

# I. CASH BOOK & BANK RECONCILIATION STATEMENT

## 1. CASH BOOK

<b>Cash Book</b>	<p>Records transactions involving cash; Source: Cash/Bank Vouchers, Pass Book It is a ledger as well as subsidiary book. i.e. Book of Original &amp; Secondary Entry</p> <ul style="list-style-type: none"> <li>• <b>Single Column</b> – Only Cash</li> <li>• <b>Two Column</b> – Cash and Bank</li> <li>• <b>Three Column</b> – Cash, Bank, Discount received / allowed;</li> <li>• <b>Petty Cash Book</b> – Records all transactions involving small amounts.</li> </ul> <p>Cash and Bank columns are Accounts and so balanced in Cash Book. Discount columns are not accounts but are only statements. Hence, they are not balanced in Cash Book and separate account is opened for them in ledger.</p> <p><b>Contra Entry:</b> It is an entry where both aspects (debit and credit) will appear in the same subsidiary book. For e.g. Where Cash is deposited into Bank / Cash is withdrawn from Bank, both debit and credit aspects will be recorded in same cash book.</p>
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## 2. BANK RECONCILIATION STATEMENT

- Statement identifying and reconciling the differences between **Bank Balance** as per Cash Book and **Bank Balance** as per Pass Book.
- **BRS is prepared by the customer.**
- **BRS may be prepared on any date and is a positional statement.**
- **Bank Balance in Balance sheet is taken as per Cash Book.**

## 3. CAUSES OF DIFFERENCE OF BANK BALANCE IN BANK COLUMN OF THE CASH-BOOK AND IN PASS BOOK

### Timing Differences:

When the same entry is recorded in either of the book earlier and in the other book later, it is termed as timing difference.

- a) Cheque issued but not yet presented for payment
- b) Cheque paid into the bank but not yet cleared
- c) Interest allowed by bank
- d) Interest and expenses charged by the bank
- e) Interest and dividend collected by bank
- f) Direct payment by the bank

- g) Direct payment into the bank by a customer
- h) Dishonour of a bill discounted with the bank
- i) Bills collected by the bank on behalf of the customer
- j) Dishonored Cheques

### Differences arising due to errors in recording the entries

- **Error in recording committed by the business enterprise:** Omission or wrong recording of cheques issued, cheques received, cheques deposited, wrong totalling or balancing of bank column etc in cashbook causes difference in bank balances.
- **Error in recording committed by the bank:** Omission or wrong recording of cheques presented, cheques cleared, standing payments, direct receipts and recording of transactions of other parties etc. causes the difference in bank balances.

### **4. PREPARATION OF BANK RECONCILIATION STATEMENT WITH UNADJUSTED CASHBOOK BALANCE:**

Before attempting to prepare a statement to reconcile the two bank balances, one must remember that, there can be 4 different starting points for making Bank Reconciliation Statement namely:

No.	Balance	Meaning	Favourable/ Unfavourable
1	Dr. bal. as per Cashbook	Deposit as per Cashbook	Favourable
2	Dr. bal. as per Passbook	Overdraft as per Passbook	Unfavourable
3	Cr. bal. as per Cashbook	Overdraft as per Cashbook	Unfavourable
4	Cr. bal. as per Passbook	Deposit as per Passbook	Favourable

### Nature of Balances in Cash Book and Pass Book:

Particulars	Cash Book	Pass Book
Favourable (Positive) Balance	Debit Balance	Credit Balance
Unfavourable (Negative) Balance	Credit Balance	Debit Balance

If nature of balance is not given, it is treated as the balance of deposits at the bank.

## 5. PREPARATION OF BANK RECONCILIATION STATEMENT WITH ADJUSTED CASHBOOK BALANCE

### Adjusted Cash Book – Meaning:

- Cash Book adjusted for Incomes, Expenses, Errors in Cash Book, Direct Deposits, Direct Payments and Dishonour of Cheques / Bills Receivable. Such differences will not appear in BRS.
- Errors in Pass Book will not be adjusted in the cash book.

