

# Chapter 4

## Bank Reconciliation Statement

### CHAPTER OVERVIEW

1. Services / activities of a Bank
2. Bank Pass Book and its relationship with Cash Book
3. Bank Reconciliation Statement
4. Reasons for difference between Cash Book and Bank Pass Book
5. Procedure for preparing Bank Reconciliation Statement

### 1. Activities of a Bank

1. **Acceptance of Deposits:** Banks accept various deposits like Term Deposits, Fixed Deposits, Current Deposit, Recurring Deposit, etc.
2. **Loans:** Lending of money is the major revenue earning activity for a Bank, e.g. Machinery Loan, Building Loan, Vehicle Loan, Personal Loan, etc.
3. **Discounting:** Discounting is a process by which the Bank enables its customer to receive the cash before the due date, in consideration of a small charge called Discount, e.g. Bills / Hundi / Pro-Note Discounting.
4. **Overdraft:** Bank allows overdrafts to its good customers so that they can make payment even when they do not have sufficient balance in their account at the Bank.
5. **Guarantee:** The Bank furnishes securities or guarantee for its customers whose credit is good. The Bank charges commission for this service.
6. **Letter of Credit:** Banks can issue Letter of Credit to facilitate commerce. LC Facility is used by businessmen to make payments to Suppliers, etc.
7. **Standing Instructions:** As per the instructions of the customer and on his behalf, a Bank makes payment to various parties on the due date, e.g. Telephone Bills, Insurance Premium, Credit Card Dues, etc.
8. **Demand Draft:** Banks issue Demand Draft based on its customer's request. Demand Draft is also called as Banker's Cheque, Pay Order, etc. in some cases.
9. **Travellers' Cheque:** For frequent travelers, to avoid the risk of carrying cash, the Bank can issue Travellers Cheque, which can be encashed by the traveller in a Bank at the destination.

### 2. Bank Pass Book or Statement

1. Bank Pass Book (also known as Bank Statement), is an extract of the Ledger Account of the customer, as per the Bank's Books of Accounts.
2. It is a periodical statement of account in which all transactions, i.e. deposits and withdrawals made by the customer during the particular period is recorded.
3. A comparative analysis of the Bank Pass Book and Cash Book (Bank Column) is given below.

Point	In Bank Pass Book	In Cash Book of the Customer / Business Entity
Debit Entries in Bank Pass Book	<ul style="list-style-type: none"><li>• Withdrawal of Cash,</li><li>• Payment of Cheques to Creditors, Expenses, etc.</li><li>• Bank Interest, Commission and Charges for various services rendered by the Bank.</li><li>• Payment by Bank under Standing Instructions.</li></ul>	These are recorded as " <b>Payments</b> " in the Cash Book, i.e. on the <b>credit side</b> of the Cash Book (Bank Column).
Credit Entries in Bank Pass Book	<ul style="list-style-type: none"><li>• Deposit of Cash into Bank,</li><li>• Receipt / Collection of cheques from Debtors,</li><li>• Other Incomes / Receipts, e.g. Interest, Dividend, Capital introduced, Loans taken, etc.</li><li>• Direct collection of Bills Receivable (B/R), Income on Investments, etc. by the Bank.</li></ul>	These are recorded as " <b>Receipts</b> " in the Cash Book, i.e. on the <b>debit side</b> of the Cash Book (Bank Column).

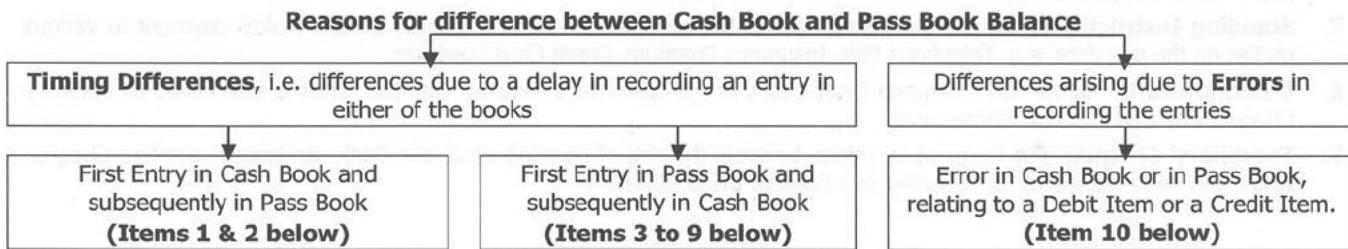
Point	In Bank Pass Book	In Cash Book of the Customer / Business Entity
Favourable Bank Balance	<b>Credit Balance</b> in the Bank Pass Book represents a favourable balance, i.e. Normal Balance.	Such favourable balance will normally appear in the <b>Debit Side</b> of Cash Book (Bank Column).
Overdraft Balance	<b>Debit Balance</b> in the Pass Book represents an unfavourable balance, i.e. Overdraft Balance.	Such overdraft balance will normally appear in the <b>Credit Side</b> of Cash Book (Bank Column).

**Note:** For each entry in the Pass book, there should be a corresponding opposite entry in the Cash Book. This is because the business enterprise treats the Bank as Debtor A/c (Receivable / Asset) and Bank treats the business enterprise as a Creditor (i.e. Payable / Liability).

