Bank Reconciliation Statement

CBSE · Class 11 · Accountancy — exam notes

A Bank Reconciliation Statement (BRS) is a statement prepared on a particular date to explain, item by item, why the bank balance shown by a firm's own cash book (bank column) differs from the balance shown by the bank's pass book/statement. It does not form part of the double-entry books; it simply reconciles the two balances by adjusting for timing differences and unrecorded items so that both figures can be agreed.

Key terms & definitions

Cash Book (Bank Column)
The firm's own record of receipts into and payments out of its bank account. A debit balance here means a favourable (positive) balance; a credit balance means a bank overdraft.

Pass Book / Bank Statement
The copy of the customer's account maintained by the bank. From the bank's viewpoint the customer is a creditor, so a customer's deposit is a credit balance (favourable) and an overdraft is a debit balance in the pass book.

Bank Reconciliation Statement (BRS)
A statement prepared on a specific date to reconcile the cash book bank balance with the pass book balance by listing and adjusting the items that cause the difference between them.

Unpresented / Outstanding Cheque (Cheque Issued but Not Yet Presented)
A cheque the firm has issued and entered (deducted) in its cash book, but which the payee has not yet presented for payment, so the bank has not yet reduced the balance. Until it is cleared, the pass book shows a higher balance than the cash book.

Uncredited Cheque / Deposit in Transit (Cheque Deposited but Not Yet Collected)
A cheque the firm has deposited and entered (added) in its cash book, but which the bank has not yet collected and credited. Until it clears, the pass book shows a lower balance than the cash book.

Bank Charges
Amounts the bank debits to the customer's account for services (e.g., commission, ledger folio, collection charges). The bank records them at once; the firm records them only when it sees the statement, so till then the cash book balance is higher.

Standing Order / Direct Debit
A standing instruction under which the bank makes recurring payments (insurance premium, loan EMI, rent) on the firm's behalf. The bank debits the account immediately; the cash book is updated later.

Direct Deposit / Direct Credit
Amounts credited straight into the account by the bank (interest allowed, dividend, or money paid in directly by a customer). The bank records them at once; the cash book records them later, so till then the pass book balance is higher.

Dishonoured Cheque
A deposited cheque (or bill) that the bank fails to collect because it bounces. The firm had already added it in the cash book; on dishonour the bank reverses it, so the pass book balance falls below the cash book.

Bank Overdraft
A negative bank balance that arises when the firm has withdrawn more than it deposited. It is a credit balance in the cash book and a debit balance in the pass book (an amount owed by the firm to the bank).

Favourable Balance
A positive bank balance: a debit balance as per the cash book and the same figure as a credit balance as per the pass book.

Meaning and need for a BRS

- Two separate records are kept of the same bank account: the firm keeps the bank column of its cash book, and the bank keeps the customer's pass book/statement.
- On any given date the two closing balances rarely match, even when no mistake has been made; this is normal, not necessarily an error.
- A BRS is prepared to find and explain the reasons for the difference and to satisfy that, after adjustments, both balances are correct.
- It is a memorandum statement (a working), not a ledger account, and does not pass any journal entry by itself.
- Benefits: it locates errors and omissions in either book, detects delays and frauds, brings the cash book up to date, and confirms the true bank balance.

Why the two balances differ — three causes

- Timing differences: the same transaction is recorded on different dates by the firm and the bank (e.g., cheques issued but not yet presented, cheques deposited but not yet collected).
- Transactions recorded by the bank but not yet by the firm: bank charges, interest charged on overdraft, standing orders/direct debits paid, interest allowed and other direct credits, collections made directly by the bank.
- Errors and omissions: a wrong amount, a wrong side, or a missing entry in either the cash book or the pass book.
- Most reconciling items are timing differences and self-correct in the next period; items missing from the cash book (charges, interest, standing orders, errors) need a correcting/journal entry.

Relationship between cash book and pass book balances

- A favourable balance is a DEBIT balance in the cash book and a CREDIT balance in the pass book; the two are the same amount but appear on opposite sides because the bank treats the customer as a creditor.
- An overdraft is a CREDIT balance in the cash book and a DEBIT balance in the pass book.
- Therefore an item that increases the firm's balance in the cash book reduces the difference seen from the pass book and vice versa — this opposite viewpoint is the key to deciding add or less.

Items that make the PASS BOOK balance higher than the cash book

- Cheques issued but not yet presented for payment (the cash book is already reduced; the bank has not yet paid).
- Cheques/amounts paid directly into the account by customers that the firm has not yet recorded.
- Interest allowed by the bank and other direct credits (dividends, interest on investments) not yet entered in the cash book.
- Bills receivable / cheques collected by the bank on the firm's behalf and credited, but not yet entered by the firm.

