

Bank reconciliation statement

The debit side of the cash book, the bank column represents:

1. Cheques deposited into bank for collection.
2. Cash paid into bank and
3. Some entries that are made only after receiving the information from the bank viz.,
 - i) Amounts collected by the bank on your behalf as per the standing instructions, for example, interest collected on investment.
 - ii) Interest given by the banker for the balance kept by us in our bank account.
 - iii) The amount paid by our customers directly into our bank account.

On the other hand, on the credit side of the cash book represents:

1. cheques issued for payment.
2. cash withdrawn from bank for office use and personal use.
3. in addition, some entries are made after receiving information from the bank viz.,
 - i. Amounts paid by the bank on our behalf as per the standing instructions, for expel, payment of insurance premium.
 - ii. Interest charged by the bank for the amount drawn over and above the actual balance kept in the bank account.
 - iii. Bank charges payable for the agency and utility services rendered by the bank.

Bank pass book

Bank pass book is merely a copy of the customer's account in the books of a bank. It shows all the deposits, withdrawals and the balance available in the customer's account.

Date	Particulars	Dr. Withdrawals Rs.	Cr. Deposits Rs.	Balance Dr/Cr Rs.	Initials

In the date column the dates of the transactions are recorded. In the particulars column withdrawals and deposits are recorded. The

balance after each transaction is recorded in the next column and the bank officials sign in the last column.

Following the principles of double entry, banker credits the account of the customer for all the amounts received from the customer and on his behalf. Similarly, the banker debits the account of the customer for all withdrawals and amounts paid to others on behalf of the customers.

The main point to be remembered is that entries are made only after cash is received or paid, except in the case of interest and bank charges. Interest and bank charges are mere book adjustments and in these, there are neither receipt of cash nor payment of cash.

Difference between cash book and pass book

S.No	Basis of Distinction	Cash Book (Bank Column)	Pass Book
1.	Maintained by	Cashier	Banker
2.	Deposits of cash	Entered on the debit side of the cash book	Entered on the credit column of the pass book
3.	Withdrawals of cash	Entered on the credit side of the cash book	Entered on the debit column of the pass book
4.	Cheques deposited for collection	Entered on the debit side of the cash book on the date of depositing the cheques into the bank	Entered in the pass book only on the date of the realization of the cheque.
5.	Cheques issued	Entered on the credit side of the cash book on the date of issuing the cheque to the creditors.	Entered on the debit column of the pass book only on which they are presented and paid.

6.	Collections and payments as per customers standing instructions.	Entered in the cash book after seeing the pass book.	Entered in the pass book first.
7.	Signature	It is not signed by the cashier.	It is signed by the Bank official after cash transaction.
8.	Balancing	It is balanced at the end of a specified period	It is balanced after each transaction

Bank reconciliation statement

The balance of the bank column in the double or triple column cash book represents the customers cash balance at bank. It should be the same as shown by his bank pass book on any particular day. For every entry made in the cash book if there is a corresponding entry in the pass book (maintained by the banker) or vice versa, the bank balance will be the same in both the books.

However, it must be noted that the cash book and the pass book are maintained by two different parties and hence it is not certain that entry in one book will always have a corresponding entry in the other. Normally entries in the cash book should tally with those in the pass book and the balances shown by both the books should be the same. But in practice, the balances generally differ. In case of disagreement in the balance of the cash book and the pass book, the need for preparing bank reconciliation statement arises.

Definition

Bank reconciliation statement is list in which the various items that cause a difference between bank balance as per cash book and pass book on any given date are indicated.”

Need and importance

After tracing the various items of difference, a bank reconciliation statment is prepared. The following are its advantages in which lies its importance.

- i. The errors that might have taken place in the cash book in connection with bank transactions can be easily found.
- ii. Regular preparation of bank reconciliation statement prevents frauds.
- iii. It indirectly imposes moral check on the accounting staff.
- iv. By the preparation of bank reconciliation statement uncredited cheque can be detected and steps can be taken for their collection.

Causes of disagreement between the balance shown by the cash book and the balance shown by the pass book.

1. Cheques paid into bank but not yet collected.

The cheques paid into bank for collection but not credited into the account of the customer, because the cheque is

- i. Not collected and credited till that date.
- ii. Collected but the bank staff has forgotten to make entry.
- iii. Collected but credited wrong account.
- iv. Dishonored
- v. Collected for no.1 account but credited to no.2 account of the same customer.

As soon as the cheques are sent to the bank, entries are made in the debit side of the cash book (bank column). But, usually bank credit the customer's account only when they have received payment from the bank concerned, in other words, when the cheques have been collected. Hence there will be a time gap between the depositing of the cheques and the collection by the bank.

2. Cheques issued but not yet presented for payment

The cheques issued but not debited customer account may be because the cheque is

- i. Not collected till date.
- ii. Not presented till date.
- iii. Presented but dishonored for some reasons or other.
- iv. Lost by the party to whom the cheque was issued.

- v. Cashed out of no.1 account but wrongly debited to no.2 account of the same customer.

In all of the above cases, the entry in the cash book is made immediately on the issue of cheque but naturally the entry will be made by bank only when the cheque is presented for payment. Thus there will be a gap of some days between the entry for issue of cheque in the cash book and the entry for payment made in the pass book.