### 3. Bank Reconciliation Statement

- Bank Reconciliation Statement:** At periodical intervals, the Customer / Business Entity (i.e. Account Holder in the Bank), should compare the balance in Bank as shown by the Cash Book, with the Pass Book. In case of any differences between the two, they should be analysed by listing out the various reasons for such difference. Such a Statement is called **Bank Reconciliation Statement**.
- Advantages:** The advantages of Bank Reconciliation Statement are –
  - To record entries which have been missed out in the Cash Book, e.g. Interest charged / allowed by the Bank, Bank Charges, and direct collection by Bank etc.
  - To identify any errors that may have been committed either in Cash Book or in Bank Statement,
  - To identify any undue delay in the clearance of cheques, and
  - To act as a deterrent against embezzlement frauds.

### 4. Differences between Bank Statement and Cash Book



The common reasons for difference between the balances as per Cash Book and the Bank Statement are –

- Cheques issued but not yet presented for payment:** Payment is recorded in the Cash Book immediately on issue of a cheque. However, the Bank debits the Customer's (i.e. Account Holders') Account only when the cheque is presented for payment. There may be a time gap between the entry in the Cash Book and in the Bank Statement.
- Cheques deposited into Bank but not yet credited / cleared:** Receipts are recorded in the Cash Book when the cheques are sent to the Bank. However, the Bank would credit the account only when they have been cleared.
- Interest allowed / credited by Bank:** Interest credited by the Bank in the account (if any) will be reflected only in the Bank Pass Book. They will have to be recorded in the Cash Book only after receiving the Pass Book.
- Interest & Dividends collected by Bank:** When investments are kept with the bank for safe custody, the income thereon may be collected by the Bank directly. This will be recorded in the Cash Book later.
- Direct Payments into Bank by a Customer:** Amount directly received by the Bank from the Company's customer will be recorded in the Cash Book only after analyzing the Pass Book.
- Bills Receivable collected by Bank on behalf of the Customer:** The Bank collects the proceeds of a Bills Receivable when the documents of title are sent through it. On collection, the Bank will credit the Customer's account. The Customer may make the entry only on receiving the Bank Statement at the end of the period.
- Interest & Expenses charged by Bank:** Interest and Expenses charged by Bank (for Cheque Book, Demand Draft, Outstation Cheque Collection, etc.) will be recorded by the customer Company only after it peruses the Pass Book.

8. **Direct Payments by Bank:** When Standing Instructions for certain payments, e.g. insurance premium, telephone bills, etc. are given to the Bank, the Company may come to know of the actual payment only on seeing the Pass Book at the end of the period.
9. **Dishonour of a Bill Discounted with the Bank:** If the Bank is not able to receive payment on Bills of Exchange discounted by it, it will debit the Customer's Account together with any charges thereon. The customer will make the entry only when he sees the Bank Statement.
10. **Error in Pass Book / Cash Book:** Errors committed in the Pass Book / Cash Book will also contribute to difference between the balances shown by the books.

**Note:**

- Items 1 & 2 are recorded in the Cash Book first, and later on reflected in the Bank Pass Book / Statement.
- Items 3 to 9 are recorded first in Pass Book, and later recorded in Cash Book. Out of these, Items 3, 4, 5 and 6 constitute Receipts into Bank Account, and Items 7, 8 and 9 constitute Payments out of Bank A/c.

## 5. Procedure for Bank Reconciliation Statement

BRS may be prepared in two ways –

- (a) **Without** adjusting the Cash Book, i.e. Preparation of BRS only.
- (b) **After** adjusting Cash Book for Items 3 to 10 given above, i.e. Preparation of Adjusted Cash Book and BRS.

The procedures for preparing the BRS is explained below –

### Method 1: Preparation of BRS only (i.e. without adjusting Cash Book)

Prepare **Bank Reconciliation Statement** as under –

Starting Point	Cash Book Balance		Pass Book Balance	
	Dr. Balance in Cash Book (Favourable)	Cr. Balance in Cash Book (Overdraft)	Dr. balance in Pass Book (Overdraft)	Cr. Balance in Pass Book (Favourable)
Balance as per Starting Point				
1. Cheques issued but not yet presented for payment ( <b>Item 1</b> )	Add	Subtract	Add	Subtract
2. Cheques deposited into Bank but not yet credited / cleared ( <b>Item 2</b> )	Subtract	Add	Subtract	Add
3. Interest allowed by Bank( <b>Item 3</b> )	Add	Subtract	Add	Subtract
4. Interest & Dividends collected by Bank ( <b>Item 4</b> )	Add	Subtract	Add	Subtract
5. Direct Payments into Bank by a Customer ( <b>Item 5</b> )	Add	Subtract	Add	Subtract
6. Bills Receivable collected by Bank on behalf of the Customer ( <b>Item 6</b> )	Add	Subtract	Add	Subtract
7. Interest & Expenses charged by Bank ( <b>Item 7</b> )	Subtract	Add	Subtract	Add
8. Direct Payments by Bank ( <b>Item 8</b> )	Subtract	Add	Subtract	Add
9. Dishonour of a Bill Discounted with the Bank ( <b>Item 9</b> )	Subtract	Add	Subtract	Add
10. Wrong Entries ( <b>Item 10</b> )				
(a) Wrong Debit in Cash Book or in Pass Book, undercasting of Cr. Side of Cash Book, overcasting of Dr. Side of Cash Book, etc.	Subtract	Add	Subtract	Add
(b) Wrong Credit in Cash Book or Pass Book, overcasting of Cr. Side of Cash Book, undercasting of Dr. Side of Cash Book	Add	Subtract	Add	Subtract

