



BANK RECONCILIATION STATEMENT



BY CA PARDEEP MAKKAR



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.
- A Business-men opens a Current A/c in Bank for all Business Transactions.
- This A/c is opened with the name of his/her firm.

BANK RECONCILIATION STATEMENT

- Record of Current A/c in Bank is called:-
 - Bank Book/Cash Book:- In the Books of Businessmen.
 - Pass Book/Bank Statement:- In the Books of Bank where A/c is opened (Refer ICAI Module)
- In Certain Cases Transactions are recorded in Cash Book but not in Pass-Book and Vice-Versa.

Bank Reconciliation Statement comes into Picture



BANK RECONCILIATION STATEMENT

Bank Reconciliation Statement

- An Important mechanism of internal control
 - The reconciliation will bring out any errors that may have been committed either in the cash book or in the pass book.
 - Any undue delay in the clearance of cheques will be shown up by the reconciliation.

BANK RECONCILIATION STATEMENT

- A regular reconciliation discourages the accountant of the Bank from embezzlement of funds. There have been many cases when the cashiers merely made entries in the cash book but never deposited the cash in the Bank; they were able to get away with it only because of lack of reconciliation.
- It helps in finding out the actual or true position of the Bank balance by incorporating the effect of any uncleared funds as well.



BANK RECONCILIATION STATEMENT

Reason of differences are:-

- Timing differences.
- Errors in Cash Book or Pass Book.

BANK RECONCILIATION STATEMENT

- **Timing:-** Sometimes a transaction is recorded at two different times in cash book and the pass book
 - Mr. A has issued a cheque to PQR Ltd., now it will be recorded in his cash book immediately but the Bank will recognize this transaction only when the same cheque will be presented to it by PQR Ltd.
 - Various transactions which the Bank carries out by itself without intimating the customer e.g.:- interest received on a savings Bank account.

BANK RECONCILIATION STATEMENT

- **Errors:-** Mistakes or errors made in preparing the accounts either by the Bank or the customer can also result in disagreement of the two statements.



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

Bills receivable discounted from Bank but dishonour :-

If the Bank is not able to receive payment on promissory notes 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

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

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

1. 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

2.

- 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

3.
 - 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

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 / Bills receivable/ discounted sent to Bank but dishounour	-	+	+	-
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

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

Two Method of Reconciliation

Bank Reconciliation
Statement

Adjusted Cash Book



BANK RECONCILIATION STATEMENT

- **Refer Illustration 1 to 4 from Module and then solve important I - 9.**



BANK RECONCILIATION STATEMENT

ILLUSTRATION 3:-

On 31st March 2019, 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 3:-

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

Makkar Sir Question

On 25th June 2004, I had an overdraft of Rs. 7,500 as shown in the pass book.

Cheques amounting to Rs. 1,000 had been paid in by me on 24th June, but of these only Rs. 750 were credited in the pass book.

I also issued cheques amounting to Rs. 2500 of which Rs. 2,000 worth only seem to have been presented. There is debit in my pass book of Rs. 75 for interest.

I also find that a cheque of Rs. 60 which I had debited to bank account in my books had been omitted to be banked.

An entry of Rs. 300 of a payment by a customer direct into bank appears in the pass book.

Prepare a bank reconciliation statement.

BANK RECONCILIATION STATEMENT

Examination Questions, November 2020

4. A cheque deposited in his another account of ` 1,550 wrongly credited to this account by the Bank.
5. A cheque of ` 800, drawn on this account, was wrongly debited in another account by the Bank.
6. A debit of ` 3,500 appearing in the Bank statement for an unpaid cheque returned for being 'out of date' had been re-dated and deposited in the Bank account again on 5th April 2020.
7. The Bank allowed interest on deposit ` 1,000.
8. A customer who received a cash discount of 4% on his account of ` 1,00,000 paid a cheque on 20th March, 2020. The cashier erroneously entered the gross amount in the Bank column of the Cash Book.

Prepare Bank Reconciliation Statement as on 31-3-2020.

BANK RECONCILIATION STATEMENT

Examination Questions, January 2021

Prepare a Bank Reconciliation Statement from the following particulars as on 31st December, 2020 :

4 Marks

Particulars	
Bank Balance as per Cash Book (Debit)	1,98,000
Bank Charges debited by the Bank not recorded in Cash Book	34,000
Received from debtors vide RTGS on 31st December, 2020 not recorded in Cash Book	1,00,000
Cheque issued but not presented for payment	45,000
Cheque deposited but not cleared	25,000
Cheque received and deposited but dishonoured. Entry for dishonour not made in the Cash Book	5,000
Instruction for payment given to the Bank on 31st December, 2020 but the same effected by the Bank on 01st January, 2021	4,000



BANK RECONCILIATION STATEMENT

Meaning of adjusted cash book

When the balance in the cash book is first adjusted for certain adjustments before taking it to the Bank reconciliation statement, then it is known as adjusted cash book balance. Adjusting the cash-book before preparing the Bank reconciliation statement is completely optional, if reconciliation is done during different months. But if reconciliation is done at the end of the accounting year or financial year, the cash-book must be adjusted so as to reflect the correct Bank balance in the balance sheet