For example, Bharat company limited issued a cheque in favor of Mr. Krishna on March 28, 2023 for a sum of Rs. 5,000. The cheque is presented for payment at the bank on April 4, 2023. In case, bank sends a statement of account up to March 31, there will be a difference of Rs.5000 between the balance as shown by the cash book and the balance as shown by the pass book.

3.Amount credited by the banker in the pass book without the immediate knowledge of the customer.

The following are some of the examples for the above statement.

- i. The bank might have collected rent, dividend bills of exchange, interest etc., due for the customer as per standing instructions.
- ii. Some debtors might have directly paid into bank.
- iii. Bank credits interest on the credit balance of the customer's account.
- iv. The banker has wrongly credited this account instead of some other account.

In all the above cases, the entry will be first entered in the pass book. The customer will know this only after he verifies the entries in the pass book. So there may be a time gap of some days before the customer includes entries in the pass book.

For example, the bank has debited Bharat company limited account for its charges amounting to Rs.250 on March 31 2023. In case, the bank sends a statement of account up to March 31, 2023 there will be a difference of Rs.250 between the balance as per the cash book and balance as per the pass book.

For example, A cheque for Rs. 5,000 dishonored on March 28,2023. In case, the bank sends a statement of account up to March 31,2023 there will be a difference of Rs.5000 between the balance as shown by the cash book and the balance as shown by the pass book.

After tracing the various items of differences, a Bank reconciliation statement is prepared by starting with the balance shown by any of the two books. But in actual practice, a Bank reconciliation statement is prepared by the customer starting with the balances as per cash book and will ensure that the balance as per pass book is arrived at.

Bank overdraft

Bank overdraft is an amount drawn over and above the actual balance kept in the bank account. This facility is available only to the current account holders. Interest will be charged for the amount overdrawn i.e., overdraft. The cash book will show a credit balance i.e., unfavorable balance. The pass book will show a debit balance.

Procedure for preparing Bank Reconciliation Statement

S.N	Transacti ons	Entries by customer in the cash book (Bank Column)	Entries by Bank in the pass book	Effe ct	Proced ure to ascertai n the balance as per pass book from cash book	Unfavora ble balance (overdraf t)
1.	When cash is deposited	Custome r enters in the debit side	Bank enters in the credit column	Cas h boo k= pass boo k	-	-
2.	When cash is withdraw n	Custome r enters in the credit side	Bank enters in debit column	Cas h boo k= pass boo k	---	-
3.	Issue of cheque	Custome r enters	Bank enters in	Cas h	ADD	LESS

		in the credit side immediately	the debit columns only on the date when presented for payment	book < Pass book		
4.	Cheque received and entered in cash book and sent to bank for collection	Customer debits cash book	Only after collection the amount will be entered in the credit column of the pass book because the process takes time	Cash book > Pass book	Less	Add
5.	Bank charges for services rendered by bank	No entry can be found in cash book till the pass book is verified	Entered in the debit column of the passbook immediately	Cash book > Pass book	Less	Add
6.	Interest, dividend etc. Collected by bank on behalf of customer	No entry can be found in cash book till the pass book is verified.	These are entered in the credit column of the pass book immediately after receiving	Cash book < Pass book	Add	Less

			the amount			
7.	Interest allowed by bank	No entry is made unless pass book is verified	Entered in the credit column of the pass book first.	Cash book < Pass book	Add	Less
8.	Amount directly remitted into bank	No entry is found in cash book till the pass book is verified	Entered in the credit column of the pass book on the same day of receipt.	Cash book < Pass book	Add	Less
9.	Subscription, premium etc paid by the banker as per the standing instructions of the customer	Entry is made only after the a pass book is verified.	Entered in the debit column of the pass book on the same day of payment	Cash > Pass book	Less	Add
10.	Dishonor of bills receivable or cheques paid into bank	No entry in the cash book till the customer is intimate d by the banker	Entered in the debit column of the pass book immediately.	Cash > Pass book	Less	Add

11.	Dishonor of bills payable or cheques issued	No entry in the cash book till the customer is intimate by the banker	Entered in the credit column of the pass book immediately.	Cash < Pass book	Add	Less
12.	Wrong credit in the pass book	No entry is found in cash book unless it is verified with the pass book.	Entered (wrongly) in the credit column in the pass book	Cash book < Pass book	Add	Less
13.	Wrong debit in the pass book	No entry is found in cash book unless it is verified	Entered (wrongly) in the credit column in the pass book	Cash book > Pass book	Less	Add

The format of Bank Reconciliation statement when bank balance as per cash is taken as the starting point

Bank Reconciliation statement as on.....

	Particulars	Amount Rs.	Amount Rs.
A	Balance as per Cash book		***
B	Add: Cheques issued but not presented for payment	***	
	Interest credited by bank but not recorded in cash book	***	
	Debtors directly paid into bank but not recorded in cash book	***	

	Wrong credit by banker	***	
	Collections by banker as per customer standing instructions	***	
	Total (B)		***
C	Total (A+B)		****
D	Less: Cheques deposited but not credited by bank	**	
	Dishonored cheques appeared in the pass book but entered in the cash book	***	
	Bank charges as per pass book	***	
	Wrong debit by banker	***	
	Payments as per standing instructions	***	
	Total (D)		****
	Balance as per pass book (C_D)		****