

BANK RECONCILIATION STATEMENT

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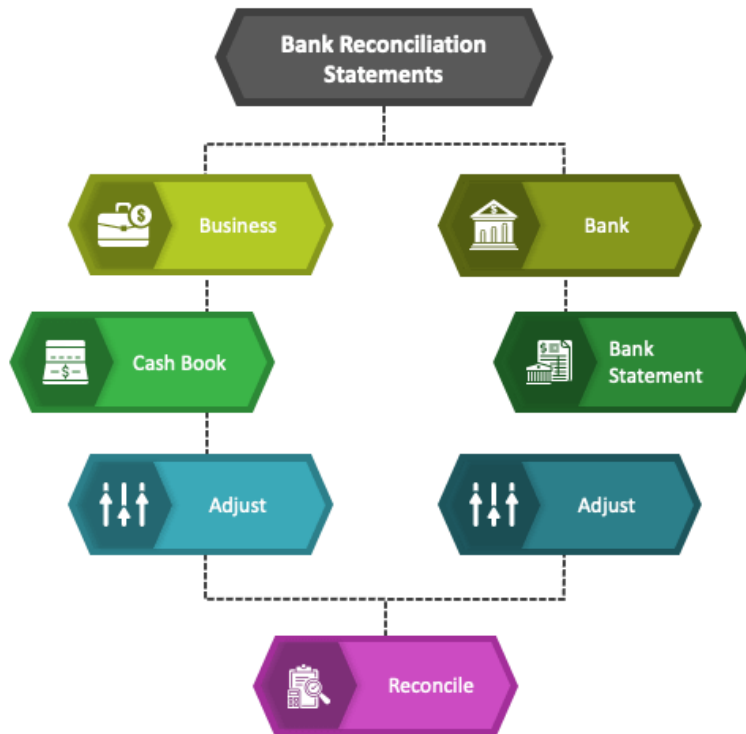
Exam preparation tips

**Separate workbook for Conceptual understanding
problems**

Separate workbook for complex problems

BANK RECONCILIATION STATEMENT

BACKGROUND



All business transactions are broadly divided into cash and credit transactions. In case of cash transactions, payment / receipt will be done immediately either by cash or cheque/demand draft/online transfer. Transactions done through cheque/demand draft/online transfer, or any other UPI mode are called banking transactions.



BANK RECONCILIATION STATEMENT

Those banking transactions are recorded by both Business and Bank with same amount in two different books. Business records bank related transactions in bank column of cash book and Bank records same set of transactions in passbook.

When all banking transactions are recorded by both business and bank simultaneously, at any point of time the bank balance as per cash book (bank column) and passbook should be same. But in practical, it will not be same at all the times because of few reasons / causes.

Business / account holder will analysis the **reasons/causes** for difference between cash book (Bank column) and passbook by preparing a statement called “**Bank Reconciliation Statement**”.

Bank reconciliation statement is a very important tool for internal control of cash flows. It helps in detecting errors, frauds and irregularities occurred, if any, at the time of passing entries in the cash book or in the passbook, whether intentionally or unintentionally.

Case study:

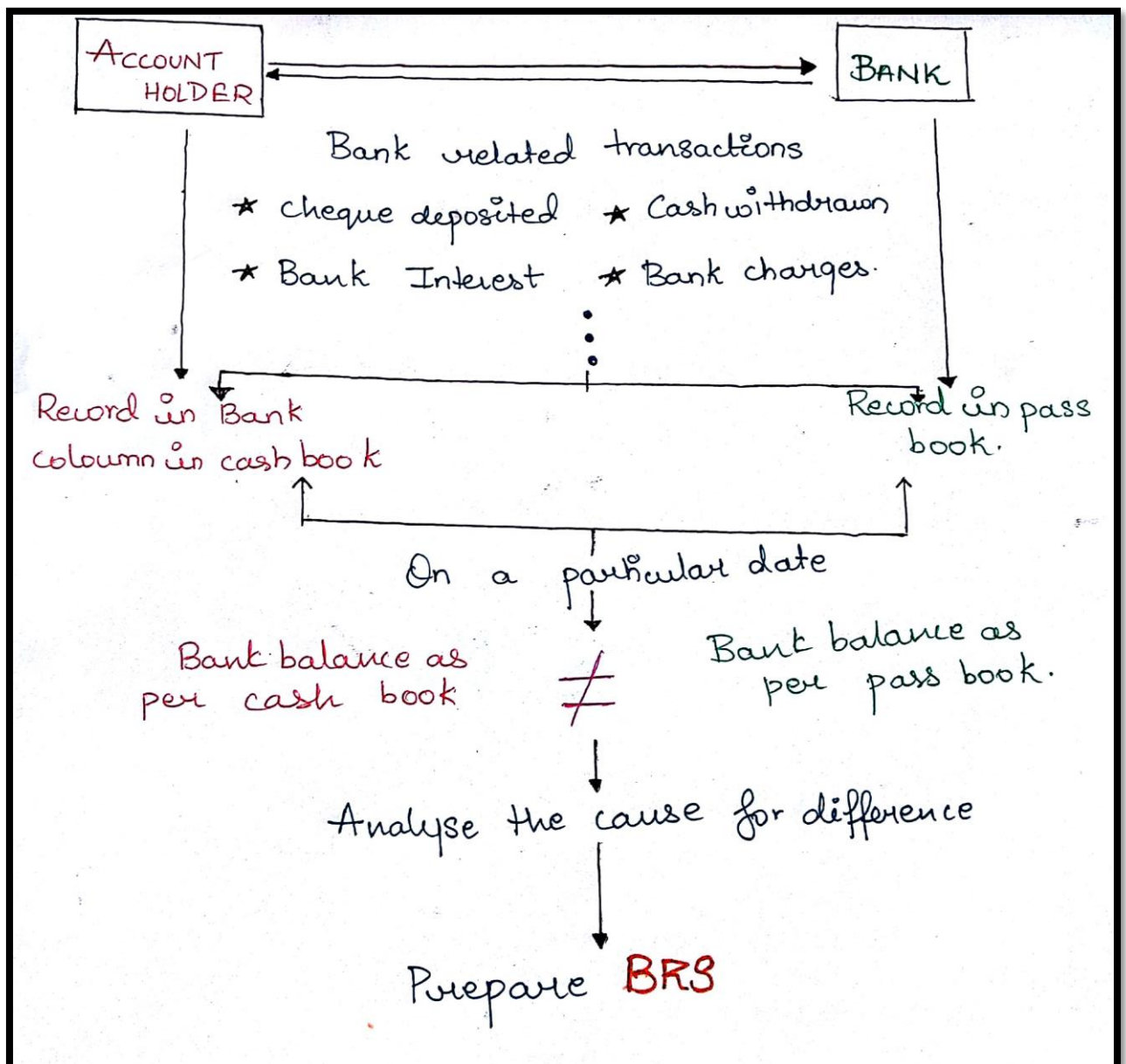
Mr. X running a business on rental basis for rent of Rs.50,000 per month. Due date for rent is 5th of every following month. Currently March month rent is due on 5th April. His cash book shows bank balance of Rs.20,000. He is out of station of 10 days. He informed his accountant to collect cheque of Rs.30, 000 from his client and pay full rent of Rs.50, 000 to landlord on 5th April. X maintains bank account in HDFC bank.

