



Bank account and the Bank reconciliation statement



The following facts are discussed in this chapter.

9.1 Bank Account

- Recording of cash deposits in the bank account
- Recording of cheque deposits in the bank account
- Issuing of cheques for payments
- Dishonouring of cheques
- Bank overdraft

9.2 Bank Reconciliation Statement

- Bank Statement
- Reasons for the difference between the balance of bank statement and the bank account of the business
- Adjusting the bank account balance
- Preparation of bank reconciliation statement

9.1 Bank Account

Most businesses like to conduct cash transactions conveniently and securely by opening a current account. The bank account and the cash book are considered as asset accounts. Therefore, when the transactions are carried out through the bank account, they should be recorded according to the double entry principle for assets.

Let us understand how the transactions that are conducted through bank current account are recorded in a business.

01. Deposit of cash in the bank

A specified amount of cash has to be deposited to open a current account. In addition, cash received by the business would be deposited in the current account. When a business deposits cash in the current account, the balance in the current account increases and the cash balance decreases.

The double entry for deposit of cash is as follows.

Bank account	Dr.
Cash book	Cr.

When depositing cash, a deposit slip has to be completed and submitted along with cash to the bank. The bank returns a duplicate of the deposit slip to the business (depositor) immediately. This document is used as a source document for the recording of the cash deposit.

02. Deposit of cheques received by the business

Balance in the bank account of the business will increase when cheques are deposited. As explained earlier, when cheques from debtors and cash sales are received, they are first debited to the cash book.

When these cheques are deposited to the bank later, the double entry should be as follows.

Bank account	Dr.
Cash book	Cr.

However, if the received cheques are deposited to the bank at the time of receipt, instead of debiting to the cash book, they can be directly debited to the bank account of the business.

Example :-

The cheque received from the sales amounting to Rs. 10 000 was deposited to the bank account immediately.

Then the double entry is,

Bank account	Dr. 10 000
Sales account	Cr. 10 000

When received cheques are deposited, a cheque deposit slip should be completed and submitted to the bank along with the cheques. A duplicate of the deposit slip is given to the business (account holder) by the bank. This document is used as a source document when the business records the deposited cheque in the bank account of the business.

Observe the following cheque deposit slip

The image shows a 'CHEQUE PAYING - IN SLIP' form from People's Bank. The form is in Kannada and English. It includes fields for 'DATE', 'BRANCH CODE AND ACCOUNT NO.', 'AMOUNT IN WORDS', and 'AMOUNT IN FIGURES'. There is a table with columns for 'BANK / BRANCH CODE NO.', 'CHECK NO.', 'AMOUNT IN RS.', and 'CTS.'. At the bottom, there are sections for 'DEPOSITOR', 'CASHIER', and 'OFFICER' signatures. A warning at the bottom says 'DO NOT WRITE ANYTHING BELOW THIS LINE'.

Figure 9.1 - A copy of a cheque Deposit Slip

03. Issuing of cheques

Payments can be made to creditors, purchases and expenses by issuing cheques. When a cheque is issued, it is a common practice to complete the cheque and its counterfoil, which is the remainder of the cheque leaf in the cheque book.

Observe the following cheque and its counter foil

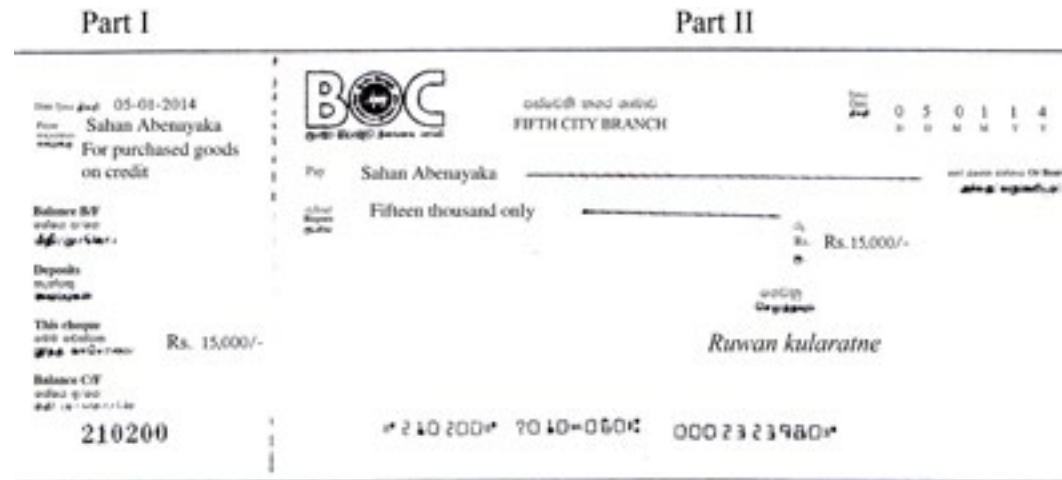


Figure 9.2 - A copy of a cheque

The details of payments made by cheques are recorded in payment vouchers. Accordingly, when payments are paid by cheques, the payment voucher is used as the source document to record such transactions in the bank account of the business.

