

## Chapter 3

### Bank Reconciliation Statement

#### CHAPTER OVERVIEW

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

#### 1. Activities of a Bank

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

#### 2. Bank Pass Book or Statement

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

Point	In Bank Pass Book	In Cash Book of the Customer/ Business Entity
Debit Entries in Bank Pass Book	<ul style="list-style-type: none"> <li>• Withdrawal of Cash,</li> <li>• Payment of Cheques to Creditors, Expenses, etc.</li> <li>• Bank Interest, Commission and Charges for various services rendered by the Bank.</li> <li>• Payment by Bank under Standing Instructions.</li> </ul>	These are recorded as " <b>Payments</b> " in the Cash Book, i.e. on the <b>credit side</b> of the Cash book (Book column).
Credit Entries in Bank Pass	<ul style="list-style-type: none"> <li>• Deposit of Cash into Bank,</li> <li>• Receipt/Collection of cheques from Debtors,</li> </ul>	These are recorded as " <b>Receipts</b> " the cash Book, i.e. on the <b>debit side</b> of the Cash Book (Bank Column).

book	<ul style="list-style-type: none"> <li>• Other Incomes / Receipts, e.g. Interest, Dividend, Capital introduced, Loans taken, etc.</li> <li>• Direct collection of Bill Receivable (B/R), Income on Investments, etc. by the Bank.</li> </ul>	
Favourable Bank Balance	<b>Credit Balance</b> in the Bank Pass Book represents a favourable balance, i.e. Normal Balance.	Such favourable balance will normally appear in the <b>Debit Side</b> of Cash book (Bank column).
Overdraft Balance	<b>Debit Balance</b> in the Pass Books represents an unfavorable balance, i.e. Overdraft Balance.	Such overdraft balance will normally appear in the <b>Credit Side</b> of Cash book (Bank column).

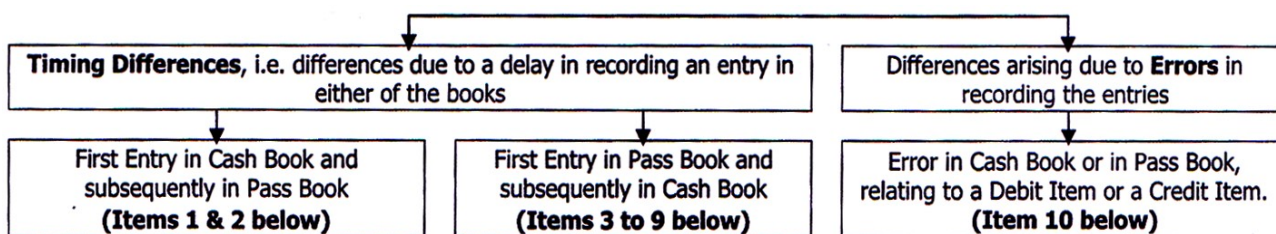
**Note :** For each entry in the Pass Book, there should be a corresponding opposite entry in the Cash Book. This is because the business enterprise treats the Bank as Debtor A/c (Receivable / Asset) and Bank treats the business enterprise as a Creditor (i.e. Payable / Liability).

### 3. Bank Reconciliation Statement

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

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

#### Reasons for difference between Cash Book and Pass Book balance



The common reasons for difference between the balances as per cash Book and the Bank Statements are –

- Cheques issued but not yet presented for payment:** Payment is recorded in the cash book immediately on issue of cheque. However, the Bank debits the Customer’s (i.e. Account Holders’) Account only when the cheque is presented for payment. There may be a time gap between the entry in the cash book an in the bank statement.
- Cheques deposited into Bank by not yet credited / cleared:** Receipts are recorded in the Cash book when the cheques are sent to Bank. However, the Bank would credit the account only when they have been cleared.
- Interest allowed / credited by Bank:** Interest credited by the Bank in the account (if any) will be reflected only in the bank pass book. They will have to be recorded in the cash book only after receiving the pass book.

