



CHAPTER - 2

BANK RECONCILIATION STATEMENT

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1. BACKGROUND – WHY TO PREPARE BRS?

PROCESS OF BALANCE CONFIRMATION: Trial Balance serves as basic ingredient for preparation of financial statements and therefore, one needs to be doubly assured about balances appearing in trial balance. Certain assets like Fixed Assets, Stock, Cash in Hand, etc. can be physically verified and its value can be estimated with reasonable accuracy. Balances of Sundry Debtors and Creditors is verified by sending 'Balance Confirmation Letters'. Bank balance (appearing in Trial Balance, which is calculated from Cash Book) is verified with Pass Book or Bank Statement.

Ideally, when a transaction takes place between an account holder and bank, it is recorded in the books of both the parties. Account-holder records the transactions taking place with bank in 'Bank column of Cash Book', whereas bank records the same transaction in his ledger (where he is maintaining separate ledger account for every customer denominated by account number). Therefore, bank balance as per Cash Book and Pass Book should always match, but when it doesn't, then the account holder has to prepare a statement known as 'Bank Reconciliation Statement', clearly showing the reasons of differences in cash book and pass book balance.

2. ALL ABOUT BANK

A bank is a financial institution which deals in money i.e. accepting deposits and lending advances.

Following are the usual banking transactions entered into by an account holder:

- | | |
|-------------------------------------|--|
| 1. Cash deposits | 2. Deposits of cheque/draft/pay-order etc. |
| 3. Cash withdrawals | 4. Withdrawals by cheque/order etc. |
| 5. Charges levied by bank | 6. Transfer of funds |
| 7. Interest credited by bank | 8. Payments as per standing instructions |
| 9. Discounting of bills of exchange | 10. Collection of interest / dividend warrants |
| 11. Issuance of guarantees | 12. Issuance of Letter of Credit (LC) |
| 13. Issuance of Traveller's Cheques | 14. Credit / Debit cards payments |

Bank allow many facilities to its customers for day to day operations. Following are the usual facilities rendered by a bank:

S.N.	FACILITY	DETAILS
1.	Term Deposits	Parking the funds for short or long period. Bank allow interest depending upon the period of deposit
2.	Current Bank Account	Facilitates operating day to day business transactions
3.	Overdraft	Temporary overdraft for facilitating business operations is allowed. Interest is charged by bank.
4.	Cash Credit	Working capital requirement is financed by bank by way of regular cash credit facility. Interest is charged by bank.
5.	Bill of Exchange Collection	Collection of Bill of Exchange on maturity
6.	Credit Card	Facilitates personal / business payments of restaurant, hotel, travel tickets etc. Bank levy service charges.
7.	Debit Card / Travellers Cheques	Facility of payments against money deposited with bank. Safe to handle a card, rather than cash.
8.	Bill Discounting	Bills of exchange are discounted with Bank. Bank deducts discount charges and credits balance proceeds to customer's account.
9.	Term Loan	Funds are availed for expansion, diversification and modernization.
10.	Letter of Credit	Bank issues letter of credit in favour of inland or foreign supplier, whereby advances are avoided.
11.	Guarantee Limit	Bank Issues guarantees on behalf of customers.
12.	Standing Instruction Payments	Bank follows standing instructions of customer like payment of electricity bill, telephone bill, insurance premium etc.

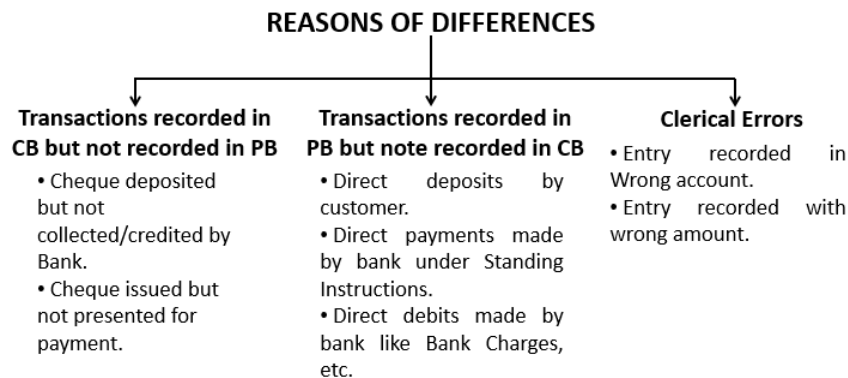
3. UNDERSTANDING PASS BOOK / BANK STATEMENT

The transactions are recorded by a bank in respective customer's account. The bank either sends periodical statement of account or gives a pass-book to its customer, who has to get it updated periodically. Both Bank Statement and Pass Book is a replica or copy of customer's account in the books of bank. Thus, it is the way of keeping customers informed of the entries made by the bank. Customer is supposed to check the entries in the statement of account or pass book and inform the bank of any error found therein.



