



JMC JAYASEKERA
MANAGEMENT CENTRE
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Chartered Accountancy – BL 01

Financial Accounting

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MBA (PIM-SJP), B.Sc. (Acct.) Hons. Gold Medal Winner, ACA, SAT, ACMA (UK), CGMA (UK), CA Prize Winner for AFR subject in Strategic Level II, CA First in Order of Merit Prize Winner in CAB II Level, CIMA Strategic Level Aggregate Prize Winner.

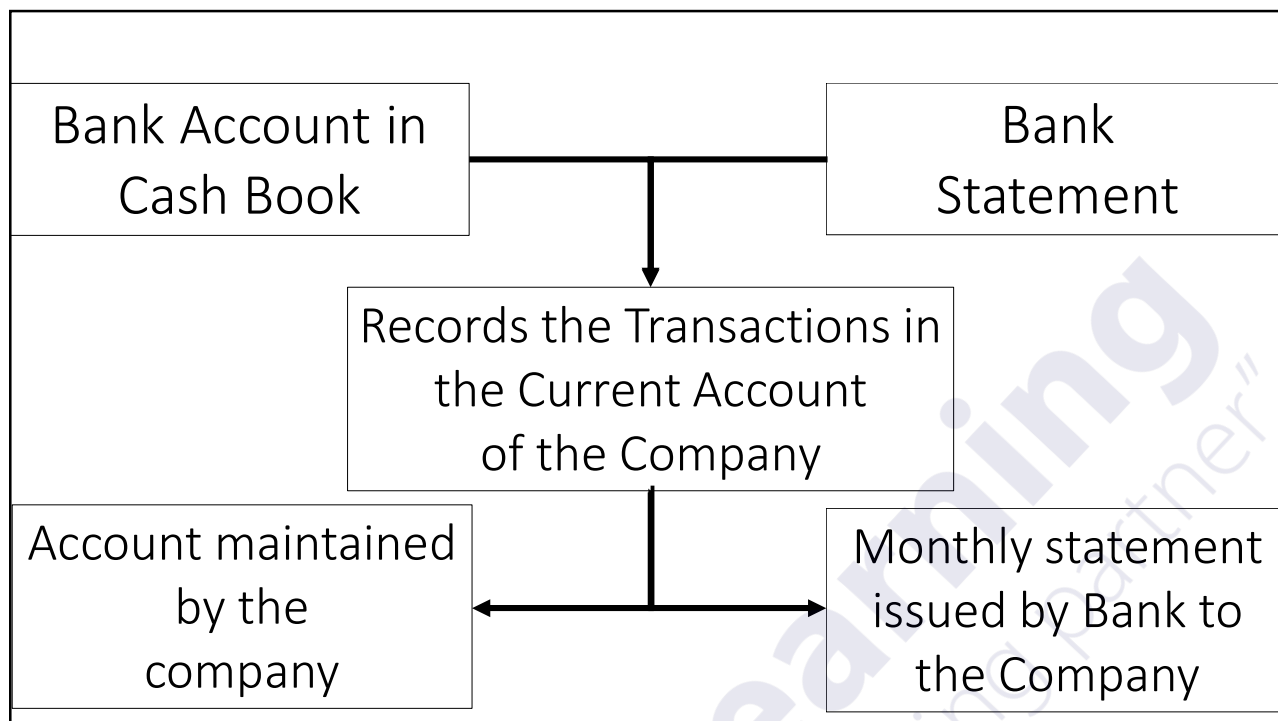
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Bank Reconciliation Statement