4. **Direct Payments into Bank by a Customer:** Amount directly received by the Bank from the Company's customer will be recorded in the Cash book only after analyzing the Pass Book.
5. **Direct Payments into Bank by a Customers:** Amount directly received by the Bank from the Company's customer will be recorded in the cash book only after analyzing the Pass Book.
6. **Bills Receivable collected by Bank on behalf of the Customer:** The Bank collects the proceeds of a Bills Receivable when the documents of title are sent through it. On collection, the Bank will credit the Customer's account. The customer may make the entry only on receiving the Bank Statement at the end of the period.
7. **Interest & Expenses charged by Bank :** Interest and Expenses charged by Bank (for cheque Book, Demand Draft, Outstation Cheque Collection, etc.) will be recorded by the customer Company only after it recorded the Pass Book.
8. **Direct Payments by Bank :** When Standing Instructions for certain payments, e.g. insurance premium, telephone bills, etc, are given to the Bank, the company may come to know of the actual payment only on seeing the Pass Book at the end of the period.
9. **Dishonour of a Bill Discounted with the Bank:** If the Bank is not able to receive payment on bills of Exchange discounted by it, it will debit the customer's account together with any charges thereon. The customer will make the entry only when he sees the Bank statement.
10. **Error in Pass book/cash Book:** Errors committed in the Pass Book/cash book will also contribute to difference between the balance shown by the books.

**Note :**

- Item 1 & 2 are recorded in the cash book first, and later on reflected in the bank pass book/statement.
- Items 3 to 9 are recorded first in pass book, and later recorded in cash book. Out of these, items 3,4,5, and 6 constitute receipts into bank account, and items, 7, 8 and 9 constitute payments out of bank a/c.

**5. Procedure of Bank Reconciliation Statement**

BRS may be prepared in two ways –

- (a) **Without** adjusting the cash Book, i.e. Preparation of BRS only.
- (b) **After** adjusting cash book for items 3 to 10 given above, i.e. Preparation of adjusted cash book and BRS.

The procedures for preparing the BRS is explained below –

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

Prepare **Bank Reconciliation Statement** as under –

Starting Point	Cash Book Balance		Pass Book Balance	
	Dr. Balance in Cash Book (Favourable)	Cr. Balance in Cash Book (Overdraft)	Dr. Balance in Cash Book (Overdraft)	Cr. Balance in Cash Book (Favourable)
1. Cheques issued but not yet presented for Payment ( <b>Item 1</b> )	<b>Add</b>	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>
2. Cheques deposited into bank	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>	<b>Add</b>

but not yet credited /cleared <b>(Item 2)</b>				
3. Interest allowed by Bank <b>(Item 3)</b>	<b>Add</b>	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>
4. Interest & dividends collected by Bank <b>(Item 4)</b>	<b>Add</b>	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>
5. direct Payment into Bank by a Customer <b>(Item 5)</b>	<b>Add</b>	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>
6. Bills Receivable collected by bank on behalf of he customer <b>(item 6)</b>	<b>Add</b>	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>
7. Interest & Expenses charged by Bank <b>(Item 7)</b>	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>	<b>Add</b>
8. Direct Payment by Bank <b>(Item 8)</b>	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>	<b>Add</b>
9. Dishonour of a Bill Discounted with the Bank <b>(Item 9)</b>	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>	<b>Add</b>
10. Wrong Entries <b>(Item 10)</b>				
(a) Wrong Debit in cash book or in pass book, under casting of Cr. Side of cash book, overcasting of Dr. side of cash book, etc.	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>	<b>Add</b>
(b) Wrong Credit in cash book or pass book, overcasting of Cr. Side of cash book, under casting of Dr. Side of cash book	<b>Add</b>	<b>Subtract</b>	<b>Add</b>	<b>Subtract</b>

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

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

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

<b>Receipts</b>	<b>Rs.</b>	<b>Payments</b>	<b>Rs.</b>
To balance b/d (in cash of Favourable		By balance b/d (in case of Overdraft	

Balance as per Cash book)		balance as per cash Book)	
To Interest allowed by Bank	<b>Item 3</b>	By Interest & Expenses charged by Bank	<b>Item 7</b>
To Interest & Dividends collected by Bank	<b>Item 4</b>	By direct Payment by bank a per SI	<b>Item 8</b>
To Direct Payment into bank of firm's Customers (being Firm's receipts)	<b>Item 5</b>	By Dishonour of a bill discounted with the bank	<b>Item 9</b>
To bill Receivable collected by bank on behalf of firm	<b>Item 6</b>		
To rectification of error in cash book, e.g. double credit posting, credit overcast, debit undercast, debit entry omission, etc.	<b>Item 10</b>	By rectification of error in cash book, e.g. double debit posting, debit overcast, credit undercast, credit entry omission, etc.	<b>Item 10</b>
To balance c/d (in case of overdraft balance as per cash book)		By balance c/d (in case of Favourable balance as Per cash book)	
<b>Total</b>		<b>Total</b>	

**Note :**

- The Closing Balance in the above Adjusted cash book is called **adjusted cash balance**. This will be taken to the BRS prepared under step 2 below.
- In Item 10, errors made in cash book will be adjusted, but errors made in pass book will not be given effect in cash book.