BANK RECONCILIATION STATEMENT

While adjusting the cash-book the following adjustments are considered:-

- All the errors (like incorrect amount recorded in the cash-book, entry posted twice in the cash-book, over/under casting of the balance etc.) and
- Omissions (like Bank charges recorded in the pass-book only, interest debited by the Bank, direct receipt or payment by the Bank, dishonour of cheques/bills etc.) by the cash-book are taken into care



BANK RECONCILIATION STATEMENT

Only above transactions are considered for adjusting cash book. Apart from this, any delay in recording in the pass-book due to difference in timing (like cheque issued but not presented for payment, cheque deposited but not cleared) is taken to Bank reconciliation statement. This adjusted cash-book balance is taken to Bank reconciliation statement.

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.

BANK RECONCILIATION STATEMENT

- **Refer Illustration 5 to 11 from Module.**



BANK RECONCILIATION STATEMENT

ILLUSTRATION 6 :-

On 30th December, 2021 the Bank column of A. Philip's cash book showed a debit balance of Rs.4,610.

On examination of the cash book and Bank statement you find that:

1. Cheques amounting to Rs.6,30,000 which were issued to trade payables and entered in the cash book before 30th December, 2021 were not presented for payment until that date.
2. Cheques amounting to Rs.2,50,000 had been recorded in the cash book as having been paid into the Bank on 30th December, 2021, but were entered in the Bank statement on 1st January, 2022.



BANK RECONCILIATION STATEMENT

ILLUSTRATION 6 :-

3. A cheque for Rs 73,000 had been dishonoured prior to 30th December, 2021, but no record of this fact appeared in the cash book.
4. A dividend of Rs3,80,000, paid direct to the Bank had not been recorded in the cash book.
5. Bank interest and charges amounting to Rs.4,200 had been charged in the Bank statement but not entered in the cash book.
6. No entry had been made in the cash book for a trade subscription of Rs.10,000 paid vide Banker's order in November, 2021.



BANK RECONCILIATION STATEMENT

7. A cheque for Rs.27,000 drawn by B. Philip had been charged to A. Philip's Bank account by mistake in December, 2021.

You are required:

- to make appropriate adjustments in the cash book bringing down the correct balance, and
- to prepare a statement reconciling the adjusted balance in the cash book with the balance shown in the Bank statement.



BANK RECONCILIATION STATEMENT

SOLUTION 6:-

a.		Philip Kotler				
Dr.	Cash Book (Bank column)				Cr.	
Date 2021	Particulars	Amount(Rs)	Date 2021	Particulars	Amount(Rs)	
Dec. 30			Dec. 30			
	TO Balance B/d	4,610		By Trade receivables	73,000	
	To Dividend received	3,80,000		Cheque dishonoured		
				By Bank interest and charges	4200	
				By Trade Subscription	10000	
			Dec.31	By Balance c/d	297410	
		<u>384610</u>			<u>384610</u>	
2022						
Jan1	To Balance b/d	297410				



BANK RECONCILIATION STATEMENT

SOLUTION 6:-

b. Bank Reconciliation Statement as at 30th December, 2021

Particulars	Amount Rs.
Balance per cash book after adjustment	297410
Add: Cheques not yet presented	6,30,000
Deduct: Lodgement not yet recorded by Bank	(2,50,000)
	6,77,410
Deduct: Cheque wrongly charged	(27,000)
Balance as per the Bank statement	6,50,410



BANK RECONCILIATION STATEMENT

ILLUSTRATION 8.

The Cash Book of Mr. Gadbadwala shows Rs.8,36,400 as the balance at Bank as on 31st December, 2021, but you find that it does not agree with the balance as per the Bank Pass Book. On scrutiny, you find the following discrepancies:

1. On 15th December, 2021 the payment side of the Cash Book was undercast by Rs10,000.
2. A cheque for Rs1,31,000 issued on 25th December, 2021 was not taken in the Bank column.
3. One deposit of Rs1,50,000 was recorded in the Cash Book as if there is no Bank column therein.



BANK RECONCILIATION STATEMENT

SOLUTION 8.

(If the books are not closed on 31st December, 2021)

Bank Reconciliation Statement of Mr. Gadbadwala as on 31st Dec., 2021

Particulars	Details(Rs.)	Amount (Rs.)
Balance as per the Cash Book		836400
Add : Mistake in bringing forward ` 15,260 debit balance as credit balance on 18th Dec., 2019	30520	
Cheques issued but not presented :		
Issued	11514	
Cashed	7815	3699
Dividends directly collected by Bank but not yet entered in the Cash Book	25000	
Cheque recorded twice in the Cash Book	350000	
Deposit not recorded in the Bank column	150000	559219
		<hr/>
		1395619



BANK RECONCILIATION STATEMENT

SOLUTION 8.

