CBSE CLASS 11 ACCOUNTANCY

FINANCIAL ACCOUNTING PART-1

REVISION NOTES

CHAPTER-5

BANK RECONCILIATION STATEMENT

➢ Definition

A schedule showing the items of difference between the bank statement and the bank column of Cash Book is known as 'Bank Reconciliation Statement'.

"A bank reconciliation is the process of matching the balances in an entity's accounting records for a cash account to the corresponding information on a bank statement. The goal of this process is to ascertain the differences between the two, and to book changes to the accounting records as appropriate".

➢ Causes of Differences in Cash Book and pass Book

The differences may be caused by either:

B.A Time gap in recording transactions

B.B Errors Committed in recording transactions.

A. Differences Caused by the time gap:

Reasons for the time gap in recording the transactions in the two books (Cash Book and Pass Book) are as given below:

1) Cheques issued but not yet presented for payment in the bank.
2) Cheques deposited or paid into the bank for collection but not yet credited by the bank.
3) Cheques deposited but dishonoured by the bank.
4) Interest allowed by the bank.
5) Interest on overdraft, bank charges, commission etc. charged by the bank.
6) Direct Deposit by the customers into the bank.
7) Interest, Dividend etc. collected by the bank.

https://www.evidyarthi.in

8) Direct payments made by the bank on behalf of customer as per standing instruction.

B. Differences caused by Errors Committed

Such errors may be of two types

1) Errors committed by the firm

I. Cheques issued to some creditors but omitted to be recorded in the Cash Book or recorded twice.

II. Cheques deposited into the bank omitted to be entered in the Cash Book or recorded twice.

III. Error in totaling or balancing the bank column of the Cash Book.

2) Errors committed by the bank

Sometimes bank records a wrong entry in the customer's account which causes a difference in the two balances.

- **Need and importance**

1) It helps in locating and rectifying the errors or omissions committed either by the firm or by the bank.
2) Customer becomes sure of the correctness of the bank balance shown by the cash book.
3) Facilitates the preparation of amended or revised Cash Book.
4) Reduces the chances of fraud by the staff of the firm or bank.
5) Helps in keeping a track of the cheques deposited for collection.

➢ **Procedure of preparing Bank Reconciliation Statement**

A Bank Reconciliation Statement is prepared when we get the duly completed Pass Book from the Bank. On receiving the Cash Book.

1) First of all tally the Debit side entries of the cash book with the Credit side entries of the Pass Book and vice versa.
2) Tick the items appearing in both the books.
3) Un ticked items will be the points of differences

https://www.evidyarthi.in

4) A BRS is then prepared by taking either the balance as per Cash Book or Pass Book as a starting point.

- **Important Points to Remember:**

1) If the Starting point is Cash Book Balance then the ending point will be Pass Book Balance.
2) If the starting point is Pass Book Balance then the ending point will be the Balance as per Cash Book.
3) Debit Balance as per Cash Book or Credit Balance as per Pass Book, means that the firm has that much amount of deposited at the bank also called favorable balance write the amount under (+) item.
4) Credit Balance as per Cash Book or Debit Balance as per Pass Book, means that this much amount has been withdrawn in excess of deposit also called over-draft or unfavorable balance write the amount under (-) item.

- **Method of preparing BRS starting with the Balance/overdraft as per Bank Column of Cash Book**

Bank Reconciliation Statement as on . . . .

Particulars	**+ Item**	**-Item**
Balance as per Cash Book Add: Items Credit in Pass Book but not recorded in Cash Book. Less: Items debit in Cash Book but not recorded in Pass Book. Less: Item debit in Pass Book but not recorded in Cash Book. Add: Items credit in Cash Book but not recorded in Pass Book.		
Total	P	M
Balance as per Pass Book (P – M) =		

- **Note**

1. If total of Plus Items is more than the total of () items - >Difference is Credit Balance or favorable balance as per Pass Book.

https://www.evidyarthi.in

2. Where as if the - items total is more than the + items total > Difference is Debit Balance or overdraft as per Pass Book.
3. If BRS is started with Balance as per Cash Book then ending point is Balance as per Pass Book and Vice-Versa.
4. Debit balance of Cash Book means favorable balance or + Balance
5. Credit balance of Cash Book means favorable balance or – Balance
6. Debit balance of Pass Book means unfavorable balance or - balance.
7. Credit balance of Pass Book means favorable balance or + balance.

