



St. Lawrence High School



A Jesuit Christian Minority Institution

Study Material 16

Sub: ACCOUNTANCY

Class 11

Chapter: Unit 3: Recording of Transactions

Date: 20/02/2021

Topic: Bank Reconciliation Statement

Meaning of Bank Reconciliation Statement

Bank Reconciliation Statement is a statement which contains a complete and satisfactory explanation of the differences in balances as per Cash Book and Bank Statement. The preparation of Bank Reconciliation Statement is not a part of double entry book-keeping system. It is just a procedure to prove the Cash Book balances.

Meaning of Pass Book

It is a statement of account provided by the bank to its account holders in the form of a small book. It is a carbon copy of the account of customer maintained in the books of the bank. Pass Book is issued by the bank for current account, savings account and recurring deposit account. No Pass Book is issued for fixed deposit account.

Pass Book shows bank balance of the customer according to bank's record. It displays all transactions of the customers which have been recorded by the bank in its books of account.

The ruling of Pass Book is given below:

Date	Particulars	Cheque No.	Withdrawals(Dr)	Deposits(Cr)	Balances

Utilities of Bank Reconciliation Statement

1. It reflects the actual bank balance position.
2. It helps to detect any mistake in the Cash Book and in the Pass Book.
3. It prevents frauds in recording the banking transactions.
4. It explains any delay in the collection of cheques.
5. It identifies valid transactions recorded by one party but not by the other.

Causes of differences

The differences in the two balances arise from the following three causes:

1. Timing: There may be a time gap between recording of transactions in the customer's book and banks book.
2. Transactions: For some transactions, the bank has earlier knowledge and it adjusts its records before business. Some differences may arise from the bank's actions that have not been intimated to the

customer. The customer comes to know of these transactions only when he receives the bank statement.

3. Error: Some differences in balance may arise owing to error committed by the bank or by the person responsible for preparing the Cash Book. For the first two reasons, discussed above, neither of the parties is wrong nor would be a mistake to correct them. But for the present reason, the books are to be properly rectified.

Some of the items that frequently causes differences:

1. Cheque issued but not yet presented for payment.
2. Cheques deposited but not yet collected.
3. Bank charges not entered in the Cash Book.
4. Interest credited by bank not entered in the Cash Book.
5. As per standing order bank paid different expenses such as insurance premium, electric bill etc.
6. Direct debit made by the bank but not yet recorded in the Cash Book.
7. Errors or Omissions occurred at the time of recording in the Cash Book or Pass Book.

Important guidelines in preparation of Bank Reconciliation Statement

Cash Book		Pass Book	
Debit Side All Receipts Favorable	Credit Side All Payments Over Draft	Debit Side All Payments Over Draft	Credit Side All Receipts Favorable

Problem starting with: Bank balance as per	Think about
1. Cash Book (favorable)	Pass Book
2. Cash Book (over draft)	Cash Book
3. Pass Book (favorable)	Cash Book
4. Pass Book (over draft)	Pass Book

Types of Bank Reconciliation Statement

1. Bank Reconciliation Statement before Amendment of Cash Book
2. Bank Reconciliation Statement after Amendment of Cash Book
3. Bank Reconciliation Statement by Comparing Cash Book and Pass Book

Bank Reconciliation Statement before Amendment of Cash Book

In this case we need to prepare Bank Reconciliation Statement by reconciling all causes that made differences in between Cash Book and Pass Book balances.

Bank Reconciliation Statement after Amendment of Cash Book

Under this method we need prepare a Cash Book known as amended cash book for rectifying the errors of Cash Book. After rectification of those errors we can get new balance or rectified balance of Cash Book by which we can prepare Bank Reconciliation Statement. So we can say that under this method at first we need to Amended Cash Book and after this Bank Reconciliation Statement.

Bank Reconciliation Statement by Comparing Cash Book and Pass Book

Under this method we can get both Cash Book and Pass Book. By comparing each and every transactions date wise we can identify the causes of differences in between this two balances and based on that we can prepare Bank Reconciliation Statement.

Example of Bank Reconciliation Statement:

From the given information prepare Bank Reconciliation Statement as at 31st March, 2020.

1. Bank balance as per Cash Book Rs. 30,000
2. Cheque deposited into bank for Rs. 2,000 not credited by bank.
3. Cheque issued to creditors for Rs. 1,000 not debited by bank.
4. As per instruction bank paid insurance premium for Rs. 3,000 not recorded in cash book.
5. Bank charges recorded twice in cash book for Rs. 500.
6. A customer directly deposited into bank not recorded in cash book for Rs. 2,500
7. Bank credited interest not recorded in cash book for Rs. 1,000
8. Cheque deposited into bank returned dishonoured not recorded in cash book for Rs. 5,000.

Solution: Bank Reconciliation Statement as at 31st March, 2020

Particulars	Amount(Rs)	Amount(Rs)
Bank balance as par Cash Book		30,000
Add: Cheque issued to creditors not debited by bank	1,000	
Add: Bank charges recorded twice in cash book	500	
Add: A customer directly deposited into bank not recorded in CB	2,500	
Add: Bank credited interest not recorded in CB	<u>1,000</u>	<u>5,000</u>
Less: Cheque deposited into bank not credited by bank	2,000	35,000
Less: As per instruction bank paid insurance premium not recorded in CB	3,000	
Less: Cheque deposited dishonoured not recorded in CB	<u>5,000</u>	<u>10,000</u>
Bank balance as par Pass Book		<u>25,000</u>

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