

Overview of Bank Reconciliation Statement in Accounting

What is a Bank Reconciliation Statement?

A Bank Reconciliation Statement (BRS) is a document that matches the cash balance on a company's books to the corresponding amount on its bank statement. Reconciling the two accounts helps identify differences due to outstanding checks, deposits in transit, and bank charges, among other things.

Importance of Bank Reconciliation Statement

1. **Accuracy in Financial Records:** Ensures that the company's financial records are accurate and up-to-date.
2. **Fraud Detection:** Helps detect fraud and unauthorized transactions.
3. **Error Identification:** Identifies errors made by either the bank or the company.
4. **Cash Flow Management:** Aids in managing cash flow effectively by ensuring all transactions are recorded.
5. **Compliance:** Helps maintain compliance with accounting standards and regulations.

Components of Bank Reconciliation Statement

1. **Bank Statement Balance:** The balance shown in the bank statement at the end of the period.
2. **Book Balance:** The balance shown in the company's cash account at the end of the period.
3. **Outstanding Checks:** Checks that have been written and recorded in the books but not yet cleared by the bank.
4. **Deposits in Transit:** Deposits recorded in the company's books but not yet reflected in the bank statement.
5. **Bank Errors:** Any errors made by the bank in the bank statement.
6. **Company Errors:** Any errors made by the company in the cash account.

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**Differences Between Bank Reconciliation Statement (BRS) and Ledger**

Feature	Bank Reconciliation Statement (BRS)	Ledger
Definition	A statement that reconciles the bank account balance in the company's books with the balance shown on the bank statement.	A book or computer file used to record and total economic transactions measured in terms of a monetary unit of account by account type.
Purpose	To identify and explain differences between the cash balance on the bank statement and the cash balance in the company's ledger.	To record all financial transactions systematically and chronologically.
Preparation	Prepared periodically (usually monthly) after receiving the bank statement.	Prepared continuously as transactions occur.
Content	Includes bank statement balance, company's cash account balance, and reconciling items such as outstanding checks, deposits in transit, bank errors, and company errors.	Includes details of all transactions related to specific accounts (e.g., cash, bank, sales, expenses).
Focus	Focuses specifically on reconciling the bank account balance.	Focuses on the entire range of financial transactions across all accounts.



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**Format of Bank Reconciliation Statement**

Bank Reconciliation Statement as on ...		
	Plus(₹)	Minus(₹)
Dr. Balance (Favourable Balance) as per Cash Book	XXXX	
<b>Add:</b>		
1. Cheque issued or drawn but not yet presented for payment	XXX	
2. Interest allowed by the bank not recorded in Cash Book	XXX	
3. Amount directly deposited by the customers in our Bank Account	XXX	
4. Interest and Dividends collected by bank on investments	XXX	
5. Cheque paid into bank but omitted to be entered in the Cash Book	XXX	
6. Any wrong credit given by the bank in the Pass Book	XXX	
<b>Less:</b>		
1. Cheque paid into the bank for collection but not yet credited by the bank		XXX
2. Cheque paid into the bank for collection but dishonored by the bank		XXX
3. Direct payment made by the bank according to prior instructions		XXX
4. Bank Charges and commission charged by the bank		XXX
5. Cheque issued but omitted to be recorded in the Cash Book		XXX
6. Any wrong debit given by the bank in the Pass Book		XXX
	XXXX	XXXX
<b>Cr. Balance (Favourable Balance) as per Pass Book</b>		XXX
	XXXX	XXXX

**Solved Example**

Ques : The balance of cash at bank as shown in the Cash Book of Sahil & Co. on 31st December 2021 was ₹8,400. On comparing it with the pass book, the following differences were noted:

1. Cheque sent for collection amounting to ₹6,400 have not been cleared by the bank so far.
2. Cheque issued but not presented for payment ₹4,000.
3. Bank charges ₹200 not entered in the Cash Book.

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4. Credit of ₹500 in the pass book in respect of interest was not recorded in the Cash Book.
  5. A vendor deposited ₹2,000 directly in our bank account which was only recorded in the pass book.
  6. As per standing instructions of Sahil & Co., the bank has made the following payments:
    - Insurance premium: ₹1,200
    - Club Fees: ₹1,000
- Prepare a Bank Reconciliation Statement as on 31st December 2021.

Solution:

<b>Bank Reconciliation Statement as on 31st December 2021</b>		
	<b>Plus</b>	<b>Minus</b>
<b>Dr. Balance (Favourable Balance) as per Cash Book</b>	8,400	
<b>Add:</b>		
1. Cheque issued or drawn but not yet presented for payment	4,000	
2. Interest allowed by the bank not recorded in Cash Book	500	
3. Amount directly deposited by the customers in our Bank Account	2,000	
<b>Less:</b>		
1. Cheque sent to the bank for collection but not yet credited by the bank		6,400
2. Bank Charges not entered in the Cash Book		200
3. Amount paid by the bank on standing instruction:		
(i) Life Insurance Premium		1,200
(ii) Club Fees		1,000
	<b>14,900</b>	<b>8,800</b>
<b>Cr. Balance (Favourable Balance) as per Pass Book</b>		<b>6,100</b>
	<b>14,900</b>	<b>14,900</b>

Assignment



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Ques 1: The balance of cash at the bank as shown in the Cash Book of Kamal Traders on 30th June 2022 was ₹15,000. On comparing it with the pass book, the following differences were found:

1. Cheques amounting to ₹7,500 were sent for collection but not yet credited by the bank.
  2. Cheques issued for ₹3,200 have not yet been presented for payment.
  3. Bank debited ₹500 as charges for bank services, not recorded in the Cash Book.
  4. Interest of ₹1,200 was credited in the pass book but not recorded in the Cash Book.
  5. A direct deposit of ₹4,000 was made by a customer in the bank account but was not recorded in the Cash Book.
  6. As per standing instructions, the bank made the following payments:
    - Electricity bill: ₹2,000
    - Subscription fee: ₹1,500
- Prepare a Bank Reconciliation Statement as of 30th June 2022.

Ques 2: The balance of cash at the bank as shown in the Cash Book of Ramesh & Sons on 31st March 2023 was ₹10,500. The following discrepancies were noted:

1. Cheques worth ₹5,000 were deposited but not cleared by the bank.
  2. Cheques issued for ₹6,000 were not yet presented for payment.
  3. Bank charges of ₹300 were deducted in the pass book but not recorded in the Cash Book.
  4. A dividend of ₹2,500 was credited in the pass book but not recorded in the Cash Book.
  5. A customer deposited ₹3,000 directly into the bank account but it wasn't recorded in the Cash Book.
  6. The bank, as per standing instructions, made the following payments:
    - Rent: ₹4,000
    - Loan installment: ₹2,000
- Prepare a Bank Reconciliation Statement as of 31st March 2023.

Ques 3: The Cash Book of Mohan Enterprises showed a balance of ₹12,000 on 31st January 2022. The pass book showed a different balance due to the following reasons:

1. Cheques amounting to ₹8,000 were deposited but not yet credited by the bank.
2. Cheques issued for ₹5,500 were not yet presented for payment.
3. Bank charges of ₹250 were deducted in the pass book but not recorded in the Cash Book.



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4. An interest income of ₹1,800 was credited in the pass book but not recorded in the Cash Book.
5. A supplier deposited ₹3,500 directly in the bank account.
6. As per standing instructions, the bank paid:
- Insurance premium: ₹1,800
  - Internet bill: ₹900
- Prepare a Bank Reconciliation Statement as of 31st January 2022.

