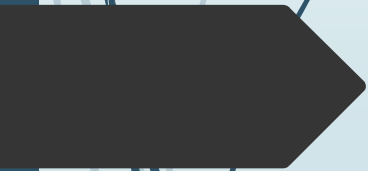


# Managerial Accounting

## Module -4

### Bank Reconciliation



# Nature of the cash book and bank statement

## Cash Book (bank column only)

Debit represents an increase

Credit represents an decrease

## Bank Statement

	Dr	Cr	Balance
	(represents decrease)	(represents increase)	(represents the amount owned to the clients)





## **Reasons for differences in Bank Bal as per cash Book and Bank Balance as per Pass Book**

- **Bank Actions**
- **Time Lag**
- **Error either Bank or By own Cashier**

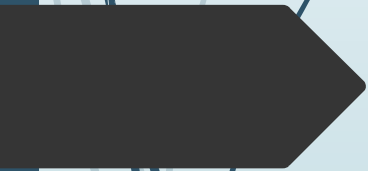
# Bank Reconciliation Statement

	\$	\$
Balance as per cash book (after completion)		xxxx
Add: Cheques issued but not yet presented:		
Cheque No. ....	xxxx	
Cheque No. ....	xxxx	
Cheque No. ....	xxxx	
	<hr/>	
		xxxx
		<hr/>
		xxxx
Less cheques deposited but not yet credited by the bank		
Deposited on.....	xxxx	
Deposited on.....	xxxx	
Deposited on.....	xxxx	
	<hr/>	
		xxxx
		<hr/>
Balance as per bank statement		xxxx

# Managerial Accounting

## Module -4

### Bank Reconciliation





## Common Reasons

- Cheques issued by the bank but not yet presented for payment
- Cheques paid but not collected
- Direct debits made by Bank
- Amount directly deposited in the bank
- Interests collected by the bank



The Cash-Book of Chandan showed a debit balance of ₹ 5,400 on 31<sup>st</sup> March 2019. But the Bank Pass-Book showed altogether a different balance and on comparing his Cash-Book and Pass-Book you find the following issues :

- i) Cheques amounting to ₹ 3,200 issued but not presented for payment before 31<sup>st</sup> March, 2019.
- ii) Cheques paid into Bank but not collected and credited before 31<sup>st</sup> March, 2019 amounted to ₹ 1,700.
- iii) Bank Charges ₹ 20 debited in the Pass-Book, did not appear in Cash-Book till 31<sup>st</sup> March, 2019.
- iv) Interest credited by Bank ₹ 350 did not appear in Cash-Book till 31<sup>st</sup> March, 2019.

You are requested to prepare a Bank Reconciliation Statement so as to show bank balance as per Bank Pass-Book as on 31<sup>st</sup> March, 2019.

## Illustration 2 :

On 31<sup>st</sup> Dec. 2002 cash book of Shri. Mahesh Bhatt, showed a Bank balance of Rs. 6000 but Pass Book showed a different balance. On verification of entries in pass book, the following facts were noticed.

1. Cheques amounting to Rs. 2000 received from a debtor Mr. Shahrukh, was deposited into bank on 28<sup>th</sup> Dec 2002 but was not cleared till 31<sup>st</sup> Dec 2002. ✕
2. Cheque of Rs. 1500 issued on 25<sup>th</sup> Dec. 2002 to Municipal Corporation towards Municipal taxes was not presented for payment. ✕
3. A debit of Rs. 30 for Bank charges was not recorded in Cash Book. ✕
4. Mr. Ramesh a customer deposited Rs. 900 on 25<sup>th</sup> Dec 2002 in Bank account towards credit sale of goods last month. ✕
5. A credit of Rs. 150 by Bank for interest was not entered in Cash Book. ✕

You are required to prepare Bank Reconciliation Statement as on 31<sup>st</sup> Dec 2002 from the above information and find the balance as per Pass Book.

## 7.4 (A) When Bank Balance as Per Cash Book is given

### Illustration 1 :

On March 31<sup>st</sup> 2003 the Cash Book of Mr. Parasmani showed a Bank Balance of Rs. 4850. While verifying with the Pass Book the following facts were noted.