When payments are made by cheques, the balance in the bank account of the business gets decreased.

Accordingly, The relevant double entry is as follows.

Expense account or the relevant payment account	Dr.
Bank account	Cr.

04. Dishonouring of cheques

There are situations where a bank refuses cheques due to cheques being written disorderly, insufficient balance in the current account, signature on the cheque is different from the specimen signature, etc. This is known as dishonouring of cheques.

Accordingly, cheques deposited as well as cheques issued cheques may be dishonoured by the bank. A cheque return notification is sent by the bank to the business to inform about dishonoured cheques.

Observe the following copy of the cheque return notification.

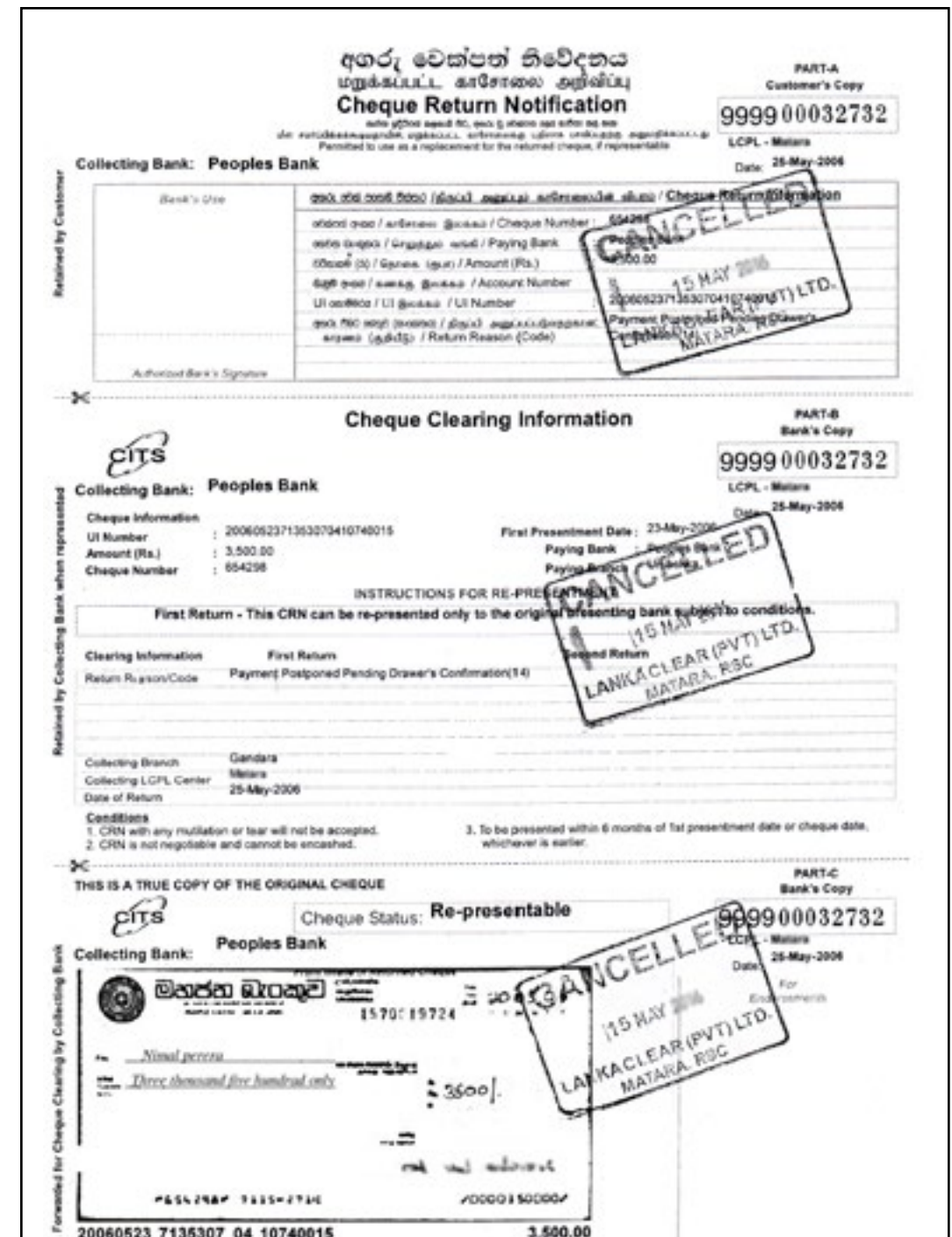


Figure 9.3 - A copy of a Cheque Return Notification

Dishonouring of Deposited Cheques

When cheques are received from cash sales, debtors, etc. and when those cheques are deposited in the bank, they are debited to the bank account of the business. This is because the balance in the bank account is increased. However, when a cheque is dishonored by the bank, in fact, the bank balance does not increase. Therefore, when a deposited cheque is dishonored, the debit entry made in the bank account of the business should be reversed. Here, the value of the dishonored cheque should be cancelled from the bank account and should be recorded as a receivable from the party who had given the cheque. Accordingly, the double entry for the dishonoured deposited cheque should be recorded as follows

Debtors/Relevant account Dr.
Bank account Cr.

