

Lesson 13

BANK RECONCILIATION

13.1 Bank Reconciliation Statement

Ideally, there should be no difference between the balance shown by the pass book and the cash book. This will happen only when all the entries are correctly and regularly recorded in both the books. However, this work is very tasking and tedious and it may happen that at times, one or more of the entries would have been missed to be recorded in either of the books. When this happens, there will be a difference in the balance as shown by the two books. The possible reasons for this difference are as follows:

1. CHEQUES ISSUED BUT NOT YET PRESENTED FOR PAYMENT

The entry for an issued cheque is made in the cash book as soon as the cheque has been issued. However, the bank shall make the entry of that cheque only when the cheque is presented to the bank for payment. Thus, there will be a gap of some days between the entry in the cash book and in the pass book.

2. CHEQUES PAID INTO THE BANK BUT NOT YET CLEARED

As soon as the cheques are sent to the bank, entries are made in the bank column on the debit side of the cash book. But the bank shall credit the customer's account only when they have received the payment from the bank concerned, that is, when the cheques have been cleared. So, there will be some gap between the depositing of the cheques and the credit given by the bank.

3. INTEREST ALLOWED BY THE BANK

If the bank has allowed interest to the customer, then the entry will normally be made in the customer's account and later shown in the pass book. The customer usually comes to know of the interest by perusing the pass book and only then he makes the relevant entry in the cash book.

4. INTEREST AND EXPENSES CHARGED BY THE BANK

The interest charged by the bank and the amount of the bank charges are entered in the customer's account and later in the pass book. The customer makes the required entry only after he sees the pass book.

5. INTEREST AND DIVIDEND COLLECTED BY THE BANK

Sometimes, investments are left with the bank for safe custody; the bank itself sees to it that the interest or the dividend is collected on the due dates.

6. DIRECT PAYMENTS BY THE BANK

The bank may be given standing instructions for certain payments such as, insurance premium, etc. In this case also, the customer may come to know of the payment only on seeing the pass book. The entries in the pass book and cash book may be thus on different days.

7. DIRECT PAYMENT INTO THE BANK BY A CUSTOMER

If such a payment is received by the bank, it will be entered in the customer's account and also in the pass book. The account holder may come to know of the amount only when he sees the pass book.

8. DISHONOUR OF A BILL DISCOUNTED WITH THE BANK

If the bank is not able to receive payment or promissory notes discounted by it, it will debit the customer's account together with any charges that it may have incurred. The customer will naturally make the entry only when he sees the pass book.

9. BILLS COLLECTED BY THE BANK ON BEHALF OF THE CUSTOMER

If the goods are sold, the discount may be sent through the bank. If the bank is able to collect the amount, it will credit the customer's account. The customer may make the entry only on receiving the pass book.

10. AN ERROR COMMITTED BY THE BANK

A bank rarely commits an error, but in case it does, the balance shown in the pass book will naturally differ from that shown in the cash book.

13.2 Reconciliation

If none of the above mentioned circumstances exist, the balance shown by the pass book and that shown by the cash book will tally. At the end of each month, the entries and the final balance of both the books should be compared, and if a difference exists, then the reasons for the same should be established.

The chief advantages of bank reconciliation are:

% The reconciliation will bring out any errors that may have been committed either in the cash book or in the pass book.

% An undue delay in the clearance of cheques will be shown up by the reconciliation.

% A regular reconciliation discourages the staff of the customer or even that of the bank from embezzlement. There have been many cases where the cashiers have merely made the entries in the cash book but never deposited the cash in the bank. They were able to get away with it only because of the lack of regular reconciliation.

The reconciliation is made in a statement called a BANK RECONCILIATION.

Illustration 13.1

PASSBOOK

Date	Particulars	Withdrawals	Deposits	DR. Or Cr.	Balance
2008					
Jan-03	By cash		4000		4000
5	To Farukh .Dealers ltd.	600			3400
5	To d andC Co.	1250			2150
11	BY J Jayesh and Co. cheque		350		2500
13	To Rand G company	1000			1500
16	By Babu Roy and co cheque		760		2260
17	By cash		300		2560
21	To cash	500			2060
25	BY JRD and Co. Cheque		430		2490
31	To premium paid as per standing instruction	300			2190
31	To bank charges	50			2140
31	To interest on G-Sec		200		2340

CASH BOOK

Dr.					Cr.
Date	Receipts	Amount (RS.)	Date	Payment	Amount (RS.)
2008			2008		
3	To cash	4000	3	By Farukh .Dealers ltd.	600
11	To J Jayesh and Co. cheque	350	4	By d andC Co.	1250

16	To Babu Roy and co cheque	760	10	By Rand G company	1000
17	To cash	300	12	BY Nagendra and Co.	750
25	To JRD and Co. Cheque	430	21	By cash	500
26	To Maharjar and com.	1000	25	By Babu Roy and co	750
27	To Natwar and sons	390	31	BY balance c/d	2380
		7230			7230
1	To balance b/d	2380			

Bank reconciliation statement as on 31st Jan 2008

	Particulars	Amount (Rs.)	Amount (Rs.)
	Balance as per the passbook	2340	2340
Add	cheques paid in but not cleared		
	To Maharaja and com.	1000	
	Natwar and sons	390	
			1390
Add	premium paid and Bank charges entered in passbook but not entered in cash book	350	350
Less	Cheques issued but not presented		
	BY Nagendra and Co.	750	
	By Babu Roy and co	750	1500
Less	interest credited by bank but not entered in cashbook	200	200
	Balance as per cash book		2380

	Particulars	Amount (Rs.)	Amount (Rs.)
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Balance as per cash book			2380
add	cheque issued but not yet presented		
	BY Nagendra and Co.	750	
	By Babu Roy and co	750	
			1500
add	Interest in pass book but not yet in the cash book		200
less	cheques paid in but not yet credited		
	To Maharjar and com.	1000	
	Natwar and sons	390	
			1390
less	primium paid andbank charges entered in pass book but not yet in the cash book		350
	balance as per pass book		2340