2

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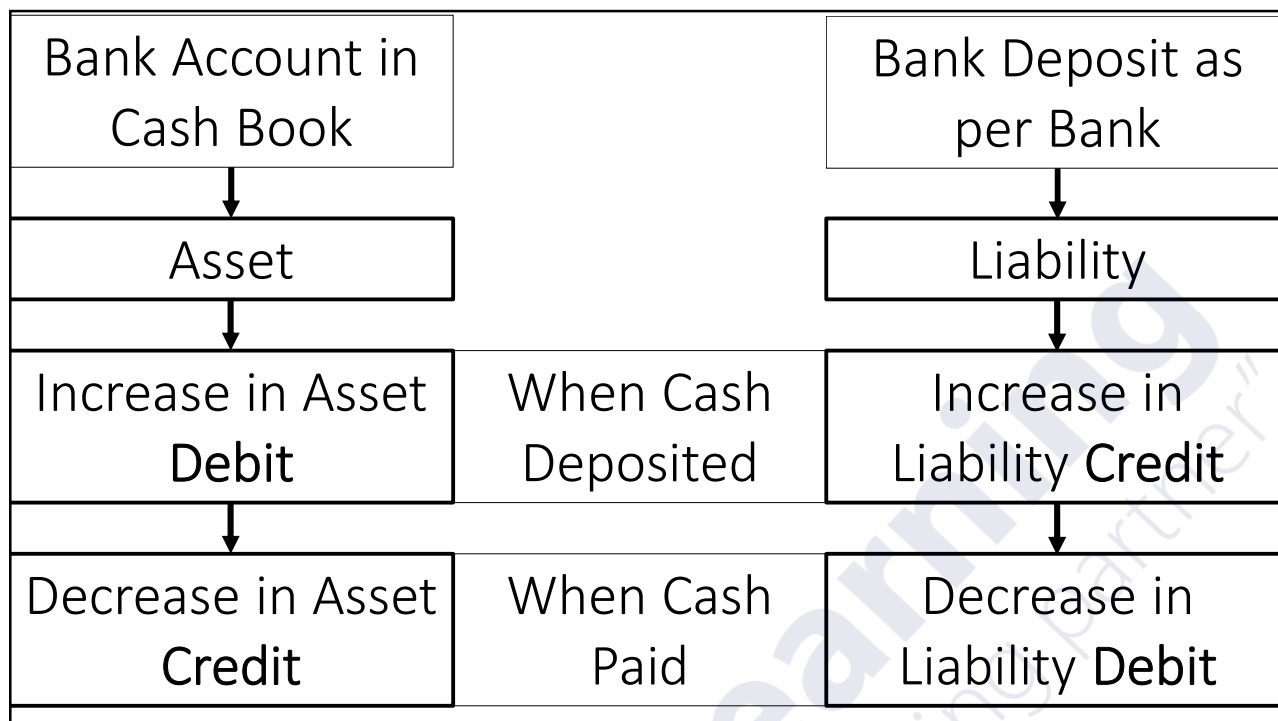
3

- Cash in the bank current account is an asset from the entity's point of view. There for it'll be recorded as a debit.
- The cash in the bank current account is a liability. As, when the customer demands the money bank has to give it back. Therefore, bank is recording the money as a credit balance.
- Therefore, the transactions in entity's bank account and same transactions in bank's statement are recorded as a complete opposite.

