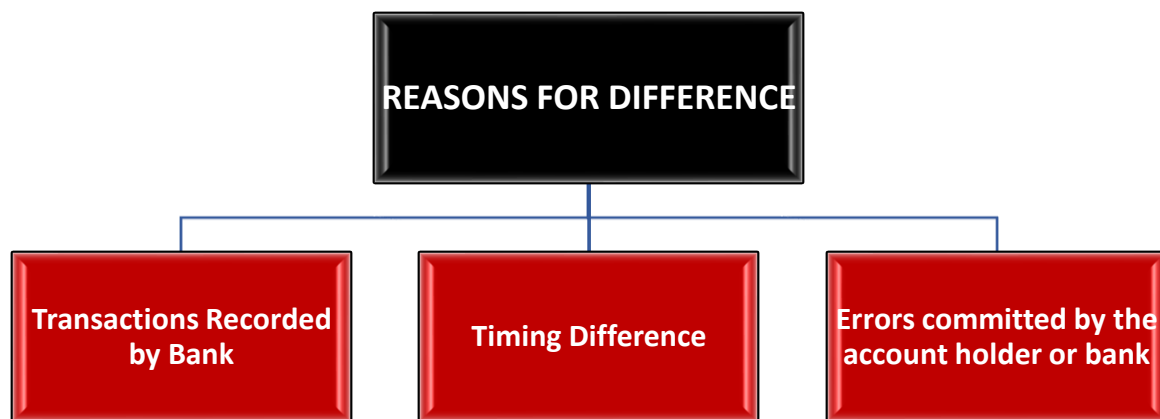


BANK RECONCILIATION STATEMENT



BANK RECONCILIATION STATEMENT

- BRS is a statement which is prepared **to reconcile the bank balance** as per **cash book** with the balance as per **bank passbook**.
- It **shows** those entries that **caused the differences between the two balances** at a particular point of time.



REASONS FOR DIFFERENCE

TRANSACTIONS RECORDED BY THE BANK

Interest credited by the bank

- The bank periodically **credits the account holder's account with interest** on the amount deposited by the account holder.
- The account holder is **unaware of any interest** that has been deposited, and interest is **not noted in the cashbook**.
- For the time being, the balance in the bank **pass book will be larger** than the balance in the cash book.

Interest and dividends collected by the bank

- Bank may be **assigned the task** to **collect interest and dividends on behalf of the account holder** and credits the same to account holder's account.
- But the account holder records it only when she/he **receives the bank statement**.
- For the time being, the balance in the bank **pass book will be larger than the balance in the cash book**

Bank charges and interest charged by the bank

- **Bank renders certain services** to its customers for which it charges an amount known as **bank charges or service charges**. Also, bank do **charges interest for providing overdraft facilities**.
- The account holder is **unaware of any bank charges and interest** charged by banks and **it is not noted in the cashbook**.
- For the time being, the balance in the bank **pass book will be smaller than the balance in the cash book**.

TIMING DIFFERENCES

Cheques deposited in the bank but not yet cleared

- The **cheques received from customers** are **recorded in the cash book** the same day we deposit it in the bank .
- Bank credits the **account holder's account only when it receives the payment from the other bank**.
- There is always a **time gap between the deposit of cheques and the credit given by the bank** and due to this gap differences arises.

Cheques issued but not yet presented for payment

- When a cheque is issued for **payment bank records the entry only when the cheque is presented to them for payment.**
- But in **Cash book** cheques are **recorded without any delay.**
- **Time gaps** between entries in the cash book and the bank passbook **lead to differences in balances.**

ERRORS COMMITTED BY THE BANK OR ACCOUNT HOLDER

There are always the chances for **some errors or omissions to occur on both the sides**, either by the **bank or account holder.**

Example:- a cheque of `40,000 deposited in the bank is recorded as `3,000 or `3, 00,00 in the cash book.

Q:1 Bank head balance shown by cash book is 80000 from the following information calculate Balance as per passbook.

