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Bank Reconciliation Statements

AAT Level I

FAC - Financial Accounting

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AAT 01 – Financial Accounting

Chapter 05 – Bank Reconciliations

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Today in business environment, it is common for any business organization to carry out its financial transaction through a current account maintained in a commercial bank.


BANK
What is a Current Account in a Bank?

Different Types of Transactions in Current Account

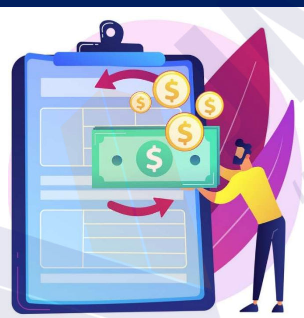
Depositing Cash and Cheques Received to the Business

Making Payments/ Withdrawing Money using Cheques and Transfers

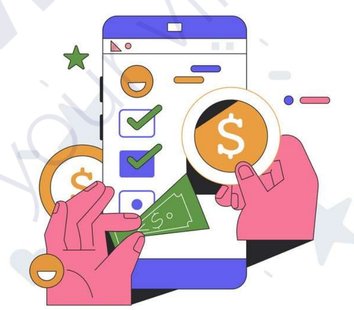
Bank Charges for Different Services provided by the Bank

5

Different Types of Transactions in Current Account



Direct Remittances received from the Customers and Others



Direct Debit Payments made from Current Account to Various Suppliers & Others

Standing Order Payments for Periodic/Repetitive Payments (E.g. Rent)

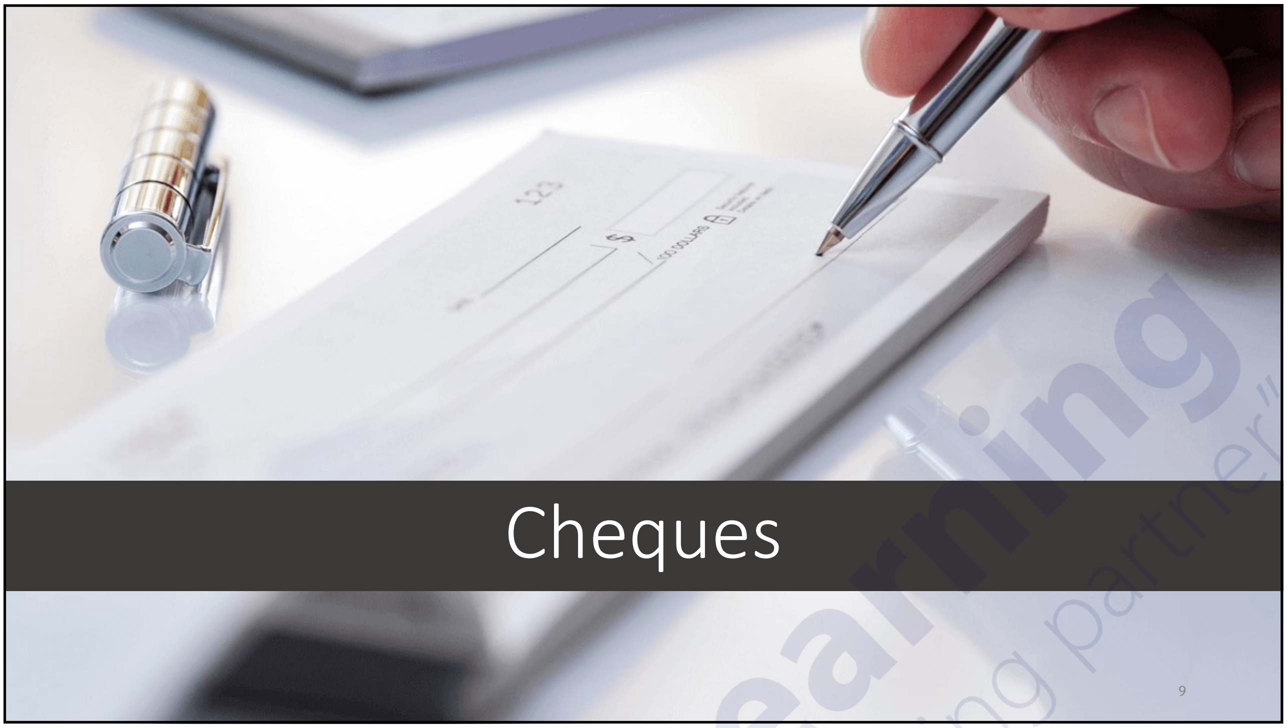
6

Questions 01

Write 05 benefits of maintaining a current account in a bank

Questions 02

What are the charges that can be deducted from a current account?