- **Ready Reference**

(Items which increase the pass Book Balance or decreases the Cash Book Balance)

1) Cheques issued but not yet presented.
2) Credits made by the bank for Interest.
3) Amount directly deposited by the customers in our bank A/c.
4) Interest and dividend collected by the bank.
5) Cheques paid into the bank but omitted to be recorded in the Cash – Book

(Items which decreases the pass Book Balance or increase the Cash Book Balance)

1) Cheques sent to the bank for collection but not yet credited by the - bank.
2) Cheques paid into the bank but dishonoured.
3) Direct payments made by the bank.
4) Bank charges, commission etc. debited by the bank.
5) Cheques issued but omitted to be recorded in the Cash Book.

- **Explanation**

1) Balance as per Cash Book means favourable Balance, hence + Item. If nothing (i.e. Debit or Credit) is written the Balance given, it is treated as favourable.
2) Cheques were deposited into the bank for Rs. 5,000 but credited by the bank for Rs. 1,000 in the month of July, implies that cheques for Rs. 4,000 (5,000-1,000) are entered in the Cash Book but not in the Pass Book Increasing the Cash Book Balance by Rs.

https://www.evidyarthi.in

4,000 as compared to Pass Book. Hence to get pass Book Balance from the Cash Book Rs. 4,000 will have to be deducted.

3) Cheques issued but not presented for payment till 31st July is for Rs. 13800 entered more on the credit side of Cash Book as compared to Pass Book -> Cash book Balance is less by Rs. 13,800 as compared to Pass Book -> Item

4) a. Bank charges of Rs. 150 entered in the Pass Book -> decrease the Balance of Pass Book. To reach Pass Book Balance from Cash Book Balance, this item has to be deducted i.e. minus item.

   b. Interest credited by the Bank Rs. 400 interest in Pass Book Increases the, balance of Pass Book, hence to reach the Balance from cash book and this item is to be added + item.

5) Direct deposit by a customer Rs. 2,500 Increase the Pass Book Balance plus item.

6) Payment made by the bank for insurance premium Rs.3000 decreases the Pass Book Balance Minus Item.

7) + Items total Rs. 2900 is Less than - item total Rs. 20,950 by Rs. 17,050. Hence the difference of Rs. 17,050 will be - item i.e. Unfavourable Balance or Dr. balance as per Pass Book.

- **Important points**

1) Starting and Ending points are reversed compared to Example No. 1. Hence + items (x) items are interchanged.
2) Favourable balance whether of Cash Book or Pass Book is always a + items If + items total is more the - items total then the difference in the two totals is always a favourable Balance.
3) Where as if + items total is less than the - items total then the difference in the two totals is overdraft.
4) Overdraft whether as per Cash Book or Pass Book is always a (-) items
5) Starting and Ending points are interchanged as compared to Example No. 2 hence + items and (-) are also interchanged.
6) Here (-) items total is more as compared to (+) items total, therefore, the difference in the two balance is negative items i.e. overdrafts as per Cash Book.

https://www.evidyarthi.in

➢ Amended Cash Book Method

So far we have studied the preparation of Bank Reconciliation Statement simply by reconciling the causes of differences between the Cash Book and Pass Book. In actual practice adjustments are done in the Cash Book by comparing the Bank column of Cash Book with the Bank Statement and after that, B.R. Statement is prepared. It is called Amended Cash Book Method.

- **Procedure**

1) Adjusted Cash book prepared starting with the Balance of the Cash Book given in the question.

2) All errors that have been committed in the Cash Book will have to be rectified by passing adjusting entries in the Cash Book.

Usual of General Errors are

a. Overcasting or Undercasting of Debit/Credit Column of Cash – Book.
b. Cheques deposited or Issued but omitted to be entered in the Cash Book.
c. Incorrect amount (if any) entered in the Cash Book.
d. Entries on the correct side or in the wrong column of Cash Book.
e. Any amount recorded twice in the Cash Book.