Items that make the CASH BOOK balance higher than the pass book

- Cheques deposited but not yet collected/credited by the bank (cash book already increased; bank not yet).
- Bank charges, commission and interest on overdraft debited by the bank but not yet recorded by the firm.
- Standing orders / direct debits (insurance, EMI, subscriptions) paid by the bank but not yet recorded by the firm.
- Cheques deposited and entered in the cash book that were later dishonoured / returned by the bank.
- A cheque entered in the cash book but omitted to be sent to or banked at the bank.

Methods of preparing a BRS

- Statement method (most common in exams): start from one given balance (cash book OR pass book) and adjust each item to arrive at the other balance.
- When you start from one balance, ask for each item: 'Does the OTHER book already show this, and is the OTHER balance therefore higher or lower?' Add the items that make the other balance higher; subtract those that make it lower.
- Adjusted (amended) cash book method: first correct the cash book for items the bank has already recorded (add interest/direct credits, deduct charges/standing orders/dishonoured cheques) to get the adjusted cash book balance; then prepare the BRS using only the remaining timing items (unpresented and uncredited cheques) to reach the pass book balance.
- Both methods must give the same agreed (true) balance.

Starting from a FAVOURABLE cash book balance (Dr.) → find pass book balance

- ADD: cheques issued but not yet presented; interest/dividends credited by the bank; amounts directly deposited by customers; bank collections credited but not recorded — all make the pass book higher.
- LESS: cheques deposited but not yet credited; bank charges and interest on overdraft; standing orders/direct debits paid by the bank; cheques deposited that were dishonoured — all make the pass book lower.
- Rule of thumb: items that 'add to the bank' from its side are added; items that 'reduce the bank' from its side are subtracted.

Starting from a FAVOURABLE pass book balance (Cr.) → find cash book balance

- Reverse every direction used above: what is ADDED when starting from the cash book is LESS when starting from the pass book, and vice versa.
- LESS: cheques issued but not yet presented; interest/dividends and direct credits not in the cash book; direct deposits by customers.
- ADD: cheques deposited but not yet credited; bank charges; standing orders paid by the bank; dishonoured cheques.

Overdraft balances — the signs flip

- An overdraft means a NEGATIVE balance, so the logic of add/less reverses compared with a favourable balance; the safest approach is to put a minus sign on the overdraft and treat additions and subtractions algebraically, then read the answer's sign.
- Starting from an overdraft as per cash book (Cr.): ADD cheques deposited but not credited, bank charges, standing orders, dishonoured cheques (they increase the overdraft); LESS cheques issued but not presented and direct credits (they reduce the overdraft).
- Starting from an overdraft as per pass book (Dr.): ADD cheques issued but not presented and direct credits; LESS cheques deposited but not credited, bank charges, standing orders, dishonoured cheques.
- Tip: write 'Overdraft as per Cash Book' as a negative figure at the top; if the final figure is still negative it remains an overdraft, if it turns positive it has become a favourable balance.

Treatment of errors

- Identify in WHICH book the error was made (cash book or pass book) and start the BRS from the OTHER book's balance, or adjust the side that contains the error.
- An undercast/overcast or wrong entry in the cash book is corrected on the cash-book side; an error in the pass book is corrected on the pass-book side.
- Example: a payment of ₹1,200 recorded in the cash book as ₹1,020 means the cash book balance is overstated by ₹180, so deduct ₹180 when reconciling from the cash book balance.

Adjusted cash book method — what to post and what not to

- Post into the amended cash book only the items the bank has ALREADY actioned but the firm has not: interest/dividends credited (debit side), and charges, interest on overdraft, standing orders and dishonoured cheques (credit side).
- Do NOT post pure timing differences (unpresented cheques and uncredited cheques) into the cash book — they will appear automatically next period; carry them into the BRS instead.
- Correct any cash-book errors here too; the resulting balance is the adjusted cash book balance, which is the true balance the BRS then reconciles to the pass book.

