

CHAPTER-15

BANK RECONCILIATION STATEMENT

Definition- 'Bank reconciliation statement is a statement prepared mainly to reconcile the difference between the 'Bank Balance' shown by the Cash book and Bank Pass book.

Causes of Differences in the Cash Book and Pass Book Balance

The difference may arise on account of the following reasons –

- (a) Differences caused by Time gap in recording transactions.
- (b) Differences caused by errors committed in recording transactions..

Differences caused by Time Gap in recording transactions:

Quite often the difference between the Cash Book and Pass Book balance is caused by the time gap in recording the transactions. The reasons for time gap are as follows:

(1) Cheques issued but not yet presented for payment in the Bank -When a cheque is issued to a creditor by the firm, it is immediately recorded on the credit side of the bank column of the cash book. But the bank will debit the firm's account only when this cheque is actually presented to the bank for payment.

(2) Cheques paid into the bank for collection but not yet credited by the bank -When a firm receives cheques, drafts etc. from its customers, they are immediately deposited into bank for collection and an entry is made on the debit side of the bank column of the cash book. But the bank will credit the firm's account only when it has actually collected the payment of these cheques from other banks.

(3) Cheques paid into the bank for collection but dishonoured by the bank -When the cheques received from outside parties are deposited with the bank, these are immediately recorded on the debit side of the bank column of the cash book, but if the cheques are dishonoured, bank will not make any entry in the credit of customers account. As a result, the cash book will show an increased balance in comparison to the pass book.

(4) Interest allowed by the bank -If a trader maintains a saving bank account, the bank allows a certain percentage of interest on the minimum balance of each month in such an account.

(5) Interest charged by the bank on Overdraft: When a bank gives a firm the facility of withdrawing in excess of its deposits, this excess withdrawal is called overdraft. The bank charges interest on this overdraft and debits the firm's account from such interest from time to time.

(6) Bank Charges and Commission charged by the bank –Bank renders many services to its clients and charges certain amount for these services. The notable charges levied by the bank are

commission and collection charges on cheque. The bank debits the customer's account with these charges but the customer will not make any entry in cash book until he receives a statement from the bank. In the intervening period, the two balances will differ.

(7) Direct deposit by customers into the bank - Some customers may directly deposit the amount in firm's bank account. The bank will immediately credit the firm's account on receipt of such a payment, but the firm will come to know of the deposit only when it receives the bank pass book duly completed after a gap of time. This also causes a difference.

(8) Interest and dividend collected by the bank-Sometimes bank collects interest and dividend on customer's investments. The bank credits the customer's account immediately on receipt of such payments, but the customer will make entries in the cash book only when he receives intimation from the bank pass book duly completed. Until such period, the two balances will differ.

(9) Direct payment made by the bank on behalf of customers -Sometimes an account holder gives a standing order to the bank to make certain payments such as insurance premium, rent etc. on his behalf. The bank makes these payments and debits the party's account, but the firm will be able to enter the same in its cash book only when the intimation is received from the bank. In the intervening period, the cash book will show an increased balance in comparison to the pass book.

Differences caused by Errors Committed in Recording Transactions:

Sometimes the difference between the Cash Book and Pass Book balance may arise due to errors committed in recording transactions in the Cash Book or in the Pass Book. Hence, such errors may be of two types:

- (1) **Errors committed in recording transactions by the firm:** Sometimes the firm may commit errors while recording entries in the Cash book. Such errors may be:
 - (i) Cheque issued to a creditor but omitted to be recorded in the Cash Book.
 - (ii) Cheques deposited into the bank but omitted to be recorded in the Cash Book.
 - (iii) Error in totalling or balancing the bank column of the Cash Book.
- (2) **Errors committed in recording transactions by the bank:** Sometimes the bank commits an error and records a wrong entry in the customer's account which causes a difference between the bank balance shown by the cash book and the balance shown by the pass book

BANK RECONCILIATION STATEMENT

Bank reconciliation statement is a statement which reconciles the bank balance as per cash book with the balance as per bank pass book by showing all causes of difference between the two. This reconciliation is prepared and presented in the form of a statement commonly known as Bank Reconciliation Statement.

