Preparation of Bank Reconciliation Statement

Have you ever noticed a situation where the balances appearing in the passbook and cash book of a company or a firm, do not match? If so, you would have encountered a classic example of a condition which indicates the necessity for preparing a Bank Reconciliation Statement.

A BRS helps in devising target reasons and amounts with which a passbook and cash book might not tally. A firm or a company which has the habit of preparing regular Bank Reconciliation Statement finds itself in a better financial position. Let us see what a bank reconciliation is and understand its preparation.

The Meaning of a Bank Reconciliation Statement (BRS)
Every entity has to prepare a bank reconciliation statement. This statement indicates the differences between the passbook and the cash book of the entity. By reconciling the differences that exist between the two, a Bank Reconciliation Statement helps in arriving at the exact value of the amount of bank balance held on a particular date.

It is quite important to prepare such a statement for reconciliation for any reason that might lead to a difference in the value of passbook and cash book balance.

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- Need for Reconciliation

**Preparation of a Bank Reconciliation Statement**

Preparing a Bank Reconciliation Statement is quite simple. At first, it can appear quite cumbersome and tedious to prepare the statement but in reality, all it needs is a little time and patience. Before preparing the Bank Reconciliation Statement, an accountant should have access to all the relevant values related to the cash book and pass book.
Thus, an accountant can start reconciling the differences in the cash book and passbook by taking the balance available in either. After this, the accountant’s job is to find out all the entries or transactions that are giving rise to a difference in the balance of passbook and cash book. By giving effect to the nature of such entries, the accountant would have to add or subtract the amount of such entry from the initial balance of the passbook or cash book.

By doing so, he will be able to arrive at the value of balance in the other book. This balance is imperative to arrive at, for the purpose of preparing the accounts.

Reasons for Differences in Balances of Cashbook and Passbook

The passbook and cash book of an entity may not show the exact balance of the bank on a given date. This difference mainly arises due to a few reasons. The correction of these reasons helps us arrive at the proper bank balance. One of the main reasons for the difference in the two balances is the time lag between the recording of a transaction in the bank passbook and the cash book.

Consider a situation where a cheque goes to the bank for deposit. It would get recorded in the cash book right away as an entry for deposit.
of a cheque but when it comes to the passbook, there may be a delay in the date on which the cheque is actually deposited in the bank. Also, the time that it takes to clear the cheque may give rise to a condition when the amount deposited may reflect at a later date than the date on which entry in the cash book comes.

Hence, on the preparation of a Bank Reconciliation Statement in the interim, there will be a difference in the amounts of bank balances between the two books. Similarly, where you deposit or withdraw a certain amount from the bank, the same entry gets recorded promptly in the cash book but take time to reflect in the passbook. Hence, it becomes another reason why the cash book and passbook may not tally.

Is it Mandatory to Maintain a BRS?
As per the laws, preparation of a Bank Reconciliation Statement is not mandatory. Hence, whether to maintain it or not, is a decision of the accounting department of the entity.

Solved Question for You
Question: Give an example of various reasons which will cast a difference in the bank balance in cash book and passbook.

Answer: One example is Entries relating to interest earned and bank charges. Transactions get immediately recorded in the passbook of the bank in such cases. However, the same gets recorded in the cash book of the entity only when the bank statement comes to the accounting personnel of the entity. Here, the balance isn’t equal in the cash book and passbook.

This happens because of the difference that was seen in the bank balance. As a result, a difference comes in the balances of cash book and passbook. For elimination of balance, a BRS comes in handy.

**Need for Reconciliation**

Maintaining the accounts of any firm is a tedious job that requires the supervision of a trained and experienced accountant. When preparing the accounts of any individual or firm, one of the essential steps undertaken in the preparation of a bank reconciliation statement.
While many contemplate the need for reconciliation, understand that its preparation is imperative, so as to arrive at the correct bank balances in the books of the firm and the bank itself. This is why, while preparing the accounts of any firm or an individual, an accountant will make sure that he prepares a bank reconciliation statement.

**What is a Bank Reconciliation Statement?**

Vital to the preparation of the accounts of any individual or firm, a bank reconciliation is a preliminary and definitive step towards determining the accuracy of bank balance, stated in the pass book and cash book. When an accountant prepares a bank reconciliation
statement, it helps in ensuring no discrepancy remains with respect to the bank balances appearing in the books of the individual and firm.

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● Preparation of Bank Reconciliation Statement

**Need for Preparing a Bank Reconciliation Statement**

Among other reasons, enlisted below are some of the most important reasons why it is important to prepare a bank reconciliation statement:

**Accuracy**

Each month, the passbook of the bank and the cash book of a firm, display a particular amount, which is the balance in the bank as on that date. However, due to delay in the recording time and period of the same in the respective books, there is a high possibility that on the day of comparison the balances in the two books, would not match.

Hence, having prepared a bank reconciliation statement, one can determine the reasons and amounts by which the two balances differ. This analysis would further help the accountant in recording the
missing amounts in each book. Hence, after the preparation of a bank reconciliation statement, the books of accounts would actually display a true and fair position of the firm.

Check on the Entries
In the process of preparing a bank reconciliation statement, an accountant will be able to point out all entries or amounts, recorded incorrectly in either of the books. Thus, it is quite useful to prepare a bank reconciliation statement, which would help in eliminating any entries recorded erroneously.

Rectifying Incorrect Entries
In case an amount or entry has been recorded incorrectly in both, the passbook and the cash book, the accountant will be able to rectify those entries, so as to arrive at the amount of correct bank balance in the passbook and the cash book.

Updated Cash Book
Again, due to the irregularity in posting amount of entries in the cash book and due to the delays in the recording of such amounts, it is quite possible that the cash book would fail to show the updated balance of bank as on a particular date. When compared with the passbook, an
accountant would be able to identify such entries and record them in the cash book instantly. This would help in reconciling the balances of both the cash book and the bank book instantly.

Detection of Delays
Due to the preparation of bank reconciliation statement, it is possible to discover any amount of cheques that gets deposited in the bank but have aren’t credited. This difference would be evident because the amount of such deposit would appear in the cash book but not in the bank book, hence giving rise to a difference in the bank balance of both. Thus, cheques deposited but not yet collected can come to notice quickly.

Check on the Dishonest Behavior of Employees
Preparation of regular bank reconciliation statement has several benefits. It would act as a moral check on employees so that they do not indulge in the embezzlement of bank cheques, which would ultimately cause loss to the firm. This is so because even a low-value cheque can come in detection if it has been accepted but not deposited. In this way, a bank reconciliation statement serves a large purpose for a firm’s accounting cycle and people.
Solved Question for You

Question: Is it mandatory for a firm or an individual to prepare a bank reconciliation statement?

Answer: Although bank reconciliation statement serves a very important purpose in a firm, it is not mandatory to prepare as it has not been directed so by any act or legislation, in relation to companies or firms. Preparing and maintaining a bank reconciliation statement is completely voluntary and highly appreciated, owing to the benefits that accrue to the firm in the short and long run. Therefore, in case a firm finds that it is difficult for them to employ the accounting personnel to make such statement, it can avoid doing so.