

BRS AND ERRORS

The transactions between us and bank are recorded both by us and bank. We recorded it in our cash book (Triple column cash book) or in case of small concern separately in bank account. Bank records in our name and a copy is given to us which is practically called Bank pass book.

Therefore, the balance in both cash book and pass book should agree or match as the same transactions are recorded in two different books by different parties. In case of any differences between the two, it should be analysed and the reasons for differences should be listed out in a statement which is technically called Bank Reconciliation statement.

In **our books** the balance are normally **debit (favourable balance)** and in the books of **bank** it should be **credit**. If the balance in **our book** is **credit (un-favourable balance)** in the **bank book** it is **debit (overdraft)**.

BRS is prepared by us (by the business) not by bank and it is only a statement and not an account, which can be prepared whenever required (not necessary for a year/six months/ three months/ monthly). The job of BRS is just to list out the reason for difference and not to correct mistakes if any.

Reasons for difference:

The reasons for difference between our account and bank statement of account can broadly classified into 1] Timing difference 2] difference due to errors and 3] direct transactions and they are

- A] Cheques issued but not presented for payment by customers
- B] Cheques deposited by us but not credited by bank
- C] Incomes (interest/dividend, etc.) collected by the bank directly
- D] Expenses paid on behalf of us / interest debited by the bank automatically
- E] Bills collected by bank or discounted bills dishonoured
- F] Errors/mistakes committed by us or by bank.

Method of preparing BRS:

1] BRS without adjusted cash book

As you are comparing Balance as per cash book and pass book, you can either start with balance with cash book which ends with balance as per pass book or vice versa. In between you have to list the reason for differences.

2] BRS after adjusted cash book

All errors and mistakes in the cash book adjusted or corrected and the adjusted balance is considered as the starting point for preparing BRS. Here the adjustment required only for the mistakes in the pass book.

Problem No.1 on 30th September, the cash book of Vignesh showed a balance of Rs.4000/-. An examination of the cash book and Bank statement reveals the following:

Cheques of Rs.500 issued to creditors were not presented for payment

A cheque of Rs. 8200 deposited on 29th September not yet credited

A cheque issued for Rs.750 has been dishonoured but not recorded in CB

Cheque deposited before 30th September but not yet cleared

A payment by cheque for Rs.150 has been entered twice in the CB

A dividend of Rs.350 received by the bank directly not recorded in CB

On 29th September the bank credited an amount of Rs.1750 received from a customer but not intimated to Vignesh

Bank charges amounting to Rs.50 not entered in cash book

On 16/09 the bank credited Rs.2000 to Vignesh account erroneously

A bill for Rs.1000 discounted by Vignesh with his bank, the bill dishonoured on 29th September but no entry made in cash book

Cheques issued upto 30th September but not presented upto date amounted to Rs.3750

You are required to prepare a Bank Reconciliation Statement on 30th September.

Q1] the difference in the balances of both cash book and pass book can be because of

- A] Errors in recording the entries either in the cash book or pass book
- B] Same entry recorded in either of the book earlier and the other later
- C] Debit balance of cash book is the credit balance of pass book
- D] Both a and b

Q2] Direct payment to the third party on behalf of the account holder is entered in the cash book

- A] When the amount is paid by bank
- B] when entry is posted in the pass Book
- C] When the amount is paid by the bank
- D] when customer informs

Q3] when Bank Reconciliation statement is prepared

- A] Before preparing final account
- B] at the end of the year
- C] As and when required
- D] within three months period

Q4] when money is withdrawn from Bank, the bank

- A] Debit customer account
- B] credit customer account
- C] Credit and debit customer account
- D] none of the above

Q5] Sarvesh a customer of vijay deposited Rs.10000 directly in his Bank account for this Sarvesh will debit the account of

- A] Sarvesh
- B] cash
- C] Vijay
- D] none of these

Q6] the balance of pass book shows

- A] net income
- B] cash in hand
- C] cash at bank
- D] total sales

Q7] credit balance in the cash book means

- A] favourable balance
- B] overdraft
- C] Either a or b
- D] Neither a or b

Q8] Favourable balance as per cash book means

- A] Credit balance in the bank column of cash book
- B] Debit balance in the bank column of cash book
- C] Overdraft as per pass book
- D] debit balance in the pass book

Q9] which one of these prepare Bank Reconciliation statement?

- A] Business enterprises
- B] Statutory auditors
- C] Reserve bank of India
- D] the bank in which accounts maintained

Q10] Bank account is a

- A] intangible real account
- B] nominal account
- C] personal account
- D] none

Q11] in the trial balance, which of these bank balance are shown?