**Step 2 :** Prepare as under –

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

**Illustration 1 : Normal Cash Book Balance**

On comparing the cash Book of Ganesh, with his bank book, the following discrepancies were noted :

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

Prepare a BRS as at 31<sup>st</sup> March, if the Balance as per cash book on 31<sup>st</sup> march was Rs. 39,570.

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

Particulars	Action	Rs.
Balance as per cash book (Normal balance) (Given)	Start	39,570
Cheque deposited into bank but collected on 7 <sup>th</sup> April (i.e. subsequently)	Less	-7,500
Cheques deposited but not cleared till 31 <sup>st</sup> March (4,800 – 3,800)	Less	-1,000
Cheques issued / drawn, but presented / encashed on 3 <sup>rd</sup> April	Add	+2,500
Cheques issued, but not presented/encashed till 31 <sup>st</sup> March (20,000-3,000)	Add	+17,000
Cheque received as per cash book, but omitted to be deposited in Bank	Less	-1,000
Cheque received and banked, but omitted in cash book	Add	+600
Bills Receivable dishonoured and debited by bank	Less	-520
Rebate on bills payable not considered in cash book (10,000 – 9,8500)	Add	+150
Wrong Entry in cash book, relating to cheque – issued	Less	-200
<b>Balance as per Pass Book (Favourable Balance)</b>	<b>Result</b>	<b>49,600</b>

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

### Illustration 2 : Overdraft Balance as per Cash Book

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

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

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

Particulars	Action	Rs.
Overdraft Balance as per Cash Book (Given)	<b>Starts</b>	6,34,000
Interest on Overdraft for Dec month entered in Pass Book	<b>Add</b>	+16,000
Bank Charges for the above period debited in the Pass Book	<b>Add</b>	+ 300
Cheque issued but not cashed prior to 31 <sup>st</sup> December	<b>Less</b>	-
Cheques deposited into the Bank but not cleared before 31 <sup>st</sup> December	<b>Add</b>	1,16,800
Interest on investment collected by the bank and credited in the pass book	<b>Less</b>	+2,17,00
		-
		1,20,000
<b>Overdraft as per Pass Book</b>	<b>Result</b>	<b>6,30,500</b>

**Illustration 3 : Overdraft Balance as per Pass Book**

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

Transaction	Rs.
<b>Bank Overdraft as per Pass Book</b>	<b>16,500</b>
<b>Cheques issued but not presented for payment</b>	<b>8,750</b>
<b>Cheques deposited with the Bank but not collected</b>	<b>10,500</b>
<b>Cheques recorded in the cash book but not sent to the bank for collection</b>	<b>2,000</b>
<b>Payments received from customers directly by the bank</b>	<b>3,500</b>
<b>Bank charges debited in the pass book</b>	<b>200</b>
<b>Premium of life policy of Ganapathy paid by the bank on standing advice</b>	<b>1,980</b>
<b>A Bill for Rs. 3,000 (discounted with the bank in November) dishonoured on 31<sup>st</sup> December and Nothing charges paid by the bank.</b>	<b>100</b>

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

Particulars	Action	Rs.
Overdraft Balance as per Cash Book (Given)	<b>Starts</b>	+16,500
Cheques issued but not presented for payment.	<b>Add</b>	+ 8,750
Cheques deposited with the bank but not collected	<b>Less</b>	-10,500
Cheques recorded in the cash book but not sent to the bank for collection	<b>Less</b>	-2,000
Payment received from customers directly by the bank	<b>Add</b>	+3,500
Bank charges debited in the Pass Book	<b>Less</b>	-2,00
Premium on Life Policy of Ganapathy paid by the Bank on standing advice	<b>Less</b>	-1,980
Bill discounted dishonoured and nothing charges paid by Bank (3,000 + 100)	<b>Less</b>	-3,100
<b>Overdraft as per Pass Book</b>	<b>Result</b>	<b>10,970</b>

**Illustration 4 : Normal Pass Book Balance**

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

- Cheques of to Rs. 500 issued to Creditors before 30<sup>th</sup> Sep, were presented for payment until that date.
- A cheque for Rs. 8,200 deposited on 29<sup>th</sup> September was credited by the Bank Only on 3<sup>rd</sup> October.

