



BANK RECONCILIATION STATEMENT

Meaning :

A business man maintains **cash book with bank column** to record cash and bank transaction i.e. deposits and withdraws during the course of business. He balances his cash book with bank column on regular basis may be weekly, monthly or even daily.

When an account is open, bank issue a bank **pass book** which is true copy of the transaction recorded in the books of the businessman. Bank passbook is maintained by the bank for the businessman.

Theoretically the **passbook and cash book with bank column** must always tally at anytime. But in practical quite often the balance of both these books documents does not tally.

Thus it can be define as the statement which is prepared for **verifying and reconciling (An accounting process used to compare two sets of records to ensure the figures are in agreement and are accurate)**. the **bank balance**, shown by the **cash book** and **passbook** on a certain day and incorporates the reason of disagreement between them is called a bank reconciliation statement.

Reasons for difference in Pass Book and Cash Book Balances :

- 1) **Cheques issued but not yet presented for payment in the bank:** When a cheque is issued to a creditor by the firm, it is immediately recorded on the credit side of the bank column of the cash book. But the bank will debit the firm's account only when this cheque is actually presented to the bank for payment. Generally, there is a gap of some days between the issue of a cheque and its presentation to the bank.
- 2) **Cheque paid into bank for collection but not yet credited/collected by the bank:** When a firm receives cheques, drafts etc. from its customers, they are immediately deposited into bank for collection and an entry is made on the debit side of the bank column of the cash book. But the bank will credit the firm's account only when it has actually collected the payment of these cheques from other banks. Again there will be gap of some days between the depositing of the cheques into the bank and credit given by the bank.
- 3) **Cheques paid into the bank for collection but dishonoured by the bank:** When cheque received from outside parties are deposited with the bank, these are immediately recorded on the debit side of the bank column of the cash book, but if the cheques are dishonoured, bank will not make any entry in the credit of the customer's account. As a result, the cash book will show an increased balance in comparison to the passbook.
- 4) **Interest allowed by the bank:** Interest allowed by the bank is credited to the firm, but unless intimation is received by the firm from the bank to this effect, no entry is recorded in the bank column of the cash book. Difference of these balances may arise because of the following reasons.
- 5) **Interest and dividend collected by the bank:** If the bank collect dividend on shares, interest on investments, etc on behalf of its customer, it credits the amount in the pass book. This will increase the balance in the pass book and a difference in the two balances will exists unless a corresponding entry is recorded in the cash book by the firm.



- 6) **Direct payment through bank:** An account holder can instruct the bank to make certain payments such as insurance premium, rent of the shop, electricity and mobile bills, loan instalment, etc. on the behalf. The bank will debit the party's account on making the payment.
- 7) **Direct payment into bank by a customer:** if any customer of the firm directly deposits the amount of payment into bank account of the firm, then credit entry in the passbook will be recorded by the bank. Unless the corresponding entry is recorded in the cash book, the balance of cash book and pass book will differ.
- 8) **Advancement in technology:** Today, there is a great impact of technology on banking sector. This is the era of internet banking as well as mobile banking. The funds are transferred from one branch to another branch or from one bank to the other bank electronically. The electronic transfer will change the balance as per pass book but balance as per cash book will remain unaffected.
- 9) **Demat Service:** Today, shares, debentures and bonds are purchased and sold in demat form. Demat means shares and debentures exist in electronic form, not in paper form. If a businessman applies for shares and debentures from his business account and he is given partial allotment; the refund is directly transferred to his account. The transaction increases the balance as per pass book on a particular day but the balance as per cash book will be short by that amount.
- 10) **Errors:** There may be errors in the account maintain by the customer or bank. The two balances therefore, may not tally.
- 11) **Retiring a bill under rebate:** When the bills are sent to bank for making payment of the bill before its due date and earns some rebate for customers the bank will debit the customer's account with fewer amounts. Until the information is received from the bank regarding the retirement of the bill under rebate, the balances as per pass book will be more than the balance as per cash book
- 12) **Bank charges and commission charged by the bank:** Bank provides number of services to its customers. It collects their outstation cheques, dividends on their shares, pays some expenses on their behalf etc. bank charges commission in lieu of the services provided to the customer. Such charges and commission is debited in the pass book but no entry is recorded in the cash book unless the firm obtains the pass book from the bank and record these entries. This will cause the difference between two balances.
- 13) **Interest on bank overdraft charged by bank:** Generally bank allows overdraft facility to traders on current accounts. If bank charges interest on overdraft, an entry will be made in the debit side of the pass book but no entry will be recorded in the cash book unless the firm receives information about the interest charged by the bank. This causes the difference in the two balances.

Preparation of Bank Reconciliation Statement :

The following steps should be taken into consideration while preparing a bank reconciliation statement.

1. The cash book should be completed and balance as per bank column on a particular date should be found out covering the period for which the bank reconciliation statement has to be prepared.



2. The bank should be requested to complete and send to the firm the bank pass book up to the date.
3. The balance shown by any book should be taken as base or the starting point for determining the balance as shown by the other book after making suitable adjustment based on the cause of difference.
4. The effect of the particular cause of difference on the balance shown by the other book should be studied.
5. In case the cause has resulted in an increase in the balance shown by the other book , the amount of such increase should be added to the balance as per the former book that has been taken as a base.
6. In case the cause has resulted in a decrease in a balance shown by the other book , the amount of such decrease should be subtracted from the balance as per the former book that has been taken as a base.
