Bank Charges Journal Entry: Meaning, Examples and Tally Entries

Banks charge money for various services. You need to write these deductions into your ledger books. This is referred to as bank charges journal entry. You do this entry whenever bank debit charges like ATM charges, SMS charges, cheque book charges or any other service charges are taken. When the bank charges you for any service, you debit the Bank Charge Account (as it is an expense) and credit the Bank Account (as the money goes out from your bank). This entry helps you update your books and reconcile your bank passbook with your books. Top accountants like to keep things simple, whether it explains concepts or problems.

In this article, you will learn what are bank charges, bank charges journal entry, bank charges journal entry in tally, bank charged interest journal entry and all such related entries. Moreover, you will learn how to record the journal entry bank charges through practical samples and what not to do.

What are Bank Charges?

Bank charges are the small amount that the bank cuts from your account against providing services. These charges are expenses. You must book them in your accounting ledgers so that all stays up to date and that you have a correct balance in your bank.

Bank Charges Meaning

One of the services that banks provide are a wide range of services. They also charge small fees for these. These are known as bank charges. They may charge you:

- For issuing cheque books
- Hold is released after normal transactions beyond ATM limits.
- For SMS alerts
- For not having minimum balance
- For processing cheques
- For DD or NEFT services

Your bank balance goes down each time the bank charges you. You're not to blame for these charges. But you still need to record them as expenses in your books.

Common Types of Bank Charges

- Account maintenance fee for each month
- Debit card annual fee
- Cheque returns charges
- SMS alert fees
- ATM transaction charges
- Charges applicable for fund transfer (NEFT/RTGS)

- Commission on demand drafts
- Interest on overdrafts
- All of these are expense charges. For all of these, you have to journal entries.
- Recording such charges aids in:
- Better tracking of expenses
- Accurate financial statements
- Clear bank reconciliation
- Easy audits and tax filing

What is Bank Charges Journal Entry?

You have to pass a journal entry when the bank deducts charges. This is referred to as the bank charges journal entry. It displays the deduction made by the bank and captures it as expense entry.

Journal Entry Format

Here follows the simple structure of this entry:

Bank Charges A/c Dr [Amount]

To Bank A/c [Amount]

You debit Bank Charges Charge because this is an expense. When the bank balance decreases, you are crediting the Bank Account.

Example:

Suppose the bank deducted ₹200 as service charges, then your journal entry will be:

Bank Charges A/c Dr ₹200

To Bank A/c ₹200

Write this entry in your journal or cash book.

This entry ensures:

- Your books line up with your bank statement
- You forget no deduction
- You call back every fee for service

Points to Remember

- Bank charges are part of indirect expenses.
- Debit the expense account

- At 1st the Journal Entry would be for Credit side (Bank Account)
- Ensure clarity by using appropriate narration
- Also, for personal acts, business accounts and for school/college exams.

Account	Type	Golden Rule of Accounting
Bank Charges	Nominal Account	Debit all Expenses & Losses and Credit all Incomes & gains
Bank	Real Account	Debit what comes in and Credit what goes out

Examples of Bank Charges Journal Entry

There are various charges which the bank charges for providing certain services to its customers. Now it's time to see several real examples. They help you know when you should use the journal entry.

Bank Charges Paid Journal Entry

When a customer takes a service from a bank and a certain charge is paid by such a person also requires passing of a journal entry. Let us assume that your bank charges ₹300 for cheque processing. You use this if when bank directly deducts the amount.

Bank Charges A/c Dr ₹300

To Bank A/c ₹300

This is a journal entry for payment of bank charges

Bank Charges Debited by Bank Journal Entry

If your bank statement includes deduction of ₹120 for SMS alert fees, then pass the following entry:

Bank Charges A/c Dr ₹120

To Bank A/c ₹120

Read this as bank charges debited by bank journal entry.

You write this entry after checking your passbook or bank statement.

Bank Charges Charged by Bank Journal Entry

The bank sometimes levies ₹500 as maintenance charges for a current account. Then the journal entry is:

Bank Charges A/c Dr ₹500

To Bank A/c ₹500

In this post, we will learn how to pass bank charges charged by bank journal entry.

The format (in all the above example) is same. Either way, the narration changes based on the rationale.

Bank Charged Interest Journal Interest

When anyone takes a loan from the bank, then the bank charges interest on a monthly basis on the principal amount. Such interest charged by the bank is also considered as bank charges. Banks provide loan facilities as overdrafts and charge interest on that. Interest like this is also a cost. You write this down under another account name.

