Bank Reconciliation Statement

Fundamentals Of Accounting

Bank Reconciliation Statement

- Strictly speaking there should be no difference in Cash Book and Pass book.
- However on a particular date it is possible that balances on both the books do not tally.
- After finding the reasons for non agreement of the bank balances efforts are made to reconcile. This statement is prepared in the form of BRS.

Importance of BRS

- Errors which may have been committed
- Undue delay in clearance of cheques
- Discourages staff from embezzlement

Reasons for Differences

- Timing differences

  - cheques issued but not presented

  - Cheques paid into bank but not presented

  - interest and dividend collected by bank

  - bills collected by bank on behalf of the customer

  - direct payment by bank
- Due to errors in recording the entries

Illustration 1

From the following particulars ascertain the balance that would appear in the Bank Pass Book of A on 31st December, 2006.

(1) the bank overdraft as per Cash Book on 31st December, 2006 Rs. 6,340.

(2) Interest on overdraft for 6 months ending 31st December, 2006 Rs. 160 is entered in Pass Book.

(3) Bank charges of Rs. 30 for the above paid are debited in the Pass Book.

(4) Cheques issued but not cashed prior to 31st December, 2006, amounted to Rs. 1,168.

Continued:

(5) Cheques paid into bank but not cleared before 31st December, 2006 were for Rs. 2,170.

(6) Interest on investments collected by the bank and credited in the Pass Book Rs. 1,200.

Note: In this illustration the point to note is the opening balance is an overdraft. Hence, items which increase the balance at bank will be deducted from the overdraft since money deposited will reduce the overdraft. Similarly, item which reduce the balance at bank will be added to the overdraft.

Answer 1

	Plus	Minus
Particulars	Amount Rs.	Amount Rs.
Overdraft as per Cash Book		6,340.
Interest debited in Pass Book but not yet in Cash Book	1,168	160
Cheques issued but not yet presented		2,170
Cheques paid in but not yet credited by the Bank		30
Bank charges		
Interest collected and credited by the Bank in the Pass Book but not yet entered in Cash Book	1,200 2,368	
	6,332	
Overdraft as per Pass Book (Rs. 8,700 – 2,368)	8,700	8,700
Total		

Illustration 2

On 30th September, 2006, the bank account of X, according to the bank column of the Cash Book, was overdrawn to the extent of Rs. 4,062. On the same date the bank statement showed a balance of Rs. 1,400 in favour of X. An examination of the Cash Book and Bank Statement reveals the following:

1. A Cheque for Rs. 1,140 deposited on 29th September, 2006 was credited by the bank only on 3rd October, 2006.

2. A payment by cheque for Rs. 160 has been entered twice in the Cash Book.

3. On 29th September, 2006, the bank credited an amount of Rs. 1,740 received from a customer of X, but the advice was not received by X until 1st October, 2006.

Continued:

4. Bank charges amounting to Rs. 58 had not been entered in the Cash Book.
5. On 6th September, 2006, the bank credited Rs. 2,000 to X in error.
6. A bill of exchange for Rs. 1000 was discounted by X with his bank. This bill was dishonoured on 28th September, 2006 but no entry had been made in the books of X.
7. Cheques issued upto 30th September, 2006 but not presented for payment upto that date totalled Rs. 3760.

Continued:

You are required:

(a) To show the appropriate rectifications required in the Cash Book of X, to arrive at the correct balance on 30^{th} September, 2006 and

(b) to prepare a bank reconciliation statement as on that date.

Answer 2

Solution

(a)		CASH BOOK (Bank Column)			
Date 2006	Particulars	Amount Rs.	Date 2006	Particulars	Amount Rs.
Sept 30	To Party A/c	160	Sept 30	By Balance b/d	4,062
	" Customer A/c			" Bank charges	58
	(Direct deposit)	1,740		" Customer A/c	
	" Balance c/d	3,220		B/R dishonoured)	1,000
		5,120			5,120

Answer Contd:

(b) **Bank Reconciliation Statement as on 30th September, 2006**

Particulars	Rs.
Overdraft as per Cash Book	3,220
Add: Cheque deposited but not collected upto 30th Sept., 2006	1,140
	4,360
Less: Cheques issued but not presented for payment	
upto 30th Sept., 2006	3,760
Credit by Bank erroneously on 6th Sept.	2,000
Balance as per bank statement	1,400

Continued:

Note: Bank has credited X by 2,000 in error on 6th September, 2006. If this mistake is rectified in the amendment bank statement, this will not be deducted in the above statement along with R.s 3,760 resulting in debit balance of Rs. 600 as per pass-book.

