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3. BANK RECONCILIATION STATEMENT

- Bank Reconciliation Statement

→ 1. Bank Reconciliation Statement:- a periodical intervals, the customer/business entity, should compare the balance in bank as shown by the cash book with the pass book.
In case of any difference between two, they should be analyzed by listing out the various reasons for such difference. Such statement is called Bank Reconciliation Statement (BRS).
It is prepared by Customer/Bank Account holder. It is prepared to known the causes for difference between balance as per Bank etc. column of cash book & Pass book / Bank statement.

2. Advantages :- The advantages of Bank Reconciliation statement are:-

a) 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.

b) To identify any errors that many been committed either in C.B or in bank statement.

c) To identify any undue delay in the clearance of cheque and

d) To act as a deterrent against embezzlement frauds.

• Difference between Bank statement & cash book.

→

Causes of difference.

Timing

Transaction

Error

• Transaction recorded at 2 different times in Cash book & Pass book

* Cheque issued but not presented.

* Cheque deposited but not Cleared.

• Transaction with bank carries out itself without intimating the customer

* Interest allowed by bank

* Book charges debited by bank.

• Mistakes or errors in preparing accounts either in C.B or P.B.

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The Common reasons for difference between the balance as per Cash book and the bank Statement are :-

1. Cheque issued but not yet presented for payment.

2. Cheque deposited into bank not yet credited/cleared.

3. Interest allowed / credited by bank.

4. Interest & Dividends collected by bank.

5. Direct payments into Bank by a customer.

6. Bill receivables collected by bank on behalf of the customer.

7. Interest & Expenses charged by bank.

8. Direct payment by bank.

9. Dishonour of bill discounted with the bank

10. Error in pass book / cash book.

Note :-

- Items 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 Cashbook. Out of these, Item 3, 4, 5 and 6 constitute receipt into Bank Account and 7, 8, and 9 constitute payment out of Bank A/c.

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• Procedure for 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 Item 3 to 10 given, i.e Preparation of Adjusted Cash Book and BRS.

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- Method 1 :- Preparation of BRS ~~Alo~~ Only (without adjusting C.B).

SR.NO.	Starting Point	Cash book balance		Pass book balance	
	Balance as per Starting point	Dr. Bal. in C.B (Favourable)	Cr. Bal in C.B (Overdraft)	Dr. Bal in P.B (Overdraft)	Cr. Bal in P.B (Favourable)
1.	Cheque issued but not yet presented for payment (Item 1)	Add (+)	Subtract (−)	Add (+)	Subtract (−).
2.	Cheque deposited into Bank but not yet credited/cleared (item 2)	Subtract (−)	Add (+)	Subtract (−)	Add (+)
3.	Interest allowed by bank (Item 3)	Add (+)	Subtract (−)	Add (+)	Subtract (−)
4.	Interest & Dividends collected by bank (Item 4)	Add (+)	Subtract (−)	Add (+)	Subtract (−)
5.	Direct payment into Bank by a customer (Item 5)	Add (+)	Subtract (−)	Add (+)	Subtract (−)
6	Bill receivable collected by bank, on behalf of the Customer (Item 6)	Add (+)	Subtract (−)	Add (+)	Subtract (−)
7.	Interest & Expenses charged by bank (Item 7)	Subtract (−)	Add (+)	Subtract (−)	Add (+)
8.	Direct payment by bank (Item 8)	Subtract (−)	Add (+)	Subtract (−)	Add (+)

Sr. No	Starting Point	Cash book (Favourable)	Cash book (overdraft)	Pass book (Overdraft)	Pass book (Favourable)
9.	Dishonour of a bill discounted with the bank (Item 9)	Subtract (−)	Add (+)	Subtract (−)	Add (+)
10.	Wrong Entries (Item 10)				
(a)	Wrong Debit in Cash book or in Pass book, undercasting of Cr. side of cashbook, Overcasting of Dr. Side of Cash book etc.	Subtract (−)	Add (+)	Subtract (−)	Add (+)
(b)	Wrong Credit in cash book or Pass book, overcasting of Cr. side of Cash book, undercasting of Dr. side of cash book.	Add (+)	Subtract (−)	Add (+)	Subtract (−)
	Balance as per End point	Pass Book		Cash Book	
	Positive (+) End point Balance Indicates	Favourable i.e Cr. Bal as per P.B	Overdraft i.e Dr. Bal as per P.B	Overdraft i.e Cr. Bal. as per C.B	Favourable i.e Dr. Bal as per C.B
	Negative (−) End point Balance Indicates	overdraft i.e Dr Bal as per P.B	Favourable i.e. Cr. Bal as per P.B	favourable i.e. Dr. Bal as per C.B	Overdraft i.e. Cr Bal as per C.B

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Method 2 :- Preparation of Adjusted Cash book and BRS

- When the balance in the Cash book is the first adjusted for certain adjustment before taking it to the bank reconciliation statements, then it is known as adjusted Cashbook balance.

- Errors Occurring in the pass-book are not to be adjusted in the Cash book. All the adjustments considered in the adjusted cash-book are not carried again to the Bank Reconciliation statement.

Step 1:- Prepare Adjusted Cash book with the following Debits and credits.

~~Payments~~ Receipts	₹	Payments	₹
To balance b/d (in case of favourable Bal. as per Cash book)	–	By Balance b/d (in case of Overdraft Bal. as per Cash book)	②–
To Interest allowed by bank	Item 3	By Interest & expenses charged by bank	Item 7
To Interest ~~allowe~~ & Dividends collected by bank	Item 4	By Direct payment by bank as per Standing Instruction	Item 8
To Direct payment into Bank by firm's Customer	Item 5	By dishonour of bill discounted with the bank	Item 9
To Bill Receivable collected by bank on behalf of firm	Item 6	–	–

Receipts	₹	Payments	₹
To Rectification of Error in cash book, e.g. double credit posting, credit overcast, debit undercast, debit entry omission, etc.	Item 10	By Rectification of Error in C.B, e.g double debit posting, debit overcast, credit undercast, Credit entry omission etc.	Item 10
To balance c/d. (in case of overdraft bal. as per Cash book.	–	By balance c/d (in case of favourable bal. as per cash book	
Total		Total	

◉ 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.
- 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 Bank Reconciliation Statement as Under:-

SR. NO.	Starting point	Cash Book Balance		Pass Book Balance	
	Balance as per Starting point	Dr. Bal. in Cash Book (favourable)	Cr. Bal. in cash book (overdraft)	Dr. Bal. in Pass book (overdraft)	Cr. Bal. in Pass book (favourable)
1.	Cheque issued but not yet presented for payment (Item 1)	(+)	(−)	(+)	(−)
2.	Cheque deposited into Bank but not yet credited / cleared (Item 2)	(−)	(+)	(−)	(+)
3.	Wrong Credit in pass book (Item 10)	(+)	(−)	(+)	(−)
4.	Wrong Debit in pass book (Item 10)	(−)	(+)	(−)	(+)
	Balance as per End point	Passbook	Balance	Cashbook	Balance
•	Positive (+) End point balance indicates	favourable i.e Cr. bal as per pass book	Overdraft Dr. bal as per pass book	Overdraft i.e Cr. bal as per C.B	Favourable i.e Dr. bal as per C.B
•	Negative (−) End point balance indicates	Overdraft i.e Dr. Bal as per Pass book	favourable i.e Cr. Bal as per pass book	favourable i.e Dr. Bal as per C.B	Overdraft i.e Cr. Bal as per C.B