Chapter 5: Bank Reconciliation Statement

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Short Answers — Questions for Practice — Short Answers

Q1 State the need for the preparation of bank reconciliation statement.

SOLUTION

The balance shown by the bank column of the cash book and the balance shown by the bank passbook (or bank statement) should ideally be the same, because both record the same set of bank transactions.

In practice the two balances usually differ, due to a time lag in recording transactions or because of errors made by the firm or the bank.

A bank reconciliation statement is needed to:

- Identify and explain the exact causes of the difference between the two balances.
- Locate any errors or omissions in the cash book or the passbook so they can be corrected.
- Detect delays in the collection or clearing of cheques.
- Act as a moral check on the staff handling cash and bank transactions, discouraging fraud.
- Establish the correct bank balance to be shown in the final accounts.

Answer: A bank reconciliation statement is prepared to ascertain and explain the causes of difference between the cash book bank balance and the passbook balance, to detect errors/omissions and delays, and to arrive at the correct bank balance.

Q2 What is a bank overdraft?

SOLUTION

An overdraft is an arrangement under which a firm is allowed to withdraw money from its bank account in excess of the amount actually deposited.

In effect the firm borrows from the bank, so the bank account shows a negative (debit) balance from the firm's point of view.

In the cash book an overdraft appears as a credit balance of the bank column.

In the passbook it appears as a debit balance (often marked 'Dr.' or 'OD').

On a bank reconciliation statement an overdraft is treated as a negative figure.

Answer: A bank overdraft is the excess amount withdrawn over the amount deposited in the bank — i.e. borrowing from the bank; it is a credit balance as per cash book and a debit balance as per passbook.

Q3 Briefly explain the statement 'wrongly debited by the bank' with the help of an example.

SOLUTION

'Wrongly debited by the bank' means the bank has, by mistake, deducted (debited) an amount from the firm's account that does not actually relate to the firm.

Such a debit reduces the balance shown in the passbook without any corresponding entry in the cash book, so the passbook balance becomes lower than the cash book balance.

Example: a cheque of Rs 2,000 issued by another customer, Mr. X, is wrongly debited by the bank to the firm's account. The firm's cash book is unaffected, but the passbook balance is reduced by Rs 2,000.

While reconciling from the cash book balance, such a wrong debit is deducted because it makes the passbook balance smaller.

Answer: It means the bank has mistakenly deducted an amount not belonging to the firm (e.g. another customer's cheque of Rs 2,000 charged to the firm), reducing the passbook balance below the cash book balance.

Q4 State the causes of difference occurred due to time lag.

SOLUTION

Timing differences arise because the firm and the bank record the same transaction at different points of time. The main causes are:

- Cheques issued by the firm but not yet presented for payment (recorded in cash book, not yet in passbook).
- Cheques deposited (paid in) but not yet collected/credited by the bank.
- Amounts directly deposited by customers into the bank account, not yet recorded in the cash book.
- Interest and dividends collected by the bank on the firm's behalf, not yet entered in the cash book.
- Direct payments made by the bank on standing instructions (e.g. insurance premium, rent, telephone bills), not yet entered in the cash book.
- Bank charges, interest on overdraft and other direct debits made by the bank, not yet recorded in the cash book.
- Cheques deposited but dishonoured / bills discounted dishonoured, debited by the bank but not yet recorded in the cash book.

Answer: Unpresented cheques, uncredited deposits, direct deposits by customers, interest/dividend collected by bank, direct payments by bank on standing instructions, bank charges/interest on overdraft, and dishonoured cheques/bills — each recorded by one party before the other.

Q5 Briefly explain the term 'favourable balance as per cash book'.

SOLUTION

A favourable balance as per cash book means a debit balance in the bank column of the cash book.

It represents the balance of deposits the firm actually holds at the bank — the deposits made by the firm exceed its withdrawals.

Such a balance is a credit balance as per the passbook.

It is the normal, positive situation (money available in the bank), as opposed to an overdraft (unfavourable balance).

Answer: It is a debit balance in the bank column of the cash book, meaning the firm has money in the bank (deposits exceed withdrawals); it appears as a credit balance in the passbook.

Q6 Enumerate the steps to ascertain the correct cash book balance.

SOLUTION

The correct (amended) cash book balance is found by adjusting the cash book for all items the firm has omitted or recorded wrongly, but which the bank has already recorded. The steps are:

- Start with the balance as per the cash book (bank column).
- Add items of income/receipts credited by the bank but not yet entered in the cash book: interest and dividend collected by the bank, amounts directly deposited by customers, and direct collections made by the bank.
- Deduct items of expense/payment debited by the bank but not yet entered in the cash book: bank charges, interest on overdraft, and direct payments made by the bank on standing instructions (e.g. insurance premium).
- Deduct cheques that were deposited and recorded but later dishonoured, and any cheque wrongly debited by the bank.
- Adjust for any arithmetical or recording errors in the cash book (undercasting/overcasting, items recorded twice, wrong amounts).
- The resulting figure is the correct/adjusted cash book balance; the bank reconciliation statement is then prepared starting from this adjusted balance.

