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**LIVE COACHING CLASSES
BOARD OF STUDIES(ACADEMIC)**

**CA FOUNDATION- NOV 2021
PAPER 1: PRINCIPLES AND PRACTICE OF
ACCOUNTING
TOPIC- BANK RECONCILIATION STATEMENT**

Faculty Name: CA PARDEEP MAKKAR

BANK RECONCILIATION STATEMENT



Bank means for an institution which gives the facilities of depositing cash, withdrawing cash, loans, borrowing and such other related facilities. It may be sole trader business, partnership firm or a company which may be a private company or a public company.

All transactions made with or through the banks are known as banking transactions.

Banking transactions includes accounts of its customers in which transactions of depositing, issuing, dishonour of cheque, endorsement of cheques etc. are made

BANK RECONCILIATION STATEMENT



- In our modern business, Maximum transactions are made through Banks.
- To route any transaction through Bank, A Person must open an Account in Bank.



**The main accounts which
can be opened in the banks**

**Fixed Deposit
Account**

Saving Account

Current Account

**Recurring Deposit
Account**

BANK RECONCILIATION STATEMENT



A Businessman have to Open Current Account into the Bank

Bank record Transactions with its Customer in his books of Accounts which is Identified as Bank Statement / Passbook

Customer record Transactions with Bank in his books of Accounts is named as Bank Book / Bank Account / Cash Book (Bank Column)

Strictly speaking, there should be no difference between the balance shown by the Pass book and cash book. This is so, if all the entries are recorded in both.

BANK RECONCILIATION STATEMENT



However, on a particular date it is possible that balances on both the books do not tally i.e., some entries may have been recorded in the cash book but not in the pass book and vice versa.

After finding the reasons of differences between Bank balances of pass book and cash book, efforts are made for their reconciliation.

BANK RECONCILIATION STATEMENT



Reason of differences are:-

- Timing differences.
- some entries may have been recorded in the Cash Book but not in the Pass Book and vice versa.

BANK RECONCILIATION STATEMENT



Bank Reconciliation Statement comes into Picture



BANK RECONCILIATION STATEMENT

Two Method of Reconciliation

Bank Reconciliation
Statement

Adjusted Cash Book
Method

BANK RECONCILIATION STATEMENT



Step – 1

Find the reasons of differences between Balance of Pass Book and Cash book on a specific date

Step -2

Efforts are made for Reconciliation of differences.

BANK RECONCILIATION STATEMENT



Account Holder
(Cash Book Bank Column)

Debit
Credit

Bank
(Passbook)

Credit
Debit



Reasons of Differences in Detail:-

Cheques issued but not yet presented for Payment:-

In certain cases, Cheque issued to creditors on or before the Specific date not presented in the bank upto that Specific date.

Example: Cheque issued to A on 31st March 2021 presented for payment by A in his Bank on 5th April 2021.

IMPACT

Account Holder Credited in Cash Book(Bank Column) on 31st March but Bank have not Debited Account Holder's Account in Pass Book on 31st March

BANK RECONCILIATION STATEMENT



Cheques deposited in bank but not yet credited collected/cleared by the bank:-

when a cheque is sent to the Bank on a specific date, Account Holder enter it in his book But Bank has Credited it after that specific date.

Example: Mr A has deposited a Cheque of Rs 30000 in his Bank on 30th march 2021

Bank has credited it in A's A/c on 2nd April 2021 due to Bank holidays.

Balances will not Tally.

BANK RECONCILIATION STATEMENT



Bank charges and interest charged by bank not entered in cash book:-

When bank charges or interest is charged by bank, then bank debits our account but such transactions are not entered in cash book due to no intimation and hence results into difference between two.

BANK RECONCILIATION STATEMENT



Interest / dividend collected by bank not entered in cash book:-
Sometimes investments are left with the bank in the safe custody; the bank itself sees to it that the interest or the dividend is collected on the due dates.

BANK RECONCILIATION STATEMENT



Direct payment by bank:-

In many cases bank make many direct payments due to our standing instructions which are debited by Bank in our accounts and we come to know about these transactions only when we receive the bank statement hence results in difference.

