

# **CASH BOOK AND BANK RECONCILLATION STATEMENT**

# Cash Book – A subsidiary book and principal book of accounts

All the cash transactions are recorded first in the cash book. It is therefore a subsidiary book.

When cash book is maintained, there is no need for preparing cash account and bank account in the ledger because in the cash book cash receipts and cash payments are compared and the cash and bank balances at the end are arrived at. Thus, it serves as a ledger account also.

Hence, the cash book, unlike any other subsidiary book, is both a subsidiary book and a principal book.

## **TYPES OF CASH BOOK**

The main cash book may be of various types and following are the three most common types.

- (i) Simple or single column cash book (only cash column)
- (ii) Cash book with cash and discount column (double column cash book)
- (iii) Cash book with cash, discount and bank columns (three column cash book).

Apart from the main cash book, petty cash book may also be prepared to enter the petty expenses, i.e., expenses involving small amount.

# SINGLE COLUMN CASH BOOK

Single column cash book or simple cash book, like a ledger account has only one amount column, i.e., cash column on each side. Only cash transactions are recorded in this book. All cash receipts and payments are recorded systematically in this book. The format of simple cash book is given as under:

Dr.					Simple Cash Book					Cr.				
Date	Receipts	R.N.	L.F.	Amount ₹	Date	Payments	V.N.	L.F.	Amount ₹					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)					

The format of simple cash book shows that it has been divided into two parts. The left hand side is 'Debit' which represents all cash receipts and the right hand side is 'Credit', showing all cash payments.

**Columns (1) and (6) – Date:** Date of receiving cash is recorded in the debit side and date of paying cash is recorded in the credit side.

**Column (2) Receipts:** Receipts column shows name of persons or parties from whom cash has been received, income received, sale of asset like plant, cash sales and other receipts.

**Column (3) Receipt Number (R.N.):** This column contains the serial numbers of the cash receipts.

**Columns (4) and (9) – Ledger Folio (L.F.):** This column is provided both on the debit and credit side of the cash book. It is used for reference. The Ledger page number of every account in the cash book is recorded in this column. This column facilitates vouching and verification of transactions recorded.

Enter the following transactions in a simple cash book of Kunal:

2017

Jan.

₹

1	Cash in hand	11,200
5	Received from Ramesh	300
7	Paid rent	30
8	Sold goods for cash	300
10	Paid Mohan	700
27	Purchased furniture for cash	200
31	Paid salaries	100

## Solution

In the books of Kunal

Dr.

Cash Book (Single column)

Cr.

Date	Receipts	L.F.	Amount ₹	Date	Payments	L.F.	Amount ₹
2017				2017			
Jan 1	To Balance b/d		11,200	Jan 7	By Rent A/c		30
5	To Ramesh A/c		300	10	By Mohan A/c		700
8	To Sales A/c		300	27	By Furniture A/c		200
				31	By Salaries A/c		100
				31	By Balance c/d		10,770
			11,800				11,800
Feb 1	To Balance b/d		10,770				

## Explanation

Jan 1: Cash in hand is the opening balance with the firm. This would have been the closing balance on 31st December, 2017. Cash account always has debit balance so it has been shown in the debit side of the cash book.

Jan 5: It is a receipt from Ramesh, so it has been recorded in receipt side (debit side) of the cash book.

Jan 7: Payment of rent will decrease cash, so it has been recorded in payment side (credit side) of the cash book.

Jan 8: Cash sales of goods will bring cash and increases the cash balance, so it has been recorded in the debit side of the cash book.

Jan 10: Payment to Mohan decreases cash, so it has been recorded in the credit side.

Jan 27: Purchase of furniture for cash reduces cash, so it has been recorded in credit side.

Jan 31: Payment of salaries in cash reduces cash, so it has been recorded in the credit side of cash book.

### **Double column cash book (Cash book with cash and discount column)**

It is a cash book with cash and discount columns. As there are two columns, i.e., discount and cash columns, both on debit and credit sides, this cash book is known as 'double column cash book'.

The double column cash book is prepared on the lines of simple cash book. It has only one additional column, i.e., discount column on each side. Discount column represents discount allowed on the debit side and discount received on the credit side.

In the discount columns, cash discount, i.e., cash discount allowed and cash discount received are recorded. The net amount received is entered in the amount column on the debit side and the net amount paid is entered in the amount column on the credit side. For the seller who allows cash discount, it is a loss and hence it is debited and shown on the debit side of the cash book. For the person making payment, discount received is a gain because less payment is made and it is credited and shown on the credit side of the cash book.