Balance as per End Point	Pass Book Balance		Cash Book Balance	
Positive (+) End Point balance indicates	<b>Favourable</b> i.e. Cr. Bal. as per Pass Book	<b>Overdraft i.e.</b> Dr. Bal. as per Pass Book	<b>Overdraft i.e.</b> Cr. Bal. as per Cash Book	<b>Favourable i.e.</b> Dr. Bal. as per Cash Book
Negative(-) End Point balance indicates	<b>Overdraft i.e.</b> Dr. Bal. as per Pass Book	<b>Favourable i.e.</b> Cr. Bal. as per Pass Book	<b>Favourable i.e.</b> Dr. Bal. as per Cash Book	<b>Overdraft i.e.</b> Cr. Bal. as per Cash Book

## Method 2: Preparation of Adjusted Cash Book and BRS

**Step 1:** Prepare **Adjusted Cash Book** with the following Debits and Credits –

Receipts	₹	Payments	₹
To balance b/d (in case of Favourable Balance as per Cash Book)		By balance b/d (in case of Overdraft balance as per Cash Book)	
To Interest allowed by Bank	<b>Item 3</b>	By Interest & Expenses charged by Bank	<b>Item 7</b>
To Interest & Dividends collected by Bank	<b>Item 4</b>	By Direct Payments by Bank as per SI	<b>Item 8</b>
To Direct Payments into Bank by Firm's Customers (being Firm's receipts)	<b>Item 5</b>	By Dishonour of a Bill Discounted with the Bank	<b>Item 9</b>
To Bill Receivable collected by Bank on behalf of Firm	<b>Item 6</b>		
To Rectification of Error in Cash Book, e.g. double credit posting, credit overcast, debit undercast, debit entry omission, etc.	<b>Item 10</b>	By Rectification of Error in Cash Book, e.g. double debit posting, debit overcast, credit undercast, credit entry omission, etc.	<b>Item 10</b>
To balance c/d (in case of Overdraft balance as per Cash Book)		By balance c/d (in case of Favourable balance as per Cash Book)	
<b>Total</b>		<b>Total</b>	

**Note:**

- The Closing Balance in the above Adjusted Cash Book is called **Adjusted Cash Balance**. This will be taken to the BRS prepared under Step 2 below.
- In Item 10, Errors made in Cash Book will be adjusted, but errors made in Pass Book will not be given effect in Cash Book.

**Step 2:** Prepare **Bank Reconciliation Statement** as under –

Starting Point	Cash Book Balance		Pass Book Balance	
	<b>Dr. Balance in Cash Book (Favourable)</b>	<b>Cr. Balance in Cash Book (Overdraft)</b>	<b>Dr. balance in Pass Book (Overdraft)</b>	<b>Cr. Balance in Pass Book (Favourable)</b>
1. Cheques issued but not yet presented for payment ( <b>Item 1</b> )	<b>Add</b>	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>
2. Cheques deposited into Bank but not yet credited / cleared ( <b>Item 2</b> )	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>	<b>Add</b>
3. Wrong Cr. in Pass Book ( <b>Item 10</b> )	<b>Add</b>	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>
4. Wrong Dr. in Pass Book ( <b>Item 10</b> )	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>	<b>Add</b>
Balance as per End Point	Pass Book Balance		Cash Book Balance	
Positive (+) End Point balance indicates	<b>Favourable</b> i.e. Cr. Bal. as per Pass Book	<b>Overdraft i.e.</b> Dr. Bal. as per Pass Book	<b>Overdraft i.e.</b> Cr. Bal. as per Cash Book	<b>Favourable i.e.</b> Dr. Bal. as per Cash Book
Negative(-) End Point balance indicates	<b>Overdraft i.e.</b> Dr. Bal. as per Pass Book	<b>Favourable i.e.</b> Cr. Bal. as per Pass Book	<b>Favourable i.e.</b> Dr. Bal. as per Cash Book	<b>Overdraft i.e.</b> Cr. Bal. as per Cash Book

**Illustration 1: Normal Cash Book Balance**

On comparing the Cash Book of Ganesh, with his Bank Pass Book, the following discrepancies were noted:

- Out of ₹ 20,500 paid into Bank on 27<sup>th</sup> March through cash and cheque, Cheques amounting to ₹ 7,500 were collected on 7<sup>th</sup> April.
- Cheque and Cash amounting to ₹ 4,800 were deposited in Bank on 26<sup>th</sup> March but credit was given for ₹ 3,800 only.
- Out of Cheques amounting to ₹ 7,800 drawn on 26<sup>th</sup> March, a Cheque for ₹ 2,500 was encashed on 3<sup>rd</sup> April.
- Cheques issued to Creditor amounting to ₹ 20,000 on 25<sup>th</sup> March of which cheques worth ₹ 3,000 were only presented to Bank upto 31<sup>st</sup> March.
- A Cheque for ₹ 1,000 entered in Cash Book was omitted to be banked before 31<sup>st</sup> March.
- A Cheque for ₹ 600 deposited into Bank but omitted to be recorded in Cash Book and was collected by the Bank on 30<sup>th</sup> March.
- A Bill Receivable for ₹ 520 previously discounted (Discount ₹ 20) with the Bank had been dishonoured but advice was received on 1<sup>st</sup> April.
- A Bill Payable for ₹ 10,000 was retired /paid by the Bank at ₹ 9,850 but the full amount of the Bill was credited in the Bank Column of the Cash Book.
- A Cheque of ₹ 1,080 credited in the Pass Book on 25<sup>th</sup> March being dishonoured is debited again in the Pass Book on 1<sup>st</sup> April. There was no entry in the Cash Book about the dishonour of the cheque until 15<sup>th</sup> April.
- A cheque of ₹ 200 drawn on this Bank A/c has been shown as drawn on another Bank A/c, in the Cash Book.

