

CHAPTER BANK RECONCILIATION STATEMENT

CHAPTER OVERVIEW

- 1.Services / activities of a Bank
- 2.Bank Pass Book and its relationship with Cash Book
- 3.Bank Reconciliation Statement
- 4.Reasons for difference between Cash Book and Bank Pass Book
- 5.Procedure for preparing Bank Reconciliation Statement

1. Activities of a Bank

1.Acceptance of Deposits:Banks accept various deposits like Term Deposits, Fixed Deposits, Current Deposit, Recurring Deposit, etc.

2.Loans: Lending of money is the major revenue earning activity for a Bank, e.g. Machinery Loan, Building Loan, Vehicle Loan, Personal Loan, etc.

3.Discounting: Discounting is a process by which the Bank enables its customer to receive the cash before the due date, in consideration of a small charge called Discount, e.g. Bills / Hundi / Pro-Note Discounting.

4.Overdraft: Bank allows overdrafts to its good customers so that they can make payment even when they do not have sufficient balance in their account at the Bank.

5.Guarantee: The Bank furnishes securities or guarantee for its customers whose credit is good. The Bank charges commission for this service.

6.Letter of Credit: Banks can issue Letter of Credit to facilitate commerce. LC Facility is used by businessmen to make payments to Suppliers, etc.

7.Standing Instructions: As per the instructions of the customer and on his behalf, a Bank makes payment to various parties on the due date, e.g. Telephone Bills, Insurance Premium, Credit Card Dues, etc.

8.Demand Draft: Banks issue Demand Draft based on its customer's request. Demand Draft is also called as Banker's Cheque, Pay Order, etc. in some cases.

9.Travellers' Cheque: For frequent travelers, to avoid the risk of carrying cash, the Bank can issue Travellers Cheque, which can be encashed by the traveller in a Bank at the destination.

2. Bank Pass Book or Statement

1.Bank Pass Book (also known as Bank Statement), is an extract of the Ledger Account of the customer, as per the Bank's Books of Accounts.

2.It is a periodical statement of account in which all transactions, i.e. deposits and withdrawals made by the customer during the particular period is recorded.

3.A comparative analysis of the Bank Pass Book and Cash Book (Bank Column) is given below.

| Point | In Bank Pass Book | In Cash Book of the Customer / Business Entity |
|-------|-------------------|--|
|-------|-------------------|--|

| | | |
|----------------------------------|--|--|
| Debit Entries in Bank Pass Book | <ul style="list-style-type: none"> •Withdrawal of Cash, •Payment of Cheques to Creditors, Expenses, etc. •Bank Interest, Commission and Charges for various services rendered by the Bank. •Payment by Bank under Standing Instructions. | These are recorded as " Payments " in the Cash Book, i.e. on the credit side of the Cash Book (Bank Column). |
| Credit Entries in Bank Pass Book | <ul style="list-style-type: none"> •Deposit of Cash into Bank, •Receipt / Collection of cheques from Debtors, •Other Incomes / Receipts, e.g. Interest, Dividend, Capital introduced, Loans taken, etc. •Direct collection of Bills Receivable (B/R), Income on Investments, etc. by the Bank. | These are recorded as " Receipts " in the Cash Book, i.e. on the debit side of the Cash Book (Bank Column). |
| Favourable Bank Balance | Credit Balance in the Bank Pass Book represents a favourable balance, i.e. Normal Balance. | Such favourable balance will normally appear in the Debit Side of Cash Book (Bank Column). |
| Overdraft Balance | Debit Balance in the Pass Book represents an unfavourable balance, i.e. Overdraft Balance. | Such overdraft balance will normally appear in the Credit Side of Cash Book (Bank Column). |

Note:For each entry in the Pass book, there should be a corresponding opposite entry in the Cash Book. This is because

the business enterprise treats the Bank as Debtor A/c (Receivable / Asset) and Bank treats the business enterprise as a Creditor (i.e. Payable / Liability).