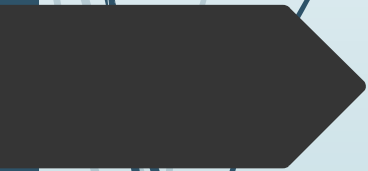
1. Cheques sent for collection on 28<sup>th</sup> March amounting to Rs. 845 were not credited by Bank till 31<sup>st</sup> March 2003.
2. Cheques issued to our supplier Mr. Shah on 29<sup>th</sup> March 03 was not presented for payment amounted to Rs. 885.
3. The Bank had debited our account for Rs. 100 as Bank charges, and credited interest on deposits for Rs. 250
4. The Bank had given wrong credit for Rs. 250 in our Pass Book.
5. Mr. Nair had deposited directly a sum of Rs. 300 on March 28<sup>th</sup>, which has not been entered in Cash Book.
6. A cheque for Rs. 200 sent for collection and returned unpaid has not been entered in the Cash Book.

You are required to prepare Bank Reconciliation Statement as on 31<sup>st</sup> March 03 from the above information and find the balance as per Pass Book.

# Managerial Accounting

## Module -4

### Bank Reconciliation



Prepare Bank Reconciliation Statement as on 31<sup>st</sup> Jan 2001 from the following particulars.

1. Credit balance as per Pass Book Rs. 19285.
2. Cheque of Rs. 2500 deposited into Bank on 28<sup>th</sup> January 2001 but realised on 5<sup>th</sup> Feb 2001.
3. A bill of Exchange of Rs. 6500 previously discounted with Bank was dishonoured on due date.
4. Our customer Mr. Bhatia deposited Rs. 4500 into our Bank a/c without our knowledge.
5. Cheque of Rs. 1528 issued and presented for payment but wrongly recorded in Pass Book as Rs. 1825.
6. Pass Book showed credit entries for collection of Dividend, Rs. 950 and interest Rs. 1,000.
7. Pass Book also shows debit entries for Bank charges Rs. 150 and payment of Insurance Premium Rs. 750, without corresponding effect in Cash Book.

Prepare a Bank Reconciliation Statement of Harish from the following details as on 31<sup>st</sup> December, 2018.

- i) Bank Balance as per Pass-Book as 31<sup>st</sup> December, 2018 ₹ 7,500.
- ii) Cheques amounting to ₹ 7,400 were deposited into the Bank, but out of these cheques of ₹ 1,700 were only collected by the Bank till 31<sup>st</sup> December, 2018.
- iii) Sale of shares of Philips Ltd. for ₹ 3,750 by the Bank was credited in Pass-Book only.
- iv) Cheques amounting to ₹ 2,800, ₹ 2,000 and ₹ 1,000 were issued to creditors but were not paid by the Bank till 31<sup>st</sup> December, 2018.
- v) A cheque of ₹ 750 was deposited into the bank on 29<sup>th</sup> December, 2018 and credited by Bank, but it was not entered in Cash-Book till 31<sup>st</sup> December, 2018.
- vi) Bank had charged ₹ 50 for other charges and ₹ 50 for commission, for which there was no entry in the Cash-Book.
- vii) Receipt side of the Bank column of Cash-Book was undercast by ₹ 1,000.

## 7.4 (A) When Bank Balance as Per Cash Book is given

### Illustration 1 :

On March 31<sup>st</sup> 2003 the Cash Book of Mr. Parasmani showed a Bank Balance of Rs. 4850. While verifying with the Pass Book the following facts were noted.

1. Cheques sent for collection on 28<sup>th</sup> March amounting to Rs. 845 were not credited by Bank till 31<sup>st</sup> March 2003.
2. Cheques issued to our supplier Mr. Shah on 29<sup>th</sup> March 03 was not presented for payment amounted to Rs. 885.
3. The Bank had debited our account for Rs. 100 as Bank charges, and credited interest on deposits for Rs. 250
4. The Bank had given wrong credit for Rs. 250 in our Pass Book.
5. Mr. Nair had deposited directly a sum of Rs. 300 on March 28<sup>th</sup>, which has not been entered in Cash Book.
6. A cheque for Rs. 200 sent for collection and returned unpaid has not been entered in the Cash Book.

You are required to prepare Bank Reconciliation Statement as on 31<sup>st</sup> March 03 from the above information and find the balance as per Pass Book.