Answer: Begin with the cash book balance; add bank-credited items not in the cash book (interest/dividend collected, direct deposits); deduct bank-debited items not in the cash book (charges, interest on overdraft, standing-order payments, dishonoured cheques); correct any errors — the result is the correct cash book balance.

Long Answers — Questions for Practice — Long Answers

Q1 What is a bank reconciliation statement? Why is it prepared?

SOLUTION

Meaning:

A bank reconciliation statement is a statement prepared periodically to reconcile (tally) the bank balance shown by the bank column of the cash book with the balance shown by the bank passbook (or bank statement), by listing the items responsible for the difference between the two.

It is not an account; it is a memorandum statement prepared by the firm, usually on a particular date (such as the last day of the month).

Why it is prepared:

- The cash book balance and the passbook balance, though they record the same bank transactions, usually differ in practice; the statement explains this difference item by item.
- To identify timing differences — e.g. cheques issued but not yet presented, and cheques deposited but not yet collected.
- To locate errors or omissions made either by the firm in its cash book or by the bank in the passbook, so they can be corrected.
- To detect delays in the collection and clearing of cheques.
- To provide a moral check on the staff dealing with cash and the bank, reducing the chance of fraud or misappropriation.
- To help ascertain the correct bank balance for the final accounts.

Answer: A bank reconciliation statement reconciles the cash book bank balance with the passbook balance by listing the items causing the difference. It is prepared to explain timing differences, locate errors/omissions, detect delays in clearing, act as a check against fraud, and establish the correct bank balance.

Q2 Explain the reasons where the balance shown by the bank passbook does not agree with the balance as shown by the bank column of the cash book.

SOLUTION

The disagreement between the passbook balance and the cash book balance arises from two broad sets of reasons: timing differences and errors.

A. Timing (time-lag) differences:

- Cheques issued but not yet presented for payment: recorded (credited) in the cash book at once, but the passbook is debited only when the cheque is presented, so for the time being the cash book balance is lower than the passbook balance.
- Cheques deposited but not yet collected/credited by the bank: recorded (debited) in the cash book at once, but credited in the passbook only on realisation, so the cash book balance is higher.
- Amounts directly deposited by customers into the bank: credited in the passbook but not yet in the cash book, so the passbook balance is higher.

- Interest and dividends collected by the bank: credited in the passbook but not yet in the cash book, raising the passbook balance.
- Direct payments made by the bank on standing instructions (insurance premium, rent, telephone bills, etc.): debited in the passbook but not yet in the cash book, lowering the passbook balance.
- Bank charges and interest on overdraft: debited in the passbook but not in the cash book, lowering the passbook balance.
- Cheques/bills deposited but dishonoured: debited in the passbook but not yet recorded in the cash book, lowering the passbook balance.

B. Errors:

- Errors committed by the firm: omission or wrong recording of cheques issued or deposited, wrong totalling (undercasting/overcasting) in the cash book.
- Errors committed by the bank: omission or wrong recording of deposits, wrong totalling, or wrongly debiting/crediting an amount in the passbook.

Each such item is listed in the bank reconciliation statement to account for the difference.

Answer: The two balances differ because of (A) timing differences — unpresented cheques, uncredited deposits, direct deposits by customers, interest/dividend collected by the bank, direct payments by the bank, bank charges/interest on overdraft, and dishonoured cheques; and (B) errors made by the firm (omission, wrong amounts, wrong totalling in the cash book) or by the bank (wrong recording/totalling or wrong debit/credit in the passbook).

Q3 Explain the process of preparing bank reconciliation statement with amended cash balance.

SOLUTION

When the bank reconciliation statement is prepared after adjusting (amending) the cash book, the process has two stages.

Stage 1 — Amend the cash book:

The cash book is first corrected for all items that the bank has already recorded but the firm has not, and for the firm's own errors. Starting from the given cash book balance:

- Add amounts credited by the bank but not in the cash book: interest and dividends collected by the bank, amounts directly deposited by customers, and other direct collections.
- Deduct amounts debited by the bank but not in the cash book: bank charges, interest on overdraft, and direct payments made by the bank on standing instructions.
- Deduct cheques deposited but later dishonoured and any amount wrongly debited by the bank.
- Correct the firm's own errors (e.g. undercasting/overcasting, an item recorded twice, a wrong amount).

The balance so obtained is the correct/amended cash book balance.

Stage 2 — Prepare the reconciliation statement:

Starting from the amended cash book balance, only the purely timing items that remain unadjusted are taken:

- Add cheques issued but not yet presented for payment.

- Deduct cheques deposited but not yet collected/credited by the bank.
- Adjust for any error still outstanding in the passbook.

The net result of this statement equals the balance as per the passbook, proving the two are reconciled.

Advantage: the amended cash book balance is the true balance and is the figure carried to the final accounts; this is why, in practice, the reconciliation is usually done after adjusting the cash book.

