Accountancy Notes PDF

On

Bank Reconciliation Statement

(Class – 11 / Chapter- 5)

A schedule showing the items of difference between the bank statement and the bank column of Cash Book is known as Bank Reconciliation Statement. "A **bank reconciliation** is the process of matching the balances in an entity's accounting records for a cash account to the corresponding information on a **bank statement**. The goal of this process is to ascertain the differences between the two, and to book changes to the accounting records as appropriate".

Causes of Differences in Cash Book and pass Book

1. Transactions recorded in Cash Book but not in Pass Book.
2. Transactions recorded in Pass Book but not in Cash Book.
3. Other transaction errors.

Purpose of Bank Reconciliation

A bank reconciliation is there to compare your records to those of your banks. It checks if there are any two different sets of records for you and the bank in cash transactions. The ending balance of your version will be called the 'book balance'. The bank's version for the same is called 'bank balance'.

Need and importance

- It helps in locating and rectifying the errors or omissions committed either by the firm or by the bank.
- Customer becomes sure of the correctness of the bank balance shown by the cash book.
- Facilitates the preparation of amended or revised Cash Book.
- Reduces the chances of fraud by the staff of the firm or bank.
- Helps in keeping a track of the cheques deposited for collection.

Procedure of preparing Bank Reconciliation Statement (BRS)

A Bank Reconciliation Statement is prepared when we get the duly completed Pass Book from the Bank.

1. First of all tally the Debit side entries of the cash book with the Credit side entries of the Pass Book and vice versa.
2. Tick the items appearing in both the books.
3. Unticked items will be the points of differences.
4. A BRS is then prepared by taking either the balance as per Cash Book or Pass Book as a starting point.

Difference Between Bank Statements and Company's Accounts

When banks deliver a bank statement to a firm that includes the company's beginning cash balance, transactions throughout the period, and ending cash balance, the bank's ending cash balance and the company's finishing cash balance nearly always disagree.

The following are some of the causes behind the disparity:

- **Deposit Transit**: Cash and checks that have been received and recorded by the company but have not yet been recorded on the bank statement.
- **Outstanding Checks:** Checks that have been issued by the company to creditors but the payments have not yet been processed.
- **Bank Service Fees:** Banks deduct charges for services they provide to customers but these amounts are usually relatively small.
- **Interest Income:** Banks pay interest on certain types of bank accounts.
- **Not Sufficient Funds (NSF) Checks:** When a client deposits a check into an account but the account of the check's issuer does not have enough money to cover the check, the bank deducts the previously credited check from the customer's account. The check is subsequently returned to the depositor as a non-sufficient funds check.

Steps to Prepare Bank Reconciliation Statements

A bank reconciliation statement is prepared when customers or firms get their passbooks updated from the bank. The customers or firms then tally the entries and balance of both cashbook and passbook. Following steps are required to prepare the bank reconciliation statements:

Step 1 Tick the items on the debit side of the cashbook which tally with the items on the credit side of the passbook, and note down the unticked items, which is the cause of the difference in balances of both the books

Step 2 In the same way, tick the items on the credit side of the cash book, which tally with the items on the debit side of the passbook, and note down the unticked items which do not tally in both the books, which is the cause of the difference

Step 3 Now a bank reconciliation statement can be prepared by taking the balance as per the cash book as a starting point. If the statement is started with the bank column of the cashbook, then the answer arrived will be the balance as per the passbook. Then, you can add the items which have the effect of higher balance in the passbook and deduct the items which influence lower balance in the passbook.

Bank Reconciliation Statement Rules

Rules help in avoiding any mistake in the statement. These rules act as a basic framework for the statement. Here are some of the bank reconciliation statement rules:

- Any debit balance in the cash book is referred to as the deposits of the business entity
- Debit in cash book is equal to credit in passbook
- Credit balance in cash book means unfavorable balance
- Debit balance in cash book means favorable balance
- Cheques that are issued but in any case not presented are adjusted in the cash book

Method of preparing BRS starting with the Balance/overdraft as per Bank Column of Cash Book.

Bank Reconciliation Statement as on …………………………

PARTICULARS	+ ITEM	− ITEM
Balance as per Cash Book **Add :-** Items Credit in Pass Book but not recorded in Cash Book. **Less : −** Items debit in Cash Book but not recorded in Pass Book.		
Less :- Item debit in Pass Book but not recorded in Cash Book. **Add :-** Items credit in Cash Book but not recorded in Pass Book.		
Total	P	M
Balance as per Pass Book (P − M) =		

Note:

- If total of Plus (+) Items is more than the total of (-) items Difference is Credit Balance or favorable balance as per Pass Book.
- Where as if the − items total is more than the (+) items total then Difference is Debit Balance or overdraft as per Pass Book.
- If BRS is started with Balance as per Cash Book then ending point is Balance as per Pass Book and Vice-Versa.
- Debit balance of Cash Book means favorable balance or (+) Balance
- Debit balance of Pass Book means unfavorable balance or (-) balance.
- Credit balance of Pass Book means favorable balance or (+) balance
- Credit balance of Cash Book means unfavorable balance or (-) Balance.