

Bank Reconciliation Statement

Cash book/bank book: Cash book is a broader term which contains three important columns (called as three column cash book) at debit and credit side i.e., Cash column, Bank column and Discount column. As the cash book contains a bank column so it may also be referred as *bank book* which is called as bank column of cash book. Cash book/Bank book is prepared by the depositor also called as depositor's book. Deposits are recorded in the debit side and withdrawals are recorded in the credit side. Normal balance of Cash book (bank column)/Bank book is debit being an asset of depositor. However, its overdrawn balance will be credited being a liability of depositor.

Pass book: When a depositor opens a bank account then the bank gives a copy to his customer for maintaining the bank account record called as Pass Book. Pass book is prepared by the bank but remains in the depositor's possession. Deposits are recorded in the credit side and withdrawals are recorded in the debit side by the banker. Depositor visits the bank after a particular period depending upon his choice and gives the pass book to concerned officer of bank to update it. Concerned representative of bank updates it and returned back to the depositor. This system is outdated now a day.

Bank statement: It is a statement which is issued by the bank periodically or on customer's request regarding the record of the balance in bank account of customer. Deposits are recorded in the credit side and withdrawals are recorded in the debit side. Normal balance of bank statement is credit being the liability of bank. However, its overdrawn balance will be debited being the asset of bank. In this modern era, bank statement is sent to the depositor by the bank via email or it can also be downloaded from online bank account called as Electronic Bank Statement.

Bank reconciliation statement: When the business has its bank account, then any deposit in or withdrawal from business bank account should be recorded in bank columns of the cash book. On the other hand, the bank also records such movement of funds in business bank account. If all the recorded entries in bank column of cash book are similar to the recorded entries in business bank account at bank then the balance as per cash book (bank column) is same with the balance as per bank's record in business bank account. Unfortunately such balances are not equal in practice due to various causes of disagreements, especially in current account, where frequent movements of funds are made. Some causes of disagreement between the balance as per cash book (bank column) and bank's record (bank statement) are given in next page.

Timing Difference:

- Cheque issued recorded in credit side of cash book (bank column) but not yet presented in bank (not debited in bank account)
- Cheques deposited recorded in debit side of cash book (bank column) but not yet credited in bank account etc.

Note: journal entries of difference arise due to timing difference should not be made in books of account with the hope that such items should be entered in bank account in near future. However, these items should be recorded in bank reconciliation statement to make the balance agreed between cash book and bank statement.

Unrecorded items in cash book

- Cheques issued recorded in cash book but dishonored by the bank due to insufficient bank balance or due to any other valid reason.
- Cheques deposited recorded in cash book but dishonored by the bank due to any valid reason like incorrect date and cutting etc.
- Direct deposits or direct payments recorded in bank account but not recorded in cash book etc.

Errors

- Wrong debit/credit by banker in bank account
- Wrong debit /credit by depositor in cash book

How can we identify the causes of disagreements? To see it, entries in cash book are needed to be compared with entries made by the bank in business bank account. How can we know the entries held by the bank in business bank account? To see it, bank statement is to be checked. To reconcile the disagreement between the balance as per cash book (bank column) and bank statement, a statement is to be prepared called as Bank Reconciliation Statement. Practical example regarding the bank reconciliation statement is given in next page.

Practical Example of Bank Reconciliation Statement

The bank column of cash book of Mr. ABC for the month of December 2017 is given below.

Cash book of Mr. ABC (Bank column only)

Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2017				2017			
Dec. 01	Balance b/d		2,970	Dec. 09	Purchases		334
“” 13	Mr. JDY		420	“” 19	Mr. BMC		110
“” 26	LMN Stores		217	“” 29	T&Y Co.		1,372
“” 28	Sales		<u>1,460</u>	“” 30	D Ltd.		517
				“” 31	Balance c/d		<u>2,734</u>
			<u>5,067</u>				<u>5,067</u>
2018							
Jan. 01	Balance b/d		<u>2,734</u>				

The bank statement of Mr. ABC for the month of December 2017 is given below.

XYZ Bank Ltd. BANK STATEMENT

Account Title: Mr. ABC

*Account No. 0123456
Date 31st December 2017*

Date	Particulars	Debit Rs.	Credit Rs.	Balance Rs.
2017				
Dec. 01	Balance b/d			2,970 Cr
“” 11	Cheque no. 2530	343		2,627 Cr
“” 18	Credit No. 6725_Mr. JDY		420	3,047 Cr
“” 20	Credit Transfer of dividend		150	3,197 Cr
“” 24	Cheque No. 2531	110		3,087 Cr
“” 31	Interest charges		95	3,182 Cr

Required:

Prepare the revised cash book.

