

MODULE-5

BANK RECONCILIATION STATEMENT: Advantages of keeping a bank account, causes of difference, Meaning and Objectives of bank reconciliation statement, Importance of bank reconciliation statement, Technique of preparing bank reconciliation statement, where cash book balance has to be adjusted, Where the abstract from the Cash Book and Pass Book are given.

Meaning of Bank Reconciliation Statement (BRS)

A Bank Reconciliation Statement (BRS) is a financial document prepared by an organization to reconcile the differences between the bank balance as per its cash book (internal records) and the balance as per the bank statement (external records provided by the bank). The purpose is to identify and explain discrepancies that arise due to timing differences, errors, or unrecorded transactions.

Objectives of a Bank Reconciliation Statement

1. **Reconciliation of Records:**
To ensure that the bank's records and the organization's records agree, reflecting the correct financial position.
2. **Detection of Errors:**
To identify errors in recording transactions, either by the organization or the bank.
3. **Identification of Unrecorded Transactions:**
To account for transactions such as bank charges, direct deposits, or payments that may not yet be recorded in the organization's books.
4. **Prevention of Fraud:**
To detect unauthorized transactions or fraudulent activities, ensuring the integrity of financial records.
5. **Monitoring Outstanding Items:**
To track checks issued but not yet cleared or deposits made but not yet credited by the bank.
6. **Improved Cash Flow Management:**
To provide accurate information on the organization's available funds, aiding in better cash flow planning.
7. **Compliance with Accounting Standards:**
To ensure that the organization's financial records align with accounting standards and practices.
8. **Audit Preparedness:**
To maintain transparent and accurate records that facilitate internal and external audits.

Advantages of Keeping Bank Account

1. **Safety and Security**

- Protects your money from theft, loss, or damage.
- Bank deposits are typically insured (e.g., by FDIC in the U.S. or DICGC in India) up to a certain limit, ensuring added security.

2. Convenience

- Enables easy deposits and withdrawals through bank branches, ATMs, online banking, and mobile apps.
- Facilitates electronic payments for bills, purchases, and services, saving time and effort.

3. Recordkeeping and Tracking

- Provides detailed records of all transactions, helping you track income and expenses.
- Simplifies budgeting and financial planning.

4. Access to Banking Services

- Offers additional financial products such as loans, credit cards, and investment options.
- Allows direct deposit for salaries, pensions, or government benefits.

5. Earn Interest

- Savings accounts often earn interest on deposits, enabling your money to grow over time.

6. Facilitates Online Transactions

- Enables participation in the digital economy, including online shopping, fund transfers, and mobile payments.
- Reduces reliance on cash and increases transaction efficiency.

7. Encourages Savings Discipline

- Promotes regular savings by separating money from daily expenses.
- Helps set aside funds for future goals or emergencies.

8. Enables Creditworthiness

- Having a bank account establishes a financial history, which can improve your credit score and eligibility for loans or credit facilities.

9. Support for Business Operations

- Businesses can use bank accounts for transactions, payroll management, and maintaining a clear record of financial activities.

10. Global Accessibility

- Enables international transactions and access to funds in foreign currencies.
- Useful for travel and cross-border payments.

11. Tax Compliance

- Helps maintain transparent financial records, simplifying tax filing and compliance.
- Encourages legitimate financial practices.

Causes of Difference in BRS

The differences between the bank balance as per the cash book (organization's records) and the bank statement (bank's records) occur due to several factors. These causes are primarily related to timing differences, errors, or unrecorded transactions. Below are the main causes:

1. Timing Differences

These occur because certain transactions take time to be reflected in the bank's records or the organization's books.

- **Outstanding Checks (Unpresented Checks):**
Checks issued by the organization but not yet cleared by the bank.
- **Deposits in Transit (Uncredited Deposits):**
Deposits made by the organization but not yet credited to the bank account.
- **Direct Credits by the Bank:**
Amounts directly deposited into the bank account (e.g., customer payments, refunds) but not recorded in the cash book.
- **Direct Debits by the Bank:**
Automatic deductions by the bank (e.g., loan repayments, standing orders, or utility payments) not yet recorded in the cash book.

2. Bank Charges and Interest

- **Bank Charges:**
Service charges, check book fees, or overdraft fees deducted by the bank but not recorded in the cash book.
- **Interest:**
Interest credited or debited by the bank but not yet recorded in the cash book.

3. Errors

Errors can occur in either the cash book or the bank statement.

- **Errors in the Cash Book:**
 - Wrong recording of amounts or omission of transactions.
 - Double recording of a transaction.
- **Errors in the Bank Statement:**
 - Incorrect amounts credited or debited.
 - Transactions recorded in the wrong account.