4. REASONS OF DIFFERENCES

A reconciliation transaction is a transaction which created difference in bank balance as per cash book and pass book.



When there are differences in the entries recorded in Cash Book and Pass Book, which in turn leads to difference in balances as per Cash Book and Pass Book.

The difference in the balances of both the books can be due to two reasons-

1. **Timing difference**
2. **Difference arising due to errors in recording the transactions**

SUMMARY OF DIFFERENCES

S.N.	BALANCE	CLASSIFICATION	TRANSACTIONS
1.	Timing Differences	Debited by us, not credited by bank,	Cheques deposited, but not cleared
		Credited by us, not debited by bank	Cheques issued but not presented
		Debited by bank, not recorded in Cash Book	* Interest charged * Bank charges * Payment as per standing instructions * Dishonour of cheques deposited * Dishonour of Bills discounted
		Credited by bank, not recorded in Cash Book	* Interest / Dividend Collected * Direct deposit by customer * Bills collected by bank
2.	Errors in recording	Errors in Cash Book	* Casting mistakes * Balancing mistakes * Omission to record a transaction * Transaction recorded twice * Transaction recorded with wrong amount * Transaction recorded to wrong side * Transaction recorded in wrong column of Cash Book
		Errors in Pass Book	* Wrong debits by bank * Wrong credits by banks

5. UNDERSTANDING TRANSACTION, BALANCES & EFFECT OF TRANSACTIONS

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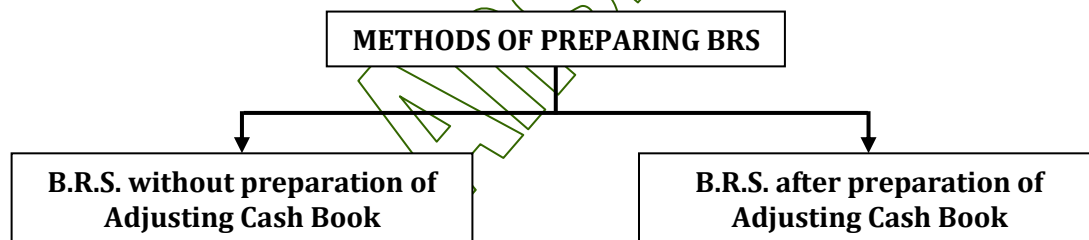
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6. STEPS TO IDENTIFY RECONCILIATION TRANSACTION

7. METHODS OF PREPARING BANK RECONCILIATION STATEMENT



8. STEPS OF PREPARING BANK RECONCILIATION STATEMENT

Step # 1: Select Starting Point: It can be Balance as per CB or Balance as per PB.

Step # 2: Assign Arithmetical Signs to the Reconciliation Transactions

Step # 3: Add or Subtract Reconciliation Transactions to the starting Point

Step # 4: Arrive at Ending Point

If starting point is Balance as per CB then ending pint will be Balance as per PB & vice versa.

9. PRACTICAL PROBLEMS

Q1. Identification of Reco. Trans. (CB & PB given of same month)

REG. PAGE NO.

From the following extracts from the Cash Book and the pass book for the month of January 2018, prepare the Bank Reconciliation Statement as on 31st January 2018:

Dr. **CASH BOOK (Bank Column)** Cr.

DATE	PARTICULARS	AMOUNT (RS.)	DATE	PARTICULARS	AMOUNT (RS.)
2018			2018		
January 1	To Balance b/d	45,100	January 2	By X & Co.	12,300
January 3	To Cash	3,000	January 6	By Cash	30,000
January 10	To B & Co.	10,000	January 14	By B & Co. (Chq. Dish.)	10,000
January 15	To A & Co.	23,000	January 15	By V & Co.	3,000
January 17	To Cash	6,000	January 18	By Y & Sons	4,700
January 20	To Z & Bros.	15,500	January 24	By Cash	4,000
January 24	To P & Co.	7,400	January 28	By R & Co.	7,800
January 31	To S & Sons	21,300	January 31	By B & Bros.	3,400
			January 31	By Balance c/d	56,100
	Total	1,31,300		Total	1,31,300