Format:

Interest on Bank Overdraft A/c Dr ₹X

To Bank A/c ₹X

You refer to this when banking charges interest on overdraft. A bank charged interest journal entry is what this is referred to as.

Example:

If the bank levies ₹700 as interest on overdraft:

Interest on Bank Overdraft A/c Dr ₹700)

To Bank A/c ₹700

These are not covered by generic banking fees. But you still write it down the same way.

It helps you:

- Track your bank loan interest
- Steps to keep accurate records of expenses
- Understand your true bank liability

Bank Charge Commission Journal Entry

Banks sometimes even take a cut. Say when you raise a request for demand draft or foreign currency exchange. You address this charge separately. This is available in the "Commission" account.

Format:

Bank Commission A/c Dr ₹X

To Bank A/c ₹X

This is called a bank charge commission journal entry.

Example:

Bank levies ₹400 as DD commission.

Bank Commission A/c Dr ₹400

To Bank A/c ₹400

This entry distinguishes commission from regular charges. It also assists with reporting.

Dishonour of Cheque Journal Entry

There may be a case when cheque is deposited in the back it gets bounced. There are multiple reasons for a cheque to bounce. There can be wrong signatures, wrong entry of date and so on. When that happens, you reverse the original entry, and you record the charges as well.

Journal Entry:

If you received a bad cheque from a customer of ₹1,000:

Customer A/c Dr ₹1,000

To Bank A/c ₹1,000

Assuming the bank also charges ₹100 as a penalty:

Bank Charges A/c Dr ₹100

To Bank A/c ₹100

This is the dishonour of cheque journal entry.

You must record both:

- Reversal of receipt
- Penalty charged

This also ensures that your books are up to date.

Bank Charges Journal Entry in Tally

In Tally you can pass journal entries easily. In tally bank charges journal entry in tally may be done by using journal voucher. To record bank charges in tally, debit the expense ledger that is bank charges and credit the bank account. It basically shows the reduction in the bank balance due to the charges.

Steps in Tally:

- Go to Accounting Vouchers
- Press F7 for Journal
- Debit – Bank Charges A/c
- Credit – Bank A/c
- Enter amount and reason
- Save the voucher

Example:

A bank levies ₹250 for returning a cheque.

- Debit: Bank Charges A/c ₹250
- Narration: Being deducted cheque return charges

Make sure you:

- In Indirect Expenses, make Bank Charges A/c
- Use proper narration
- Regularly reconcile with bank statement

Tally makes life easy for businessmen and accountants. You can even generate reports and check ledgers whenever you want.

Summary Table for Bank Charges Journal Entry

Here is a table to quickly revise all entries:

Situation	Journal Entry
Service charges	Bank Charges A/c Dr → To Bank A/c
Interest on overdraft	Interest on OD A/c Dr → To Bank A/c
Commission charges	Bank Commission A/c Dr → To Bank A/c
Dishonoured cheque	Debtor A/c Dr → To Bank A/c
Cheque bounce charges	Bank Charges A/c Dr → To Bank A/c

Relevance to ACCA Syllabus

In ACCA, this is part of Financial Accounting (FA) and Financial Reporting (FR). Journal entry for bank charges, which is just one of many business expenses that ACCA students need to learn how to record on a daily basis. Also this is tested in audit, tax and bank reconciliation.

Bank Charges Journal Entry ACCA Questions

Q1: When recording a journal entry for bank charges which of the following accounts would you debit?

A. Bank Account

B. Cash Account

C. Bank Charges Account

D. Capital Account

Ans: C

Q2: How do bank charges enter the trial balance?

A. Increase in assets

B. Increase in liabilities

C. Increase in expenses

D. Increase in equity

Ans: C

Q3: When ₹200 is deducted by the bank for SMS alerts, which of the following is the correct journal entry?

A. Bank A/c Dr ₹200; To Cash A/c Dr ₹200.

B. Bank Charges A/c Dr ₹200; To Bank A/c

C. ₹200; To Bank Charges A/c Dr ₹200;

D. Bank A/c Dr 200; To Bank Charges A/c

Answer: B

Q4: In the financial statements, under what heading do bank charges fall?

A. Fixed assets

B. Revenue

C. Indirect expenses

D. Long-term liabilities

Ans: C

Q5: Suppose a cheque issued is got dishonored and bank charges ₹100, then what entry will be made?