No.	Item	Revised Cash Book	Bank Reconciliation Statement
1	Entries appearing in Cash book but not recorded in Pass Book		
a)	Correct Debits		√
b)	Wrong Debits	√	
c)	Correct Credits		√
d)	Wrong Credits	√	
2	Entries appearing in Pass book but not recorded in Cash Book		
a)	Correct Debits	√	
b)	Wrong Debits		√
c)	Correct Credits	√	
d)	Wrong Credits		√

### Impact on Bank Reconciliation Statement:

If Adjusted Cash Book is prepared, then only the following 4 differences appear in Bank Reconciliation Statement:

- Cheque Issued but not presented to the Bank.
- Cheque received, but not deposited into the bank.
- Cheque received and deposited into the bank, but not cleared by the bank.
- Errors in Pass Book

## 6. FORMAT OF BANK RECONCILIATION STATEMENT WHEN THE BANK BALANCE AS PER CASH BOOK IS TAKEN AS A STARTING POINT

### Bank Reconciliation Statement

As at .....

Particulars	Plus Items	Minus Items
	₹	₹
<b>A. Bank Balance as per Cash Book</b>	xxx	
<b>B. Add: Transactions having the effect of higher balance in Pass Book:</b>		
a) Cheques deposited into the bank but not recorded in Cash Book		xxx
b) Cheques issued but not yet presented for payment		xxx
c) Interest allowed in Pass Book only		xxx
d) Bills Receivable directly collected by bank		xxx
e) Direct payment by a customer into bank but not recorded in Cash Book		xxx
f) 'Cheques issued' returned on technical grounds		xxx
g) A wrong credit given by bank in Pass Book		xxx
<b>C. Less: Transactions having the effect of lower balance in Pass Book;</b>		
a) Cheques received and recorded in Bank Column but not yet sent to bank for collection	xxx	
b) Cheques deposited but not yet collected by bank	xxx	
c) Bank charges, Interest on overdraft debited in Pass Book only	xxx	
d) Insurance Premium paid directly by bank under standing advice	xxx	
e) Cheques deposited for collection, returned dishonoured and recorded in Pass Book only	xxx	
f) Discounted Bills Dishonoured but not recorded in Cash Book	xxx	
g) A wrong debit given by bank in Pass Book	xxx	
	xxx	xxx
<b>D. Balance as per Pass Book</b>		

## Class Work

## CASH BOOK

1. Prepare a Petty Cash Book on the Imprest System from the following: (RTP Nov 19)

2019		Particulars	₹
April	1	Received ₹ 20,000 for petty cash	
"	2	Paid auto fare	500
"	3	Paid cartage	2,500
"	4	Paid for Postage & Telegrams	500
"	5	Paid wages	600
"	5	Paid for stationery	400
"	6	Paid for the repairs to machinery	1,500
"	6	Bus fare	100
"	7	Cartage	400
"	7	Postage and Telegrams	700
"	8	Cartage	3,000
"	9	Stationery	2,000
"	10	Sundry expenses	5,000

## Solution

## PETTY CASH BOOK

Receipts	Date	V. No.	Particulars	Total	Con-veyance	Cartage	Statio- nery	Postage & Telegrams	Wages	Sundries
₹	2019			₹	₹	₹	₹	₹	₹	₹
20,000	April		To Cash							
	2	1	By Conveyance	500	500					
	3	2	By Cartage	2,500		2,500				
	4	3	By Postage and Telegrams	500				500		
	5	4	By Wages	600					600	
	5	5	By Stationery	400			400			
	6	6	By Repairs to machine	1,500						1,500
	6	7	By Conveyance	100	100					
	7	8	By Cartage	400		400				
	7	9	By Postage and Telegrams	700				700		

	8	10	By Cartage	3,000		3,000				
	9	11	By Stationery	2,000			2,000			
	10	12	By Sundry Expenses	5,000						5,000
				17,200	600	5,900	2,400	1,200	600	6,500
			By Balance c/d	2,800						
20,000				20,000						
2800			To Balance b/d							
17,200	11		To Cash							

**BRS**

1. On 30th September, 2019, the bank account of Neel, according to the bank column of the Cash- Book, was overdrawn to the extent of ₹ 8,124. On the same date the bank statement showed a debit balance of ₹ 41,516 in favour of Neel. An examination of the Cash Book and Bank Statement reveals the following. (RTP Nov 19)

