

BANK RECONCILIATION STATEMENT

18.1 INTRODUCTION

All of you are familiar with Bank and its operations. Bank is the backbone of modern business world. By maintaining an account in the bank, businessman secures the risk of keeping cash in hand. If money is received, it is deposited in the bank. Cheques and drafts are normally used for making payments. Every transaction is recorded in the books of trader as well as in the books of bank. Trader maintains cash book. Cash book, here, refers to three Columnar Cash Book. Bank account is maintained in one of the three columns. Bank also maintains account of the businessman or trader and Pass Book is the extract of that account.

It is expected that balance of cash book would agree with the balance of Pass book. But, in practice, we find some differences in the balances shown by these books. To reconcile the difference between the balances of Pass Book and Cash Book, a statement is prepared. This statement is called Bank Reconciliation Statement. In this lesson, you will learn the meaning, need and method of preparing this statement.

18.2 OBJECTIVES

After studying this lesson, you will be able to :

- identify the need for preparing Bank Reconciliation Statement;
 - state the meaning of Bank Reconciliation Statement;
 - explain the reasons for difference between the balances of Cash Book and Pass Book;
 - prepare the Bank Reconciliation Statement.
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18.3 BANK RECONCILIATION STATEMENT – ITS MEANING AND NEED

A businessman maintains several books of accounts, out of which cash book is an important book. By cash book, we refer to three Column Cash Book having bank column on both the sides. For trader or customer bank account is an asset account and, therefore, it is debited whenever money is deposited and credited when it is withdrawn. On the other hand, bank credits all the deposits and debits all the withdrawals. Thus, the transactions appearing on the debit side of bank column of cash book will be shown by the bank in the deposit column of Pass book and entries on the credit side of cash book will appear in the withdrawal column of Pass book. Further it can be inferred that the debit balance of bank account in the books of trader should be equal to the credit balance of trader's account in the books of bank. Similarly, the credit balance of bank account in the books of trader should be equal to the debit balance of Pass book. It will be more clear when you go through the following example:

Transactions:

	<i>Date</i>	<i>Particulars</i>
1.	01.02.97	Cheque No.0124 received from Ram Lal for Rs.12,000/- sent to bank.
2.	02.02.97	Cheque No.001 for Rs.10,000/- issued in favour of Subhash against payment of goods.
3.	04.02.97	Cheque No.002 for Rs.5,000/- issued in favour of Sunder Lal.
4.	05.02.97	Cheque No.0384 for Rs.7,000/- received from Ram sent to Bank.

Given below are the formats of Cash book and Pass book showing how these entries will appear in both the books.

Cash Book (Bank Column only)

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Amount</i>	<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Amount</i>
1.2.97	To Ram Lal Ch. No.0124		12,000	2.2.97	By Subhash Ch. No. 001		10,000
5.2.97	To Ram Ch. No.0384		7,000	4.2.97	By Sunder Lal Ch.No.002		5,000
				8.2.97	By Balance c/d		4,000
			19,000				19,000
1.3.97	To Balance b/d		4,000				

Bank Pass Book

<i>Date</i>	<i>Particulars</i>	<i>Deposits</i>	<i>Withdrawals</i>	<i>Balance</i>	<i>Signature</i>
5.2.97	Ch. No. 0124	12,000	-	12,000	
6.2.97	Ch. No. 001		10,000	2,000	
7.2.97	Ch. No. 0384	7,000	-	9,000	
8.2.97	Ch. No. 002		5,000	4,000 Cr.	

The above example shows that both cash book and pass book are showing the same entries and, therefore, the same balance, which is Rs.4,000/- is appearing in both the books. However, one point in this example needs to be noticed and it is that the dates of entry of transactions are different in the two books. Now the question is why is it so? Let us try to know it:

As a practice, if a cheque is sent to the bank for collection, trader will immediately debit Bank account but bank will not give any credit in the pass book till it is collected. So, there will be a difference in the date of entry in the two books. The same logic applies for cheques issued. The bank account is credited by trader as soon as he issues cheque but the bank debits trader's account only when cheques are presented and payments are made. Here again a difference may be seen in the books of bank and those of the trader. It is important that entries of cash book are compared with the entries of Pass book from time to time with a view to know the differences, if any. In case there is a difference, it needs reconciliation. The statement through which the differences in the pass book and cash book are reconciled is known as Bank Reconciliation Statement. This statement is prepared on a particular date for a particular period by the trader.