BANK RECONCILIATION STATEMENT



Direct payment by the customer into Bank:-

Many customer deposit amount in our account directly without making any intimation to us at that time or after. In such cases bank credit our account but it remain pending in Cash Book.

BANK RECONCILIATION STATEMENT



Cheque sent to bank but dishonour :-

When Customer Deposits Cheque into the Bank. Bank account is Debited by Customer.

If the Bank is not able to receive payment of cheque then Bank will not credit customer account.

BANK RECONCILIATION STATEMENT



Bills receivable discounted from bank dishonoured :-

If the bank is not able to receive payment of B/R discounted by it, it will debit the customer's account together with the charges it may have incurred. The customer will naturally make the entry only when he see the Pass book.

BANK RECONCILIATION STATEMENT



Any error committed by the Bank:-

In many cases bank make certain errors which may results in difference. Bank errors include wrong debit or wrong credit by bank.

BANK RECONCILIATION STATEMENT



Any mistake made by us:-

In many cases there will be a mistake in our books due to the reason of wrong calculations or any other reason which may results in difference.

BANK RECONCILIATION STATEMENT



IMPORTANT NOTES

Bank Reconciliation statement may be prepared monthly, annually or both. It is prepared only to show that these transactions have created a difference. We have to check that transaction must be entered by both i.e. by bank and by us upto closing date.

BANK RECONCILIATION STATEMENT



IMPORTANT NOTES

- a. Debit in cash book means increase in balance
- b. Credit in cash book means decrease in balance
- c. Debit in pass book means decrease in balance
- d. Credit in pass book means increase in balance

BANK RECONCILIATION STATEMENT



IMPORTANT NOTES

- a. Debit balance in cash book means balance
- b. Credit balance in cash book means overdraft
- c. Debit balance in pass book means overdraft
- d. Credit balance in passbook means balance

BANK RECONCILIATION STATEMENT



Adjustment Chart

Sr.No.	Treatment/Adjustment Particulars	Balance As Per		Overdraft As Per	
		Cash Book	Pass Book	Cash Book	Pass Book
1.	Cheques issued but nor Presented	+	-	-	+
2.	Cheques deposited but not yet credited collected/ cleared by bank	-	+	+	-
3.	Cheques sent / Bills receivable discounted from bank dishonour	-	+	+	-
4.	Bank Charges or interest charged by bank not entered in cash book	-	+	+	-
5.	Interest /Dividend Credited/Collected by bank not entered in cash book	+	-	-	+
6.	Direct Payment by bank	-	+	+	-
7.	Direct Payment by the customer into bank	+	-	-	+

BANK RECONCILIATION STATEMENT



Adjustment Chart

8.	If any mistake is made in passbook				
	a) Any amount wrongly credited by bank	+	-	-	+
	b) Any amount wrongly debited by bank	-	+	+	-
9.	If any mistake is made in cashbook				
	a) If it results into increase in balance	-	+	+	-
	b) If it results into decrease in balance	+	-	-	+
	If Positive	Balance as per Passbook	Balance as per Cashbook	Overdraft as per passbook	Overdraft as per Cashbook
	If Negative	Overdraft as per Passbook	Overdraft as per Cashbook	Balance as per Passbook	Balance as per Cashbook

BANK RECONCILIATION STATEMENT



ILLUSTRATION 1:-

Messer's Tall & Short, Faiz Bazar, New Delhi-110002 in account with Punjab National Bank, Daryaganj, New Delhi-110002

Pass Book

Date	Particulars	Withdrawals Rs.	Deposits Rs.	Dr. or Cr.	Balance Rs.
2022					
Jan. 2	By Cash		4,00,000	Cr.	4,00,000
" 4	To Furniture Dealers Ltd.	60,000		Cr.	3,40,000
" 4	To Das & Co.	1,25,000		Cr.	2,15,000
" 10	By J. Johnson & Co.'s cheque		35,000	Cr.	2,50,000
" 12	To Roy & James	1,00,000		Cr.	1,50,000

