

RECORDING OF TRANSACTIONS – II

SPECIAL PURPOSE BOOKS WITH JOURNAL PROPER AND BANK RECONCILIATION STATEMENT

SPECIAL PURPOSE BOOKS

Introduction:

Journal is a book of primary entry. Normally, one bound book used as journal is introduced for recording all transactions of a business concern if the number of transactions are few. Since journal is a book of account where transactions are recorded in chronological order, only one person can record the transactions at a time. It is possible to do with one journal where the number of transactions to be recorded are limited in number and within manageable limit of one person for recording them daily. But with the growth of business and expanding business activities, and increase in the number of transactions, it becomes difficult to manage with one bound book as journal.

Again, the process of recording all transactions in journal and posting them individually in the ledger is laborious and time-consuming, specially when the transactions are numerous. Moreover, work cannot be carried out speedily. So a device which saves both labour and time is to be found out to record the transactions speedily.

In order to avoid this difficulty, journal is sub-divided into a number of special journals, each part being allotted to record transactions of similar and repetitive nature. These special journals are known as the '**Subsidiary Books**', or the '**Books of Original Entry**' or '**Day Books**' or '**Special Purpose Books**'.

It should be remembered that each such record is a part and parcel of the whole journal and the journal is only complete when all the sub-divided journals are taken together. They are, however, separated only for the sake of convenience and the final result can only be achieved if all the portions are taken and treated together.

Again, all the sub-divided Journals function as auxiliary or subsidiary to the principal book viz, the ledger; hence they are also called Subsidiary Books. Transactions in a business firm, now-a-days, are not recorded directly to accounts concerned in the Ledger. They are, at first, entered in the Subsidiary Books and then posted to the Ledger.

Necessity of Special Purpose Books:

(1) ***Delay in recording:*** When transactions are numerous, one person may not be able to record the transactions in time. On the other hand, a second man cannot write the same book simultaneously. Thus, recording may be delayed and work may pile up.

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- (2) **Bulkiness:** If all the transactions are to be recorded in one book, it is likely to become large and bulky. Thus it will be difficult to handle.
- (3) **Chances of more errors:** As one person records all transactions in the Journal, he may commit more errors and mistakes.
- (4) **Chances of frauds:** As one person is involved in recording all the transactions, chances of committing frauds are more.
- (5) **Location of transaction:** As all transactions are recorded in a single book, transactions cannot be easily located.
- (6) **More time and labour required:** Recording transactions in one journal and their subsequent posting to the ledger is a time and labour consuming process.

These disadvantages of maintaining one journal for all transactions give rise to the subdivision of the Journal.

Various Special Purpose Books:

The following are various Special Purpose books or subsidiary books used by an enterprise:

(i) **Purchases Book :** All credit purchases of goods are recorded in this book. Goods mean those articles which are purchased for resale or processing. Details showing the suppliers' names and addresses, description of goods, prices, trade discount allowed, if any, etc. are recorded in respective columns of this book. This book is also known as Purchase Day Book, Purchase Journal, Bought Day Book, Bought Book, Bought Journal, Inward Invoice Book or Invoice Book.

Cash purchases of goods and purchases of fixed assets either in cash or on credit is not recorded in this book.

(ii) **Sales Book :** All credit sale of goods are recorded in this book. Goods means the things in which the business deals in. Details showing the customers' names and addresses, description of goods, prices, trade discount allowed, if any, etc. are recorded in respective columns of this book. This book is also known as Sales Day Book, Sales Journal, Sold Day Book, Sold Book, Sold Journal, Outward Invoice Journal or Outward Invoice Book.

Cash sale of goods and sale of fixed assets either in cash or on credit is not recorded in this book.

(iii) **Purchases Return Book or Returns Outward Book:** Goods purchased on credit earlier and returned to the supplier by the business is recorded in this book. Detail particulars of goods returned, suppliers' names and addresses, cost of goods, etc. are recorded in respective columns of this book. The other names of this book are Returns Outward Book and Returns Outward Journal.

(iv) **Sales Return Book or Returns Inward Book :** Goods sold on credit earlier and returned by the customer to the business is recorded in this book.

Detail particulars of goods returned, customers' names and addresses, selling price of goods, etc. are recorded in respective columns of this book. The other names of this book are Returns Inward Book and Returns Inward Journal.