Cheques
9


10

Dishonoured Cheques

Due to various reasons sometimes, bank rejects the payment to a cheque. This is considered as a dishonoured cheques or returned cheques or bounced cheques.

Reasons for Dishonouring Cheques

Dishonored Cheques

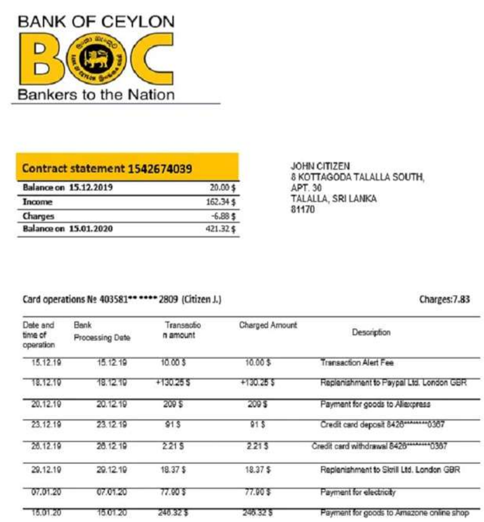
Received Cheque Dishonored

Debtors Control Account or
Other Receivables Account Debit
Cash Control Account Credit

Issued Cheque Dishonored

Cash Control Account Debit
Creditors Control Account or
Other Payables Account Credit

Bank Statement


BANK OF CEYLON

BOC

Bankers to the Nation

Contract statement 1542674039

Balance on 15.12.2019	20.00 $
Income	162.34 $
Charges	-6.88 $
Balance on 15.01.2020	421.32 $

JOHN CITIZEN
8 KOTTAGODA TALALLA SOUTH,
APT. 30
TALALLA, SRI LANKA
81170

Card operations № 403581** **** 2809 (Citizen J.) Charges:7.83

Date and time of operation	Bank Processing Date	Transaction amount	Charged Amount	Description
15.12.19	15.12.19	10.00 $	10.00 $	Transaction Alert Fee
18.12.19	18.12.19	+130.25 $	+130.25 $	Replenishment to Paypal Ltd. London GBR
20.12.19	20.12.19	209 $	209 $	Payment for goods to Aliexpress
23.12.19	23.12.19	91 $	91 $	Credit card deposit 8428********0367
26.12.19	26.12.19	2.21 $	2.21 $	Credit card withdrawal 8428********0367
29.12.19	29.12.19	18.37 $	18.37 $	Replenishment to Skrill Ltd. London GBR
07.01.20	07.01.20	77.90 $	77.90 $	Payment for electricity
15.01.20	15.01.20	246.32 $	246.32 $	Payment for goods to Amazone online shop

Sandeepa Jayasekera - JMC 14

- 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 from the bank's point of view. 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

Company	Bank
Current Account Transactions Recorded in Cash Book	Current Account Transactions Recorded in Bank Statement
↓	↓
Records the Transactions in the Current Account of the Company	Monthly statement issued by Bank to the Company
↓	↓
Company	Bank
Current Account -> Asset	Current Account -> Liability

Bank Account in Cash Book		Bank Deposit as per Bank
Asset		Liability
Increase in Asset Debit	When Cash Deposited	Increase in Liability Credit
Decrease in Asset Credit	When Cash Paid	Decrease in Liability Debit

What is a Bank Overdraft?

Bank overdraft is a short-term loa facility provided for the current account holders. Thereby, current account holders can make payments beyond their account balance. Generally, overdrafts sha be settled by the account holder c demand.

