

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Bank Reconciliation Statement	Bank Reconciliation Statement is a statement prepared on a particular day to reconcile the bank balance as per Cash Book with the balance as per Bank Pass Book or Bank Statement showing entries causing difference between the two balances.
2. Bank Pass Book or Bank Statement	Bank Pass Book or Bank Statement is a copy of account of the account holder in the books of the bank.
3. Favourable or Debit Balance as per Cash Book	It means that the amount lying deposited with the bank. It is the difference between debit side and credit side of the bank column of the Cash Book, debit side being bigger.
4. Favourable or Credit Balance as per Pass Book or Bank Statement	It means that the amount lying deposited with the bank. It is the difference between credit side and debit side of the Bank Pass Book or Bank Statement, credit side being bigger.
5. Unfavourable or Credit Balance as per Cash Book	It means amount overdrawn, <i>i.e.</i> , amount drawn in excess of deposits. It is the difference between credit side and debit side of the bank column of the Cash Book, credit side being bigger.
6. Unfavourable or Debit Balance as per Bank Pass Book or Bank Statement	It means amount overdrawn, <i>i.e.</i> , amount drawn in excess of deposits. It is the difference between debit side and credit side of the Bank Pass Book or Bank Statement, debit side being bigger.
7. Overdraft	A situation when the account holder withdraws more money from the bank than the deposits in his/her account.

CHAPTER SUMMARY

- **Bank Reconciliation Statement** is a statement prepared on a particular date reconciling the bank balance in the Cash Book with the balance as per Bank Statement or Pass Book showing the reasons or causes of difference between the two balances.
- **Reasons or Causes of Difference** can be as follows:
 - (i) Cheques issued but not presented for payment;
 - (ii) Cheques deposited but not credited;
 - (iii) Interest allowed by the bank not recorded in Cash Book;
 - (iv) Interest and expenses charged by the bank not recorded in Cash Book;
 - (v) Interest and dividend collected by the bank not recorded in Cash Book;
 - (vi) Direct payments by the bank not recorded in Cash Book;
 - (vii) Direct payments into the bank by a customer not recorded in Cash Book;
 - (viii) Dishonour of cheques discounted with the bank not recorded in Cash Book;
 - (ix) Cheques collected by the bank on behalf of a customer not recorded in Cash Book; and
 - (x) Errors committed.

- **Debit Balance** as per Cash Book or **Credit Balance** as per Pass Book means favourable balance.
- **Credit Balance** as per Cash Book or **Debit Balance** as per Pass Book means unfavourable balance.

BANK RECONCILIATION STATEMENT—AT A GLANCE

Particulars	Cash Book—Starting Balance		Pass Book—Starting Balance	
	Favourable Balance (Dr. Balance)	Overdraft (Cr. Balance)	Favourable Balance (Cr. Balance)	Overdraft (Dr. Balance)
1. Cheques issued but not yet presented for payment.	+	–	–	+
2. Cheques deposited into the Bank but not yet collected.	–	+	+	–
3. Interest allowed by the Bank but not entered in the Cash Book.	+	–	–	+
4. Bank charges not entered in the Cash Book.	–	+	+	–
5. Direct deposit into the bank by a customer.	+	–	–	+
6. Direct payments from the bank not entered in the Cash Book.	–	+	+	–
7. Direct collections made by the bank not entered in the Cash Book.	+	–	–	+
8. Cheque issued and payment received by the creditor but not entered in the Cash Book.	–	+	+	–
9. Cheque paid into the bank but omitted to be entered in the Cash Book.	+	–	–	+
10. Dishonour of a cheque discounted with the bank.	–	+	+	–
11. Cheque entered in the Cash Book but not sent to the Bank.	–	+	+	–

Difference between Bank Reconciliation Statement and Bank Statement

Basis	Bank Reconciliation Statement	Bank Statement
1. Who prepares	It is prepared by the account holder.	It is prepared by the bank.
2. Objective	It is prepared to reconcile the difference between Cash Book Balance and Pass Book Balance.	It is prepared to inform the customer, <i>i.e.</i> , account holder about all transactions which have taken place in his account during the period covered by the statement.
3. When it is prepared	It is prepared on a particular date.	It is prepared for a particular period.
4. Necessity	It is not compulsory.	It is compulsory for the bank to prepare it.
5. Final Result	It may show the bank balance as per Cash Book or Pass Book at the end of the period.	It shows the balance of Customer's Account as per bank ledger at the end of the period