

CUET · ACCOUNTANCY · CLASS XI · CODE 301

# Bank Reconciliation Statement

CUET unit: Bank Reconciliation Statement

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## Snapshot

- A Bank Reconciliation Statement (BRS) reconciles the bank balance shown by the firm's **cash book** with the balance shown by the **bank passbook / statement** on a given date (NCERT §5.1, p. 161).
- The two balances normally differ because of (i) **timing differences** in recording transactions and (ii) **errors** committed by the firm or by the bank (NCERT §5.1, p. 163).
- High-yield CUET pattern: **directional** MCQs — given a starting balance (Dr cash book / Cr passbook / overdrafts), decide whether an item should be **added** or **subtracted** to arrive at the other balance (NCERT §5.2.1, p. 167).
- Two preparation approaches: BRS **without** adjusting the cash book, and BRS **after** adjusting (amending) the cash book (NCERT §5.2, p. 166).
- Four situations: Dr cash book balance, Cr passbook balance, Cr cash book (overdraft), and Dr passbook (overdraft) (NCERT §5.2.1, p. 167-171).
- The BRS gives a reliable cross-check on the bank column of the cash book; the Trial Balance follows in the next chapter.

## Detailed Notes

### 2.1 Core concepts

The cash book contains **both** a cash account and a bank account; once balanced, its bank column shows the firm's view of its bank balance at the end of the period (NCERT introduction, p. 160). Independently, the bank maintains the customer's account and supplies the customer with a **passbook or bank statement** — a copy of the bank account as shown by the bank's own records that enables the customer to check funds and update transactions (NCERT introduction, p. 160). One critical convention: in a bank statement, **deposits appear in the Credit column and withdrawals in the Debit column**, which is the opposite of how the same transactions appear in the firm's cash book. If deposits exceed withdrawals, the passbook shows a credit balance (favourable); if withdrawals exceed deposits, it shows a debit balance (overdraft) (NCERT introduction, p. 160 and Fig. 5.1, p. 162).

In an ideal world, the two balances would agree on every day. In practice they usually do not, so the firm prepares a **Bank Reconciliation Statement (BRS)** to identify the causes of the difference and to bring the two records into alignment (NCERT §5.1, p.

161). The differences arise from two broad categories — **timing differences** in recording and **errors** committed by the firm or the bank (NCERT §5.1, p. 163).

There are seven timing causes (NCERT §5.1.1, p. 163-164), each of which the student must be able to (a) name and (b) classify as raising / lowering the passbook balance relative to the cash book.

- **(a) Cheques issued but not yet presented for payment (NCERT § 5.1.1 (a), p. 163).** The firm credits the cash book on the date of issue (recognising the outflow), but the bank debits its own books only when the cheque is actually presented and paid. Because the bank does not yet know about the issue, its balance is higher than the cash book balance by the amount of the unpresented cheque.
- **(b) Cheques paid into the bank but not yet collected (NCERT § 5.1.1 (b), p. 163).** The firm debits the cash book on deposit; the bank credits the customer's account only when the cheque is realised. Outstation cheques can take a few days. Hence the cash book balance is higher than the passbook balance by the amount of cheques sent for collection but uncleared.
- **(c) Direct debits by the bank (NCERT § 5.1.1 (c), p. 163).** Cheque collection charges, incidental charges, interest on overdraft, and adjustments for dishonoured / stopped / bounced cheques reduce the passbook balance directly; the firm learns of them only when the statement arrives. Hence the passbook balance falls below the cash book balance.
- **(d) Amounts directly deposited by debtors (NCERT § 5.1.1 (d), p. 164).** A debtor may pay the firm by depositing cash / cheque directly into the firm's bank account. The bank records the credit immediately but the firm does so only after intimation — so the passbook balance is higher than the cash book balance.
- **(e) Interest and dividend collected by the bank (NCERT § 5.1.1 (e), p. 164).** The bank credits the customer's account at the moment of receipt; the cash book is updated later. Passbook balance is higher than cash book balance.
- **(f) Direct payments by bank under standing instructions (NCERT § 5.1.1 (f), p. 164).** Recurring payments such as telephone bills, insurance premium, rent and taxes paid by the bank on standing instruction reduce the passbook balance immediately. Passbook balance falls below the cash book balance.
- **(g) Dishonour of cheques deposited / bills discounted (NCERT § 5.1.1 (g), p. 164).** When a deposited cheque or a discounted bill is dishonoured, the bank debits the customer's account on the date of dishonour; the firm makes no entry until the statement is received. Passbook balance is lower than cash book balance.

The second source of differences is **errors** (§5.1.2, p. 165). Errors by the firm — omission or wrong recording of cheques issued or deposited, wrong totalling of the cash book — and errors by the bank — omission or wrong recording in the passbook, wrong totalling of the passbook — produce a residual difference that the BRS must surface for rectification.