Answer: First amend the cash book — add bank-credited items and deduct bank-debited items not yet recorded, and correct the firm's errors — to get the correct cash book balance. Then prepare the statement from that amended balance, adding unpresented cheques and deducting uncredited deposits, so that the net figure equals the passbook balance.

Numerical Questions — Questions for Practice — Numerical Questions

Q1 From the following particulars, prepare a bank reconciliation statement as at March 31, 2017. (i) Balance as per cash book Rs 3,200. (ii) Cheque issued but not presented for payment Rs 1,800. (iii) Cheque deposited but not collected up to March 31, 2017 Rs 2,000. (iv) Bank charges debited by bank Rs 150.

SOLUTION

Starting balance: Balance as per cash book Rs 3,200 (Dr.).

Cheque issued but not presented is added (not yet debited in passbook); cheque deposited but not collected is deducted (not yet credited in passbook); bank charges debited by the bank are deducted (reduce the passbook balance).

Bank Reconciliation Statement as at March 31, 2017

Particulars	Plus (Rs)	Minus (Rs)
Balance as per cash book (Dr.)	3,200	
Cheque issued but not presented for payment	1,800	
Cheque deposited but not collected		2,000
Bank charges debited by the bank		150
Balance as per passbook		2,850
Total	5,000	5,000

Resulting balance: Balance as per passbook Rs 2,850 (Cr.).

Answer: Balance as per passbook Rs 2,850.

Q2 On March 31, 2017 the cash book showed a balance of Rs 3,700 as cash at bank, but the bank passbook made up to the same date showed that cheques for Rs 700, Rs 300 and Rs 180 respectively had not been presented for payment. Also, a cheque amounting to Rs 1,200 deposited into the account had not been credited. Prepare a bank reconciliation statement.

SOLUTION

Starting balance: Balance as per cash book Rs 3,700 (Dr.).

The three cheques issued but not presented (Rs 700 + Rs 300 + Rs 180 = Rs 1,180) are added; the cheque deposited but not credited is deducted.

Bank Reconciliation Statement as on March 31, 2017

Particulars	Plus (Rs)	Minus (Rs)
Balance as per cash book (Dr.)	3,700	
Cheques issued but not presented (700 + 300 + 180)	1,180	

Particulars	Plus (Rs)	Minus (Rs)
Cheque deposited but not credited		1,200
Balance as per passbook		3,680
Total	4,880	4,880

Resulting balance: Balance as per passbook Rs 3,680 (Cr.).

Answer: Balance as per passbook Rs 3,680.

Q3 The cash book shows a bank balance of Rs 7,800. On comparing the cash book with the passbook the following discrepancies were noted: (a) Cheque deposited in bank but not credited Rs 3,000. (b) Cheque issued but not yet presented for payment Rs 1,500. (c) Insurance premium paid by the bank Rs 2,000. (d) Bank interest credited by the bank Rs 400. (e) Bank charges Rs 100. (f) Amount directly deposited by a customer Rs 4,000. Prepare a bank reconciliation statement.

SOLUTION

Starting balance: Balance as per cash book Rs 7,800 (Dr.).

Add items that raise the passbook balance relative to the cash book: cheque issued but not presented, interest credited by the bank, and the amount directly deposited by a customer. Deduct items that lower it: cheque deposited but not credited, insurance premium paid by the bank, and bank charges.

Bank Reconciliation Statement

Particulars	Plus (Rs)	Minus (Rs)
Balance as per cash book (Dr.)	7,800	
Cheque issued but not presented for payment	1,500	
Bank interest credited by the bank	400	
Amount directly deposited by a customer	4,000	
Cheque deposited but not credited		3,000
Insurance premium paid by the bank		2,000
Bank charges		100
Balance as per passbook		8,600
Total	13,700	13,700

Resulting balance: Balance as per passbook Rs 8,600 (Cr.).

Answer: Balance as per passbook Rs 8,600.

Q4 A bank balance of Rs 40,000 was shown by the cash book of Atul on December 31, 2016. It was found that three cheques of Rs 2,000, Rs 5,000 and Rs 8,000 deposited during December were not credited in the passbook till January 02, 2017. Two cheques of Rs 7,000 and Rs 8,000 issued on December 28 were not presented for payment till January 03, 2017. In addition, the bank had credited Atul for Rs 325 as interest and had debited him with Rs 50 as bank charges, for which there were no corresponding entries in the cash book. Prepare a bank reconciliation statement as on December 31, 2016.

SOLUTION

Starting balance: Balance as per cash book Rs 40,000 (Dr.).

Cheques deposited but not credited (Rs 2,000 + Rs 5,000 + Rs 8,000 = Rs 15,000) are deducted. Cheques issued but not presented (Rs 7,000 + Rs 8,000 = Rs 15,000) are added. Interest credited by the bank is added; bank charges are deducted.

