

STATE BANK OF INDIA

BANK RECONCILIATION STATEMENT

For the month of

Sr	Particulars	Rs.	Rs.
A	Balance as per Books of Accounts		
B	Add :		
1	Cheque issued, entered into books but not presented by the payee and thus not debited to the account		
2	cheques are directly deposited by customers		
3	Interest, Dividend or any other income OR any sum deposited into bank directly and and not intimated by the Bank to us		
4	cheques deposited into bank but forgotten to record in cash book		
5	cheques issued but dishonoured by bank		
6	wrong credit in Pass book		
C	Less :		
1	Cheque received, entered into books, deposited into bank but not cleared and thus not credited to the account		
2	deposited cheques dishonoured but not recorded in cash Book		
3	Interest, Expense or any charges directly debited by Bank and not intimated by Bank		
4	cheques debited in cash book but forgotten sent to bank		
5	wrong debit in pass book only		
D	Balance as per Bank Statement (A+B-C)		

PRACTICAL ACCOUNTS

Bank reconciliation

Bank reconciliation explains the difference between the bank balance shown in an organization's bank statement and the corresponding amount shown in the organizations Accounting records, on a particular date

NEED FOR PREPARING BRS

It is neither compulsory to prepare Bank Reconciliation Statement nor a date is fixed on which it is to be prepared. It is prepared from time to time to check that all transactions relating to 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 any error in recording the transactions and ascertaining the correct bank balance on a particular date.

REASONS FOR DIFFERENCE:

When a businessman compares the Bank balance of its cash book with the balance shown by the bank pass book, there is often a difference. As the time period of posting the transactions in the bank column of cash book does not correspond with the time period of posting in the bank pass book of the firm, the difference arises. The reasons for difference in balance of the cash book and pass book are as under :

1. Cheques issued by the firm but not yet presented for payment

When cheques are issued by the firm, these are immediately entered on the credit side of the bank column of the cash book. Sometimes, receiving person may present these cheques to the bank for payment on some later date. The bank will debit the firm's account when these cheques are presented for payment. There is a time period between the issue of cheque and being presented in the bank for payment. This may cause difference to the balance of cash book and pass book.

2. Cheques deposited into bank but not yet collected

When cheques are deposited into bank, the firm immediately enters it on the debit side of the bank column of cash book. It increases the bank balance as per the cash book. But, the bank credits the firm's account after these cheques are actually realised. A few days are taken in clearing of local cheques and in case of outstation cheques few more days are taken. This may cause the difference between cash book and pass book balance.

3. Amount directly deposited in the bank account

Sometimes, the debtors or the customers deposit the money directly into firm's bank account, but the firm gets the information only when it receives the bank statement. In this case, the bank credits the firm's account with the amount received but the same amount is not recorded in the cash book. As a result the balance in the cash book will be less than the balance shown in the Pass book.

4. Bank Charges

The bank charge in the form of fees or commission is charged from time to time for various services provided from the customers' account without the intimation to the firm. The firm

PRACTICAL ACCOUNTS
Note: Training purpose only Contact: 7780225639

records these charges after receiving the bank intimation or statement. Example of such deductions is : Interest on overdraft balance, credit cards' fees, outstation cheques, collection charges, etc. As a result, the balance of the cash book will be more than the balance of the pass book.

5. Interest and dividend received by the bank

Sometimes, the interest on debentures or dividends on shares held by the account holder is directly deposited by the company through Electronic Clearing System (ECS). But the firm does not get the information till it receives the bank statement. As a consequence, the firm enters it in its cash book on a date later than the date it is recorded by the bank. As a result, the balance as per cash book and pass book will differ.

6. Direct payments made by the bank on behalf of the customers

Sometimes, bank makes certain payments on behalf of the customer as per standing instructions. Telephone bills, rent, insurance premium, taxes, etc are some of the expenses. These expenses are directly paid by the bank and debited to the firm's account immediately after their payment. but the firm will record the same on receiving information from the bank in the form of Pass Book or bank statement. As a result, the balance of the pass book is less than that of the balance shown in the bank column of the cash book.

7. Dishonour of Cheques/Bill discounted

If a cheque deposited by the firm or bill receivable discounted with the bank is dishonoured , the same is debited to firm's account by the bank. But the firm records the same when it receives the information from the bank. As a result, the balance as per cash book and that of pass book will differ.

8. Errors committed in recording transactions by the firm

There may be certain errors from firm's side, e.g., omission or wrong recording of transactions relating to cheques deposited, cheques issued and wrong balancing etc. In this case, there would be a difference between the balances as per Cash Book and as per Pass Book.