- ASCERTAINING THE CAUSES OF DIFFERENCE OF BANK BALANCE IN BANK COLUMN OF THE CASH- BOOK AND IN PASS-BOOK

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1. Timing differences,
2. Differences arising due to errors in recording the entries.

TIMING DIFFERENCES

1. Cheques issued but not presented for payment.
2. Cheques paid into the bank but not cleared.
3. Interest allowed by bank.
4. Interest and expenses charged by the bank.
5. Interest and dividends collected by the bank.
6. Direct payments by the bank.
7. Direct payment into the bank by a customer.
8. Dishonour of a bill discounted with the bank.
9. Bills collected by the bank on behalf of the customer.

Bank Reconciliation Statement

As on

| Particular | Plus Item | Minus Item |
|---|------------------|-------------------|
| Dr. Balance (Favorable balance) as per Cash Book | Xxx | |
| Add- | | |
| 1. Cheques issued or drawn but not yet presented for payment. | Xxx | |
| 2. Interest allowed by bank not recorded in Cash Book. | Xxx | |
| 3. Amount directly deposited by the customers in our bank account. | Xxx | |
| 4. Interest and dividends collected by bank on trader's investments. | Xxx | |
| 5. Cheques paid into bank but omitted to be entered in the Cash Book. | Xxx | |
| 6. Any wrong credit given by bank in the Pass Book. | xxx | |
| Less- | | |
| 1-Cheques paid into bank for collection but not yet credited by bank. | | Xxx |
| 2- Cheques paid to bank for collection but | | Xxx |

| | | |
|---|-----|------------|
| dishonoured by the bank. | | |
| 3- Direct payment made by the bank according to the standing instructions of customers. | | Xxx |
| 4.-Bank Charges and commission charged by bank. | | Xxx |
| 5- Cheques Issued but omitted to be recorded in the Cash Book. | | Xxx |
| 6- Any wrong debit given by bank in the Pass Book. | Xxx | xxx |
| | xxx | |
| Cr. Balance (favourable balance) as per Pass Book. | | |

LONG ANSWER QUESTIONS

1. What is a Bank Reconciliation Statement? Explain any four points regarding need and importance of preparing a Bank Reconciliation Statement.

SHORT ANSWER QUESTIONS

1. What is the purpose of preparing Bank Reconciliation Statement?
2. Give four causes of difference in the Cash Book balance (bank column) and Pass Book balance.
3. Prepare a bank reconciliation statement, taking imaginary figures, starting with the credit balance as per Cash Book.
4. State any six reasons when the Cash book balance will be higher than the pass book balance.
5. In which Column (Plus or Minus) you will write the following while preparing Bank Reconciliation Statement from the Cash Book overdraft balance?

- (i) Cheques drawn but not cleared.
 - (ii) Interest on bank overdraft.
 - (iii) Cheques paid into the bank but not collected.
 - (iv) Interest on investments collected by the bank.
- [Ans.(i) Plus, (ii) Minus, (iii) Minus, (iv) Plus.]

6. In which Column (Plus or Minus) you will write the following while preparing Bank Reconciliation Statement from the Cash Book overdraft balance.

- (i) Cheques deposited but dishonoured.
 - (ii) The receipt side of Cash book overcast.
 - (iii) Interest on overdraft.
 - (iv) Direct amount deposited by the customer into bank.
- [Ans. (i) Minus, (ii) Minus, (iii) Minus, (iv) Plus.]

7. while preparing Bank Reconciliation Statement from the debit balance of the Pass Book indicate whether the following items will be written in Plus or Minus Column.