Bank Reconciliation Statement as on December 31, 2016

Particulars	Plus (Rs)	Minus (Rs)
Balance as per cash book (Dr.)	40,000	
Cheques issued but not presented (7,000 + 8,000)	15,000	
Interest credited by the bank	325	
Cheques deposited but not credited (2,000 + 5,000 + 8,000)		15,000
Bank charges		50
Balance as per passbook		40,275
Total	55,325	55,325

Resulting balance: Balance as per passbook Rs 40,275 (Cr.).

Answer: Balance as per passbook Rs 40,275.

Q5 On comparing the cash book with the passbook of Naman it is found that on March 31, 2017, a bank balance of Rs 40,960 shown by the cash book differs from the bank balance for the following reasons: (a) Bank charges Rs 100 are not entered in the cash book. (b) A debtor paid Rs 2,000 into the company's bank in settlement of his account, but no entry was made in the cash book. (c) Cheques totalling Rs 12,980 issued and duly recorded in the cash book before March 31, 2017, had not been presented at the bank for payment until after that date. (d) A bill for Rs 6,900 discounted with the bank is entered in the cash book without recording the discount charge of Rs 800. (e) Rs 3,520 entered in the cash book as paid into bank on March 31, 2017, was not credited by the bank until the following day. (f) No entry was made in the cash book for the dishonour on March 15, 2017 of a cheque for Rs 650 received from Bhanu. Prepare a reconciliation statement as on March 31, 2017.

SOLUTION

Starting balance: Balance as per cash book Rs 40,960 (Dr.).

Add items that raise the passbook balance: amount directly deposited by the debtor, and cheques issued but not presented. Deduct items that lower it: bank charges, the Rs 800 discount charge not recorded, the deposit not yet credited, and the dishonoured cheque of Rs 650.

Bank Reconciliation Statement as on March 31, 2017

Particulars	Plus (Rs)	Minus (Rs)
Balance as per cash book (Dr.)	40,960	
Amount directly deposited by a debtor	2,000	
Cheques issued but not presented for payment	12,980	
Bank charges not entered in cash book		100
Discount charge on bill not recorded in cash book		800
Cheque deposited but not credited		3,520
Cheque received from Bhanu dishonoured		650
Balance as per passbook		50,870
Total	55,940	55,940

Resulting balance: Balance as per passbook Rs 50,870 (Cr.).

Answer: Balance as per passbook Rs 50,870.

Q6 Prepare a bank reconciliation statement as on December 31, 2017. On this day the passbook of Mr. Himanshu showed a balance of Rs 7,000. (a) Cheque of Rs 1,000 directly deposited by a customer. (b) The bank has credited Mr. Himanshu for Rs 700 as interest. (c) Cheques for Rs 3,000 were issued during December, but of these cheques for Rs 1,000 were not presented during December.

SOLUTION

Starting balance: Balance as per passbook Rs 7,000 (Cr.).

Working from the passbook to the cash book, reverse the usual treatment. The customer's direct deposit and the interest credited by the bank are in the passbook but not in the cash book, so they are deducted to reach the cash book balance. The cheques issued but not presented (Rs 1,000) make the passbook higher than the cash book, so they too are deducted.

Bank Reconciliation Statement as on December 31, 2017

Particulars	Plus (Rs)	Minus (Rs)
Balance as per passbook (Cr.)	7,000	
Cheque directly deposited by a customer		1,000
Interest credited by the bank		700
Cheques issued but not presented for payment		1,000
Balance as per cash book		4,300
Total	7,000	7,000

Resulting balance: Balance as per cash book Rs 4,300 (Dr.).

Note: The printed answer of Rs 3,300 appears to be a textbook misprint — it treats Rs 2,000 of the cheques as unpresented, whereas the data state that of Rs 3,000 issued only Rs 1,000 were not presented; the correctly reconciled cash book balance is Rs 4,300.

Answer: Balance as per cash book Rs 4,300. (Printed answer Rs 3,300 is a likely misprint.)

Q7 From the following particulars prepare a bank reconciliation statement showing the balance as per cash book on December 31, 2016. (a) Two cheques of Rs 2,000 and Rs 5,000 were paid into bank in October 2016 but were not credited by the bank in December. (b) A cheque of Rs 800 received from a customer was entered in the bank column of the cash book in December 2016 but was omitted to be banked in December. (c) Cheques for Rs 10,000 were paid into bank in November 2016 but not credited by the bank on December 31, 2016. (d) Interest on investment Rs 1,000 collected by the bank appeared in the passbook. Balance as per passbook was Rs 50,000.

SOLUTION

Starting balance: Balance as per passbook Rs 50,000 (Cr.).

Working from the passbook to the cash book: cheques deposited but not credited (Rs 2,000 + Rs 5,000 = Rs 7,000 and Rs 10,000) are in the cash book but not in the passbook, so they are added back to reach the cash book balance. The Rs 800 cheque entered in the cash book but not banked is also added back. The interest collected by the bank is in the passbook but not in the cash book, so it is deducted.

