



# **Module-A Unit-4**

## **JAIIB PAPER-3**

### **Accounting & Financial Management for Bankers(AFM)**



## JAIB AFM Module A Unit 4- Bank Reconciliation Statement

### Recording Transactions in cash Book

Record the following transactions in a bank column cash book for December 2019:

		₹
01	Started business with cash	80,000
04	Deposited in bank	50,000
10	Received cash from Abhinav	1,000
15	Bought goods for cash	8,000
22	Bought goods by cheque	10,000
25	Paid to Alpa by cash	20,000
30	Drew from Bank for office use	2,000
31	Rent paid by cheque	1,000

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Cash book									
Dr.					Cr.				
Date	Receipts	L.F.	Cash ₹	Bank ₹	Date	Payments	L.F.	Cash ₹	Bank ₹
2019					2019				
01 Dec	Capital		80,000		04 Dec	Bank	C		50,000
04 Dec	Cash	C		50,000	15 Dec	Purchases		8,000	
10 Dec	Abhinav		1,000		22 Dec	Purchases			10,000

30 Dec	Bank	C	2,000		25 Dec	Alpa		20,000	
					30 Dec	Cash	C		2,000
					31 Dec	Rent			1,000
					31 Dec	Balance c/d		5,000	37,000
			<b>83,000</b>	<b>50,000</b>				<b>83,000</b>	<b>50,000</b>

### **Cash Book and Passbook**

BASIS FOR COMPARISON	CASH BOOK	PASSBOOK
<b>Meaning</b>	A book that keeps a record of cash transactions is known as cash book.	A book issued by the bank to the account holder that records the deposits and withdrawals is known as passbook.
<b>Prepared by</b>	Firms	Bank
<b>Side affected</b>	Receipts will be shown in the debit side while payments are entered in credit side.	Deposits will be shown in credit side while withdrawals are shown in debit side.
<b>Preparation</b>	Discretionary	Compulsory
<b>Recording of cheque deposited for collection</b>	Date of deposit	Date on which the amount is actually collected from the debtor's bank
<b>Recording of cheque issued to the creditor</b>	Date of issue.	When the amount is paid by the bank to the creditor.
<b>What do the balances reflect?</b>	Debit balance shows cash at bank while the credit balance shows overdraft.	Debit balance shows overdraft while the credit balance shows cash at bank.

### **Understanding Reconciliation**

The Bank statement is received periodically, say every month. We check it for clerical and if any errors are found, we obtain a revised statement containing no errors. **The balance is this statement gives us a firm starting point to proceed for:**

- Finding out entries which do not requires change in cashbook (these entries are present in the cashbook but not in the bank statement). These entries give us the 'Adjusted bank balance'.
- Finding out clerical mistake in our cashbook and rectifying them.
- Finding out entries which require change in our cashbook (these entries are present in the statement but not in the cashbook).

### Preparing Reconciliation Statement

Based on these 3 steps, we can prepare a statement called "Bank Reconciliation". It is pertinent to note that step 1 gives the adjusted bank balance which is a national figure and not the actual balance in the account with in bank while step 2 and 3 result in actually changing the balance in the cashbook by correction of errors and posting of missing entries. This cash book balance should be equal to the adjusted bank balance as arrived in step 1. This is balance which goes to the trial balance and balance sheet.

Bank Reconciliation Statement as in \_\_\_\_\_

Closing balance in bank statement	Rs.....
Adjustments to the balance in the bank statement	Rs .....
(a)Add: cheque deposited but not yet credited	Rs .....
(b)Subtract: Cheque issued but not presented to the bank for payment	
Adjusted balance in the bank statement	Rs ..... A

Balance as per cashbook	Rs.....
Adjustment made to cashbook	Rs. ....
(a)Add or subtract: clerical errors	
(b) Add: Credit entries shown in the bank statement but not appearing in cash book	Rs.....
(c)Subtract: Debit entries shown in the bank statement but not appearing in cashbook	Rs. ....
	Rs. ....B

Adjusted (corrected) cashbook balance	
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### **Need for Preparing a Bank Reconciliation Statement**

- Accuracy
- Check on the Entries
- Rectifying Incorrect Entries
- Updated Cash Book
- Detection of Delays
- Check on the Dishonest Behavior of Employees

#### **Example:**

The cash book of Mr Abhinav shows Rs 8364 as the balance at the bank as on 31 December 2018, but you find this does not agree with the balance as per the bank pass book, which shows a balance of Rs 15534.