- A cheque issued for Rs. 750 has been dishonoured before 30<sup>th</sup> Sep, but not recorded in cash book till 30<sup>th</sup> sep.
  - Cheques deposited before 30<sup>th</sup> September but not cleared amounting to Rs. 250.
  - A payment by cheque for Rs. 150 has been entered twice in the cash book.
  - A dividend of Rs. 350, received by the Bank directly has not been recorded in the cash book.
  - On 29<sup>th</sup> September, the Bank credited an amount of Rs. 1,750 received from a customer of Vignesh, but was not intimated to Vignesh until 1<sup>st</sup> October.
  - Bank Charges amounting to Rs. 50 not entered in the Cash book.
  - On 6<sup>th</sup> September, the bank credited Rs. 2,00 to Vignesh’s account erroneously.
  - A Bill Receivable for Rs. 1,000 was discounted by Vignesh with his Bank. This bill was dishonoured on 28<sup>th</sup> September, but on entry was made in the books of Vignesh.
  - Cheques issued upto 30<sup>th</sup> September but no presented for payment upto that date totaled Rs. 3750
- You are required to prepare a Bank Reconciliation Statement as on 30<sup>th</sup> September.

**Solution**

**Bank Reconciliation Statement as on 30<sup>st</sup> September**

Particulars	Action	Rs.
Balance as per Pass Book (Given)	<b>Starts</b>	3,750
Cheques issued but not presents for payment	<b>Less</b>	-50
Cheques deposited with the bank but not credited	<b>Add</b>	+8,200
Cheque dishounoured not recorded in cash book	<b>Less</b>	-750

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

**Illustration 5 : BRS when both Cash Book and Pass Book are given**

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

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

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

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

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

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

**Solution :**

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

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

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

**Illustration 6 : BRS after Adjusting Cash Book for omissions / errors**

The Cash Book of Kapila showed a Bank Balance of Rs.1,200 (Dr.) on 30<sup>th</sup> June. However, according to his Bank Statement

the account was overdrawn. On investigation it was found that –

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

- Cheque to the value of Rs. 3,780 received from customers was recorded in the Cash Book on 28<sup>th</sup> June but not entered by the Bank until 2<sup>nd</sup> July.

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

Solution

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

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

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

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

## PREVIOUS YEAR QUESTION

1. The Bank Pass Book of Account No. 5678 of Mrs. Rani showed an overdraft of Rs. 33,575 on 31<sup>st</sup> March 2018. On going through the Pass Book, the accountant found the following:

(i) A Cheque of Rs. 1,080 credited in the pass book on 28th March 2018 being dishonoured is debited again in the pass book on 1st April 2018. There was no entry in the cash book about the dishonour of the cheque until 15th April 2018.

(ii) Bankers had credited her account with Rs. 2,800 for interest collected by them on her behalf, but the same has not been entered in her cash book.

(iii) Out of Rs. 20,500 paid in by Mrs. Rani in cash and by cheques on 31<sup>st</sup> March 2018 cheques amounting to Rs. 7,500 were collected on 7th April, 2018.

(iv) Out of Cheques amounting to Rs. 7,800 drawn by her on 27th-March, 2018 a cheque for Rs. 2,500 was encashed on 3rd April, 2018.

(v) Bankers seems to have given here wrong credit for Rs. 500 paid in by her in Account No. 8765 and a wrong debit in respect of a cheque for Rs. 300 against her account No. 8765.

(vi) A cheque for Rs. 1,000 entered in Cash Book but omitted to be banked on 31<sup>st</sup> March, 2018.

(vii) A Bill Receivable for Rs. 5,200 previously discounted (Discount Rs.200) with the Bank had been dishonoured but advice was received on 1st April, 2018.

(viii) A Bill for Rs. 10,000 was retired/paid by the bank under a rebate of Rs. 175 but the full amount of the bill was credited in the bank column of the Cash Book.

(ix) A Cheque for Rs. 2,400 deposited into bank but omitted to be recorded in Cash Book and was collected by the bank on 31st March, 2018.

Prepare Bank Reconciliation Statement as on 31st March, 2018.

