00,000 in the bank account of the firm on 20th December, 2022 but the intimation in this respect was received from the bank on 2nd January, 2023.
- (vii) Bank pass-book showed a debit balance of ₹ 3,82,000 on 31st December, 2022.
2. According to the cash-book of Gopi, there was a balance of ₹ 44,50,000 in his bank on 30th June, 2022. On investigation you find that:
- (i) Cheques amounting to ₹ 6,00,000 issued to creditors have not been presented for payment till the date.
 - (ii) Cheques paid into bank amounting to ₹ 11,05,000 out of which cheques amounting to ₹ 5,50,000 only collected by the bank up to 30th June 2022.
 - (iii) A dividend of ₹ 40,000 and rent amounting to ₹ 6,00,000 received by the bank and entered in the pass-book but not recorded in the cash book.
 - (iv) Insurance premium (up to 31st December, 2022) paid by the bank ₹ 27,000 not entered in the cash book.
 - (v) The payment side of the cash book had been under casted by ₹ 5,000.
 - (vi) Bank charges ₹ 1,500 shown in the pass book had not been entered in the cash book.
 - (vii) A bill payable of ₹ 2,00,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 60,000 had been discounted with the bank at a cost of ₹ 1,000 which had also not been recorded in cash book.

Required:

- (a) to make the appropriate adjustments in the cash book, and
- (b) to prepare a statement reconciling it with the bank pass book.

3. Prepare a bank reconciliation statement as on 30th September, 2022 from the following particulars:

Particulars	₹
Bank balance as per pass-book	10,00,000
Cheque deposited in the bank, but no entry was passed in the Cash-Book	5,00,000
Cheque received, but not sent to bank	11,20,000
Credit side of the bank column cast short	2,000
Insurance premium paid directly by the bank under the standing advice	60,000
Bank charges entered twice in the cash book	2,000
Cheque issued, but not presented to the bank for payment	5,00,000
Cheque received entered twice in the cash book	10,000
Bills discounted dishonoured not recorded in the cash book.	5,00,000

4. Prepare a bank reconciliation statement from the following particulars on 31st March, 2022:

Particulars	₹
Debit balance as per bank column of the cash book	37,20,000
Cheque issued to creditors but not yet presented to the bank for payment	7,20,000
Dividend received by the bank but not yet entered in the cash book	5,00,000
Interest allowed by the bank	12,500
Cheques deposited into bank for collection but not collected by bank up to this date.	15,40,000
Bank charges	2,000
A cheque deposited into bank was dishonoured, but no intimation received	3,20,000
Bank paid house tax on our behalf, but no information received from bank in this connection.	3,50,000

5. Prepare a bank reconciliation statement from the following particulars on 31st March, 2022 and show the balance as per cash book:

- i) Overdraft as per passbook on March 31, 2022, is ₹ 3,00,000.
- ii) Interest on bank overdraft not entered in the cash book Rs. 36,500

- iii) Insurance premium of Rs. 17,950 was due and paid by the bank but same has not been accounted in the books.
 - iv) Cheques drawn in the last week of March, 2022, but not cleared till date for ₹ 13,000 and Rs. 23,500.
 - v) Cheques deposited into bank on February, 2022, but yet to be credited on dated March 31, 2022 Rs. 56,000.
 - vi) Amount of Rs. 20,500 is wrongly debited by the bank.
 - vii) Interest on Investment Rs. 83,800 collected and credited by bank but the same has not been entered in the Cash Book.
6. The Cash-book of M/s ABC shows ₹ 27,570 as the balance at Bank as on 31st March, 2022. But this does not agree with balance as per the Bank Statement. On scrutiny following discrepancies were found:
- (i) Subsidy ₹ 10,250 received from the government directly by the bank, but not advised to the company.
 - (ii) On 15th March, 2022 the payments side of the Cash-book was under cast by ₹ 350.
 - (iii) On 20th March, 2022 the debit balance of ₹ 2,156 as on the previous day, was brought forward as credit balance in Cash-book.
 - (iv) A customer of the M/s ABC, who received a cash discount of 5% on his account of ₹ 2,000, paid to M/s ABC a cheque on 24th March, 2022. The cashier erroneously entered the gross amount in the Cash-Book.
 - (v) On 10th March, 2022 a bill for ₹ 5,700 was discounted from the bank, entered in Cash-book, but proceeds credited in Bank Statement amounted to ₹ 5,500 only.
 - (vi) A cheque issued amounting to ₹ 1,725 returned marked 'out of date'. No entry made in Cash-book.
 - (vii) Insurance premium ₹ 756 paid directly by bank under a standing order. No entry made in cash-book.
 - (viii) A bill receivable for ₹ 1,530 discounted for ₹ 1,500 with the bank had been dishonoured on 30th March, 2022, but advice was received on 1st April, 2022.
 - (ix) Bank recorded a Cash deposit of ₹ 1,550 as ₹ 1,505.