Example :-

A cheque received from a debtor for Rs. 8 000 and deposited in the bank had been dishonoured by the bank. The double entry for recording of this dishonoured cheque is as follows.

Debtor's account Dr. 8 000
Bank account Cr. 8 000

Dishonouring of issued cheques

It is already discussed that when cheques are issued, the relevant expense account or other relevant account should be debited and the bank account should be credited. When such an issued cheque is dishonoured by the bank, entries that were originally recorded should be reversed. This is done by a reversal entry to the entry that was recorded originally when the cheque was issued. Accordingly, when an issued cheque is dishonoured it should be recorded as follows.

Bank account Dr.
Expense account/Relevant other account Cr.

Example :-

A cheque issued by the business to a creditor of Rs. 15 000 was dishonoured when presented to the bank.

When this information is received, the double entry for this dishonored cheque is as follows.

Bank account Dr. 15 000
Creditors account Cr. 15 000

Example :-

Nethmi's business had the following balances as at 01.06.20xx

Cash Rs. 185 000
Debtors Rs. 55 000
Creditors Rs. 85 000

The following transactions had taken place during the month of June.

- 02.06.20xx Opened a bank current account by depositing Rs. 22 000
- 03.06 Received a cheque bearing No. 455 from a debtor for Rs. 9 000.
- 04.06 Deposited the cheque No. 455 of Rs. 9 000 that was received from a debtor
- 08.06 The cheque No. 562 of Rs. 12 000 that is received for sales has been deposited at the time of receipt.
- 12.06 Deposited cash of Rs. 15 000 in the bank current account.
- 15.06 A creditor was paid by cheque No. 301 amounting to Rs. 7 600 and a discount of Rs. 400 was received.
- 18.06 Issued a cheque bearing the No. 302 for the payment of electricity bill of Rs. 5 000.
- 20.06 The cheque issued for the payment of the electricity bill has been dishonoured by the bank.
- 24.06 A cheque bearing the No. 415 was received from a debtor for Rs. 13 000
- 26.06 Deposited the cheque No. 415 received from a debtor
- 28.06 The cheque No. 415 has been dishonoured by the bank
- 29.06 The cheque bearing the No. 632 was received from a debtor for Rs. 5 700. The discount of Rs. 300 has been allowed. This cheque has been deposited at the time of receipt.

Recording of the above transactions in the bank account and posting them to the relevant ledger accounts are as follows.

Dr.					Bank account				Cr.	
Date	Description	L. F.	Dis. allo.	Value Rs.	Date	Description	L. F.	Dis. rece.	Value Rs.	
02.06.20xx	Cash			22 000	15.06.20xx	Creditor (301)		400	7 600	
04.06	Cash (455)			9 000	18.06	Electricity (302)			5 000	
08.06	Sales (562)			12 000	28.06	Debtor (415)			13 000	
12.06	Cash			15 000						
20.06	Electricity (302)			5 000						
26.06	Cash (415)			13 000						
29.06	Debtor (632)		300	5 700						

Dr.					Cash Book				Cr.	
Date	Description	L. F.	Dis. allo.	Value Rs.	Date	Description	L. F.	Dis. rece.	Value Rs.	
01.06.20xx	Balance b/f			185 000	02.06.20xx	Bank			22 000	
03.06	Debtors 455			9 000	04.06	Bank (455)			9 000	
24.06	Debtors 415			13 000	12.06	Bank			15 000	
					26.06	Bank (415)			13 000	

Dr. Debtors account				Cr.			
Date	Description	L. F.	Value Rs.	Date	Description	L. F.	Value Rs.
01.06.20xx	Balance b/f		55 000	03.06.20xx	Cash		9 000
28.06	Debtor (415)		13 000	24.06	Bank		13 000
				29.06	Bank		5 700
				29.06	Discounts allo. acc.		300

Dr. Creditors account				Cr.			
Date	Description	L. F.	Value Rs.	Date	Description	L. F.	Value Rs.
15.06.20xx	Bank account (301)		7 600	01.06.20xx	Balance b/f		85 000
15.06	Discount rec. acc.		400				

Dr. Sales account				Cr.			
Date	Description	L. F.	Value Rs.	Date	Description	L. F.	Value Rs.
				08.06.20xx	Bank (562)		12 000