3. Bank Reconciliation Statement

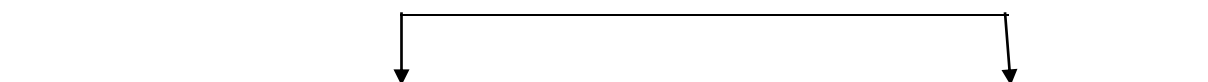
1. Bank Reconciliation Statement: At periodical intervals, the Customer / Business Entity (i.e. Account Holder in the Bank), should compare the balance in Bank as shown by the Cash Book, with the Pass Book. In case of any differences between the two, they should be analysed by listing out the various reasons for such difference. Such a Statement is called **Bank Reconciliation Statement**.

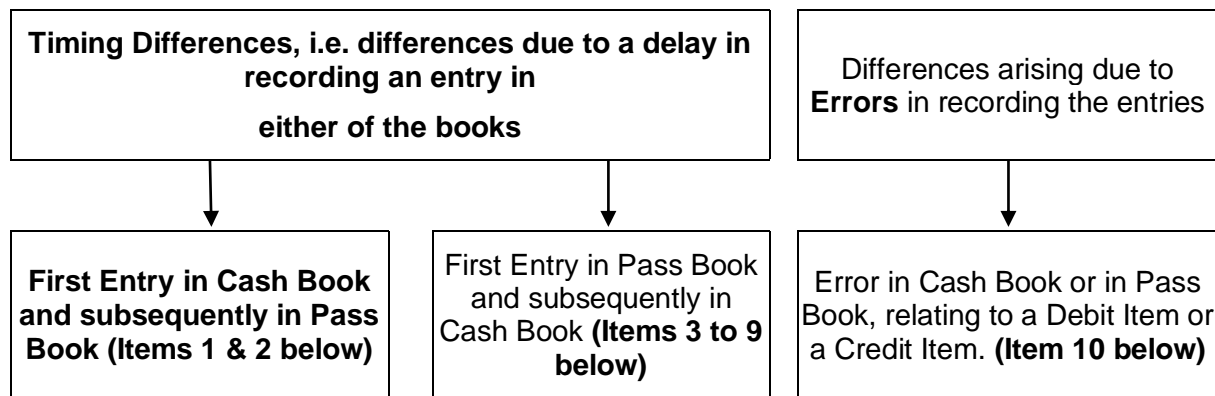
2. Advantages: The advantages of Bank Reconciliation Statement are -

- (a) To record entries which have been missed out in the Cash Book, e.g. Interest charged / allowed by the Bank, Bank Charges, and direct collection by Bank etc.
- (b) To identify any errors that may have been committed either in Cash Book or in Bank Statement,
- (c) To identify any undue delay in the clearance of cheques, and
- (d) To act as a deterrent against embezzlement frauds.

4. Differences between Bank Statement and Cash Book

Reasons for difference between Cash Book and Pass Book Balance





The common reasons for difference between the balances as per Cash Book and the Bank Statement are -

1. **Cheques issued but not yet presented for payment:** Payment is recorded in the Cash Book immediately on issue of a cheque. However, the Bank debits the Customer's (i.e. Account Holders') Account only when the cheque is presented for payment. There may be a time gap between the entry in the Cash Book and in the Bank Statement.
2. **Cheques deposited into Bank but not yet credited / cleared:** Receipts are recorded in the Cash Book when the cheques are sent to the Bank. However, the Bank would credit the account only when they have been cleared.
3. **Interest allowed / credited by Bank:** Interest credited by the Bank in the account (if any) will be reflected only in the Bank Pass Book. They will have to be recorded in the Cash Book only after receiving the Pass Book.
4. **Interest & Dividends collected by Bank:** When investments are kept with the bank for safe custody, the income thereon may be collected by the Bank directly. This will be recorded in the Cash Book later.
5. **Direct Payments into Bank by a Customer:** Amount directly received by the Bank from the Company's customer will be recorded in the Cash Book only after analyzing the Pass Book.
6. **Bills Receivable collected by Bank on behalf of the Customer:** The Bank collects the proceeds of a Bills Receivable when the documents of title are sent through it. On collection, the Bank will credit the Customer's account. The Customer may make the entry only on receiving the Bank Statement at the end of the period.
7. **Interest & Expenses charged by Bank:** Interest and Expenses charged by Bank (for Cheque Book, Demand Draft, Outstation Cheque Collection, etc.) will be recorded by the customer Company only after it peruses the Pass Book.
8. **Direct Payments by Bank:** When Standing Instructions for certain payments, e.g. insurance premium, telephone bills, etc. are given to the Bank, the Company may come to know of the actual payment only on seeing the Pass Book at the end of the period.
9. **Dishonour of a Bill Discounted with the Bank:** If the Bank is not able to receive payment on Bills of Exchange discounted by it, it will debit the Customer's Account together with any charges thereon. The customer will make the entry only when he sees the Bank Statement.
10. **Error in Pass Book / Cash Book:** Errors committed in the Pass Book / Cash Book will also contribute to difference between the balances shown by the books.

