**ATOMIC ENERGY CENTRAL SCHOOL, KAIGA**

**Online Teaching Material**

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**Class XI**

**SUBJECT: Business Studies**

**CHAPTER – 3**

**Public, Private and Global Enterprises**

**HAND OUT NOTES**

**INTRODUCTION**

* If every entry in the cash book matches with the bank statement, then bank balance will be the same in both the records. But, practically it may not be possible. When the balances do not agree with each other, the need for preparing a statement to explain the causes arises. This statement is called bank reconciliation statement (BRS).
* The bank reconciliation statement is a statement that reconciles the balance as per the bank column of cash book with the balance as per the bank statement by giving the reasons for such difference along with the amount. As a result of this, internal record of a business (bank column of cash) can be reconciled with external record (bank statement).

**The need for bank reconciliation statement is as follows:**

To identify the reasons for the difference between the bank balance as per the cash book and

Bank balance as per bank statement.

To identify the delay in the clearance of cheques.

To ascertain the correct balance of bank column of cash book.

To discourage the accountants of the business as well as bank from misusing funds.

**Reasons why bank column of cash book and bank statement may differ :**

**(i) Timing differences**

* + cheques issued but not yet presented for payment
  + cheques deposited into bank but not yet credited
  + bank charges and interest on loan and overdraft
  + interest and dividends collected by the bank
  + dishonour of cheques and bills
  + amount paid by parties directly into the bank
  + payment made directly by the bank to others
  + bills collected by the bank on behalf of its customer
* **(ii) Errors in recording**
  + The need for reconciliation arises only when there are differences in entries recorded in the cash book and bank statement. Sometimes, the bank balance as per both the records may be the same, but the entries may not match.
  + In such cases also, bank reconciliation statement is to be prepared. But, before preparing the bank reconciliation statement, it is necessary to find out the reasons for the disagreement.
  + Difference between the two records (bank column of cash book and bank statement) generally occur because of the following reasons:

(i) Timing differences – The different times at which the same

Items are entered

(ii) Errors in recording - Difference arising due to errors in

Recording the entries

**Timing differences**

**a) Cheques issued but not yet presented for payment**

When the cheques are issued by the business, it is immediately entered on the credit side of the cash book by the business. But, this may not be entered in the bank statement on the same day. It will be entered in the bank statement only after it is presented with the bank.

**Balance as per bank statement (20,000) is more than balance as per cash book**

**Balance as per cash book (10,000) is less than balance as per bank statement**

**(b) Cheques deposited into bank but not yet credited**

When the cheques are deposited into bank, the amount is debited in the cash book on the same day. But, these may not be shown in the bank pass book on the same day because these will be entered in the bank statement only after the collection of the cheques.

* **For example,** the balances as per cash book and bank statement are ` 20,000 for X & Co. X & Co. receives a cheque on 25th March 2016, from ABC Limited for ` 5,000. On the same day, X & Co, debits its cash book with ` 5,000. But bank credits X &Co’s account only when the cheque is collected from ABC Limited’s bank. This shows that is a time gap between depositing the cheque by the customer (X & Co) and collection of cheque by the bank. As a result of this,

**Balance as per cash book (25,000) is more than balance as per bank statement Balance as per bank statement (20,000) is less than balance as per cash book**

**(c)Bank charges and interest on loan and overdraft charged by the bank**

The bank has to cover the cost of running the customer’s account. So debit is given to the account of the business towards bank charges. Also, if the business had taken any loan or overdrawn, interest has to be paid by the business. These entries for bank charges and interest are made in the bank statement. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the cash book shows more balance than bank statement.

**Balance as per cash book(7,000) is more than balanceas per bank statement**

**Balance as per cash book(6,700) is less than balanceas per cash book**

**(d) Interest and dividends collected by the bank**

The bank may collect dividends on its customer’s investment in shares and also interest on any investment. The entry for this will be made in the bank statement on the date of collection. But the entry is made in the cash book only when the bank statement is received by the customer. Till then, the cash book shows less balance than the bank statement.

* **For example,** the balances as per cash book and bank statement are `15,000. The bank has collected dividends of `1,000. As a result of this, the balance as per bank statement is increased to `16,000, whereas until the customer receives such information and records the same, balance as per cash book is lesser by `1000. As a result of this,
* **Balance as per bank statement (16,000) is more than balance as per cash book**
* **Balance as per cash book (15,000) is less than balance as per bank statement**

**(e)Dishonour of cheques and bills**

When the cheque is received from outside parties, it is deposited with the bank and debited in the cash book. If the cheque is dishonored, the bank cannot collect the amount of such cheque from outside parties’ bank. It is not credited in the bank statement. As a result of this, the two records would differ.