(v) **Bills Receivable Book**: In this book all Bills of Exchanges and Promissory Notes received by the business from various parties are recorded. Detailed particulars of such bills regarding parties' names, period of the bill, date of maturity, amount of the bill etc. are recorded in respective columns of this book.

(vi) **Bills Payable Book**: In this book all Bills of Exchanges and Promissory Notes issued by the business to various parties are recorded. Detailed particulars of such bills regarding parties' names, period of the bill, date of maturity, amount of the bill etc. are recorded in respective columns of this book..

(vii) **Cash Book** : This book is meant for recording all cash transactions i.e. all cash receipts and all cash payments are recorded in this book. All banking transactions relating to receipts and payments are also recorded in this book where the cash book includes bank columns. However, where all receipts are deposited into bank and all payments are made through banking channel, another cash book called 'Petty Cash Book' is also maintained to record payment of petty expenses made in cash.

(viii) **Journal Proper** : This book records all those transactions, which cannot be conveniently recorded in any of the other special purpose books or subsidiary books.

Thus instead of maintaining one journal i.e. recording all transactions in one journal, the above mentioned eight books or journals are maintained.

Advantages of Special Purpose books or Sub-division of Journals:

The maintenance of special purpose books or day books or special journals or sub-division of journals gives rise to certain advantages. These are explained below:

(a) ***Easy Handling of Books***: As one Journal maintained earlier is subdivided into a number of books, no book will be bulky. They can be easily handled.

(b) ***Division of work according to ability***: Since there will be eight subsidiary books in place of one journal, the accounting work can be divided among different accounting staff. This division of work to different staff can be made according to their ability. Also, the different accounting staff can do the accounting work on different books at the same time, as a result the work will be completed in a very short time.

(c) ***Increase in Efficiency***: As each person is entrusted the work of a particular book over a period of time, he becomes efficient in handling it. This will lead to the work being completed quickly and more accurately as he is likely to develop efficiency in his work.

(d) ***Classified Information***: Each subsidiary book provides information relating to a particular aspect of the business. For example, the information

CASH BOOK

Meaning of Cash Book:

Cash Book is a special purpose book which is used to record all transactions relating to cash receipts and cash payments in chronological order. When the books of original entry are sub-divided, cash transactions are not recorded in the journal. These are recorded in a separate book called Cash book. In this book receipts and payments of coins, notes, cheques, drafts, postal orders, through digital modes. are recorded

Importance of Cash Book:

Cash Book is the most important subsidiary book, because it keeps the record of cash transactions of the business. The following are the importance of cash book:

(a) **Helpful in cash management** : Cash Book is maintained by every business, whether big or small in size. It is simply because every business must be very cautious about its cash management i.e., cash receipts and cash payments. The business must know the amount of cash that has been collected/payments that have been made daily, weekly and monthly and also the periodic balance of cash in hand, so that effective steps for utilisation of cash balance can be taken.

(b) **Helpful in ascertaining the true cash position** : The Cash Book gives the true position of cash transactions. At any time the balance of cash as shown by the cash book must agree with the physical balance of cash in hand in the cash box.

(c) **Helpful in preventing embezzlement** : The maintenance of cash book helps in preventing embezzlement and manipulation. Unless cash book is maintained, the business will be in the dark about the daily cash position and this may increase the chance of committing frauds by the concerned staff.

(d) **Serves as a documentary evidence for cash balance** : Cash Book serves as a documentary evidence for the available cash balances because the actual cash balance is compared by the cash balance as shown by Cash Book daily. Discrepancies, if any, are identified and rectified.

Features/characteristics of Cash Book :

The following are the features/characteristics of a Cash Book:

- (a) **Primary and Subsidiary book** : Cash book is a subsidiary book of account and a day book. It is also a first book of entry of all cash transactions.
- (b) **Recording of cash transactions only** : All the cash transactions involving receipt and payments of cash during the period are recorded in this book. No non-cash transaction finds place in cash book.
- (c) **Substitute of Cash Account** : As a matter of fact it is a substitute for cash account in the ledger because where cash book is maintained, no cash account is opened in the ledger.

- (d) **Dual purpose** : Cash book serves the function of both a journal and a ledger at the same time.
- (e) **Recording in chronological order** : All cash receipts and payments are recorded in chronological order i.e. according to the date of occurrence.
- (f) **No credit Balance** : The Cash Book (Cash column) records only cash transactions and, therefore, it cannot show any credit balance.