4. Unrecorded Transactions

- **Dishonoured Checks:**
Checks deposited but returned unpaid due to insufficient funds or other reasons.

- **Unrecorded Transactions:**
Transactions (e.g., fees, penalties) that are overlooked or delayed in recording in the cash book.

5. Fraudulent or Unauthorized Transactions

- Unauthorized withdrawals, fraudulent transactions, or errors caused by third parties may also cause discrepancies.

6. Currency or International Transaction Delays

- Time lags for international transactions or currency conversion differences.

Importance of bank reconciliation statement

The Bank Reconciliation Statement (BRS) is an essential financial tool that ensures the accuracy and reliability of an organization's financial records. Its importance lies in the role it plays in reconciling discrepancies, detecting errors, and maintaining transparency in financial management. Below are the key points highlighting its importance:

1. **Ensures Accuracy in Financial Records**
 - Identifies and resolves discrepancies between the cash book and the bank statement.
 - Ensures the organization's financial records reflect the actual bank balance.
2. **Detects Errors**
 - Highlights errors in the cash book or bank statement, such as wrong entries, omissions, or duplication.
 - Correcting these errors prevents misrepresentation of financial data.
3. **Identifies Unrecorded Transactions**
 - Brings attention to transactions like bank charges, direct deposits, or dishonored checks that may not be recorded in the cash book.
 - Ensures all transactions are accounted for in the financial records.
4. **Prevents Fraud and Unauthorized Transactions**
 - Helps detect unauthorized withdrawals, fraud, or discrepancies caused by third-party activities.
 - Acts as a safeguard against potential financial malpractices.
5. **Monitors Outstanding Items**
 - Tracks unpresented checks and deposits in transit, ensuring they are accounted for in future reconciliations.
 - Avoids confusion regarding pending transactions.
6. **Aids in Financial Planning and Decision-Making**
 - Provides a clear picture of the actual cash available in the bank account.
 - Facilitates informed decisions regarding cash flow, investments, and other financial operations.
7. **Enhances Internal Control**
 - Strengthens financial controls by providing a systematic review of transactions.
 - Encourages accountability within the organization.
8. **Simplifies Audit Processes**
 - Ensures that financial records are accurate and up-to-date, making it easier for auditors to verify transactions.
 - Reduces the risk of audit queries or penalties.
9. **Compliance with Accounting Standards**
 - Ensures alignment with accounting principles and standards, which require accurate reconciliation of financial records.
10. **Boosts Stakeholder Confidence**

- Transparent and reliable financial records build trust with stakeholders, including investors, creditors, and management.

Differences between bank column of cash book and bank statement

Following are the differences between bank column of cash book and bank statement:

S.No.	Bank column of cash book	Bank statement
1	It is prepared by business concern.	It is prepared by bank (banker).
2	Cash deposits are entered on the debit side.	Cash deposits are entered in the credit column.
3	Cash withdrawals are entered on the credit side.	Cash withdrawals are entered in the debit column.
4	Cheque deposits are debited on the day of deposit.	Cheque deposits are credited only at the time of realisation of cheque.
5	Cheques issued are credited on the day of issue of cheque.	Cheques issued by customers are debited by bank on the date on which the payment is made.
6	Collections and payments as per standing instructions of the business are entered only after checking with the bank statement.	Collections and payments as per standing instructions of the business are entered in the banker's book on the date of realisation or payment.
7	It is balanced at the end of a specific period.	It is balanced after each transaction.

Technique of preparing bank reconciliation statement

Preparing a Bank Reconciliation Statement (BRS) involves comparing the balance as per the cash book (organization's records) and the bank statement (bank's records), identifying differences, and making necessary adjustments. Here's a step-by-step guide on the techniques to prepare a BRS:

1. Gather Required Documents

- Cash Book (Bank Column): The organization's record of all bank transactions.
- Bank Statement: The bank's record of the same account transactions.

2. Compare Balances

- Note the closing balances from both the cash book and the bank statement.
- The cash book balance may differ from the bank statement balance due to timing differences or errors.

3. Identify Causes of Differences

- Look for discrepancies between the two records. Common causes include:
 - Outstanding checks (issued but not yet cleared).
 - Deposits in transit (deposited but not yet credited).
 - Bank charges or interest not recorded in the cash book.
 - Direct credits (e.g., customer payments) or debits (e.g., standing orders) by the bank.
 - Errors in recording transactions in either the cash book or the bank statement.

4. Adjust the Balance

- Depending on the format used, adjust either:
 - a. Balance as per the cash book to match the balance as per the bank statement.
 - b. Balance as per the bank statement to match the balance as per the cash book.