Points to be noted:

- 1. Cheque received but not deposited on the same date.**
- 2. It takes few days to clear cheques from other banks.**
- 3. Cheque dishonours when no sufficient bank balance**
- 4. Bank debit charges for cheque dishonour.**

BANK RECONCILIATION STATEMENT

OVERVIEW



BANK RECONCILIATION STATEMENT

Based on above overview chart on BRS, we should identify each cause for difference in bank balance and analyse it from one book as base book and arrive bank balance as per the other book. For each cause we should identify “**ADD or LESS**” to present in “Bank Reconciliation statement”. To decide to add or less, we must identify the following from the given problem.

1. Base book (starting book) (It can be cash book or passbook) (Based on direction from question/case study)
2. Bank balance type (Favourable or unfavourable)
3. Cause effect on bank balance (Increase or decrease)

The above analysis will be done in the suggested format called “**Bank Reconciliation statement**”. You can find a separate video and notes on “Procedure for preparation of Bank reconciliation statement”.

BANK RECONCILIATION STATEMENT FORMAT

PARTICULARS	₹
Bank balance as per base book (Starting point)	XXX
ADD: Cause 1	
Cause 2	
Cause 3	XXX
Less:	
Cause 4	
Cause 5	
Cause 6	(XXX)
Bank balance as per other book (Final balance)	XXX

BANK RECONCILIATION STATEMENT

BASICS REQUIRED

For better understanding of every chapter, we should recall our basic knowledge on certain areas. The following are the areas where we should have strong knowledge before, we proceed with Bank Reconciliation statement.

1. About transactions with bank

Example:

- Cheque deposited.
- Cheque issued.
- Cash withdrawals.
- Bank charges.
- Interest credit
- Loan borrows and repayment.

2. About cash book

TRIPLE COLUMN CASH BOOK FORMAT

Particulars	Cash	Discount allowed	Bank	Particulars	Cash	Discount received	Bank

For preparing Bank reconciliation statement, we should consider only “Bank column” of cash book because BRS is prepared to know and analyse the difference in “Bank balance”.

BANK RECONCILIATION STATEMENT

3. Awareness about banking transactions and Passbook

3/26/24, 4:01 PM

Welcome to HDFC Bank NetBanking

View / Download Account Statement

 Print This Page

Savings Account No.: **01411140058742 , R A PURAM - CHENNAI**

[[Select Another Account / Period](#)]

Page 1 of 1

Closing Balance: **INR 44,057.69**

Date	Narration	Cheque/Ref. No.	Value Date	Withdrawal	Deposit	Closing Balance
25 Mar 2024	UPI-KOLLURU MANMITHA-manmitha.kolluru@oksbi-IBKL0000436-408526822973-UPI	408526822973	25 Mar 2024	2,000.00		44,057.69
24 Mar 2024	UPI-K M LALU JOHN-kmlalujohn-2@okicici-BDBL0001753-408411826803-UPI	408411826803	24 Mar 2024	165.00		46,057.69
24 Mar 2024	UPI-GOWTHAM S-cagowtham11@okhdfcbank-KVBL0001164-408485014422-UPI	408485014422	24 Mar 2024		9,000.00	46,222.69
23 Mar 2024	UPI-GOWRISHANKAR-paytmqr5w8bbj5w@paytm-YESB0PTMUPI-408357107978-UPI	408357107978	23 Mar 2024	100.00		37,222.69
23 Mar 2024	UPI-TNFDCL-paytmqr2810050501011c9vtnnl3dc@paytm-YESB0PTMUPI-408356686060-UPI	408356686060	23 Mar 2024	100.00		37,322.69
23 Mar 2024	UPI-FIRST MAN MANAGEMENT-eazvoav.0000031320@icici-ICIC0DC0099-	444967205335	23 Mar 2024	12.00		37,422.69

4. Errors occurred in cash book.

Main causes for difference in bank balance are “**Errors in cash book**”. The below are few common errors in cash book which affect bank balance.

- Wrong debit in cash book
- Wrong credit in cash book
- Wrong posting on debit side of cash column instead of bank column
- Wrong posting on credit side of cash column instead of bank column
- Under casting
- Overcasting
- Omitted to record in cash book.
- Duplication

BANK RECONCILIATION STATEMENT

CONCEPTS CLARITY – TOPICS TO BE COVERED IN BRS

Every chapter is divided into topics and subtopics where we should appreciate **CONCEPTUAL** knowledge to become strong in handling case studies and problem solving.

The following are the list of topics to be covered in “Bank Reconciliation statement” .

Definitions	
About Cash book	
About Pass book	
Relationship between cash book and pass book	
Favourable vs unfavourable balance	
Causes for difference between cash book and pass book	
Bank reconciliation statement format	
Procedure for preparation of BRS	
Preparation of adjusted cash book	
Cut off date	

BANK RECONCILIATION STATEMENT

CONCEPTS CLARITY –DEFINITIONS

The following are the list of topics for which we should appreciate meaning.

CASH BOOK:

A cash book is a journal cum ledger where we record all cash receipts and payments, including bank deposits and withdrawals and all other banking transactions in bank column of cash book. It is prepared on cash basis.

PASSBOOK:

Bank passbook is merely a copy of the customer's account in the book of a bank.

BANK RECONCILIATION STATEMENT:

Bank reconciliation is a statement which explains the causes for any differences between bank balance shown in the bank statement and bank balance shown in the cash book of account holder.

CAUSE:

Causes are the reasons for which there is difference in bank balance between cash book and passbook.

ADJUSTED CASH BOOK:

It is the rectified cash book prepared with all the errors occurred in cash book before we prepare Bank reconciliation statement.

CUT OFF DATE:

It is the date on which we prepare Bank reconciliation statement. We must take all bank transactions and see whether recorded correctly in both books on and before this cutoff date.

BANK RECONCILIATION STATEMENT

CONCEPTS CLARITY – CASH BOOK VS PASSBOOK

ABOUT CASH BOOK

Cash book is prepared on **cash basis** where it records **cash transactions** done by both cash and cheque. All transactions in the cash book have two sides: debit and credit. All cash receipts are recorded on the left-hand side (Debit), and all cash payments are recorded on the right-hand side (Credit).