Prepare a BRS as at 31<sup>st</sup> March, if the Balance as per Cash Book on 31<sup>st</sup> March was ₹ 39,570.

**Solution:****Bank Reconciliation Statement as on 31<sup>st</sup> March**

	Particulars	Action	₹
	Balance as per Cash Book (Normal Balance) (Given)	Start	39,570
	Cheques deposited into Bank but collected on 7 <sup>th</sup> April (i.e. subsequently)	Less	- 7,500
	Cheques deposited but not cleared till 31 <sup>st</sup> March (4,800 – 3,800)	Less	- 1,000
	Cheques issued / drawn, but presented / encashed on 3 <sup>rd</sup> April	Add	+ 2,500
	Cheques issued, but not presented / encashed till 31 <sup>st</sup> March (20,000 – 3,000)	Add	+ 17,000
	Cheque received as per Cash Book, but omitted to be deposited in Bank	Less	- 1,000
	Cheque received and banked, but omitted in Cash Book	Add	+ 600
	Bills Receivable dishonoured and debited by Bank	Less	- 520
	Rebate on Bills Payable not considered in Cash Book (10,000 – 9,850)	Add	+ 150
	Wrong Entry in Cash Book, relating to Cheque issued	Less	- 200
	<b>Balance as per Pass Book (Favourable Balance)</b>	<b>Result</b>	<b>49,600</b>

**Note:** Cheque dishonoured is reversed by the Bank only on 1<sup>st</sup> April (i.e. after BRS date). Hence, it will not affect the BRS.

**Illustration 2: Normal Cash Book Balance**

N18

Prepare a Bank Reconciliation Statement from the following particulars as on 31<sup>st</sup> March 2018 – (₹)

(a) Debit Balance as per Bank Column of the Cash Book	18,60,000
(b) Cheque issued to Creditors but not yet presented to the Bank for Payment	3,60,000
(c) Dividend received by the Bank but not entered in the Cash Book	2,50,000
(d) Interest allowed by the Bank	6,250
(e) Cheques deposited into Bank for collection but not collected by Bank upto this date	7,70,000
(f) Bank Charges not entered in Cash Book	1,000
(g) A Cheque deposited into Bank was dishonored, but no intimation received	1,60,000
(h) Bank paid House Tax on our behalf, but no intimation received from Bank in this connection	1,75,000

**Solution:****Refer Various Illustrations in Chapter 4****Bank Reconciliation Statement as on 31<sup>st</sup> March**

	Particulars	Action	₹
	Balance as per Cash Book (Normal Balance)	Start	18,60,000
	Cheque issued to Creditors but not yet presented to the Bank for Payment	Add	3,60,000
	Dividend received by the Bank but not entered in the Cash Book	Add	2,50,000

Particulars	Action	₹
Interest allowed by the Bank	<b>Add</b>	6,250
Cheques deposited into Bank for collection but not collected by Bank upto this date	<b>Less</b>	- 7,70,000
Bank Charges not entered in Cash Book	<b>Less</b>	- 1,000
Cheque deposited into Bank was dishonored, but no intimation received	<b>Less</b>	- 1,60,000
Payment of House Tax by Bank on our behalf, but no intimation received	<b>Less</b>	- 1,75,000
<b>Balance as per Pass Book (Normal Balance)</b>		<b>13,70,250</b>

### Illustration 3: Normal Cash Book Balance

From the following particulars, prepare a Bank Reconciliation Statement as on 31<sup>st</sup> December-

- (1) On 31<sup>st</sup> December, the Cash Book of a Firm showed a bank balance of ₹ 6,000 (Debit balance).
- (2) Cheques had been issued for ₹ 5,000, out of which Cheques worth ₹ 4,000 only were presented for payment.
- (3) Cheques worth ₹ 1,400 were deposited in the Bank on 28<sup>th</sup> December but had not been credited by the bank. In addition to this, one Cheque for ₹ 500 was entered in the Cash Book 30<sup>th</sup> December but was banked on 3<sup>rd</sup> January.
- (4) A Cheque from Susan for ₹ 400 was deposited in the bank on 26<sup>th</sup> December but was dishonored and the advice was received on 2<sup>nd</sup> January.
- (5) Pass Book showed Bank Charges of ₹ 20 debited by the Bank.
- (6) One of the Debtors deposited a sum of ₹ 500 in the Bank Account of the Firm on 20<sup>th</sup> December but the intimation in this respect was received from the Bank on 2<sup>nd</sup> January.
- (7) Bank Pass Book showed a Credit balance of ₹ 5,180 on 31<sup>st</sup> December.