Advantages of Cash book:

- (a) **Ascertainment of daily cash transactions** : Since all cash transactions are recorded in cash book, it is easy to ascertain the cash receipt and cash payment on daily basis.
- (b) **Ascertainment of cash balance** : Cash balance can be known at any time by ascertaining the balance of the cash book at that point of time. There is no need of calculating actual cash in the box.
- (c) **Guard against defalcation** : The balance of cash as shown by the cash book can be verified with physical balance of cash in the cash box. This process of verification acts as a guard against defalcation of cash.
- (d) **Rectification of errors** : Any mistake or error can be detected at the time of verification of cash book. If there is a difference between the actual cash in the cash box and the balance as per Cash Book, it means there is some error.
- (e) **Helpful in Fulfilling the Requirement of Income Tax Act**: Every business handling cash must maintain a cash book/ Cash account as the information about cash in hand on the date of close of the accounting year is required to be furnished in the Income Tax Return.

Distinction between Cash Book and Cash Account:

Points of distinction	Cash Book	Cash Account
1. Nature	Cash book is a subsidiary book meant for recording receipts and payments of cash.	Cash account is an account appearing in the ledger.
2. Purpose	Cash book serves the purpose of both journal and ledger at the same time.	Cash account serves the purpose of ledger account only.
3. Folio	Ledger folio is recorded in the cash book.	Journal folio is recorded in cash account.
4. Nature of entry	It is a book of both primary and final entry.	It is an account for final entry only.

- (c) **Triple Column Cash Book.**
- (d) **Multi-Columnar Cash Book.**
- (e) **Petty Cash Book.**

*Types of
CASH BOOK*

These are explained below:

(a) Simple or Single Column Cash Book: Simple or Single Column Cash Book is a cash book which has only one column on both sides for recording only cash receipts and cash payments. This cash book is used when all receipts and payments are in cash only. Cash account is not prepared in the ledger when cash book is prepared by the firm. Single column cash book does not keep any record about banking transactions and cash discount. Receipts and payments through cheques, drafts or through digital modes are dealt with separately. It is very simple to maintain and is suitable for concerns having larger number of cash transactions and a few bank transactions.

(b) Double Column Cash Book : Double column Cash Book is a cash book which has two columns for recording the amount on both sides. Double column cash book may take any of the following three forms; such as Cash book having:

- (i) **Cash and Discount Columns;**
for recording Cash and Discount transactions;
- (ii) **Cash and Bank Columns;**
for recording Cash and Bank transactions;
- (iii) **Bank and Discount Columns;**
for recording Bank and Discount transactions.

(c) Triple Column Cash Book: Triple Column Cash Book is a cash book which has three columns on each side for recording Discount, Cash and Bank transactions. This book facilitates the recording of bank transactions along with cash and discount transactions. The discount column on the debit side is called 'Discount Allowed' column and the column on the credit side is called 'Discount Received column'.

- (d) **Multiple Column Cash Book:** The cash book, on both side of which a number of column are provided for recording the amount according to the need of the organisation is called a Multi-Columnar Cash Book.
- (e) **Petty Cash Book:** A cash book maintained for recording the payments relating to petty expenditure.

Format of Single Column Cash Book:

Dr.

Date	Particulars (Receipts)	Receipt No.	L.F.	Amount (₹)	Date	Particulars (Payments)	Vr. No.	L.F.	Amount (₹)	Cr.
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	

PETTY CASH BOOK

Where all cash receipts are paid into the Bank and all payments are made by cheques, it becomes necessary to keep another Subsidiary Cash Book known as the Petty Cash Book for recording petty cash payments. In every business, certain small expenses are incurred which are too insignificant to be paid by cheques or that such payments cannot be made by cheques. Such expenses include items of carriage, cartage, coolie hire, postages, city bus fare, rikshaw fare etc. These can only be conveniently paid in cash. The book of account where it is recorded is known as Petty Cash Book. The person who handles this book is called Petty Cashier.

Advantages of Petty Cash Book:

Maintenance of petty cash book gives rise to some advantages such as saving of time of the Chief cashier, saving in time and labour of writing in main cash book and posting them into ledger. It is also helpful in exercising control over petty (small) payments.