ABOUT PASSBOOK

Bank passbook 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 passbook to its customer in which all deposits and withdrawals made by the customer during the period is recorded. Both represent almost a copy of the ledger account of the customer in the books of the bank. **All bank related transactions recorded in cash book will be recorded in passbook in reverse order.** The debit balance in the cash book represents the credit balance as per the passbook and vice-versa.

RELATIONSHIP BETWEEN CASH BOOK AND PASSBOOK

All the cheque and bank related transactions will be recorded in both cash book and passbook, but it will be recorded in the reverse manner. It means if we debit Bank A/c in our cash book then it should be credited in Bank passbook and vice – versa. We record transactions in our cash book from business point of view and treat “Bank balance” as an asset. Whereas Bank records the same transactions from account holder point of view and treat our account as personal account.

FAVOURABLE VS UNFAVOURABLE BALANCE

BOOK	IF DEBIT BALANCE	IF CREDIT BALANCE
Cash book	Favourable (Positive)	Unfavourable (Negative)
Passbook	Unfavourable (Positive)	Favourable (Negative)

BANK RECONCILIATION STATEMENT

CASH BOOK		PASSBOOK	
DEBIT	CREDIT	DEBIT	CREDIT
Inflow (Receipt)	Outflow (Payment)	Outflow (Payment)	Inflow (Inflow)

Note:

- Debit balance in cash book is favourable because bank balance is an asset. Assets by default have debit balance.
- Since we record bank transactions in both cash and passbook in reverse order, if debit balance in cash book favourable means credit balance in passbook is favourable.

Explanation:

X ltd maintains current account in HDFC bank. It has deposited a cheque of Rs.50,000 which was received from a debtor.

Accounting in cash book:

Bank A/c Dr.	50,000	
To Debtor A/c		50,000

Accounting in passbook:

Bank A/c Dr.	50,000	
To X ltd (A/c holder A/c)		50,000

What is important to note here is: For cash book concerned, we take bank a/c and for Passbook concerned , we take "A/c holder name A/c".

BANK RECONCILIATION STATEMENT

CONCEPTS CLARITY – CAUSES FOR DIFFERENCE BETWEEN CASH BOOK AND PASSBOOK

CAUSES FOR DIFFERENCE IN BANK BALANCE BETWEEN CASH BOOK AND PASSBOOK

As explained earlier, bank balance as per both books should be same but practically it will not be same because of the following reasons/causes.

Timing difference	<p>Sometimes a transaction is recorded at two different times in cash book and the passbook.</p> <p>Explanation: 1. Cheque deposited into bank recorded on day 1 in cash book but updated in passbook on day 5.</p> <p>2. Cheque issued for payment on D6, but it got presented and cleared on Day 11 in bank.</p>
Record in one book only.	<p>Some transactions are recorded in cash book but not in passbook and vice-versa.</p> <p>Explanation: 1. Bank debited charges but not updated in cash book.</p> <p>2. Cheque directly deposited into bank by customer but not recorded in cash book.</p>
Error or mistake in both cash and passbook	<p>Mistakes or errors made in preparing the accounts either by the bank or the customer can also result in disagreement of the two books.</p>

NOTE:

- **Cheque deposited** means money is being put in into bank account.
- **Cheque issued** means money is being taken out of your account to pay someone else.
- When **expenses being charged** means money has been taken from your account for services they provided.

BANK RECONCILIATION STATEMENT

List of few causes:

Cause
A. Cheques directly deposited in bank by customers
B. Cheques collected from customer but not yet cashed in bank
C. Cheques deposited in bank but dishonoured
D. Cheques issued to supplier but not presented in bank
E. Bank charges directly charged by bank but not recorded in our books
F. Dividend directly collected by bank of but not yet accounted in our book
G. Insurance premium paid by bank as per standard instruction
H. Wrong credit given by bank
I. Wrong debit given by bank
J. Over casting on the debit side of bank passbook
K. Under casting on the credit side of cash book bank column
L. Bills discounted with bank but dishonoured

UNDERCASTING AND OVERCASTING:

Under casting means lowering total and overcasting means increasing total.

- **Under casting on debit side of cash book:** Decrease in bank balance as per cash book as total receipts are undercast.
- **Overcasting on debit side of cash book:** Increase in bank balance as per cash book as total receipts are overcast.
- **Under casting on debit side of passbook:** Increase in bank balance as per passbook as total payments are undercast.
- **Overcasting on debit side of passbook:** Decrease in bank balance as per passbook as total payments are overcast.
- **Under casting on credit side of cash book:** Increase in bank balance as per cash book as total payments are undercast.
- **Overcasting on credit side of cash book:** Decrease in bank balance as per cash book as total payments are overcast.
- **Under casting on credit side of Passbook:** Decrease in bank balance as per Passbook as total receipts are undercast.

BANK RECONCILIATION STATEMENT

- **Overcasting on credit side of passbook:** Increase in bank balance as per passbook as total receipts are overcast.

WRONG DEBIT AND WRONG CREDIT:

- **Wrong debit in cash book:** A debit in cash book represents a receipt. Whether correct debit or wrong debit, once we debit, bank balance will increase as per cash book.

Cash book

RECEIPTS	AMOUNT	PAYMENTS	AMOUNT
To Wrong debit	XXX		

- **Wrong credit in cash book:** A credit in cash book represents a payment. Whether correct credit or wrong credit, once we credit, bank balance will decrease as per cash book.

Cash book

RECEIPTS	AMOUNT	PAYMENTS	AMOUNT
		By Wrong credit	XXX

- **Wrong debit in passbook:** A debit in passbook represents a payment. Whether correct debit or wrong debit, once we debit, bank balance will decrease as per passbook.

PassBook

DATE	PARTICULARS	CHEQUE NO.	WITHDRAWALS	DEPOSITS	BALANCE
			Dr.	Cr.	Dr or Cr
			Wrong debit		

- **Wrong credit in passbook:** A credit in passbook represents a receipt. Whether correct credit or wrong credit, once we credit, bank balance will increase as per passbook.

BANK RECONCILIATION STATEMENT

Passbook

DATE	PARTICULARS	CHEQUE NO.	WITHDRAWALS	DEPOSITS	BALANCE
			Dr.	Cr.	Dr or Cr
				Wrong credit	

CONCEPTS CLARITY – FORMAT OF BANK RECONCILIATION STATEMENT

BRS is prepared by considering bank balance as per one book as base (any book), analysing the reasons for difference between two books and finally arriving bank balance as per other book. We should take decision for each cause either **ADD** or **DEDUCT** in BRS

BANK RECONCILIATION STATEMENT FORMAT

PARTICULARS	₹	₹
Bank balance as per one book (Starting point)		XXX
ADD:		
Cause 1	XXX	
Cause 2	XXX	
Cause 3	XXX	XXX
LESS:		
Cause 4	(XXX)	
Cause 5	(XXX)	
Cause 6	(XXX)	(XXX)
Bank balance as per other book (Final balance)		XXX

Note:

To decide whether to **ADD** or **DEDUCT** for each cause, we should check the following:

BANK RECONCILIATION STATEMENT

- ✓ Base book
 - Cash book **or** Passbook.