The cash columns are balanced. Discount columns are not balanced, since debit represents discount allowed and credit represents discount received. They are totalled, separately.

Enter the following transactions in a cash book with cash and discount columns:

2017		₹
Jan 1	Cash in hand	11,500
Jan 5	Paid to Ramanathan by depositing in cash deposit machine	300
	Discount allowed by him	10
Jan 8	Purchased goods for cash	400
Jan 10	Cash received from Rajagopal	980
	Discount allowed	20
Jan 15	Sold goods for cash	400
Jan 21	Paid cash to Shanthi	295
	Discount received	5
Jan 25	Paid wages by cash	50
Jan 31	Paid to Sanjeev ₹ 390 in full settlement of his account	400

### Solution

Dr.					Cr.				
Cash book with cash and discount columns									
Date	Receipts	L.F	Amount ₹		Date	Payments	L.F	Amount ₹	
			Discount	Cash				Discount	Cash
2017					2017				
Jan 1	To Balance b/d			11,500	Jan 5	By Ramanathan A/c		10	300
10	To Rajagopal A/c		20	980	8	By Purchases A/c			400
15	To Sales A/c			400	21	By Shanthi A/c		5	295
					25	By Wages A/c			50
					31	By Sanjeev A/c		10	390
					31	By Balance c/d			11,445
			20	12,880				25	12,880
Feb 1	To Balance b/d			11,445					

Note: Discount column is not to be balanced.



### **Three column cash book (Cash book with cash, discount and bank column)**

A three column cash book includes three amount columns on both sides, i.e., cash, bank and discount. This cash book is prepared in the same way as simple and double column cash books are prepared. The transactions which increase the cash and bank balance are recorded on the debit side of the cash and bank columns respectively. Opening balance of cash and favourable bank balance appear as the first item on the debit side of the three column cash book in case of existing business. If the business is a new one, capital contributed in cash and/or bank deposit appear as the first item on the debit side.

All the transactions which decrease the cash and bank balance are recorded in the cash and bank columns on the credit side. The balancing figures will be the closing balances of cash and bank. Cash will always have debit balance. Bank balance may be debit or credit depending on whether the balance is favourable or unfavourable respectively. If there is any discount allowed it is entered in the discount column on the debit side against the particular account. Similarly, if there is any discount received, it is entered in the discount column on the credit side.

## Contra entry

When the two accounts involved in a transaction are cash account and bank account, then both the aspects are entered in cash book itself. As both the debit and credit aspects of a transaction are recorded in the cash book, such entries are called contra entries.

### Example

- (i) When cash is paid into bank, it is recorded in the bank column on the debit side and in the cash column on the credit side of the cash book.
- (ii) When cash is drawn from bank for office use, it is entered in cash column on the debit side and in the bank column on the credit side of the cash book.

To denote that there are contra entries, the alphabet 'C' is written in L.F. column on both sides.

Contra means that particular entry is posted on the other side (contra) of the same book, because Cash account and Bank account are there in the cash book only and there are no separate ledger accounts needed for this purpose. The alphabet 'C' indicates that no further posting is required and the relevant account is posted on the opposite side.

Prepare three column cash book in the books of Thiru Durairaj.

2017		₹
March 1	Cash in hand	12,000
	Cash at bank	15,000
2	Cash paid into bank	11,000
3	Goods sold ₹ 18,500. Half of it is received in cash and half of it is received by cheque which is immediately deposited in the bank	
4	Sold on credit to Jayaraj for	7,000
8	Jayaraj sent a cheque in full settlement	6,900
12	Jayaraj's cheque was sent to bank	
14	Bought goods from Iqbal and issued a cheque to him immediately	8,500
15	Bought goods from Murali on credit	4,000
19	Received a cheque from Kannappan in full settlement of his account of ₹ 2,000	1,975
20	Drew cash ₹ 3,000 and by cheque ₹ 5,000 for personal use	
25	Paid Vinod by cheque in full settlement of his account of ₹ 2,000	1,850

## Solution

In the books of Durairaj

Dr.

Three-column cash book

Cr.