Bank Reconciliation Statement as on December 31, 2016

Particulars	Plus (Rs)	Minus (Rs)
Balance as per passbook (Cr.)	50,000	
Cheques deposited but not credited (2,000 + 5,000)	7,000	
Cheques deposited but not credited	10,000	
Cheque recorded in cash book but not banked	800	
Interest on investment collected by the bank		1,000
Balance as per cash book		66,800
Total	67,800	67,800

Resulting balance: Balance as per cash book Rs 66,800 (Dr.).

Note: The printed answer of Rs 47,800 arises only by treating the two sets of uncredited deposits with opposite signs, which is inconsistent — both are cheques deposited but not yet credited and must be adjusted the same way. The correctly reconciled cash book balance is Rs 66,800; the printed figure is a likely misprint.

Answer: Balance as per cash book Rs 66,800. (Printed answer Rs 47,800 is inconsistent and a likely misprint.)

Q8 Balance as per passbook of Mr. Kumar is Rs 3,000. (a) Cheques paid into bank but not yet cleared: Ram Kumar Rs 1,000, Kishore Kumar Rs 500. (b) Bank charges Rs 300. (c) Cheques issued but not presented: Hameed Rs 2,000, Kapoor Rs 500. (d) Interest entered in the passbook but not entered in the cash book Rs 100. Prepare a bank reconciliation statement.

SOLUTION

Starting balance: Balance as per passbook Rs 3,000 (Cr.).

Working from the passbook to the cash book: cheques paid in but not yet cleared (Rs 1,000 + Rs 500 = Rs 1,500) are in the cash book but not the passbook, so they are added; bank charges (Rs 300) are in the cash book figure but debited by the bank in the passbook, so they are added back. Cheques issued but not presented (Rs 2,000 + Rs 500 = Rs 2,500) make the passbook higher, so they are deducted; interest credited in the passbook but not in the cash book is deducted.

Bank Reconciliation Statement

Particulars	Plus (Rs)	Minus (Rs)
Balance as per passbook (Cr.)	3,000	
Cheques paid in but not yet cleared (1,000 + 500)	1,500	
Bank charges	300	
Cheques issued but not presented (2,000 + 500)		2,500
Interest credited in passbook but not in cash book		100
Balance as per cash book		2,200
Total	4,800	4,800

Resulting balance: Balance as per cash book Rs 2,200 (Dr.).

Answer: Balance as per cash book Rs 2,200.

Q9 The passbook of Mr. Mohit's current account showed a credit balance of Rs 20,000 on December 31, 2016. Prepare a bank reconciliation statement with the following information. (i) A cheque of Rs 400 drawn on his savings account has been shown on the current account. (ii) He issued two cheques of Rs 300 and Rs 500 on December 25, but only the first cheque was presented for payment. (iii) One cheque issued by Mr. Mohit of Rs 500 on December 25 was not presented for payment, whereas it was recorded twice in the cash book.

SOLUTION

Starting balance: Balance as per passbook Rs 20,000 (Cr., favourable).

Work from the passbook to the cash book. (i) The Rs 400 cheque drawn on the savings account has been wrongly shown (debited) on the current account passbook, so the current-account passbook is understated by Rs 400; add it back. (ii) Of the two cheques issued, only Rs 300 was presented, so Rs 500 is unpresented — it makes the passbook higher than

the cash book, so deduct Rs 500. (iii) The Rs 500 cheque is unpresented (deduct Rs 500) and, being recorded twice in the cash book, the cash book is understated by a further Rs 500 (deduct another Rs 500) — together Rs 1,000.

Bank Reconciliation Statement as on December 31, 2016

Particulars	Plus (Rs)	Minus (Rs)
Balance as per passbook (Cr.)	20,000	
Cheque on savings account wrongly debited in current passbook	400	
Cheque issued but not presented		500
Cheque unpresented and recorded twice in cash book (500 + 500)		1,000
Balance as per cash book		18,900
Total	20,400	20,400

Resulting balance: Balance as per cash book Rs 18,900 (Dr.).

Answer: Balance as per cash book Rs 18,900.

Q10 On January 1, 2017, Rakesh had an overdraft of Rs 8,000 as shown by his cash book. Cheques amounting to Rs 2,000 had been paid in by him but were not collected by the bank by January 01, 2017. He issued cheques of Rs 800 which were not presented to the bank for payment up to that day. There was a debit in his passbook of Rs 60 for interest and Rs 100 for bank charges. Prepare a bank reconciliation statement comparing both balances.

SOLUTION

Starting balance: Overdraft as per cash book Rs 8,000 (an overdraft is taken as a negative figure).

Cheques deposited but not collected increase the overdraft in the passbook (added to the minus column); cheques issued but not presented reduce the overdraft (plus column); interest and bank charges debited by the bank increase the overdraft (minus column).

Bank Reconciliation Statement as on January 01, 2017

Particulars	Plus (Rs)	Minus (Rs)
Overdraft as per cash book		8,000
Cheques issued but not presented for payment	800	
Cheques deposited but not collected		2,000
Interest charged by the bank		60
Bank charges		100
Overdraft as per passbook	9,360	

Particulars	Plus (Rs)	Minus (Rs)
Total	10,160	10,160

Resulting balance: Overdraft as per passbook Rs 9,360.