Note:

- Items 1 & 2 are recorded in the Cash Book first, and later on reflected in the Bank Pass Book / Statement.

• Items 3 to 9 are recorded first in Pass Book, and later recorded in Cash Book. Out of these, Items 3, 4, 5 and 6 constitute Receipts into Bank Account, and Items 7, 8 and 9 constitute Payments out of Bank A/c.

5. Procedure for Bank Reconciliation Statement

BRS may be prepared in two ways -

(a) **Without** adjusting the Cash Book, i.e. Preparation of BRS only.

(b) **After** adjusting Cash Book for Items 3 to 10 given above, i.e. Preparation of Adjusted Cash Book and BRS.

The procedures for preparing the BRS is explained below -

Method 1: Preparation of BRS only (i.e. without adjusting Cash Book)

Prepare **Bank Reconciliation Statement** as under -

| Starting Point | Cash Book Balance | | Pass Book Balance | |
|---|---------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|
| | Dr. Balance in Cash Book (Favourable) | Cr. Balance in Cash Book (Overdraft) | Dr. balance in Pass Book (Overdraft) | Cr. Balance in Pass Book (Favourable) |
| 1. Cheques issued but not yet presented for payment (Item 1) | Add | Subtract | Add | Subtract |
| 2. Cheques deposited into Bank but not yet credited / cleared (Item 2) | Subtract | Add | Subtract | Add |
| 3. Interest allowed by Bank (Item 3) | Add | Subtract | Add | Subtract |
| 4. Interest & Dividends collected by Bank (Item 4) | Add | Subtract | Add | Subtract |
| 5. Direct Payments into Bank by a Customer (Item 5) | Add | Subtract | Add | Subtract |
| 6. Bills Receivable collected by Bank on behalf of the Customer (Item 6) | Add | Subtract | Add | Subtract |
| 7. Interest & Expenses charged by Bank (Item 7) | Subtract | Add | Subtract | Add |
| 8. Direct Payments by Bank (Item 8) | Subtract | Add | Subtract | Add |
| 9. Dishonour of a Bill Discounted with the Bank (Item 9) | Subtract | Add | Subtract | Add |
| 10. Wrong Entries (Item 10) | | | | |

| | | | | |
|---|---|---|---|---|
| (a) Wrong Debit in Cash Book or in Pass Book, undercasting of Cr. Side of Cash Book, overcasting of Dr. Side of Cash Book, etc. | Subtract | Add | Subtract | Add |
| (b) Wrong Credit in Cash Book or Pass Book, overcasting of Cr. Side of Cash Book, undercasting of Dr. Side of Cash Book | Add | Subtract | Add | Subtract |
| Balance as per End Point | Pass Book Balance | | Cash Book Balance | |
| Positive (+) End Point balance indicates | Favourable i.e. Cr. Bal. as per Pass Book | Overdraft i.e. Dr. Bal. as per Pass Book | Overdraft i.e. Cr. Bal. as per Cash Book | Favourable i.e. Dr. Bal. as per Cash Book |
| Negative(-) End Point balance indicates | Overdraft i.e. Dr. Bal. as per Pass Book | Favourable i.e. Cr. Bal. as per Pass Book | Favourable i.e. Dr. Bal. as per Cash Book | Overdraft i.e. Cr. Bal. as per Cash Book |