- ✓ Balance type
 - Favourable **or** Unfavourable

CONCEPTS CLARITY – PROCEDURE FOR PREPARATION OF BRS

In the entire process of preparation of BRS, the important thing that we need to identify is “**ADD or LESS**” for each cause. Different authors follow different method for deciding add or less for each cause. I follow an arrow system as explained below.

STEP I: Denote ‘C’ for cash book and ‘P’ for Passbook.

STEP II: Decide the order.

If base book is cash book, then first letter will be “C” and followed by “P”

C P

If base book is Passbook then first letter will be “P” and followed by “C”

P C

Note: The above order is followed irrespective of bank balance type (Favourable or unfavourable)



STEP III: Understand arrow system

There are two arrows.

- FIRST ARROW
- SECOND ARROW

Both arrows can be up or down arrow.

BANK RECONCILIATION STATEMENT

- Increase in bank balance.
- Up arrow - 
 - Down arrow - 
- Decrease in bank balance.

NOTE:

The **second arrow** will give decision whether to add or deduct for each cause. If second arrow is an up arrow, then the answer is ADD and if it is down arrow, the answer is “LESS”.

STEP IV: Draw first arrow:

First arrow can start from ANY BOOK, but it depends on reading each cause and identifying the following:

- Which book is affected (recorded)? ---(**In which book entry has been recorded**)
- How is it affected (increase/decrease)? (**Does it increase or decrease its bank balance**)

Explanation:

- If cash book is affected (**recorded**) and because of this bank balance **in cash book is increased**, then the first arrow should be



- If cash book is affected (**recorded**) and because of this bank balance **in cash book is decreased**, then the first arrow should be



BANK RECONCILIATION STATEMENT

- If Passbook is affected (**recorded**) and because of this bank balance **in passbook increased** then the first arrow should be



- If Passbook is affected (**recorded**) and because of this bank balance in **passbook decreased** then the first arrow should be



Example:

1. Cheque deposited into bank but not cleared.

In the above cause, cash book is affected (recorded) and because of that bank balance in cash book has gone up. Irrespective of base book we draw first arrow from Cash book an up arrow.



2. Bank debited interest expense

In the above cause, Passbook is affected (recorded) and because of that bank balance in Passbook is decreased. Irrespective of base book we draw first arrow from Passbook a down arrow.



BANK RECONCILIATION STATEMENT

NOTE:

First arrow will not depend on base book, but it depends on understanding of each cause.

STEP V: Draw second arrow.

Second arrow should **ALWAYS START FROM BASE BOOK**. We should draw second arrow from base book in such a way that bank balance as per both books should become equal.

- If the second arrow is an upward – We should **ADD**.
- If the second arrow is downward – We should **LESS/DEDUCT**

The above steps are commonly applicable for all combination of situations/problems:

- i. Base book is cash book – favourable balance.
- ii. Base book is cash book -- unfavourable balance.
- iii. Base book is Passbook – favourable balance.
- iv. Base book is Passbook – unfavourable balance.

SITUATION 1: BASE BOOK IS THE CASH BOOK – FAVOURABLE BALANCE

In this combination the first letter is “C” and followed by “P”. The first arrow can start from any book, but the second arrow should always start from base book – cash book.

Procedure with illustration:

- **First arrow**
- **Second arrow**

1. Cheque deposited into bank but not cleared.

1st arrow-----> book affected (recorded): Cash book—> increase in bank balance.

2nd arrow-----> base book (cash book): deduct to make bank balance equal.

BANK RECONCILIATION STATEMENT



2. Cheque issued but not presented in the bank.

1st arrow-----> book affected (recorded): cash book—> decrease in bank balance.

2nd arrow-----> base book (cash book): add to make bank balance equal.



3. Cheque directly deposited into the bank.

1st arrow-----> book affected (recorded): passbook—> increase in bank balance.

2nd arrow-----> base book (cash book): add to make bank balance equal.



4. Bank debited interest expense.

1st arrow-----> book affected (recorded): Passbook—> decrease in bank balance.

2nd arrow-----> base book (cash book): deduct to make bank balance equal.



BANK RECONCILIATION STATEMENT

5. Bank charges for cheque returned.

1st arrow-----> book affected (recorded): Passbook—> decrease in bank balance.

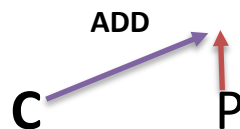
2nd arrow-----> base book (cash book): deduct to make bank balance equal.



6. Bank wrongly credited our account.

1st arrow-----> book affected (recorded): Passbook—>increase in bank balance.

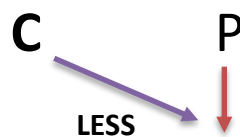
2nd arrow-----> base book (cash book): add to make bank balance equal.



7. Bank wrongly debited our account.

1st arrow-----> book affected (recorded): Passbook—>decrease in bank balance.

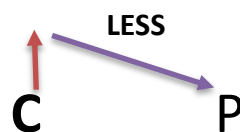
2nd arrow-----> base book (cash book): deduct to make bank balance equal.



8. Wrong debit is given cash book under bank column.

1st arrow-----> book affected (recorded): cash book—> increase in bank balance

2nd arrow-----> base book (cash book): deduct to make bank balance equal.



BANK RECONCILIATION STATEMENT

9. Wrong credit is given in cash book bank column.

1st arrow-----> book affected (recorded): cash book—> decrease in bank balance.

2nd arrow-----> base book (cash book): add to make bank balance equal.



10. Under casting (Total) in the debit side of cash book.

1st arrow-----> book affected (recorded): cash book—> decrease in bank balance.

2nd arrow-----> base book (cash book): add to make bank balance equal.



11. Overcasting on the debit side of cash book.

1st arrow-----> book affected (recorded): cash book—> increased bank balance.

2nd arrow-----> base book (cash book): less to make bank balance equal.



12. Under casting on the credit side of cash book.

1st arrow-----> book affected (recorded): cash book—> increase in bank balance.

2nd arrow-----> base book (cash book): deduct to make bank balance equal.

BANK RECONCILIATION STATEMENT



13. Overcasting on the credit side of cash book.

1st arrow-----> book affected (recorded): cash book—> decrease in bank balance.

2nd arrow-----> base book (cash book): add to make bank balance equal.



14. Under casting in the debit side of Passbook.

1st arrow-----> book affected (recorded): Passbook—> increase bank balance.

2nd arrow-----> base book (cash book): add to make bank balance equal.



15. Overcasting on the debit side of Passbook.

1st arrow-----> book affected (recorded): Passbook—> decrease in bank balance.

2nd arrow-----> base book (cash book): deduct to make bank balance equal.