[May 2018, 10 Marks]

2. Prepare a bank reconciliation statement from the following particulars as on 31st March 2018:

[Nov. 2018,10 Marks]

Particular	Rs.
Debit balance as per bank column of the cash book (Debit)	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

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

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

[May 2019,10 Marks]

4. On 30th September, 2018, the bank account of XYZ, according to the bank column of the cash book, was overdrawn to the extent of Rs. 8,062. An examination of the cash book and Bank. Statement reveals the following:
- (i) A cheque for e 11,14,000 deposited on 29<sup>th</sup> September, 2018 was credited by the bank only on 3rd October, 2018.
  - (ii) A payment by cheque for Rs. 18,000 has been entered twice in the Cash book
  - (iii) On 29th September, 2018, the bank credited an amount of Rs. 1,15,400 received from a customer of XYZ, but the advice was not received by. XYZ until 1<sup>st</sup> October, 2018.
  - (iv) Bank charges amounting to Rs. 280 had not been entered in the cash book.
  - (v) On 6<sup>th</sup> September, 2018, the bank credited Rs. 30,000 to XYZ in error.
  - (vi) A bill of exchange for Rs. 1,60,000 was discounted by XYZ with his bank. The bill was dishonoured on 28th September, 2018 but no entry had been made in the books of XYZ.
  - (vii) Cheques issued upto 30th September, 2018 but not presented for payment upto that date totalled Rs. 13,46,000.
  - (viii) A bill payable of Rs.2,00,000 had been paid by the bank but was not entered in the cash book and bill 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.
- You are required:
- To show the appropriate rectifications required in the cash book of XYZ, to arrive at the correct balance on 30th September, 2018 and to prepare a Bank Reconciliation Statement as on. that date. [Nov. 2019, 10 Marks]

5. On 31-3-2020, Mahesh's Cash Book Showed a Bank overdraft of (98,700). On comparison he finds the following:
- (1) Out of the total cheques of Rs. 8,900 issued on 27th March, one cheque of Rs.7,400 was presented for payment on 4<sup>th</sup> April and the other cheque of that a new cheque of the same amount was issued to him on 1<sup>st</sup> April. No entry for the return was made.
  - (2) Out of total cash and cheques of Rs. 6,800 deposited in the Bank on 24<sup>th</sup> March, one cheque of Rs. 2,600 was cleared on 3rd April and the other cheque of Rs. 500 was returned dishonoured by the bank on 4th April.

- (3) Bank charges, Rs. 35 and Bank interest Rs. 2,860 charged by the bank appearing in the passbook are not yet recorded in the cash book.
- (4) A cheque deposited in another account of Rs. 1,550 wrongly credited to this account by the bank.
- (5) A cheque of Rs.800, drawn on this account, was wrongly debited in another account by the bank.
- (6.) A debit of Rs.3,500 appearing in the bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the bank account again on 5th April 2020.
- (7) The bank allowed interest on deposit Rs. 1,000.
- (8) A customer who received a cash discount of 4% on his account of Rs. 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the bank column of the Cash Book. Prepare Bank Reconciliation Statement as on 31-3-2020.

[Nov. 2020, 10 Marks]

6. Prepare a Bank Reconciliation Statement from the following particulars as on 31st December, 2020:

Particular	Rs.
Bank Balance as per Cash Book (Debit)	1,98,000
Bank Charges debited by the bank not recorded in Cash Book	34,000
Received from debtors vide RTGS on 31st December, 2020 not recorded in Cash Book	1,00,000
Cheque issued but not presented for payment	45,000
Cheque deposited but not cleared	25,000
Cheque received and deposited but dishonoured. Entry for dishonor not made in the Cash Book	5,000
Instruction for payment given to the bank on 31st December, 2020 but the same effected by the Bank on 1st January, 2021	4,000

[Jan. 2021, 4 Marks]

7. From the following information, ascertain the Cash Book balance of Mr. Bajaj as on 31st March, 2021:
- (i) Debit balance as per Bank Pass Book Rs. 3,500.
- (ii) A cheque amounting to Rs. 2,500 deposited on 15th March, but the same was returned by the Bank on 24th March for which no entry was passed in the Cash Book.
- (iii) During March, two bills amounting to Rs. 2,500 and Rs. 500 were collected

by the Bank but no entry was made in the Cash Book.

(iv) A bill for Rs. 5,000 due from Mr. Balaji previously discounted for Rs. 4,800 was dishonoured. The Bank debited the account, but no entry was passed in the Cash Book.

(v) A Cheque for Rs. 1,500 was debited twice in the cash book.