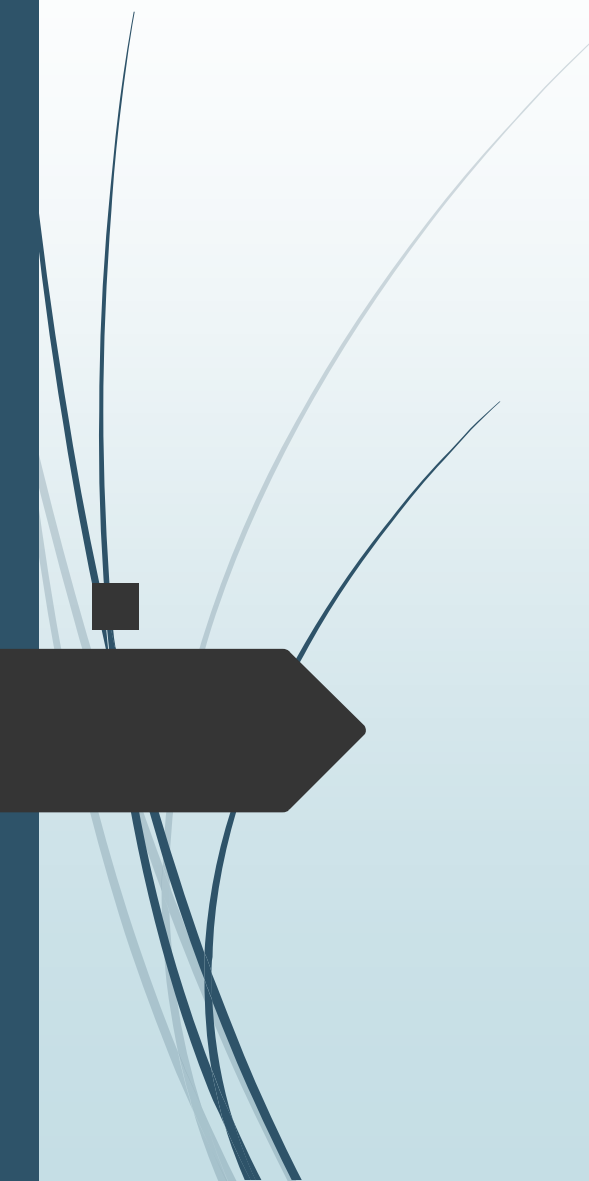
### Summary Chart


Reasons	When Bank Balance is given as per Cash-Book	When Bank Balance is given as per Pass-Book	When Overdraft is given as per Cash-Book	When Overdraft is given as per Pass-Book
	(A)	(B)	(C)	(D)
<b>Nature of Balance : Dr./Cr.</b>	Dr.	Cr.	Cr.	Dr.
i) Cheque deposited into Bank but not yet credited.	(-)	(+)	(+)	(-)
ii) Cheque issued but not yet presented for payment.	(+)	(-)	(-)	(+)
iii) Bank Charges debited in Pass-Book only.	(-)	(+)	(+)	(-)
iv) Interest credited in Pass-Book only.	(+)	(-)	(-)	(+)
v) Interest debited in Pass-Book only.	(-)	(+)	(+)	(-)
vi) Payments made by Bank recorded in Pass-Book only.	(-)	(+)	(+)	(-)
vii) Direct payment by customers in Bank recorded in Pass-Book only.	(+)	(-)	(-)	(+)
viii) Bills Receivable discounted with Bank being dishonoured, recorded in Pass-Book only.	(-)	(+)	(+)	(-)
ix) Cheque deposited into Bank being dishonoured, not recorded in Cash-Book.	(-)	(+)	(+)	(-)

# Managerial Accounting

## Module -5

### Depreciation



- 
- Depreciation is defined as the reduction of recorded cost of a fixed asset .
  - An example of fixed assets are buildings, furniture, office equipment, machinery etc.
  - The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation.

## What is obsolescence?

- The term 'Obsolescence' refers to the economic deterioration of assets, due to change in technology, invention of improved equipment, market decline due to change in taste and fashion, etc., or inadequacy of existing plant to meet the increased business.
- Depreciation is affected by obsolescence as it decreases the value of asset.

# Objectives of Providing Depreciation

- To ascertain the true and fair profits
- To show the asset at its proper value
- To make arrangement of funds for replacement of fixed asset
- Ascertaining accurate cost of production
- To comply with legal provisions
- To avail tax benefits



## Three main inputs are required to calculate depreciation:

- ▶ Useful life – this is the time period over which the organisation considers the fixed asset to be productive
- ▶ Salvage value – Post the useful life of the fixed asset, the company may consider selling it at a reduced amount.
- ▶ The cost of the asset – this includes taxes, shipping, and preparation/setup expenses.

# Methods of Providing or Allocating Depreciation

Important Methods:

- Straight Line Methods
- Written Down Value Method