 

**BANK RECONCILIATION STATEMENT**

Bank Reconciliation Statement is a statement prepared for determining causes of differences and reconciling bank balance (as per the Cash Book) with the balance as per the Pass Book or vice versa.

In day to day affairs, an individual or organisation makes numerous transactions through bank. Along with the copy of bank statement (i.e., the Pass Book), an individual or organisation needs to maintain a separate book (Cash Book) for recording the banking transactions. When large number of transactions is made through bank, the balance of the Cash Book may differ from the balance of the Pass Book.

There can be many reasons of differences between the Cash Book and the Pass Book, such as below given ones.

1. Deposit of cheque was recorded in the Cash Book at the time of deposit; however, was collected later or **not** collected by the bank.
2. Cheque issued was recorded in the Cash Book; however, was **not** recorded in the Pass Book in the month of issue. It was entered in the Pass Book in the next month when it was presented for payment in the bank.
3. Interest allowed by the bank is added in the pass book but **not** in the Cash Book.

Bank Reconciliation Statement (BRS) is prepared when the bank balance of the Cash Book is **not** equal to the balance shown by the Pass Book on the same date (when BRS is being prepared). In order to match the two respective balances, errors and omissions are to be located and rectified, which is the main rationale behind preparing the Bank Reconciliation Statement.

The need to prepare Bank Reconciliation Statement are given below.

1. It helps in finding out the errors and omissions committed in the Cash Book and the Pass Book.
2. It shows uncleared cheques, which have already been debited in the Cash Book but have **not** been yet recorded in the Pass Book.
3. It helps in checking embezzlement of money from the bank account.
4. It helps in measuring the accuracy of the transactions recorded in the Cash Book.
5. It facilitates in preparing revised Cash Book that reflects true bank balance.





The causes of difference that occur due to time lag are given below.

**1. When issued cheques are not presented for payment in the period for which Bank Reconciliation Statement is being prepared, i.e., date of issue and the date of presenting the cheques are not same.**

Cheques are credited in the Cash Book on the date that is mentioned on it, while in the Pass Book, cheques are debited when they are presented for the payment. Sometimes, the holder of a cheque does **not** present the cheque for payment on date ehich is mentioned on Cheque. The time gap between the date of issue and the date of presenting cheque for payment in the bank may lead to difference between the Cash Book and the Pass Book balances.

**2. When deposited cheques are not cleared in the period for which the Bank Reconciliation Statement is being prepared.**

Usually, date of deposit of cheque and date of clearance are **not** same as the clearance of cheque takes time. The difference between the Cash Book and the Pass Book balances arise when a cheque is deposited at the end of a period for which the Bank Reconciliation Statement is prepared and the cheque gets clearance in the subsequent period

Briefly explain the term favourable balance as per cash book

**ANSWER:**

Favourable balance (Debit Balance), as per the Cash Book, is an asset to an account holder. It is also known as debit balance as per the Cash Book. Favourable balance is the excess of total of debit side over total of credit side of a bank column of a Cash Book. In other words, favourable balance means excess of deposits over withdrawals.

Enumerate the steps to ascertain the correct cash book balance.

**ANSWER:**

Generally, differences between the Cash Book and the Pass Book arise due to the reason that items have **not** been recorded in the Cash Book. In order to ascertain the correct Cash Book balance, we need to prepare Corrected (Adjusted) Cash Book. The below given steps are involved in the preparation of Corrected (Adjusted) Cash Book.

**Step 1:** Note down the bank balance as per the Cash Book.

**Step 2:** Rectify all the errors committed in the Cash Book.

**Step 3:** Enter those transactions in the debit of the Cash Book, which are only in the credit of the Pass Book.

**Step 4:** Enter those transactions in the credit of the Cash Book that are only in the debit of the Pass Book.

**Step 5**: The Cash Book is totalled and balancing figure is calculated. This balancing figure is use for preparing BRS.

elow given are the reasons on account of which the balance shown by the bank Pass Book does **not** agree with the balance shown by the bank column of the Cash Book.

1. **Differences due to time lag:**In the following situations, differences may arise, if the date of recording transactions in the bank column of the Cash Book is **not** same to that of in the Pass Book.
2. **Cheques issued by the firm but presented after the date that is mentioned on the cheque or still not presented in the bank:** Usually, issue of a cheque is recorded in the bank column of the Cash Book on the date that is mentioned (mentioned date) on the cheque. Sometimes, the holder of the cheque does **not** present the cheque on the date which is mentioned on it. This may lead to differences in the balance between the Pass Book and the bank balance of the Cash Book.
3. **Deposit of cheque recorded in the Cash Book at the time of deposit but collected later or not collected by the bank:** Deposit of a cheque is recorded in the bank column of the Cash Book on the date when it is deposited in the bank for payment but bank records it in the Pass Book on the date of clearance. Usually, date of deposit and date of clearance are **not** the same. This difference in the two respective dates leads to a mismatch between the Pass Book and the bank balance of the Cash Book.
4. **Transactions recorded only in the Pass Book:** Transactions, like interest allowed by bank on the deposits, bank charges, etc., are recorded first in the Pass Book. After getting intimation from the bank, these are recorded in the bank column of the Cash Book. However, sometimes, due to delay in intimation of these transactions to the customers, the Cash Book remains **not** updated, which leads to the difference between the Pass Book and the bank balance of the Cash Book.

Below given are the examples that lead to such differences.

1. **The transactions that reduce balance of the Pass Book and are recorded only in the Pass Book and not in the Cash Book**are given below.
2. Bank charges, charged by the bank but **not** recorded in the Cash Book
3. Dishonour of a bill discounted by the bank
4. Interest charged by the bank on overdraft
5. Direct payment made by the bank as per the instructions of the accountholder
6. **The transactions that increase the balance of the Pass Book and are recorded only in the Pass Book and not in the Cash Book**are given below.
7. When intimation regarding interests and dividend collected by the bank is **not** given to the accountholder
8. Amount deposited by any customer directly into the bank
9. Interest credited (allowed) by the bank
10. **Errors and omissions**

Any error or omission committed in the Pass Book, such as double recording of a deposited cheque, wrong posting of amounts, current account cheque wrongly paid through saving account, etc., result in the difference of the balance between the Pass Book and the bank balance of the Cash Book.