Prepare the bank reconciliation statement.

Solution:

First of all tick (✓) on the items appeared in both bank column of cash book and bank statement.
This process is shown as:

Cash book of Mr. ABC (Bank column only)

Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2017				2017			
Dec. 01	Balance b/d		✓ 2,970	Dec. 09	Purchases		334
“” 13	Mr. JDY		✓ 420	“” 19	Mr. BMC		✓ 110
“” 26	LMN Stores		217	“” 29	T&Y Co.		1,372
“” 28	Sales		<u>1,460</u>	“” 30	D Ltd.		517
			<u>5,067</u>	“” 31	Balance c/d		<u>2,734</u>
							<u>5,067</u>
2018							
Jan. 01	Balance b/d		<u>2,734</u>				

XYZ Bank Ltd.
BANK STATEMENT

Account Title: Mr. ABC

Account No. 0123456
Date: 31st December 2017

Date	Particulars	Debit Rs.	Credit Rs.	Balance Rs.
2017				
Dec. 01	Balance b/d			✓ 2,970 Cr
“” 11	Cheque no. 2530	343		2,627 Cr
“” 18	Credit No. 6725_Mr. JDY		✓ 420	3,047 Cr
“” 20	Credit Transfer of dividend		150	3,197 Cr
“” 24	Cheque No. 2531	✓ 110		3,087 Cr
“” 31	Interest charges		95	3,182 Cr

After completing the process of marking (✓) on cash book and bank statement, revised cash book should be prepared. Any Revised cash book can also be known as corrected/adjusted cash book. It is given below.

Revised Cash book of Mr. ABC (Bank column only)

Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2018				2017			
Jan. 01	Balance b/d		2,734	Jan. 01	Correction of error		9
	Dividend		150		Interest charges		95
					Balance c/d		2,780
			<u>2,884</u>				<u>2,884</u>
	Balance b/d		<u>2,780</u>				

Guidance: Purchases shown in cash book on Dec. 09, 2017 were Rs. 334 and its actual payments from bank account of Rs. 343 on Dec. 11, 2017. Rs. 343 should be credited in cash book instead of Rs. 334. It means that credit column of cash book is short for Rs. 9 (Rs. 343 - Rs. 334) against this entry. So correction should be made in cash book by crediting Rs. 9. On the other hand dividend and interest charges are appeared in bank statement only. Unrecorded dividend and interest charges should also be appeared in cash book. After incorporating these casus of disagreement revised balance of cash book (bank column only) is Rs. 2,780 Dr.

After preparing the revised cash book, Bank Reconciliation Statement should be prepared in case of timing differences and or errors made by the banker if found.

Mr. ABC
Bank Reconciliation Statement
As on January 1st 2018

Particulars	Nature	Working Rs.	Amount Rs.
Revised balance as per cash book			27,80 Dr.
ADD:			
Un-presented cheques (T&Y Co.)	Debit	1,372	
D Ltd.	Debit	<u>517</u>	<u>1,889 Dr.</u>
LESS:			4,649 Dr.
Un-credited cheques (LMN Stores)	Credit	217	
Sales	Credit	<u>1,460</u>	<u>1,677 Cr.</u>
Balance as per bank statement Rs. 2,992 Cr.			<u>2,992 Dr.</u>

Note: Please note that balance as per cash book is debit for Rs. 2,992 as per above calculation so balance as per bank statement will be credited with this amount.

Guidance: Items regarding the amounts of Rs. 1,372 and Rs. 517 are credited in cash book but not debited in bank account due to timing difference. These amounts should be debited in bank reconciliation statement. On the other hand, Items regarding the amounts of Rs. 217 and Rs. 1,460 are debited in cash book but not credited in bank account due to timing difference. These amounts should be credited in bank reconciliation statement.

Students are usually unable to write the correct balance for attempting the given problems. Following TIPS is given to overcome this problem.

Tips regarding the balances:	Nature
Balance as per cash book Favorable balance as per cash book Debit balance as per cash book	Debit
Unfavorable balance as per cash book Overdrawn balance as per cash book Overdraft balance as per cash book Credit balance as per cash book	Credit
Balance as per bank statement Favorable balance as per bank statement Credit balance as per bank statement	Credit
Unfavorable balance as per bank statement Overdrawn balance as per bank statement Overdraft balance as per bank statement Debit balance as per bank statement	Debit
Note: balance as per cash book means the balance as per bank column of cash book or balance as per bank book. On the other hand, the balances of Bank statement and pass book are considered as same to attempt the questions.	