BANK RECONCILIATION STATEMENT

16. Under casting on the credit side of Passbook.

1st arrow-----> book affected (recorded): Passbook—> decrease in bank balance.

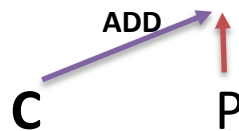
2nd arrow-----> base book (cash book): deduct to make bank balance equal.



17. Overcasting on the credit side of Passbook.

1st arrow-----> book affected (recorded): Passbook—> increase in bank balance.

2nd arrow-----> base book (cash book): add to make bank balance equal.



18. Bill discounted with bank but dishonoured.

1st arrow-----> book affected (recorded): Passbook—> decrease in bank balance.

2nd arrow-----> base book (cash book): deduct to make bank balance equal.



BANK RECONCILIATION STATEMENT

SITUATION II: BASE BOOK IS THE CASH BOOK – UNFAVOURABLE BALANCE

There are two ways of handling this situation.

Method 1: We put negative symbol to base book balance and follow same decisions of ADD or LESS as explained in situation 1.

For example: If Bank balance as per cash book is Rs.20, 000 (Credit) (Negative balance). We should start BRS with bank balance as per cash book = - 20,000

Method 2: In this case, we take base book balance as such and follow same procedure explained in situation 1 above but we should take opposite decision after we concluded the final decision.

For example:

1. Cheque deposited into bank but not cleared.

1st arrow-----> book affected (recorded): Cash book—> increase in bank balance.

2nd arrow-----> base book (cash book): deduct to make bank balance equal.



All the steps are same but we should take opposite decision so we should **ADD**

SITUATION III: BASE BOOK IS THE PASSBOOK – FAVOURABLE BALANCE

In this combination the first letter is “P” and followed by “C”. The first arrow can start from any book but the second arrow should always start from base book – Passbook (P).

Procedure with illustration:

- **First arrow**
- **Second arrow**

BANK RECONCILIATION STATEMENT

1. Cheque deposited into bank but not cleared.

1st arrow-----> book affected (recorded): cash book—> increase in bank balance.

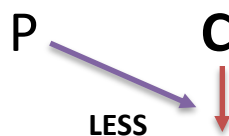
2nd arrow-----> base book (Passbook): add to make bank balance equal.



2. Cheque issued but not presented in the bank.

1st arrow-----> book affected (recorded): cash book—> decrease in bank balance.

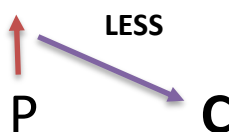
2nd arrow-----> base book (Passbook): deduct to make bank balance equal.



3. Cheque directly deposited into the bank.

1st arrow-----> book affected (recorded): Passbook—> increase in bank balance.

2nd arrow-----> base book (Passbook): deduct to make bank balance equal.



BANK RECONCILIATION STATEMENT

4. Bank debited interest expense.

1st arrow-----> book affected (recorded): Passbook—> decrease in bank balance.

2nd arrow-----> base book (Passbook): add to make bank balance equal.



5. Bank charges for cheque returned.

1st arrow-----> book affected (recorded): Passbook—> decrease in bank balance.

2nd arrow-----> base book (Passbook): add to make bank balance equal.



6. Bank wrongly credited our account.

1st arrow-----> book affected (recorded): Passbook—> increase in bank balance.

2nd arrow-----> base book (Passbook): deduct to make bank balance equal.

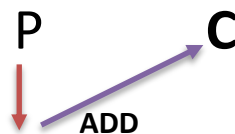


BANK RECONCILIATION STATEMENT

7. Bank wrongly debited our account.

1st arrow-----> book affected (recorded): Passbook—> decrease in bank balance.

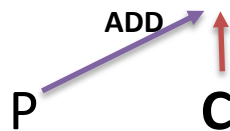
2nd arrow-----> base book (Passbook): add to make bank balance equal.



8. Wrong debit is given cash book under bank column.

1st arrow-----> book affected (recorded): cash book—> increase in bank balance.

2nd arrow-----> base book (Passbook): add to make bank balance equal.



9. Wrong credit is given in cash book bank column.

1st arrow-----> book affected (recorded): cash book—> decrease in bank balance.

2nd arrow-----> base book (Passbook): deduct to make bank balance equal.

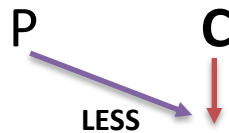


10. Under casting in the debit side of cash book.

1st arrow-----> book affected (recorded): cash book—> decrease in bank balance.

2nd arrow-----> base book (Passbook): deduct to make bank balance equal.

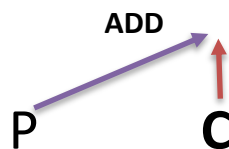
BANK RECONCILIATION STATEMENT



11. Overcasting on the debit side of cash book.

1st arrow-----> book affected (recorded): cash book—> increase in bank balance.

2nd arrow-----> base book (Passbook): add to make bank balance equal.



12. Under casting on the credit side of cash book.

1st arrow-----> book affected (recorded): cash book—> increase in bank balance.

2nd arrow-----> base book (Passbook): add to make bank balance equal.



13. Overcasting on the credit side of cash book.

1st arrow-----> book affected (recorded): cash book—> decrease in bank balance.

2nd arrow-----> base book (Passbook): deduct to make bank balance equal.



BANK RECONCILIATION STATEMENT

14. Under casting on the debit side of Passbook.

1st arrow-----> book affected (recorded): Passbook—> increase in bank balance.

2nd arrow-----> base book (Passbook): deduct to make bank balance equal.



15. Overcasting on the debit side of Passbook.

1st arrow-----> book affected (recorded): Passbook—> decrease in bank balance.

2nd arrow-----> base book (Passbook): add to make bank balance equal.



16. Under casting on the credit side of Passbook.

1st arrow-----> book affected (recorded): Passbook—> decrease in bank balance.

2nd arrow-----> base book (Passbook): add to make bank balance equal.



17. Overcasting on the credit side of Passbook.

1st arrow-----> book affected (recorded): Passbook—> increase in bank balance.

2nd arrow-----> base book (Passbook): deduct to make bank balance equal.

BANK RECONCILIATION STATEMENT



18. Bill discounted with bank but dishonoured.

1st arrow-----> book affected (recorded): Passbook—> decrease in bank balance.

2nd arrow-----> base book (Passbook): add to make bank balance equal.



SITUATION IV: BASE BOOK IS THE PASSBOOK – UNFAVOURABLE BALANCE

There are two ways of handling this situation.

Method 1: We put negative symbol to base book balance and follow same decisions of ADD or LESS as explained in situation 3.

For example: If Bank balance as per Passbook is Rs.50, 000 (Debit) (Negative balance). We should start BRS with bank balance as per Passbook = - 50,000

Method 2: In this case, we take base book balance as such and follow same procedure explained in situation 3 above but we should take opposite decision after we concluded the final decision.

