

BCM-102
FINANCIAL ACCOUNTING
UNIT-7 BANK RECONCILIATION STATEMENT
(B. COM. FIRST YEAR)

Compiled By
Dr. Gagan Singh

Bank Reconciliation Statement

- Business organization maintains the cash book for recording cash and bank transactions. The Cash book serves the purpose of both the cash account and the bank account. It shows the balance of both at the end of a particular period. Bank also maintains an account for each customer in its book. All deposits by the customer are recorded on the credit side of his account and all withdrawals are recorded on the debit side of his account. A copy of this account is regularly sent to the customer by the bank either in the form of 'Pass Book' updation or Bank statement.
- It is usual to tally the firm's bank transactions as recorded by the bank with the cash book. But sometimes the bank balances as shown by the cash book and that shown by the pass book/bank statement do not match. If the balance shown by the pass book is different from the balance shown by bank column of cash book, the business firm will identify the causes for such difference. It becomes necessary to reconcile them. To reconcile the balances of Cash Book and Pass Book a statement is prepared. This **statement is called as 'Bank Reconciliation Statement.**

Use of Bank Reconciliation Statement

- Preparing Bank Reconciliation Statement is not a compulsory task of an accountant. It can be prepared by accountants any time as there is no specific date for preparing it. Main objective of preparing Bank Reconciliation Statement is to check, that all transactions relating to bank are properly recorded by the business as well as the bank.
- So, it is prepared to reconcile the bank balances shown by the cash book and by the bank statement. It is very helpful in detecting, if there is any error in recording the transactions and ascertaining the correct bank balance on a particular date.

Possible Reasons for Difference

- Normally, it is said that since the time period of posting the transactions in the bank column of cash book and time period of posting in the bank pass book of the firm are often different, hence the difference arises. The possible reasons for difference in balance of cash book and pass book may be described as follows:
- **Cheques issued but not yet presented for payment:** This is one of the obvious reason for difference in balance as per cash book and pass book. Since cheques are valid for a period of three months, hence, businessmen usually deposit it after few days of the receipt. And, in case accountant receives bank statement during these days, the difference in the balances of cash book and pass book comes into light.
- **Cheques deposited into bank but not yet collected:** Although, due to use of technology and CBS –Core banking Solutions, time taken by banks in clearing cheques has drastically been shortened. Now, it takes a maximum of 2-3 working days to get our cheques cleared. If bank statement is issued within these days, it is obvious that balance shown by pass book and that of cash book would differ.
- **Amount directly deposited in the bank account:** In modern day business, in order to cut down the time for collection of cash, businessmen give their account number to the clients and instruct them to deposit the amount in their account directly and save time which used to be lost in transit of posting of cheques and depositing them in bank and again in clearing. This direct deposit by customers, sometimes, is not reported to the businessman and balance of cash book and pass book differs.

Possible Reasons for Difference

- **Interest and dividend received by the bank:** Sometimes we authorize our banker to receive certain payment on our behalf and in such cases we come to know about certain receipts, only then, when we receive our bank statement. Such receipts are also one of the reasons for difference in cash book and pass book balances.
- **Bank Charges deducted from account:** There are certain annual charges, which bankers charge from their clients for service. Such charges come to our notice, when we receive the bank statement. Since they are not recorded in cash book, hence the balance of cash book and pass book differs.
- **Dishonour of Cheques/Bill discounted:** In business, we normally discount the bills after paying certain amount of discounting charges. In case any bill is dishonoured, the amount of bill is automatically debited from the account of the customer by the banker. This debit from bank account may also be a reason for difference between the balance shown by cash book and that of pass book.
- **Direct Payments made by the bank on behalf of the customers:** Sometimes we give standing instructions to our banker for making certain payment in order to ensure timely payments and avoid penalties. This is done mainly in case of taxes etc. These payments become one of the reasons for difference in the balances of cash book and pass book.
- **Wrong Debit/Credit entry by the bank:** Wrong debit or credit by the banker is also one of the reasons for the differences in cash book and pass book balances.
- **Wrong Debit/Credit entry by the business in cash book:** Like bank, sometimes there is a wrong debit or credit entry by the accountant of business in cash book also occurs which leads to the differences in cash book and Pass book balances.

How to Prepare Bank Reconciliation Statement

- The first step in preparing Bank Reconciliation Statement is to identify the possible reasons for difference in the balances shown by cash book and that of a pass book. Bank Reconciliation statement is prepared to reconcile both the balances without making change in the cash book balance.
- There can be two situations while preparing Bank reconciliation Statement which are as follows:
 - **1) Favourable balances:** Favourable balance means the positive balance of cash book or pass book. It can be reconciled in following manner:
 - (a) Balance (Debit) as per **cash book** is given and the balance as per **pass book** is to be ascertained.
 - (b) Balance (Credit) as per **pass book** is given and the balance as per **cash book** is to be ascertained.

How to Prepare Bank Reconciliation Statement

- **2. Unfavourable balance/overdraft balance:** Unfavourable balance indicates about the negative balance of cash book or passbook. It can be reconciled in following manner:
 - (a) Balance (Credit) as per cash book (i.e. overdraft) is given and the balance as per pass book is to be ascertained.
 - (b) Balance (Debit) 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:
- **Favourable balances:** When debit balance as per cash book or credit balance as per pass book is given:

How to Prepare Bank Reconciliation Statement

- **Unfavourable Balance/Overdraft Balance:** Sometimes a businessman withdraws excess amount from the bank account which results into the debit (-) closing balance. This balance is called 'overdraft balance' as per Pass Book. In Cash book this overdraft is shown as credit balance.
- **Credit balance as per cash book/Debit balance as per Pass Book :**
- Overdraft balance is to be shown in the minus column of statement as the starting point. The other steps remain the same.

Example

Bank Reconciliation Statement

As on.....

Particulars	Amounts	Amounts
Balance as per Cash book		XXX
Add : All transactions due to which the balance of pass book has increased	XXX	XXX
		XXX
Less: All transactions due to which the balance of pass book has decreased.	XXX	XXX
Balance as per Pass book		XXX

Example

Bank Reconciliation Statement

As on.....

Particulars	Amounts	Amounts
Balance as per Pass book		XXX
Add : All transactions due to which the balance of cash book has increased	XXX	XXX
		XXX
Less: All transactions due to which the balance of cash book has decreased.	XXX	XXX
Balance as per Cash book		XXX

Summary

- Business organizations normally maintain record of all of their banking transactions in their bank column of the cash book. Ideally, on a particular date, the bank balance shown by the bank column of cash book and that shown by the pass book should be the same. But if there is difference between the two, the accountants need to find out the reasons in order to reconcile the balance.
- In order to reconcile the difference between the bank balance shown by the Pass book and that of Bank column of cash book, a statement is prepared by the accountants, which reconciles the balances. This statement is called as **Bank Reconciliation Statement**.

References

- SILM developed by Uttarakhand Open University for BCM-102 (Financial Accounting), Year 2017, ISBN: 978-93-85740-44-2