

CHAPTER 12

BANK RECONCILIATION STATEMENT

❖ **Meaning**

It refers to the statement that is prepared for a particular period to reconcile bank balance as per the Cash Book with (bank) balance as per the Pass Book or vice versa. It reveals the causes of difference between the two.

Example:

Suppose on March 31, 2011, both the Cash Book and the Pass Book is showing a balance of Rs 12,000. On the same date, the account holder issued a cheque of Rs 2,000. This amount was immediately deducted from the Cash Book but not deducted from the Pass Book, as it was not presented for payment on the same date. Consequently, the balance as per the Cash Book falls short of the balance of the Pass Book. There may be numerous other reasons because of which the difference between the Cash Book and the Pass Book arises. In order to reconcile the balances of both the books, we need to prepare BRS.

❖ **Need and Importance of Bank Reconciliation Statement** To determine the actual bank balances of the Cash Book and of the Pass Book.

- To check the accuracy of entries.
- To detect embezzlement of amount
- To detect errors committed in the both the books To identify unrecorded or omitted entries both in the Cash Book and in the Pass Book

❖ Reasons/Causes of differences

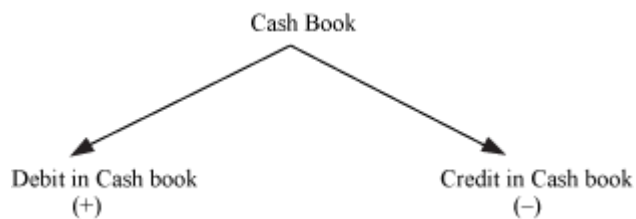
Besides *cheque issued but not presented for payment*, there are many other reasons that may lead to differences between the two books.

- Cheques deposited but not yet cleared.
- Amount directly received by the bank on behalf of the account holder (i.e. amount directly deposited by the costumer not recorded in the Cash Book, interest on investment received by the bank but not recorded in the Cash Book)
- Interest allowed by the bank (interest credited by the bank in the Pass Book but not debited in the Cash Book)
- Bank charges not recorded in the Cash Book (i.e. bank charges debited in the Pass Book but not credited in the Cash Book)
- Amount paid by the bank as per the instruction but no intimation made to the account holder (like, insurance premium/installment of loan paid by the bank but no intimation made to the account holder)
- Bills of exchange dishonoured but not recorded (debited)in the Cash Book
- Bills of exchange discounted with the bank but recorded without adjusting (debiting) discounting charges
- Bills of exchange retired under rebate and the amount of rebate not recorded (credited) in the Cash Book

- Errors like, cheques deposited debited in the Cash Book but credited in the Pass Book with wrong amount (like, cheque deposited for Rs 2,000 debited in the Cash Book (with Rs 2,000) but was wrongly credited in the Pass Book as Rs 200, etc.)

❖ **General Instructions:**

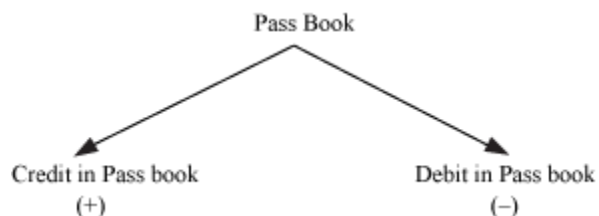
While preparing Bank Reconciliation Statement the following important things must be considered-



Explanation of the figure

- Debit in the Cash Book means added in the Cash Book. For example, cheque/cash deposited is added (debited) in the Cash Book.
- Credit in the Cash Book means deducted from the Cash Book. For example, cheques issued or cash withdrawn from bank is deducted or credited in the Cash Book.

NOTE: As overdraft as per the Cash Book has credit balance, so in the Bank Reconciliation Statement, it is shown in the minus item column.



Explanation of the figure

- Credit in the Pass Book means added to the Pass Book. For example, cash/cheque deposited in the bank increases the balance of the Pass Book
- Debit in the Pass Book means deducted from the Pass Book. For example, cash withdrawn or payment of cheque issued decreases the balance of the Pass Book

NOTE: As overdraft in the Pass Book has debit balance, so in the Bank

Reconciliation Statement, it is shown in the minus item column.