3) Certain amounts for which Bank has debited our A/c will be recorded on the Credit side of Cash Book. Such items are

a. Interest charged by the bank on overdraft, etc.
b. Debits made by the bank for the bank charges, commission etc.
c. Direct payments made by the Bank on behalf of the A/c holder.
d. Cheques sent for collection but dishonoured.

4) Cash Book is then balanced: and the new Balance of the Cash book is taken as the starting point for preparing the B.R. Statement.

Important: It should be noted that the following items must not be recorded in the Amended Cash Book.

1) Cheques deposited into the Bank but not yet credited by the Bank

https://www.evidyarthi.in

2) Cheques Issued but yet not presented for payment.

3) Amended or adjusted Cash Book is started with the given balance of bank as per Cash Book.

4) Closing Balance of the adjusted Cash Book is the opening balance of bank Reconciliations statement.

Illustration: Balance as per Cash Book is given

Prepare BRS as on 31st July 2011

1) Balance as per Cash Book is Rs. 25,000 as on 31st July 2011.
2) Cheques for Rs. 15,000 were deposited into the Bank in the month of July but only cheques for Rs. 11,000 were credited by the bank till 31st July 2011.
3) Cheues issued for Rs. 13,000 in July, out of which a cheque for Rs. 3,800 was presented for payment on 3rd August.
4) Bank charged Rs. 50 as Bank charges and credited interest of Rs. 370.
5) A customer directly deposited Rs. 1,550 in firm's bank A/c.
6) Bank paid the Insurance Premium of Rs. 1,200 as per standing instructions on 25.07.2011.

Solution:

Bank Reconciliation Statement as on 31st July 2011

Particulars	**+Items**	**-Items**
	(Rs.)	**(Rs.)**
(1) Balance as per Cash Book.	25,000	-
(2) Cheques deposited but not yet collected by the bank (15,000–11,000)	-	4000
(3) Cheques issued but not yet 3,800 – presented for payment	3,800	-
(4) (a) Bank Charges – 50 (b) Interest credited by the bank	-	50

https://www.evidyarthi.in

(5) Directly deposited by the customers 1,550 – not recorded in the Cash Book	1,550	-
(6) Insurance Premium paid by the – 1,200 bank not recorded in Cash Book.	-	1,200
Total	30,720	5,250
Balance as per Book (30,720 – 5,250)	25,470	-

Explanation:

1) Balance per Cash Book means favourable Balance, hence + item. If nothing (i.e. Debit or Credit) is written with the Balance given, it is treated as favourable.
2) Cheques were deposited into the bank for Rs. 15,000 but credited by the bank for Rs. 11,000 in the month of July, implies that cheques for Rs. 4,000 (15,000– 11,000) are entered in the Cash Book but not in the Pass Book increasing the Cash Book Balance by Rs. 4,000 as compared to Pass Book. Hence to get Pass Book Balance from the Cash Book Balance Rs. 4,000 will have to be deducted. – item.
3) Cheque issued but not presented for payment till 31st July is for Rs. 3800 entered more on the credit side of Cash Book as compared to Pass Book. Cash book Balance is less by Rs. 3800 as compared to Pass Book (+) item.
4) (a) Bank charges of Rs. 50 entered in the Pass Book decreases the Balance of Pass Book. To reach Pass Book Balance from Cash Book Balance, this item has to be deducted i.e. (–) item.

   (b) Interest credited by the Bank Rs. 370 entered in Pass Book increases the, balance of Pass Book, hence to search the Balance from cash book and this item is to be added (+) item.
5) Direct deposit by a customer Rs. 1,550 increases the Pass Book Balance (+) item.
6) Payment made by the bank for insurance premium decreases the Pass Book Balance (–) item.
7) (+) items total Rs. 30,720 is more than (–) item total Rs. 5250 by Rs. 25,470. Hence the difference of Rs. 25,470 will be (+) item i.e. Favorable Balance or Cr. Balance as per Pass Book.

https://www.evidyarthi.in