

CLASS NOTES

Class: XI

Topic: BANK RECONCILIATION STATEMENT

Subject: ACCOUNTANCY

MEANING OF BANK RECONCILIATION STATEMENT

- All business firms open Current Account with Banks and maintain their accounts, these firms keep their records of Banking transactions in the bank column of the Cash Book, that is record of deposits and withdrawals.
- On the other hand, bank also maintains the accounts of its customers and periodically provide them the copy of statement of bank transactions recorded by them.
- The copy of statement of account is called as Bank Pass Book or Bank Statement.
- Pass book records Payments on the debit side and Receipts on the credit side ,whereas in the Cash Book the customer records Receipts on the debit side and Payment on the credit side.

While depositing cash or cheque in the bank account customer debits the bank column of its cash book while the bank credits the account of the customer in its book

similarly customer credits the bank column of its cash book at the time of withdrawal of money in cash or while issuing cheque to suppliers of goods

- It is mandatory for both the books to exhibit the same balance despite the fact that Debit Balance of Bank Column of Cash Book should be followed with Credit Balance of Bank Passbook and vice versa.

○

- Whereas in real practice both of these balances seldom tally due to various reasons.

For the purpose a mechanism is needed to reconcile the causes of difference of these two balances. The mechanism is called Bank Reconciliation Statement-

“A bank reconciliation statement is a statement showing the items of differences between the bank column of cash book and bank balance depicted by the bank pass book on a particular date”

CAUSES OF DIFFERENCES BETWEEN CASH BOOK AND PASS BOOK BALANCES

- differences due to time gap in recording transactions
- differences caused due to error in recording of transactions

DIFFERENCE DUE TO TIME GAP IN RECORDING TRANSACTIONS

- it includes cheques issued but not yet presented for payment in the bank
- cheques deposited into bank for collection but not yet credited by the bank
- cheques paid into bank for collection but dishonored by the bank
- interest allowed by bank
- interest charged by bank on overdraft
- interest and dividend collected by the bank
- commission and Bank charges charged by the bank
- direct payments made by the bank on behalf of customers
- direct deposit into Bank by the debtors

DIFFERENCES CAUSED DUE TO ERROR IN RECORDING OF TRANSACTIONS

- it includes errors committed by the firm in recording transactions
- errors committed by bank in recording transactions

NEED AND IMPORTANCE OF BANK RECONCILIATION STATEMENT

a bank reconciliation statement is needed due to the following reasons;

- it brings out the errors of cash book and pass book into Limelight
- the reasons of imbalance can be identified and necessary corrections can be made
- it shows the correctness of bank balance shown by the cash book
- cash book can be revised for the purpose of reconciliation
- if BRS is prepared on periodical basis it reduces the chances of fraud and embezzlement committed by the staff

MAIN POINTS REGARDING BANK RECONCILIATION STATEMENT

- ❖ bank reconciliation statement is prepared by the customer
- ❖ this statement may be prepared at any point of time
- ❖ it is prepared by taking the balance of cash book or passbook and at the end the balance of pass book or cash book is calculated