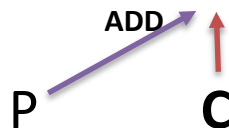
For example:

1. Cheque deposited into bank but not cleared.

1st arrow-----> book affected (recorded): cash book—> increase in bank balance.

2nd arrow-----> base book (Passbook): add to make bank balance equal.

BANK RECONCILIATION STATEMENT



All the steps are same but we should take opposite decision so we should **LESS**

CONCEPTS CLARITY – PREPARATION OF ADJUSTED CASH BOOK

Causes for difference in bank balance between cash book and passbook can be errors in cash book or Passbook or both. Being an accountant, **we can adjust/correct errors occurred in cash book only**. We are not authorised correct mistakes in passbook. Adjusted cash book is prepared to rectify all errors occurred in cash book. It is prepared even before preparation of BRS.

While preparing adjusted cash book the following adjustments are considered: -

1. All the errors in cash book (like wrong amount recorded in the cashbook, entry posted twice in the cashbook, over/under casting of the balance etc.) and
2. Omissions in cash book (like bank charges recorded in the passbook only, interest debited by the bank, direct receipt or payment by the bank, dishonour of cheques/bills etc.) by the cashbook are taken into care

ADJUSTED CASH BOOK FORMAT

Particulars	Bank	Particulars	Bank
To Bank balance as per original cash book		By Error 3	
To Error 1		By Error 4	
To Error 2			
		By Bank Balance as per adjusted cash book	XXXX
	XXXX		XXXX

BANK RECONCILIATION STATEMENT

The bank balance arrived as per adjusted cashbook is taken for preparing bank reconciliation statement.

NOTE:

- Errors occurring in the passbook are not to be adjusted in the cash book.
- All the adjustments considered in the adjusted cashbook are not carried again to the bank reconciliation statement.
- **From exam point of view:** Adjusted cash book should be prepared only when it is required to prepare by question.

CONCEPTS CLARITY – CUT OFF DATE

Cut-off date is the date on which business prepare Bank reconciliation statement. We must ensure that all banking transactions are correctly updated in both books with same amount as on cut-off date. If one transaction is recorded in cash book on or before cut-off date but it has been updated in Passbook after cut-off date then we must consider this as a cause for BRS as it is recorded in cash book but not recorded in Passbook.

Clarity

Case study:

X Ltd prepared BRS as on 30th June 2023. The following are the banking transactions taken place in the books of X Ltd for June month.

1. Cheque of Rs.10,000 deposited on 25th June into bank but it got cleared in bank on 2nd July
2. One customer directly deposited cheque of Rs.5,000 on 28th June but updated in cash book on 3rd July
3. Two cheques of Rs.6,000 (Cheque 1) and 8,000 (Cheque 2) issued for payment on 26th June and both cheques presented. Cheque 1 cleared on 29th June and Cheque 2 cleared on 4th July.

BANK RECONCILIATION STATEMENT

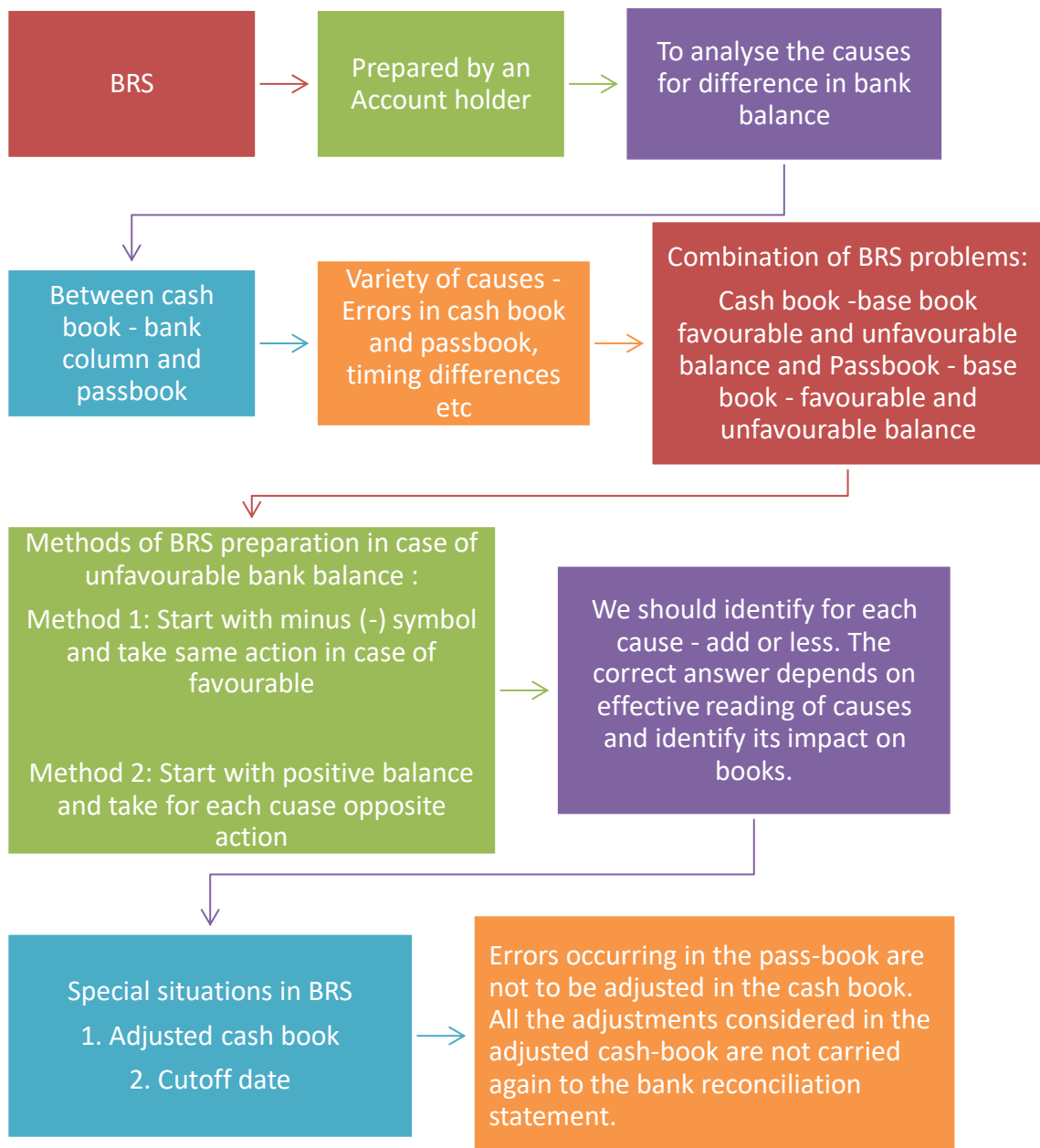
Explanation:

Since cut-off date is 30th June 2023, we must check whether all transactions are properly updated in both books on or before 30th June. If not, we must consider that as a cause and take to BRS.