Method 2: Preparation of Adjusted Cash Book and BRS

Step 1: Prepare Adjusted Cash Book with the following Debits and Credits -

| Receipts | Rs. | Payments | Rs. |
|--|----------------|--|----------------|
| To balance b/d (in case of Favourable Balance as per Cash Book) | | By balance b/d (in case of Overdraft balance as per Cash Book) | |
| To Interest allowed by Bank | Item 3 | By Interest & Expenses charged by Bank | Item 7 |
| To Interest & Dividends collected by Bank | Item 4 | By Direct Payments by Bank as per SI | Item 8 |
| To Direct Payments into Bank by Firm's Customers (being Firm's receipts) | Item 5 | By Dishonour of a Bill Discounted with the Bank | Item 9 |
| To Bill Receivable collected by Bank on behalf of Firm | Item 6 | | |
| To Rectification of Error in Cash Book, e.g. double credit posting, credit overcast, debit undercast, debit entry omission, etc. | Item 10 | By Rectification of Error in Cash Book, e.g. double debit posting, debit overcast, credit undercast, credit entry omission, etc. | Item 10 |
| To balance c/d (in case of Overdraft) | | By balance c/d (in case of Favourable) | |

| | | | |
|---------------------------|--|---------------------------|--|
| balance as per Cash Book) | | balance as per Cash Book) | |
| Total | | Total | |

Note:

- The Closing Balance in the above Adjusted Cash Book is called **Adjusted Cash Balance**. This will be taken to the BRS

prepared under Step 2 below.

- In Item 10, Errors made in Cash Book will be adjusted, but errors made in Pass Book will not be given effect in Cash Book.

Step 2: Prepare Bank Reconciliation Statement as under -

| Starting Point | Cash Book Balance | | Pass Book Balance | |
|---|---|--|--|---|
| Balance as per Starting Point | Dr. Balance in Cash Book (Favourable) | Cr. Balance in Cash Book (Overdraft) | Dr. balance in Pass Book (Overdraft) | Cr. Balance in Pass Book (Favourable) |
| 1. Cheques issued but not yet presented for payment (Item 1) | Add | Subtract | Add | Subtract |
| 2. Cheques deposited into Bank but not yet credited / cleared (Item 2) | Subtract | Add | Subtract | Add |
| 3. Wrong Cr. in Pass Book (Item 10) | Add | Subtract | Add | Subtract |
| 4. Wrong Dr. in Pass Book (Item 10) | Subtract | Add | Subtract | Add |
| Balance as per End Point | Pass Book Balance | | Cash Book Balance | |
| Positive (+) End Point balance indicates | Favourable i.e. Cr. Bal. as per Pass Book | Overdraft i.e. Dr. Bal. as per Pass Book | Overdraft i.e. Cr. Bal. as per Cash Book | Favourable i.e. Dr. Bal. as per Cash Book |
| Negative(-) End Point balance indicates | Overdraft i.e. Dr. Bal. as per Pass Book | Favourable i.e. Cr. Bal. as per Pass Book | Favourable i.e. Dr. Bal. as per Cash Book | Overdraft i.e. Cr. Bal. as per Cash Book |

Illustration 1: Normal Cash Book Balance

On comparing the Cash Book of Ganesh, with his Bank Pass Book, the following discrepancies were noted:

- Out of Rs. 20,500 paid into Bank on 27th March through cash and cheque, Cheques amounting to Rs. 7,500 were collected on 7th April.

- Cheque and Cash amounting to Rs. 4,800 were deposited in Bank on 26th March but credit was given for Rs. 3,800 only.

- Out of Cheques amounting to Rs. 7,800 drawn on 26th March, a Cheque for Rs. 2,500 was encashed on 3rd April.
 - Cheques issued to Creditor amounting to Rs. 20,000 on 25th March of which cheques worth Rs. 3,000 were only presented to Bank upto 31st March.
 - A Cheque for Rs. 1,000 entered in Cash Book was omitted to be banked before 31st March.
 - A Cheque for Rs. 600 deposited into Bank but omitted to be recorded in Cash Book and was collected by the Bank on 30th March.
 - A Bill Receivable for Rs. 520 previously discounted (Discount Rs. 20) with the Bank had been dishonoured but advice was received on 1st April.
 - A Bill Payable for Rs. 10,000 was retired /paid by the Bank at Rs. 9,850 but the full amount of the Bill was credited in the Bank Column of the Cash Book.
 - A Cheque of Rs. 1,080 credited in the Pass Book on 25th March being dishonoured is debited again in the Pass Book on 1st April. There was no entry in the Cash Book about the dishonour of the cheque until 15th April.
 - A cheque of Rs. 200 drawn on this Bank A/c has been shown as drawn on another Bank A/c, in the Cash Book.
- Prepare a BRS as at 31st March, if the Balance as per Cash Book on 31st March was Rs. 39,570.