The BRS may be prepared (a) without adjusting the cash book balance, or (b) after adjusting (amending) the cash book (NCERT §5.2, p. 166). In practice, the second approach is preferred: the cash book is first amended for items the firm did not know about (bank charges, interest, direct deposits, standing-instruction payments, dishonoured cheques) and only then is the BRS prepared for the residual timing differences. NCERT provides two BRS proformas — narrative ("Add: / Less:") in Fig. 5.2 and the two-column (+ / -) tabular form in Fig. 5.3 (NCERT p. 161); the tabular form is usually adopted in solutions.

A critical procedural point: **the starting point of the BRS may be either the cash book balance or the passbook balance**, and if the starting point is changed, the direction of every adjustment is reversed (NCERT §5.2.1 (a), p. 167). Four situations therefore arise (NCERT §5.2.1, p. 167-171): (1) Dr cash book balance given → find passbook; (2) Cr passbook balance given → find cash book; (3) Cr cash book balance (overdraft) given → find passbook; (4) Dr passbook balance (overdraft) given → find cash book.

For a **favourable** starting position — Dr cash book — the rule is: **add** cheques issued but not presented, direct deposits, interest / dividend credited, and credit-side errors by the bank; **deduct** cheques deposited but not collected, bank charges, payments by bank under standing instructions, dishonoured cheques and debit-side errors by the bank (NCERT §5.2.1 (a), p. 167). When starting from Cr passbook the same items apply in the same direction (because Cr passbook = Dr cash book in absolute terms). When starting from the **other** balance — Dr passbook or Cr cash book — the directions flip.

**Overdrafts (§5.2.1 (b), p. 169).** An overdraft means the firm has borrowed from the bank by overdrawing the account. The cash book shows a **credit balance** (Cr) and the passbook a **debit balance** (Dr / OD). The overdraft is treated as a **negative** starting figure on the BRS — every adjustment then either deepens (adds to) or reduces (subtracts from) the overdraft. NCERT's Illustration 4 (p. 169-170) is the canonical case: cash book overdraft ₹8,000 + uncollected deposits ₹2,000 + bank charges ₹60 + interest ₹100 – unpresented cheques ₹800 = passbook overdraft ₹9,360. The opposite direction in Illustration 6 (p. 171) starts from passbook overdraft ₹20,000 and reaches cash book overdraft ₹17,800.

Once the reconciliation is complete, the firm has three deliverables: an **amended cash book balance** that all subsequent statements use, a **BRS** certifying that the amended balance matches the passbook after timing adjustments, and a list of **errors** — by the firm or by the bank — that need rectification entries (firm's errors via journal proper) or correspondence with the bank.

## 2.2 Definitions to memorise

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Term	Definition	Page
Bank Reconciliation Statement (BRS)	A statement prepared to reconcile the bank balance as per cash book with the balance as per passbook by showing the items of difference between the two (NCERT §5.1).	
Passbook / Bank Statement	A copy of the bank account as shown by the bank's records, enabling a customer to check funds and update transactions (NCERT intro).	160
Favourable balance (cash book)	A <b>debit</b> balance in the bank column of the cash book — deposits exceed withdrawals (NCERT §5.2).	166
Favourable balance (passbook)	A <b>credit</b> balance in the passbook — equivalent to a Dr balance in the cash book (NCERT §5.2).	166
Unfavourable balance / Overdraft (cash book)	A <b>credit</b> balance in the cash book — withdrawals exceed deposits; firm has borrowed from the bank (NCERT §5.2.1 (b)).	166, 169
Unfavourable balance / Overdraft (passbook)	A <b>debit</b> balance in the passbook (Dr / OD) — overdraft (NCERT §5.2.1 (b)).	169
Timing difference	Difference between cash book and passbook balances caused by a time-lag between firm's entry and bank's entry (NCERT §5.1.1).	163
Direct debit by bank	Amount deducted by the bank without the firm's prior knowledge — collection charges, interest on overdraft, dishonour adjustments (NCERT §5.1.1 (c)).	163
Direct deposit by debtor	Cash or cheque deposited by a debtor directly into the firm's bank account (NCERT §5.1.1 (d)).	164
Standing instruction payment	Recurring payment (rent, insurance premium, telephone bill, taxes) made by the bank on the customer's standing instruction (NCERT §5.1.1 (f)).	164
Dishonoured cheque (bank side)	Cheque deposited and credited by the bank that is later returned unpaid; bank debits the customer's account on dishonour (NCERT §5.1.1 (g)).	164
Bills discounted dishonoured	Bill that the bank discounted earlier and which is dishonoured at maturity; bank debits customer's account (NCERT §5.1.1 (g)).	164
Cheque issued but not presented	Cheque drawn and entered in the cash book but not yet paid by the bank (NCERT §5.1.1 (a)).	163
Cheque deposited but not collected	Cheque deposited and entered in the cash book but not yet realised by the bank (NCERT §5.1.1 (b)).	163
Amended cash book	Cash book updated for items the firm did not know about earlier (bank charges, interest, direct deposits, dishonours,	166

