



Principles & Practice of Accounting

Bank Reconciliation Statement



CHAPTER 3

BANK RECONCILIATION STATEMENT

INTRODUCTION

Banks are essential institutions in a modern society. With the increase in volume of trade, commerce and business, business entities faced difficulty in transacting in cash for each business activity. They discovered that dealing through bank, on regular basis, would be the better and safer option and finally large business entities switched over to banking transactions instead of dealing in cash. Now-a-days, most of the transactions of the business are done through bank whether it is a receipt or a payment. Rather, it is legally necessary to operate the transactions through bank after a certain limit. A Bank accepts from people, in general, deposits in various forms, and lends funds to those who need; it also invests some funds in profitable investments. Thus, money which would have been otherwise idle is put to use and is made available to those who need it. Those who deposit the money are able to withdraw it according to the settled terms and conditions. Apart from receiving deposits from and handling cash transactions on behalf of its customers, the bank also renders some other useful services as indicated below:

- (i) The bank discounts promissory notes or hundies, i.e., it enables a customer to receive the cash before the due date in consideration of a small charge called discount.
- (ii) The bank allows overdraft to its good customers so that they can make payments even when they do not have sufficient balance at the bank. Of course, the overdraft must be cleared later.
- (iii) The bank gives loans for a year or so, to its customers so that they can continue their operations. Such financial assistance is of great help for business.
- (iv) The bank on behalf of the customer collects the amount of dividend warrants or interest on securities etc.
- (v) On instruction of the customer, the bank makes payments of insurance premium, rent etc. on the due dates.
- (vi) The bank sells and purchases shares, debentures or government securities on behalf of its customers.
- (vii) Money can be remitted to another place or persons through the bank at a low cost.

BANK PASS BOOK

Bank pass book is merely a copy of the customer's account in the book of a bank. The bank either sends periodical statements of account or gives a pass book to its customer in which all deposits and withdrawals made by the customer during the particular period is recorded. Both represent almost a copy of the ledger account of the customer in the books of the bank. Thus, it is the bank's way of keeping the customers informed of the entries made in his account. It is the customer's duty to check the entries and immediately inform the bank of any error that he may notice.

BANK RECONCILIATION STATEMENT

To reconcile means to reason or find out the difference between two and eliminating that difference. Whenever we deposit or withdraws money from banks, it is always recorded at two places:-

1. Bank column of the cash book; and
2. Bank statement (pass book)

The cash book is maintained by the person having the bank account whereas the bank statement is prepared by the bank. Therefore, the balance in both should be equal and opposite in nature. For eg:- if Mr. A deposited ₹ 2,00,000 in his bank account it will be recorded on the Dr. side of his cash book, but for the bank it's a receipt so it will be recorded as a Cr. Entry in the bank statement or the pass book. But most of the times these two balances do not match. The reasons for difference in balances can be many and are explained later in this chapter. It is possible to eliminate this difference by matching all the facts and figures of the two statements. The process of eliminating this difference and bringing the two statements in line with each other is known as "Reconciliation", and the statement which reconciles the bank balance as per cash book with the balance as per the pass book by showing all the causes of difference is known as "BANK RECONCILIATION STATEMENT".

CAUSES OF DIFFERENCE : The difference in the both balances (bank balance as per cash book and pass book) may arise because of the following reasons:-

1. **TIMING**: - Sometimes a transaction is recorded at two different times in cash book and the pass book. This may happen in the following cases:-
Mr. A has issued a cheque to PQR Ltd., now it will be recorded in his cash book immediately but the bank will recognize this transaction only when the same cheque will be presented to it by PQR Ltd. Similarly for PQR Ltd., entry in the cash book will be made immediately as the cheque is received from Mr. A but the bank account will be credited when it collects money in respect of that cheque.
2. **TRANSACTIONS**: - There are various transactions which the bank carries out by itself without intimating the customer. For e.g.:- interest received on a savings bank account, it will be credited by the bank immediately but the entry in the cash book will be made only when the customer comes to know about it, which is usually at a later stage. Similar is the case with Bank charges (which are debited from the customer account by bank).
3. **ERRORS**: - Mistakes or errors made in preparing the accounts either by the bank or the customer can also result in disagreement of the two statements. For this reason rectification of errors is required to be done in both the statements before preparing any Bank Reconciliation Statement.