PASS BOOK

DATE	PARTICULARS	WITHDRAWALS RS.	DEPOSITS RS.	DR./CR.	BALANCE RS.
2018					
January 1	By Balance			Cr.	45,100
January 3	By Cash		3,000	Cr.	48,100
January 6	To Selves - Cash	30,000		Cr.	18,100
January 10	To X & Co.	12,300		Cr.	5,800
January 16	By A & Co.		23,000	Cr.	28,800
January 17	By Cash		6,000	Cr.	34,800
January 20	To Y & Sons	4,700		Cr.	30,100
January 24	To Cash	4,000		Cr.	26,100
January 31	To Bank charges	100		Cr.	26,000
January 31	To Life Insurance Premium as per instructions	2,500		Cr.	23,500
January 31	By Interest on Govt. Securities		3,000	Cr.	26,500


Q2. Ident. of Reco. Trans. (CB & PB given of different month) ICAI SM Illu.9 REG. PAGE NO.

The following are the Cash Book and Pass Book of Jain for the month of March 2019 and April 2019. Reconcile the balance of Cash Book as on 31st March 2019.

Dr. CASH BOOK Cr.

DATE	PARTICULARS	AMOUNT (RS.)	DATE	PARTICULARS	AMOUNT (RS.)
2019			2019		
March 1	To Balance b/d	60,000	March 3	By Cash A/c	2,00,000
March 6	To Sales A/c	3,00,000	March 7	By Modi	60,000
March 10	To Ram	65,000	March 12	By Patil	30,000
March 18	To Singhal	2,70,000	March 18	By Suresh	40,000
March 25	To Goyal	33,000	March 24	By Ramesh	1,50,000
March 31	To Patel	65,000	March 30	By Balance c/d	3,13,000
	Total	7,93,000		Total	7,93,000

PASS BOOK

DATE	PARTICULARS	WITHDRAWALS RS.	DEPOSITS RS.	DR./CR.	BALANCE RS.
2019					
April 1	By Balance b/d		3,65,000	Cr.	3,65,000
April 3	By Goyal		33,000	Cr.	3,98,000
April 5	To Patel		65,000	Cr.	4,63,000
April 7	To Naresh	2,80,000		Cr.	1,83,000
April 12	By Ramesh	1,50,000		Cr.	33,000
April 15	By Bank Charges	200		Cr.	32,800
April 20	To Usha		17,000	Cr.	49,800
April 25	To Kalpana		38,000	Cr.	87,800
April 30	To Sunil	6,200			81,600

Q3. Fav. Bal. (Revise Trans.) ICAI SM Illu.2 REG. PAGE NO.

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

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

Q4. Fav. Bal. (Revise Trans.) ICAI SM Illu.3 REG. PAGE NO.

On 31st March 2019, the Bank Pass Book of Namrata showed a balance of Rs. 1,50,000 to her credit while balance as per cash book was Rs. 1,12,050. On scrutiny of the two books, she ascertained the following causes of difference:

- i) She has issued cheques amounting to Rs. 80,000 out of which only Rs. 32,000 were presented for payment.
- ii) She received a cheque of Rs. 5,000 which she recorded in her cash book but forgot to deposit in the bank.

- iii) A cheque of Rs. 22,000 deposited by her has not been cleared yet.
- iv) Mr. Gupta deposited an amount of Rs. 15,700 in her bank which has not been recorded by her in Cash Book yet.
- v) Bank has credited an interest of Rs. 1,500 while charging Rs. 250 as bank charges. Prepare a bank reconciliation statement.

Q5. Unfav. Bal. (Revise Trans.) ICAI SM Illu.4 REG. PAGE NO.

From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st December, 2019.

- (1) The bank overdraft as per Cash Book on 31st December, 2019 Rs.6,340.
- (2) Interest on overdraft for 6 months ending 31st December, 2019 Rs.160 is entered in Pass Book.
- (3) Bank charges of Rs. 400 are debited in the Pass Book only.
- (4) Cheques issued but not cashed prior to 31st December, 2019, amounted to Rs.11,68,000.
- (5) Cheques paid into bank but not cleared before 31st December, 2019 were for Rs.22,17,000.
- (6) Interest on investments collected by the bank and credited in the Pass Book Rs.12,00,000.

Q6. Fav. Bal. (Revise Trans.) ICAI SM Illu.8 REG. PAGE NO.

The Cash Book of Mr. Gadbadwala shows Rs. 8,36,400 as the balance at Bank as on 31st December, 2019, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

- (1) On 15th December, 2019 the payment side of the Cash Book was undercast by Rs.10,000.
- (2) A cheque for Rs.1,31,000 issued on 25th December, 2019 was not taken in the bank column.
- (3) One deposit of Rs.1,50,000 was recorded in the Cash Book as if there is no bank column therein.
- (4) On 18th December, 2019 the debit balance of Rs.15,260 as on the previous day, was brought forward as credit balance.
- (5) Of the total cheques amounting to Rs.11,514 drawn in the last week of December, 2019, cheques aggregating Rs.7,815 were encashed in December.
- (6) Dividends of Rs.25,000 collected by the Bank and subscription of Rs.1,000 paid by it were not recorded in the Cash Book.
- (7) One out-going Cheque of Rs.3,50,000 was recorded twice in the Cash Book. Prepare a Reconciliation Statement.