5. Formats of BRS Preparation

There are two commonly used formats for preparing a BRS:

A. Starting with the Balance as per the Cash Book

- Add:
 - Deposits in transit.
 - Direct credits by the bank not recorded in the cash book.
- Deduct:
 - Outstanding checks.
 - Bank charges, interest, or other debits not recorded in the cash book.
- Adjustments lead to the Balance as per the Bank Statement.

B. Starting with the Balance as per the Bank Statement

- Add:
 - Outstanding checks.
 - Bank charges or other debits incorrectly deducted by the bank.
- Deduct:
 - Deposits in transit.
 - Direct credits incorrectly added by the bank.
- Adjustments lead to the Balance as per the Cash Book.

6. Prepare the Bank Reconciliation Statement

- Present the adjustments systematically in a tabular form.
- Clearly show the opening balance, adjustments, and the reconciled balance.

7. Verify and Finalize

- Ensure all differences are accounted for and the adjusted balances match.
- Resolve any remaining discrepancies or errors.

Format to prepare BRS

Bank Reconciliation Statement
as on ...

Particulars		Plus(₹)	Minus(₹)
Dr. Balance (Favourable Balance) as per Cash Book		XXXX	
Add:	1. Cheque issued or drawn but not yet presented for payment	XXX	
	2. Interest allowed by the bank not recorded in Cash Book	XXX	
	3. Amount directly deposited by the customers in our Bank Account	XXX	
	4. Interest and Dividends collected by bank on investments	XXX	
	5. Cheque paid into bank but omitted to be entered in the Cash Book	XXX	
	6. Any wrong credit given by the bank in the Pass Book	XXX	
Less:	1. Cheque paid into the bank for collection but not yet credited by the bank		XXX
	2. Cheque paid into the bank for collection but dishonored by the bank		XXX
	3. Direct payment made by the bank according to prior instructions		XXX
	4. Bank Charges and commission charged by the bank		XXX
	5. Cheque issued but omitted to be recorded in the Cash Book		XXX
	6. Any wrong debit given by the bank in the Pass Book		XXX
		XXXX	XXXX
Cr. Balance (Favourable Balance) as per Pass Book			XXX
		XXXX	XXXX

Problems on BRS.

1. Prepare a Bank Reconciliation Statement as on 31st December 2021.
The balance of cash at bank as shown in the Cash Book of Sahil & Co. on 31st December 2021 was ₹8,200. On comparing it with the pass book, the following differences were noted:
 - i. Cheque sent for collection amounting to ₹6,400 have not been cleared by the bank so far.
 - ii. Cheque issued but not presented for payment ₹4,000.
 - iii. Bank charges ₹200 not entered in the Cash Book.
 - iv. Credit of ₹500 in the pass book in respect of interest was not recorded in the Cash Book.
 - v. A vendor deposited ₹2,000 directly in our bank account which was only recorded in the pass book.
 - vi. As per standing instructions of Sahil & Co., the bank has made the following payments:
Insurance premium: ₹1,200
Club Fees: ₹1,000

**Bank Reconciliation Statement
as on 31st December 2021**

Particulars		Plus	Minus
Dr. Balance (Favourable Balance) as per Cash Book		8,400	
Add:	1. Cheque issued or drawn but not yet presented for payment	4,000	
	2. Interest allowed by the bank not recorded in Cash Book	500	
	3. Amount directly deposited by the customers in our Bank Account	2,000	
Less:	1. Cheque sent to the bank for collection but not yet credited by the bank		6,400
	2. Bank Charges not entered in the Cash Book		200
	3. Amount paid by the bank on standing instruction:		
	(i) Life Insurance Premium		1,200
	(ii) Club Fees		1,000
		14,900	8,800
Cr. Balance (Favourable Balance) as per Pass Book			6,100
		14,900	14,900

2. From the following particulars of M/s Ananaya Industries, prepare bank reconciliation statement as on December 31, 2014
 1. Bank balance as per cash book ` 32,500
 2. Cheques deposited into bank but not credited up to December 31, 2014 `8,900.
 3. Cheques issued but not presented for payment ` 12,500.
 4. Bank credited ` 5,000 for receiving dividend through Electronic Clearing System.
 5. Bank charges debited by Bank ` 400.

Solution

Bank Reconciliation statement of M/s Ananaya Industries as on December 31, 2014

<i>Particulars</i>	<i>Plus Amount (₹)</i>	<i>Minus Amount (₹)</i>
1. Balance as per cash book	32,500	
2. Cheques deposited but not credited by the bank		8,900
3. Cheques issued but not presented for payment	12,500	
4. Dividend received through ECS	5,000	
5. Bank charges debited by bank		400
Balance as per pass book		40,700
	50,000	50,000

3. From the following particulars of Reema Traders, prepare a bank reconciliation statement on June 30, 2014
- Balance as per the cash book 35,750
 - 250 charges for Credit card fee are debited by bank, which is not recorded in cash book.
 - Cheques for 7,550 are deposited in the bank but not yet collected by the Bank.
 - There was also a debit in the pass book of ` 3,500 in respect of a discounted bill dishonoured.