#### **On scrutiny, you find the following discrepancies:**

- On 1<sup>st</sup> December, the payment side of the cash book was undercast by Rs100
- A cheque of Rs 131 issued on 25<sup>th</sup> December, was not taken in the bank column.
- One deposit of Rs 150 was recorded in the cash book as if there is no bank column therein.
- On 18<sup>th</sup> December, the debit balance of Rs 1526 as on the previous day, was brought forward as credit balance.
- Of the total cheque, amounting to Rs 11,514 drawn in the last week of December, cheques aggregating to Rs 7815 were encashed in December.
- Dividend of Rs 250, collected by bank and, subscription of Rs 100, paid by it, were not recorded in the cash book
- One out-going cheque of Rs 350 was recorded twice in the cash book.

#### **Rough working: Correction of cash book for errors**

Item	Debit	Credit
Deposit entry (shown in cash column)	150	
Wrong carry forward of balance	3052	
Outgoing cheque recorded twice	350	
Undercasting payment side		100

Cheque issued		131
Total	3552	231

**The bank reconciliation statement will be as under:**

Closing balance in bank statement	Rs 15534	
Adjustments to the balance in the bank statement		
(a) Add: cheque deposited but not yet credited		
(b) Subtract: Cheque issued but not presented to the bank for payment	Rs 3699	
Adjusted balance in the bank statement	Rs 11835	<b>A</b>

Balance as per cashbook	Rs 8364	
Adjustment made to cashbook		
(a) Add or subtract: clerical errors	Rs. 3321	
(b) Add: Credit entries shown in the bank statement but not appearing in cash book	Rs. 250	
(c) Subtract: Debit entries shown in the bank statement but not appearing in cashbook	Rs. -100	
Adjusted (corrected) cashbook balance	Rs. 11835	<b>.B</b>

**How to prepare a Bank Reconciliation statement when extracts of cash Book and Pass Book are given**

*When the cash book and pass book abstracts are given, the following points should be noted.*

- Find out the period for which both the abstracts are given
- Compare the cash book debit side with the pass book credit side and the cash book credit side with the pass book debit side.

- When the period for which both the abstracts are given is common, i.e. the cash book abstract relates to January and the pass book abstract is also given for January, take into account only uncommon entries.
- When the period for which both the abstracts are given is uncommon, i.e, the cash book relates to January but the pass book relates to February, take into account only common entries.
- Where the period is same, uncommon entries will appear in the reconciliation statement.
- When the period is different, common entries will appear in the reconciliation statement.

### **Adjusting The Cash Book Balance**

We have learnt that certain entries appear in the pass book first and then by comparing the pass book with the cashbook, these missing entries are incorporated in the cash book. The trader must know the correct bank balance at any time so that he can issue cheques only to the extent of the available bank balance. Therefore, preparing a bank reconciliation statement, the accountant makes the necessary corrections in the cash book and adjusts the cash book balance.

*The items, which can usually be adjusted in the cash book are:*

- Payment made by bank as per standing instructions.
- Bank charges, interest on bank overdraft debited by the bank.
- Collection of interest in securities and dividend on shares by bank.
- Debits for the dishonor of cheques in the pass book.
- Direct deposits made by customers of the trader.
- Errors committed in the cash book.

### **Advantages of Bank Reconciliation Statement**

*Following are the advantage of preparing the bank reconciliation statement:*

- It helps the management to check the accuracy of the entries made in the cash book.
- It helps to detect errors and to take timely action for the correction of balances.
- It is a very important control technique for the management.
- It shows the correct bank balance at any particular time
- It reveals frauds committed by the staff handling cash and cheques and thus, helps the management to have effective control.

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