	1395619
Less : Wrong casting in the Cash Book on 15th Dec.	10000
Cheques issued but not entered in the Bank column Subscription paid by the Bank directly not yet recorded in the Cash Book	131000
	1000 (142000)
Balance as per the Pass Book	12,53,619



BANK RECONCILIATION STATEMENT

SOLUTION 8.

If the books are to be closed on 31st December, then adjusted cash book will be prepared as given below:

ADJUSTED CASH BOOK

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	8,36,400	By wrong casting	10,000
To error for wrong posting	30,520	By cheques not entered	1,31,000
To dividends collected by Bank	25,000	By subscription	1,000
To cheques recorded twice	3,50,000	By balance c/d	12,49,920
To deposit not recorded	1,50,000		
	<hr/>		<hr/>
	13,91,920		13,91,920



BANK RECONCILIATION STATEMENT

SOLUTION 8.

Bank Reconciliation Statement

Particulars	Rs.
Balance as per the Cash Book (corrected)	12,49,920
Add: Cheques issued but not yet presented	3,699
Balance as per the Pass Book	12,53,619

BANK RECONCILIATION STATEMENT

**Examination Questions, November
2020**

10 Marks

On 31-3-2020, Mahesh's Cash Book Showed a Bank overdraft of ` 98,700. On comparison he finds the following :

1. Out of the total cheques of ` 8,900 issued on 27th March, one cheque of 7,400 was presented for for payment on 4th April and the other cheque of 1,500 handed over to customer , was returned by him and in lieu of that a new cheque of the same amount was issued to him on 1st April. No entry for the return was made.
2. Out of total cash and cheques of ` 6,800 deposited in the Bank on 24th March, one cheque of 2600 was cleared on 3rd April and other cheque of 500 was returned dishonoured by the Bank on 4th April.
3. Bank charges ` 35 and Bank interest ` 2,860 charged by the Bank appearing in the passbook are not yet recorded in the cash book.

Prepare Adjusted Cash Book & Bank Reconciliation Statement



BANK RECONCILIATION STATEMENT

SUMMARY

- **Bank pass book is merely a copy of the customer's account in the book of a Bank.**
- **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.**



BANK RECONCILIATION STATEMENT

SUMMARY

- **The salient features of Bank reconciliation statement:**
 - ◆ The reconciliation will bring out any errors that may have been committed either in the cash book or in the pass book;
 - ◆ Any undue delay in the clearance of cheques will be shown up by the reconciliation;



BANK RECONCILIATION STATEMENT

SUMMARY

- ◆ A regular reconciliation discourages the accountant of the Bank from embezzlement. There have been many cases when the cashiers merely made entries in the cash book but never deposited the cash in the Bank; they were able to get away with it only because of lack of reconciliation.
- ◆ It helps in finding out the actual position of the Bank balance.



BANK RECONCILIATION STATEMENT

SUMMARY

The difference in the balances of both the books can be because of the following reasons:

- Timing differences,
- Transactions;
- Errors.



BANK RECONCILIATION STATEMENT

SUMMARY

Bank reconciliation can be start from any of the following four balances given in the question:

- Dr. balance as per cash book
- Cr. balance as per cash book
- Dr. balance as per pass book
- Cr. balance as per pass book



BANK RECONCILIATION STATEMENT

Test Your Knowledge

State True or False for each of the following, with reason for the same.

- 1. Bank Reconciliation is the process of reconciling cash column of the cash book and Bank column of the cash book.**

Ans:- False : Bank Reconciliation Statement reconciles Bank column of cash book with the balance in the pass book i.e. customer account in the books of Bank.



BANK RECONCILIATION STATEMENT

Test Your Knowledge

2. There are 3 types of differences between cash book and pass book namely Timing, Transactions & Errors.

Ans:- True: These are the three broad categories.



BANK RECONCILIATION STATEMENT

Test Your Knowledge

3. Adjusting the cash These are the three broad categories book for any errors and/or omissions before preparing Bank reconciliation is optional when the reconciliation is done at the end of the financial year.

False : Adjusting the cash book is mandatory when Bank reconciliation is done at the end of the financial year.



BANK RECONCILIATION STATEMENT

Test Your Knowledge

4. Cash book shows a debit balance of Rs.50,000 and the only difference from the balance as shown in pass book relates to cheques issued for Rs. 60,000 but not yet presented for payment. The balance as per pass book should be Rs.1,10,000.

True : Cheques issued but not yet presented should be added back to a debit balance in cash book to arrive at pass book balance i.e. ₹ 50,000 + ₹ 60,000 = ₹ 1,10,000.



BANK RECONCILIATION STATEMENT

Test Your Knowledge

5. Bank charges debited by the Bank is an example of timing difference for the purposes of Bank reconciliation.

False : Bank charges are example of the transactions that Bank carries out by itself and the same has not been recorded in the cashbook until statement is obtained from the Bank.



BANK RECONCILIATION STATEMENT

Test Your Knowledge

6. A regular Bank reconciliation discourages the accountants to be involved in any kind of funds embezzlement.

True : In absence of any reconciliation, the accountants can mis-utilize the funds temporarily by recording the entry without actual depositing the cash.



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