INTEXT QUESTIONS 18.1

Fill in the blanks with suitable words:

1. The extracts of customer's account with the Bank is presented in the form of _____ Book.
2. The Cheques deposited are posted to the _____ side of the Cash Book.
3. The entries in the debit side of Cash Book will appear in the _____ Column of Pass Book.
4. Cheques issued are posted in the _____ Column of Pass Book.
5. The deposit column of Pass Book should be equal to _____ Column of Cash Book, if there are no differences.

18.4 REASONS FOR DIFFERENCE

Bank Reconciliation statement is prepared on a specific date for a defined period which may be monthly, quarterly or half yearly depending upon the volume of bank transactions and nature of business. When number of transactions through bank are large in number, trader would like to reconcile the balances of Cash Book and Pass Book on monthly basis. On the other hand, if number of transactions through bank are small in number, the balances of both the books may be reconciled on half-yearly basis. Thus there is no hard and fast rule with regard to the time for which this statement is prepared. But since this statement is prepared on a specific date for specific period, the transactions appearing in any of the two books prior to or after that time period are not to be considered.

The reasons for difference in the balances of Cash Book and Pass Book are given below:—

1. Cheques deposited but not credited by bank.
2. Cheques issued but not presented for payment.
3. Bank charges.
4. Direct Receipts by the bank.
5. Direct payments made by the bank.
6. Interest charged by bank.
7. Interest allowed by bank.
8. Bills discounted but dishonoured.
9. Errors on the part of the trader.
10. Errors committed by bank.

1. Cheques deposited but not yet cleared by bank

When cheques are deposited to bank for collection, these are shown in the bank column on the debit side of Cash Book. This means Cash Book balance goes up. However, Bank records only after receiving the clearance of such cheques. It is quite possible that some of the cheques deposited are not cleared by the bank at the time of preparing Bank Reconciliation Statement. Hence a difference exists. To reconcile this, we start with the Cash Book Balance, we reduce the amount of such cheques in order to reach Pass Book Balance and if we start with the Pass Book balance, we increase the amount of such cheques in order to reach Cash Book balance.

2. Cheques issued but not presented for payment

When the cheques are issued by the trader, these are shown in the

bank column on the Credit side of the Cash Book. Sometimes, creditors do not encash these cheques by the date of preparing Bank Reconciliation Statement. It would lead to a difference in the balances. To reconcile this, if we start with the Cash Book balance, we add the amount of such cheques in order to reach Pass Book balance and if we start with Pass Book balance, we deduct the amount of such cheques in order to reach Cash Book balance.

3. Bank Charges

The bank charges its customers for services rendered from time to time, e.g. collection of out-station cheques or bills of exchange, remitting money on the instructions of the customer, etc. Bank debits the account of the customer as soon as the services are rendered. However, the customer would know about these charges only on receiving the statement from the bank. Hence a difference would exist. To reconcile, if we start with the Cash Book balance, we deduct the amount of such charges and if we start with Pass Book balance, we add the bank charges.

4. Direct Receipts by the Bank

Sometimes bank collects payment directly on behalf of its customers under their standing instructions e.g. collection related to dividend on shares, interest on debentures, interest on government and other securities etc. The bank gives credit to the customer for such collections as and when these are received. But the customer would know about these collections only on receiving the statement from the bank. Hence a difference would exist. To reconcile, if we start with the Cash Book balance, we add the amount and if we start with the Pass Book balance, we deduct the amount.

5. Direct payments by the Bank

Bank sometimes, make certain payments under standing instructions of the customer, e.g. payment related to Insurance premium, telephone bills, water and electricity bills etc. Bank charges customers account as soon as such payments are made. But trader would not pass any entry in his books till such information is received by him. Hence a difference is bound to occur. To reconcile this, if we start with the Cash Book balance, we deduct the amount and if we start with the Pass Book balance, we add the amount.

6. Interest charged by Bank

Bank charges interest from the customers on overdraft or on other money lent by it. The account of the trader is debited immediately but the cash book does not show it until bank sends summary of customer's

account. To reconcile this, if we start with the Cash Book balance, we deduct the amount and if we start with the Pass Book balance, we add the amount.

7. Interest allowed by Bank

Most of the banks do not allow any interest on current account. But a few banks do allow it on the credit balance. Interest is credited in the Pass Book as soon as it is allowed by bank but in Cash book, no entry is found for such interest. Hence a difference exists. To reconcile this if we start with the Cash Book balance, we add the amount and if we start with Pass Book balance, we deduct the amount.