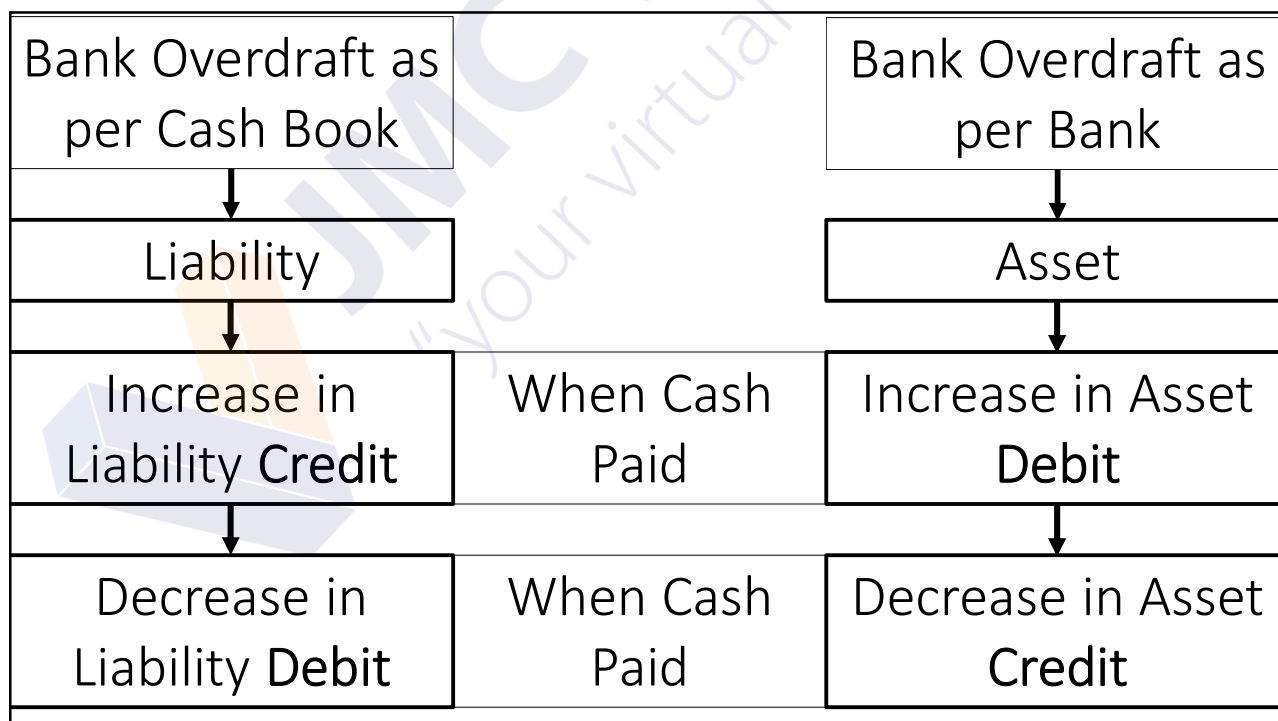


Remember

4



5



6

Ideally the bank balance in cash book and bank statement balance shall be tallied. However, due to reasons below there can be differences.

- Errors
- Omissions
 - Bank Charges
 - Interest
- Time Differences
 - Cheques deposited, but unrealized
 - Cheques issued, but unrepresented



7

Errors

In the cash book there can be errors made by the accountant such as

- Errors of calculations
- Errors in recording receipts and payments

Rarely, there can be errors made by the bank as well.

8

Bank Charges and Bank Interests

- For the services offered by the bank they charge a fee.
- For the loans and overdrafts provided an interest is charged.
- Both are charged from the bank current account.
- Companies will be aware of these once they receive the bank statements.



9

Timing Differences

Unrealized Deposits

- Entities are debiting the bank book for the deposited cheques they have received.
- However, the clearing process may take a day or two to realize the cheque to the bank account. Therefore, a temporary timing difference can occur.

DATE <i>June 5 2017</i>	BANK NAME
PAY TO THE ORDER OF <i>one million dollars</i>	\$ 1 000 000
SIGNATURE <i>Da</i>	DOLLARS
	123 456 7890

10

Timing Differences

Unpresented Issued Cheques



- When an entity makes a payment through a cheque, that will be recorded in the cash book.
- However, the recipient of the cheque, may not have presented the cheque to the bank or even if it was presented the cheque may still be in the clearing process.
- Therefore, it'll take few days to reduce the balance from the bank account. This creates a timing difference.

11

Bank Reconciliation Statement

Bank Reconciliation is prepared monthly to show the differences in cash book and the bank statement.



12

Steps to prepare a Bank Reconciliation

01. Compare and find differences

Compare the Cash book vs the Bank statement and identify the differences.



02. Prepare the adjusted cash book

Correct the cash book for errors made by accountants and items in Bank statement which are not there in the cash book (Bank Charges etc.)



03. Prepare the Bank Reconciliation

Prepare the Bank Reconciliation to show the timing differences from adjusted Cash Book balance to Bank Statement balance.