Different cases to test the students learning:

There may be four different cases to test the students learning. These are

1. Case-A: Favorable balance as per bank column of cash book is given to agree with the balance as per bank statement.
2. Case-B: Unfavorable balance as per bank column of cash book is given to agree with the balance as per bank statement.
3. Case-C: Favorable balance as per bank statement is given to agree with the balance as per bank column of cash book.
4. Case-D: Unfavorable balance as per bank statement is given to agree with the balance as per bank column of cash book.

Problem regarding the cases mentioned above are given in next pages for making sound grip in this topic.

Problems

Problem-1

Favorable balance as per cash book (bank column) of ABC Traders was Rs. 30,000 on 31st December 2017 which is not agreed with the balance as per bank statement on the same date. Causes of disagreement between the bank column of cash book and bank statement of ABC Traders are given below.

- Un-credited cheques of Rs. 5,000.
- Un-presented cheques of Rs. 10,000.
- Cheques of Rs. 6,500 entered in cash book but not yet sent to the bank for collection.
- A wrong credit appeared in bank statement amounting to Rs. 2,000
- Bank charges of Rs. 1,000 shown in bank statement but not recorded in cash book
- Interest on investment of Rs. 1,500 shown in bank statement but not recorded in cash book
- A direct deposit of Rs. 2,500 by a customer in our bank account but not recorded in cash book
- Amount of Rs. 3,500 withdrawn by a trader but the same entry is not recorded in cash book
- Dividend income of Rs. 7,000 were recorded twice in bank column of cash book

Required:

Prepared the Revised Cash Book and Bank Reconciliation Statement as on 31st December 2017

Solution:

Revised Cash book of ABC Traders (Bank column only)

Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2017				2017			
Dec. 31	Balance b/d		30,000	Dec. 31	Bank charges		1,000
“ ”	Interest on investment		1,500	“ ”	Withdrawn amount		3,500
“ ”	Direct deposits		2,500	“ ”	Correction of dividend income		7,000
				“ ”	Balance c/d		22,500
			<u>34,000</u>				<u>34,000</u>
2018				2018			
Jan. 01	Balance b/d		22,500				

ABC Traders
Bank Reconciliation Statement
As on 31st December 2017

Particulars	Nature	Working Rs.	Amount Rs.
Revised balance as per cash book	Debit		22,500 Dr.
ADD:			
Un-presented cheques	Debit	10,000	
Correction of wrong credit	Debit	<u>2,000</u>	<u>12,000 Dr.</u>
LESS:			34,500 Dr.
Un-credited cheques	Credit	5,000	
Cheques not sent to the bank	Credit	<u>6,500</u>	<u>11,500 Cr.</u>
Balance as per bank statement Rs. 23,000 Cr.			<u>23,000 Dr.</u>

Problem-2

Overdrawn balance as per cash book (bank column) was Rs. 30,000 on 31st December 2017 which is not agreed with the balance as per bank statement on the same date. Causes of disagreement between the bank column of cash book and bank statement of ABC Traders are given below.

- Cheques of Rs. 8,000 deposited for collection but not yet credited by the bank till 31st December 2017.
- Cheques of Rs. 9,000 issued to a customer Mr. NB on 29th December 2017 out of which a cheque of Rs. 5,000 was not presented till 31st December 2017.
- A cheque of Rs. 3,000 drawn for payment but not presented yet.
- A wrong debit of Rs. 2,000 appeared in bank statement
- Collection charges of Rs. 2,500 were entered in bank statement but not shown in cash book
- Dividend of Rs. 5,500 directly received by the bank on 30th December 2017 but the intimation was sent to ABC Traders on 3rd January 2018
- Interest on overdraft of Rs. 700 was debited in bank statement but the intimation was sent to customer on 1st January 2018
- A wrong credit of Rs. 600 appeared in cash book.