Dr. Electricity charges account				Cr.			
Date	Description	L. F.	Value Rs.	Date	Description	L. F.	Value Rs.
18.06.20xx	Bank account (302)		5 000	20.06.20xx	Bank		5 000

Dr. Discounts allowed account				Cr.			
Date	Description	L. F.	Value Rs.	Date	Description	L. F.	Value Rs.
30.06.20xx			300				

Dr. Discounts received account				Cr.			
Date	Description	L. F.	Value Rs.	Date	Description	L. F.	Value Rs.
				30.06.20xx	Creditors		400



Activity 01

The following balances were in the books of Sahan Abeynayaka's business as at 01.06.20xx

	Rs.
Cash	90 000
Debtors	60 000
Capital	70 000
Creditors	80 000

The following transactions were taken place during the month of June 20xx

- 05.06.20xx - Opening a bank current account by depositing Rs. 25 000
- 08.06 - Bought goods for resale by issuing a cheque No. 40 amounting to Rs. 20 000
- 10.06 - Deposited the following cheques
 - Cheque No. 68 of Rs. 12 000 received from a debtor
 - Cheque No. 75 of Rs. 18 000 received from the cash sales of goods
 - Cheque No. 66 of Rs. 18 000 received from a debtor
- 15.06 - Rs. 10 000 of cash was deposited in the current account
- 16.06 - A cheque received (Cheque No. 68) from a debtor and had been deposited in the bank was dishonoured by the bank.
- 20.06 - Issuing of the following cheques
 - Cheque No. 41 Rs. 8 000 for rent
 - Cheque No. 42 Rs. 15 000 to the creditors
- 24.06 - The Cheque issued for payment for rent has been dishonoured Rs. 8 000
- 28.06 - A new cheque bearing rent No. 43 for Rs. 8 000 was issued instead of the dishonoured cheque.
- 27.06 - The cheque bearing the No. 105 was received from cash sales was deposited at the same time of the value Rs. 17 000

Required,

01. Prepare the bank account for the month ended 30.06.20xx and balance it.
02. Post the entries to other ledger accounts and balance them.

Bank overdraft

There are situations where banks allow their customers to issue cheques for more than the existing balance in their current accounts. This facility is known as a bank overdraft. If the business issues cheques exceeding the existing bank balance, the total of the credit side of the bank account of the business exceeds the total of the debit side of the bank account. As a result, a credit balance appears in the bank account. This credit balance of the bank account is known as bank overdraft, which is considered as a liability of the business. Accordingly, when cheques are issued in excess of the existing bank balance and when the bank makes payment on them, the account holder becomes a debtor to the bank and that debit balance is known as the bank overdraft.

Example :-

There was a favourable balance (debit balance) in the bank account of Samadhi's business of Rs 12 000 as at 01.07.20xx. Following transactions took place during the month of July.

05.07.20xx Cash deposited in the bank Rs 8 000

Deposited cheques

- 08.07.20xx Cheque that had been received from cash sales Rs. 9 000 (Cheque No. 20)
- 15.07.20xx Cheque that had been received for rent of income Rs. 7 000 (Cheque No. 114)
- 20.07.20xx A cheque that had been received from a debtor Rs. 6 000 (Cheque No. 95)

Issued Cheques

- 12.07.20xx To pay the creditors Rs 16 000 (Cheque No. 33)
- 22.07.20xx To pay the salary Rs. 15 000 (Cheque No. 34)
- 25.07.20xx For purchases Rs. 25 000 (Cheque No. 35)

Dr.				Bank account				Cr.			
Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.				
01.07.20xx	Balance b/f		12 000	12.07.20xx	Creditors (35)		16 000				
05.07	Cash		8 000	22.07	Salary (34)		15 000				
08.07	Cash (20)		9 000	25.07	Purchases (35)		25 000				
15.07	Cash (114)		7 000								
20.07	Cash (95)		6 000								
31.07	balance c/d		14 000								
			<u>56 000</u>				<u>56 000</u>				
				01.08	balance b/f		14 000				

As shown in the above example, the total of the credit side of the bank account is Rs. 56 000 and the total of the debit side is Rs. 42 000. There is a deficit of Rs. 14 000 in the debit side than the credit side. As a result, a credit balance of Rs. 14 000 appears in the bank account. This is the bank overdraft. This is a liability as the business has to pay it back to the bank.



Activity 02

Viran carries out a business of sales of textiles. He can obtain a standing bank overdraft of Rs. 100 000 as he maintains his current account in an orderly manner for a long period.

He had a bank balance of Rs. 45 000 in his bank account as at 01.05.20xx. Following transactions were carried out through his current account during the months of May.