❖ **Performa of Bank Reconciliation Statement in the following situation:** Balance as per the Cash Book (**Favourable**)

- Overdraft as per the Cash Book (**Unfavourable**) is given

Bank Reconciliation Statement of as on

Particulars	Favourable (Balance)		Unfavourable (Overdraft)	
	(+) items	(-) items	(+) items	(-) items
Balance as per the Cash Book (Debit)	✓			
Overdraft as per the Cash Book (Credit)				✓
<i>Add:</i> Cheques issued/drawn but not yet presented for payment	✓		✓	
<i>Add:</i> Interest allowed/credited by the bank	✓		✓	
<i>Add:</i> Interest on investment directly received by the bank	✓		✓	
<i>Add:</i> Rebate not recorded/credited in Cash Book	✓		✓	
<i>Add:</i> Amount directly received from costumer/debtors	✓		✓	
<i>Add:</i> Amount omitted to be debited/recorded in	✓		✓	

the bank column of the Cash Book but credited in the Pass Book				
<i>Less</i> Cheques deposited/paid but not cleared or : credited		✓		✓
<i>Or</i> Cheques debited in the Cash Book but not cleared or credited in the Cash Book				
<i>Less</i> Bank charges		✓		✓
:				
<i>Less</i> Interest on overdraft or interest debited in : the Pass Book		✓		✓
<i>Less</i> Bills or cheques dishonoured		✓		✓
:				
<i>Less</i> Discounting charges of bill not recorded in : the Cash Book		✓		✓
<i>Less</i> Amount directly paid by the bank : (insurance premium, installment, etc.)		✓		✓
Balance as per the Pass Book (Credit) (<i>balancing figure</i>)		✓		
Overdraft as per the Pass Book (Debit) (<i>balancing figure</i>)			✓	

NOTE : The above Performa shows that irrespective of the fact that whether balance as per the Cash Book or overdraft as per the Cash Book is given in the question, the treatment for the differences will be the same in both the situations.

Starting Point	Balancing Figure	
	(+) items > (-) items	(+) items < (-) items
Balance as per the Cash Book (Debit)	Balance as per the Pass Book (Credit)	Overdraft as per the Pass Book (Debit)
Overdraft as per the Cash Book (Credit)	Balance as per the Pass Book (Credit)	Overdraft as per the Pass Book (Debit)

❖ **Performa of Bank Reconciliation Statement when: Balance as per the Pass Book (Favourable)**

- Overdraft as per the Pass Book (**Unfavourable**) is given

Bank Reconciliation Statement of as on

Particulars	Favourable (Balance)		Unfavourable (Overdraft)	
	(+) items	(-) items	(+) items	(-) items
Balance as per the Pass Book (Credit)	✓			
Overdraft as per the Pass Book (Debit)				✓
<i>Add:</i> Cheques deposited/paid but not yet cleared or credited	✓		✓	
Or	✓		✓	
Cheques debited in the Cash Book but not yet credited or cleared				
<i>Add:</i> Bank charges	✓		✓	
<i>Add:</i> Interest on overdraft or interest charged or interest debited in the Pass Book	✓		✓	
<i>Add:</i> Bills or cheques dishonoured	✓		✓	
<i>Add:</i> Discounting charges of bill not recorded/credited in the Cash Book	✓		✓	
<i>Add:</i> Amount directly paid by the bank (i.e. insurance premium, installment, etc.)	✓		✓	
<i>Less</i> Cheques issued/drawn but not presented : for payment		✓		✓
<i>Less</i> Interest allowed/credited by the bank :		✓		✓
<i>Less</i> Interest on investment directly received by : the bank		✓		✓

Less Rebate not recorded/credited in the Cash : Book		✓		✓
Less Amount directly received from : customers/debtors		✓		✓
Less Amount omitted to be recorded/debited in : the bank column of the Cash Book but credited in the Pass Book)		✓		✓
Balance as per the Cash Book (Debit) (<i>balancing figure</i>)		✓		
Overdraft as per the Cash Book (Credit) (<i>balancing figure</i>)			✓	

Note : The above Performa shows that either irrespective of the fact whether the balance as per the Pass Book or overdraft as per the Pass Book is given in the question, the treatment for the differences will remain the same in both the situations.

Starting Point	Balancing Figure	
	(+) items > (-) items	(+) items < (-) items
Balance as per the Pass Book (Credit)	Balance as per the Cash Book (Debit)	Overdraft as per the Cash Book (Credit)
Overdraft as per the Pass Book (Debit)	Balance as per the Cash Book (Debit)	Overdraft as per the Cash Book (Credit)