

Bank Reconciliation Statement

Kerala · Class 11 · Accountancy — exam notes

A business and its bank keep two records of the same money, and on any given date they rarely agree. The difference is usually not an error — it is TIMING. A Bank Reconciliation Statement explains the gap item by item, starting from one balance and arriving at the other. SCERT Kerala teaches the cash-book-to-bank-statement format, and preparing it monthly is what catches unrecorded charges, double entries and bank errors early.

Key terms & definitions

Bank Reconciliation Statement (BRS)

A statement prepared on a particular date to explain the difference between the bank balance shown by the cash book and that shown by the bank statement (pass book).

Cash book (bank column)

The business's own record of deposits made and cheques issued. It is the firm's version of its bank balance.

Bank statement / Pass book

The bank's record of the same account, sent to the customer. From the bank's angle a customer's deposit is a liability, so the two records mirror each other.

Outstanding cheque (cheque issued but not presented)

A cheque the firm has written and already deducted in its cash book, which the payee has not yet presented to the bank.

Deposit in transit (cheque deposited but not credited)

Money the firm has deposited and already added in its cash book, which the bank has not yet processed or cleared.

Bank charges

Fees the bank deducts directly — service charges, cheque-book charges, commission — which the firm learns of only when it sees the statement.

Direct deposit / direct collection

Amounts the bank collects on the firm's behalf, such as interest, dividends or a customer's direct transfer, and credits without the firm knowing.

Standing instruction

A payment the bank makes automatically on the firm's behalf — insurance premium, EMI, electricity — which the firm may not yet have recorded.

Dishonoured cheque

A cheque deposited and already recorded as received which the bank returns unpaid, so the bank never credited the amount.

Favourable balance

A debit balance in the cash book, matched by a credit balance in the bank statement — the normal position where the firm has money in the bank.

Overdraft

A credit balance in the cash book and a debit balance in the bank statement — the firm owes the bank. All adjustments reverse in direction.

Timing difference

A difference caused solely because one party has recorded an item that the other has not yet processed. It corrects itself in time and is not an error.

Why two records of the same money disagree

- The firm records every deposit and every cheque issued in its cash book, on the day it acts.
- The bank records the same items on the day IT processes them — which may be days later or never, if a cheque is not presented.
- The mismatch is therefore usually a TIMING DIFFERENCE, not a mistake by either side.
- A second, smaller group of causes is items known only to the bank — charges, interest, direct collections.
- A third, rarest group is genuine ERRORS, in the cash book or by the bank.

The main causes, grouped

- TIMING: cheques issued but not yet presented; cheques deposited but not yet cleared.
- KNOWN ONLY TO THE BANK — INCREASING the bank balance: interest credited, dividends or customer payments collected directly.
- KNOWN ONLY TO THE BANK — REDUCING the bank balance: bank charges, commission, standing-instruction payments, a dishonoured cheque returned.
- ERRORS: a wrong amount entered in the cash book, an item entered twice, or a mistake by the bank itself.
- Identify which group an item belongs to and the direction of the adjustment follows automatically.

The logic that decides add or deduct

- Ask one question: compared with my cash book, is the BANK's balance higher or lower because of this item?
- If the bank's balance is HIGHER → ADD when starting from the cash book.
- If the bank's balance is LOWER → DEDUCT when starting from the cash book.
- CHEQUE ISSUED NOT PRESENTED: I deducted it, the bank has not → bank is HIGHER → ADD.
- DEPOSIT NOT YET CREDITED: I added it, the bank has not → bank is LOWER → DEDUCT.
- BANK CHARGES: the bank deducted, I have not → bank is LOWER → DEDUCT.
- INTEREST CREDITED BY BANK: the bank added, I have not → bank is HIGHER → ADD.
- Never memorise a list — derive each line from this one question and you cannot go wrong.

Worked BRS — Priya's stationery shop, Thiruvananthapuram

- Cash book balance on 30 June: ₹48,700. Bank statement: ₹52,000. Difference ₹3,300 to be explained.
- Cheque of ₹5,000 written on 28 June, not yet presented → bank is higher → ADD ₹5,000.
- Cash ₹1,500 deposited on the evening of 30 June, processed 1 July → bank is lower → DEDUCT ₹1,500.
- Bank service charges ₹200 not yet in the cash book → bank is lower → DEDUCT ₹200.
- STATEMENT: $48,700 + 5,000 - 1,500 - 200 = ₹52,000$, which agrees with the bank statement. ✓
- Every rupee of the ₹3,300 gap is now explained by a named item.

Meera's coconut oil business, Thrissur — reading the direction

- Cash book on 31 March ₹75,000; South Indian Bank statement ₹82,500.
- The bank shows MORE, which is the signature of unpresented cheques.
- A ₹12,000 cheque issued to her packaging supplier on 29 March had not been presented → add ₹12,000.
- When the bank's figure is higher than yours, look first for cheques you issued that have not been cashed.
- When YOUR figure is higher, look first for deposits not yet cleared, and for charges the bank has taken.