HOME WORK

Q-1 From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st December, 2018.

- (1) The bank overdraft as per Cash Book on 31st December, 2018 ` 6,340.
- (2) Interest on overdraft for 6 months ending 31st December, 2018 ` 160 is entered in Pass Bo(3)
- (3) Bank charges of ` 30 are debited in the Pass Book only.
- (4) Cheques issued but not cashed prior to 31st December, 2018, amounted to ` 1,168.
- (5) Cheques paid into bank but not cleared before 31st December, 2018 were for ` 2,170.
- (6) Interest on investments collected by the bank and credited in the Pass Book ` 1,200.

Q-2 On 30th September, 2018, the bank account of X, according to the bank column of the Cash- Book, was overdrawn to the extent of ` 4,062. On the same date the bank statement showed a balance of ` 1,400 in favour of X. An examination of the Cash Book and Bank Statement reveals the following :

1. A cheque for ` 1,140 deposited on 29th September, 2018 was credited by the bank only on 3rd October, 2018.
2. A payment by cheque for ` 160 has been entered twice in the Cash Book.
3. On 29th September, 2018, the bank credited an amount of ` 1,740 received from a customer of X, but the advice was not received by X until 1st October, 2018.
4. Bank charges amounting to ` 58 had not been entered in the Cash Book.
5. On 6th September, 2018, the bank credited ` 2,000 to X in error.
6. A bill of exchange for ` 1,000 was discounted by X with his bank. This bill was dishonoured on 28th September, 2018 but no entry had been made in the books of X.
7. Cheques issued upto 30th September, 2018 but not presented for payment upto that date totalled ` 3,760.

You are required : (a) to show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on 30th September, 2011 and (b) to prepare a bank reconciliation statement as on that date.

Q-3 On 30th December, 2018 the bank column of A. Philip's cash book showed a debit balance of ` 461. On examination of the cash book and bank statement you find that :

1. Cheques amounting to ` 630 which were issued to trade payables and entered in the cash book before 30th December, 2018 were not presented for payment until that date.
2. Cheques amounting to ` 250 had been recorded in the cash book as having been paid into the bank on 30th December, 2018, but were entered in the bank statement on 1st January, 2019.
3. A cheque for ` 73 had been dishonoured prior to 30th December, 2018, but no record of this fact appeared in the cash book.
4. A dividend of ` 38, paid direct to the bank had not been recorded in the cash book.

5. Bank interest and charges amounting to ₹ 42 had been charged in the bank statement but not entered in the cash book.
6. No entry had been made in the cash book for a trade subscription of ₹ 10 paid vide banker's order in December, 2018.
7. A cheque for ₹ 27 drawn by B. Philip had been charged to A. Philip's bank account by mistake in December, 2018.

You are required : (a) to make appropriate adjustments in the cash book bringing down the correct balance, and (b) to prepare a statement reconciling the adjusted balance in the cash book with the balance shown in the bank statement.

Q-4 From the following information, prepare a Bank reconciliation statement as at 31st December, 2018 for Messrs New Steel Limited :

- (1) Bank overdraft as per Cash Book on 31st December, 2018 2,45,900
- (2) Interest debited by Bank on 26th December, 2018 but no advice received 27,870
- (3) Cheque issued before 31st December, 2018 but not yet presented to Bank 66,000
- (4) Transport subsidy received from the State Government directly by the Bank but not advised to the company 42,500
- (5) Draft deposited in the Bank, but not credited till 31st December, 2018 13,500
- (6) Bills for collection credited by the Bank till 31st December, 2018 but no advice received by the company 83,600
- (7) Amount wrongly debited to company account by the Bank, for which no details are available 7,400