1. A cheque for ₹ 26,28,000 deposited on 29th September, 2019 was credited by the bank only on 3rd October, 2019
2. A payment by cheque for ₹ 32,000 has been entered twice in the Cash Book.
3. On 29th September, 2019, the bank credited an amount of ₹ 2,34,800 received from a customer of Neel, but the advice was not received by Neel until 1st October, 2019.
4. Bank charges amounting to ₹ 1,160 had not been entered in the Cash Book.
5. On 6th September, 2019, the bank credited ₹ 40,000 to Neel in error.
6. A bill of exchange for ₹ 2,80,000 was discounted by Neel with his bank. This bill was dishonoured on 28th September, 2019 but no entry had been made in the books of Neel.
7. Cheques issued up to 30th September, 2019 but not presented for payment up to that date totalled ₹ 26,52,000.

You are required:

- a) to show the appropriate rectifications required in the Cash Book of Neel, to arrive at the correct balance on 30th September, 2019 and
- b) to prepare a bank reconciliation statement as on that date.

**Solution**

## Cash Book (Bank Column)

Date	Particulars	Amount	Date	Particulars	Amount
2019		₹	2019		
Sept. 30	To Party A/c	32,000	Sept. 30	By Balance b/d	8,124
	To Customer A/c			By Bank charges	1,160
	(Direct deposit)	2,34,800		By Customer A/c	2,80,000
	To Balance c/d	22,484		(B/R dishonoured)	
		2,89,284			2,89,284

## Bank Reconciliation Statement as on 30th September, 2019

Particulars	Amount
	₹
Overdraft as per Cash Book	22,484
Add: Cheque deposited but not collected up to 30 <sup>th</sup> Sept., 2019	26,28,000
	26,50,484
Less: Cheques issued but not presented for payment up to 30 <sup>th</sup> Sept., 2019	(26,52,000)
Credit by Bank erroneously on 6th Sept.	(40,000)
Overdraft as per bank statement	41,516

Note: Bank has credited Neel by 40,000 in error on 6<sup>th</sup> September, 2019. If this mistake is rectified in the bank statement, then this will not be deducted in the above statement along with ₹ 26,52,000 resulting in debit balance of ₹ 1,516 as per pass-book.

2. Prepare a bank reconciliation statement from the following particulars as on 31st March, 2018. (QP Nov 2018)

Particulars	(₹)
Debit balance as per bank column of the cash book	18,60,000
Cheque issued to creditors but not yet presented to the Bank for payment	3,60,000
Dividend received by the bank but not entered in the Cash book	2,50,000
Interest allowed by the Bank	6,250
Cheques deposited into bank for collection but not collected by bank up to this date	7,70,000

Bank charges not entered in Cash book	1,000
A cheque deposited into bank was dishonoured, but no intimation received	1,60,000
Bank paid house tax on our behalf, but no intimation received from bank in this connection	1,75,000

**Solution****Bank Reconciliation Statement as on 31st March, 2018**

Particulars	Details(₹)	Amount(₹)
Debit balance as per Cash Book		18,60,000
Add: Cheque issued but not yet presented to bank for payment	3,60,000	
Dividend received by bank not entered in cash book	2,50,000	
Interest credited by bank	<u>6,250</u>	<u>6,16,250</u>
		24,76,250
Less: Cheques deposited into bank but not yet collected	7,70,000	
Bank charges debited by Bank	1,000	
Cheque deposited into bank was dishonoured	1,60,000	
House tax paid by bank	<u>1,75,000</u>	<u>(11,06,000)</u>
Credit balance as per Pass Book		<u>13,70,250</u>

3. Prepare the Bank Reconciliation Statement of M/s. R.K. Brothers on 30<sup>th</sup> June 2018 from the particulars given below. (QP May 2019)

- 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.
  - a. Cheques collected before 30<sup>th</sup> June, 2018, ₹14,000



- b. Cheques collected on 10<sup>th</sup> July, 2018, ₹4,000
- c. 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.