13

Adjustments made to the Cash Book



Bank Charges

Debit Bank Charges
Credit Bank Account

Loan and Overdraft Interest

Debit Interest Expense
Credit Bank Account

Direct Remittances

Debit Remittances
Debit Bank Account
Credit Debtor Control

Dividend

Debit Bank Account
Credit Dividend Income

14

Adjustments made to the Cash Book



Standing Orders and Direct Debits

Bank Loan Installments
 Debit Bank Loan
 Debit Bank Loan Interest
 Credit Bank Account

Building Rent
 Debit Building Rent Expense
 Credit Bank Account

15

T Account Structure of Adjusted Cash Book (In the Absence of an Overdraft)

Cash Book			
Balance Brought Forward	XXX	Bank Charges	X
Correction of Undercast	X	Overdraft Interest	X
Direct Remittances from Debtor	XX	Loan Installment - Standing Order	XX
Direct Transfer of Dividends	X	Building Rent- Standing Order	X
		Correction of Overcast	X
		Balance Carried Down	XX
	<u>XXX</u>		<u>XXX</u>
Balance Brought Forward	XX		

16

T Account Structure of Adjusted Cash Book (In the Absence of an Overdraft)			
Balance Brought Forward			XXX
Added			
Correction of Undercast	X		
Direct Remittances from Debtor	XX		
Direct Transfer of Dividends	X		
			XX
Deducted			
Bank Charges	(X)		
Overdraft Interest	(X)		
Loan Installment - Standing Order	(XX)		
Building Rent- Standing Order	(X)		
Correction of Overcast	(X)		(XX)
Adjusted Cash Book Balance			XX

17

T Account Structure of Adjusted Cash Book (In the case of an Overdraft)			
Cash Book			
Correction of Undercast	X	Balance Brought Forward	XXX
Direct Remittances from Debtor	XX	Bank Charges	X
Direct Transfer of Dividends	X	Overdraft Interest	X
		Loan Installment - Standing Order	XX
		Building Rent- Standing Order	X
Balance C/D	XX	Correction of Overcast	X
	<u>XXX</u>		<u>XXX</u>
		Balance B/F	XX


18

T Account Structure of Adjusted Cash Book (In the case of an Overdraft)

Balance Brought Forward		(XXX)
Deducted		
Correction of Undercast	X	
Direct Remittances from Debtor	XX	
Direct Transfer of Dividends	X	XX
Added		
Bank Charges	(X)	
Overdraft Interest	(X)	
Loan Installment - Standing Order	(XX)	
Building Rent- Standing Order	(X)	
Correction of Overcast	(X)	(XX)
Adjusted Cash Book Balance		(XX)

19

Bank Reconciliation include following items



- Timing Differences
 - Cheques deposited, but unrealized
 - Cheques issued, but unrepresented

20

10

Bank Reconciliation Format
(In the Absence of a Bank Overdraft)

Adjusted Cash Book Balance		XXX
Added		
Cheques issued, but unrepresented	x	XX
Deducted		
Cheques deposited, but unrealized	(X)	(XX)
Balance as per the Bank Statement		<u>XX</u>

21

Bank Reconciliation Format
(In the Absence of a Bank Overdraft)

Adjusted Cash Book Balance		(XXX)
Added		
Cheques issued, but unrepresented	x	XX
Deducted		
Cheques deposited, but unrealized	(X)	(XX)
Balance as per the Bank Statement		<u>(XX)</u>

22

Questions 01

The bank account balance as at 31/3/20X9 of Aloka Ltd was a debit balance of Rs.800,000 and there was a credit balance of Rs.1,100,000 in the bank statement. The reasons for the differences were as follows.

1. The debit side of the cash book was under casted by Rs.100,000
2. Cheques deposited, but unrealized were Rs.200,000
3. Cheques issued to the creditors but unpresented were Rs.400,000

Required

1. Adjust the cash book
2. Prepare a reconciliation to reconcile the difference between adjusted cash book and bank statement balance.

23

Questions 02

The bank account in cash book of a company as at 31 December 20X8 shows a debit balance of Rs.150,000. This balance does not agree with the balance in the bank statement. The reasons are given below.

Transactions not recorded in the cash book

- Bank Charges Rs.36,000
- Transfers from savings account Rs.500,000

Transactions not recorded in the bank statement

- Issued but unpresented cheques Rs.116,000
- Deposited but unrealized cheques Rs.630,000

24

12

Questions 02

Rs.400,000 has been debited to the bank account by an error made by the bank.