Prepare Bank Reconciliation Statement on 31st March, 2022

ANSWERS/HINTS

True and False

1. False : Bank Reconciliation Statement reconciles bank column of cash book with the balance in the pass book i.e. customer account in the books of bank.
2. True : These are the three broad categories.
3. False : Adjusting the cash book is mandatory when bank reconciliation is done at the end of the financial year.
4. False : Debit balance as per cash book should be represented by credit or favourable balance in pass book.
5. False : Bank charges are example of the transactions that bank carries out by itself and the same has not been recorded in the cashbook until statement is obtained from the bank.
6. True : Overcasting is an example of an error.
7. True : Since the cheques issued would have been recorded as payments and bank balance was credited in cash book, we need to add it back as the same is not yet deducted from our bank balance.
8. False : Bank charges should be added when we start with credit or favourable balance in pass book as bank would have debited the charges.
9. True : Since, we don't know the causes of difference, matching the two statements is only efficient way to identify the difference.
10. False : Cheques deposited but not yet cleared should be subtracted from debit or unfavourable balance in pass book.
11. True : Cheques issued but not yet presented should be added back to a debit balance in cash book to arrive at pass book balance i.e. ₹ 50,000 + ₹ 60,000 = ₹ 1,10,000.
12. False : Overcasting of credit side means excessive payments are recorded and hence would lower the bank balance.
13. True: ₹ 25,000 payment is recorded as a receipt and hence it will have to be adjusted twice (once to nullify and then once to record actual payment) hence causing the difference of double amount.
14. True : It is an example of a payment instructed by customer to be directly debited by bank, and hence credited in the cash book.
15. True : Reconciliation statement can be prepared in either of the two formats.

16. False : Bank rarely makes mistakes, and hence differences that relate to errors are generally made in cash book.
17. False : We need to deduct ₹ 81,600 (i.e. both cheque returned & charges) from debit balance in cash book to arrive at balance as per pass book.
18. False : Interest allowed by bank is mostly recorded in cash book after the entry has been made in the pass book or bank statement.
19. True : In absence of any reconciliation, the accountants can mis-utilize the funds temporarily by recording the entry without actual depositing the cash.
20. False : Timing differences relate to the transactions that are recorded in cash book and pass book in two different periods.

Multiple Choice Questions

1.	(a)	2.	(b)	3.	(b)	4.	(a)	5.	(c)	6.	(a)
7.	(b)	8.	(b)								

Theoretical Questions

1. Bank reconciliation statement is prepared as on a particular date to reconcile and explain the causes of difference between the bank balance as per cash book and the same as per savings bank pass book or current account statement. At the end of each month, the bank balance as per cash book and that as per pass book /bank statement should be compared and, if there is disagreement, these balances should be reconciled stating exact reasons of disagreement. The reconciliation is made in a statement called the bank reconciliation statement.
2. The difference between the balance shown by the passbook and the cashbook may arise on account of the following:
 - (i) Cheques issued but not yet presented for payment.
 - (ii) Cheques deposited into the bank but not yet cleared.
 - (iii) Interest allowed by the bank.
 - (iv) Interest and expenses charged by the bank.
 - (v) Interest and dividends collected by the bank.
 - (vi) Direct payments by the bank.
 - (vii) Direct deposits into the bank by a customer.
 - (viii) Dishonour of a bill discounted with the bank.

- (ix) Bills collected by the bank on behalf of the customer.
- (x) An error committed in cash book or by the bank etc.
- (xi) Undercasting or Overcasting in cashbook.