Bank Overdraft as per Cash Book		Bank Overdraft as per Bank
Liability		Asset
Increase in Liability Credit	When Cash Paid	Increase in Asset Debit
Decrease in Liability Debit	When Cash Deposited	Decrease in Asset Credit

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

Errors

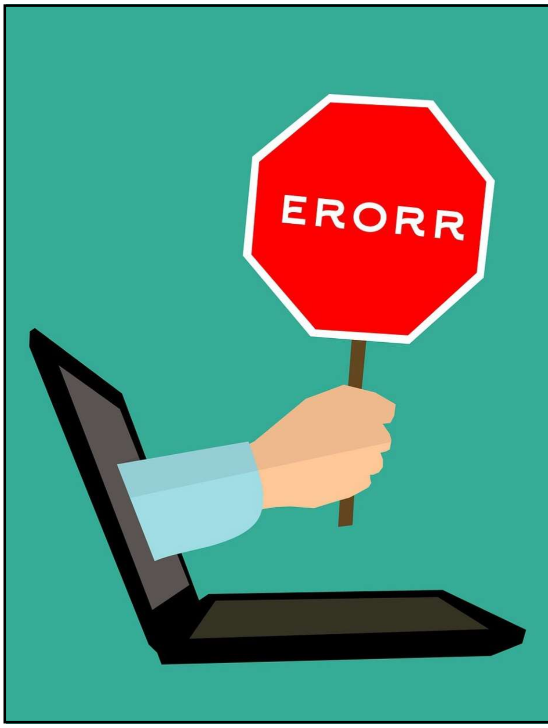
- Errors by Accountant
- Errors by Bank

Omissions

- Bank Charges
- Interest Expense
- Standing orders
- Direct remittances

Timing Differences

- Unpresented Cheques
- Unrealized Deposits



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 such as debiting or crediting wrong amounts.

Omissions by Accountant

Certain transactions recorded by the bank may be omitted by the accountant. These omissions may include

Bank Charges	Standing Orders	Direct Remittances	Interest
Bank is charging a fee for their services. This include statement charges, cheque book charges etc.	Entity's provide standing order instructions to bank to make a fixed payment every month. This may be omitted by the accountant.	Sometimes customers directly remit amounts to business bank account. This may be noted to accountant when bank statements received.	Loan and overdraft interest may be deducted or fixed deposit interest transferred to current account may be omitted.

Timing Differences

Unrealized Deposits

- Entities are debiting the cash 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.

Timing Differences

Unpresented Issued Cheques

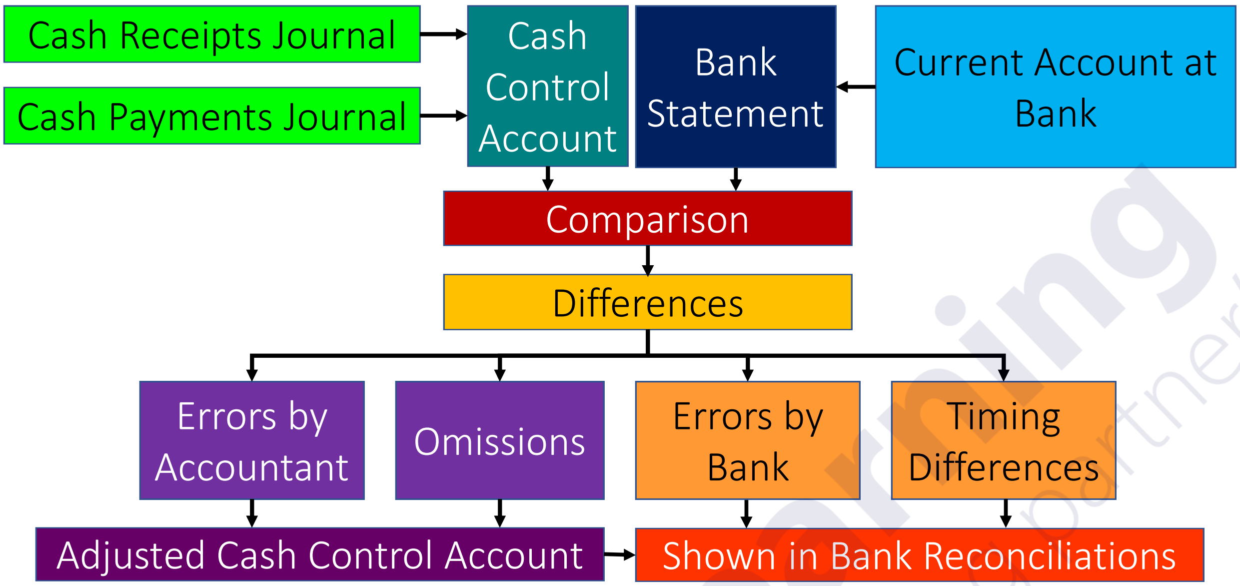
- When an entity makes a payment through a cheque, that will be recorded in the cash book.
- However, the recipient of the cheque, may not have presented the cheque to the bank or even it was presented the cheque may be still in the clearing process.
- Therefore, it'll take few days the reduce the balance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