Debit Debtor A/c XXXX You have credited the Debtor A/c with the amount but do not have a journal entry for the amount received.

B. Debtor A/c Dr ₹1000; To Bank A/c ₹1000

C. Bank Charges A/c Dr ₹100; To Bank A/c ₹100

D. No entry needed

Ans: C

Relevance to US CMA Syllabus

In regard to bank charges, they are covered under Part 1: Financial Planning, Performance and Analytics of the US CMA syllabus. Classifying and recording such expenses is crucial for monitoring internal control, cash flow, and analyzing financial statements.

Bank Charges Journal Entry US CMA Questions

Q1: The bank charges are recorded in the books as:

A. Income

B. Fixed Asset

C. Expense

D. Reserve

Answer: C

Q2: A CMA preparing a cash flow statement would classify bank charges as:

A. Investing activities

B. Financing activities

C. Operating activities

D. Deferred tax

Ans: C

Q3: What does Statement of Bank Charges Mean?

A. Variable cost

B. Non-operating income

C. Administrative expense

D. Capital expenditure

Ans: C

Q4: What is credited in the bank charges journal entry?

A. Expense occurred

B. Increase in liability

C. Decrease in bank balance

D. Increase in capital

Ans: C

Q5: What economic impact do bank fees have?

A. Increase net income

B. Reduce net income

C. Increase assets

D. No effect on income

Answer: B

Relevance to US CPA Syllabus

This is taught to CPA candidates under Financial Accounting and Reporting (FAR) and Auditing. Note- knowledge of journal entry of bank charges is very important while preparing bank reconciliations, Working paper for Audit & for Monthly closing adjustments.

Bank Charges Journal Entry US CPA Questions

Q1: Directly charged by the bank, the bank charges can be classified as:

A. Prepaid expenses

B. Liabilities

C. Operating expenses

D. Deferred revenue

Ans: C

Q2: In the reconciliation of the bank statement means where do you adjust the bank charges?

A. Add to bank balance

B. Deduct from book balance

C. Add to cash receipts

D. Ignore the charges

Answer: B

Q3: The treatment of bank charges is shown properly in CPA FAR Exam journal entry.

A. Dr Cash A/c; Cr Expense A/c

B. Expense A/c Dr; To Bank A/c

C. Accounts Payable A/c Dr; To Bank A/c

D. Bank A/c (Dr); To Expense A/c.

Ans: B

Q4: Foreign exchange bank charge commission entry

A. Financial income

B. Financing cost

C. Bank Commission Expense

D. Inventory

Ans: C

Q5: When the bank charges interest on the overdraft What is the accepted accounting treatment?

A. Debit to Bank A/c

B. Interest and Payment Charges A/c Debit

C. Credit to Cash A/c

D. No entry required

Ans: B

Relevance to CFA Syllabus

In CFA Level I, candidates are required to learn the overall structure of financial statements and also how to treat expenses such as any bank charges. This subject influences cash flows, net income, and accruals, being crucial for both equity analysis and valuation.

Bank Charges Journal Entry CFA Questions

Q1: Bank charges fall under the category of:

A. Non-recurring items

B. Operating expenses

C. Cost of sales

D. Depreciation

Ans: B

Q2: ₹1,000 was not recorded in bank charges by a firm. What is the result?

A. Overstated revenue

B. Understated net income

C. Overstated net income

D. Understated assets

Answer: C

Q3: What part of the cash flow statement are bank charges in?

A. Operating activities

B. Investing activities

C. Financing activities

D. Supplemental notes

Answer: A

Q4: What is the impact of bank charges on profitability statements?

A. Balance Sheet

B. Statement of Equity

C. Income Statement

D. Notes to Accounts

Ans: C

Q5: Which two accounts does bank charges affect financial accounting?

A. Bank A/c and Cash A/c

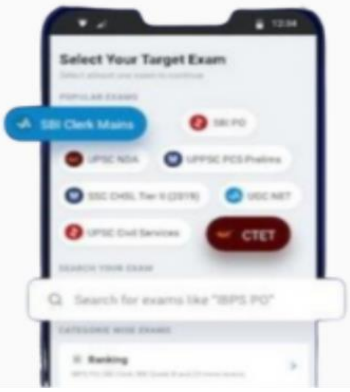
B. Bank A/c and Capital A/c

C. Bank Charges A/c and Bank A/c

D. Sales A/c and Profit A/c

Ans: C

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