Illustration 3

On 30^{th} December, 2006 the bank column of A. Philip’s cash book showed a debit balance of Rs. 461. On examination of the cash book and bank statement you find that :

1. Cheques amounting to Rs. 630 which were issued to creditors and entered in the cash book before 30^{th} December, 2006 were not presented for payment until that date.
2. Cheques amounting to Rs. 250 had been recorded in the cash book as having been paid into the bank on 30^{th} December, 2006, but were entered in the bank statement on 1^{st} January, 2007.
3. A cheque for Rs. 73 had been dishonoured prior to 30 December, 2006, but no record of this fact appeared in the cash book.

Continued:

4. A dividend of Rs. 38, paid direct to the bank had not been recorded in the cash book..
5. Bank interest and charges amounting to Rs. 42 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 paid vide banker’s order in November, 2006.
7. A cheque for Rs. 27 drawn by B. Philip had been charged to A. Philips bank account by mistake in December, 2006.

You are required:

(a) to make appropriate in the cash book bringing down the correct balance, and

(b) to prepare a statement reconciling the adjusted balance in the cash book with the balance shown in the bank statement.

Answer 3

Solution

(a) A. Philip

(b) Dr. **Cash Book (Bank column)** Cr.

Date 2006	Particulars	Amount Rs.	Date 2006	Particulars	Amount Rs.
Dec. 30	To Balance b/d	461	Dec. 30	By Debtor-Cheque Dishonoured	73
	To Dividends received	38		By Bank interest and charges	42
				By Trade Subscription	10
			Dec. 31	By Balance c/d	374
		499			499
2007 Jan., 1	To Balance b/d	374			

(b) Bank Reconciliation Statement as at 30th December, 2006

Particulars	Details Rs.	Amount Remarks
Balance per cash book	374	In hand
Add: Cheques not yet presented	630	
	1,004	In hand
Deduct : Lodgement not yet recorded by bank	250	
	754	
Deduct: Cheque wrongly charged (confirmed with)	27	

Illustration 4

From the following information, prepare a Bank reconciliation statement as at 31st December, 2006 for Messers New Steel Limited:

		Rs.
(1)	Bank overdraft as per Cash Book on 31st December, 2006.	2,45,900
(2)	Interest debited by Bank on 26th December, 2006 but no advice received	27,870
(3)	Cheque issued before 31st December, 2006 but not yet presented to Bank	66,000
(4)	Transport subsidy received from the State Government directly by the Bank but not advised to the company	42,500

Continued:

(5) Draft deposited in the Bank, but not credited till 31st December, 2006 13,500

(6) Bills for collection credited by the Bank till 31st December, 2006 but no advice received by the company 83,600

(7) Amount wrongly debited to company account by the Bank, for which no details are available 7,400

Answer 4

Solution

M/s. New Steel Ltd. **Bank Reconciliation Statement as on 31st Dec. 2006**		
Particulars	Rs.	Rs.
Overdraft as per Cash Book		2,45,900
Add: Interest charged by the bank	27,870	
Draft deposited in bank but not yet credited	13,500	
Wrong debit by the bank, under verification	7,400	48,770
		2,94,670
Less: Cheque issued but not yet presented	66,000	
Transport subsidy not yet recorded in the Cash Book	42,000	
Bills for collection credited in the bank not yet entered in the Cash book	83,600	1,92,100
		1,02,570

Illustration 5

The bank account of Mukesh was balanced on 31st March, 2006. it showed an overdraft of Rs. 5,000. The bank statement of Mukesh showed a credit balance of Rs. 76, 750. Prepare a bank reconciliation statement taking the following into account:

(1) Cheques issued but not presented for payment till 31.3.2006 Rs. 12,000.

(2) Cheques deposited but not collected by bank till 31.3.2006 Rs. 20,000.

Continued:

(3) Interest on term-loan Rs. 10,000 debited by bank on 31.3.2006 but not accounted in Mukesh’s book.

(4) Bank charges Rs. 250 was debited by bank during March, 2006 but accounted in the books of Mukesh on 4.4.2006.

(5) An amount of Rs. 1,00,000 representing collection of Murukesh’s cheque was wrongly credited to the account of Mukesh by the bank in their bank statement.