Bank Reconciliation Statement

Bank Reconciliation Statement

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

Bank Reconciliation Process



2024 July Q1.19

1.19 State two(02) reasons as to why an entity prepares bank reconciliation statements.

Purposes of Bank Reconciliation

To Check Accuracy of Receipts and Payments	To Check Accuracy of Bank Statement	To Check any Delays in Cheque Clearing	To Identify Errors made by the Bank

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 omissions (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.

Adjustments made to the Cash Book

Bank Charges

Bank Charges *Debit*
Cash Book *Credit*

Loan and Overdraft Interest

Interest Expense *Debit*
Cash Book *Credit*

Direct Remittances

Debotr Remittances
- Cash Book *Debit*
- Debtor Control *Credit*

Dividend
- Cash Book *Debit*
- Dividend Income *Credit*

Adjustments made to the Cash Book

Standing Orders and Direct Debits

Bank Loan Installments
Bank Loan *Debit*
Bank Loan Interest *Debit*
Cash Book *Credit*

Building Rent
Building Rent Expense *Debit*
Cash Book *Credit*

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
	XXX		XXX
Balance Brought Forward	XX		

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
	XXX		XXX
		Balance B/F	XX

Bank Reconciliation include following items

- Timing Differences
  - Cheques deposited, but unrealized
  - Cheques issued, but unpresented
- Errors made by Bank

Bank Reconciliation Format

Adjusted Cash Book Balance		X/(X)
Added		
Cheques issued, but unpresented	X	
Bank Errors	X	XX
Deducted		
Cheques deposited, but unrealized	(X)	
Bank Errors	(X)	(XX)
Balance as per the Bank Statement		XX

If it's a Bank OD

2024 July Q5 (b)

As at 31st January 2024, the Bank Statement of Anushka Beauty Saloon shows a favorable balance of Rs.27,000/- while the Cash Control Account shows a debit(favorable) balance of Rs.25,000/-. Subsequently, the Accounts Executive of the business has noted the following reasons for the difference between the Bank Statement's balance and the Cash Control Account's balance:

(1) The bank has debited the loan installment of Rs.15,000/- as per the standing order instruction given. However, this has not been recorded in the cash book.
(2) On 10th January 2024, the bank has debited Rs.500/- as bank charges and this was not recorded in the cash book.
(3) Interest income of Rs.8,000/- on a fixed deposit has been credited to the bank account, by the bank. But it was not considered in the cash book.

(4) A cheque of Rs.18,500/- was issued on 30th January 2024 but it was not presented for payment to the bank as at 31st January 2024.
(5) A cheque of Rs.9,000/- was deposited to the bank on 29th January 2024 however, it was not realized as at 31st January 2024.