Q7. Fav. Bal. (Revise Trans.) ICAI SM Illu.10 REG. PAGE NO.

When Nikki & Co. received a Bank Statement showing a favourable balance of Rs.10,39,200 for the period ended on 30th June, 2019, this did not agree with the balance in the cash book. An examination of the Cash Book and Bank Statement disclosed the following :

1. A deposit of Rs.3,09,200 paid on 29th June, 2019 had not been credited by the Bank until 1st July, 2019.
2. On 30th March, 2019 the company had entered into hire purchase agreement to pay by bank order a sum of Rs.3,00,000 on the 10th of each month, commencing from April, 2019. No entries had been made in Cash Book.
3. A customer of the -rm, who received a cash discount of 4% on his account of Rs.4,00,000 paid the -rm a cheque on 12th June. The cashier erroneously entered the gross amount in the bank column of the Cash Book.
4. Bank charges amounting to Rs.3,000 had not been entered in Cash-Book.
5. On 28th June, a customer of the company directly deposited the amount in the bank Rs. 4,00,000, but no entry had been made in the Cash Book.



6. Rs.11,200 paid into the bank had been entered twice in the Cash Book.
7. A debit of Rs. 11,00,000 appeared in the Bank Statement for an unpaid cheque, which had been returned marked 'out of date'. The cheque had been re-dated by the customer and paid into Bank again on 5th July, 2019.

Prepare Bank Reconciliation Statement on 30 June, 2019.

Q8. CB Dr. Balance (Adj. CB Method)

REG. PAGE NO.

From the following information as on 31st March, 2018, prepare a Bank Reconciliation Statement after making necessary Amendments in the Cash-book:

	Amount (Rs.)
Bank balance as per cash-book (Dr.)	3,25,000
Cheques deposited, but not yet credited	4,47,500
Cheques issued but, not yet presented for payment	3,56,200
Bank charges debited by Bank but not recorded in Cash-book	1,250
Dividend directly collected by bank	12,500
Insurance premium paid by bank as per standing instruction not intimated	15,900
Cash sales wrongly recorded in the Bank column of the Cash-book	25,500
Customer's cheque dishonoured by bank not recorded in Cash-book	13,000
Wrong Credit given by bank	15,000

Also show the bank balance that will appear in the Trial Balance as on 31st March, 2018.

Q9. CB Dr. Balance (Adj. CB Method)

REG. PAGE NO.

According to the cash book of Gopi, there was a balance of Rs. 44,50,000 in his bank on 30th June 2017. On investigation, you find that:

- a. Cheques amounting to Rs. 6,00,000 issued to creditors have not been presented for payment till the date.
- b. Cheques paid into bank amounting to Rs. 11,05,000 out of which cheques amounting to Rs. 5,50,000 only collected by bank upto 30th June 2017.
- c. A dividend of Rs. 40,000 and rent amounting to Rs. 6,00,000 received by the bank and entered in the pass book but not recorded in the cash book.
- d. Insurance Premium (upto 31st December 2017) paid by the bank Rs. 27,000 not entered in the cash book.
- e. The payment side of the cash book had been under casted by Rs. 5,000.
- f. Bank Charges Rs. 1,500 shown in the pass book had not been entered in the cash book.
- g. A Bills payable of Rs. 2,00,000 has been paid by the bank but was not entered in the cash book and bills receivable for Rs. 60,000 had been discounted with the bank at a cost of Rs. 1,000 which had also not been recorded in cash book.

Required to make appropriate adjustments in cash book and prepare a statement reconciling it with the pass book.

Q10. CB Dr. Balance (Adj. CB Method)

ICAI SM Illu.6

REG. PAGE NO.

On 30th December, 2019 the bank column of A. Philip's cash book showed a debit balance of Rs.4,610. On examination of the cash book and bank statement you find that:

1. Cheques amounting to Rs.6,30,000 which were issued to trade payables and entered in the cash book before 30th December, 2019 were not presented for payment until that date.
2. Cheques amounting to Rs. 2,50,000 had been recorded in the cash book as having been paid into the bank on 30th December, 2019, but were entered in the bank statement on 1st January, 2020.