- (I) Insurance premium paid by the bank.
- (II) Interest and dividend collected by the bank.
- (III) Payment of 'Bills Payable' by the bank on behalf of the customer.
- (IV) Interest allowed by the bank.
- (V) Cheque deposited into the bank but not yet cleared.

[Ans. Items No. (II) and (IV) will be written in Minus Column and Item No. (I), (III) and (V) will be written in Plus Column.]

8. While preparing Bank Reconciliation Statement from the balance of Cash Book indicate whether the following items will be written in Plus or Minus column.

- (I) Cheques issued but not yet presented for payment.
- (II) Cheques paid into the bank but not yet cleared.
- (III) Dividend collected by the bank on customer's investments.
- (IV) Payment of club fee by the bank according to the standing instructions.
- (V) Direct Payment into the bank by a customer.
- (VI) Any wrong entry on the debit side of the Pass Book.
- (VII) Dishonour of the cheques deposited into the bank.

[Ans. (I) Plus, (II) Minus, (III) Plus, (IV) Minus, (V) Plus, (VI) Minus, (VII) Minus.]

Note: When it is not clearly stated in the questions whether the Cash Book balancing given at the start is a debit or a credit balance, it will be treated as a debit balance.

VERY SHORT ANSWER QUESTIONS

1. What is a bank reconciliation statement?

Ans. Bank Reconciliation Statement is a statement prepared mainly to reconcile the difference between the 'Bank Balance' shown by the Cash Book and Bank Pass Book.

2. Mention two causes of differences in the Cash Book and Pass Book balances.

- Ans. (i) Cheques issued but not yet presented for payment into Bank.
(ii) Cheques paid into the bank for collections but not yet credited by the Bank.

3. Give one point of importance of Bank Reconciliation Statement.

Ans. A bank reconciliation statement locates the errors or omissions that may have been committed either on the part of the customer or the bank. The errors so detected can be rectified accordingly.

4. What is meant by debit balance in the Pass Book?

Ans. Debit balance in Pass Book means overdraft.

5. Which balances are called 'Overdraft' of Cash Book and Pass Book?

Ans. Cash Book Cr. Balance and Pass Book Dr. Balance.

6. Name two items which are written in plus column while starting with Debit balance of Cash Book.

Ans. (i) Cheques issued or drawn but not yet presented for payment.
(ii) Interest allowed by bank not recorded in Cash Book.

7. Name two items which are written in minus column while starting with Debit balance of Cash Book.

Ans. (i) Cheque paid into bank for collection but not yet credit by bank.
(ii) Interest allowed by bank not recorded in Cash Book.

8. Name two items which are written in plus column while starting with Overdraft balance of Cash Book.

Ans. (i) Cheques issued or drawn but not yet presented for payment.
(ii) Interest allowed by bank not recorded in Cash Book.

9. Name two items which are written in Minus column while starting with Overdraft balance of Cash Book.

Ans. (i) Cheques paid into bank for collections but not yet credited by bank.
(ii) Direct payment made by the bank according to the standing instructions of Customers.

10. Name two items which are written in plus column while starting with Overdraft balance of Pass Book.

Ans. (i) Cheques paid into bank for collection but not yet credit by bank.
(ii) Bank Charges and commission charged by bank.

11. Name two items which are written in Minus column while starting with Overdraft balance of Pass Book.

Ans. (i) Cheque issued or drawn but not yet presented for payment.
(ii) Amount directly deposited by the customers in our bank account.

12. Name two items which are written in Plus Column while starting with Credit balance of Pass Book.

Ans. (i) Cheques paid into bank for collection but not yet cleared by bank.
(ii) Bank Charges and commission charged by bank.

13. Name two items which are written in Minus Column while starting with Credit balance of Pass Book.

Ans. (i) Cheque issued or drawn but not yet presented for payment.
(ii) Amount directly deposited by customers in our bank account.