BANK RECONCILIATION STATEMENT



ILLUSTRATION 1:-

Pass Book

Jan	15	By B. Babu & Co's cheque		76,000	Cr.	2,26,000
"	16	By Cash		30,000	Cr.	2,56,000
"	20	To Cash	50,000		Cr.	2,06,000
"	26	By J. Rai & Bros cheque		43,000	Cr.	2,49,000
"	31	To Premium paid as per standing instructions	25,000		Cr.	2,24,000
	31	To Bank Charges	1,000		Cr.	2,23,000
	31	By Interest collected on Government Securities		20,000	Cr.	2,43,000

BANK RECONCILIATION STATEMENT



ILLUSTRATION 1:-

CASH-BOOK (Bank column only)

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
2022			2022		
Jan. 1	To Cash	4,00,000	Jan. 2	By Furniture	
Jan. 2	To J. Johnson & Co.	35,000		Dealers Ltd.	60,000
Jan. 8	To B. Babu & Co.	76,000	Jan. 2	By Roy & James	1,00,000
Jan. 10	To Cash	30,000	Jan. 2	By Das & Co.	1,25,000
Jan. 16	To J. Rai & Bros.	43,000	Jan. 4	By K. Nagpal & Co.	73,000
Jan. 20	To M. Mohan & Co.	1,05,000	Jan. 17	By Cash	50,000
Jan. 22	To N. Nandy & Sons	34,000	Jan. 20	By B. Babu & Co.	78,000
			Jan. 31	By Balance c/d	2,37,000
		7,23,000			7,23,000
Feb. 1	To Balance b/d	2,37,000			

BANK RECONCILIATION STATEMENT



SOLUTION 1:-

It will be seen that whereas the pass book shows a credit balance of Rs.2,43,000, the cash-book shows a debit balance of Rs.2,37,000. We shall compare the two to establish the reasons for the divergence. The reconciliation of the two statements can be done in two ways:-

- Arrive at pass book balance from cash book.
- Arrive at cash book balance from pass book.

Let us start with the pass book balance and arrive at the balance as per cash book.



BANK RECONCILIATION STATEMENT

SOLUTION 1:-

Step: 1 Compare the debit side of cash book with the deposits column of pass book:-
We find that the following cheques are recorded in the cash book but not in the pass book.

Therefore if we enter these two cheques in the deposit side of the pass book the balance becomes:-

Existing balance	2, 43,000
Add:- M Mohan & Co.	1,05,000
N. Nandy & Sons	34,000
Total	2,31,000

BANK RECONCILIATION STATEMENT



SOLUTION 1:-

Step: 2 Compare the credit side of the cash book with the withdrawal column of the pass book
We find that the following cheques are not recorded.

Therefore, if we enter these two cheques on the withdrawal side of the pass book the balance becomes: -

Existing balance	3,82,000
Less:- K Nagpal & Co.	(73,000)
B Babu & Co.	(78,000)
Total	2,31,000

BANK RECONCILIATION STATEMENT



SOLUTION 1:-

There is an item Interest on Government Securities which appears on the deposit side of the pass book but not in the debit side of the cash book, so this item should be deducted from pass book balance:-

Existing balance	3,82,000
Less:- K Nagpal & Co.	(73,000)
Total	2,31,000

BANK RECONCILIATION STATEMENT



SOLUTION 1:-

There is an item Interest on Government Securities which appears on the deposit side of the pass book but not in the debit side of the cash book, so this item should be deducted from pass book balance:-

Existing balance	2,11,000
Add: Insurance premium	25,000
Add: Bank charges	1,000

BANK RECONCILIATION STATEMENT



SOLUTION 1:-

There is an item Interest on Government Securities which appears on the deposit side of the pass book but not in the debit side of the cash book, so this item should be deducted from pass book balance:-

Existing balance:-	2,11,000
Add: Insurance premium	25,000
Total	2,11,000

BANK RECONCILIATION STATEMENT



SOLUTION 1:-

Further, there are two items which appear on the withdrawal side of the pass book i.e. they have been deducted from the bank balance but not on the credit side of the cash book, so these items should be added in order to reconcile the balance:-

Existing balance:-	2,31,000
Less:- Interest on govt. securities	<u>(20,000)</u>
Total	<u>2,11,000</u>

BANK RECONCILIATION STATEMENT



SOLUTION 1:-

Therefore , we have arrived at the balance as per the cash book from the pass book.