You are required to: Prepare the following:
(a) Adjusted Cash Control Account (Cash Book). (03 marks)
(b) Bank Reconciliation Statement as at 31st January 2024. (02 marks)

2024 January Q1.17

The favourable balance of the bank statement was Rs.65,000/- as at 31st December 2023 and it was less than the cash book balance by Rs.5,000/- on that date. Select from the following, the reason for the difference:

(1) Bank charges of Rs.2,500/- were not recorded in the cash book.
(2) Cheques issued but not presented for payment were Rs.5,000/-.
(3) Cheques deposited but not realized were Rs.5,000/-.
(4) A direct deposit of Rs.5,000/- made by a customer was not recorded in the cash book.

2024 January Q1.19

Which one of the following is a time difference that might be a reason for the difference between the balance in the cash control account and the balance in the bank statement?

(1) Direct remittances received from customers.
(2) Cheques deposited but not realized.
(3) Bank charges debited by the bank.
(4) Erroneously debited overdraft interest by the bank.

2024 January Q5 (b)

As at 31st December 2023, Nimal Hardware had a favorable balance of Rs.277,500/- as per the Bank Statement. On the same date, the Cash Control Account also shows a debit (favorable) balance of Rs.225,000/-.

The following reasons have been identified for the difference between the Bank Statement's balance and the Cash Control Account's balance:

(1) The bank has debited Rs.55,000/- for monthly rent based on the standing order instructions given and this was not recorded in the cash book.
(2) A cheque issued of Rs.128,000/- on 30th December 2023 was not presented to the bank for payment by 31st December 2023.
(3) Bank charges of Rs.5,000/- which was debited by the bank on 15th December 2023 was not considered in the cash book.

(4) The bank has credited the previous month's overcharged overdraft interest of Rs.12,500/-on 31st December 2023 and it was not recorded in the cash book.
(5) A cheque of Rs.28,000/- was deposited to the bank account but it was not realized as at 31st December 2023.

You are required to:
Prepare the following:
(a) Adjusted Cash Control Account (Cash Book).

2023 July Q1.13

State whether each of the following statement is True or False. Write the answer (True/False) in your answer booklet with the number assigned to the question.

1.13 Preparing bank reconciliation statement helps to detect and minimize frauds, errors and manipulations.

2023 July Q5 (a)

The Bank Statement of Ishakar Traders shows a favorable balance of Rs.427,400/- as at 31st March 2023 while the Cash Control Account shows a debit balance (favorable) of Rs.336,000/-.

The Assistant Accountant of the business has identified the following reasons for the difference between bank statement's balance and cash book's balance:

1. Bank has deducted the loan installment of Rs.25,000/- relating to the loan obtained from the bank and it was not recorded in the cash book.
2. Bank charges of Rs.1,500/- for the direct bank confirmation issued was not considered in the cash book.
3. Overdraft interest of Rs.12,100/- for the month of February has been charged by the bank during the March 2023 and it was not recorded in the cash book.

4. Fixed deposit interest received of Rs.25,000/- was credited to the bank's statement but it was not considered in the cash book.

5. A cheque of Rs.120,000/- was deposited to the bank but it was not realized as at 31st March 2023.

6. A cheque of Rs.225,000/- was issued on 30th March 2023 but it was not presented for payment to the bank as at 31st March 2023.

You are required to:

Prepare the following:

a. Adjusted Cash Control Account (Cash Book). (03 marks)
b. Bank Reconciliation Statement as at 31st March 2023. (02 marks)

2023 January Q1.5

The favourable balance of bank statement as at 31st March 2022 of Sam Traders was Rs.375,000/- and this balance was different with the cash book balance. Unpresented cheques and unrealized cheques as at 31st March 2022 were Rs.15,000/- and Rs.24,000/- respectively.

Based on the above information, Cash Control Account (cash book) balance appeared as at 31st March 2022 in the books of Sam Traders was:

(1) Rs.366,000/-. (2) Rs.336,000/-. (3) Rs.414,000/-. (4) Rs.384,000/-.

2023 January Q4 (b)

The bank statement of Nuwan Traders shows a favourable balance of Rs.195,000/- as at 31st March 2022 while Cash Control Account (Cash Book) of Nuwan Traders shows a debit balance of Rs.250,000/-. The accountant of Nuwan Traders noted below reasons for the difference.