Systems of maintaining Petty Cash with the petty cashier:

The amount handed over to the petty cashier for making payment of petty expenses may be maintained under any of the following two systems:

(i) **Ordinary System of Petty Cash** : Under this system, a lump sum amount of cash is given to the petty cashier for the purpose of making petty payments. After spending the whole amount, he submits the account to the head cashier. The head cashier again hands over some amount to the petty cashier. The amount handed over may be any amount and has no relation with the amount spent.

(ii) **Imprest System of Petty Cash** : Under the Imprest system, an estimate is made of the amount that is likely to be required for petty expenses for a certain period, say one week or a month. Such amount is then drawn from the Bank and handed over to the Petty Cashier to begin with. This amount is known as *float*. At the end of the period, say one week or a month, the Petty Cashier presents the account of his disbursements to the Head Cashier who issues a cheque for the exact amount disbursed to the petty cashier, so that the original amount of the Petty Cash with which he had begun is thus restored. This system of maintaining petty cash is known as the Imprest System. This system is considered to be the best system of maintaining Petty Cash because a control of time the petty cash balance plus the total value of vouchers which have not been reimbursed will equal the amount with which he originally started.

Advantages of the Imprest System :

The following are the advantages of the Imprest System of Petty Cash:

(a) **Limited amount in the hands of Petty Cashier** : The head cashier provides the petty cashier with an estimated amount just sufficient to meet the petty expenses of a period. So, the money in the hands of petty cashier is always limited.

BANK RECONCILIATION STATEMENT

Meaning :

Now a days, almost all businessmen open an account with a Bank in order to deposit their cash and the cheques received from their customers and also to make payment to suppliers and others through cheque. The transactions which are related with bank are recorded in the Cash Book by maintaining an additional column for bank. The bank also records such transactions in a separate account of the customer in its ledger. The trader's account in the Bank's Ledger (or Pass Book) would appear as follows :

Pass Book

Messrs.....

in account with Union Bank of India, Chandmari Branch, Guwahati

Date	Particulars	Cheque No.	Amount withdrawn ₹)	Amount deposited ₹)	Balance ₹)	Initial
2021						
Jan. 1	By Cash			5,000 00	5,000 00	
Jan. 1	To A & Co	234561	1,000.00		4,000.00	

Periodically, bank supplies a copy of the firm's account in its ledger to the firm for information and confirmation. This copy of the firm's account supplied by the bank in loose form is called *bank statement*. If the copy of the account is supplied in the form of a book, it is called *pass book*.

The balance at bank as shown by the Cash Book (Bank columns) must tally with the balance as shown by the Pass Book/ bank statement. For this all the banking transactions must be entered both in the Cash Book and the Pass Book and there should not be any error in recording these transactions either by the firm or the bank.

It should, however, be noted that the items appearing on the debit side of the Cash Book (Bank Column) of the trader would appear on the credit side of trader's account in the Bank's Ledger (and also in the Bank statement). Likewise items appearing on the credit side of the Cash Book (Bank Column) would appear on the debit side of the trader's account in the Bank's Ledger (and also in the Bank statement). Therefore, at any time, the balance at bank as shown by the Cash Book (Bank Columns) must tally with the balance at bank as shown by the Pass book/Bank statement.

However, sometimes it so happens that these two balances do not tally. This is because on a certain date it is possible that there may be some entries which may have been recorded in the cash book but not in the pass book and vice versa. It may also be due to some errors committed either while recording in the cash book

or in the pass book. Therefore, a statement is prepared to identify the reasons for the difference and to reconcile the balances as shown by the Pass book/Bank statement and Cash book. Such a statement is called' Bank Reconciliation Statement (BRS)'.

In other words, Bank Reconciliation Statement is a statement prepared mainly to reconcile the difference between the 'Bank Balance' as shown by the Cash Book and 'Bank Balance' shown by the Bank Pass Book. It is prepared on a particular date.

NOTE

The term 'Cash Book' with reference to Bank Reconciliation Statement means Bank Column of the Cash Book.

Definition:

According to R. N. Carter, "Bank reconciliation statement is a statement which is prepared to reconcile the bank balance shown by cash book and the balance shown by bank statement".

Special Features/ Characteristics of Bank Reconciliation statement :

- (i) Bank Reconciliation Statement is not an account.
- (ii) It is prepared in a separate sheet of paper.
- (iii) It is prepared at any periodical intervals such as weekly, monthly, half-yearly or annually.
- (iv) It is prepared to verify the accuracy of the entries made in the Cash Book and Pass Book.
- (v) It is prepared even if the balance as per cash book and pass book agrees because there may be some compensating errors.
- (vi) It is generally prepared by the business which has current account with the bank.
- (vii) It contains a complete and satisfactory explanation of the differences between the bank balance as shown by the Cash Book and Pass Book.
- (viii) Preparation of Bank Reconciliation Statement is not compulsory like the preparation of Profit and Loss Account and Balance Sheet.