Date	Receipts	R.N	L.F	Amount ₹			Date	Payments	V.N	L.F	Amount ₹		
				Discount Allowed	Cash	Bank					Discount Received	Cash	Bank
2017							2017						
Mar 1	To Balance b/d				12,000	15,000	Mar 2	By Bank A/c		C		11,000	
2	To Cash A/c		C			11,000	12	By Bank A/c		C		6,900	
3	To Sales				9,250	9,250	14	By Purchases A/c					8,500
8	To Jayaraj A/c			100	6,900		20	By Drawings A/c				3,000	5,000
12	To Cash A/c		C			6,900	25	By Vinod A/c			150		1,850
19	To Kannappan A/c			25	1,975		31	By Balance c/d				9,225	26,800
				125	30,125	42,150					150	30,125	42,150
Apr 1	To Balance b/d				9,225	26,800							

# **BANK RECONCILIATION STATEMENT**

### 8.1.3 Differences between bank column of cash book and bank statement

Following are the differences between bank column of cash book and bank statement:

S.No.	Bank column of cash book	Bank statement
1	It is prepared by business concern.	It is prepared by bank (banker).
2	Cash deposits are entered on the debit side.	Cash deposits are entered in the credit column.
3	Cash withdrawals are entered on the credit side.	Cash withdrawals are entered in the debit column.
4	Cheque deposits are debited on the day of deposit.	Cheque deposits are credited only at the time of realisation of cheque.
5	Cheques issued are credited on the day of issue of cheque.	Cheques issued by customers are debited by bank on the date on which the payment is made.
6	Collections and payments as per standing instructions of the business are entered only after checking with the bank statement.	Collections and payments as per standing instructions of the business are entered in the banker's book on the date of realisation or payment.
7	It is balanced at the end of a specific period.	It is balanced after each transaction.

## 8.2 Bank Reconciliation Statement

If every entry in the cash book matches with the bank statement, then bank balance will be the same in both the records. But, practically it may not be possible. When the balances do not agree with each other, the need for preparing a statement to explain the causes arises. This statement is called bank reconciliation statement (BRS). The bank reconciliation statement is a statement that reconciles the balance as per the bank column of cash book with the balance as per the bank statement by giving the reasons for such difference along with the amount. As a result of this, internal record of a business (bank column of cash) can be reconciled with external record (bank statement).

### 8.2.1 Need for bank reconciliation statement

It is important to compare the bank statement and bank column of cash book. If the two balances do not match, it is necessary to reconcile them to explain why the differences have occurred. It may be prepared every month, every week or even daily depending on the number of transactions and the needs of the business.



The need for bank reconciliation statement is as follows:

- (i) To identify the reasons for the difference between the bank balance as per the cash book and bank balance as per bank statement.
- (ii) To identify the delay in the clearance of cheques.
- (iii) To ascertain the correct balance of bank column of cash book.
- (iv) To discourage the accountants of the business as well as bank from misusing funds.



### **8.3 Reasons why bank column of cash book and bank statement may differ**

The need for reconciliation arises only when there are differences in entries recorded in the cash book and bank statement. Sometimes, the bank balance as per both the records may be the same, but the entries may not match. In such cases also, bank reconciliation statement is to be prepared. But, before preparing the bank reconciliation statement, it is necessary to find out the reasons for the disagreement.

Difference between the two records (bank column of cash book and bank statement) generally occur because of the following reasons:

- (i) Timing differences – The different times at which the same items are entered
- (ii) Errors in recording - Difference arising due to errors in recording the entries

**(i) Timing differences**

- (a) cheques issued but not yet presented for payment
- (b) cheques deposited into bank but not yet credited
- (c) bank charges and interest on loan and overdraft
- (d) interest and dividends collected by the bank
- (e) dishonour of cheques and bills
- (f) amount paid by parties directly into the bank
- (g) payment made directly by the bank to others
- (h) bills collected by the bank on behalf of its customer

**(ii) Errors in recording**

- (a) errors committed in recording the transactions by the business in the cash book
- (b) errors committed in recording the transactions by the bank.



the cash book balance  
will be more than bank  
statement balance when:

1. Amounts deposited into bank but not yet credited
2. No entry made in cash book for
  - a) Bank charges and bank interest
  - b) Dishonoured cheques
  - c) Amount paid directly by the bank to others
  - d) Debit made in the pass book
3. Any error in addition to these in the cash book or bank statement which has the effect of high balance as per cash book

the cash book balance  
will be less than the bank  
statement balance when:



1. Cheques issued but not yet presented
2. No entry made in cash book for
  - a) Interest and dividends collected by the bank
  - b) Amount paid by customer of the business directly in to the bank
  - c) Bills collected by the bank on behalf of the customer
3. Any error in addition to these in the cash book or bank statement which has the effect of low balance as per cash book

