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Online Teaching Material

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SUBJECT: Accountancy

Topic:

BANK RECONCILIATION STATEMENT

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- Need for Bank Reconciliation Statement
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INTRODUCTION

- If every entry in the cash book matches with the bank statement, then bank balance will be the same in both the records. But, practically it may not be possible. When the balances do not agree with each other, the need for preparing a statement to explain the causes arises. This statement is called bank reconciliation statement (BRS).
- The bank reconciliation statement is a statement that reconciles the balance as per the bank column of cash book with the balance as per the bank statement by giving the reasons for such difference along with the amount. As a result of this, internal record of a business (bank column of cash) can be reconciled with external record (bank statement).

NEED FOR BANK RECONCILIATION STATEMENT

It is important to compare the bank statement and bank column of cash book. If the two balances do not match, it is necessary to reconcile them to explain why the differences have occurred. It may be prepared every month, every week or even daily depending on the number of transactions and the needs of the business.



Balance as per cash book /
bank statement



Balance as per cash book /
bank statement

- **The need for bank reconciliation statement is as follows:**
 - To identify the reasons for the difference between the bank balance as per the cash book and bank balance as per bank statement.
 - To identify the delay in the clearance of cheques.
 - To ascertain the correct balance of bank column of cash book.
 - To discourage the accountants of the business as well as bank from misusing funds.

Reasons why bank column of cash book and bank statement may differ :

- The need for reconciliation arises only when there are differences in entries recorded in the cash book and bank statement. Sometimes, the bank balance as per both the records may be the same, but the entries may not match.
- In such cases also, bank reconciliation statement is to be prepared. But, before preparing the bank reconciliation statement, it is necessary to find out the reasons for the disagreement.
- Difference between the two records (bank column of cash book and bank statement) generally occur because of the following reasons:
 - (i) Timing differences - The different times at which the same items are entered
 - (ii) Errors in recording - Difference arising due to errors in recording the entries

(i) Timing differences

- cheques issued but not yet presented for payment
- cheques deposited into bank but not yet credited
- bank charges and interest on loan and overdraft
- interest and dividends collected by the bank
- dishonour of cheques and bills
- amount paid by parties directly into the bank
- payment made directly by the bank to others
- bills collected by the bank on behalf of its customer

(ii) Errors in recording

- errors committed in recording the transactions by the business in the cash book
- errors committed in recording the transactions by the bank.

(i) Timing differences

(a) Cheques issued but not yet presented for payment

When the cheques are issued by the business, it is immediately entered on the credit side of the cash book by the business. But, this may not be entered in the bank statement on the same day. It will be entered in the bank statement only after it is presented with the bank.

- **For example**, the balances as per cash book and bank statement are 20,000 for X & Co. X & Co. issued a cheque in favour of Y & Co for ₹ 10,000, on 27th March 2017. So, X & Co's cash book is credited with ₹ 10,000 on 27th March 2017. But, the cheque is presented to bank on 2nd April 2017. In case, bank sends a statement to X & Co, upto 31st March 2017, it will not contain this transaction. As a result, there will be a difference of ₹ 10,000, between balance shown as per cash book and balance as per bank statement. As a result of this,



Balance as per bank statement (20,000) is more than balance as per cash book



Balance as per cash book (10,000) is less than balance as per bank statement

(b) Cheques deposited into bank but not yet credited

When the cheques are deposited into bank, the amount is debited in the cash book on the same day. But, these may not be shown in the bank pass book on the same day because these will be entered in the bank statement only after the collection of the cheques.

- **For example,** the balances as per cash book and bank statement are ₹ 20,000 for X & Co. X & Co. receives a cheque on 25th March 2016, from ABC Limited for ₹ 5,000. On the same day, X & Co, debits its cash book with ₹ 5,000. But bank credits X & Co's account only when the cheque is collected from ABC Limited's bank. This shows that is a time gap between depositing the cheque by the customer (X & Co) and collection of cheque by the bank. As a result of this,



**Balance as per cash book
(₹ 25,000) is more than
balance as per bank statement**



**Balance as per bank statement
(₹ 20,000) is less than balance as
per cash book**

(c) Bank charges and interest on loan and overdraft charged by the bank

The bank has to cover the cost of running the customer's account. So debit is given to the account of the business towards bank charges. Also, if the business had taken any loan or overdrawn, interest has to be paid by the business. These entries for bank charges and interest are made in the bank statement. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the cash book shows more balance than bank statement.

- **For example**, the opening balance as per cash book and the bank statement as on 1st March 2017 is ` 7,000. Bank debits for bank charges 300 as on 27th March 2017. But there is no entry for the same in the cash book as on such date. As a result of this,



Balance as per cash book (7,000) is more than balance as per bank statement



Balance as per cash book (6,700) is less than balance as per bank statement

(d) Interest and dividends collected by the bank

The bank may collect dividends on its customer's investment in shares and also interest on any investment. The entry for this will be made in the bank statement on the date of collection. But the entry is made in the cash book only when the bank statement is received by the customer. Till then, the cash book shows less balance than the bank statement.