Deposits

- 02.05.20xx Cash Rs. 14 000
- 11.05 Cheque deposited Rs. 15 000
- 21.05 Cheque deposited Rs. 16 000

Cheques Issued

- 05.05.20xx To Mr. Fernando a creditor for Rs. 12 000
- 13.05 To pay salary of Rs. 20 000
- 18.05 To pay rent of Rs. 10 000
- 22.05 To purchase goods of Rs. 34 000

All the deposited cheques were added and all cheques issued were deducted from the current account of the bank.

Required,

01. Enter the transactions given above in the bank account and balance it.
02. Indicate the bank overdraft, if he had issued a cheque on 25.05.20xx for Rs. 45 000 for the purchase of the equipment.

9.2 Bank reconciliation statement

You have already studied how the transactions are carried out through a current account of a business are recorded in its bank account. The favorable balance of the bank account of a business is an asset to the business. Therefore, the bank account of a business is an asset account. Therefore, transactions should be recorded in the bank account according to the double entry principle for assets. The transactions which increase the balance in the bank account are debited and the transactions which decrease the bank balance should be credited to the bank account.

Now let us study how transactions are recorded in the books of a commercial bank which maintains a current account on behalf of a business. The bank also records in its own books the transactions of the business conducted through the current account by a business. The account that is maintained by the bank of the business is treated as a liability account of the bank. Therefore, the bank records the transactions of the business according to the double entry principle for liabilities. Accordingly, the transactions that increase the bank balance should be credited and the transactions that decrease the bank balance should be debited.

Accordingly, let us study how a bank has recorded few bank transactions of a business in its books. Seen the statement below.

Current Account

Date	Description	Dr.	Cr.	Balance
	Opening balance (Cr.) favorable			XXX
	Cash deposit		XXX	XXX
	Cheque deposit		XXX	
	Cheque payment	XXX		
	Direct deposit		XXX	
	Bank charges	XXX	XXX	
	Charges for cheque book	XXX		XX
				XXX
				XXX

The values which are debited in the bank account that is maintained by the business are credited by the bank in the account maintained by the bank. The values which are credited by the business in the bank account are debited by the bank in the account under the business name. Finally, if there is a debit balance in the bank account maintained by the business, there will be a credit balance in the bank account maintained by the bank for the business.

Bank Statement

Usually, banks send a statement called a bank statement to their current account holders once a month. The bank statement shows the items which are debited and credited by the bank during the month and the balance.

At present, banks send monthly a computer printout to the business that holds a current account. The statement that is sent by the bank is known as the bank statement or the statement of accounts.

Examine the following bank statement carefully.

STATEMENT OF ACCOUNT NR 01111111111111111111 NADUNNA STORES KEKANADERA 8100				
Branch Name / Code 001 KEKANADERA CITY BRANCH			Date 30/08/2013	
Account Number 00123456789			Currency LKR	
Date	Particulars	Payments	Receipts	Balance
31/07	BALANCE B/F			34,654.10DR
01/08	CASH DEPOSIT	.00	13,000.00	21,654.10DR
01/08	ACH CLR 0174024	39,000.00	.00	60,654.10DR
02/08	CASH DEPOSIT	.00	10,000.00	50,654.10DR
05/08	CASH DEPOSIT	.00	7,000.00	43,654.10DR
06/08	ACH CLR 0174023	20,800.00	.00	64,454.10DR
06/08	CASH DEPOSIT	.00	9,000.00	55,454.10DR
07/08	CASH DEPOSIT	.00	5,000.00	50,454.10DR
08/08	CASH DEPOSIT	.00	5,000.00	45,454.10DR
12/08	CASH DEPOSIT	.00	5,000.00	40,454.10DR
13/08	CASH DEPOSIT	.00	12,000.00	28,454.10DR
14/08	CASH DEPOSIT	.00	29,000.00	545.90
15/08	CHQ BOOK CHARGES	375.00	.00	170.90
22/08	CASH DEPOSIT	.00	12,000.00	12,170.90
23/08	ACH CLR 0182330	25,000.00	.00	12,829.10DR
23/08	CASH DEPOSIT	.00	13,000.00	170.90
26/08	CASH DEPOSIT	.00	10,000.00	10,170.90
27/08	ACH CLR 0182327	4,000.00	.00	6,170.90
27/08	CASH DEPOSIT	.00	10,000.00	16,170.90
27/08	ACH CLR 0182329	9,595.00	.00	6,575.90
29/08	ACH CLR 0182334	5,400.00	.00	1,175.90
30/08	CASH DEPOSIT	.00	10,000.00	11,175.90
30/08	OD CHG SYS-GENERATED	425.79	.00	10,750.11
30/08	BALANCE C/F			10,750.11
	TOTAL UNREALIZED CHEQUES			.00
	TOTAL DEPOSITS 14 items		150,000.00	
	TOTAL WITHDRAWALS 7 items	104,595.79		
	END OF STATEMENT			
	For clarifications if any, please contact the Branch Manager on 041 2222218			

All the transactions shown on the statement should be verified and the bank notified of any discrepancy immediately.
Any query relating to transactions beyond 03 months may be subject to levy of a fee.
Unrealized cheque deposits, if any are included in the Closing balance.