Q-5 The Cash Book of Mr. G shows ₹ 8,364 as the balance at Bank as on 31st December, 2018, 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, 2018 the payment side of the Cash Book was undercast by ₹ 100.
- (2) A cheque for ₹ 131 issued on 25th December, 2018 was not taken in the bank column.
- (3) One deposit of ₹ 150 was recorded in the Cash Book as if there is no bank column therein.
- (4) On 18th December, 2018 the debit balance of ₹ 1,526 as on the previous day, was brought forward as credit balance.
- (5) Of the total cheques amounting to ₹ 11,514 drawn in the last week of December, 2018, cheques aggregating ₹ 7,815 were encashed in December.
- (6) Dividends of ₹ 250 collected by the Bank and subscription of ₹ 100 paid by it were not recorded in the Cash Book.
- (7) One out-going Cheque of ₹ 350 was recorded twice in the Cash Book. Prepare a Reconciliation Statement.

Q-6 When Nikki & Co. received a Bank Statement showing a favourable balance of ₹ 10,392 for the period ended on 30th June, 2018, 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 ₹ 3,092 paid on 29th June, 2018 had not been credited by the Bank until 1st July, 2018.
2. On 30th March, 2018 the company had entered into hire purchase agreement to pay by bank order a sum of ₹ 3,000 on the 10th of each month, commencing from April, 2018. No entries had been made in Cash Book.

3. A customer of the firm, who received a cash discount of 4% on his account of ₹ 4,000 paid the firm 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 ₹ 300 had not been entered in Cash-Book.
5. On 28th June, a customer of the company directly deposited the amount in the bank ₹ 4,000, but no entry had been made in the Cash Book.
6. ₹ 1,200 paid into the bank had been entered twice in the Cash Book.
7. A debit of ₹ 100 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, 2018.

Prepare Bank Reconciliation Statement on 30 June, 2018.

Q-7 The bank account of Mukesh was balanced on 31st March, 2018. It showed an overdraft of ₹ 5,000. The bank statement of Mukesh showed a credit balance of ₹ 76,750. Prepare a bank reconciliation statement taking the following into account :

- (1) Cheques issued but not presented for payment till 31.3.2018 ₹ 12,000.
- (2) Cheques deposited but not collected by bank till 31.3.2018 ₹ 20,000.
- (3) Interest on term-loan ₹ 10,000 debited by bank on 31.3.2018 but not accounted in Mukesh's book.
- (4) Bank charges ₹ 250 was debited by bank during March, 2018 but accounted in the books of Mukesh on 4.4.2018.
- (5) An amount of ₹ 1,00,000 representing collection of Murukesh's cheque was wrongly credited to the account of Mukesh by the bank in their bank statement.

Q-8 From the following information (as on 31.3.2018), prepare a bank reconciliation statement after making necessary amendments in the cash book.

Bank balances as per the 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 the cash-book 1,250

Dividend directly collected by the 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 the cash-book 13,000

Wrong credit given by the bank 15,000

Also show the bank balance that will appear in the trial balance as on 31.3.2018.

Q-9 On 31st March, 2018 the pass-book of a trader showed a credit balance of ₹ 1,565, but the pass book balance was different for the following reasons from the cash book balance:

1. Cheques issued to 'X' for ₹ 600 and to 'Y' for ₹ 384 were not yet presented for payment.
2. Bank charged ₹ 35 for bank charges and 'Z' directly deposited ₹ 816 into the bank account, which were not entered in the cash book.

3. Two cheques one from 'A' for ₹ 515 and another from 'B' for ₹ 1,250 were collected in the first week of April, 2018 although they were banked on 25.03.2018.
4. Interest allowed by bank ₹ 45.

Prepare a bank reconciliation statement as on 31st March, 2018.

Q-10 From the following particulars prepare a bank reconciliation statement as on 31st December 2018:

- (i) On 31st December, 2018 the cash-book of a firm showed a bank balance of ₹ 60,000 (debit balance).
- (ii) Cheques had been issued for ₹ 15,00,000, out of which cheques worth ₹ 4,00,000 only were presented for payment.
- (iii) Cheques worth ₹ 11,40,000 were deposited in the bank on 28th December, 2018 but had not been credited by the bank. In addition to this, one cheque for ₹ 5,00,000 was entered in the cash book on 30th December, 2018 but was banked on 3rd January, 2019.
- (iv) A cheque from Susan for ₹ 4,00,000 was deposited in the bank on 26th December 2018 but was dishonoured and the advice was received on 2nd January, 2019.
- (v) Pass-book showed bank charges of ₹ 2000 debited by the bank.
- (vi) One of the debtors deposited a sum of ₹ 5,00,000 in the bank account of the firm on 20th December, 2018 but the intimation in this respect was received from the bank on 2nd January, 2019.
- (vii) Bank pass-book showed a debit balance of ₹ 3,82,000 on 31st December, 2018.