While discounting the bills receivables, in the cash book it is entered in the debit side and in the bank statement it is credited. When the bill is presented by the bank to the drawee of the bill and the payment is not received, the bank debits the same to cancel the credit. But, credit is made in the cash book only when the customer gets the entries made in the bank statement is received. The bank may also charge some amount for such dishonour.

* **For example,** opening balance as per cash book and bank statement is ` 5,000 as on 1st January, 2017. A cheque for ` 1,000 deposited by the business into bank on 25th January, 2017 is dishonoured and no entry for such transaction is made in the cash book as on that date. As a result of this,
* **Balance as per cash book(6,000) is more than balanceas per bank statement**
* **Balance as per bank statement(5,000) is less than balanceas per cash book**
* **(f) Amount paid by parties directly into the bank**
* Sometimes, debtors or the customers of the business may directly deposit the money into bank account of the business. It may be done by directly visiting the branch of the bank by paying cash (including NEFT, RTGS) or swiping debit or credit or business card or depositing the money in cash deposit machine or transfer through online banking facility. This will be credited in the banker’s book. But the entry is made in the cash book only when the bank statement is received by the customer. Until then, the cash book shows less balance than bank statement.

**Balance as per bank statement (15,000) is more than balance as per cash book**

**Balance as per cash book (10,000) is less than balances per bank statement**

**(g) Amount paid directly by the bank to others**

Sometimes the bank may be instructed to make payments such as, insurance premium, installment of loan, etc., as an agent of the customer on behalf of its customer. In all such cases, debit is made in bank statement. But, the entry is made in the cash book only when the bank statement is received by the customer. Till then, the cash book shows more balance than bank statement.

* **For example,** on 1st, March, 2017, balance as per cash book and balance as per bank statement show the same amount of 12,000. But, as per the standing instruction of its customer the bank pays 2,000 as insurance premium as on 28th March, 2017. But, no entry for such transaction is made in the cash book as on such date. As a result of this,

**Balance as per cash book (12,000) is more than balance as per bank statement**

**Balance as per bank statement (10,000) is less than balance as per cash book**

**(h) Bills collected by the bank on behalf of its customers**

When goods are sold by the business, the documents may be sent through the bank. When the bank collects the amount, it is credited in bank records. But, the entry is made in the cash book only when the bank statement is received by the business. Till then, the bank statement shows more balance than cash book.

**Balance as per bank statement is more than balance as per cash book**

**Balance as per cash book is less than balance as per bank** statement

**(ii) Errors in recording**

**(a) Errors committed in recording the transactions by the business in the cash book:**

Sometimes, errors may be committed in the cash book. For example, omission or wrong recording of transaction relating to cheques deposited or issued, wrong balancing, etc. In these cases, obviously, there will be differences between bank balance as per bank statement and bank balance as per cash book.

**For example,** the cheque received for 10,000 is not entered in the cash book, but has been deposited with the bank. As a result, on collecting the money the balance as per bank statement will be more by 10, 000.

**(b) Errors committed in recording the transactions by the bank**

Sometimes errors may be committed in the banker’s book. For example, omission or wrong recording of transaction relating to cheques deposited and wrong balancing. In these cases, obviously, there will be differences between bank balance as per bank statement and bank balance as per cash book.

**For example,** the cheque deposited for 50000, wrongly entered by the bank as 15,000. This will lead to a difference of 35, 000 between the cash book balance and the balance as per bank statemen

**Format**

**Bank Reconcialiation Statement as on……………..**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount** ` | **Amount** ` |
| Balance as per cash book (favourable balance) Add:   1. Cheques issued but notpresented 2. Credits in the pass book only    1. Interest credited in bankstatement    2. Dividend and otherincome    3. Direct deposit by aparty 3. Anyerrorincashbook/bankstatementwhichhasthe effectofincreasingthebalanceasperbankstatement   Less:   1. Cheques deposited but not credited 2. Chequesdishonouredbutnotenteredincashbook 3. Debits in bank statementonly    1. Interest debited    2. Insurancepremium,loaninstalment,etc.,paidas per standinginstructions    3. Direct payment bybanker 4. Anyerrorincashbook/bankstatementwhichhasthe effectofdecreasingthebalanceasperbankstatement |  | xxx |
| xxx |  |
| xxx xxxxxx |  |
| xxx | xxx |
|  | xxx |
| xxx xxx |  |
| xxx |  |
| xxx xxx |  |
| xxx | xxx |
| Balance as per bank statement |  | xxx |
|  |  |  |