8. Bill discounted but dishonoured

Customer debits his bank account after getting the bill discounted. It is possible that the drawee may refuse to pay the bill on the due date. This is called dishonouring of bill. The bank debits trader's account by the amount of bill but cash book does not show any record of such dishonour unless and until this is informed by the bank. Hence a difference exists. To reconcile this, if we start with the Cash Book balance, we deduct the amount and if we start with the Pass Book balance, we add the amount.

9. Errors on the part of Customer

Besides the reasons stated above, there may be certain errors from customer's side, e.g., posting in the wrong column, calculation error, unrecorded transaction, etc. In such cases also there would be a difference between the balances of Pass Book and Cash Book.

10. Errors committed by bank

Bank may also commit certain errors causing difference in the Pass Book and Cash Book by giving wrong debit or credit to customer's account. In such cases the balance of Cash Book and Pass Book will not agree.

INTEXT QUESTIONS 18.2

Given below are statements. Some of these statements are true statements and some of these are false statements. Write 'T' for true and 'F' for false statements.

1. Bank credits trader's account as soon as it receives cheques from traders.
 2. Bank charges are never entered in the Cash Book.
 3. Banks make certain payments on behalf of the customer under his standing instructions.
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4. In case of cheques issued but not encashed, the balance of Pass Book will be less than the balance of Cash Book.
5. Direct receipts by the bank on behalf of customer would increase the balance shown by Pass Book.

18.5 PREPARATION OF BANK RECONCILIATION STATEMENT

Steps involved in the preparation of Bank Reconciliation Statement are listed below:—

- i) Concentrate only on the entries which pertain to the period of reference for Bank Reconciliation Statement.
- ii) Compare the entries recorded in Cash Book and Pass Book and mark the points of difference. Sometimes the causes of difference are given in the problem. In such a case there will not be any need for this exercise.
- iii) Take balance of any book, cash book or pass book as a starting point.
- iv) Adjust the balance taken as the starting point according to the entries of the other book in order to arrive at the balance of that book. It means that if the balance as per Pass Book has been taken as a starting point it will be adjusted according to the entries of the Cash Book and vice versa.
- v) If certain entries are found recorded in one book only and the balance of that book is adopted as a starting point, the reverse treatment is given to such transactions.

Types of Problem

1. When both the balances of Cash Book and Pass Book and causes of difference are given.
2. When the balance of one book and the causes of difference are given.
3. When the extracts of cash Book and Pass Book are given, the students are required to find out the causes of difference to prepare the Bank Reconciliation Statement.

Case 1

When balances of both the books are given in the problem

In such cases, balance of one book (either Cash Book or Pass Book) is taken as the starting point and then it is adjusted according to the balance of the other book. This can be explained in summarised form as:

Bank Reconciliation Statement As on

Particulars	Plus Items (+)	Minus items (-)
Balance as per Cash Book		
Add Cheques issued but not presented for payment		
Less Cheques deposited but not yet credited		
Add Bank interest		
Less Bank charges		
Add Amount received by bank on behalf of trader like dividend on shares, interest on debentures		
Less Amount paid by bank on behalf of trader like electricity bill, insurance premium, telephone bill etc.		
Add Direct deposits by customers		
Less Bills discounted		

Bank Reconciliation Statement As on

Particulars	Plus Items (+)	Minus items (-)
Balance as per Pass Book		
Less Cheques issued but not presented for payment		
Add Cheques deposited but not yet credited		
Less Bank interest		
Add Bank charges		
Less Amount received by bank on behalf of trader like dividend on shares, interest on debentures		
Add Amount paid by bank on behalf of trader like electricity bill, insurance premium, telephone bill etc.		

Illustration 1

From the following particulars, prepare a Bank Reconciliation Statement as on 31st March, 1996.

- (i) Balance as per Cash Book Rs.3,200 and as per Pass Book Rs.2,200/-
- (ii) Cheques issued but not presented for payment Rs.1,500/-
- (iii) Cheques sent for collection but not collected upto 31.03.1996 Rs.1,800/-.
- (iv) Bank charges debited by Bank Rs.200/-
- (v) Insurance premium paid by Bank Rs.500/-.