Format of the statement

- Head it: 'Bank Reconciliation Statement as at ' — the date is part of the answer.
- Start with a clearly labelled opening balance: 'Balance as per Cash Book'.
- List each adjusting item on its own line with its own description; use separate Add and Less groupings.
- End with 'Balance as per Bank Statement' and confirm that it equals the given figure.
- Working in tabular form with an amount column for additions and one for deductions is the expected presentation.

Starting from the other end

- A question may instead give the bank statement balance and ask for the cash book balance.
- Every adjustment simply REVERSES: what you added before, you now deduct, and vice versa.
- Cheque issued not presented: starting from the bank statement, DEDUCT it.
- Bank charges: starting from the bank statement, ADD them back.
- The safest method is to state the direction from first principles each time rather than recalling a memorised table.

Overdraft — when the balance is negative

- An overdraft means the firm owes the bank: a CREDIT balance in the cash book, a DEBIT balance in the bank statement.
- An overdraft is conventionally written as a minus figure or clearly labelled 'Overdraft'.
- Every adjustment works in the OPPOSITE direction to a favourable balance.
- Safest approach: treat the overdraft as a negative opening figure and apply the same 'is the bank higher or lower?' test unchanged — the arithmetic then takes care of itself.
- Always state clearly in your final line whether the closing figure is a balance or an overdraft.

Why a BRS is worth preparing every month

- It catches bank charges and standing-instruction payments the firm has not recorded, so the cash book can be updated.
- It reveals double entries and arithmetic errors in the firm's own books.
- It detects forged or unauthorised cheques early, before losses grow.
- It confirms that cheques sent to suppliers have actually been collected.
- It is the routine control that keeps the cash book trustworthy — which matters because the cash book feeds the trial balance and the final accounts.

Three misconceptions to clear

- WRONG: 'Outstanding cheques should be deducted from the bank statement because we have already paid them.' In fact the bank has NOT yet paid, so its balance is still higher — starting from the cash book you ADD.
- WRONG: 'If the two do not agree, someone has blundered and must fix it.' Most differences are timing differences that settle themselves; the BRS explains them, it does not correct them.
- WRONG: 'Bank charges appear automatically in both records.' The bank deducts them at its end; the firm learns of them only from the statement and must then record them in the cash book.

Formulas & formats

- Bank Reconciliation Statement as at

Balance as per Cash Book	₹ XXX
ADD: Cheques issued but not yet presented	₹ XXX
Interest / dividend credited by bank	₹ XXX
Amounts collected directly by the bank	₹ XXX
LESS: Cheques deposited but not yet credited	(₹ XXX)
Bank charges and commission	(₹ XXX)
Standing-instruction payments	(₹ XXX)
Cheques deposited but dishonoured	(₹ XXX)
Balance as per Bank Statement	₹ XXX
- The single decision rule:
Is the BANK's balance higher or lower because of this item?
Higher → ADD (when starting from the cash book)
Lower → DEDUCT
- Starting from the bank statement instead:
Every adjustment REVERSES direction
- Worked check – Priya, 30 June:
 $48,700 + 5,000 - 1,500 - 200 = 52,000$ ✓
- Balance types:
Favourable : Cash book DEBIT balance = Bank statement CREDIT balance
Overdraft : Cash book CREDIT balance = Bank statement DEBIT balance

Important questions & model answers

2 marks What is a Bank Reconciliation Statement?

- A Bank Reconciliation Statement is a statement prepared on a particular date to reconcile the bank balance shown by the cash book with the balance shown by the bank statement or pass book.
- It sets out, item by item, the reasons for the difference between the two balances, so that the accuracy of both records can be confirmed.

4 marks State any four reasons why the cash book balance and the bank statement balance may differ.

- Cheques issued by the firm and entered in the cash book, but not yet presented for payment at the bank.
- Cheques deposited and entered in the cash book, but not yet collected or credited by the bank.
- Bank charges, commission or interest debited by the bank but not yet entered in the cash book.
- Interest, dividends or customer payments collected directly by the bank and credited without the firm's knowledge.
- Payments made by the bank under standing instructions, and cheques deposited but later dishonoured.
- Errors committed either in the cash book or by the bank.

5 marks Priya's cash book shows ₹48,700 on 30 June. Her bank statement shows ₹52,000. A cheque of ₹5,000 issued on 28 June was not presented; ₹1,500 deposited on 30 June evening was credited on 1 July; bank charges ₹200 were not recorded. Prepare the BRS.

- Bank Reconciliation Statement as at 30 June
- Balance as per Cash Book ₹48,700
- Add: Cheque issued but not yet presented ₹ 5,000
- Less: Cheque/cash deposited but not yet credited ₹ 1,500
- Less: Bank charges not recorded in the cash book ₹ 200
- Balance as per Bank Statement ₹52,000
- Working: $48,700 + 5,000 - 1,500 - 200 = ₹52,000$, which agrees with the bank statement. ✓

3 marks Why is a cheque issued but not presented ADDED when the BRS starts from the cash book?