1. Though cheque got cleared by bank but it got cleared on 2nd July which is after cut-off date hence we take this as a cause for BRS as Cheque deposited but not cleared
2. Since cheque directly deposited into bank and updated in cash book after cut-off date, we consider as cause and take to BRS.
3. Though both the cheques cleared but cheque 2 cleared after cut-off date hence we take as a cause to BRS as cheque issued but not cleared on 30th June.

BANK RECONCILIATION STATEMENT

SUMMARY



BANK RECONCILIATION STATEMENT

PUZZLES

1. Identify type of bank balance with below options

- a. Favorable
- b. Unfavorable

Book	Balance	Type of balance
Cash book	Credit	
Passbook	Debit	
Cash book	Debit	
Passbook	Credit	

2. Identify the following for the below situations.

- a. Inflow (receipt)
- b. Outflow (Payment)

Book	Balance	Inflow/outflow?
Cash book	Debit	
Passbook	Credit	
Cash book	Credit	
Passbook	Debit	

3. Identify increase /decrease in bank balance under below situations.

- a. Increase
- b. Decrease

Book	Side	Error	Effect on bank balance?
Cash book	Debit	Over casting	
Passbook	Debit	Over casting	
Cash book	Credit	Under casting	
Passbook	Credit	Under casting	
Cash book	Debit	Under casting	
Cash book	Credit	Over casting	
Passbook	Debit	Under casting	
Passbook	Credit	Over casting	

BANK RECONCILIATION STATEMENT

4. BRS is prepared between the following combinations.

- a. True
- b. False

Combination	True/false?
Cash column of cash book and Passbook	
Cash column and bank column of cash book	
Cash column of cash book and discount column of cash book	
Bank column of cash book and Passbook	
Discount column of cash book and Passbook	

5. Identify ADD or LESS for each cause below where cash book is base book and favorable balance

- a. Add
- b. Less

Cause	Action?
Cheque deposited into bank but not cleared	
Cheque issued but not presented in the bank	
Cheque directly deposited into the bank but no update in cash book	
Bank debited interest expense but not recorded in cash book	
Bank charges for cheque returned but not recorded in cash book	
Bank wrongly credited our bank account	
Bank wrongly debited our bank account	
Wrong debit is given cash book under bank column	
Wrong credit is given in cash book bank column	
Under casting (Total) on the debit side of cash book	
Overcasting on the debit side of cash book	
Under casting on the credit side of cash book	
Overcasting on the credit side of cash book	
Under casting in the debit side of Passbook	
Overcasting on the debit side of Passbook	
Under casting on the credit side of Passbook	
Overcasting on the credit side of Passbook	
Bill discounted with bank but dishonoured	
Posted twice on the debit side of cash book	
Posted twice on the credit side of Passbook	
Cheque deposit wrongly posted on cash column of cash book	

BANK RECONCILIATION STATEMENT

6. Identify ADD or LESS for each cause below where **cash book is base book and unfavorable balance**
- a. Add
 - b. Less

Cause	Action?
Cheque deposited into bank but not cleared	
Cheque issued but not presented in the bank	
Cheque directly deposited into the bank but no update in cash book	
Bank debited interest expense but not recorded in cash book	
Bank charges for cheque returned but not recorded in cash book	
Bank wrongly credited our bank account	
Bank wrongly debited our bank account	
Wrong debit is given cash book under bank column	
Wrong credit is given in cash book bank column	
Under casting (Total) on the debit side of cash book	
Overcasting on the debit side of cash book	
Under casting on the credit side of cash book	
Overcasting on the credit side of cash book	
Under casting in the debit side of Passbook	
Overcasting on the debit side of Passbook	
Under casting on the credit side of Passbook	
Overcasting on the credit side of Passbook	
Bill discounted with bank but dishonoured	
Posted twice on the debit side of cash book	
Posted twice on the credit side of Passbook	
Cheque deposit wrongly posted on cash column of cash book	

BANK RECONCILIATION STATEMENT

7. Identify ADD or LESS for each cause below where **Passbook is base book and favorable balance**
- a. Add
 - b. Less

Cause	Action?
Cheque deposited into bank but not cleared	
Cheque issued but not presented in the bank	
Cheque directly deposited into the bank but no update in cash book	
Bank debited interest expense but not recorded in cash book	
Bank charges for cheque returned but not recorded in cash book	
Bank wrongly credited our bank account	
Bank wrongly debited our bank account	
Wrong debit is given cash book under bank column	
Wrong credit is given in cash book bank column	
Under casting (Total) on the debit side of cash book	
Overcasting on the debit side of cash book	
Under casting on the credit side of cash book	
Overcasting on the credit side of cash book	
Under casting in the debit side of Passbook	
Overcasting on the debit side of Passbook	
Under casting on the credit side of Passbook	
Overcasting on the credit side of Passbook	
Bill discounted with bank but dishonoured	
Posted twice on the debit side of cash book	
Posted twice on the credit side of Passbook	
Cheque deposit wrongly posted on cash column of cash book	

BANK RECONCILIATION STATEMENT

8. Identify ADD or LESS for each cause below where passbook is base book and unfavorable balance
- a. Add
 - b. Less

Cause	Action?
Cheque deposited into bank but not cleared	
Cheque issued but not presented in the bank	
Cheque directly deposited into the bank but no update in cash book	
Bank debited interest expense but not recorded in cash book	
Bank charges for cheque returned but not recorded in cash book	
Bank wrongly credited our bank account	
Bank wrongly debited our bank account	
Wrong debit is given cash book under bank column	
Wrong credit is given in cash book bank column	
Under casting (Total) on the debit side of cash book	
Overcasting on the debit side of cash book	
Under casting on the credit side of cash book	
Overcasting on the credit side of cash book	
Under casting in the debit side of Passbook	
Overcasting on the debit side of Passbook	
Under casting on the credit side of Passbook	
Overcasting on the credit side of Passbook	
Bill discounted with bank but dishonoured	
Posted twice on the debit side of cash book	
Posted twice on the credit side of Passbook	
Cheque deposit wrongly posted on cash column of cash book	