Answer 5

Solution:

In the books of Mukesh

Bank Reconciliation Statement as on 31.3.2006

Particulars	Details	Amount Rs.
Overdraft as per cash book		5,000
Add: Cheques deposited in bank but not collected and		
credited by bank till 31.3.2006	20,000	
Interest on term loan not accounted in books	10,000	
Bank charges not accounted in books	250	30,250
		35,250
Less: Cheques issued but not presented for payment till 31.3.2006		12,000
		23,250
		1,00,000
Less: Erroneous credit by bank to Mukesh's account		76,750
Balance as per bank statement		

Illustration 6

From the following information (as on 31.3.2006), prepare a bank reconciliation statement after making necessary amendments in the cash book.

	Amount (Rs.)
Bank balances as per cash book (Dr.)	3,25,000
Cheques deposited, but not yet credited	4,47,500
Cheques issued but not yet presented for payment	3,56,200
Bank charges debited bank but not recorded in cash-boo	1,250
Dividend directly collected by the bank	12,500

Continued:

Insurance premium paid by bank as per standing instruction not intimated	15,900
Cash sales wrongly recorded in the Bank column of the cash-book	25,500
Customer’s cheque dishonoured by bank not recorded in the cash-book.	13,000
Wrong credit given by bank	15,000

Also show the bank balance that will appear in the trial balance as on 31.3.2006

Answer 6

Solution:

Cash Book as on 31.3.2006 (after making necessary amendments)			
Dr. Particulars	Amount Rs.	Particulars	Cr. Amount Rs.
To Balance b/d	3,25,000	By Bank charges	1,250
To Dividend	12,500	By Insurance premium	15,900
		By Cash sales (wrongly recorded)	25,500
		By Debtors (cheque dishonoured)	13,000
		By Balance c/d	2,81,850
	3,37,500		3,37,500

Particulars	Details Rs.	Amount Rs.
Bank balance as per cash book		2,81,850
Add: Cheques issued but not yet presented for payment	3,56,200	
Wrongly credit given by bank	15,000	3,71,200
		6,53,050
Less: Cheques deposited but not yet credited by bank		4,47,500
Balance as per pass book		2,05,550

The bank balance of Rs. 2,81,850 will appear in the trial balance as on 31st March, 2006

Illustration 7

On 31st March, 2006 the pass-book of a trader showed a credit balance of Rs. 1,565, but the pass book balance was different for the following reasons from the cash book balance :

1. Cheques issued to 'X' for Rs. 600 and to 'Y' for Rs. 384 were not yet presented for payment.
2. Bank charged Rs. 35 for bank charges and 'Z' directly deposited Rs. 816 into the bank account, which were not entered in the cash book.
3. Two cheques one from 'A' for Rs. 515 and another from 'B' for Rs. 1,250 were collected in the first week of April, 2006 although they were banked on 25.03.2006.
4. Interest allowed by bank Rs. 45.

Prepare a bank reconciliation statement as on 31st March, 2006.

Answer 7

Bank Reconciliation Statement as on 31st March 2006

Particulars	Details Rs.	Rs.	Amount Rs.
Credit balance as per pass book			1,565
Add: Cheques deposited into bank but not yet collected	A:515		
	B: 1,250	1,765	
		35	1,800
Bank charges debited by the bank			3,365
	X: 600		
Less: Cheques issued but not presented for payment	Y: 384	984	
		816	
Direct deposit of cash in bank by Z		45	1,845
Interest allowed by the bank			1,520
Debit balance as per cash book			

MCQ 1

1. When the balance as per Cash Book is the starting point, direct deposits by customers are :
   a) added
   b) subtracted;
   c) not required to be adjusted
   d) neither of the two

MCQ 2

2. A Bank Reconciliation Statement is a
   a) part of Cash Book;
   b) part of Bank Account;
   c) part of financial statements,
   d) none of the above.

MCQ 3

3. When balance as per Pass Book is the starting point, interest allowed by Bank is
   a) added
   b) subtracted
   c) not required to be adjusted
   d) None of the above.

MCQ 4

4. A Bank Reconciliation statement is prepared with the help of:

   a) Bank statement and bank column of the Cash Book.

   b) Bank statement and cash column of the Cash Book.

   c) Bank column of the Cash Book and cash column of the Cash Book

   d) None of the above.