Solution: **Bank Reconciliation Statement as on 31st March**

| Particulars | Action | Rs. |
|---|---------------|---------------|
| Balance as per Cash Book (Normal Balance) (Given) | Start | 39,570 |
| Cheques deposited into Bank but collected on 7 th April (i.e. subsequently) | Less | - 7,500 |
| Cheques deposited but not cleared till 31 st March (4,800 - 3,800) | Less | - 1,000 |
| Cheques issued / drawn, but presented / encashed on 3 rd April | Add | + 2,500 |
| Cheques issued, but not presented / encashed till 31 st March (20,000 - 3,000) | Add | + 17,000 |
| Cheque received as per Cash Book, but omitted to be deposited in Bank | Less | - 1,000 |
| Cheque received and banked, but omitted in Cash Book | Add | + 600 |
| Bills Receivable dishonoured and debited by Bank | Less | - 520 |
| Rebate on Bills Payable not considered in Cash Book (10,000 - 9,850) | Add | + 150 |
| Wrong Entry in Cash Book, relating to Cheque issued | Less | -200 |
| Balance as per Pass Book (Favourable Balance) | Result | 49,600 |

Note: Cheque dishonoured is reversed by the Bank only on 1st April (i.e. after BRS date). Hence, it will not affect the BRS. **Illustration 2: Overdraft Balance as per Cash Book**

From the following data, ascertain the balance that would appear in Bank Pass Book of Gajapathy on 31st Dec -

- Bank Overdraft as per Cash Book on 31st December Rs. 6,34,000
- Interest on Overdraft for the month of December Rs. 16,000 is entered in Pass Book.
- Bank Charges of Rs. 300 for the above period are debited in the Pass Book.
- Cheques issued but not cashed prior to 31st December amounted to Rs. 1,16,800
- Cheques deposited into the Bank but not cleared before 31st December were for Rs. 2,17,000.
- Interest on investment collected by the Bank and credited in the Pass Book Rs. 1,20,000.

Solution: Bank Reconciliation Statement as on 31st December

| Particulars | Action | Rs. |
|--|---------------|-----------------|
| Overdraft Balance as per Cash Book (Given) | Start | 6,34,000 |
| Interest on Overdraft for Dec month entered in Pass Book | Add | + 16,000 |
| Bank Charges for the above period debited in the Pass Book | Add | + 300 |
| Cheques issued but not cashed prior to 31 st December | Less | - 1,16,800 |
| Cheques deposited into the Bank but not cleared before 31 st December | Add | + 2,17,000 |
| Interest on investment collected by the Bank and credited in the Pass Book | Less | - 1,20,000 |
| Overdraft as per Pass Book | Result | 6,30,500 |

Illustration 3: Overdraft Balance as per Pass Book

From the following information given by Ganapathy, prepare a BRS as on 31st December -

| Transaction | Rs. |
|---|--------|
| Bank Overdraft as per Pass Book | 16,500 |
| Cheques issued but not presented for payment | 8 750 |
| Cheques deposited with the Bank but not collected | 10,500 |
| Cheques recorded in the Cash Book but not sent to the Bank for collection | 2,000 |
| Payments received from customers directly by the Bank | 3,500 |
| Bank Charges debited in the Pass Book | 200 |
| Premium on Life Policy of Ganapathy paid by the Bank on standing advice | 1,980 |
| A Bill for Rs. 3,000 (discounted with the Bank in November) dishonoured on 31 st December and Noting Charges paid by the Bank. | 100 |