Term	Definition	Page
	standing-instruction payments) before drawing up the residual BRS (NCERT §5.2).	
Errors by the firm	Omission, wrong recording or wrong totalling in the cash book (NCERT §5.1.2(a)).	165
Errors by the bank	Omission, wrong recording or wrong totalling in the passbook (NCERT §5.1.2(b)).	165
Cheque collection charges	Bank's charge for collecting outstation cheques — direct debit to passbook (NCERT §5.1.1(c)).	163
Interest on overdraft	Interest charged by the bank on the overdrawn balance — direct debit to passbook (NCERT §5.1.1(c)).	163
Bank credit interest	Interest credited by the bank on a credit balance — direct credit to passbook (NCERT §5.1.1(e)).	164
Dividend collected by bank	Dividend warrants collected and credited by the bank — direct credit to passbook (NCERT §5.1.1(e)).	164

### 2.3 Diagrams / processes to remember

**Fig. 5.1 — Specimen Bank Statement (NCERT p. 162).** Current account of Dev Pandit at Dherendra National Bank; columns show Date, Particulars, Cheque No., Debit (withdrawals), Credit (deposits) and running Balance. The Dr/Cr direction here is the bank's perspective, opposite to the firm's.

**Fig. 5.2 — Narrative BRS Proforma (NCERT p. 161).** Starts with "Balance as per Cash Book ₹X"; under "Add" lists unpresented cheques, direct deposits, interest credited; under "Less" lists uncollected deposits, bank charges, standing-instruction payments, dishonoured cheques; ends with "Balance as per Passbook ₹Y".

**Fig. 5.3 — Tabular BRS Proforma (NCERT p. 161).** Two amount columns labelled "+" and "-"; the closing total is the difference between the two columns, added to the starting balance.

**Illustration 1 (NCERT p. 168).** Cash book Dr balance ₹50,000. Add: cheques issued not presented ₹6,000; dividends collected by bank ₹8,000. Less: cheques deposited not credited ₹6,000; bank charges ₹400. Passbook balance = ₹57,600.

**Illustration 3 (NCERT p. 169).** Same items but starting from passbook balance ₹45,000. Direction reverses: cheques issued not presented are deducted; cheques deposited not collected are added; bank charges are added back; interest credited by bank is deducted.

**Illustration 4 (NCERT p. 169-170).** Cash book overdraft ₹8,000. Cheques deposited not collected ₹2,000, bank charges ₹60, interest ₹100 — each deepens the overdraft.

Cheques issued not presented ₹800 — reduces the overdraft. Passbook overdraft = ₹9,360.

**Illustration 6 (NCERT p. 171).** Passbook overdraft ₹20,000. Working in the reverse direction reaches cash book overdraft ₹17,800.

**Process — preparing a BRS from cash book balance.** (i) Identify the starting balance (Dr or Cr). (ii) Read each adjustment item and decide whether it increases or decreases the passbook balance relative to the cash book. (iii) Items that increase the passbook → "Add" column; items that decrease → "Less" column. (iv) Sum to arrive at the passbook balance. (v) Cross-check with the actual passbook to confirm reconciliation; any residual difference is the net effect of errors.

**Direction reversal rule.** When the starting point shifts from cash book to passbook (or favourable to overdraft), the direction of every adjustment item flips. The simplest way to avoid mistakes is to ask: "Does this item make the passbook balance higher or lower than the cash book balance?" — and then place it accordingly given the starting point.