Practical Questions

1. Bank Reconciliation Statement

as on 31st December, 2022

	₹	₹
Bank balance (Dr.) as per cash book		60,000
Add: Cheques issued but not yet presented for payment	11,00,000	
Cheques directly deposited by a customer not yet recorded in cash book	5,00,000	16,00,000
		16,60,000
Less: Cheques deposited but not yet credited by bank	11,40,000	
Cheque received and recorded in cash book but not yet banked	5,00,000	
Cheque dishonoured by the bank; the dishonour entry not yet passed in cash book	4,00,000	
Bank charges not recorded in cash book	2,000	(20,42,000)
Bank balance (Dr.) as per pass book		(3,82,000)

2. Cash Book (Bank Column)

Receipts	₹	Payments	₹
To Balance b/d	44,50,000	By Insurance premium A/c	27,000
To Dividend A/c	40,000	By Correction of errors	5,000
To Rent A/c	6,00,000	By Bank charges	1,500
To Bill receivable A/c	59,000	By Bill payable	2,00,000
	51,49,000	By Balance c/d	49,15,500
			51,49,000

Bank Reconciliation Statement**as on 30th June, 2022**

	₹
Adjusted balance as per cash book (Dr.)	49,15,500
Add: Cheques issued but not presented for payment till 30th June, 2022	6,00,000
Less: Cheques paid into bank for collection but not collected till 30th June, 2022	(5,55,000)
Balance as per pass book	49,60,500

3. Bank Reconciliation Statement as on 30th September, 2022

	₹	₹
Bank balance as per pass book	10,00,000	
Add: Cheque received but not sent to the bank	11,20,000	
Credit side of the bank column cast short	2,000	
Insurance premium paid directly not recorded in the cash book	60,000	
Cheque received entered twice in the cash book	10,000	
Bills dishonoured not recorded in the cash book	5,00,000	16,92,000
		26,92,000
Less: Cheque deposited into the bank but no entry was passed in the cash book	5,00,000	
Bank charges recorded twice in the cash book	2,000	
Cheque issued but not presented to the bank	5,00,000	(10,02,000)
Bank balance as per cash book		16,90,000

4. Bank Reconciliation Statement**as on 31st March, 2022**

	₹	₹
Debit balance as per cash book		37,20,000
Add: Cheque issued but not yet presented to bank for payment	7,20,000	
Dividend received by bank not entered in cash book	5,00,000	
Interest allowed by bank	12,500	12,32,500
		49,52,500
Less: Cheques deposited into bank but not yet collected	15,40,000	
Bank charges	2,000	

A cheque deposited into bank was dishonoured	3,20,000	
House tax paid by bank	3,50,000	(22,12,000)
Credit balance as per pass book		27,40,500

5. Bank Reconciliation Statement as on 31st March, 2022

	₹	₹
Balance as per bank statement (Overdraft)		3,00,000
Add: Cheques drawn but not cleared	36,500	
Interest collected on investments directly credited by bank	83,800	1,20,300
		4,20,300
Less: Interest on bank overdraft not entered in the cash book	36,500	
Cheques deposited but not yet cleared	56,000	
Insurance premium paid by bank	17,950	
Amount wrongly debited by bank	20,500	1,30,950
Overdraft as per cash book		2,89,350

6. Bank Reconciliation Statement on 31st March, 2022

	₹	
Bank Balance as per Cash Book		27,570
Add: (i) Subsidy from government received directly by the bank not recorded in the Cash Book	10,250	
(iii) Debit balance of ₹2,156 brought forward as credit balance on 20 th March, 2022 in the Cash Book	4,312	
(vi) Cheque issued returned marked 'out of date'	<u>1,725</u>	<u>16,287</u>
		43,857
Less: (ii) Cash Book under cast on 15 th March, 2022	350	
(iv) Discount allowed to a customer, however entry made at gross amount in the Cash Book	100	
(v) Commission charged by bank on discounting of bill, not considered in Cash Book	200	
(vii) Insurance Premium paid directly by bank under standing instructions	756	
(viii) Discounted B/R dishonoured; not entered in Cash Book	1,530	
(ix) Bank recorded short cash deposit	<u>45</u>	<u>2,981</u>
Balance as per Bank Statement		40,876