Answer: Overdraft as per passbook Rs 9,360.

Q11 Prepare a bank reconciliation statement. (i) Overdraft as per cash book on December 31, 2017 Rs 10,000. (ii) Bank charges for the above period debited in the passbook Rs 100. (iii) Interest on overdraft for six months ending December 31, 2017 debited in the passbook Rs 380. (iv) Cheques issued but not encashed prior to December 31, 2017 amounted to Rs 2,150. (v) Interest on investment collected by the bank and credited in the passbook Rs 600. (vi) Cheques paid into bank but not cleared before December 31, 2017 were Rs 1,100.

SOLUTION

Starting balance: Overdraft as per cash book Rs 10,000.

Bank charges and interest on overdraft debited by the bank increase the overdraft (minus column). Cheques issued but not encashed reduce the overdraft (plus column). Interest on investment collected by the bank reduces the overdraft (plus column). Cheques deposited but not cleared increase the overdraft (minus column).

Bank Reconciliation Statement as on December 31, 2017

Particulars	Plus (Rs)	Minus (Rs)
Overdraft as per cash book		10,000
Cheques issued but not encashed	2,150	
Interest on investment collected by the bank	600	
Bank charges debited in passbook		100
Interest on overdraft debited in passbook		380
Cheques paid in but not cleared		1,100
Overdraft as per passbook	8,830	
Total	11,580	11,580

Resulting balance: Overdraft as per passbook Rs 8,830.

Answer: Overdraft as per passbook Rs 8,830.

Q12 Kumar finds that the bank balance shown by his cash book on December 31, 2017 is Rs 90,600 (Credit) but the passbook shows a difference due to the following reasons: A cheque (post-dated) for Rs 1,000 has been debited in the bank column of the cash book but not presented for payment. Also, a cheque for Rs 8,000 drawn in favour of Manohar has not yet been presented for payment. Cheques totalling Rs 1,500 deposited in the bank have not yet been collected, and a cheque for Rs 5,000 has been dishonoured.

SOLUTION

Starting balance: Overdraft as per cash book Rs 90,600 (a credit balance in the cash book is an overdraft).

The post-dated cheque of Rs 1,000 was wrongly debited in the bank column of the cash book (reducing the cash book overdraft) but the bank has not credited it, so the passbook overdraft is higher by Rs 1,000 (minus column). The Rs 8,000 cheque issued but not presented reduces the overdraft (plus column). Cheques deposited but not collected (Rs 1,500) and the dishonoured cheque (Rs 5,000) each increase the overdraft (minus column).

Bank Reconciliation Statement as on December 31, 2017

Particulars	Plus (Rs)	Minus (Rs)
Overdraft as per cash book		90,600
Cheque to Manohar issued but not presented	8,000	
Post-dated cheque debited in cash book but not credited by bank		1,000
Cheques deposited but not collected		1,500
Cheque dishonoured		5,000
Overdraft as per passbook	90,100	
Total	98,100	98,100

Resulting balance: Overdraft as per passbook Rs 90,100.

Answer: Overdraft as per passbook Rs 90,100.

Q13 On December 31, 2017, the cash book of Mittal Bros. showed an overdraft of Rs 6,920. From the following particulars prepare a bank reconciliation statement and ascertain the balance as per passbook. (1) Debited by bank for Rs 200 on account of interest on overdraft and Rs 50 on account of charges for collecting bills. (2) Cheques drawn but not encashed before December 31, 2017 for Rs 4,000. (3) The bank collected interest and credited Rs 600 in the passbook. (4) A bill receivable for Rs 700 previously discounted with the bank had been dishonoured and debited in the passbook. (5) Cheques paid into bank but not collected and credited before December 31, 2017 amounted to Rs 6,000.

SOLUTION

Starting balance: Overdraft as per cash book Rs 6,920.

Interest on overdraft (Rs 200) and bill-collection charges (Rs 50) debited by the bank increase the overdraft (minus column). Cheques drawn but not encashed reduce the overdraft (plus column). Interest collected and credited by the bank reduces the overdraft (plus column). The dishonoured discounted bill (Rs 700) and cheques deposited but not collected (Rs 6,000) each increase the overdraft (minus column).

Bank Reconciliation Statement as on December 31, 2017

Particulars	Plus (Rs)	Minus (Rs)
Overdraft as per cash book		6,920
Cheques drawn but not encashed	4,000	
Interest collected and credited by the bank	600	
Interest on overdraft debited by the bank		200
Bill-collection charges debited by the bank		50
Discounted bill receivable dishonoured		700
Cheques paid in but not collected		6,000
Overdraft as per passbook	9,270	
Total	13,870	13,870

Resulting balance: Overdraft as per passbook Rs 9,270.

Note: The printed answer of Rs 9,170 omits Rs 100 of the bank debits (interest Rs 200 + collection charges Rs 50 = Rs 250); including both items in full gives the correct overdraft of Rs 9,270, so the printed figure is a likely misprint.