**When an extract of cash book and bank statement is given.**

**Cash book**

**(Bank Column)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Receipts** | **Amount** ` | **Date** | **Payments** | **Amount** ` |
| 2017 |  |  | 2017 |  |  |
| Oct. 1 | To Balance b/d | **20,525** | Oct. 8 | By Kamala A/c | **12,000** |
| 18 | To Ram A/c | **6,943** | 26 | By Magesh A/c | **9,740** |
| 19 | To Sales A/c ( Ravi) | **450** | 28 | By Mala A/c | 11,780 |
| 20  20 | To Commission A/c (Kala) To Nirmala A/c | **200**  7,810 | 30  31 | By Salaries A/c By Balance c/d | **720**  1,688 |
|  |  | 35,928 |  |  | 35,928 |
|  |  |  |  |  |
|  |  |  |  |  |
| Nov. 1 | To Balance b/d | 1,688 |  |  |  |
|  |  |  |  |  |  |

**Bank Statement**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Particulars** | **Dr.**  **Withdrawals**  ` | **Cr.**  **Deposits**  ` | **Balance Dr./Cr.**  ` |
| 1.10.17 | By Balance b/d |  |  | **20525 Cr** |
| 9.10.17 | To Kamala | **12,000** |  | 8525 Cr |
| 19.10.17 | By Ram |  | **6,943** | 15468 Cr |
| 25.10.17 | By Ravi |  | **450** | 15918 Cr |
| 26.10.17 | To Magesh | **9,740** |  | 6178 Cr |
| 27.10.17 | By Kala |  | **200** | 6378 Cr |
| 28.10.17 | To Rajan (salaries) | **720** |  | 5658 Cr |
| 30.10.17 | By Bills receivable |  | 20,000 | 25658 Cr |
|  | By Interest on Investment |  | 1,820 | 27478 Cr |
| 31.10.17 | To Bills payable | 4,000 |  | 23478 Cr |

**Solution**

**Bank Reconcialiation Statement as on 31st October 2017**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount** ` | **Amount** ` |
| Balance as per cash book  Add: Bills receivable collected, not entered in cash book  Interestoninvestmentcollected,notenteredincashbook Chequesissuedbutnotpresented–Mala | 20,000  1,820  11,780 | 1,688  33,600 |
|  | 7,810  4,000 | 35,288 |
| Less: Cheques deposited into bank, but not yet collected –Nirmala  Bills payable paid, not entered in cash book | 11,810 |
| Balance as per bank statement |  | 23,478 |

**Illustration 1 (When balance as per cash book is favourable)**

|  |  |
| --- | --- |
| **Particulars** | ` |
| (i) Cheques deposited but not yet collected by thebank | 500 |
| (ii) Cheque issued but not yet presented for payment | 1,000 |
| (iii) Bank interest charged | 100 |
| (iv) Rent paid by bank as per standing instruction | 200 |
| (v) Cash book balance | 300 |

**Bank reconciliation statement as on 31st March,2017**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount** ` | **Amount** ` |
| Balance as per cash book  **Add:** Cheque issued but not yet presented for payment | 500  100  200 | 300  1,000 |
|  | 1,300 |
| **Less:**Chequesdepositedbutnotyetcollectedbythebank Bank interestcharged  Rent paid by bank as per standing instruction | 800 |
| Balance as per bank statement |  | 500 |

**Illustration 6 (When balance as per bank statement is an overdraft)**

|  |  |
| --- | --- |
| **Particulars** | ` |
| (i) Balance as per bankstatement | 6,000 |
| (ii) Chequesdepositedon28thDecember,2017butnotyetcredited | 2,000 |
| (iii) Cheques issued for 10,000 on 20th December, 2017 but not yet presented for |  |
| payment | 3,000 |
| (iv) Interestondebenturesdirectlycollectedbythebanknotrecordedincash |  |
| book | 4,000 |
| (v) Insurancepremiumonbuildingdirectlypaidbythebank | 1,000 |
| (vi) Amount wrongly credited bybank | 500 |

**Solution**

**Bank reconciliation statement as on**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Amount** ` | **Amount** ` |
| Balanceasperbankstatement Add:  Cheque deposited but not yet credited  Insurance premium on building directly paid by the bank  Less:  Cheque issued but not yet presented for payment Interestondebenturesdirectlycollectedbythebanknot entered in cashbook  Amount wrongly credited by bank Balance as per cash book | 2,000  1,000 | 6,000  3,000 |
| 3,000  4,000  500 | 9,000  7,500 |
|  | **1,500** |

**xxxxxxxxxxxxxxxxxxxxxx**