14. Mention two items which are not recorded in an amended Cash Book.

- Ans. (i) Cheques deposited into bank but not yet credited by bank.
(ii) Cheques issued but not yet presented for Payment in the bank.

OBJECTIVE TYPE QUESTIONS

(A) Select the most suitable alternative:

1. A bank reconciliation statement is:

- (a) A part of Cash Book
- (b) A part of Pass Book
- (c) A statement prepared by the bank
- (d) A statement prepared by a customer

2. A Pass Book is a copy of

- (a) A customer's account in the bank's books
- (b) Cash Book relating to bank column
- (c) Cash Book relating to cash column
- (d) Firm's receipt and payments

3. A bank reconciliation statement is prepared with the balance of

- (a) Cash Book
- (b) Pass Book
- (c) Either Cash Book or Pass Book
- (d) Neither Cash Book nor Pass Book

4. A bank reconciliation statement is prepared to ascertain the causes of differences between

- (a) The balance as shown by the cash column of Cash Book with the balance of the Pass Book
- (b) The balance as shown by the bank column of Cash Book with the balance of the Pass Book
- (c) The balance as shown by the cash column of the Cash Book with that shown by its bank column
- (d) The balance as shown by the Cheque Book and Pass Book.

5. Unfavourable bank balance means

- (a) Credit balance in the Cash Book
- (b) Credit balance in the Pass Book
- (c) debit balance in the Cash Book
- (d) Favourable balance in the Cash Book

6. A bank reconciliation statement is prepared by

- (a) Bank
- (b) Customers of the bank
- (C) Creditors
- (d) Auditor

7. Which of the following will not be considered while preparing Amended Cash Book?

- (a) Cheques issued but not presented for payment
- (b) Cheque deposited but not credited by bank
- (c) Any wrong entry in the Pass Book
- (d) All of the above

8. Which of the following transactions will result in higher balance in the bank column of Cash Book in comparison to Pass Book?

- (a) Cheques issued but not presented for payment
- (b) Interest allowed by bank
- (c) Bank charges entered twice in Cash Book
- (d) Cheques paid into bank for collection but not yet credited

9. Which of the following is not a part of Double Entry System?

- (a) Cash Book
- (b) Trail Balance
- (c) Journal
- (d) Bank Reconciliation Statement

10. Payment done by the account holder through issuing a cheque is entered in

- (a) the Pass Book at the time of issuing the cheque
- (b) the Pass Book at the time of presenting the cheque to the bank for payment
- (c) the Cash Book at the time of issuing the cheque
- (d) Both (b) and (c)

| | | | | | | | | | |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| 1.(d) | 2.(a) | 3.(c) | 4.(b) | 5.(a) | 6.(b) | 7.(d) | 8.(d) | 9.(d) | 10.(d) |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|

(B) Mention whether the following statement are true or false:

- (i) Debit balance in Pass Book means overdraft.
- (ii) Debit balance of the Cash Book and the credit balance of Pass Book carry the same meaning.
- (iii) Bank column of the Cash Book always shows a debit balance.
- (iv) Normally, if Cash Book shows a debit balance, Pass Book also shows a debit balance.
- (v) Pass Book and the Bank statement are one and the same thing, because both of them are the copy of customer's Ledger account maintained by bank.
- (vi) Favourable bank balance as per Cash Book will be less than pass book balance when there are cheques issued but not presented for payment.
- (vii) While starting with Pass Book overdraft bank interest credited in the Pass Book is to be written in minus column.

(viii) Pass Book overdraft is less than Cash Book overdraft when there are cheques deposited but not collected by bank.

(ix) Cash Book overdraft is more than Pass Book overdraft when the payment side of Cash book is undercast.

(x) Wrong entry in the Pass Book will also be considered while preparing an Amended Cash Book.

[Ans. True :(i); (ii); (v); (vi); (vii).

False: (iii); (iv); (viii); (ix); (x).]