This process shows that the difference between the two balance arise only because there are some entries made in the cash-book but not in the pass book and some entries which are made in the pass book but not in the cash book. A comparison of the two shows up such entries and then, on that basis, the reconciliation is prepared. To illustrate it again,

BANK RECONCILIATION STATEMENT



let us proceed from the cash book balance of Rs.2,37,000

Since cheques totalling Rs.1,39,000 have not been entered in the pass book, let us assume that they are also omitted from the cash book, this will reduce the cash book balance to Rs.98,000

Cheques totalling Rs.1,51,000 have been entered on the credit side of the cash book but not in the pass book their omission from the cash book will increase the cash book balance to Rs.2,49,000

BANK RECONCILIATION STATEMENT



Amounts totalling Rs.26,000 have been entered in the withdrawals column of the pass book but not in the cash book; an entry on the credit side of the cash book for these amounts will reduce the balance to Rs.2,23,000

The deposits column shows an entry of Rs.20,000 not found on the debit side of the cash book; the entry made in the cash book will increase balance to Rs.2,43,000 as shown in the pass book.

BANK RECONCILIATION STATEMENT



Errors: While recording the entries errors can occur both in the cash book and in the pass book. A bank rarely makes an error but if it does, the balance in the pass book will naturally differ from the cash book. Similarly, if any error is committed in the cash book, then its balance will be different from that of the pass book.

Some of the errors include commission of entry, recording of an incorrect amount, recording of entry on the wrong side of the book, wrong totalling of the account or wrong balancing of the book and recording of transactions of another party.

BANK RECONCILIATION STATEMENT



ILLUSTRATION 2:-

From the following particulars, prepare a Bank Reconciliation Statement for Jindal oVset Ltd.

1. Balance as per cash book is ` 2,40,000
2. Cheques issued but not presented in the bank amounts to ` 1,36,000.
3. Cheques deposited in bank but not yet cleared amounts to ` 90,000.
4. Bank charges amounts to ` 300.
5. Interest credited by bank amounts to ` 1,250.
6. The balance as per pass book is ` 2,86,950.

BANK RECONCILIATION STATEMENT



SOLUTION

Particulars	Amount
Balance as per cash book	2,40,000
Add : Cheque issued but not presented	1,36,000
Interest credited by bank	1,250
	3,77,250
Less : Cheque deposited but not yet cleared	(90,000)
Bank charges debited by bank	(300)
Balance as per pass book	2,86,950

BANK RECONCILIATION STATEMENT



ILLUSTRATION 3:-

On 31st March 2021, the Bank Pass Book of Namrata showed a balance of Rs.1,50,000 to her credit while balance as per cash book was Rs.1,12,050 On scrutiny of the two books, she ascertained the following causes of divergence:

- She has issued cheques amounting to Rs.80,000 out of which only Rs.32,000 were presented for payment.

BANK RECONCILIATION STATEMENT



- She received a cheque of Rs.5,000 which she recorded in her cash book but forgot to deposit in the bank.
- A cheque of Rs.22,000 deposited by her has not been cleared yet.
- Mr. Gupta deposited an amount of Rs.15,700 in her bank which has not been recorded by her in Cash Book yet.
- Bank has credited an interest of Rs.1,500 while charging Rs.250 as bank charges.

Prepare a bank reconciliation statement.



BANK RECONCILIATION STATEMENT

SOLUTION:-

Bank Reconciliation Statement as on 31st March 2021

Particulars	Details (in Rs)	Amount (in Rs.)
Balance as per Pass Book (Cr.)		150000
Add: Cheque deposited but not yet cleared	22000	
Add: Cheque recorded in Cash Book but not yet deposited	5000	
Add: Bank Charges debited by bank	250	27250
Less: Cheque issued but not yet presented	48000	
Less: Amount deposited but not recorded in Cash Book	15700	
Less: Interest allowed by bank	1500	65200
Balance as per Cash Book		112050

BANK RECONCILIATION STATEMENT



Home Work

- **Review the Chapter**
- **Practice Illustration No.1 to 5**
- **Do practical questions 1st, 3rd & 5th**



Thank You!

CA PARDEEP MAKKAR