Need and Importance of Bank Reconciliation Statement

Bank reconciliation statement is a statement needed to be prepared by every business enterprise for having a check and control on its transactions with its banker. Following are the importance of a bank reconciliation statement:

1. **Help in locating errors in Cash Book and Pass Book:** Bank Reconciliation statement is prepared by comparing the information of the cash book with the information of the pass book. The comparison discloses and identifies the entries which have been made in the cash book but omitted or wrongly entered in the pass book and vice versa.

2. Revealing the delay in the clearance of cheques: The comparison of cash book with the pass book or bank statement issued by the bank reveals the date of depositing the cheque into the bank and the date of the clearance. In case there is substantial delay, causes for delay may be investigated and remedial measures can be taken.

3. Checking the accuracy of Cash Book: The comparison of the Cash Book with the Pass Book satisfies the management that the Cash Book is being maintained properly. If there is any inaccuracy in the posting, the mistake is identified and rectified.

4. Check on embezzlement: The continuous comparison of the cash book with the pass book keeps check on employees trying to indulge in embezzlement and misappropriation of cash. As the balances of cash book and pass book are checked, compared and tallied while preparing bank reconciliation statement yearly, monthly, weekly or even daily basis, misappropriation and embezzlement of cash becomes very difficult.

5. Acts as a moral check: The preparation of bank reconciliation statement is an important technique of control. It prevents misappropriation in cheques, bank drafts and other transactions with the bank. The malpractices of dishonest employees dealing with cash and bank are controlled.

6. Helpful in preparation of revised cash book: A bank reconciliation statement facilitates the preparation of a revised cash book. For example, the entries relating to bank charges, interest allowed or charged by the bank, direct payment by the bank on behalf of the account holder, etc. will be recorded in the pass book but for which there is no entry in the cash book. Such entries will now be recorded in the cash book which helps in the preparation of revised cash book

Differences between Bank Statement and Bank Reconciliation Statement :

Bank statement and Bank Reconciliation statement are not the same. The following are the differences between these two statements:

Points of distinction	Bank Statement	Bank Reconciliation Statement
1. Meaning	Bank statement is a statement prepared by a bank which shows the transactions of a client with the bank. It is a copy of account of a client as appears in the bank's ledger.	It is a statement prepared to reconcile the difference between the 'Bank Balance' as shown by the Cash Book and 'Bank Balance' shown by the Bank Pass Book.
2. Preparation	It is prepared by Bank and sent to the account holder.	It is prepared by the customer or depositor.
3. Necessity	It is compulsory for a Bank to prepare the bank statement.	Its preparation is optional. It is generally prepared when there is any discrepancy in the bank balance as shown by the bank statement and the bank column of the cash book.

Points of distinction	Bank Statement	Bank Reconciliation Statement
4. Coverage	It covers all the transactions taking place between the Bank and its account holder during a particular period such as a week, a month etc.	The transactions which cause disagreement between cash book and bank statement are considered while preparing this statement.
5. Ascertainment of bank balance	Bank Balance on any day can be ascertained from it.	Bank balance on a particular day cannot be ascertained from it.
6. Nature	It is a copy of the customer's account as appearing in the bank's ledger.	It is a statement prepared on a particular date to reconcile the balances shown by the bank column of Cash Book & Bank Statement.

Causes of Differences between the bank balance as per Cash Book and Pass Book :

The Causes of Differences between the bank balance as per Cash Book and Pass Books may be broadly divided into two parts:

(I) Errors of commission on the part of the person writing the cash book / the bank staff. For example, a cheque of ₹ 970 has been deposited in the bank and has been entered as ₹ 790 in the bank column of the cash book, but the bank has credited the account with the correct amount i.e. ₹ 970. In such a case, the balances as shown by both the books will not agree.