[July 2021, 5 Marks]

8. According to the cash book of G, there was a balance of Rs. 4,45,000 in his bank on 30<sup>th</sup> June, 2021. On investigation you find that:

(i) Cheques amounting to Rs. 60,000 issued to creditors have not been presented for payment till the date.

(ii) Cheques paid into bank amounting to Rs. 1,10,500, out of which cheques amounting to Rs. 55,000 only collected by the bank up to 30th June, 2021.

(iii) A dividend of Rs. 4,000 and rent amounting to Rs. 60,000 received by the bank and entered in the passbook but not recorded in the cash book.

(iv) Insurance premium (upto 31st December, 2021) paid by the bank Rs. 2,700 not entered in the cash book.

(v) The payment side of the cash book had been under cast by Rs. 500.

(vi) Bank charges Rs. 150 shown in the pass book had not been entered in the cash book.

(vii) A bill payable of Rs.20,000 had been paid by the bank but was not entered in the cash book and bill receivable for Rs.6,000 had been discounted with the bank at a cost of Rs. 100 which had also not been recorded in cash book.

You are required:

(1) To make the appropriate adjustments in the cash book, and

(2) To prepare a statement reconciling it with the bank passbook.

[Dec. 2021, 10 Marks]

9. From the following particulars, prepare a Bank Reconciliation Statement on

31st March, 2021:

Particular	Rs.
Bank balance as per Passbook	25,00,000
Bills discounted dishonoured not recorded in Cash Book	12,50,000
Cheque received entered twice in Cash Book	25,000
Bank charges entered twice in Cash Book	5,000
Insurance premium paid directly by Bank understanding instruction	1,50,000
Cheque issued but not presented to Bank for payment	12,50,000
Cheque received, but not sent to Bank	28,00,000
Cheque deposited in Bank, but no entry passed in the Cash Book	12,50,000

Credit side of the Bank column cast short	5,000
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[June 2022, 5 Marks]

10. The cash book of Mr. Karan shows Rs. 2,60,400 as the balance of bank as on 31<sup>st</sup> December, 2021 but you find that it does not agree with the balance as per the bank passbook. On analysis, you found the following discrepancies:

(i) On 15<sup>th</sup> December, 2021 the payment, side of the cash book was overcast by Rs. 10,000.

(ii) A Cheque for Rs. 1,18,000 issued on 6<sup>th</sup> December, 2021 was not taken in the bank Column.

(iii) On 20<sup>th</sup> December, 2021 the debit balance of Rs. 8,460 as on the previous day, was brought forward as credit balance in the cash book.

(iv) of the total cheques amounting to Rs. 12,370 drawn in the last week of December, 2021, cheques aggregating Rs. 9,360 were encased in December, 2021.

(v) Dividends of Rs. 35,000 collected by the bank; and fire insurance premium of Rs. 7,900 paid by the bank were not recorded in the cash book.

(vi) A Cheque issued to a creditor of Rs. 1,75,000 was recorded twice in the cash book.

(vii) Bill for collection amounting to Rs. 53,000 credited by the bank on 21<sup>st</sup> December, 2021 but no advice was received by Mr. Karan till 31<sup>st</sup> December, 2021.

(viii) A Customer, who received a cash discount of 3 % on his account of Rs. 60,000 paid a cheque on 10<sup>th</sup> December, 2021. The cashier erroneously entered the gross amount in the bank column of the cash book.

You are required to prepare the bank reconciliation statement as on 31<sup>st</sup> December 2021

December, 2021. [Dec. 2022, 10 Marks]

[June 2022, 5 Marks]

11. From the following information prepare a Bank Reconciliation statement as on 31<sup>st</sup> March ,2022 for A ltd.

Bank overdraft as per cash book as 31 <sup>st</sup> march ,2022	15,50,750
1. Cheques deposited on 15 <sup>th</sup> February, 2022 credited on 5 <sup>th</sup> April,2022	12,50,000
2. interest debited by bank on 31 <sup>st</sup> march ,2022	1,75,500



3. cheques issued before 31 <sup>st</sup> march, 2022 but not yet presented.	7,75,000
4. On 10 <sup>th</sup> march,2022 bank credited to A ltd, in error	1,50,000
5.draft deposited in bank but not credited till 31 <sup>st</sup> march , 2022	12,75,000
6.bills for collection credited by bank but no advice received by the company	9,45,000
7.bank charges charged by bank not entered in cash book	2,85,000
8.transport subsidy received from the state government directly by the bank not advised to the company	17,50,000