**Intro and importance**

To keep a record of business transactions, a Bank Reconciliation Statement (BRS) comes into play. BRS is a statement which records differences between the bank statement and general ledger. The amount specified in the bank statement issued by the bank and the amount recorded in organization's accounting book maintained by Chartered Accountant might differ. A BRS checks entries on a monthly basis to avoid any future discrepancy. A BRS means matching records for a cash account entries corresponding to the bank statement. BRS checks the dissimilarity found between the two and makes appropriate changes.

**Overview**

A bank reconciliation statement is a summary of business activity that reconciles financial details. It ensures that payments have been processed and money has been deposited in the same date. An accountant prepares the reconciliation statement once a month.



The bank prepares a bank statement including cash deposits and withdrawals for a month. Whereas, accounting record book records the same entries by the hands of the accountant. Due to the difference in publishing firms, errors might creep in. Bank reconciliation helps in substituting those differences. In simple words, to eradicate two different versions of the same document.

**How can a bank statement differ from the company's ledger?**

* **Cheque issued by the company not delivered for payment.**

Before the end of the month (i.e. time of BRS generation) if a company issues a cheque and it is not handed for payment, it would not be counted as debit amount. This might become a discrepancy.

* **Deposits entered in ledger but not stated in the bank statement.**

The depositor might submit some amount in his account. If the payment is not recorded in the bank statement, it will make a difference. Whereas a depositor will never forget to add an entry for the same.

* **Interest rates may differ.**

The interest rates differ from bank to bank. Ledger may contain entries with a slight difference in interest. Also, interests on some entries might out in ledger!

* **Service charges might not be applied properly.**

Banks provide various services to its users with applicable service charges. Like interest rates, service charges can be missed.

* **NSF Check might cause an error.**

NSF (Not Sufficient Funds) is a highlighted issue. Bank officials add money in beneficiary's account after receiving a cheque. If sufficient amount is not present in payee's account, it deducts the amount from beneficiary's account. The bank returns the cheque to the payee with NSF Check. The entry might be saved as an added amount and causes an error in the company's ledger.

**Easy steps to prepare BRS:**

* **Initial Check**

First of all, compare the records in the company's bank statement and ledger cash account. Check off records that match. Check whether all records in ledger clear the bank account statement. Reconciliation at this stage removes major faults.

* **Deposit Check**

Once the initial check is complete, mark all items remained in the ledger. Add any transit deposits accounted in ledgers that might not appear in the bank statement. Hence, the case of transit deposits occurs due to transactions made just before bank holidays or non-working hours.

Transit deposits are deposits that are currently in pending status and therefore, bank statement can't note them.

* **Interests earned**

Add the interests earned noting accurate interest rates. It applies only to interest-bearing accounts.

* **Bank errors**

After all, officials working in the bank are humans like us. They might mistakenly interchange entries for two different account statements. Or they might record wrong entries. Add or delete bank errors accordingly.

* **Outstanding Checks**

Deduct outstanding checks from overall balance.

* **Check ledger errors**

A bank provides facilities for which it charges. Like transfer charges, account maintenance charges, late payment charges etc. Deduct bank service charges from the ledger.

* **Check Reconciliation**

Ledger may contain posting a payment that didn't reach completion. Make necessary amendments. Check it carefully before adding in the bank statement.

* **Equate Final Balance**

The overall balance must match to finalize reconciliation.

* **Journal Entries**

As a part of this process, you might require to prepare some journal entries to correct errors. These errors are those which interrupt during bank statement and general ledger comparison.

**Why is it necessary to reconcile?**

There's no point in saying that banks aren't trustworthy. But there is no harm in double-checking the bank statements with ledgers. After all, bank accounts hold our assets. Segregation of duties makes it possible to rectify errors at a better speed. Hence, identification and correction of errors are necessary. Neither bank nor you would like to meet a loss. Reconciliation also assists in monitoring the flow of cash in a business.

**When can we request a Reconciliation?**

Usually, a general schedule suggests a monthly reconciliation. For example, you are handling a large scale business with transactions over 50 in a week. Cash accounts require some reconciliation schedule. A reconciliation can occur in 15 days or weekly.

**Conclusion**

BRS proves to be a useful tool in fixing irrelevant faults in bank statements. Bank statements are useful in huge transactions and in making Income Tax Return (ITR) statements. We can call it a basic medium of operation in banking. If basic is not justified, unidentified problems arise with further documents. Reconciliation makes the bank statement error-free and clears additional charges. Therefore, before closing the accounting chapter in the banking book, reconciliation checks whether the closing page hits green light i.e. ending is correct and safe.

**Solved Questions for You**

**Question**: Who prepares the Bank Reconciliation Statement for private firms?

**Answer**: Private firms certainly have their own CA appointed to handle business issues and payments. Therefore, he does so when the bank statement arrives for the business account every month.

**Question:** Which accounts should be reconciled monthly?

**Answer:** Like passbook needs updating, similarly, it is mandatory to reconcile data to avoid future discrepancies. But it is up to you to further look into the matter. However, certain accounts need reconciliation monthly: Cash accounts, prepaid expenses, payroll liabilities, inventory account, loans and debt accounts.