(II) Recording of some transaction in one book and non-recording in another book. For example, cheque issued but not presented for payment. It means that the issue of cheque has been recorded in the cash book but the same has not been recorded in the pass book as the person to whom the cheque was issued did not collect the money from the bank. Hence, the bank has not recorded the same in their books or the pass book. In such a case also, the balances as shown by both the books will not agree. Following are the examples of items falling in this category:

(a) Cheques paid into the bank for collection but not yet credited by the bank : When a firm deposits cheques, drafts etc. received from its customers into bank for collection, an entry is made on the debit side of the bank column of the cash book. But the bank will credit the firm's account only when it has actually collected the payment of these cheques. Again, there will be a time-gap between the date of deposit of these cheques into the bank and the date on which credit is given by the bank. In the case of outstation (outside) cheques, this gap will be very high. Thus, until the cheques are collected and credited by the bank, the cash book

will show an increased balance in comparison to the pass book because the entry for the same has been made in the cash book but not in the pass book.

(b) **Cheques issued but not yet presented for payment in the Bank** When a cheque is issued by the firm to a creditor, the issue of cheque is immediately recorded on the credit side of the bank column of the cash book as if the payment has been collected by the creditor from the bank. But the bank will debit the firm's account only when this cheque is actually presented to the bank for payment. Generally, there is a time-gap between the issue of a cheque and its presentation to the bank. In the case of crossed cheques, the time gap is more since such cheques can be presented for payment only through bank account. Thus, until the cheques are presented for payment, the cash book will show a reduced balance in comparison to the pass book.

(c) **Cheques paid into/deposited in the bank for collection but dishonoured** : When the cheques received from outstation (outside) parties are deposited with the bank, these are immediately recorded on the debit side of the bank column of the cash book, but if the cheques are dishonoured, no entry will be made by the bank in the customer's account. As a result, the cash book will show an increased balance in comparison to the pass book.

(d) **Interest allowed/credited by the bank** : Where the bank allows interest on the balance maintained by the account holder, the amount of such interest is credited to the account by the bank at the end of every six months. But the account holder comes to know about the amount of interest credited only when he gets his up to date pass book/bank statement after a gap of time. In such a case, the balance of cash book will be comparatively less than that of the pass book.

(e) **Bank Charges and Commission charged by the bank** : Bank renders various services to its clients and charges certain amount for these services. The notable charges levied by the bank are commission and collection charges on outstation cheques. The bank debits the customer's account with these charges but the customer does not make any entry in cash book until he receives the pass book or a statement from the bank. If, in the mean time, the bank balances as shown by the cash book and the pass book are compared, the two balances will differ.

(f) **Interest charged by the bank on Overdraft**: When a bank allows a firm the facility of withdrawing in excess of its deposits, this excess withdrawal is called overdraft. The bank charges interest on this excess withdrawals i.e. overdraft and debits the firm's account for such interest from time to time. But the entry for interest will be made in the cash book only when the customer receives a statement from the bank or when he receives the pass book duly completed. Until then, the balances as shown by these two books will differ.

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(g) ***Direct deposit by customers into the bank:*** Some customers may directly deposit cash/ cheque or through digital mode such as RTGS, NEFT etc. in bank account of the business entity. The bank will immediately credit the firm's account on receipt of such a payment, but the firm will come to know about the deposit only when it receives the bank pass book or the bank statement after a gap of time. This also causes a difference between the balances of both these books.

(h) ***Interest and dividend directly collected by the bank:*** Sometimes the interest and dividend on customer's investments is collected by the bank or the companies send the dividend/interest warrant directly to the bank. The bank credits the customer's account immediately on receipt of such payments, but the customer will make entries in the cash book only when he receives intimation about such credit from the duly updated bank pass book. Until such period, the two balances will differ and the pass book will show an increased balance in comparison to the cash book.

(i) ***Direct payment made by the bank on behalf of customers:*** Sometimes an account holder may give an instruction (order) to the bank to make certain payments such as insurance premium, rent, telephone bill etc. on his behalf at periodical intervals. Such instructions are called standing instruction (order). The bank makes these payments and debits the party's account, but the firm will be able to record the same in its cash book only when the intimation is received from the bank. In this intervening period, the pass book will show a lesser balance in comparison to the cash book.

(j) ***Any wrong entry made by the bank in the Pass Book:*** Sometimes the bank may commit an error and record a wrong entry in the customer's account or may omit to record an entry which should have been recorded. Thus, such errors, if committed, causes a difference between the bank balance shown by the cash book and the balance shown by the pass book. The difference will be eliminated when the error is detected.