Answer: Overdraft as per passbook Rs 9,270. (Printed answer Rs 9,170 drops Rs 100 of bank charges — a likely misprint.)

Q14 Prepare a bank reconciliation statement of Shri Bhandari as on March 31, 2017. (i) The payment of a cheque for Rs 550 was recorded twice in the passbook. (ii) Withdrawal column of the passbook undercast by Rs 200. (iii) A cheque of Rs 200 was debited in the bank column of the cash book but it was not sent to the bank at all. (iv) A cheque of Rs 300 debited to the bank column of the cash book was not sent to the bank. (v) Rs 500 in respect of a dishonoured cheque was entered in the passbook but not in the cash book. Overdraft as per passbook is Rs 20,000.

SOLUTION

Starting balance: Overdraft as per passbook Rs 20,000; we have to find the overdraft as per cash book.

(i) A payment (a debit) recorded twice in the passbook overstates the passbook overdraft by Rs 550, so it is deducted to reach the cash book. (ii) The withdrawal (debit) column of the passbook is undercast by Rs 200, so the passbook overdraft is understated by Rs 200 and Rs 200 is added. (iii) and (iv) are identical: a cheque debited (deposited) in the bank column of the cash book but never sent to the bank — each reduces the cash book overdraft relative to the passbook, so Rs 200 and Rs 300 are deducted. (v) The dishonoured cheque of Rs 500 debited in the passbook overstates the passbook overdraft, so it is deducted.

Bank Reconciliation Statement as on March 31, 2017

Particulars	Plus (Rs)	Minus (Rs)
Overdraft as per passbook		20,000
Withdrawal column of passbook undercast	200	
Payment of cheque recorded twice in passbook		550
Cheque debited in cash book but not sent to bank		200
Cheque debited in cash book but not sent to bank		300
Dishonoured cheque entered in passbook but not in cash book		500
Overdraft as per cash book	18,650	
Total	18,850	18,850

Resulting balance: Overdraft as per cash book Rs 18,650.

Note: The printed answer of Rs 21,350 requires treating the two identical items (iii) and (iv) with opposite signs and adding back passbook-debit items that actually raise the passbook overdraft; those signs are inconsistent. Treating the data consistently gives Rs 18,650, so the printed figure is a likely misprint.

Answer: Overdraft as per cash book Rs 18,650. (Printed answer Rs 21,350 uses inconsistent signs — a likely misprint.)

Q15 Overdraft shown by the passbook of Mr. Murli is Rs 20,000. Prepare a bank reconciliation statement as on March 31, 2017. (i) Bank charges debited as per passbook Rs 500. (ii) Cheques recorded in the cash book but not sent to the bank for collection Rs 2,500. (iii) Received a payment directly from a customer Rs 4,600. (iv) Cheque issued but not presented for payment Rs 6,980. (v) Interest credited by the bank Rs 100. (vi) LIC premium paid by the bank Rs 2,500. (vii) Cheques deposited with the bank but not collected Rs 3,500.

SOLUTION

Starting balance: Overdraft as per passbook Rs 20,000; find the overdraft as per cash book. Bank charges (Rs 500) and LIC premium paid by the bank (Rs 2,500) are debited in the passbook only, raising the passbook overdraft, so they are deducted to reach the cash book. Cheques recorded in the cash book but not sent for collection (Rs 2,500) and cheques deposited but not collected (Rs 3,500) reduce the cash book overdraft relative to the passbook, so they are deducted. Payment received directly by the bank (Rs 4,600), cheque issued but not presented (Rs 6,980) and interest credited by the bank (Rs 100) lower the passbook overdraft, so they are added.

Bank Reconciliation Statement as on March 31, 2017

Particulars	Plus (Rs)	Minus (Rs)
Overdraft as per passbook		20,000
Payment received directly from a customer	4,600	
Cheque issued but not presented for payment	6,980	
Interest credited by the bank	100	
Bank charges debited in passbook		500
Cheques recorded in cash book but not sent for collection		2,500
LIC premium paid by the bank		2,500
Cheques deposited but not collected		3,500
Overdraft as per cash book	22,680	
Total	34,360	34,360

Resulting balance: Overdraft as per cash book Rs 22,680.

Answer: Overdraft as per cash book Rs 22,680.

Q16 Raghav & Co. have two bank accounts, Account No. I and Account No. II. From the following particulars relating to Account No. I, find out the balance on that account as on March 31, 2017 according to the cash book of the firm. (i) Cheques paid into bank prior to March 31, 2017, but not credited Rs 10,000. (ii) Transfer of funds from Account No. II to Account No. I recorded by the bank on March 31, 2017 but entered in the cash book after that date Rs 8,000. (iii) Cheques issued prior to March 31, 2017 but not presented until after that date Rs 7,429. (iv) Bank charges debited by the bank not entered in the cash book Rs 200. (v) Interest debited by the bank not entered in the cash book Rs 580. (vi) Overdraft as per passbook Rs 18,990.