Q-11 According to the cash-book of Gopi, there was a balance of ₹ 44,50,000 in his bank on 30th June, 2018. On investigation you find that :

- (i) Cheques amounting to ₹ 6,00,000 issued to creditors have not been presented for payment till the date.
- (ii) Cheques paid into bank amounting to ₹ 11,05,000 out of which cheques amounting to ₹ 5,50,000 only collected by the bank up to 30th June 2018.
- (iii) A dividend of ₹ 40,000 and rent amounting to ₹ 6,00,000 received by the bank and entered in the pass-book but not recorded in the cash book.
- (iv) Insurance premium (up to 31st December, 2018) paid by the bank ₹ 27,000 not entered in the cash book.
- (v) The payment side of the cash book had been under casted by ₹ 5,000.
- (vi) Bank charges ₹ 1,500 shown in the pass book had not been entered in the cash book.
- (vii) A bill payable of ₹ 2,00,000 had been paid by the bank but was not entered in the cash book and bill receivable for ₹ 60,000 had been discounted with the bank at a cost of ₹ 1,000 which had also not been recorded in cash book.

Q-12 Prepare a bank reconciliation statement as on 30th September, 2018 from the following particulars:

Bank balance as per pass-book 10,00,000

Cheque deposited into the bank, but no entry was passed in the cash-book 5,00,000

Cheque received, but not sent to bank 11,20,000

Credit side of the bank column cast short 2,000

Insurance premium paid directly by the bank under the standing advice 60,000

Bank charges entered twice in the cash book 2,000

Cheque issued, but not presented to the bank for payment 5,00,000

Cheque received entered twice in the cash book 10,000

Bills discounted dishonoured not recorded in the cash book. 5,00,000

- Q-13** Prepare a bank reconciliation statement from the following particulars on 31st March, 2018:
- Debit balance as per bank column of the cash book 37,20,000
 - Cheque issued to creditors but not yet presented to the bank for payment 7,20,000
 - Dividend received by the bank but not yet entered in the cash book 5,00,000
 - Interest allowed by the bank 12,500
 - Cheques deposited into bank for collection but not collected by bank up to this date. 15,40,000
 - Bank charges 2,000
 - A cheque deposited into bank was dishonoured, but no intimation received 3,20,000
 - Bank paid house tax on our behalf, but no information received from bank in this connection. 3,50,000

MULTIPLE CHOICE QUESTIONS

1. When the balance as per Cash Book is the starting point, direct deposits by customers are:
(a) Added (b) Subtracted (c) Not required to be adjusted.
2. A debit balance in the depositor's Cash Book will be shown as:
(a) A debit balance in the Bank Statement.
(b) A credit balance in the Bank Statement.
(c) An overdrawn balance in the Bank Statement.
3. When balance as per Pass Book is the starting point, interest allowed by Bank is
(a) Added (b) Subtracted (c) Not required to be adjusted.
4. A Bank Reconciliation Statement is prepared with the help of:
(a) Bank statement and bank column of the Cash Book.
(b) Bank statement and cash column of the Cash Book
(c) Bank column of the Cash Book and cash column of the Cash Book.
5. The cash book showed an overdraft of ` 1,50,000, but the pass book made up to the same date showed that cheques of ` 10,000, ` 5,000 and ` 12,500 respectively had not been presented for payments; and the cheque of ` 4,000 paid into account had not been cleared. The balance as per the pass book will be:
(a) ` 1,10,000 (b) ` 2,17,500 (c) ` 1,26,500
6. When drawing up a Bank Reconciliation Statement, if you start with a debit balance as per the Bank Statement, the unpresented cheques should be:
(a) Added; (b) Deducted; (c) Not required to be adjusted.
7. When drawing up a BRS if you start with a Dr. Balance as per Bank Statement, the following are added:
 1. Cheque issued but not presented to bank
 2. B/R collected directly by bank
 3. Overcasting of the Dr. Side of bank A/c in the cash book.(a) only 1 (b) only 1&2 (c) all of the above (d) only 3.