Figure 9.4 - A copy of a bank statement

The bank account of the business shows the money at the bank when balancing off its bank account in the perspective of the business. The bank statement sent by the bank shows the money at bank of the business according to the books of the bank. If both parties had recorded all transactions related to the current account, these two balances should be similar. However, in practice, the bank account balance of the business and the balance in the bank statement may differ. The reason for this difference is that certain transactions which have been recorded in the bank account are not recorded in the bank statement and certain other transactions recorded in the bank statement are not recorded in the bank account of the business.

The reasons for the difference between the final balance of the bank account and the final balance of the bank statement

01. The cheques issued but not presented to the bank for payment

When a business issues cheques, it records it in the credit side of the bank account. Then, the balance of the bank account maintained by business decreases. There are instances where some of these cheques issued by the business may have not been presented to the bank for encashment even at the end of the period. These are known as the cheques issued but not presented or as unpresented cheques. Since the bank has not paid for these cheques, they are not recorded as payments in the bank statement.

 Therefore, the balance of the bank account of the business should be less than the balance in the bank statement.

02. The cheques deposited but not realised

When received cheques are deposited in the bank, the bank account of the business should be debited. Then, the balance in the bank account increases. Some of these cheques that were deposited may have not been realised by the end of the time period. Realisation of cheques refers to the process that the amount mentioned in the cheque has been collected and added to the current account in the bank. It would take some days for the amount of the cheque to be collected and added to the balance in the bank current account. Therefore, it is possible that the bank has not recorded the value of the cheques deposited in the books of the bank even at the end of the relevant time period. These cheques are identified as the cheques deposited but not realised. Therefore, cheques deposited but not yet realized are not recorded as deposits in the bank statement.

 Therefore, the balance of the bank account of the business should be higher than the balance in the bank statement.

03. Direct remittances

There are occasions when some customers deposit their dues directly to the current account at the bank. Similarly receivables such as rent, interest and dividends, etc., are sometimes directly remitted to the current account. These are known as direct remittances. A business gets to know such direct remittances after the receipt of the bank statement. Although, such direct deposits have been recorded as receipts in the bank statement they have not been recorded in the bank account of the business.

 Therefore, the bank account balance of the business is less than the balance in the bank statement.

04. Payments on standing orders

Standing orders refers to an order made to the bank in writing by the business to pay certain regular amounts such as repayment of instalments of bank loans, leasing instalments, insurance premiums and other similar payments from the cash in the current account. The business gets to know of these payments, after receiving the bank statement. The bank deducts (debits) the value from the current account after payment of such standing orders. Although the payments on standing orders have been deducted (debited) in the bank statement, these have not yet been (credited) in the bank account.

 Therefore, the balance in the bank account of the business is higher than the balance in the bank statement.

05. Bank charges and the charges on cheque book

The charges that a bank deducts from the current account for the services rendered by the bank to the current account holder is known as bank charges. The amount charged for the cheque books issued by a bank to the business is called charges for cheque books. The business gets to know these charges after the receipt of the bank statement. These charges have been debited in the bank statement as payments. They have not been recorded in the bank account of the business by the end of the time period.

 Therefore, the balance of the bank account of the business should be higher than the balance in the bank statement.

The final balance of the bank account of the business and the final balance in the bank statement may differ due to the above stated reasons.

The reasons for the difference between these balances can be identified only after the comparison of the bank account of the business and the bank statement sent by the bank. Accordingly, the reasons for the difference should be identified first by comparing the bank account and the bank statement.

For that,

- [Debit column of the bank account with the credit column of the bank statement
- [Credit column of the bank account with the debit column of the bank statement should be compared.

Therefore, each value in the bank account should be checked to see whether those values have been included in the bank statement. The items which have been recorded in both should be marked. The items remaining unmarked in both the bank account and the bank statement are the items which have been recorded only in one of the books. Those unmarked items are the reasons for the difference between the two final balances. An understanding of this can be obtained through the following exercise.

Example :-

The bank account and the bank statement of Nadeeka's business for the month of July 20xx are given below.