Solution — Taking Balance of Cash book as the starting point

Bank Reconciliation Statement as on 31.3.96

Particulars	Plus Items (+)	Minus items (-)
Balance as per Cash Book	3,200	
Add: Cheques issued but not presented for payment	1,500	
Less: (i) Cheques sent for collection but not yet collected		1,800
(ii) Bank Charges		200
(iii) Insurance premium paid by bank		500
		<u>2,500</u>
Balance as per Pass Book		2,200
	<u>4,700</u>	<u>4,700</u>

Solution — Taking Balance of Pass book as the starting point

Bank Reconciliation Statement as on 31.3.96

Particulars	Plus Items (+)	Minus items (-)
Balance as per Pass Book	2,200	
Add: (i) Cheques sent for collection but not yet collected	1,800	
(ii) Bank charges	200	
(iii) Insurance premium paid by bank	500	
Less: Cheques issued but not presented for payment		1,500
	4,700	1,500
Balance as per Cash Book		3,200
	4,700	4,700

Alternative Method

Bank Reconciliation Statement as on 31.3.96

<i>Particulars</i>	<i>Amount</i>
Balance as per Cash Book	3,200
Add: Cheques issued but not encashed	1,500
	4,700
Less: (i) Cheques sent for collection but not yet collected	1,800
(ii) Bank charges	200
(iii) Insurance Premium paid by Bank	500
Balance as per Pass Book	2,200

Case II

When balance as per one book is given together with the causes of difference.

Illustration 2

From following particulars, prepare Bank Reconciliation Statement as on 30.06.1996.

- (i) Balance as per Cash Book on 30.6.96 Rs.9,800/-.
- (ii) Cheques amounting to Rs.1,000/- were paid into the Bank but were not credited by 30.6.1996.
- (iii) Cheques for Rs.3,200/- were issued but not cashed upto 30.6.1996.
- (iv) Pass Book shows a credit of Rs.180/- for interest and a debit of Rs.40/- on account of bank charges.
- (v) Pass Book contains an entry for Rs.240/- being payment made by a customer direct into Bank.

Solution :

Bank Reconciliation Statement as on 30.6.96

Particulars	Plus Items (+)	Minus items (-)
Balance as per Cash Book	9,800	
Add: i. Cheques issued but not yet encashed	3,200	
ii. Interest allowed by Bank	180	
iii. Direct Deposit by customer	240	
Less: i. Cheques paid into the bank but not credited		1,000
ii. Bank Charges		40
	13,420	1,040
Balance as per Pass Book		12,380
	13,420	13,420

Case III

When extracts from Pass Book and Cash Book are given.

This case may have two situations:—

- (i) When extracts relate to the same period.
- (ii) When Pass Book relates to the succeeding period.

III (i) When extracts of Pass Book and Cash Book are given for the same period.

Illustration 1

Given below are the Cash book and Bank Pass book of Mohan for the month of April, 1996. Prepare Bank Reconciliation Statement as on 30.4.1996.

Cash Book (Bank Column)

<i>Date</i>	<i>Particulars</i>	<i>Amount</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount</i>
01.4.96	To Balance b/d	12,500	01.4.96	By Salaries A/c. (Ch.No.201)	4,000
04.4.96	To Sales A/c.	8,000	06.4.96	By Purchases A/c. (Ch.No.202)	3,200
08.4.96	To Shiv A/c.	1,500	11.4.96	By Machinery A/c. (Ch.No.203)	6,000
13.4.96	To Sohan A/c.	3,400	15.4.96	By Om Prakash A/c (ch.No.204)	1,000
18.4.96	To Komal A/c.	4,600	19.4.96	By Drawings A/c. (Ch.No.205)	800
21.4.96	To Furniture A/c.	1,200	23.4.96	By Kishor A/c. (Ch.No.206)	2,000
25.4.96	To Sales A/c.	3,800	27.4.96	By Suresh A/c. (Ch.No.207)	1,000
30.4.96	To Manish A/c.	3,000	30.4.96	By Printing A/c. (Ch.No.208)	500
			30.4.96	By Balance c/d	19,500
		38,000			38,000