BANK RECONCILIATION STATEMENT

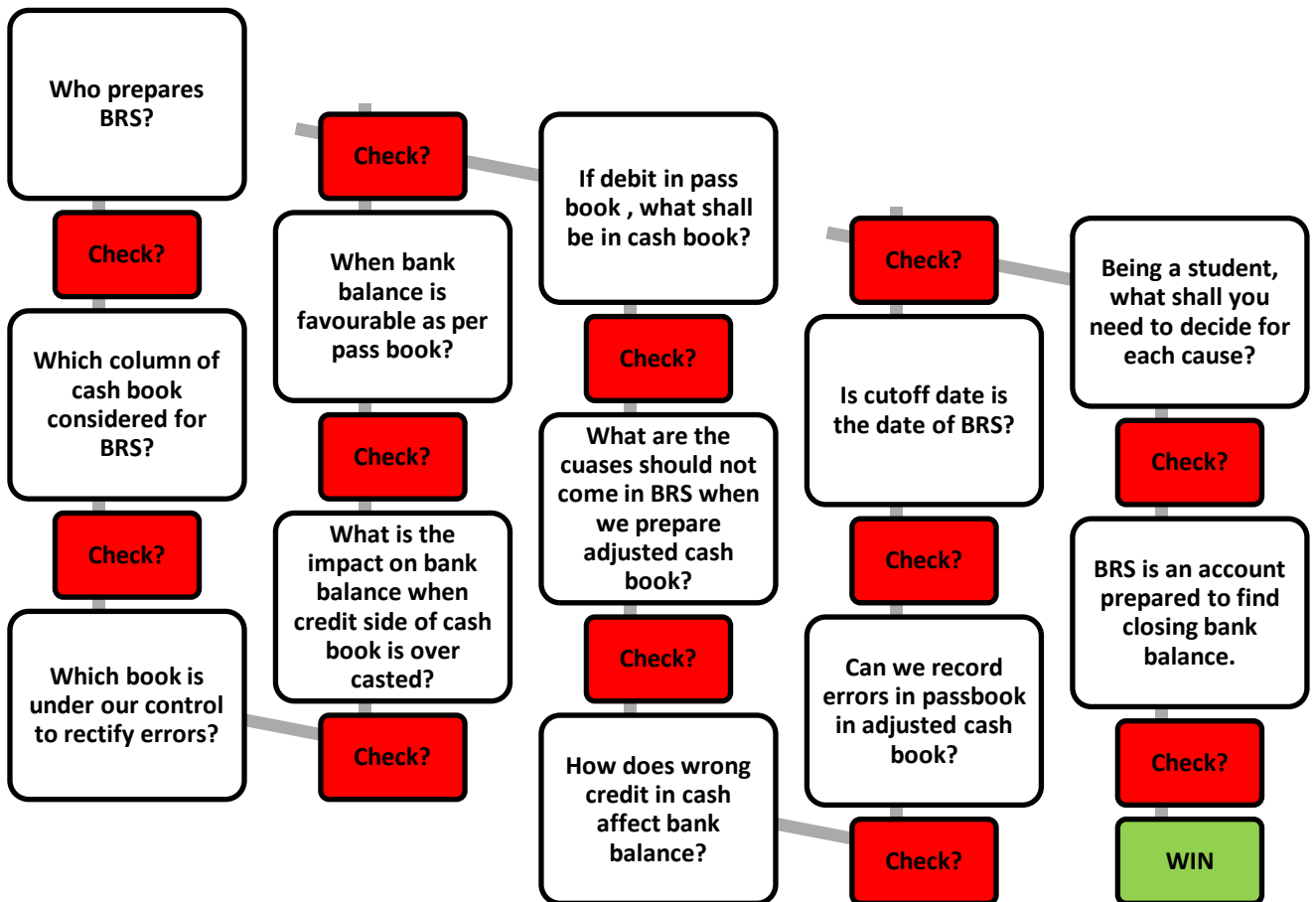
9. Identify which of the following causes are form parts of adjusted cash book?
- a. Yes
 - b. No

Cause	Adjusted cash book?
Cheque deposited into bank but not cleared	
Cheque issued but not presented in the bank	
Cheque directly deposited into the bank but no update in cash book	
Bank debited interest expense but not recorded in cash book	
Bank charges for cheque returned but not recorded in cash book	
Bank wrongly credited our bank account	
Bank wrongly debited our bank account	
Wrong debit is given cash book under bank column	
Wrong credit is given in cash book bank column	
Under casting (Total) on the debit side of cash book	
Overcasting on the debit side of cash book	
Under casting on the credit side of cash book	
Overcasting on the credit side of cash book	
Under casting in the debit side of Passbook	
Overcasting on the debit side of Passbook	
Under casting on the credit side of Passbook	
Overcasting on the credit side of Passbook	
Bill discounted with bank but dishonoured	
Posted twice on the debit side of cash book	
Posted twice on the credit side of Passbook	
Cheque deposit wrongly posted on cash column of cash book	

BANK RECONCILIATION STATEMENT

CHESS GAME – BRS

Let me check on your knowledge in BRS.



BANK RECONCILIATION STATEMENT

EXAM PRESENTATION TIPS ON BRS

General tips for correct answer:

If we are not able to answer any particular question, it means either of the following would have been happened.

1. We have not read the question clearly or
2. Not have enough concepts to solve question.

So first, focus more on reading and analysing the question. We must identify all facts given and identify the main question given. If we think that we are not good with concepts, let us first get strong knowledge on concepts and then proceed with problem solving.

Specific tips for better presentation of problem from BRS chapter:

The following are the variety of problems tested in BRS.

- A. Prepare BRS where cash book is base book – favourable balance.
- B. Prepare BRS where cash book is base book – Unfavourable balance.
- C. Prepare BRS where Passbook is base book – favourable balance.
- D. Prepare BRS where Passbook is base book – Unfavourable balance.
- E. Prepare Adjusted cash book and BRS.
- F. Prepare BRS where cut-off date is given.

For category A-D:

Identify base book (cash book or Passbook) and **bank balance type** (Favourable or unfavourable) because add or less for each cause is depends on this.

Identify for each cause, **affected book** (In which book the cause has been recorded/ adjusted) and **effect on bank balance** (Increase or decrease).

If you identify those points correctly, your 90% answer will get over. Then draw the BRS format neatly and present all those causes for which you have identified ADD/LESS based on procedure you learnt in this chapter.

BANK RECONCILIATION STATEMENT

For category E:

We must identify errors or mistakes in cash book and adjust first in cash book and then prepare BRS based on bank balance as per adjusted cash book.

We should prepare adjusted cash book only when they specifically ask for it.

Be clear on the followings.

1. Those causes which are considered for adjusted cash book should not again present in BRS.
2. At the same time, mistakes in Passbook should not be presented in adjusted cash book.

Draw first adjusted cash book, find correct bank balance as per this book and then only prepare BRS. In this type of problem, marks are allocated for both adjusted cash book and BRS.

For category F:

In this problem, entire procedure is the same as category A-D but we must identify the cut-off date which is the important date and nothing but the date on which BRS is prepared. We must check each transaction and see the date on which it was recorded in both books. Even if it was recorded in one book but after cut-off date, we must consider that as cause and take for BRS preparation.

NOTE TO STUDENTS

FIND SEPARATE WORKBOOK FOR

- **Conceptual understanding problem for each topic in this chapter**
- **Complex problems**

Feel free to contact CA Damodaram, founder of My Career Point and Accounts faculty for any doubts in accounts. Contact number: 8754940333