**Solution:**

### Bank Reconciliation Statement as on 31<sup>st</sup> December

Particulars	Action	₹
Balance as per Cash Book (Normal Balance) (Dr. Balance)	<b>Start</b>	6,000
Cheques issued, but not presented / encashed till 31 <sup>st</sup> December (5,000 - 4,000)	<b>Add</b>	+ 1,000
Cheques deposited but not yet credited by Bank	<b>Less</b>	- 1,400
Cheque received and recorded in Cash Book	<b>Less</b>	- 500
Cheque dishonoured by Bank	<b>Less</b>	- 400
Bank Charges not recorded in Cash Book	<b>Less</b>	- 20
Cheques directly deposited by a Customer not yet recorded in Cash Books	<b>Add</b>	+ 500
<b>Balance as per Pass Book (Cr.)</b>	<b>Result</b>	<b>5,180</b>

### Illustration 4: Overdraft Balance as per Cash Book

From the following data, ascertain the balance that would appear in Bank Pass Book of Gajapathy on 31<sup>st</sup> Dec –

- Bank Overdraft as per Cash Book on 31<sup>st</sup> December ₹ 6,34,000
- Interest on Overdraft for the month of December ₹ 16,000 is entered in Pass Book.
- Bank Charges of ₹ 300 for the above period are debited in the Pass Book.
- Cheques issued but not cashed prior to 31<sup>st</sup> December amounted to ₹ 1,16,800
- Cheques deposited into the Bank but not cleared before 31<sup>st</sup> December were for ₹ 2,17,000.
- Interest on investment collected by the Bank and credited in the Pass Book ₹ 1,20,000.

**Solution:**

### Bank Reconciliation Statement as on 31<sup>st</sup> December

Particulars	Action	₹
Overdraft Balance as per Cash Book (Given)	<b>Start</b>	6,34,000
Interest on Overdraft for Dec month entered in Pass Book	<b>Add</b>	+ 16,000
Bank Charges for the above period debited in the Pass Book	<b>Add</b>	+ 300
Cheques issued but not cashed prior to 31 <sup>st</sup> December	<b>Less</b>	- 1,16,800
Cheques deposited into the Bank but not cleared before 31 <sup>st</sup> December	<b>Add</b>	+ 2,17,000
Interest on investment collected by the Bank and credited in the Pass Book	<b>Less</b>	- 1,20,000
<b>Overdraft as per Pass Book</b>	<b>Result</b>	<b>6,30,500</b>

**Illustration 5: Overdraft Cash Book Balance**

The Bank Account of Mukesh was balanced on 31<sup>st</sup> March. It showed an Overdraft of ₹ 5,000. The Bank Statement of Mukesh showed a credit balance of ₹ 76,750. Prepare a Bank Reconciliation Statement taking the following into account:

- (1) Cheques issued but not presented for payment till 31<sup>st</sup> March – ₹ 12,000.
- (2) Cheques deposited but not collected by Bank till 31<sup>st</sup> March – ₹ 20,000.
- (3) Interest on Term Loan ₹ 10,000 debited by Bank on 31<sup>st</sup> March but not accounted in Mukesh's book.
- (4) Bank Charges ₹ 250 was debited by Bank during March but accounted in the books of Mukesh on 4<sup>th</sup> April.
- (5) An amount of ₹ 1,00,000 representing collection of Murukesh's Cheque was wrongly credited to the Account of Mukesh by the Bank in their Bank Statement.

**Solution:****Bank Reconciliation Statement as on 31<sup>st</sup> March**

	<b>Particulars</b>	<b>Action</b>	<b>₹</b>
	Balance as per Cash Book (Normal Balance) (Credit Balance)	<b>Start</b>	- 5,000
	Cheques issued, but not presented / encashed till 31 <sup>st</sup> March	<b>Add</b>	+ 12,000
	Cheques deposited into Bank but not collected in March	<b>Less</b>	- 20,000
	Interest on Long Term Loan debited by Bank	<b>Less</b>	- 10,000
	Bank Charges debited by Bank	<b>Less</b>	- 250
	Cheque wrongly credited by Bank	<b>Add</b>	1,00,000
	<b>Balance as per Pass Book (Favourable Balance)</b>	<b>Result</b>	<b>76,750</b>

**Illustration 6: Overdraft Balance as per Pass Book**

From the following information given by Ganapathy, prepare a BRS as on 31<sup>st</sup> December –

	<b>Transaction</b>	<b>₹</b>
	Bank Overdraft as per Pass Book	16,500
	Cheques issued but not presented for payment	8,750
	Cheques deposited with the Bank but not collected	10,500
	Cheques recorded in the Cash Book but not sent to the Bank for collection	2,000
	Payments received from customers directly by the Bank	3,500
	Bank Charges debited in the Pass Book	200
	Premium on Life Policy of Ganapathy paid by the Bank on standing advice	1,980
	A Bill for ₹ 3,000 (discounted with the Bank in November) dishonoured on 31 <sup>st</sup> December and Noting Charges paid by the Bank.	100

**Solution:****Bank Reconciliation Statement as on 31<sup>st</sup> December**

	<b>Particulars</b>	<b>Action</b>	<b>₹</b>
	Overdraft Balance as per Pass Book (Given)	<b>Start</b>	16,500
	Cheques issued but not presented for payment	<b>Add</b>	+ 8,750
	Cheques deposited with the Bank but not collected	<b>Less</b>	- 10,500
	Cheques recorded in the Cash Book but not sent to the Bank for collection	<b>Less</b>	- 2,000
	Payments received from customers directly by the Bank	<b>Add</b>	+ 3,500
	Bank Charges debited in the Pass Book	<b>Less</b>	- 200
	Premium on Life Policy of Ganapathy paid by the Bank on standing advice	<b>Less</b>	- 1,980
	Bill discounted dishonoured and Noting Charges paid by Bank (3,000 + 100)	<b>Less</b>	- 3,100
	<b>Overdraft as per Cash Book</b>	<b>Result</b>	<b>10,970</b>

**Illustration 7: Overdraft Pass Book Balance**

Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30<sup>th</sup> June 2018 from the particulars given below:

- (i) The Bank Pass Book had a debit balance of ₹ 25,000 on 30<sup>th</sup> June, 2018.
- (ii) A cheque worth ₹ 400 directly deposited into Bank by a customer but no entry was made in the Cash Book.
- (iii) Out of cheques issued worth ₹ 34,000, cheques amounting to ₹ 20,000 only were presented for payment till 30<sup>th</sup> June, 2018.
- (iv) A cheque for ₹ 4,000 received and entered in the Cash Book but it was not sent to the Bank.
- (v) Cheques worth ₹ 20,000 had been sent to Bank for collection but the collection was reported by the Bank as under.
  - (1) Cheques collected before 30<sup>th</sup> June, 2018. ₹ 14,000
  - (2) Cheques collected on 10<sup>th</sup> July, 2018. ₹ 4,000
  - (3) Cheques collected on 12<sup>th</sup> July, 2018. ₹ 2,000
- (vi) The Bank made a direct payment of ₹ 600 which was not recorded in the Cash Book.
- (vii) Interest on Overdraft charged by the bank ₹ 1,600 was not recorded in the Cash Book.
- (viii) Bank charges worth ₹ 80 have been entered twice in the cash book whereas Insurance charges for ₹ 70 directly paid by Bank was not at all entered in the Cash Book.
- (ix) The credit side of bank column of Cash Book was undercast by ₹ 2,000.

**Solution:**

**Refer Page 4.6 , Illustration 3**

**Bank Reconciliation Statement as on 30<sup>th</sup> June 2018**

Particulars	Action	₹
Overdraft Balance as per Pass Book (Given)	<b>Start</b>	25,000
Payments received from customers directly by the Bank	<b>Add</b>	+ 400
Cheques issued but not presented for payment (₹34,000 - ₹20,000)	<b>Add</b>	+ 14,000
Cheques recorded in the Cash Book but not sent to the Bank for collection	<b>Less</b>	- 4,000
Cheques deposited into Bank but collected on 10 <sup>th</sup> July 2018 and 12 <sup>th</sup> July 2018 (i.e. subsequently)	<b>Less</b>	- 6,000
Direct Payment by Bank not recorded in Cash Book	<b>Less</b>	- 600
Interest on Overdraft charged by Bank	<b>Less</b>	- 1,600
Bank Charges Entered Twice in Cash Book	<b>Add</b>	80
Insurance Charges Directly paid by Bank not entered in Cash Book	<b>Less</b>	- 70
Undercasting of Credit side of Cash Book	<b>Less</b>	- 2,000
<b>Overdraft as per Cash Book</b>	<b>Result</b>	<b>25,210</b>

**Illustration 8: Normal Pass Book Balance**

On 30<sup>th</sup> September, the Pass Book of Vignesh showed a balance of ₹ 3,750. An examination of the Cash Book and the Bank Statement reveals the following –

- Cheques of to ₹ 500 issued to Creditors before 30<sup>th</sup> Sep, were not presented for payment until that date.
- A Cheque for ₹ 8,200 deposited on 29<sup>th</sup> September was credited by the Bank only on 3<sup>rd</sup> October.
- A Cheque issued for ₹ 750 has been dishonoured before 30<sup>th</sup> Sep, but not recorded in Cash Book till 30<sup>th</sup> Sep.
- Cheques deposited before 30<sup>th</sup> September but not cleared amounting to ₹ 250
- A payment by cheque for ₹ 150 has been entered twice in the Cash Book.
- A Dividend of ₹ 350, received by the Bank directly has not been recorded in the Cash Book.
- On 29<sup>th</sup> September, the Bank credited an amount of ₹ 1,750 received from a customer of Vignesh, but was not intimated to Vignesh until 1<sup>st</sup> October.
- Bank Charges amounting to ₹ 50 not entered in the Cash Book.
- On 6<sup>th</sup> September, the Bank credited ₹ 2,000 to Vignesh's account erroneously.
- A Bill Receivable for ₹ 1,000 was discounted by Vignesh with his Bank. This bill was dishonoured on 28<sup>th</sup> September, but no entry was made in the books of Vignesh.
- Cheques issued upto 30<sup>th</sup> September but not presented for payment upto that date totaled ₹ 3750

You are required to prepare a Bank Reconciliation Statement as on 30<sup>th</sup> September.

**Solution:** **Bank Reconciliation Statement as on 30<sup>th</sup> September**

	Particulars	Action	₹
	Balance as per Pass Book (Given)	Start	3,750
	Cheques issued but not presented for payment	Less	- 500
	Cheques deposited with the Bank but not credited	Add	+ 8,200
	Cheque dishonoured not recorded in Cash Book	Less	- 750
	Cheques deposited with the Bank but not cleared	Add	+ 250
	Wrong Entry in Cash Book (Chq issued recorded twice)	Less	- 150
	Dividends received in Bank, not recorded in Cash Book	Less	- 350
	Direct collection from Customer by Bank, not recorded in Cash Book	Less	- 1,750
	Bank Charges not considered in Cash Book	Add	+ 50
	Wrong Credit in Pass Book by Bank	Less	- 2,000
	Bill discounted dishonoured not recorded in Cash Book	Add	+ 1,000
	Cheques issued but not presented for payment	Less	- 3,750
	<b>Balance as per Cash Book (Favourable Balance)</b>	<b>Result</b>	<b>4,000</b>