(k) ***Other reasons :***

- (i) Cheques deposited into the bank but omitted to be recorded in the Cash Book.
- (ii) Cheque issued to a creditor but omitted to be recorded in the Cash Book.
- (iii) Error in totalling or balancing the bank column of the cash book.

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Specimen format of a bank reconciliation statement:

BANK RECONCILIATION STATEMENT

As on

Item/Particulars	Amount	
	Plus Items ₹	Minus Items ₹
Dr. Balance as per Cash Book		
Add: (i) Cheques issued or drawn but not yet presented for payment.	—	(of Payment made)
(ii) Interest allowed/credited by bank not recorded in Cash Book.	—	
(iii) Amount directly deposited by the customers in the bank account.	—	
(iv) Interest and dividends collected by bank on trader's investments.	—	
(v) Cheques paid into/deposited in the bank but omitted to be entered in the Cash Book.	—	
(vi) Any wrong credit given by bank in the Pass Book.	—	
Less: (i) Cheques paid into/deposited in the bank for collection but not yet credited by bank.	—	(of Payment received)
(ii) Cheques paid into/deposited in the bank for collection but dishonoured by the bank.	—	
(iii) Direct payment made by the bank according to the standing instructions of customers.	—	
(iv) Bank Charges and commission charged by bank.	—	
(v) Cheques issued but omitted to be recorded in the Cash Book.	—	
(vi) Any wrong debit given by bank in the Pass Book.	—	
Cr. Balance as per Pass Book		

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Illustration 4. Prepare a Bank Reconciliation Statement as on 31st Dec. 2020 from the following particulars ..

- (i) Bank Balance as per Cash Book as on 31-12-2020 was ₹ 7,500.
- (ii) Cheques amounting ₹ 2,000 were deposited into Bank on 30-12-2020 but were collected and credited by the Bank on 2nd January next.
- (iii) A cheque of ₹ 2,000 was issued on 28th December, 2020 but the same was presented to Bank after 31st December, 2020.
- (iv) Interest on Investment ₹ 1,500 was collected by the Bank but it was not recorded in the Cash Book.
- (v) Insurance Premium was paid and debited by the Bank ₹ 500 but it was not recorded in the Cash Book.
- (vi) A cheque of ₹ 350 was deposited and credited by the Bank but was omitted to be recorded in the Cash Book.
- (vii) A cheque of ₹ 200 received from Barua and recorded in the bank column of Cash Book was omitted to be deposited into Bank.

[AHSEC 2000]

Solution :

Bank Reconciliation Statement as on 31st December, 2020

Particulars	Amount	
	Plus Items ₹)	Minus Items ₹)
Bank Balance as per Cash Book (Dr.)	7,500	
Add: Cheque issued but not presented to Bank		2,000
Interest on Investment collected by the Bank but not recorded in the Cash Book	1,500	
Cheques deposited and credited by the Bank but omitted to be recorded in the Cash Book	350	
Less: Cheques deposited into Bank but not collected and credited		2,000
Insurance Premium paid and debited by the Bank but not recorded in the Cash Book.		500
Cheque received and recorded in the Bank column of Cash Book but omitted to be deposited in to Bank		200
Bank Balance as per pass Book (Cr.)	8,650	
	11,350	11,350

Illustration 5. From the following particulars prepare a Bank reconciliation statement of Sri B.K. Das as at 31st March, 2021.

- (i) The Cash Book showed cash at Bank ₹ 12,840 on 31st March, 2021.
- (ii) The following cheques were deposited on 30th and 31st March, 2021 but collected after 31st March 2021.
 - (a) ₹ 500;
 - (b) ₹ 310;
 - (c) ₹ 240;
- (iii) The following cheques were issued but not cashed by 31st March, 2021.
 - (a) ₹ 439;
 - (b) ₹ 581;
 - (c) ₹ 1000;
 - (d) ₹ 180.
- (iv) A customer paid cheque for ₹ 500 directly to Bank not written in cash book.

[AHSEC 2005]

Solution :

Bank Reconciliation Statement as on 31st March, 2021

Particulars	Amount	
	Plus Items ₹)	Minus Items ₹)
Cash at Bank as per Cash Book (Dr.)	12,840	
Add: Cheques issued but not deposited ₹ (439 + 581 + 1,000 + 180)	2,200	
Direct deposit by a customer not entered in the cash book	500	
Less: Cheques deposited but not collected		1,050
Cash at Bank as per Pass Book (Cr.)		14,490
	15,540	15,540

Illustration 6. Prepare a Bank Reconciliation Statement of Mr. P. Bora on 31.12.2020 with the following particulars.