MCQ 5

5. Debit balance as per Cash Book of ABC Enterprises as on 31.3.2006 is Rs. 1,500. Cheques deposited but not cleared amounts to Rs. 100 and Cheques issued but not presented of Rs. 150. The bank allowed interest amounting Rs. 50 and collected dividend Rs. 50 on behalf of ABC Enterprises. Balance as per pass book should be

a) 1,600.

b) 1,450.

c) 1,850.

d) 1,650.

MCQ 6

6. The cash book showed an overdraft of Rs. 1,500 as cash at bank, but the pass book made up to the same date showed that cheques of Rs. 100, Rs. 50 and Rs. 125 respectively had not been presented for payments; and the cheque of Rs. 400 paid into account had not been cleared. The balance as per the cash book will be

    a) Rs. 1,100.
    b) Rs. 2,175.
    c) Rs. 1,625.
    d) Rs. 1,375.

MCQ 7

7. When drawing up a Bank Reconciliation Statement, if you start with a debit balance as per the Bank Statement, the unpresented cheques should be:

   a) Added;

   b) Deducted;

   c) Not required to be adjusted.

   d) None of the above.

MCQ 8

8. A debit balance in the depositor's Cash Book will be shown as:

   a) a debit balance on the Bank Statement.

   b) a credit balance on the Bank Statement.

   c) an overdrawn balance on Bank Statement.

   d) None of the above.

MCQ 9

9. When preparing a Bank Reconciliation Statement, if you start with a debit balance as per the Cash Book, cheques issued but not presented within the period should be:
   a) Added;
   b) Deducted;
   c) not required to be adjusted
   d) None of the above.

MCQ 10

10. When the balance as per Pass Book is the starting point, direct payment by bank are:

    a) added in the bank reconciliation statement

    b) subtracted in the bank reconciliation statement

    c) Not required to be adjusted in the bank reconciliation statement.

    d) Neither of the above.

MCQ 11

11. When balance as per Cash Book is the starting point, uncollected cheques are:

a) added in the bank reconciliation statement

b) subtracted in the bank reconciliation statement

c) ‘Not required to be adjusted in the bank reconciliation statement

d) nether of the above.

MCQ 12

12. A Bank Reconciliation Statement is prepared to know the causes for the difference between:

    a) the balances as per cash column of Cash Book and the Pass Book.

    b) the balance as per bank column of Cash Book and the Pass Book.

    c) the balance as per bank column of Cash Book and balances as per cash column of Cash Book

    d) Neither of the above.

MCQ 13

13. When the balance as per Pass Book is the starting point, uncollected cheques are:

a) added in the bank reconciliation statement

b) subtracted in the bank reconciliation statement

c) not required to be adjusted in the bank reconciliation statement.

d) neither of the above.

MCQ 14

14. When balance as per Cash Book is the starting point, interest charged by Bank is:

a) Added in the bank reconciliation statement

b) subtracted in the bank reconciliation statement.

c) not required to be adjusted in the bank reconciliation statement

d) neither of the above.

MCQ 15

Match the following items from column A with column B

S.No.	Column A	Column B
1.	Debit Balance in the Cash Book means	(a) Account holders
2.	A Bank Reconciliation is prepared by:	(b) Overdraft as per Pass Book
3.	A Bank Statement is a copy of:	(c) Credit balance as per Pass Book
4.	Credit Balance in the cash book means	(d) A customers account in the Bank's book

MCQ 16

Choose the correct answer (more than one)

- The difference in the balances of both the cash-book and the pass-book can be because of

  a) errors in recording the entries either in the cash-book or pass-book.

  b) same entry recorded in either of the book earlier and in the other book later

  c)debit balance of cash book is the credit balance of pass-book.

  d) None of the above.

MCQ 17

- Direct payment to the third party on behalf of the account holder is entered in

  a) the cash-book when the amount is paid by the bank

  b) the cash-book when the entry is posted in the pass-book

  c) the pass-book when the amount is paid by the bank

  d) the pass-book when the entry is posted in the pass-book

MCQ 18

- 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 cash-book at the time of presenting the cheque to the bank for payment

  c) the pass-book at the time of presenting the cheque to the bank for payment

  d) the cash-book at the time of issuing the cheque

MCQ 19

- Following are the salient features of bank reconciliation statement:
  a) Any undue delay in the clearance of cheques will be shown up by the reconciliation
  b) Reconciliation statement will help in finding the person doing any fraud
  c) Reconciliation is done by the bankers
  d) it helps in finding out the actual position of the bank balance.

THE END

Bank Reconciliation Statement