# Preparation of bank reconciliation statement

## Format

Bank Reconciliation Statement as on -----

Particulars	Amount ₹	Amount ₹
Balance as per cash book (favourable balance)		xxx
<b>Add:</b>		
1. Cheques issued but not presented	xxx	
2. Credits in the pass book only		
(a) Interest credited in bank statement	xxx	
(b) Dividend and other income	xxx	
(c) Direct deposit by a party	xxx	
3. Any error in cash book/ bank statement which has the effect of increasing the balance as per bank statement	xxx	xxx
		xxx
<b>Less:</b>		
1. Cheques deposited but not credited	xxx	
2. Cheques dishonoured but not entered in cash book	xxx	
3. Debits in bank statement only		
(a) Interest debited	xxx	
(b) Insurance premium, loan instalment, etc., paid as per standing instructions	xxx	
(c) Direct payment by banker	xxx	
4. Any error in cash book/ bank statement which has the effect of decreasing the balance as per bank statement	xxx	xxx
Balance as per bank statement		xxx

Sl. No	Causes of differences	Favourable balance (Dr.) as per cash book	Unfavourable balance (Cr.) as per cash book	Favourable balance (Cr.) as per bank statement	Unfavourable balance (Dr.) as per bank statement
1	Cheque issued but not presented to bank	Add	Subtract	Subtract	Add
2	Cheque directly deposited in bank by a customer	Add	Subtract	Subtract	Add
3	Income directly received by bank	Add	Subtract	Subtract	Add
4	Wrong credit in the cash book	Add	Subtract	Subtract	Add
5	Under casting of debit side of bank column of the cash book	Add	Subtract	Subtract	Add
6	Over casting of credit side of bank column of the cash book	Add	Subtract	Subtract	Add
7	Bill receivable collected directly by bank	Add	Subtract	Subtract	Add
8	Cheque deposited but not cleared	Subtract	Add	Add	Subtract

9	Expenses directly paid by bank on standing instructions	Subtract	Add	Add	Subtract
10	Bank charges levied by bank	Subtract	Add	Add	Subtract
11	Locker rent levied by bank	Subtract	Add	Add	Subtract
12	Wrong debit in the cash book	Subtract	Add	Add	Subtract
13	Wrong debit in the bank statement	Subtract	Add	Add	Subtract
14	Over casting of debit side of bank column of the cash book	Subtract	Add	Add	Subtract
15	Under casting of credit side of bank column of the cash book	Subtract	Add	Add	Subtract
16	Interest on bank overdraft charged	Subtract	Add	Add	Subtract
17	Final balance	If answer is positive, then favourable balance (Cr.) as per bank statement and If, negative then unfavorable balance (Dr.) as per bank statement	If answer is positive, then unfavourable balance (Dr.) as per bank statement and If, negative then favorable balance (Cr.) as per bank statement	If answer is positive, then favourable balance (Dr.) as per cash book and If, negative then unfavorable balance (Cr.) as per cash book	If answer is positive, then unfavourable balance (Cr.) as per cash book and If, negative then favorable balance (Dr.) as per cash book

From the following information, prepare bank reconciliation statement to find out balance as per bank statement on 31st March, 2017.

Particulars	₹
(i) Cheques deposited but not yet collected by the bank	500
(ii) Cheque issued but not yet presented for payment	1,000
(iii) Bank interest charged	100
(iv) Rent paid by bank as per standing instruction	200
(v) Cash book balance	300

### Solution

#### Bank reconciliation statement as on 31st March, 2017

Particulars	Amount ₹	Amount ₹
Balance as per cash book		300
Add: Cheque issued but not yet presented for payment		1,000
		1,300
Less: Cheques deposited but not yet collected by the bank	500	
Bank interest charged	100	
Rent paid by bank as per standing instruction	200	800
Balance as per bank statement		500

On 31st March, 2018, the bank column of the cash book of Senthamarai Traders showed a debit balance of ` 40,200. On examining the cash book and the bank statement, it was found that:

- (a) A cheque for ` 2,240 deposited on 29th March, 2018 was credited by the bank only on 4th April, 2018.
- (b) A payment made through net banking for ` 180 has been entered twice in the cash book.
- (c) Cheques amounting to ` 500 which were issued to trade payables and entered in the cash book before 31st March, 2018 were not presented for payment until that date.
- (d) Cheque amounting to ` 2,000 had been recorded in the cash book as having been deposited into the bank on 30th March, 2018, but was entered in the bank statement on 3rd April, 2018.
- (e) Transport subsidy amounting to ` 3,000 received from the Government of Tamilnadu directly by the bank, but not advised to the Senthamarai Traders.
- (f) A sum of ` 1,500 was wrongly debited to Senthamarai Traders by the bank, for which no details are available.