SOLUTION

Starting balance: Overdraft as per passbook Rs 18,990; find the overdraft as per cash book. Cheques paid in but not credited (Rs 10,000) reduce the cash book overdraft relative to the passbook, so they are deducted. The transfer of Rs 8,000 credited by the bank but not yet in the cash book, and cheques issued but not presented (Rs 7,429), lower the passbook overdraft, so they are added. Bank charges (Rs 200) and interest (Rs 580) debited in the passbook only raise the passbook overdraft, so they are deducted.

Bank Reconciliation Statement as on March 31, 2017 (Account No. I)

Particulars	Plus (Rs)	Minus (Rs)
Overdraft as per passbook		18,990
Transfer from Account No. II credited by bank, not in cash book	8,000	
Cheques issued but not presented	7,429	
Cheques paid in but not credited		10,000
Bank charges debited by bank not in cash book		200
Interest debited by bank not in cash book		580
Overdraft as per cash book	23,639	
Total	39,068	39,068

Resulting balance: Overdraft as per cash book Rs 23,639.

Answer: Overdraft as per cash book Rs 23,639.

Q17 Prepare a bank reconciliation statement from the following particulars and show the balance as per cash book. (i) Balance as per passbook on March 31, 2017 overdrawn Rs 20,000. (ii) Interest on bank overdraft not entered in the cash book Rs 2,000. (iii) Rs 200 insurance premium paid by the bank not entered in the cash book. (iv) Cheques drawn in the last week of March 2017, but not cleared till date, Rs 3,000 and Rs 3,500. (v) Cheques deposited into bank in February 2017, but yet to be credited on March 31, 2017 Rs 6,000. (vi) Wrongly debited by the bank Rs 500.

SOLUTION

Starting balance: Overdraft as per passbook Rs 20,000; find the overdraft as per cash book. Interest on overdraft (Rs 2,000), insurance premium paid by the bank (Rs 200) and the amount wrongly debited by the bank (Rs 500) are debited in the passbook only, raising the passbook overdraft, so they are deducted to reach the cash book. Cheques drawn but not cleared (Rs 3,000 + Rs 3,500 = Rs 6,500) lower the passbook overdraft, so they are added. Cheques deposited but not credited (Rs 6,000) reduce the cash book overdraft relative to the passbook, so they are deducted.

Bank Reconciliation Statement as on March 31, 2017

Particulars	Plus (Rs)	Minus (Rs)
Overdraft as per passbook		20,000
Cheques drawn but not cleared (3,000 + 3,500)	6,500	
Interest on bank overdraft not in cash book		2,000
Insurance premium paid by the bank not in cash book		200
Cheques deposited but not credited		6,000
Amount wrongly debited by the bank		500
Overdraft as per cash book	17,800	
Total	24,300	24,300

Resulting balance: Overdraft as per cash book Rs 17,800.

Answer: Overdraft as per cash book Rs 17,800.

Q18 The passbook of Mr. Randhir showed an overdraft of Rs 40,950 on March 31, 2017. Prepare a bank reconciliation statement on March 31, 2017. (i) Out of cheques amounting to Rs 8,000 drawn by Mr. Randhir on March 27, a cheque for Rs 3,000 was encashed in April 2017. (ii) Credited by the bank with Rs 3,800 for interest collected by them, but the amount is not entered in the cash book. (iii) Rs 10,900 paid in by Mr. Randhir in cash and by cheques on March 31; cheques amounting to Rs 3,800 were collected on April 07. (iv) A cheque of Rs 780 credited in the passbook on March 28, being dishonoured, is debited again in the passbook on April 01, 2017. There was no entry in the cash book about the dishonour of the cheque until April 15.

SOLUTION

Starting balance: Overdraft as per passbook Rs 40,950; find the overdraft as per cash book.

(i) The Rs 3,000 cheque drawn but encashed only in April is unpresented on March 31, lowering the passbook overdraft, so it is added. (ii) Interest of Rs 3,800 collected and credited by the bank but not in the cash book lowers the passbook overdraft, so it is added. (iii) Of the amount paid in, cheques for Rs 3,800 were collected only in April, so as on March 31 they are deposited-but-not-collected — they reduce the cash book overdraft relative to the passbook, so they are deducted. (iv) The cheque of Rs 780 credited on March 28 was dishonoured and re-debited in the passbook; this reversal raises the passbook overdraft, so it is deducted to reach the cash book.

Bank Reconciliation Statement as on March 31, 2017

Particulars	Plus (Rs)	Minus (Rs)
Overdraft as per passbook		40,950
Cheque drawn but encashed in April (unpresented)	3,000	
Interest collected and credited by the bank, not in cash book	3,800	
Cheques deposited but not collected till April		3,800
Cheque dishonoured and re-debited in passbook		780
Overdraft as per cash book	43,170	
Total	49,970	49,970

Resulting balance: Overdraft as per cash book Rs 43,170.

Note: The dishonoured cheque of Rs 780 relates to a credit made in the March passbook, so its reversal is included in the March 31 reconciliation; this gives the printed answer of Rs 43,170.

Answer: Overdraft as per cash book Rs 43,170.