Solution

Bank Reconciliation statement of M/s Reema Traders as on June 30, 2014

<i>Particulars</i>	<i>Plus Amount (₹)</i>	<i>Minus Amount (₹)</i>
1. Balance as per Cash book	35,750	
2. Cheques deposited but not credited by the bank		7,550
3. Credit card fee charges debited by the bank		250
4. Discounted bill dishonoured recorded only in Pass Book		3,500
Balance as per Pass book		24,450
	35,750	35,750

4. Bank Pass book of M/s. Brahm Industries showed a credit balance of ` 27,350 on July 31, 2014. The following differences were found on that date between the cash book and the pass book:
- Cheques issued before July 31, 2014, amounting to 19,000 had not been presented for payment.
 - Two cheques of 5,000 and 3,500 were deposited into bank on July 31, but the bank gives credit for the same in August.
 - Insurance premium directly paid by bank ` 5,000.
 - 2,000 wrongly debited to the firm account by the bank.

Solution:

**Bank Reconciliation statement of M/s Brahm Industries
as on July 31, 2014**

<i>Particulars</i>	<i>Plus Amount (₹)</i>	<i>Minus Amount (₹)</i>
1. Balance as per pass book	27,350	
2. Cheques issued but not presented for payment		19,000
3. Cheques deposited but credited by the bank in August	8,500	
4. Insurance premium directly paid by bank	5,000	
5. Wrongly debited by the bank.	2,000	
Balance as per Cash book		23,850
	42,850	42,850

UNFAVOURABLE BALANCE/OVERDRAFT BALANCE

Sometimes a businessman withdraws excess amount from the bank account and the closing bank balance of a month is a debit balance. This balance amount is called 'overdraft balance' as per Pass Book. This is shown in the cash book as a credit balance.

Credit balance as per cash book/Debit balance as per Pass Book.

Overdraft balance is shown in the minus column of statement as the starting point. The other steps shall remain same.

5. On December 31, 2014, the cash book of the M/s. Mona Plastics shows the credit balance ` 6,500. Cheques amounting to ` 3,500 deposited into bank but were not collected by the bank. Firm issued cheques of ` 1,000 which were not presented for payment. There was a debit in the pass book of ` 200 for interest and ` 400 for bank charges. Prepare Bank Reconciliation Statement.

Solution:

**Bank Reconciliation statement of M/s Mona Plastics
as on December 31, 2014**

<i>Particulars</i>	<i>Plus Amount (₹)</i>	<i>Minus Amount (₹)</i>
1. Overdraft as per cash book		6,500
2. Cheques issued but not presented for payment	1,000	
3. Cheques deposited but not credited by the bank		3,500
4. Bank charges and interest charged		600
Overdraft balance as per Bank Pass book	9,600	
	10,600	10,600

6. Prepare Bank Reconciliation Statement of M/s Ashima Travels, from the following information:
- Bank overdraft as per Cash Book on 31st July, 2014 Rs. 45,000
 - Cheques issued but not presented for payment 17,500
 - Cheques deposited but not yet collected by the bank 9,600
 - Interest on investment collected by the bank 2,300
 - Bank charges 350 debited by the bank not yet entered in the cash book.

Solution:

**Bank Reconciliation statement of M/s Ashima Travels
as on July 2014**

<i>Particulars</i>	<i>Plus Amount (₹)</i>	<i>Minus Amount (₹)</i>
1. Overdraft as per cash book		45,000
2. Cheques issued but not presented for payment	17,500	
3. Cheques deposited but not credited by the bank		9,600
4. Interest on investment collected by the bank	2,300	
5. Bank charges		350
Overdraft balance as per Bank Pass book	35,150	
	54,950	54,950

7.

From the following particulars of Neha and Co. prepare Bank Reconciliation Statement on March 31, 2014

	₹
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
Wrong credit to firm account by the bank	1,000

Solution:

**Bank Reconciliation Statement of M/s Neha & Co
as on March 31, 2014**

<i>Particulars</i>	<i>Plus Amount (₹)</i>	<i>Minus Amount (₹)</i>
1. Overdraft as per pass book		16,500
2. Interest on overdraft	1,600	
3. Insurance premium paid by bank	800	
4. Cheques deposited but not credited by the bank	5,500	
5. Cheques issued but not presented for payment		6,000
6. Wrongly credited by the bank		1,000
Overdraft balance as per cash book	15,600	
	23,500	23,500