- When the firm issues a cheque it immediately credits (reduces) its cash book balance.
- The bank, however, reduces the account only when the payee actually presents the cheque for payment.
- Until then the bank's balance remains HIGHER than the cash book balance by the amount of that cheque.
- Therefore, to move from the lower cash book figure to the higher bank figure, the amount must be ADDED.
- It is a timing difference and disappears of its own accord once the cheque is presented.

3 marks Distinguish between a favourable balance and a bank overdraft.

- A FAVOURABLE balance means the firm has money in the bank. It appears as a DEBIT balance in the cash book and a CREDIT balance in the bank statement.
- An OVERDRAFT means the firm has drawn more than it has and owes the bank. It appears as a CREDIT balance in the cash book and a DEBIT balance in the bank statement.
- In preparing a BRS for an overdraft, every adjustment operates in the opposite direction to a favourable balance.
- The final answer must state clearly whether the closing figure is a balance or an overdraft.

3 marks Meera's cash book on 31 March shows ₹75,000 while her bank statement shows ₹82,500. State the most likely reason and explain the direction of the adjustment.

- The bank statement shows MORE than the cash book, which most commonly happens when cheques issued by the firm have not yet been presented for payment.
- Meera issued a cheque of ₹12,000 to her packaging supplier on 29 March which had not been presented by 31 March.
- She has already deducted it in her cash book; the bank has not yet deducted it, so the bank's balance is higher.
- Starting from the cash book balance, the ₹12,000 is therefore ADDED.

3 marks 'A difference between the cash book and the bank statement always means someone has made an error.' Do you agree? Give reasons.

- No, this is not correct.
- Most differences are TIMING DIFFERENCES — an item recorded by one party which the other has not yet processed, such as an unpresented cheque or an uncleared deposit.
- These correct themselves automatically as soon as the bank processes the item; nothing needs to be put right.
- Some differences arise because the bank knows of items the firm does not, such as charges or direct collections — these require the CASH BOOK to be updated, not corrected.
- Only a minority of differences are genuine errors, in the cash book or by the bank.

3 marks State any three advantages of preparing a Bank Reconciliation Statement regularly.

- It brings to light bank charges, interest and standing-instruction payments not yet recorded, so the cash book can be brought up to date.
- It reveals errors and omissions such as double entries or wrong amounts in the firm's own records.
- It helps detect forged, unauthorised or delayed cheques early, reducing the risk of loss and fraud.
- It confirms that cheques issued to suppliers have actually been collected, and so improves control over cash.

2 marks How are bank charges treated in a BRS starting from the cash book, and why?

- Bank charges are DEDUCTED from the cash book balance.
- The bank has already debited the charges to the account, so its balance is lower, while the firm has not yet recorded them.
- Once identified, the firm should also enter the charges in its cash book so that future balances agree.

3 marks A cheque of ₹8,000 deposited by the firm was returned dishonoured by the bank. How is it treated in the BRS prepared from the cash book balance, and why?

- It is DEDUCTED from the cash book balance.
- When the cheque was deposited the firm increased its cash book balance by ₹8,000, expecting to receive the money.
- The bank, having found the cheque unpaid, never credited the amount — so the bank's balance is lower than the cash book by ₹8,000.
- The firm should also reverse the original entry in its cash book and reinstate the debtor, since the amount has not in fact been received.

Exam tips

- Always head the statement 'Bank Reconciliation Statement as at <date>' — the title and date carry a presentation mark.
- Do not memorise an add/deduct list. For each item ask: 'is the BANK higher or lower because of this?' Higher → add, lower → deduct.
- Name each item in full on its own line ('Cheque issued but not yet presented'), not just an amount — the description is marked.
- Show your final total and state explicitly that it agrees with the given bank statement figure.
- Read the question carefully to see WHICH balance you are starting from. If you start from the bank statement, every direction reverses.
- For an overdraft, label it clearly and remember all adjustments reverse; write 'Overdraft' next to the final figure.
- Present Add items and Less items in separate groups rather than mixing them — examiners expect the tabular layout.

Quick revision

- The cash book is the firm's record; the bank statement is the bank's record of the same account.
- Most differences are TIMING differences, not errors.
- Decision rule: is the bank's balance higher or lower? Higher → add; lower → deduct (starting from the cash book).
- Cheque issued not presented → ADD. Deposit not yet credited → DEDUCT.
- Bank charges, standing instructions, dishonoured cheques → DEDUCT.
- Interest and direct collections credited by the bank → ADD.
- Starting from the bank statement instead? Every adjustment reverses.
- Favourable: cash book Dr = statement Cr. Overdraft: cash book Cr = statement Dr, and all adjustments reverse.
- Priya check: $48,700 + 5,000 - 1,500 - 200 = 52,000$ ✓