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(Affiliated to CBSE up to +2 Level)

Class: 11th

Subject: Accountancy

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Bank Reconciliation Statement.

Meaning of Bank Reconciliation Statement:

According to Patil, "Bank reconciliation statement is a statement prepared mainly to reconcile the difference between the 'Bank Balance' shown by the Cash Book and Bank Pass Book." In other words, Bank Reconciliation Statement is a statement of account that explains the reasons for any difference between the bank balance as per cash book and bank balance as per bank statement/passbook and reconciles the two. In simple words, it is generally experienced that where a comparison is made between the bank balance as shown in the firm's cash book and the bank balance as shown in the bank passbook, the two balances do not tally/Hence, we have to first ascertain the causes of difference thereof and then reflect them in a statement called Bank Reconciliation Statement to reconcile (tally) the two balances.

Need for Reconciliation:

It is neither compulsory to prepare Bank Reconciliation Statement nor the date is fixed on which it is to be prepared. It is prepared from time to time to check that all transactions relating to the bank are properly recorded by the businessman in the bank column of the cash book and by the bank in its ledger account. Thus, it is prepared to reconcile the bank balances shown by the cash book and by the bank statement. It helps in detecting if there is an error in recording the transactions and ascertaining the correct bank balances as a particular date.

Reasons or Causes of Difference in the balance of the Cash Book and Pass Book

Reconciliation of the cash book and the bank passbook balances amounts to an explanation of differences between them. The differences between the cash book and the bank passbook is caused by:

1. Timing differences on a recording of the transactions
2. Errors made by the business or by the bank.

1. Timing Difference:

- (a) Cheques issued by the firm but not yet presented for payment in the bank.
- (b) Cheques paid or deposited into the bank but not yet collected.
- (c) Bank charges or other charged, charges by the bank on behalf of the customer.
- (d) Amount collected or credited by bank on standing instructions given by the customers.
- (e) Amount paid or debited by the bank on standing instructions given by the customer.
- (f) Interest credited by the bank.
- (g) Interest debited by bank or overdraft.

(h) Direct payment by the customer into the bank account.

(i) Dishonors of cheques or bills.

2. Differences caused by errors

(a) Errors committed in recording transactions by the firm.

(b) Errors committed in recording transactions by the bank.

Preparation of Bank Reconciliation Statement

After identifying the causes of difference, the reconciliation may be done in the following two ways:

(a) Preparation of bank reconciliation statement without adjusting cash book balances.

(b) Preparation of bank reconciliation statement after adjusting cash book balance.

Preparation of Bank Reconciliation Statement without adjusting cash book balances

We may have two types of balances while preparing the Bank Reconciliation Statement which is following:

(a) Favorable balances

1. Credit balance as per passbook or bank statement is given and the balance as per cash book is to be ascertained.
2. Debit balance as per cash book is given and the balance as per pass book is to be ascertained.

(b) Unfavorable balances

1. Debit balance as per pass book (i.e. overdraft) is given and the balance as per cash book is to be ascertained.
2. Credit balance as per cash book (i.e. overdraft) is given and the balance as per pass book is to be ascertained.

Steps are to be taken for preparation of the Bank Reconciliation Statement

1. When debit balance as per Cash Book (Favorable balance) is given:

1. Take balance as a starting point say Balance as per Cash Book.
2. Add all transactions that have resulted in increasing the balance of the passbook.
3. Deduct all transactions that have resulted in decreasing the balance of the passbook.
4. Extract the net balance shown by the statement which should be the same as shown in the passbook.

Performa:

Bank Reconciliation Statement as on.....

Particulars	Amt. (₹)	Amt. (₹)
Balance as per Cash Book		xxx
Add :		
(i) Cheques issued but not yet presented for payment	xxx	
(ii) Interest allowed by Bank	xxx	
(iii) Direct payment by a customer into bank	xxx	
(iv) Interest on investment collected by the bank	xxx	
(v) Dividend on shares collected by the bank	xxx	
(vi) Rebate on bills retired under rebate through the bank but full amount entered in the cash book	xxx	
(vii) Any wrong entry on Cr. side of the Pass Book	xxx	xxx
Less :		
(i) Cheques deposited into bank but not yet collected or credited	xxx	
(ii) Bank charges	xxx	
(iii) Insurance premium paid by the bank	xxx	
(iv) Interest on overdraft charged by the bank	xxx	
(v) Dishonoured cheques or bills	xxx	
(vi) Drawing made by partner not entered in cash book	xxx	
(vii) Any wrong entry on Dr. side of the Pass Book	xxx	xxx
Balance as per Pass Book		xxx