Bank Reconciliation

A complete last-minute revision map: cash book vs bank statement differences, the correcting rules, and the full BRS format — exactly as tested in PRC-1.

Payment Methods | Cash Book Adjustments | BRS Format | Wrong-Side Correction Rules

1 CORE CONCEPT

> *A bank reconciliation statement (BRS) explains the difference between the balance shown in the entity's cash book and the balance shown on the bank statement, at the same date.*

Cash Book Balance ≠ **Bank Statement Balance** → **Reconciled via BRS**

Differences arise from two sources: **timing differences** (items recorded by one side but not yet by the other) and **errors** (in the cash book, or by the bank).

2 KEY DEFINITIONS

Unpresented Cheque
A cheque issued and recorded by the entity, but not yet presented to the bank for payment.

Uncredited Item
A deposit recorded by the entity, but not yet credited by the bank.

Dishonoured / Time-Barred Cheque
A cheque that bounces, or becomes invalid after 6 months — both require reversal, not just timing adjustment.

3 IMPORTANT ACCOUNTING RULES — METHODS OF PAYMENT

Pay Order
Bank-issued, pre-printed "Not Negotiable". Prepaid — cannot be dishonoured.

Bank Transfer
Direct transfer from one account holder to another, on instruction.

Standing Order
Instruction to pay a FIXED amount at regular intervals (e.g. rent).

Direct Debit
Payee collects a possibly VARIABLE amount on a regular basis (e.g. utility bills).

Credit / Debit Card
Card company pays on the sale; recovers the cash from the cardholder later.

Cheque
Agreement of payment between two parties, instructing the bank to pay.

Cash book balance rule: Normal / favourable balance = **Debit**. Overdrawn balance = **Credit**.

4 FORMULAS — BRS FORMAT

STARTING FROM BALANCE AS PER BANK STATEMENT

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Balance as per Bank Statement
Less: Unpresented Cheques
Add: Uncredited Items
Less: Amounts incorrectly credited by bank
Add: Amounts incorrectly debited by bank
= Adjusted Balance as per Cash Book
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Starting from the cash book instead simply reverses every add/less above to reach the bank statement figure.

5 ACCOUNTING TREATMENT — CASH BOOK ADJUSTMENTS

RECEIPT SIDE (Dr)
Dividend/interest received • Direct credits

PAYMENT SIDE (Cr)
Bank charges • Interest on overdraft • Standing orders • Direct debits

REVERSAL REQUIRED
Dishonoured cheques • Post-dated cheques • Time-barred cheques • Cancelled cheques

6 STEP-BY-STEP ROADMAP — PREPARING A BRS

1. **Update the cash book first**
   Record all genuine omissions and reversals (bank charges, dishonours, etc.).
2. **Identify remaining timing differences**
   Unpresented cheques and uncredited items — these stay OUT of the cash book.
3. **Identify any bank errors**
   Flag for the bank to correct — never adjust the entity's own cash book for these.
4. **Prepare the BRS**
   Reconcile the adjusted cash book balance to the bank statement balance.

7 LEDGER / FORMAT TREATMENT — WORKED BRS EXAMPLE

BANK RECONCILIATION STATEMENT AS AT ...	
Balance as per Bank Statement	500,000
Less: Unpresented cheques	(40,000)
Add: Uncredited items	60,000
Less: Amounts incorrectly credited by bank	(18,000)
Add: Amounts incorrectly debited by bank	10,000
Adjusted Balance as per Cash Book	**512,000**

ALTERNATIVE FORMAT (starting from cash book)	
Adjusted Balance as per Cash Book	512,000
Add: Unpresented cheques	40,000
Less: Uncredited items	(60,000)
Add: Amounts incorrectly credited by bank	18,000
Less: Amounts incorrectly debited by bank	(10,000)
Balance as per Bank Statement	**500,000**

9 FINANCIAL STATEMENT EFFECT

✓ **Adjusted cash book balance**
This is the TRUE cash balance — presented in the statement of financial position

= **Unpresented / uncredited items**
No entry in the entity's books — pure timing differences that self-resolve

↓ **Dishonoured cheque reversal**
Reduces the cash book balance — the expected receipt did not materialise

10 COMMON EXAM CASES — DECISION TREE

IF cheque unpresented <6mo	→ Timing difference only — no cash book entry
IF cheque unpresented >6mo	→ Time-barred — cancel & reverse in cash book
IF cheque dishonoured	→ Reverse the original receipt entry
IF bank made the error	→ Flag to bank — never adjust entity's cash book
IF correct amt, wrong side	→ Correct by DOUBLE the amount on correct side

11 COMMON MISTAKES / EXAM TRAPS

Trap: Adjusting the cash book for timing differences
Unpresented cheques and uncredited items are NEVER corrected in the entity's cash book — only shown in the BRS.

Trap: Correcting a bank error in the entity's own books
A bank error must be corrected by the bank — the entity only notes it as a reconciling item until resolved.

Trap: Forgetting to double a wrong-side, correct-amount error
If an item is posted correctly but on the wrong side of the cash book, the correction is DOUBLE the amount, not the amount itself.

Trap: Wrong amount AND wrong side together
Here the correction is (Correct amount + Incorrect amount) — different from the "double" rule above, which only applies when the amount itself was already correct.

★ QUICK EXAMPLE

SCENARIO
A cheque received of Rs. 30,000 was correctly valued but recorded on the payment side of the cash book in error.

CORRECTION

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Correction = 30,000 × 2
= Rs. 60,000 on the receipt side
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WHY
Once to cancel the wrong entry, once to record it correctly — both on the receipt side.

TWO SOURCES OF DIFFERENCE
Timing differences (unpresented cheques, uncredited items) and errors (in the cash book, or by the bank).

WHO CORRECTS WHAT
Cash book errors → entity corrects. Bank errors → bank corrects. Timing differences → neither, they self-resolve.

WRONG-SIDE RULES
Correct amount, wrong side → × 2. Wrong amount, wrong side → Correct + Incorrect.

FINAL FIGURE
The adjusted cash book balance is the TRUE balance shown in the financial statements.