## 2.4 Common confusions / NTA trap points

1. **Direction of adjustment reverses with starting point.** Cheques issued but not presented are added when starting from Dr cash book but deducted when starting from Cr passbook (NCERT Illustration 1 vs Illustration 3).
2. **Cheques issued but not presented raise passbook balance.** Students often subtract them when starting from cash book — wrong (NCERT §5.1.1 (a), p. 163).
3. **Cheques deposited but not collected raise cash book balance.** They must be subtracted when moving from cash book to passbook (NCERT §5.1.1 (b), p. 163).
4. **Overdraft Dr/Cr direction.** Credit balance in the cash book = overdraft; equivalent in passbook is a debit balance (Dr / OD). Confusing the direction is a classic trap (NCERT §5.2.1 (b), p. 169).
5. **Direct debits vs direct deposits.** Bank charges, insurance premium paid by bank, standing-instruction payments reduce the passbook balance relative to cash book; direct deposits by customers and interest/dividend credited by bank raise it (NCERT §5.1.1 (c)-(f), p. 163-164).
6. **Errors require case-by-case treatment.** They cannot be reduced to a single +/- rule like timing items (NCERT §5.1.2, p. 165).
7. **BRS is prepared by the customer, not the bank.** A common true/false distractor (NCERT Test Your Understanding-II Q1, p. 173).
8. **Passbook Dr / Cr is opposite to cash book.** Deposits appear on the credit side of the bank statement (the bank's perspective); the firm records them on the debit side of its cash book (NCERT Fig. 5.1, p. 162).

9. **Cheque returned unpaid / dishonoured.** Reduces passbook balance, never the cash book directly (until adjusted) (NCERT §5.1.1(g), p. 164).
10. **Amended cash book method.** First update the cash book for items the firm did not know about; only timing items remain on the BRS. Students forget to update the cash book and double-count items (NCERT §5.2, p. 166).
11. **Wrong totalling is an error, not a timing difference.** Listing it under timing causes is a common NTA trap (NCERT §5.1.2, p. 165).
12. **Interest on overdraft adds to overdraft.** When the starting figure is overdraft, interest charged by the bank deepens it — add to the overdraft, not subtract (NCERT Illustration 4, p. 170).

## 2.5 Journal entry templates

The BRS itself is a statement, not a set of journal entries. However, certain items that emerge during reconciliation require journal entries in the firm's books before or after the BRS — typically through the amended cash book approach. The templates below cover the standard ones.

### (a) Bank charges discovered on receipt of statement (NCERT §5.1.1(c), p. 163)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Bank Charges A/c .....Dr.		400	
	To Bank A/c			400
	(Being bank charges debited by bank now recorded in books)			

### (b) Interest credited by bank (NCERT §5.1.1(e), p. 164)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Bank A/c .....Dr.		1,200	
	To Interest A/c			1,200
	(Being interest credited by the bank now brought into the cash book)			

### (c) Dividend collected by bank (NCERT §5.1.1(e), p. 164)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Bank A/c .....Dr.		8,000	

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	To Dividend A/c			8,000
	(Being dividend collected and credited by the bank)			

**(d) Direct deposit by customer (NCERT § 5.1.1 (d), p. 164)**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Bank A/c .....Dr.		25,000	
	To Debtor A/c			25,000
	(Being amount directly deposited by debtor into firm's bank account)			

**(e) Insurance premium paid by bank — standing instruction (NCERT § 5.1.1 (f), p. 164)**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Insurance Premium A/c .....Dr.		5,000	
	To Bank A/c			5,000
	(Being insurance premium paid by bank under standing instruction)			

**(f) Dishonoured cheque previously deposited (NCERT § 5.1.1 (g), p. 164)**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Customer A/c .....Dr.		12,000	
	To Bank A/c			12,000
	(Being cheque received from customer and deposited earlier, now dishonoured)			

**(g) Interest on bank overdraft (NCERT Illustration 5 item 3, p. 170)**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Interest on Overdraft A/c .....Dr.		8,800	
	To Bank A/c			8,800

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	(Being interest on overdraft charged by the bank now recorded)			

**(h) Bills discounted dishonoured (NCERT § 5.1.1 (g), p. 164)**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Drawee A/c .....Dr.		20,000	
	To Bank A/c			20,000
	(Being bill earlier discounted with the bank now dishonoured)			

## Practice MCQs

**Q1. A Bank Reconciliation Statement is prepared by:**

- A. The bank
- B. The creditors of the firm
- C. The account holder in the bank
- D. The debtors of the firm

**Q2. When preparing a BRS starting from the \*\*debit (favourable) balance as per the cash book\*\*, \*cheques issued but not yet presented for payment\* should be:**

- A. Deducted
- B. Added
- C. Ignored
- D. Adjusted only in the cash book

**Q3. Favourable bank balance means:**

- A. Credit balance in the cash book
- B. Credit balance in the passbook
- C. Debit balance in the cash book
- D. Both (B) and (C)

 **12 more MCQs + answer key**

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## PYQ Alignment

This unit is a near-certain feature of CUET (UG) Accountancy — typically 6–8 MCQs per year. Questions cluster around three patterns: (a) identifying whether a particular item is a timing difference or an error, (b) directional add/subtract questions starting from different balance types (favourable cash book, favourable passbook, overdraft per cash book, overdraft per passbook), and (c) small numerical problems closely modelled on NCERT Illustrations 1, 3, 4 and 6. See [/pyq/accountancy](#) for drill sets.