- **For example**, the balances as per cash book and bank statement are ₹ 15,000. The bank has collected dividends of ₹ 1,000. As a result of this, the balance as per bank statement is increased to ₹ 16,000, whereas until the customer receives such information and records the same, balance as per cash book is lesser by ₹ 1000. As a result of this,



Balance as per bank statement (16,000) is more than balance as per cash book



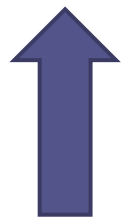
Balance as per cash book (15,000) is less than balance as per bank statement

(e) Dishonour of cheques and bills

When the cheque is received from outside parties, it is deposited with the bank and debited in the cash book. If the cheque is dishonoured, the bank cannot collect the amount of such cheque from outside parties' bank. It is not credited in the bank statement. As a result of this, the two records would differ.

While discounting the bills receivables, in the cash book it is entered in the debit side and in the bank statement it is credited. When the bill is presented by the bank to the drawee of the bill and the payment is not received, the bank debits the same to cancel the credit. But, credit is made in the cash book only when the customer gets the entries made in the bank statement is received. The bank may also charge some amount for such dishonour.

- **For example**, opening balance as per cash book and bank statement is ₹ 5,000 as on 1st January, 2017. A cheque for ₹ 1,000 deposited by the business into bank on 25th January, 2017 is dishonoured and no entry for such transaction is made in the cash book as on that date. As a result of this,



Balance as per cash book (6,000) is more than balance as per bank statement



Balance as per bank statement (5,000) is less than balance as per cash book

(f) Amount paid by parties directly into the bank

Sometimes, debtors or the customers of the business may directly deposit the money into bank account of the business. It may be done by directly visiting the branch of the bank by paying cash (including NEFT, RTGS) or swiping debit or credit or business card or depositing the money in cash deposit machine or transfer through online banking facility. This will be credited in the banker's book. But the entry is made in the cash book only when the bank statement is received by the customer. Until then, the cash book shows less balance than bank statement.

- **For example**, as on 1st January, 2017, the balance as per cash book and the balance as per bank statement show the same balance of ` 10,000, but on 22nd January, a debtor directly deposits 5,000 into the bank account of the business. But no entry is made in the cash book as on that date. As a result of this,



Balance as per bank statement (15,000) is more than balance as per cash book



Balance as per cash book (10,000) is less than balance as per bank statement

(g) Amount paid directly by the bank to others

Sometimes the bank may be instructed to make payments such as, insurance premium, installment of loan, etc., as an agent of the customer on behalf of its customer. In all such cases, debit is made in bank statement. But, the entry is made in the cash book only when the bank statement is received by the customer. Till then, the cash book shows more balance than bank statement.

- **For example**, on 1st, March, 2017, balance as per cash book and balance as per bank statement show the same amount of 12,000. But, as per the standing instruction of its customer the bank pays 2,000 as insurance premium as on 28th March, 2017. But, no entry for such transaction is made in the cash book as on such date. As a result of this,



**Balance as per cash book
(12,000) is more than
balance as per bank statement**



**Balance as per bank
statement (10,000) is less than
balance as per cash book**

(h) Bills collected by the bank on behalf of its customers

When goods are sold by the business, the documents may be sent through the bank. When the bank collects the amount, it is credited in bank records. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the bank statement shows more balance than cash book.



Balance as per bank statement is more than balance as per cash book



Balance as per cash book is less than balance as per bank statement

(ii) Errors in recording

(a) Errors committed in recording the transactions by the business in the cash book :

Sometimes, errors may be committed in the cash book. For example, omission or wrong recording of transaction relating to cheques deposited or issued, wrong balancing, etc. In these cases, obviously, there will be differences between bank balance as per bank statement and bank balance as per cash book.

For example, the cheque received for 10,000 is not entered in the cash book, but has been deposited with the bank. As a result, on collecting the money the balance as per bank statement will be more by 10, 000.

(b) Errors committed in recording the transactions by the bank

Sometimes errors may be committed in the banker's book. For example, omission or wrong recording of transaction relating to cheques deposited and wrong balancing. In these cases, obviously, there will be differences between bank balance as per bank statement and bank balance as per cash book.

For example, the cheque deposited for 50000, wrongly entered by the bank as 15,000. This will lead to a difference of 35, 000 between the cash book balance and the balance as per bank statement.

Preparation of bank reconciliation statement

When balance of cash book or bank statement is given :

Bank Reconciliation Statement as on.....