**Illustration 9:** BRS when both Cash Book and Pass Book are given

The following are the Cash Book & Pass Book of Vinayaka Bros. –

**Cash Book (Bank Column) for the month of March 2008**

Date	Receipts	₹	Date	Payments	₹
1	To balance b/d	6,000	3	By Cash a/c	2,000
6	To Sales a/c	3,000	7	By Modi	6,000
10	To Ram	6,500	12	By Patil	3,000
18	To Singhal	2,700	18	By Suresh	4,000
25	To Goyal	3,300	24	By Ramesh	1,500
31	To Patel	6,500	31	By Balance c/d	11,500
	<b>Total</b>	<b>28,000</b>		<b>Total</b>	<b>28,000</b>

**Pass Book for the month of April 2008**

Date	Particulars	Withdrawal ₹	Deposit ₹	Dr. or Cr.	Balance ₹
1	By Balance b/d		3,200	Cr.	3,200
3	By Goyal		3,300	Cr.	6,500
5	By Patel		6,500	Cr.	13,000
7	To Naresh	2,800		Cr.	10,200
12	To Ramesh	1,500		Cr.	8,700
15	To Bank Charges	200		Cr.	8,500
20	By Usha		1,700	Cr.	10,200
25	By Kalpana		3,800	Cr.	14,000
30	To Sunil	6,200		Cr.	7,800

Reconcile the balance of Cash Book on 31<sup>st</sup> March.

**Solution:**

- In this question, Cash Book is given for the March month, but Pass Book is given for April month. Hence, the Closing Balance of the Cash Book (₹ 11,500) should be reconciled with the opening balance of the Pass Book (₹ 3,200).
- On comparing / reconciling the above items / balances, the following reasons can be observed –
  - Cheques deposited into the Bank (Goyal ₹ 3,300 and Patel ₹ 6,800) in March were not credited by the Bank till 31<sup>st</sup> March (i.e. credited only in April)
  - Cheque issued to Ramesh for ₹ 1,500 in March has been presented for payment only on 12<sup>th</sup> April.

**Bank Reconciliation Statement as on 31<sup>st</sup> March**

Particulars	Action	₹
Balance as per Cash Book (Normal Balance) (Given)	Start	11,500
Cheques deposited into Bank but collected only in April (3,300 + 6,800)	Less	– 9,800
Cheques issued, but not presented / encashed till 31 <sup>st</sup> March	Add	+ 1,500
<b>Balance as per Pass Book (Favourable Balance)</b>	<b>Result</b>	<b>3,200</b>

**Illustration 10: BRS after Adjusting Cash Book for omissions / errors**

The Cash Book of Kapila showed a Bank Balance of ₹ 1,200 (Dr.) on 30<sup>th</sup> June. However, according to his Bank Statement the account was overdrawn. On investigation it was found that –

- Receipts Column of the Cash Book had been overcast by ₹ 1,100.
- Cheques drawn and entered in the Cash Book in June amounting to ₹ 1,670 were not presented until July.
- Discount received from a Supplier ₹ 100 had been included with the cheque entered in the Bank Column of the Cash Book in April.
- An amount of ₹ 750 paid directly into Kapila's Account by a customer was not entered in the Cash Book.
- A cheque payment of ₹ 1,230 in April had been entered in the Cash Book as ₹ 1,320.
- The Bank had charged Kapila's Business Account with a cheque for ₹ 2,200 in February, which should have been passed through Kapila's Private Account.
- Bank Charges of ₹ 80 on 31<sup>st</sup> March and ₹ 100 on 30<sup>th</sup> June had not yet been entered in the Cash Book.
- Cheque to the value of ₹ 3,780 received from customers was recorded in the Cash Book on 28<sup>th</sup> June but not entered by the Bank until 2<sup>nd</sup> July.

Rectify the errors / omissions in the Cash Book and prepare Bank Reconciliation Statement as on 30<sup>th</sup> June.

**Solution:**

**1. Adjusted Cash Book (for rectification of errors / omissions)**

Receipts	₹	Payments	₹
To balance b/d (given)	1,200	By Overcast of Receipts Side, now rectified	1,100
To Discount Recd wrongly recorded as payment to Supplier, now rectified	100	By Bank Charges omitted in Cash Book, now rectified (80 + 100)	180
To Sundry Debtors A/c (Direct Collection by Bank)	750		
To Rectification of Error in Cheque issued (1,230 recorded as 1,320, now rectified)	90	By balance c/d (Favourable balance as per Cash Book)	<b>860</b>
<b>Total</b>	<b>2,140</b>	<b>Total</b>	<b>2,140</b>

**2. Bank Reconciliation Statement as on 31<sup>st</sup> March**

Particulars	Action	₹
Balance as per Cash Book (Normal Balance) (Adjusted Cash Balance)	Start	860
Cheques deposited into Bank but collected only in July	Less	– 3,780
Cheques issued, but not presented / encashed till 30 <sup>th</sup> June	Add	+ 1,670
Error by Bank (Private A/c Cheque paid through Business Bank A/c)	Less	– 2,200
<b>Overdraft Balance as per Pass Book</b>	<b>Result</b>	<b>– 3,450</b>

**Illustration 11: BRS after Adjusting Cash Book for omissions / errors**

According to the Cash Book of Gopi, there was a balance of ₹ 44,500 standing to his credit in Bank on 30<sup>th</sup> June. On investigation, you find that –

- (1) Cheques amounting to ₹ 60,000 issued to Creditors have not been presented for payment till the date.
- (2) Cheques paid into Bank amounting to ₹ 1,05,000 out of which Cheques amounting to ₹ 55,000 only collected by the Bank upto 30<sup>th</sup> June.