Dr.				Bank Account				Cr.			
Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.
01.07.20xx	Balance b/f		15 000	06.07.20xx	Creditor (112)		10 000				
05.07	Cash deposit		8 000	18.07	Creditor (113)		4 000				
12.07	Cheque deposit (65)		12 000	23.07	Creditor (114)		16 000				
13.07	Cheque deposit (46)		5 000	31.07	Balance c/d		31 000				
20.07	Cash deposit		7 000								
28.07	Cheque deposit (58)		14 000								
			<u>61 000</u>				<u>61 000</u>				
01.08	Balance b/f		31 000								

Bank statement for the month of July 20xx

Date	Description	Dr.	Cr.	Balance
01.07.20xx	Balance b/f			15 000
05.07	Cash		8 000	23 000
07.07	Cheque - 112	10 000		13 000
15.07	Cheque - 65		12 000	25 000
16.07	Cheque - 46		5 000	30 000
18.07	Direct remittance from a debtor		11 000	41 000
20.07	Cash deposit		7 000	48 000
22.07	Cheque - 113	4 000		44 000
25.07	Standing order (Bank loan instalment)	18 000		26 000
31.07	Bank Charges	3 000		23 000

According to the above example,

31.07.20xx A favourable balance of Rs. 31 000 exists based on the bank account in the business.

31.07.20xx The balance based on the bank statement is Rs. 23 000

Reasons for the difference between the balances should be identified. That is done as follows.

Dr.				Bank Account				Cr.			
Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.
01.07.20xx	Balance b/f		15 000 ✓	06.07.20xx	Creditor (112)		10 000 ✓				
05.07	Cash deposit		8 000 ✓	18.07	Creditor (113)		4 000 ✓				
12.07	Cheque deposit (65)		12 000 ✓	23.07	Creditor (114)		16 000				
13.07	Cheque deposit (46)		5 000 ✓	31.07	Balance c/d		31 000				
20.07	Cash deposit		7 000 ✓								
28.07	Cheque deposit (58)		14 000								
			<u>61 000</u>				<u>61 000</u>				
01.08	Balance b/f		31 000								

Bank statement for the month of July 20xx

Date	Description	Dr.	Cr.	Balance
01.07.20xx	Balance b/f			15 000 ✓
05.07	Cash		8 000 ✓	23 000
07.07	Cheque - 112	10 000 ✓		13 000
15.07	Cheque - 65		12 000 ✓	25 000
16.07	Cheque - 46		5 000 ✓	30 000
18.07	Direct remittance from a debtor		11 000	41 000
20.07	Cash deposit		7 000 ✓	48 000
22.07	Cheque - 113	4 000 ✓		44 000
25.07	Standing order (Bank loan instalment)	18 000		26 000
31.07	Bank Charges	3 000		23 000

The Reasons for this difference are,

01. When the debit side of the bank account and the credit column of the bank statement are compared,

- [Cheque deposited but not realised was (Cheque No. 58) Rs. 14 000.
- [A direct remittance to the current account in the bank by a debtor was Rs. 11 000.

02. When the credit side of the bank account and the debit side of the bank statement are compared.

- [Unpresented cheque to the bank (Cheque No. 114) was Rs. 16 000.
- [The payment on standing order for bank loan installment not recorded in the bank account was Rs. 18 000.
- [Bank charges not recorded in the bank account was Rs. 3 000.

To adjust and compare these reasons, two steps have to be followed. They are,

01. Adjusting the bank account balance of the business.
02. Preparation of bank reconciliation statement based on the adjusted bank balance obtained under Step 1.

Adjusting the bank account balance of the business

Among the reasons that have caused a difference between the bank account balance and the current account balance, there may be some errors or omissions in the bank account of the business.

Due to these errors or omissions, the bank account balance becomes incorrect. Therefore, the bank account balance should be corrected. This correction of bank account of the business is known as adjusting of the balance of the bank account.

According to the above example, values of the following causes should be adjusted in the bank account of the business.

01. Direct remittances (Debtor's remittance)
02. Standing order (Bank loan instalment)
03. Bank charges



The bank account balance should increase by the receipt of the direct remittance. Therefore, the direct remittance should be debited to the bank account of the business.

Payment on the standing order and charges made by the bank should decrease the bank balance. Therefore, the payment on the standing order and charges should be credited to the bank account of the business. We get the adjusted balance of the bank account after these adjustments.

Based on this example, the bank account of the business is adjusted as follows.

Dr.		Bank account (Adjusted)				Cr.	
Date	Description	L/F	Value Rs	Date	Description	L/F	Value Rs
01.08.20xx	Balance b/f		31 000	25.07.20xx	Bank loan		18 000
18.07	Debtor		11 000	31.07	Bank charges		3 000
				01.08	Balance c/d		21 000
			42 000				42 000
01.08	Balance b/f		21 000				

Preparation of the bank reconciliation statement using the adjusted balance of the bank account

After adjusting the bank account, if the adjusted balance of the bank account is not similar to the balance of the bank statement, following will be the main reasons for the difference.

- * The value of the cheques which have been deposited but not realised
- * The values of the cheques which have been issued but not presented to the bank for payment

However, the above two reasons are not errors or omission and therefore, the bank account balance is not adjusted. Therefore, a statement should be prepared by including the above two reasons to reconcile between the balance of the adjusted bank account and balance of the bank statement. This statement is identified as the bank reconciliation statement. By the preparation of the bank reconciliation statement, the accuracy of the balances can be ensured.