Required:

Prepared the Revised Cash Book and Bank Reconciliation Statement

Solution:**Revised Cash book of ABC Traders (Bank column only)**

Date	Particulars	Folio	Rs.	Date	Particulars	Folio	Rs.
2017				2017			
Dec. 31				Dec. 31	Balance b/d		30,000
“ “	Dividend income		5,500	“ “	Collection charges		2,500
“ “	Correction of			“ “	Interest on overdraft		700
“ “	wrong credit		600				
“ “	Balance c/d		27,100				
			<u>33,200</u>				<u>33,200</u>
2018				2018			
				Jan. 01	Balance b/d		27,100

ABC Traders
Bank Reconciliation Statement
As on 31st December 2017

Particulars	Nature	Working Rs.	Amount Rs.
Revised balance as per cash book	Credit		27,100 Cr.
ADD:			
Un-credited cheques	Credit	8,000	
Correction of wrong debit	Credit	<u>2,000</u>	<u>10,000 Cr.</u>
LESS:			37,100 Cr.
Un-presented cheque	Debit	5,000	
Un-presented cheque	Debit	<u>3,000</u>	<u>8,000 Dr.</u>
Balance as per bank statement Rs. 29,100 Dr.			<u>29,100 Cr.</u>

Problem-3

Balance as per bank statement was Rs. 30,000 on 31st December 2017 which is not agreed with the balance as per bank book on the same date. Causes of disagreement between the bank column of cash book and bank statement of ABC Traders are given below.

- Cheques for the amount of Rs. 30,000 were issued to creditors in the month of December out of which only a cheque of Rs. 6,000 was en-cashed till the end of December 2017.
- Cheques for the amount of Rs. 25,000 were sent to the bank for collection in the month of December out of which only a cheque of Rs. 7,000 was credited in bank statement till the end of December 2017.
- A wrong credit of Rs. 3,000 appeared in bank book
- A direct payment of Rs. 4,000 in respect of electricity bill from the bank account but not recorded in cash book
- A cheque of Rs. 7,000 received and entered in cash book but omitted to be deposit into the bank account.
- The receipt side of bank column of cash book was over cast by Rs. 5,000

Required:

Prepared the Bank Reconciliation Statement

Solution:

ABC Traders
Bank Reconciliation Statement
As on 31st December 2017

Particulars	Nature	Working Rs.	Amount Rs.
Balance as per bank statement	Credit		30,000 Cr.
ADD:			
Un-credited cheque (25,000 – 7,000)	Credit	18,000	
Direct payment of electricity bill	Credit	4,000	
Omitted cheque	Credit	7,000	
Correction of receipt side of cash book	Credit	<u>5,000</u>	<u>34,000 Cr.</u>
			64,000 Cr.
LESS:			
Un-presented cheque (30,000 – 6,000)	Debit	24,000	
Correction of wrong credit	Debit	<u>3,000</u>	<u>27,000 Dr.</u>
Balance as per cash book Rs. 37,000 Dr.			<u>37,000 Cr.</u>

Problem-4

Overdrawn balance as per bank statement was Rs. 30,000 on 31st December 2017 which is not agreed with the balance as per cash book on the same date. Causes of disagreement between the bank column of cash book and bank statement of ABC Traders are given below.

- Cheques for the amount of Rs. 30,000 were issued to creditors in the month of December out of which a cheque of Rs. 6,000 was en-cashed on 3rd January 2018.
- Cheques for the amount of Rs. 25,000 were sent to the bank for collection in the month of December out of which a cheque of Rs. 7,000 was credited in bank statement on 2nd January 2018.
- A wrong debit of Rs. 2,000 appeared in bank column of cash book
- Dividend income of Rs. 3,000 credited in bank statement but not recorded in cash book
- A direct payment of Rs. 4,000 in respect of insurance premium from the bank account but not recorded in cash book
- A cheque of Rs. 8,000 received and entered in cash book but omitted to be deposit into the bank account.
- The receipt side of bank column of cash book was under cast by Rs. 300

Required:

Prepared the Bank Reconciliation Statement

Solution:

ABC Traders
Bank Reconciliation Statement
As on 31st December 2017

Particulars	Nature	Working Rs.	Amount Rs.
Overdrawn balance as per bank statement	Debit		30,000 Dr.
ADD:			
Un-presented cheques	Debit	6,000	
Dividend income	Debit	3,000	
Correction of receipts side of cash book	Debit	<u>300</u>	<u>9,300 Dr.</u>
			39,300 Dr.
LESS:			
Un-credited cheques	Credit	7,000	
Correction of wrong debit	Credit	2,000	
Direct payment of insurance	Credit	4,000	
Omitted cheques	Credit	8,000	<u>21,000 Cr.</u>
Balance as per cash book Rs. 18,300 Cr.			<u>18,300 Dr.</u>

Muhammad Shafiq Kaleem

Lecturer – Accounting & Finance

Virtual University of Pakistan

Note: Please consult recommended books mentioned in “books” Tab of VU-LMS for more practice.