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**VIRTUAL COACHING CLASSES
ORGANISED BY BOS, ICAI**

**FOUNDATION LEVEL
PAPER 1: PRINCIPLES AND PRATICE OF
ACCOUNTING**

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CHAPTER 3-Bank Reconciliation Statement

- Reconciliation between the bank column of the cash book and the bank statement (commonly called as the Pass book) is the called as Bank reconciliation statement.
- Why should we have reconciliation as a process/system-
 - There can always be some mistakes committed either by our cashier or by the bank staff. So the reconciliation helps in locating such errors.
 - Sometimes the cheques deposited into the bank, may take time for clearing, so when we receive the cheque, the entry is immediately made in the bank column of the cash book , but the there is difference in the time when it is actually deposited in the bank account. Such differences are called as timing differences due to which there can be discrepancies in both the statements. TO identify such reasons, we prepare BRS.
 - This BRS is also helpful to locate in case of any frauds such as any cheques not being deposited in the bank account but being misappropriated in the business.



CHAPTER 3-Bank Reconciliation Statement

- The reconciliation is done between-
 - Bank column of the cash book – which is commonly referred to as the cash book
 - The bank statement- which is also commonly called as the bank pass book.
- Causes for the differences in both the statements-
 - **Timing differences**- due to the cheques deposited but not cleared and also due to cheques issued but not presented
 - **Transactions**- There are certain transactions which are directly done by the bank- like deducting the bank charges/interest, crediting the interest on Deposits, any direct payments by them or any direct deposits into the bank which is not entered in the cash book.
 - **Errors**- If there are any errors made in either statements.
- Now the steps to be followed to solve the questions related to preparation of the BRS.



CHAPTER 3-Bank Reconciliation Statement

- **Step 1-** We need to understand that by reading the transactions given to us in the illustration, it is important to understand the effect of them on both the cash book and the pass book.
- **Step 2-** TO understand the balances of both the statements-
 - **Cash book (bank column)** is an asset, hence it will be having **debit balance** generally which is called as the **favorable balance**. This balance is reflected on the **credit side of the bank statement**. Hence, balance as per pass book will generally have a **credit balance** which is called **favorable balance as per pass book**.
 - **Cash book** is said to have **unfavorable balance** when it has **credit balance**. **Bank balance** is said to be **unfavorable** when it is **debit balance**.

Type of Book	Favorable balance	Unfavorable balance
Balance as per cash book	Debit balance	Credit balance
Balance as per Bank	Credit balance	Debit balance



CHAPTER 3-Bank Reconciliation Statement

- **Step 3-** We need to understand the starting point given in the question to us –
 - Favorable balance or unfavorable balance as per the cash book (bank column)
 - Favorable balance or unfavorable balance as per the bank pass book
 - **Aim/target** shall be made clear- which means how the transactions given in the question will affect the “**aim book**”. The additions have to be done in case the target book balance increases due to the transaction and vice versa.

Starting point	Aim	Book
Favorable balance as per cash book	Pass book	Opposite (favorable)
Favorable balance as per pass book	Cash book	Opposite (favorable)
Unfavorable balance as per cash book	Cash book	Same (unfavorable)
Unfavorable balance as per pass book	Pass Book	Same (unfavorable)



CHAPTER 3-Bank Reconciliation Statement

- Till date there would be a tabular column which you would have studied as a part of the portions to understand where a transaction should be added or subtracted. Now in this session we would like to understand the nature of all the maximum transactions that would come in the question and go in a logical way.
- TIMING DIFFERENCES
 - ***Cheque deposited but not cleared***- When a debtor gives money through cheque payment, we immediately increase the bank column of the cash book. But technically there is a delay till such cheque is encashed into the bank account. So this causes a difference in the BRS. The effect of this transaction is that- ***Cash book balance is more and pass book balance is less.***
 - ***Cheques issued but not presented***- The same way as above, if you make a payment through cheque to your creditor it is entered in the credit side of the cash book, he might take some time to deposit the cheque in his account, due to which there is a difference till such time in the BRS. The effect of this transaction is that- ***Cash book balance in less and the pass book balance is more***



CHAPTER 3-Bank Reconciliation Statement

- TRANSACTIONS-

- **Transactions which are recorded only in the bank-** There are few transactions which are recorded only in the bank that is taken to the cash book (bank column) only after studying from the bank statement.
- Bank charges debited from bank- **Pass book balance is less and cash book is more.**
- Bank interest credited to bank- **Pass book balance is more and cash book is less.**
- Direct payment made by the bank- **Pass book balance is less and cash book is more.**
- Direct deposits into the bank- **Pass book balance is more and cash book is less.**

- ERRORS

- Where there are any errors given in the question- we are supposed to identify them and just analyze the effect of such transactions in the books.
- For ex- **cash book has been debited twice-** which means that – **cash book balance is more pass book balance is less-** so do it accordingly.



CHAPTER 3-Bank Reconciliation Statement

- **How to solve the question-**
- SO based on the starting point- we need to fix the target and then we need to see the effect of the transactions on the aim/target book based on which we need to add/deduct from the given starting point
- Arriving at the final answer is also equally important. If the final answer is (+) positive, then the balance given as starting remains the same. If it is (–) negative- then it changes.

Particulars	Effect
Favorable balance as per cash book	Aim should be in pass book
Any transaction that increases the pas book balance	TO BE ADDED
Any transaction that decreases the pass book balance	TO BE DEDUCTED
Arrive at the balance as per pass book	If + then favorable, if – then unfavorable balance



CHAPTER 3-Bank Reconciliation Statement

- Apart from the normal question to prepare a BRS, the other important concept that can be tested from the point of view of the BRS- is the preparation of the adjusted cash book.
- **ADJUSTED CASH BOOK-** Which means that after preparing the Trial balance, you have identified that there are mistakes in the cash book, and that the balance of cash book is wrong. Hence you prepare an ADJUSTED cash book to rectify and arrive at the revised cash book balance.
- What are the transactions that shall be considered in the Adjusted cash book?
 - **Errors committed in the cash book-** such as wrong amount, double times entry and wrong carried forward balances.
 - **Omission in the cash book-** the transactions which happened directly through the bank such as bank charges debited, interest credit, direct payments/deposits in to the bank should now come in to the adjusted cash book instead of BRS.
 - Only the above two shall be taken into adjusted cash book and the remaining transactions to the BRS statement only.



CHAPTER 3-Bank Reconciliation Statement

- So only in case of **ADJUSTED CASH BOOK**- we prepare an account first, to arrive at the revised balance of cash book (bank column) and then proceed to prepare a BRS statement.
- IMPORTANT POINTS TO BE REMEMBERED-
 - The presentation of BRS the heading, the starting point of the balance, the end result- highlighting the same is very important.
 - There will be both balances given in the question to us- so better to check the answers then and there.
 - Mostly a question for 10 marks might be asked to prepare the adjusted cash book- so practice Illustrations 5,6 and 8 again. There will be not much asked outside the same.
 - Practical questions also to be worked out minimum of 2-3 times.
 - We will try to cover as many as illustrations possible, in the class. If not possible will try on methods to make it available to you all.



THANK YOU