BANK RECONCILATION STATEMENT

The bank pass book indicates the amount paid into the bank and the amount withdrawn there from. The pass book balance on any given date must be the same as the balance shown by the bank column of the cash book on the same date. But in actual practice the bank pass book balance seldom agree with the balance shown by the bank column of the cash book. This happens when some of the transactions appear in the cash book but not in the pass book or in the pass book but not in the cash book.

The specimen of the Pass book can be as follows:

Name…………… Account No……………
Address…………….

CURRENT ACCOUNT WITH CENTRAL BANK

Date	Particulars	Dr. Withdrawals	Cr. Deposits	Balance		Accountant‘s Initials
				Dr. or Cr.	Amount	

Reasons for the Difference in two Balances

The reasons for the difference in the balances shown by the two books may be following:

a) **Cheques issued but not yet presented for payment:** When cheques are issued, the entry in the cash book is made immediately. It is possible that at the time when the balance of two books are being compared, some of the cheques might have been issued but might not have been presented for payment, thus causing a disagreement between the two balances.

b) **Cheques paid into the bank but not yet cleared:** The customer‘s account is credited by the bank only when the cheques are cleared. It is possible that when the cash book is compared with pass book some of the cheques deposited by the concern may remain uncollected.

c) **Interest allowed by the bank:** Bank might have credited the account of the customer with the interest and may have made the entry in the pass book. It is possible that the entry in respect of such interest may not have been made by the customer in the bank column of the cash book thus causing a disagreement between the two balances.
d) **Interest and bank charges debited by bank:** The bank debits the account of the customer by way of interest on overdraft. It also debits the account the account of the customers by way of incidental charges and collection charges. As soon as these charges are made the bank debits the customer‘s account. But the entries in the cash book are made by the customer only when he receives the bank statement or pass book.
e) Interest, dividend etc. collected by the bank: Sometimes interest on government securities or dividend on shares is collected by the bank and is credited to customer‘s account. If the entries for these do not appear in the cash book, the balance will differ.
f) Direct payment by the bank: Sometimes understanding instructions from the client, certain payments like insurance premium, club fees etc. are made by the bank. The entries in the cash book and pass book may be on different dates.

g) **Direct payment into the bank by a customer: Sometimes** our customers deposit money direct into the account in the bank, the corresponding entry for which may not appear in the cash book due to delay in necessary instructions by the customers.

Difference Caused by errors : Sometimes the difference between the two balances may be accounted for by an error on the part of the bank or an error in the cash book of the business. This causes difference between the bank balance shown by the cash book and the balance shown by the bank statement.

(a) Errors committed in recording transaction by the firm Omission or wrong recording of transactions relating to cheques issued, cheques deposited and wrong totalling, etc. committed by the firm while recording entries in the cash book cause difference between cash book and passbook balance.

h) (b) Errors committed in recording transactions by the bank Omission or wrong recording of transactions relating to cheques deposited and wrong totalling, etc. committed by the bank while posting entries in the passbook also cause differences between passbook and cash book balance

Definition of Bank Reconciliation Statement

The statement which is prepared for verifying and reconciling the bank balances, shown by the cash book and the pass book on a certain date and incorporates the reasons of disagreement between them is called a Bank Reconciliation Statement.

Utility of Bank Reconciliation Statement

1. It gives an authentic proof of the accuracy of the cash book and the pass book balances.
2. Entries in both the books are automatically checked.
3. The cash book may be made up to date by recording some hitherto unknown entries.
4. It helps to detect any mistake in the cash book or the pass book.
5. The reconciliation statement will also indicate any undue delay in the clearance of outstation cheques.

Example: On November 30,1987, the cash book of Mr. Sharma showed a bank balance of Rs. 28,000. A comparison of the cash book with the pass book, revealed the following.

1. Cheque deposited but not collected by Rs. 20,000.
2. Interest on investments collected by the bank as per standing instructions, appearing in the pass book only, Rs. 2,000.
3. Cheques for a total amount of Rs. 80,000 were issued during the month of November. Of these, cheques for Rs. 65,000 only were presented for payment by the end of the month.
4. The bank has made a direct payment of Rs. 1,000 towards insurance premium, as per the standing instructions. This payment has not yet been recorded in the cash book.
5. A customer has made a direct deposit of Rs. 5,000 in the bank account. There was no corresponding entry for this in the cash book.
6. Bank charges appearing only in the pass book Rs. 150.
7. A debit of Rs. 2,000 in respect of dishonoured cheque (this ,was discounted earlier) appear in the pass book only.