Accordingly,

The bank account balance is less than the balance of the bank statement due to the cheques which have been issued but not presented to the bank for payment. Therefore, the cheques which have not been presented to the bank should be shown as an addition to the adjusted bank balance in the bank reconciliation statement.



The bank account balance is higher than the balance of the bank statement due to the cheques which have been deposited but have not been realised within that period. Therefore, the cheques deposited but not realised should be shown as a deduction from the adjusted bank balance in the bank reconciliation statement.

The balance we get after preparing the bank reconciliation statement including the above two reasons is the balance mentioned in the bank statement.

Let us see how the bank reconciliation statement is prepared using the adjusted bank account balance based on the example given earlier.

Business of Nadeeka
Bank reconciliation statement for the month of July 20xx

	Rs.	Rs.
Adjusted bank balance		21 000
Add- cheque not presented to the bank (Cheque No.114)	16 000	16 000
		37 000
Less - Unrealised cheque (Cheque No. 58)	14 000	14 000
Bank balance as per the bank statement as at 31.07.20xx		23 000

Accordingly, if the bank balance of the business at the end of a certain time period does not agree with the balance in the bank statement, following steps should be followed to reconcile these balances.

- * See whether there is a difference between the balance of the bank account and the balance of the bank statement.
- * Identify the reasons for the difference, if there is any, comparing the bank account and the bank statement.
- * Adjusting the final balance of the bank account.
- * Preparation of the bank reconciliation statement using the adjusted bank account balance.



Activity 03

Sewwandi Perera's business has a favourable bank account balance of Rs. 45 000 at the end of the month of July 20xx. However, the bank statement has a different balance. Following reasons are identified for this difference.

01. The following cheques have been deposited but not yet have been realised as at 31.07.20xx.

Cheque No. 48 - Rs. 7 500
Cheque No. 94 - Rs. 8 600

02. Following cheques have been issued during the month, but they have not yet been presented to the bank for payment as of 31.07.20xx

Cheque No. 45 - Rs. 11 400
Cheque No. 49 - Rs. 8 600

03. The following items those appeared in the bank statement have not been entered in the bank account

- * The insurance premium paid by the bank as a standing order of Rs. 8 000.
- * The direct remittance of Rs. 8 000 to the bank as dividends of Rs. 4 200.
- * Bank charge deducted by the bank Rs. 2 500.

Required,

01. Adjust the bank account.
02. Prepare a bank reconciliation statement as at 31.07.20xx by using the adjusted bank account balance.



Activity 04

Following are extracted from the bank account of Jayarathna Silva's business and the bank statement received from the bank as at 31.07.20xx.

Bank Account

Date	Description	L/F	Value Rs.	Date	Description	L/F	value Rs.
01.05.20xx	Balance b/f		16 000	04.05.20xx	Salaries (501)		8 500
06.05	Cash		20 000	09.05	Creditor (502)		17 500
12.05	Cheq. deposited(142)		14 000	18.05	Rent (503)		9 000
24.05	Cheq. deposited (234)		15 000	26.05	Purchases (505)		12 000
29.05	Cheq. deposited (184)		18 000	27.05	Creditor (506)		17 000
				31.05	Balance c/d		19 000
01.06	Balance b/f		83 000				83 000
			19 000				

Bank Statement				
Jayarathna Silva No. 45 Galle.			People's Bank Galle Branch	
Date	Description	Dr. Rs.	Cr. Rs.	Balanced Rs.
01.05.20xx	Balance b/f			16 000
06.05.20xx	Cash deposit		20 000	36 000
10.05.20xx	Cheque Payment(501)	8 500		27 500
12.05.20xx	Cheque Payment (502)	17 500		10 000
14.05.20xx	Cheque deposit (142)		14 000	24 000
15.05.20xx	Standing order (Bank loan)	19 000		5 000
26.05.20xx	Cheque deposit (234)		15 000	20 000
27.05.20xx	Direct remittance by a debtor		8 000	28 000
28.05.20xx	Cheque deposit (505)	12 000		16 000
30.05.20xx	Bank Charges	2 000		14 000

Required

01. State the reasons for the difference between the balances as at 31.05.20xx.
02. Adjust the bank account balance as at 31.05.20xx.
03. Prepare the bank reconciliation statement using the adjusted bank balance.



Activity 05

Assume that the bank has sent a bank statement which includes the transactions carried out through the bank current account in the month of March 20xx. Your verification revealed that the bank account balance is different from the bank statement balance.

01. State the possible reasons for the difference between the bank account balance and the balance of the bank statement.
02. From the above identified reasons, select and list the reasons if the balance of bank statement exceeds the balance of the bank account.