Bank Pass Book

<i>Date</i>	<i>Particulars</i>	<i>Deposits</i>	<i>Withdrawals</i>	<i>Balance</i>	<i>Signature</i>
01.4.96	Balance			12,500	
02.4.96	Cheque No.201		4,000	8,500	
06.4.96	Cash	8,000		16,500	
06.4.96	Cheque No.202		3,200	13,300	
10.4.96	Cheque	1,500		14,800	
16.4.96	Cheque	3,400		18,200	
17.4.96	Cheque No.205		800	17,400	
20.4.96	Cheque	4,600		22,000	
20.4.96	Cheque	3,800		25,800	
28.4.96	Cheque No.203		6,000	19,800	
28.4.96	Cheque No.204		1,000	18,800	
30.4.96	Interest	100		18,900	
30.4.96	Deposit(Manish)	3,000		21,800	
30.4.96	Charges		10	21,890	

Solution

When the extracts of Cash Book and Pass Book relate to the same period, it is expected that all the entries on the debit side of Cash Book will appear in the deposit column of Pass Book and entries in the Credit side of Cash Book will be shown in the withdrawal column of Pass Book. Hence for preparing Bank Reconciliation Statement, entries which are not common should be marked. In the example given above following differences may be noted:

- (i) The bank Pass Book shows all deposits as shown in the debit side of Cash Book except for Rs.1,200 in respect of furniture. This is cheque deposited but not credited by Bank.
- (ii) The deposit column also shows entry for interest for Rs.100 which does not appear in debit side of Cash Book. This is interest allowed by bank.
- (iii) In the withdrawal column of Pass Book, all the credit side entries of Cash Book are appearing except from cheque No.206, 207 and 208. These are cheques issued but not encashed.
- (iv) Bank charges Rs.10/- may also be noted in the Pass Book which have not been recorded in the Cash Book.

Thus on the basis of information drawn the Bank Reconciliation Statement may be prepared as follows by taking any balance as starting point.

Bank Reconciliation Statement as on 30.04.96

Particulars	Plus Items (+)	Minus items (-)
Balance as per Cash Book	19,500	
Add: (i) Cheques issued but not yet encashed	3,500	
(ii) Interest allowed by Bank	100	
Less: Cheques paid into the bank but not credited		1,200
Bank Charges		10
Balance as per Pass Book		21,890
	<u>23,100</u>	<u>23,100</u>

Taking Balance of Pass Book as the starting point

Bank Reconciliation Statement as on 30.04.96

Particulars	Plus Items (+)	Minus items (-)
Balance as per Pass Book	21,890	
Add: (i) Cheques deposited but not credited	1,200	
(ii) Bank charges	10	
Less: (i) Cheques issued but not encashed		3,500
(ii) Interest allowed by Bank		100
Balance as per Cash Book		19,500
	<u>23,100</u>	<u>23,100</u>

III(II) When the abstracts of Cash Book and Pass Book are not for the same period.

Illustration (3.2)

From the following particulars in the bank column of Cash Book and corresponding Bank Pass Book, prepare Bank Reconciliation Statement as on 31.3.96 for Mr. Pratap.

Cash Book (Bank Column only)

Date	Particulars	Amount	Date	Particulars	Amount
1996					
March 01	To Balance	3,400	March 07	By Drawings	1,500
" 10	" M.L. & Co.	500	" 08	" Salary	2,200
" 15	" Jesbai	4,000	" 15	" Ardesar & Co	3,000
" 18	" Ganesji & Co	1,200	" 28	" Merwan Bros.	1,550
" 28	" Dinshaw & Co	2,200	" 29	" Raj & Sons	800
" 29	" Dhanbura Co	5,700	" 30	" Prakash Elecl.	400
" 31	" Antony	3,425	" 31	" S.Chand & Co	1,600
			" 31	" Balance c/d	9,375
		<u>20,425</u>			<u>20,425</u>

Bank Pass Book

Mr. Pratap in Current A/C. with Bank

Date	Particulars	Amount	Date	Particulars	Amount
1996			1996		
April 01	To Balance b/d	4,950	April 02	By Dividends	500
" 02	" Raj & Sons	800	" 02	" Dinshaw & Co	2,200
" 04	" Macmillan Radcor	400	" 02	" Hosang	200
" 08	" Salary	2,300	" 03	" Antony	3,425
" 10	" Drawings	500	" 10	" Romy	170

When both the books do not show entry for the same period, the entries which are common in both the books should be marked, e.g., in the above example the Cash book entries as per month of March but the Pass book is showing entries upto 10th April. Since Bank Reconciliation Statement is to be prepared as on 31.3.1996, entries appearing in the pass book in the month of April would be caused a difference in the balance of two books. Thus these would be the causes of difference and Bank Reconciliation Statement would be prepared on the basis of these causes. The solution is given below:

Bank Reconciliation Statement as on 31.03.96

Particulars	Plus Items (+)	Minus items (-)
Balance as per Cash Book	9,375	
Add: Cheques issued but not encashed		
Raj & Sons	800	
Macmillan	400	
Less: Cheques deposited but not credited		
Dinshaw & Co	2,200	
Antony	3,425	
		5,625
	10,575	5,625
Balance as per Pass Book		4,950
	10,575	10,575

INTEXT QUESTIONS 18.3

You are given the balance as per Cash Book as the starting point and balance as per Pass Book is to be ascertained by you. Out of the following transactions, write 'A' before those amounts which will be added to the balance of Cash Book and 'R' before those by which balance of Cash Book will be reduced:—

1. Interest allowed by bank.
2. Bill discounted with bank and dishonoured
3. Cheques issued but not encashed
4. Bank charges
5. Insurance premium paid by bank
6. Dividend on shares collected by bank

18.6 FAVOURABLE AND UNFAVOURABLE BALANCE AS PER CASH BOOK AND PASS BOOK

When there is debit balance in Cash Book and credit in Pass Book, it means the balance is favourable to the businessman. On the other hand, if there is a credit balance in cash book and debit balance in Pass book, it is called unfavourable balance or overdraft. This means that the payments or withdrawals are more than the receipts and deposits and that is why it is known as unfavourable balances or overdraft.

The following examples will further clarify the process of preparing statement in case of overdraft.

Note: While preparing Bank Reconciliation Statement, overdraft as per Cash Book or Pass Book will appear as Minus item and treatment for these items remain same as in the case of favourable balance.

Overdraft as per Cash Book

Illustration : Find out the balance as per Pass Book from the following particulars:—

- (a) Bank overdraft as per Cash book on 30.4.96 Rs.2,000/-.
- (b) Cheques issued but not encashed Rs.1,350/-.
- (c) Cheques deposited but not cleared by Bank Rs.560/-.
- (d) Bank charges Rs.80/- made by Bank not yet entered in Cash Book.
- (e) Interest on investment collected by bankers and credited in Pass book amount to Rs.905/-.

Bank Reconciliation Statement as on 30.04.96

Particulars	Plus Items (+)	Minus items (-)
Overdraft as per Cash Book		2,000
Less: Cheques deposited not cleared		560
Bank charges		80
Add: Cheques issued but not encashed	1,350	
Interest collected by Bank	905	
	2,255	2,640
Overdraft as per Pass Book	385	
	2,640	2,640

INTEXT QUESTIONS 18.4

Fill in the blanks choosing correct word from the words given in brackets:

1. Overdraft means _____ balance (Favourable/unfavourable).
2. The balance of Pass Book is _____ in case of overdraft (Debit/Credit).
3. Bank charges will _____ overdraft as per Cash Book . (increase/decrease).
4. Cheques issued but not encashed _____ the overdraft as per Pass Book. (inflates/deflates).
5. Interest allowed by Bank _____ the favourable balance of Cash Book . (adds to/ lessens)

18.7 WHAT YOU HAVE LEARNT

1. Bank Reconciliation Statement is prepared to reconcile the differences between the balances of Pass Book and Cash Book.
2. The primary purpose of Bank Reconciliation Statement is not to correct or adjust the books of accounts but to reconcile the balances of Pass Book and Cash Book.
3. Bank Reconciliation Statement is prepared on a specific date and for a specific period. Entries which donot fall under the defined period of bank reconciliation statement are not considered while preparing this statement.

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4. There are certain reasons due to which a difference in the balance of Pass Book and Cash Book takes place. These are as follows:
 - Cheques deposited but not yet cleared by bank.
 - Cheques issued but not presented for payment.
 - Bank charges.
 - Direct Receipts by the bank.
 - Direct payment made by the bank.
 - Interest charged by bank.
 - Interest allowed by bank.
 - Bill discounted but dishonoured.
 - Errors on the part of the trader.
 - Errors committed by bank.
 5. The balance of one book is taken as the starting point and then adjusted in the light of entries appearing in the other book so that the balance of the other book is arrived at.
 6. When both the balances are given together with the causes of difference, any balance may be taken as the starting point and the other balance should be found out by making adjustments. In such a problem, answer is given in the problem itself.
 7. When balance of one book is given and the other balance is to be ascertained, the balance given may be taken as the starting point and by making adjustments for the causes of differences, the balance of the other book is determined.
 8. If the extracts of Cash Book and Pass book are given for the same period of time, entries which appear only in one book and not in the other book will be considered for preparing Bank Reconciliation Statement.
 9. If the extracts of both the books are related to different time periods, the entries which are common in both the extracts are to be considered for the preparation of Bank Reconciliation Statement.
 10. Debit balance of Cash book and credit balance of Pass book are favourable to the businessman. In case there exists credit balance in Cash book or debit balance in Pass book, it would be called unfavourable balance or overdraft.
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18.8 TERMINAL QUESTIONS