Particulars	Amount (Rs)	Amount (Rs)
Balance as per cash book (favourable balance)		xxx
Add:		
1. Cheques issued but not presented	xxx	
2. Credits in the pass book only		
(a) Interest credited in bank statement	xxx	
(b) Dividend and other income	xxx	
(c) Direct deposit by a party	xxx	
3. Any error in cash book/ bank statement which has the effect of increasing the balance as per bank statement	xxx	xxx
Less:		xxx
Contd....		

Particulars	Amount (Rs)	Amount (Rs)
Less:		xxx
1. Cheques deposited but not credited	xxx	
2. Cheques dishonoured but not entered in cash book	xxx	
3. Debits in bank statement only		
(a) Interest debited	xxx	
(b) Insurance premium, loan instalment, etc., paid as per standing instructions	xxx	
(c) Direct payment by banker	xxx	
4. Any error in cash book/ bank statement which has the effect of decreasing the balance as per bank statement	xxx	xxx
Balance as per bank statement		xxx

When an extract of cash book and bank statement is given :

- Given below are the entries in the bank column of the cash book and the bank statement. Prepare a bank reconciliation statement as on 31st October, 2017.

Contd.....

Cash book
(Bank Column)

Dr.

Cr.

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
2017			2017		
Oct. 1	To balance b/d	20525	Oct. 8	By Kamala A/c	12000
18	To Ram A/c	6943	26	By Mangesh A/c	9740
19	To Sales A/c	450	28	By Mala A/c	11780
20	To Commission A/c (Kala)	200	30	By Salaries A/c	720
		7810	31	By Balance c/d	1688
20	To Nirmala A/c				
Nov. 1		35928			35928
	To balance b/d	1688			
	Contd..				

Bank statement

Date	Particulars	Dr. Withdrawals (Rs)	Cr. Deposits (Rs)	Balance Dr./ Cr. (Rs)
1.10.17	By Balance b/d			20525 Cr
9.10.17	To Kamala	12000		8525 Cr
19.10.17	By Ram		6943	15468 Cr
25.10.17	By Ravi		450	15918 Cr
26.10.17	To Mangesh	9740		6178 Cr
27.10.17	By Kala		200	6378 Cr
28.10.17	To Rajan (salaries)	720		5658 Cr
30.10.17	By Bills receivable		20000	25658 Cr
31.10.17	By Interest on Investment		1820	27478 Cr
	To Bills payable	4000		23478 Cr

Bank Reconciliation statement as on 31st October 2017

Particulars	Amount (Rs)	Amount (Rs)
Balance as per cash book		1688
Add: Bills receivable collected, not entered in cash book	20000	
Interest on investment collected, not entered in cash book	1820	
Cheques issued but not presented – Mala	11780	
		35288
Less: Cheques deposited into bank, but not yet collected -Nirmala	7810	
Bills payable paid, not entered in cash book	4000	11810
Balance as per bank statement		23478

ILLUSTRATION 1

When balance as per cash book is favourable

From the following information, prepare bank reconciliation statement to find out balance as per bank statement on 31st March, 2017.

Particulars	Rs
(i) Cheques deposited but not yet collected by the bank	500
(ii) Cheque issued but not yet presented for payment	1000
(iii) Bank interest charged	100
(iv) Rent paid by bank as per standing instruction	200
(v) Cash book balance	300

Solution

Bank reconciliation statement as on 31st March, 2017

Particulars	Amount (Rs)	Amount (Rs)
Balance as per cash book		300
Add: Cheque issued but not yet presented for payment		1000
		1300
Less: Cheques deposited but not yet collected by the bank	500	
Bank interest charged	100	
Rent paid by bank as per standing instruction	200	800
Balance as per bank statement		500

ILLUSTRATION 2

From the following information, prepare bank reconciliation statement as on 31st December, 2017 to find out the balance as per bank statement.

Particulars	Rs
(i) Balance as per bank statement	6000
(ii) Cheques deposited on 28th December, 2017 but not yet credited	2000
(iii) Cheques issued for 10,000 on 20th December, 2017 but not yet presented for payment	3000
(iv) Interest on debentures directly collected by the bank not recorded in cash book	4000
(v) Insurance premium on building directly paid by the bank	1000
(vi) Amount wrongly credited by bank	500

Solution

Bank reconciliation statement as on 31st December, 2017

Particulars	Amount (Rs)	Amount (Rs)
Balance as per bank statement		6000
Add:		
Cheque deposited but not yet credited	2000	
Insurance premium on building directly paid by the bank	1000	3000
Less:		9000
Cheque issued but not yet presented for payment	3000	
Interest on debentures directly collected by the bank not entered in cash book	4000	
Amount wrongly credited by bank	500	7500
Balance as per cash book		1500

THANK YOU!!