9. Errors committed in recording transactions by the Bank

Sometimes, bank may also commit errors, e.g., omission or wrong recording of transactions relating to cheques deposited etc. As a result, the balance of the bank pass book and cash book will not agree.

PREPARATION OF BANK RECONCILIATION STATEMENT

To reconcile the bank balance as shown in the pass book with the balance shown by the cash book, Bank Reconciliation Statement is prepared. After identifying the reasons of difference, the Bank Reconciliation statement is prepared without making change in the cash book balance. We may have the following different situations with regard to balances while preparing the Bank Reconciliation statement. These are:

1. Favourable balances

- (a) Debit balance as per cash book is given and the balance as per pass book is to be ascertained.
- (b) Credit balance as per pass book is given and the balance as per cash book is to be ascertained.

2. Unfavourable balance/overdraft balance

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

The following steps are taken to prepare the bank reconciliation statement:

(i) **Favourable balances** : When debit balance as per cash book or credit balance as per pass book is given :

- (a) Take balance as a starting point say Balance as per Cash Book.
 - (b) Add all transactions that have resulted in increasing the balance of the pass book.
 - (c) Deduct all transactions that have resulted in decreasing the balance of pass book.
 - (d) Extract the net balance shown by the statement which should be the same as shown in the pass book.
- In case balance as per pass book is taken as starting point all transactions that have resulted in increasing the balance of the Cash book will be added and all transactions that have resulted in decreasing the balance of Cash book will be deducted. Now extract the net balance shown by the statement which should be the same as per the Cash book.

Illustration 1

From the following particulars of M/s Ananaya Industries, prepare bank reconciliation statement as on December 31, 2019

- 1. Bank balance as per cash book Rs.32,500
- 2. Cheques deposited into bank but not credited upto December 31, 2018 Rs.8,900.
- 3. Cheques issued but not presented for payment Rs. 12,500.
- 4. Bank credited Rs.5,000 for receiving dividend through Electronic Clearing System.
- 5. Bank charges debited by Bank Rs.400.

Illustration 2

From the following particulars of Reema Traders, prepare a bank reconciliation statement on June 30, 2019

- 1. Balance as per the cash book Rs.35,750
- 2. Rs.250 charges for Credit card fee is debited by bank, which is not recorded in cash book.
- 3. Cheques for Rs.7,550 are deposited in the bank but not yet collected by the Bank.
- 4. There was also a debit in the pass book of Rs.3,500 in respect of a discounted bill dishonoured.

Illustration 3

Bank Pass book of M/s. Brham Industries showed a credit balance of Rs.27,350 on July 31, 2019. The following differences were found on that date between the cash book and the pass book:

- 1. Cheques issued before July 31, 2019, amounting to Rs.19,000 had not been presented for payment.
 - 2. Two cheques of Rs.5,000 and Rs.3,500 were deposited into bank on July 31, but the bank gives credit for the same in August.
 - 3. Insurance premium directly paid by bank Rs.5,000.
 - 4. Rs.2,000 wrongly debited to the firm account by the bank.
- Prepare Bank Reconciliation Statement as on July 31, 2019.

UNFAVOURABLE BALANCE/OVERDRAFT BALANCE

Illustration 4

On December 31, 2018, the cash book of the M/s. Mona Plastics shows the credit balance Rs.6,500. Cheques amounting to Rs.3,500 deposited into bank but were not collected by the bank. Firm issued cheques of Rs. 1,000 which were not presented for payment. There was a debit in the pass book of Rs.200 for interest and Rs.400 for bank charges.

Prepare Bank Reconciliation Statement.

Illustration 5

Prepare Bank Reconciliation Statement of M/s Ashima Travels, from the following informations:

Bank overdraft as per Cash Book on 31st July, 2018 Rs.45,000

Cheques issued but not presented for payment Rs.17,500

Cheques deposited but not yet collected by the bank Rs.9,600

Interest on investment collected by the bank Rs.2,300

Bank charges Rs.350 debited by the bank not yet entered in the cash book.

Illustration 6

From the following particulars of Neha and Co. prepare Bank Reconciliation Statement on March 31,2018

Overdraft as per pass book 16,500

Interest on overdraft 1,600

Insurance premium paid by the bank 800

Cheques deposited but not yet credited 5,500

Cheques issued but not present for payment 6,000

Wrongly credit to firm account by the bank 1,000

Solution