1. Why is it necessary to prepare Bank Reconciliation Statement ? (30-50 words).
2. Enumerate the causes of difference in the balance of Cash Book and Pass book. (30-50 words).
3. What is the difference between favourable and unfavourable balance of Cash Book and Pass Book. (30-50 words).
4. Explain any four causes of difference in the balance of Cash Book and Pass Book. (80-100 words).
5. From the following particulars find out the balance as per Pass Book and also prepare a Bank Reconciliation Statement for S.Chand & Co. as on 31st Dec.1997.
 - (i) Debit balance as per Cash Book Rs.15,200/-.
 - (ii) Cheque deposited in Bank but not recorded in Cash Book worth Rs.5,300/-.
 - (iii) Several cheques totalling to Rs.8,500/- were drawn and issued but out of these cheques totalling Rs.4,000/- were encashed.
 - (iv) Interest of Rs.1,400/- was charged by the Bank but not recorded in cash book.
 - (v) Bank received dividend of Rs.500/- directly. Credit Balance as per Pass Book (Ans. Rs.24,100/-)
6. The Bank Pass book of Thiru Venkatraghvan showed a credit balance of Rs.8,000/- as on 30.09.97. However, the bank column of Cash Book showed a different balance. Find out the balance as per Cash Book and also prepare Bank Reconciliation Statement to reconcile the difference in the balance shown by two books. The following information may be used for the above purpose:
 - (i) Cheques worth Rs.5,800/- were deposited in the bank but out of these one cheque amounting to Rs.800/- was collected by bank in the month of Oct., 1997.
 - (ii) Cheque of Rs.1,200/- issued in favour of R.R. & Co. was recorded twice in the Cash Book.
 - (iii) Pass book showed a credit of Rs.55/- as interest for which no entry was found in the he Cash book.
 - (iv) Bank made a payment of Rs.425/- towards Fire Insurance Premium for which no record was traceable in cash book. (Ans. Dr. Balance as per Cash Book Rs. 8,030/-.)

7. From the following entries in the bank column of Cash book and corresponding Pass Book of Mr.B.P.Singh prepare Bank Reconciliation Statement as on 31.12.1997.

Cash Book (Bank Column only)

<i>Date</i>	<i>Particulars</i>	<i>Amount</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount</i>
Dec. 97			Dec. 97		
1	To Balance b/d	4,300	7	By Drawing	1,700
2	To Mohan	300	9	By Salary	3,200
13	To Ram	1,500	12	By Shyam Bros.	1,000
24	To Amba Prasad	2,200	18	By Gupta Sons	500
27	To Rajiv	3,700	22	By S.Printers	1,200
28	To Sanjeev	1,500	27	By Narender	1,100
29	To Rajesh	5,200	31	By Balance C/d	10,000
	Total :	18,700		Total :	18,700

Bank Pass Book

<i>Date</i>	<i>Particulars</i>	<i>Amount</i>	<i>Date</i>	<i>Particulars</i>	<i>Amount</i>
Dec.'97			Dec.'97		
7	To Drawings	1,700	1	By Balance	4,300
10	To Salary	3,200	5	By Mohan	300
20	To Gupta Sons	500	15	By Ram	1,500
27	To Narender	1,100	28	By Rajiv	3,700
28	To Collection charge	200	29	By Dividend	300
30	To Commission	1,500			
31	To Balance	1,900			
	Total :	10,100		Total :	10,100

18.9 ANSWERS TO INTEXT QUESTIONS

- 18.1 1. Pass 2. Debit 3. Deposit
 4. withdrawl 5. Debit
- 18.2 1. F 2. F 3. T
 4. F 5. T
- 18.3 1. A 2. R 3. A
 4. R 5. R 6. A
- 18.4 1. Unfavourable 2. Debit 3. Increase
 4. Deflates 5. Adds to