

LESSON-10**BANK RECONCILIATION STATEMENT****SUMMARY**

On any particular date the bank balance shown by the bank column of cash book and that shown by the pass book should be the same. But if there is difference between the two, the business concern will find out the reasons to reconcile the balance. This is called bank reconciliation.

Bank Reconciliation Statement is a statement prepared to reconcile the difference between the balances as per the bank column of the cash book and pass book on any given date.

BANK RECONCILIATION STATEMENT - MEANING AND NEED

All deposits by the customer are recorded on the credit side of his/her account and all withdrawals are recorded on the debit side of his/her account. A copy of this account is regularly sent to the customer by the bank. This is called 'Pass Book' or Bank statement. It is usual to tally the firm's bank transactions as recorded by the bank with the cash book. But sometimes the bank balances as shown by the cash book and that shown by the pass book/bank statement do not match. If the balance shown by the pass book is different from the balance shown by bank column of cash book, the business firm will identify the

causes for such difference. It becomes necessary to reconcile them. To reconcile the balances of Cash Book and Pass Book a statement is prepared. This statement is called the 'Bank Reconciliation Statement.

Need of preparing Bank Reconciliation Statement

It helps in detecting, if there is any error in recording the transactions and ascertaining the correct bank balance on a particular date.

REASONS FOR DIFFERENCE

Cheques Issued By The Firm But Not Yet Presented For Payment

Cheques Deposited into Bank But Not Yet Collected

Amount Directly Deposited in The Bank Account

Bank Charges

Interest and Dividend Received by the Bank

Direct Payments Made By The Bank On Behalf Of The Customers

Dishonour of Cheques/Bill discounted

Errors Committed in Recording Transactions by the Firm

PREPARATION OF BANK RECONCILIATION STATEMENT

We may have the following different situations with regard to balances while preparing the Bank Reconciliation statement. These are:

1. Favourable Balances

- (a) Debit balance as per cash book is given and the balance as per pass book is to be ascertained.
- (b) Credit balance as per pass book is given and the balance as per cash book is to be ascertained.

2. Unfavourable Balance/Overdraft Balance

- (a) Credit balance as per cash book (i.e. overdraft) is given and the balance as per pass book is to be ascertained.
- (b) Debit balance as per pass book (i.e. overdraft) is given and the balance as per cash book is to be ascertained.

Favourable Balances

When debit balance as per cash book or credit balance as per pass book is given :

- (a) Take balance as a starting point say Balance as per Cash Book.
- (b) Add all transactions that have resulted in increasing the balance of the pass book.
- (c) Deduct all transactions that have resulted in decreasing the balance of pass book.
- (d) Extract the net balance shown by the statement which should be the same as shown in the pass book.

UNFAVOURABLE BALANCE/OVERDRAFT BALANCE

Sometimes a businessman withdraws excess amount from the bank account and the closing bank balance of a month is a debit balance. This balance amount is called 'overdraft balance' as per Pass Book. This is shown in the cash book as a credit balance.

Credit balance as per cash book/Debit balance as per Pass Book.

Overdraft balance is shown in the minus column of statement as the starting point. The other steps shall remain same.