Formulas & formats

- There is no algebraic 'formula'; the BRS is a structured statement. Standard heading: 'Bank Reconciliation Statement as on <date>'.
- STARTING FROM FAVOURABLE CASH BOOK BALANCE (Dr.) to reach PASS BOOK balance: Balance as per Cash Book (Dr.) .... XXX ADD: Cheques issued but not yet presented .... + Interest/dividend credited by bank, not in cash book + Amounts directly deposited by customers .... + LESS: Cheques deposited but not yet credited .... − Bank charges / interest on overdraft .... − Standing orders / direct debits paid by bank ..... − Cheques deposited but dishonoured .... − = Balance as per Pass Book (Cr.) XXX
- STARTING FROM FAVOURABLE PASS BOOK BALANCE (Cr.) to reach CASH BOOK balance — every sign above is REVERSED: Balance as per Pass Book (Cr.) .... XXX ADD: Cheques deposited but not yet credited .... + Bank charges / standing orders / dishonoured chq . + LESS: Cheques issued but not yet presented .... − Interest/dividend & direct credits .... − = Balance as per Cash Book (Dr.) XXX
- STARTING FROM OVERDRAFT AS PER CASH BOOK (Cr.) to reach PASS BOOK overdraft (write the overdraft as a negative figure): Overdraft as per Cash Book .... (XXX) ADD (increase overdraft): cheques deposited not credited; bank charges; standing orders; dishonoured cheques + LESS (reduce overdraft): cheques issued not presented; interest/direct credits − = Overdraft as per Pass Book .... (XXX)
- STARTING FROM OVERDRAFT AS PER PASS BOOK (Dr.) to reach CASH BOOK overdraft — signs are the reverse of the line above: ADD: cheques issued not presented; interest/direct credits. LESS: cheques deposited not credited; bank charges; standing orders; dishonoured cheques.
- ADJUSTED CASH BOOK then BRS: Step 1 — Amended Cash Book: opening cash book balance + interest/direct credits − bank charges − standing orders − dishonoured cheques ± error corrections = Adjusted Cash Book balance. Step 2 — BRS: Adjusted Cash Book balance + cheques issued not presented − cheques deposited not credited = Pass Book balance.
- Memory aid: 'Whatever you ADD going one way, you LESS going the other way; for an overdraft, flip the signs once more.'

Important questions & model answers

1 mark **What is a Bank Reconciliation Statement, and why is it prepared?**

- It is a statement prepared on a particular date to reconcile the bank balance shown by the cash book with that shown by the pass book.
- It is prepared to identify and explain the reasons for the difference between the two balances and to confirm the correct bank balance.

1 mark **State the relationship between the cash book balance and the pass book balance for (a) a favourable balance and (b) an overdraft.**

- Favourable balance: debit balance in the cash book = credit balance in the pass book (same amount, opposite sides).
- Overdraft: credit balance in the cash book = debit balance in the pass book.

3 marks **Give any three reasons why the cash book balance may be higher than the pass book balance.**

- Cheques deposited into the bank but not yet collected/credited (cash book already increased, bank not yet).
- Bank charges, commission or interest on overdraft debited by the bank but not yet recorded by the firm.
- Standing orders/direct debits paid by the bank, or cheques deposited that were later dishonoured, not yet recorded in the cash book.

3 marks **Explain why an unpresented (outstanding) cheque and a deposit in transit are adjusted in opposite directions on the bank/pass-book side.**

- When a cheque is issued, the cash book is reduced at once but the bank reduces its balance only when the cheque is presented; until then the pass book is HIGHER, so an unpresented cheque is ADDED to a favourable cash book balance (or deducted from the pass book balance).
- When a cheque is deposited, the cash book is increased at once but the bank credits it only on collection; until then the pass book is LOWER, so a deposit in transit is DEDUCTED from a favourable cash book balance (or added to the pass book balance).
- Because one item makes the pass book too high and the other makes it too low, they are treated in opposite directions.

3 marks **Distinguish between the cash book and the pass book (any three points).**

- Maintained by: the cash book is written by the firm/account holder; the pass book is written by the bank.
- Nature of balance: a favourable balance is a debit in the cash book but a credit in the pass book.
- Recording time: many items (charges, interest, standing orders) are recorded by the bank first and by the firm later, which is why the two balances differ on a given date.

4 marks **On 31 March 2025, Meena's cash book (bank column) shows a debit balance of ₹52,000. Prepare a BRS to find the pass book balance, given: (i) cheques issued but not yet presented ₹6,000; (ii) cheques deposited but not yet credited ₹4,200; (iii) bank charges ₹250 not recorded in the cash book; (iv) interest allowed by the bank ₹800 not recorded in the cash book; (v) insurance premium paid by the bank under standing order ₹1,500 not recorded in the cash book.**

- Start: Balance as per Cash Book (Dr.) = ₹52,000.
- ADD cheques issued but not presented ₹6,000 (pass book higher) → 58,000.
- ADD interest allowed by bank ₹800 (pass book higher) → 58,800.
- LESS cheques deposited but not credited ₹4,200 (pass book lower) → 54,600.
- LESS bank charges ₹250 (pass book lower) → 54,350.
- LESS insurance premium under standing order ₹1,500 (pass book lower) → 52,850.
- Balance as per Pass Book (Cr.) = ₹52,850.