- (i) Cash Book showed a debit balance of ₹ 6,000 as on 31st December, 2020
- (ii) Cheque amounting to ₹ 2,000 were issued to creditors but were not presented to bank for encashment before 31st December, 2020.
- (iii) Cheques of ₹ 2,200 were deposited into bank but were not collected by the bank before 31st December, 2020.
- (iv) Cheques of ₹ 2,800 were deposited and collected by the bank but was not recorded in the cash book.

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- (v) Interest on deposit credited by the bank but not recorded in the cash book was ₹ 100
- (vi) Bank charges debited by the bank but not recorded in the cash book before 31st December, 2020 was ₹ 50

Solution :

Bank Reconciliation Statement as on 31st December, 2020

Particulars	Amount	
	Plus Items ₹)	Minus Items ₹)
Bank Balance as per Cash Book (Dr.)	6,000	
Add: Cheques issued but not presented	2,000	
Cheques deposited and credited by the bank but not recorded in the cash book	2,800	
Interest on deposit credited by bank	100	
Less: Cheques deposited but not credited by the bank		2,200
Bank charges debited by bank		50
Bank Balance as per Pass Book (Cr.)		8,650
	10,900	10,900

Illustration 7. Prepare a Bank Reconciliation Statement as on 31st Dec. 2020 on behalf of Mr. K. P. Barua from the following particulars.

- (i) Bank balance as per Cash Book as on 31-12-2020 was ₹ 9,500.
- (ii) Cheques amounting to ₹ 2,000 were deposited into bank on 30th December but were collected and credited by the bank on 3rd January next.
- (iii) An amount of ₹ 3,000 was collected by the bank against Bills Receivable on 29th December but the same was not entered in the cash book.
- (iv) A cheque of ₹ 350 was deposited and credited by the bank but omitted to be recorded in the cash book.
- (v) A cheque of ₹ 600 although entered in the bank column of the cash book was omitted to be deposited into bank till 2nd January next.
- (vi) A cheque of ₹ 1,200 was issued to Rahim on 29th December but the same was presented to bank on 12-1-2021.
- (vii) Dividend from UTI ₹ 1,600 was collected and credited by the bank on 29th Dec. 2020 but the same was not recorded in the cash book.
- (viii) Insurance Premium was paid and debited by the bank ₹ 500 but it was not recorded in the cash book.
- (ix) Bank balance as per Pass Book as on 31-12-2020 was ₹ 12,550.

Solution :

Bank Reconciliation Statement as on 31st December, 2020

Particulars	Amount	
	Plus Items ₹	Minus Items ₹
Bank Balance as per Cash Book (Dr.)	9,500	
Add : Cheque issued but not presented within 31/12/20	1,200	
Bills Receivable collected by the bank but not entered in the cash book	3,000	
Dividend from UTI collected and credited by the bank but not recorded in the Cash Book.	1,600	
A cheque deposited and credited by the bank but omitted to be recorded in the Cash Book	350	
Less : Cheques deposited but not credited by bank		2,000
Insurance premium paid by the bank but not recorded in the Cash Book.		500
Cheque recorded for deposit but not sent to the bank for deposit.		600
Bank balance as per Pass Book (Cr.)	12,550	
	15,650	15,650

Note: (i) The Problem has been solved taking Bank Balance as per Cash Book as the starting point although the Pass book balance has also been given.

(ii) Where both Cash book and Pass book balances are given, if the statement is started with Cash book balance, balance as ascertained must be equal to the balance as per Pass book.

Illustration 8. On 31st March 2021, the bank balance as per Anita Sarma's Cash Book was ₹ 17,280 Debit. On comparing the Cash Book with the Pass Book, following differences were found :

- (a) Cheques for ₹ 8,400 sent for collection have not been cleared by the bank so far.
- (b) Cheques issued but not yet presented for payment ₹ 4,500.
- (c) There is a debit of ₹ 100 in the Pass Book for Bank Charges, but not recorded in the Cash Book.
- (d) Bank has credited ₹ 240 for interest in the Pass Book but these are also not recorded in the Cash Book.
- (e) A customer deposited ₹ 2,000 in the Bank through NEFT but this was recorded only in Pass Book.