HOME WORK

Q-1 From the following particulars, prepare a Bank Reconciliation Statement for J Ltd.

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

Ans . Hint : Balance as per pass book 28,6950

Q-2 On 31st March 2018, the Bank Pass Book of Ms. Gupta. showed a balance of ` 1,50,000 to her credit while balance as per cash book was ` 1,12,050. On scrutiny of the two books, she ascertained the following causes of difference:

- i) She has issued cheques amounting to ` 80,000 out of which only ` 32,000 were presented for payment.
- ii) She received a cheque of ` 5,000 which she recorded in her cash book but forgot to deposit in the bank.
- iii) A cheque of ` 22,000 deposited by her has not been cleared yet.
- iv) Ms. Gupta deposited an amount of ` 15,700 in her bank which has not been recorded by her in Cash Book yet.
- v) Bank has credit an interest of ` 1,500 while charging ` 250 as bank charges.

Prepare a bank reconciliation statement.

Ans . Hint : Balance as per cash book 112050

Q-3 From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st December, 2018.

- (1) The bank overdraft as per Cash Book on 31st December, 2018 ` 6,340.
- (2) Interest on overdraft for 6 months ending 31st December, 2018 ` 160 is entered in Pass Book.
- (3) Bank charges of ` 400 are debited in the Pass Book only.
- (4) Cheques issued but not cashed prior to 31st December, 2018, amounted to ` 11,68,000.
- (5) Cheques paid into bank but not cleared before 31st December, 2018 were for ` 22,17,000.
- (6) Interest on investments collected by the bank and credited in the Pass Book ` 12,00,000.

Ans . Hint : Balance as per passbook 144100

Q-4 On 30th September, 2018, the bank account of X, according to the bank column of the Cash- Book, was overdrawn to the extent of 4,062. On the same date the bank statement showed a debit balance of ` 20,758 in favour of X. An examination of the Cash Book and Bank Statement reveals the following:

1. A cheque for ` 13,14,000 deposited on 29th September, 2018 was credited by the bank only on 3rd October, 2018
2. A payment by cheque for ` 16,000 has been entered twice in the Cash Book.
3. On 29th September, 2018, the bank credited an amount of ` 1,17,400 received from a customer of X, but the advice was not received by X until 1st October, 2018.
4. Bank charges amounting to ` 580 had not been entered in the Cash Book.
5. On 6th September, 2018, the bank credited ` 20,000 to X in error.
6. A bill of exchange for ` 1,40,000 was discounted by X with his bank. This bill was dishonoured on 28th September, 2018 but no entry had been made in the books of X.
7. Cheques issued upto 30th September, 2018 but not presented for payment upto that date totalled ` 13,26,000.

You are required : (a) to show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on 30th September, 2018 and (b) to prepare a bank reconciliation statement as on that date.

Ans . Hint : Balance as per pass book 20758

Q-5 From the following information, prepare a Bank reconciliation statement as at 31st December, 2018 for Messrs New Steel Limited :

- (1) Bank overdraft as per Cash Book on 31st December, 2018 = 22,45,900
- (2) Interest debited by Bank on 26th December, 2018 but no advice received 2,78,700
- (3) Cheque issued before 31st December, 2018 but not yet presented to Bank 6,60,000
- (4) Transport subsidy received from the State Government directly by the Bank but not advised to the company 14,25,000
- (5) Draft deposited in the Bank, but not credited till 31st December, 2018 13,50,000
- (6) Bills for collection credited by the Bank till 31st December, 2018 but no advice received by the company 8,36,000
- (7) Amount wrongly debited to company account by the Bank, for which no details are available 7,40,000.

Ans . Hint : OD as per passbook 1693600



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