4 marks **From the following, prepare a BRS as on 30 June 2025 starting from the PASS BOOK balance. Credit balance as per pass book ₹40,000; cheques issued but not yet presented ₹5,000; cheques deposited but not yet collected ₹3,500; bank charges debited by bank ₹200; a customer directly deposited ₹2,000 into the account, not recorded in the cash book.**

- Start: Balance as per Pass Book (Cr.) = ₹40,000.
- Reverse the cash-book directions: LESS cheques issued but not presented ₹5,000 → 35,000.
- LESS amount directly deposited by customer ₹2,000 (already in pass book, not in cash book) → 33,000.
- ADD cheques deposited but not credited ₹3,500 → 36,500.
- ADD bank charges ₹200 → 36,700.
- Balance as per Cash Book (Dr.) = ₹36,700.

6 marks **On 31 December 2025, the bank column of Rahul's cash book shows an OVERDRAFT of ₹18,000. Prepare a BRS to find the pass book balance. (i) Cheques issued but not presented ₹7,000; (ii) cheques deposited but not yet credited ₹4,000; (iii) bank charges ₹300; (iv) interest on overdraft charged by bank ₹1,200; (v) a cheque of ₹2,500 deposited and entered in the cash book was dishonoured.**

- Write the overdraft as a negative figure: Overdraft as per Cash Book = (₹18,000).
- Items that INCREASE the overdraft are added; items that REDUCE it are subtracted.
- LESS cheques issued but not presented ₹7,000 (reduce overdraft): −18,000 + 7,000 = (11,000).
- ADD cheques deposited but not credited ₹4,000 (increase overdraft): −11,000 − 4,000 = (15,000).
- ADD bank charges ₹300 (increase overdraft): (15,300).
- ADD interest on overdraft ₹1,200 (increase overdraft): (16,500).
- ADD dishonoured cheque ₹2,500 (increase overdraft): (19,000).
- Result is negative, so Overdraft as per Pass Book = ₹19,000 (a debit balance in the pass book).

6 marks **Worked example (full BRS in correct format). On 31 March 2025, Priya's cash book (bank column) shows a debit balance of ₹28,500 while her pass book shows ₹27,700. Reconcile using the bank/pass-book (statement) method: (a) a customer's cheque of ₹2,200 deposited on 29 March not yet credited; (b) a supplier's cheque of ₹1,800 issued on 28 March not yet presented; (c) bank charges of ₹400 not yet entered in the cash book.**

- Heading: Bank Reconciliation Statement of Priya as on 31 March 2025.
- Particulars — Plus (+) / Minus (–) columns:
- Balance as per Cash Book (Dr.) .... + 28,500
- Add: Cheque issued but not yet presented (b) .... + 1,800
- Less: Cheque deposited but not yet credited (a) .... – 2,200
- Less: Bank charges not recorded in cash book (c) ...... – 400
- Balance as per Pass Book (Cr.) .... = 27,700
- Check: 28,500 + 1,800 – 2,200 – 400 = 27,700, which equals the given pass book balance, so the statement reconciles.
- Note for posting: bank charges ₹400 are not a timing difference; the firm must pass a journal entry — Bank Charges A/c Dr 400; To Bank A/c 400 — to bring the cash book up to date. The two cheques are timing differences and need no entry.

Exam tips

- Always write a proper heading with the firm's name and the date: 'Bank Reconciliation Statement as on …'.
- First read the question to identify (a) which balance is given — cash book or pass book — and (b) whether it is favourable or an overdraft; this decides every sign.
- Golden rule: whatever you ADD when starting from the cash book, you SUBTRACT when starting from the pass book (and vice versa). For an overdraft, the signs flip once more.
- For overdrafts, the cleanest method is to put a minus sign on the opening overdraft and add/subtract algebraically; a negative answer is still an overdraft, a positive answer is a favourable balance.
- Use two amount columns (Plus and Minus) so the marker can follow your additions and subtractions clearly.
- Show working notes for any item that is recorded for a different (wrong) amount — state by how much and on which side the balance is over/understated.
- Remember which items need a journal entry (charges, interest, standing orders, dishonoured cheques, cash-book errors) and which do not (unpresented and uncredited cheques).

Quick revision

- BRS reconciles the cash book bank balance with the pass book balance on a given date; it is a working, not a ledger account.
- Favourable: Dr in cash book = Cr in pass book. Overdraft: Cr in cash book = Dr in pass book.
- Three causes of difference: timing differences, items recorded by bank not yet by firm, and errors.
- Cheques issued but not presented and direct credits make the PASS BOOK higher → add to a favourable cash book balance.
- Cheques deposited but not credited, bank charges, standing orders and dishonoured cheques make the CASH BOOK higher → subtract from a favourable cash book balance.
- Starting from the pass book balance reverses all the above signs; an overdraft reverses them once more.
- Adjusted cash book method: post bank-recorded items and errors into the cash book first, then reconcile only the unpresented/uncredited cheques to the pass book.
- Timing differences self-correct next period and need no entry; charges, interest, standing orders, dishonoured cheques and cash-book errors do need a correcting entry.