8. A cheque of Rs. 3,000 deposited in the bank, was entered twice in the cash book.

From the above particulars, prepare a Bank Reconciliation Statement as on November 30,1987 and ascertain the pass book balance as on that date.

[illegible]

[illegible]		[illegible]	[illegible]
		[illegible]	[illegible]
[illegible]		[illegible]	
1	Cheque deposited but not yet collected		20,000
2	Interest on investments collected by bank but not yet recorded in the Cash Book	2,000	
3	Cheques issued but not yet presented for payment	15,000	
4	Insurance premium paid by Bank but not recorded in the cash book		1,000
5	Direct deposit by a customer into the bank account	5,000	
6	Bank charges debited by bank but not yet recorded in the cash book		150
7	Dishonoured cheque not recorded in the cash book		2,000
8	Amount debited twice in the cash book		3,000
	Total	50,000	26,150
Balance as per Pass Book		23,850	

Illustration 3

The bank passbook of M/s. Boss & Co. showed a balance of Rs. 45,000 on May 31, 2005.

1. Cheques issued before May 31,2005, amounting to Rs. 25,940 had not been presented for encashment.
2. Two cheques of Rs. 3,900 and Rs. 2,350 were deposited into the bank on May 31 but the bank gave credit for the same in June.
3. There was also a debit in the passbook of Rs. 2,500 in respect of a cheque dishonoured on 31.5.2005. Prepare a bank reconciliation statement as on May 31, 2005.

Solution

Bank Reconciliation Statement of Bose & Co as on May 31, 2005

	Particulars	(+) *Amount Rs.*	(–) *Amount Rs.*
1.	Balance as per passbook	45,000	
2.	Cheques deposited but not collected by the bank (Rs. 3,900+ Rs. 2,350)	6,250	
3.	Cheque dishonoured recorded only in passbook	2,500	
4.	Cheques issued but not presented for payment		25,940
5.	Balance as per cash book		27,810
		53,750	53,750

CAPITAL EXPENDITURE

Capital expenditure occurs when a business gets a long term advantage due to that expenditure.

It is usually incurred for accusation of an asset. These expenditures do not occur in the regular day to day transactions of the business. Common examples:

- Purchase of furniture, office building etc.
- Purchase of additional furniture or machinery
- Expenditure incurred in connection with the purchase of a fixed asset. For example, carriage paid of machinery purchased.
- Purchase of patent right, copy rights etc

REVENUE EXPENDITURE

Expenditure which is not for increasing the value of fixed assets, but for running the business on a day to day basis, is known as revenue expenditure. Routine repairs are revenue expenditures because they are charged directly to an account such as Repairs and Maintenance Expense. Even significant repairs that do not extend the life of the asset or do not improve the asset (the repairs merely return the asset back to its previous condition) are revenue expenditures.

DEFFERED REVENUE EXPENDITURE

Sometimes, some expenditure is of revenue nature but its benefit likely to be derived over a number of years. Such expenditure is called **deferred revenue expenditure**. The two examples of deferred revenue expenditure and their treatment in final accounts are as explained below:

1: When a new firm enters in to market, it undertakes special advertising campaign on which it spends heavy amount. The benefit of this expenditure will certainly come in some future years. Hence it will not be justified to charge this expenditure only in the profit and loss account of the year in which it incurred. This expenditure must be spread over the period over which the benefit is likely to lose. Suppose this expenditure will cover 3 years. Hence 1/3 of the expenditure must be charged to each year Profit and Loss Account.

2: Sometimes even a big loss, arising from an accident or other unforeseen circumstances, may be spread over 3 or 4 years instead of being charged off wholly against the revenues of the year in which the loss is actually suffered. The loss of building because of an earthquake may be treated on this manner. This type of loss is treated as revenue expenditure. It may be note here that the amount which has not been charged off to the profit and loss account is shown in the balance sheet as a sort of asset.