1. Bank has debited Rs.50,000/- for insurance premium as per the standing order instruction given and it was not recorded in the cash book.
2. A cheque of Rs.120,000/- was deposited to the bank but it was not realized as at 31st March 2022.
3. A direct deposit made to the bank account by a customer was Rs.38,000/- and it was not recorded in the cash book.

4. Bank charges of Rs.500/- for the month of March 2022 was not considered in the cash book.
5. Bank has erroneously credited Rs.2,500/- to the bank account of Nuwan Traders.
6. A cheque of Rs.75,000/- issued by Nuwan Traders on 29th March 2022 was not presented for payment to the bank as at 31st March 2022.

You are required to:

Prepare the following:

a. Adjusted Cash Control Account (Cash book). (02 marks)

b. Bank reconciliation Statement as at 31^{st} March 2022. (03 marks)

2022 July Q1.4

The debit balance of cash book as at 31st March 2022 of XYZ Ltd. was Rs.225,000/- and it was different with bank statement's balance on that date. Unpresented cheques for payments as at 31st March 2022 was Rs.36,000/- and bank charges of Rs.5,000/- charged by the bank was not considered in the cash book.

The balance appeared in the bank statement as at 31st March 2022 was:

(1) Rs.256,000/-. (2) Rs.184,000/-. (3) Rs.194,000/-. (4) Rs.266,000/-.

2022 July Q2 (b)

The Bank Statement of Kavindu Stores shows a favorable balance of Rs.**390,000**/- as at 31st March 2022 while cash control account shows a debit (favorable) balance of Rs.560,000/-. Following have been identified as reasons for the difference:

1. Bank has recovered a loan installment of Rs.120,000/- on the loan obtained from the bank and it was not recorded in the cash book.

2. Bank has **reversed** (credited) Rs.5,000/- in the bank statement to correct the over charged bank charges in the previous month. This was not recorded in the cash book.

3. A cheque of Rs.180,000/- was deposited to the bank but not realized as at 31st March 2022.

4. A cheque of Rs.125,000/- which was issued by Kavindu on 30th March 2022 was not presented for payment to the bank as at 31st March 2022.

You are required to prepare the following:

a. Adjusted Cash Control Account (Cash Book). (03 marks)

b. Bank Reconciliation Statement as at 31st March 2022. (02 marks)

2022 January Q1.10

1.10 Of the following, select the correct statement:

1. If the trial balance is agreed, errors cannot be existed in the books of accounts.
2. As per prudence concept, inventories are valued at the lower of cost or net realizable value.
3. The general ledger is a prime entry book.
4. The bank reconciliation statement is prepared by the bank of the business entity

2022 January Q3 (a)

The favourable balance of Rs.306,500/- as per the **bank statement** of Zeena Ltd. as at 31st March 2021 was not agreed with the debit balance (favourable) of **Cash Control Account** (Cash Book) of Rs.**345,000**/-.

The reasons for the difference were as follows:

1. A cheque of Rs.**75,000**/- **deposited** by the company on 30th March 2021 was **not realized** as at 31st March 2021.
2. The following cheques issued on 26th March 2021, were **not presented** for **payments** to the bank as at 31st March 2021:

   Cheque No. 143346 Rs. **28,000**
   Cheque No. 143349 Rs. **4,500**
3. An amount of Rs.**6,500**/- was **directly** received to the bank as an **interest income** on 31st March 2021. This was not recorded in the cash book.

4. The bank has deducted Rs.2,500/- as bank charges for the month of March 2021 and this was not recorded in the cash book.

You are required to:

Prepare the following:

a. Adjusted Cash Control Account (Cash Book). (03 marks)

b. Bank Reconciliation Statement as at 31st March 2021. (02 marks)

2021 July Q1.3

Which one of the following is considered as an example of a time difference in preparing the bank reconciliation statement?

1. Rs.25,000/- received from Sarath as a direct deposit was not recorded in the books of accounts.
2. Cheque book charges of Rs.5,000/- was not recorded in the books of accounts.
3. A cheque of Rs.23,000/- issued to a supplier was not presented to the bank for payment.
4. An amount of Rs.3,500/- was erroneously debited by the bank.