Cheques issued 10000 but not presented, cheques deposited into bank but not realized 5000, interest credited by bank 10000, interest and dividend collected 5000, bank charges 10000 debited in passbook

BANK RECONCILIATION STATEMENT

Particulars	Plus	Minus
The bank head balance is shown by the cash book.	80000	
Cheques drawn but not presented		
Cheque deposited into bank but not realized		
Interest credited by the bank		
Interest and dividends collected		
Bank charges debited in the passbook.		
Balance as per Passbook		

Q:2 The overdraft balance in cash book is 80000 from the following information calculate balance as per passbook.

Cheques issued 10000 but not presented, cheques deposited into bank but not realized 5000, interest credited by bank 10000, interest and dividend collected 5000, bank charges 10000 debited in passbook

BANK RECONCILIATION STATEMENT

Particulars	Plus	Minus
The bank head balance is shown by the cash book.		
Cheques drawn but not presented		
Cheque deposited into bank but not realized		
Interest credited by the bank		
Interest and dividends collected		
Bank charges debited in the passbook.		
Balance as per Passbook		

The table below shows some of these items which are added to or deducted from the Cash Book debit balance to arrive at the Bank Statement or Bank Passbook balance.

Items	Cashbook Dr (CA)	Cashbook Cr (OD)	Passbook Cr (CA)	Passbook Dr (OD)
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Cheques/ cash/ any instrument deposited but not credited yet or dishonoured	(-)	(+)	(+)	(-)
Cheque issued but not presented or dishonoured	(+)	(-)	(-)	(+)
Direct Debits on Part of Bank	(-)	(+)	(+)	(-)
Direct Credits on Part of Bank	(+)	(-)	(-)	(+)

TRIAL BALANCE, RECTIFICATION OF ERRORS AND ADJUSTING & CLOSING ENTERIES

TRIAL BALANCE

- It is a **statement** that lists all the ledger balances of a company at a particular point in time.

- It is prepared to **ensure the accuracy of accounting** records and to identify any errors or discrepancies.
- The trail balance **includes two columns**, one for **debit balances** and the other for **credit balances**.

IMPORTANCE OF TRAIL BALANCE

- The primary purpose is to check the **mathematical accuracy of the accounting records**.
- It helps in **detecting errors**, such as recording transactions in the **wrong account or with the wrong amount**.
- It provides a **summary of all the ledger balances**, making it easier to **prepare financial statements**.

TRIAL BALANCE



Gross Trial Balance takes totals of debit and credit columns of each ledger account.



Net Trial Balance takes net balances of each account are drawn and shown in trial balance

DISAGREEMENT OF A TRIAL BALANCE

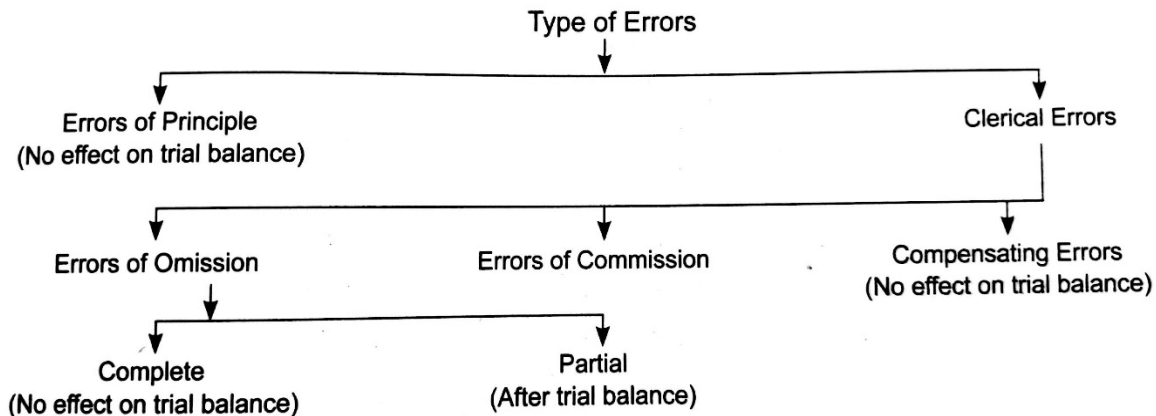
Trial balance is **prepared to verify arithmetical accuracy** of the transactions recorded in the books.