Solution: Bank Reconciliation Statement as on 31st December

| Particulars | Action | Rs. |
|---|---------------|---------------|
| Overdraft Balance as per Pass Book (Given) | Start | 16,500 |
| Cheques issued but not presented for payment | Add | + 8,750 |
| Cheques deposited with the Bank but not collected | Less | - 10,500 |
| Cheques recorded in the Cash Book but not sent to the Bank for collection | Less | - 2,000 |
| Payments received from customers directly by the Bank | Add | + 3,500 |
| Bank Charges debited in the Pass Book | Less | -200 |
| Premium on Life Policy of Ganapathy paid by the Bank on standing advice | Less | - 1,980 |
| Bill discounted dishonoured and Noting Charges paid by Bank (3,000 + 100) | Less | -3,100 |
| Overdraft as per Cash Book | Result | 10,970 |

Illustration 4: Normal Pass Book Balance

On 30th September, the Pass Book of Vignesh showed a balance of Rs. 3,750. An examination of the Cash Book and the Bank Statement reveals the following -

- Cheques of to Rs. 500 issued to Creditors before 30th Sep, were not presented for payment until that date.
- A Cheque for Rs. 8 200 deposited on 29th September was credited by the Bank only on 3rd October.
- A Cheque issued for Rs. 750 has been dishonoured before 30th Sep, but not recorded in Cash Book till 30th Sep.
- Cheques deposited before 30th September but not cleared amounting to Rs. 250
- A payment by cheque for Rs. 150 has been entered twice in the Cash Book.
- A Dividend of Rs. 350, received by the Bank directly has not been recorded in the Cash Book.
- On 29th September, the Bank credited an amount of Rs. 1,750 received from a customer of Vignesh, but was not intimated to Vignesh until 1st October.
- Bank Charges amounting to Rs. 50 not entered in the Cash Book.
- On 6th September, the Bank credited Rs. 2,000 to Vignesh's account erroneously.
- A Bill Receivable for Rs. 1,000 was discounted by Vignesh with his Bank. This bill was dishonoured on 28th September, but no entry was made in the books of Vignesh.
- Cheques issued upto 30th September but not presented for payment upto that date totaled Rs. 3750

You are required to prepare a Bank Reconciliation Statement as on 30th September.

Solution: Bank Reconciliation Statement as on 30 September**

| Particulars | Action | Rs. |
|--|---------------|--------------|
| Balance as per Pass Book (Given) | Start | 3,750 |
| Cheques issued but not presented for payment | Less | - 500 |
| Cheques deposited with the Bank but not credited | Add | + 8,200 |
| Cheque dishonoured not recorded in Cash Book | Less | - 750 |
| Cheques deposited with the Bank but not cleared | Add | + 250 |
| Wrong Entry in Cash Book (Chq issued recorded twice) | Less | - 150 |
| Dividends received in Bank, not recorded in Cash Book — | Less | - 350 |
| Direct collection from Customer by Bank, not recorded in Cash Book | Less | - 1,750 |
| Bank Charges not considered in Cash Book | Add | + 50 |
| Wrong Credit in Pass Book by Bank | Less | - 2,000 |
| Bill discounted dishonoured not recorded in Cash Book | Add | + 1,000 |
| Cheques issued but not presented for payment | Less | - 3,750 |
| Balance as per Cash Book (Favourable Balance) | Result | 4,000 |

Illustration 5: BRS when both Cash Book and Pass Book are given The following are the Cash Book & Pass Book of Vinayaka Bros. -

Cash Book Bank Column) for the month of March 2008

| Date | Receipts | Rs. | Date | Payments | Rs. |
|------|----------------|--------|------|----------------|--------|
| 1 | To balance b/d | 6,000 | 3 | By Cash a/c | 2,000 |
| 6 | To Sales a/c | 3,000 | 7 | By Modi | 6,000 |
| 10 | To Ram | 6,500 | 12 | By Patill | 3,000 |
| 18 | To Singhal | 2,700 | 18 | By Suresh | 4,000 |
| 25 | To Goyal | 3,300 | 24 | By Ramesh | 1,500 |
| 31 | To Patel | 6,500 | 31 | By Balance c/d | 11,500 |
| | Total | 28,000 | | Total | 28,000 |

Pass Book for the month of April 2008

| Date | Particulars | Withdrawal Rs. | Deposit Rs. | Dr. or Cr. | Balance Rs. |
|------|-----------------|----------------|-------------|------------|-------------|
| 1 | By Balance b/d | | 3,200 | Cr. | 3,200 |
| 3 | By Goyal | | 3,300 | Cr. | 6,500 |
| 5 | By Patel | | 6,500 | Cr. | 13,000 |
| 7 | To Naresh | 2,800 | | Cr. | 10,200 |
| 12 | To Ramesh | 1,500 | | Cr. | 8,700 |
| 15 | To Bank Charges | 200 | | Cr. | 8,500 |
| 20 | By Usha | | 1,700 | Cr. | 10,200 |
| 25 | By Kalpana | | 3,800 | Cr. | 14,000 |
| 30 | To Sunil | 6,200 | | Cr. | 7,800 |

Reconcile the balance of Cash Book on 31st March.