2021 July Q1.3

Which one of the following is considered as an example of a time difference in preparing the bank reconciliation statement?

1. Rs.25,000/- received from Sarath as a direct deposit was not recorded in the books of accounts.
2. Cheque book charges of Rs.5,000/- was not recorded in the books of accounts.
3. A cheque of Rs.23,000/- issued to a supplier was not presented to the bank for payment.
4. An amount of Rs.3,500/- was erroneously debited by the bank.

2021 January Q1.16

State two (02) reasons for preparation of a Bank Reconciliation Statement.

2021 January Q5 (b)

The bank statement of XYZ Ltd. shows a favourable balance of Rs.243,000/- as at 31st January 2021 while the Cash Control Account of XYZ Ltd. shows a debit (favourable) balance of Rs.175,000/-.

The reasons for the difference are as follows:

1. The bank has deducted Rs.5,000/- as bank charges and this was not recorded in the cash control account.

2. An interest of Rs.98,000/- was directly received to the bank as interest income from a Fixed Deposit. However, this was not recorded in the cash book.

3. The cheque of Rs.125,000/- was issued by XYZ Ltd. on 29th January 2021 but it was not presented for payment to the bank as at 31st January 2021.

4. A cheque of Rs.150,000/- was deposited to the bank but not realized as at 31st January 2021.

You are required to:

Prepare the following:

a. Adjusted Cash Control Account (Cash Book). (02 marks)

b. Bank Reconciliation Statement as at 31^{st} January 2021. (02 marks)

2020 July Q1.15

State whether each of the following statement is True or False. Write the answer (True/False) in your answer booklet with the number assigned to the question.

1.15 Bank reconciliation is a statement prepared by the bank of the business entity.

2020 July Q5 (b)

Bank balance as per the bank statement of Ranasinghe & Co. as at 31st March 2020 was not agreed with the favourable (debit) cash control account (cash book) balance of Rs.**155,000**/-.

The following reasons were identified later:

1. The bank has deducted Rs.**75,000**/- from the bank account as per **standing order** instruction and this was not recorded in the cash book.
2. A **direct deposit** of Rs.**30,000**/- received to the bank from a **customer** was not recorded in the cash book.
3. A cheque of Rs.**195,000**/- was issued by Ranasinghe & Co. on 29th March 2020, but it was **not presented** for payment to the bank as at 31st March 2020.
4. A cheque of Rs.**65,000**/- deposited to the bank by Ranasinghe & Co. on 30th March 2020 was **not realized** as at 31st March 2020.
5. The **bank charges** of Rs.**1,500**/- were not recorded in the cash book.

You are required to:

Prepare the following:

a. Adjusted Cash Control Account (Cash Book). (02 marks)

b. Bank Reconciliation Statement as at 31st January 2021. (02 marks)

Questions 01

The balance of the cash control account of a business was Rs. 25,000 but the bank statement of the same date was not tallied with this balance. The following reasons were found later.

1. Bank charges Rs. 2,000 and cheque book charges Rs. 500 was not recorded to the cash control account.
2. Cash control account was overstated by Rs. 3,000
3. Direct deposit by debtor Rs. 5,000 was not recorded to the cash control account
4. Bank has erroneously debited Rs. 3,000 of cheque to the business bank account
5. Rs. 7,000 of cheques deposited has not been realized to the bank
6. Rs. 10,000 of cheques issued by the business was not yet paid by the bank

Required

a) Prepare the adjusted cash control account
b) Prepare the bank reconciliation statement using cash control account balance

Questions 02

Cash control account of a business indicates an overdrawn balance of Rs. 15,000. Following reasons were found for the difference between the cash control account and bank statement balance.

1. Direct remittance Rs. 2,000 and standing order payment Rs. 4,000 was not yet updated to the cash control account
2. Bank has erroneously debited Rs. 5,000 to the business bank account
3. Cash control account was recorded Rs. 1,000 payment twice
4. Unpresented cheques Rs. 10,000
5. Unrealized cheques Rs. 15,000

Required

Prepare the bank reconciliation statement using the cash control account balance.