- (3) A Dividend of ₹ 4,000 and Rent amounting to ₹ 6,000 received by the Bank and entered in the Pass Book but not recorded in the Cash Book.
- (4) Insurance Premium (upto 31<sup>st</sup> December) paid by the Bank ₹2,700 not entered in the Cash Book.
- (5) The payment side of the Cash Book had been undercasted by ₹ 50.
- (6) Bank Charges ₹ 50 shown in the Pass Book had not been entered in the Cash Book.
- (7) A Bill Payable of ₹ 2,000 has been paid by the Bank but is not entered in the Cash Book and Bill Receivable for ₹ 6,000 has been discounted with the Bank at a cost of ₹ 100 which has also not been recorded in Cash Book.

Make the appropriate adjustments in the Cash Book, and Prepare a Statement reconciling it with the Bank Pass Book.

**Solution:**

**1. Cash Book (Bank Column)**

Receipts	₹	Payments	₹
To Balance b/d	44,500	By Insurance Premium A/c	2,700
To Dividend A/c	4,000	By Correction of Error	50
To Rent A/c	6,000	By Bank Charges	50
To Bill Receivable A/c	5,900	By Bill Payable A/c	2,000
		By Balance c/d	55,600
<b>Total</b>	<b>60,400</b>	<b>Total</b>	<b>60,400</b>

**2. Bank Reconciliation Statement as on 30<sup>th</sup> June**

Particulars	₹
Adjusted Balance as per Cash Book (Dr.)	55,600
<b>Add:</b> Cheques issued but not presented for payment till 30 <sup>th</sup> June	60,000
<b>Less:</b> Cheques paid into bank for collection but not collected till 30 <sup>th</sup> June	(50,000)
<b>Balance as per Pass Book</b>	<b>65,600</b>

**Illustration 12: BRS after Adjusting Cash Book of Errors and Omissions**

N 19

On 30<sup>th</sup> September, 2018, the bank account of XYZ, according to the bank column of the cash book, was overdrawn to the extent of ₹ 8,062. An examination of the Cash book and Bank Statement reveals the following:

- A cheque for ₹ 11,14,000 deposited on 29<sup>th</sup> September, 2018 was credited by the bank only on 3<sup>rd</sup> October, 2018.
- A payment by cheque for ₹ 18,000 has been entered twice in the Cash book.
- On 29<sup>th</sup> September, 2018, the bank credited an amount of ₹ 1,15,400 received from a customer of XYZ, but the advice was not received by XYZ until 1<sup>st</sup> October, 2018.
- Bank charges amounting to ₹ 280 had not been entered in the cash book.
- On 6<sup>th</sup> September 2018, the bank credited ₹ 30,000 to XYZ in error.
- A bill of exchange for ₹ 1,60,000 was discounted by XYZ with his bank. The bill was dishonoured on 28<sup>th</sup> September, 2018 but no entry had been made in the books of XYZ.
- Cheque issued upto 30<sup>th</sup> September, 2018 but not presented for payment upto that date totalled ₹ 13,46,000.
- 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.

You are required:

To show the appropriate rectifications required in the cash book of XYZ to arrive at the correct balance on 30<sup>th</sup> September, 2018 and to prepare a Bank Reconciliation Statement as on that date.

**Similar to Illustration 6, Page 4.8**

**Solution:**

**1. Adjusted Cash Book (for rectification of errors / omissions)**

Receipts	₹	Payments	₹
To Cheque Payment recorded twice, now rectified	18,000	By balance b/d (given)	8,062
To Sundry Debtors A/c (Direct Collection by Bank)	1,15,400	By Bank Charges omitted in Cash Book, now rectified	280

<b>Receipts</b>	₹	<b>Payments</b>	₹
To Bill Receivable (Bill Discounted Rs.60,000 Less: Discounting Charges ₹1,000)	59,000	By Sundry Debtors A/c (Bill Discounted, dishonored, omitted in Cash Book, now rectified)	1,60,000
To balance c/d (Overdraft balance as per Cash Book)	1,75,942	By Bills Payable (Being Bills Honoured, omitted in Cash Book, now rectified)	2,00,000
<b>Total</b>	<b>3,68,342</b>	<b>Total</b>	<b>3,68,342</b>

### 2. Bank Reconciliation Statement as on 30<sup>th</sup> September 2018

<b>Particulars</b>	<b>Action</b>	₹
Balance as per Cash Book (Overdraft Balance) (Adjusted Cash Balance)	Start	1,75,942
Cheques deposited into Bank but collected only on 3 <sup>rd</sup> October	Add	11,14,000
Cheques issued, but not presented / encashed till 30 <sup>th</sup> June	Less	(13,46,000)
Error by Bank (Wrong Credit to XYZ)	Less	(30,000)
<b>Favourable Balance as per Pass Book</b>	<b>Result</b>	<b>86,058</b>

State with reasons, whether the following statements are True or False:

<b>Statements</b>	<b>T/F</b>	<b>Reasoning</b>
(a) Bank Reconciliation Statement (BRS) is prepared to arrive at the Bank Balance.	False	BRS is prepared to reconcile and explain the causes of differences between Bank Balance as per Cash Book and the same as per Bank Statement as on a particular date.
(b) Interest charged by the Bank will be deducted, when the Overdraft as per the Cash Book is the starting point for making BRS.	False	Here Interest charged by the Bank will be added, since this charge when accounted for, will increase the Overdraft (credit balance) as shown by the Cash Book.
(c) If the balance as per Cash Book and Pass Book are the same, there is no need to prepare a Reconciliation Statement.	False	BRS is prepared to find out the cause of difference in individual items of Cash Book and Pass Book, even though the balance as per Cash Book and Pass Book is same.