

Revision Notes
Class 11 Accountancy
Chapter 5 - Bank Reconciliation Statement

1. Definition:

- Bank Reconciliation Statement (BRS) is a statement that is prepared by a firm to reconcile the balances as per cash book prepared by the firm and the balances as per pass book recorded by the bank.
- The need for bank reconciliation statements arise from the fact that many times there is a difference in both the balances.

2. Causes of Differences in Balance:

The differences in balances in Cash Book and Pass Book may arise due to:

- a. Difference in timings for recording the transaction
- b. Errors made by bank or firm while recording the transaction.

2.1. Difference in timings for recording the transaction

There may be a difference in balance caused by the timings gap both for payment as well as for receipts. Some of the factors responsible for these gaps are:

- a. Cheques issued by banks not yet presented for payments.
- b. Cheques paid into the bank but not yet collected.
- c. Direct debits made by the bank on behalf of the customer.
- d. Amounts directly deposited in the bank account.
- e. Interest and dividends collected by the bank.
- f. Direct payments made by the bank on behalf of the customers.
- g. Cheques deposited/bills discounted dishonoured.

2.2. Errors made by bank or firm while recording the transaction

Sometimes there may be an error while recording a transaction that can result in a difference in balances. Such errors can be made both by banks or firms, hence they are of two types:

a. Errors committed by firm:

- (i) Wrong amount debited or credited in the cash book.
- (ii) Omission of any transaction.

(iii) Error in totaling or balancing the bank column of the Cash book.

b. Errors committed by bank:

- (i) Wrong amount debited or credited in the pass book.
- (ii) Omission of any transaction.
- (iii) Error in totaling or balancing the bank column of the Pass book.

3. Benefits of Bank Reconciliation Statement:

- (a) Helps in tracking errors.
- (b) Helps terminate the risks of fraud.
- (c) Helps in tracking transaction status periodically.
- (d) Helps in achieving accurate balance.

4. Preparation of Bank Reconciliation Statement:

- A BRS is prepared by taking either the balance of Pass book or Cash Book as a starting point.
- Bank records all the deposits in the credit and withdrawals in the debit side of the Pass book.
- Tally the debit side of the cash book and the credit side of the pass book and vice-versa and note the point of differences.

4.1. Method for preparing Bank Reconciliation Statement:

The format for preparing BRS is given below:

	Particulars	Amount (in Rs.)
	Balance as per Cash Book	.....
Add:	Items Credit in Pass Book but not recorded in Cash Book.	.....
	Items credit in Cash Book but not recorded in Pass Book.	.....
Less:	Items debit in Cash Book but not recorded in Pass Book.	.....
	Item debit in Pass Book but not recorded in Cash Book.	.....
	Balance as per the passbook	.....

There can be an alternative format for preparing BRS with one column showing additions and another showing deductions:

	Particulars	Amount (in Rs.) (+)	Amount (in Rs.) (-)
	Balance as per Cash Book	.....
	Items Credit in Pass Book but not recorded in Cash Book.	.....
	Items credit in Cash Book but not recorded in Pass Book.	.....	.....
	Items debit in Cash Book but not recorded in Pass Book.		.....
	Item debit in Pass Book but not recorded in Cash Book.		.....
	Balance as per the passbook		.....

Points to remember:

- If the BRS starts with Balance as per Cash Book it will give the Balance as per Pass Book at the end and vice-versa.
- The Debit balance as per Cash book or Credit balance as per Pass Book is written on the positive side. It denotes that the deposits of the firm are more than the withdrawals and is considered to be a favorable situation.
- The Credit balance as per Cash book or Debit Balance as per Pass Book is written on the negative side. It denotes that the deposits of the firm are less than the withdrawals and is considered to be an unfavorable situation or overdraft balance.
- The main concept behind adjustments is when the balance in a cash book is getting unnecessarily deducted (i.e., items credited in cash book not recorded in pass book or items credited in pass books not recorded in Cash Book) we increase the balance in Cash Book so we add in it.
- When the balance in the cash book is getting over-amounted (i.e., items debited in Pass book are not recorded in cash book, or items debited in Cash book are not recorded in Pass Book) we reduce the amount hence we subtract those items.

Items which increase the pass Book Balance or decreases the Cash Book Balance

- a. Cheques issued but not yet presented.
- b. Credits made by the bank for interests.
- c. Amount directly deposited by the customers directly into the bank account.
- d. Interest and dividend collected by the bank.
- e. Cheques paid into the bank but omitted to be recorded in the Cash – Book

Items which decrease the Pass Book Balance or increase the Cash Book Balance

1. Cheques sent to the bank for collection but not yet credited by the bank.
2. Cheques paid or bills discounted in the bank but dishonoured.
3. Direct payments made by the bank.
4. Bank charges, commission etc. debited by the bank.
5. Cheques issued but omitted to be recorded in the Cash Book.

Illustration: 1

From the following particulars prepare Bank reconciliation statement of Arun Ltd. as on 31st March, 2021:

- (a) Balance as per Pass Book was Rs. 14,000.
- (b) Bank collected a cheque of Rs. 500 on behalf of Arun Ltd. but forgot to record it in the Pass Book.
- (c) Bank deposits a cash deposit of Rs. 2,589 as Rs. 2,598.
- (d) The payment of a cheque of Rs. 700 was recorded twice in the Pass Book.
- (e) Dividend collected by bank Rs. 450.
- (f) Bank charges Rs. 250 debited by the bank.

Ans: In the books of Arun Ltd
Bank Reconciliation Statement
as on 31st March, 2021

	Particulars	Amount (in Rs.)
	Balance as per Pass Book	14000
Add:	Cheque omitted to be recorded	500
	Cheque recorded twice	700
	Bank charges debited by bank	250
Less:	Excess Credit for Cash Deposit	(9)
	Dividend collected by bank	(450)
	Balance as per the Cash book	14,991

Explanation:

1. We start with Balance as per Pass Book as the starting point to arrive at Cash Book Balance.
2. When the bank collected the cheque on behalf of Arun Ltd. and omitted to record it in the pass book the balance is undercasted and hence it should be added so as to tally it with the cash balance.
3. Bank recorded an error of Rs. 9 in excess and hence it must be brought down. Therefore, it should be subtracted.
4. When the payment is recorded twice it will reduce the balance of the pass book with a twice amount (Rs. 1400) but the balance in the cash book is reduced only once (Rs. 700) and hence it must be added back.
5. Dividend collected by the bank will increase the balance in the Pass book but the Cash book balance is unchanged and hence it is deducted.
6. Bank charges paid by the bank will reduce the pass book balance and hence it must be added back to reconcile it with the Cash book.

Note: These explanations are just for better understanding, students are not required to write this from an examination point of view.