Required

What is the balance as per the Bank Statement?

25

Questions 03

The bank statement of a company shows Rs.715,000 direct debits and Rs.353,000 investment income which were not recorded in the cash book.

The cheque of Rs.875,000 deposited on the last day was not appearing in the bank statement. The cash book shows a credit balance of Rs.610,000.

What is the corrected cash book balance and balance as per the bank statement?

26

Questions 04

There is a bank overdraft balance of Rs.300 as at 30th June 20X0 of Kook's financials. On the same day the bank statement shows a credit balance of Rs.65. Following were observed in the reconciliation process.

1. A cheque issued of Rs.500 was included in the cash book. However, it has not been presented to the bank yet.
2. A cheque deposited of Rs.400 is included in the cash book. However, it has not been realized to the bank account yet.
3. Kook has advised the bank to remit the fixed deposit interest of Rs.60 to the current account as at the end of the month. This amount was remitted to the bank account on 05th July 20X0. However, this amount was credited to the cash book on 30th June 20X0.
4. The bank charges included in the bank statement was Rs.35
5. The payment side of the cash book was under casted by Rs.10

27

Questions 04

6. The dividend received directly to the bank is Rs.200
7. Amount paid through a savings account of Rs.50 has been recorded as a payment through the current account.
8. A cheque issued to Johns of Rs.25 has been expired and a new cheque has been issued. However, entry has not been passed for the expiry. Both cheques has been included in the unpresented cheques.

Required

1. Adjust the cash book
2. Prepare a reconciliation to reconcile the difference between adjusted cash book and bank statement balance.

28

Questions 05

Following details were obtained from the bank reconciliation process of G.W.W. Ltd.

Required

1. Adjust the cash book
2. Prepare a reconciliation to reconcile the difference between adjusted cash book and bank statement balance.

29

20X2 Oct		Rs..	20X2 Oct		Rs.
1	Balance B/F	274			
8	Q Producer	3,443	1	Salaries	3,146
8	R. Cement	1,146	1	Petty Cash	55
11	S Ltd	638	8	Salaries	3,106
11	T and Sons	512	8	Petty Cash	39
11	U and Company	4,174	15	Salaries	3,029
15	V Ltd	1,426	15	Petty Cash	78
15	W. Electricals	887	22	A and Sons	929
22	X Ltd	1,202	22	B Ltd	134
26	Y Ltd	2,875	22	C Ltd	77
26	Z Ltd	982	22	D and E	263
29	ABC Ltd	1,003	22	AY Ltd	1,782
29	D Ltd	722	22	P Ltd	230
29	PHI Ltd	2,461	22	Salaries	3,217
31	Balance C/D	14	22	Petty Cash	91
			25	H and Sons	26
			26	J and Sons	868
			26	K and S Ltd	107
			26	L M and A	666
			28	O and Company	112
			29	Salaries	3,191
			29	Petty Cash	52
			29	P and Sons	561
		21,759			21,759

30

15

20x2 October	Pay Rs.	Receipts Rs.	Bal Rs.
1			1,135
1 Cheque	55		
1 Cheque	3,146		
1 Cheque	421		2,487 OD
2 Cheque	73		
2 Cheque	155		2,715 OD
6 Cheque	212		2,927 OD
8 Credits		4,589	
8 Cheque	3,106		
8 Cheque	39		1,483 OD
11 Credits		5,324	3,841
15 Credits		2,313	
15 Cheque	78		
15 Cheque	3,029		3,047
22 Credits		1,202	
22 Cheque	3,217		
22 Cheque	91		941
25 Cheque	1,782		

20x2 October	Pay Rs.	Receipts Rs.	Bal Rs.
25 Cheque	134		975 OD
26 Cheque	929		
26 Credits		3,857	
26 Cheque	230		1,723
27 Cheque	263		
27 Cheque	77		1,383
29 Loans		4,186	
29 Cheque	52		
29 Cheque	3,191		
29 Cheque	26		
29 Dividends		2,728	
29 Cheque	666		4,362
31 Bank Charges	936		3,426

31



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