---

**Solution****Bank reconciliation statement of Senthamarai traders as on 31st March, 2018**

Particulars	Amount ₹	Amount ₹
Balance as per cash book		40,200
<b>Add:</b>		
Net payment entered twice in the cash book	180	
Cheques issued to trade payables not yet presented	500	
Transport subsidy collected by bank	3,000	3,680
<b>Less:</b>		43,880
Cheques deposited but not yet credited by bank	2,240	
Cheques deposited but not yet credited by bank	2,000	
Wrong debit by bank	1,500	5,740
Balance as per bank statement		38,140

From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

Particulars	₹
(i) Overdraft as per cash book	10,000
(ii) Cheques deposited but not yet credited	5,000
(iii) Cheque issued but not yet presented for payment	1,000
(iv) Payment received from the customer directly by the bank	500
(v) Interest on overdraft debited by bank	1,000
(vi) Amount wrongly debited by bank	300

## Solution

### Bank reconciliation statement as on 31st December, 2017

Particulars	Amount ₹	Amount ₹
Overdraft as per cash book		10,000
Add: Cheques deposited but not yet credited	5,000	
Interest on overdraft debited by bank	1,000	
Amount wrongly debited by bank	300	6,300
		16,300
Less: Cheque issued but not yet presented for payment	1,000	
Payment received from the customer directly by the bank	500	1,500
Overdraft balance as per bank statement		14,800

Prepare bank reconciliation statement as on 31st December, 2017 from the following information:

- (a) Balance as per bank statement (pass book) is ₹ 25,000
- (b) No record has been made in the cash book for a dishonour of a cheque for ₹ 250
- (c) Cheques deposited into bank amounting to ₹ 3,500 were not yet collected
- (d) Bank charges of ₹ 300 have not been entered in the cash book.
- (e) Cheques issued amounting to ₹ 9,000 have not been presented for payment

**Solution**

**Bank reconciliation statement as on 31st December, 2017**

Particulars	Amount ₹	Amount ₹
Balance as per bank statement		25,000
<b>Add:</b> Dishonour of a cheque	250	
Cheques deposited into bank , but not yet collected	3,500	
Bank charges not entered in the cash book	300	4,050
		29,050
<b>Less:</b> Cheques issued, but not presented for payment		9,000
Balance as per cash book		20,050

From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

Particulars	₹
(i) Balance as per bank statement	6,000
(ii) Cheques deposited on 28th December, 2017 but not yet credited	2,000
(iii) Cheques issued for 10,000 on 20th December, 2017 but not yet presented for payment	3,000
(iv) Interest on debentures directly collected by the bank not recorded in cash book	4,000
(v) Insurance premium on building directly paid by the bank	1,000
(vi) Amount wrongly credited by bank	500

## Solution

### Bank reconciliation statement as on 31st December, 2017

Particulars	Amount ₹	Amount ₹
Balance as per bank statement		6,000
Add:		
Cheque deposited but not yet credited	2,000	
Insurance premium on building directly paid by the bank	1,000	3,000
Less:		9,000
Cheque issued but not yet presented for payment	3,000	
Interest on debentures directly collected by the bank not entered in cash book	4,000	
Amount wrongly credited by bank	500	7,500
Balance as per cash book		1,500

From the following data, ascertain the cash book balance as on 31st December, 2017.

Particulars	₹
1) Overdraft balance as per bank statement	6,500
2) Cheques deposited into the bank but not yet credited	10,500
3) Cheques issued, but not yet presented for payment	3,000
4) Wrong debit by the bank	500
5) Interest and bank charges debited by bank	180
6) Insurance premium on goods directly paid by the bank as per standing instructions	100

### Solution

#### Bank reconciliation statement as on 31st December, 2017

Particulars	Amount ₹	Amount ₹
Overdraft balance as per bank statement		6,500
Add: Cheques issued, but not yet presented for payment	3,000	3,000
		9,500
Less: Cheques deposited into the bank but not credited	10,500	
Wrong debit by the bank	500	
Interest and bank charges debited by bank	180	
Insurance premium directly paid by the bank as per standing order	100	11,280
Balance as per cash book*		-1,780

\* **Note:** Since the balance obtained is negative, it is favourable balance.