Solution:

•In this question, Cash Book is given for the March month, but Pass Book is given for April month. Hence, the Closing Balance of the Cash Book (Rs. 11,500) should be reconciled with the opening balance of the Pass Book (Rs. 3,200).

•On comparing / reconciling the above items / balances, the following reasons can be observed -

(a)Cheques deposited into the Bank (Goyal Rs. 3,300 and Patel Rs. 6,800) in March were not credited by the Bank till 31st March (i.e. credited only in April)

(b)Cheque issued to Ramesh for Rs. 1,500 in March has been presented for payment only on 12th April.

Bank Reconciliation Statement as on 31st March

| Particulars | Action | Rs. |
|--|---------------|--------------|
| Balance as per Cash Book (Normal Balance) (Given) | Start | 11,500 |
| Cheques deposited into Bank but collected only in April (3,300 + 6,800) | Less | - 9,800 |
| Cheques issued, but not presented / encashed till 31 st March | Add | + 1,500 |
| Balance as per Pass Book (Favourable Balance) | Result | 3,200 |

Illustration 6: BRS after Adjusting Cash Book for omissions / errors

The Cash Book of Kapila showed a Bank Balance of Rs. 1,200 (Dr.) on 30th June. However, according to his Bank Statement the account was overdrawn. On investigation it was found that -

•Receipts Column of the Cash Book had been overcast by Rs. 1,100

- Cheques drawn and entered in the Cash Book in June amounting to Rs. 1,670 were not presented until July.
- Discount received from a Supplier Rs. 100 had been included with the cheque entered in the Bank Column of the Cash Book in April.
- An amount of Rs. 750 paid directly into Kapila's Account by a customer was not entered in the Cash Book.
- A cheque payment of Rs. 1,230 in April had been entered in the Cash Book as Rs. 1,320.
- The Bank had charged Kapila's Business Account with a cheque for Rs. 2,200 in February, which should have been passed through Kapila's Private Account.
- Bank Charges of Rs. 80 on 31st March and Rs. 100 on 30th June had not yet been entered in the Cash Book.
- Cheque to the value of Rs. 3,780 received from customers was recorded in the Cash Book on 28th June but not entered by the Bank until 2nd July.

Rectify the errors / omissions in the Cash Book and prepare Bank Reconciliation Statement as on 30th June.

Solution:

1. Adjusted Cash Book (for rectification of errors / omissions)

| Receipts | Rs. | Payments | Rs. |
|---|--------------|--|--------------|
| To balance b/d (given) | 1,200 | By Overcast of Receipts Side, now rectified | 1,100 |
| To Discount Reed wrongly recorded as payment to Supplier, now rectified | 100 | By Bank Charges omitted in Cash Book, now rectified (80 + 100) | 180 |
| To Sundry Debtors A/c (Direct Collection by Bank) | 750 | | |
| To Rectification of Error in Cheque issued (1,230 recorded as 1,320, now rectified) | 90 | By balance c/d (Favourable balance as per Cash Book) | 860 |
| Total | 2,140 | Total | 2,140 |

2. Bank Reconciliation Statement as on 31st March

| Particulars | Action | Rs. |
|---|---------------|----------------|
| Balance as per Cash Book (Normal Balance) (Adjusted Cash Balance) | Start | 860 |
| Cheques deposited into Bank but collected only in July | Less | - 3,780 |
| Cheques issued, but not presented / encashed till 30 th June | Add | + 1,670 |
| Error by Bank (Private A/c Cheque paid through Business Bank A/c) | Less | - 2,200 |
| Overdraft Balance as per Pass Book | Result | - 3,450 |

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