Under the **double entry system of book-keeping**, if all the transactions are **correctly recorded** through various books of prime entry, correctly posted there from to the ledger and if totaling is correct, then **only the trial balance should tally**.

But if there are a few mistakes committed by the persons entrusted with the work of Journalising and posting, **the trial balance will not tally.** ❌



CLASSIFICATION OF ERRORS



CLERICAL ERRORS

Mistakes made during the **process of recording financial transactions**, data entry, calculations, or reporting **are known as clerical errors**.

ERRORS OF OMISSION

An "**error of omission**" refers to a situation where a transaction, either **fully or partially, is not recorded in the books of account**.

Example: -Goods are purchased on credit from Mr. Ram. This transaction is not recorded in the purchase journal.

ERRORS OF OMISSION



Complete omission error occurs when a transaction is entirely left out or not recorded in the books of account



Partial omission error occurs when only a portion of the transaction is omitted or not recorded.

Note: - The error of **complete omission does not affect the trial balance**, but the partial omission will result in disagreement of trial balance.

ERRORS OF COMMISSION

An "**error of commission**" refers to a **mistake or incorrect entry made** during the recording or processing of financial transactions.

- Posting of correct amount but on the **wrong side**

- | |
|--|
| • Posting of a wrong amount but on the correct side |
| • Posting of a wrong amount on wrong side of an account |
| • Totaling error in subsidiary book , i.e., purchase journal, sales journal, returns journal or totaling error in any ledger account. |
| • A mistake committed in balancing of ledger account. |

COMPENSATING ERRORS

It refers to a situation in accounting **where two or more errors are made that offset each other's impact** resulting in a **balance or total that appears correct despite the presence of errors.**

ERRORS OF PRINCIPLE

Errors of principle occur when there is a **violation or deviation from accounting principles or guidelines** in the recording or presentation of financial transactions.

Example: -Wages paid for installation of machinery debited to wages account.

TYPES OF ERRORS THAT DO NOT AFFECT THE TRIAL BALANCE

- Error of complete omission
- Error of Commission
- Error of Principle
- Compensating Error

RECTIFICATION OF ERRORS

ONE-SIDED ERRORS

- This is an error that affects **only one side of the balance sheet equation**, either the **debit side or the credit side**.
- This type of error **causes an imbalance in the trial balance** and indicates that the total debits do not equal the total credits.
- When a one-sided **error cannot be immediately identified or rectified**, a common approach is to **temporarily record the correction in a "Suspense Account"**.

TWO-SIDED ERRORS

These errors occur when there are **inaccuracies in recording transactions or posting entries** that impact both the **debit and credit sides of the accounts**.

SUSPENSE ACCOUNT

After preparation of a trial balance, if there is a difference, it may be temporarily transferred to a new account called "**Suspense**".

- **Suspense account is a temporary account.**

RECTIFICATION OF ERRORS **WHEN BOOKS ARE CLOSED**

When **difference in trial balance remains even after applying various checks**, it is **carried forward to the balance sheet** on the appropriate side, as preparation of **final accounts cannot be delayed indefinitely**.

Personal accounts balances, i.e, those of customers and suppliers are carried forward to the next year.

*But nominal accounts (expenses and incomes accounts) are **always closed by transferring these to trading and profit and loss accounts.***

Any difference located in nominal accounts in the next year cannot be adjusted to the nominal accounts, as **this will affect current year's profit and loss.**

Therefore, a new account **'Profit and Loss Adjustment account'** will be opened to rectify the errors in nominal account. The balance in this account is then directly transferred to capital account.