- A] Balance as per cash book B] balance as per pass book
C] as certified by the auditor D] as certified by accounts manager

Q12] unfavourable balance as per bank pass book means which of these

- A] Bank overdraft B] debit balance in pass book
C] Credit balance in the pass book D] both a and b

Q13] when debit balance as per cash book is the starting point, un-presented cheques are

- A] Added B] Subtracted C] first add then subtract D] no effect

Q14] when credit balance as per pass book is the starting point, bank charges

- A]Subtracted B] Added C] first add then subtract D] no effect

Q15]if you start with overdraft as per cash book, then interest debited in pass book but not in cash within period is

- A] Deducted B] Added C] No adjustment D] none of the above

Q16]a trader issued cheques worth Rs.7800 out of which cheques worth Rs.6500 only presented into bank. The amount to be added while reconciling the cash book with the pass book, will be

- A] Rs.14300 B] Rs.7800 C] Rs.6500 D] Rs.1300

Q17] the bank pass book shows Rs.3600 which doesn't agree with cash book. The reasons are the debit side of cash book was carried forwarded to the next page as Rs.1100 instead of Rs.1000. Similarly bills collected by the bank amounting to Rs.1500 were not recorded in the cash book. What would be the balance as per cash book?

- A] Rs.2000 B] Rs.2100 C] Rs.2200 D] Rs.3100

Q18] Debit balance as per cash book is Rs.1500. Cheques deposited but not cleared amounted to Rs.100 and cheques issued but not presented of Rs.150. The bank allowed interest amounting to Rs.50 and collected dividend Rs.50. Balance as per pass book should be

- A] Rs.1450 B] Rs.1600 C] Rs.1650 D] Rs. 1850

Q19]the cash book showed an overdraft of Rs.1500, but the pass book made upto date showed that cheques of Rs.100, Rs.50 and Rs.125 respectively had

not been presented for payments and cheques of Rs.400 paid into bank had not been cleared, the balance as per the pass book will be

- A] Rs.1625 B] Rs.2175 C] Rs.1100 D] Rs.1375

Q20] Bank overdraft as per trial balance is Rs.160000. Bank has allowed the customer to overdraw 80% of the hypothecated value of the stock. Hypothecation of stock has been done by the bank at 80% of the original value of closing stock. The amount of closing stock is

- A] Rs.200000 B] Rs.250000 C] Rs.102400 D] Rs.128000

Q21] Bank has credited interest Rs.200 and debited Rs.50 for commission in the pass book. In the BRS starting with pass book balance

- A] Rs.200 will be added to and Rs.50 will be deducted
 B] Rs.200 will be deducted to and Rs.50 will be added
 C] Rs.250 will be added D] Rs. 250 will be deducted

Q22] when overdraft as per pass book is the starting point, bank charges of Rs.100/- recorded twice in cash book will be

- A] Added by Rs.100 B] Added by Rs.200
 C] Deducted by Rs.100 D] Deducted by Rs.100

Q23] balance as per cash book is Rs.5000. Cheques issued but not presented for payment Rs.2000 and cheques sent for collection but not collected Rs.1500. The bank had wrongly debited the account of firm by Rs.20. Balance as per pass book will be

- A] Rs.5580 B] Rs. 4520 C] Rs.5480 D] Rs.5520

Q24] if we take balance as per pass book which of the following will be deducted to get balance as per cash book

- A] Interest charged by bank B] cheque deposited but not cleared
 C] Payment made by bank as per standing instruction D] interest given by bank

Q25] which one of these is true about a Bank Reconciliation statement?

- A] It is a part of memorandum statement B] It is a part of cash book
 C] It is a part of ledger D] It is a part of bank document

1] D	2] B	3] C	4] A	5] C	6] C	7] B	8] A	9] A	10] C
11] A	12] D	13] A	14] B	15] B	16] D	17] C	18] C	19] A	20] B
21] B	22] A	23] C	24]D	25] A					

ERRORS AND ITS RECTIFICATION

Errors broadly classified into two

Principle errors (A)

Clerical errors, these clerical errors further classified into

Errors of omission

Total omission (A)

Partial omission (B)

Errors of commission (A and B)

Compensating errors (A)

Type **A** errors doesn't affect the trial balance (Trial balance agree)

Type **B** errors affect the trial balance (Trial Balance doesn't agree)

Errors and its stages:

While the recording the transactions by passing journal entry

Possibility for all type of errors i.e. PE, EOO, EOC and CE

While preparing ledger accounts

Possibility of EOO and EOC – wrong posting in A/c, amount and side

While balancing the accounts

Wrong balancing of accounts, wrong totaling of accounts

While preparing the trial balance

Possibility for EOO, EOC - taking wrong account, amount and wrong side

Rectification of errors:

If the errors/mistakes found out **before preparing trial balance**, then errors of omission rectified by entering fresh, partial omission rectified by posting and errors of principle by passing rectification journal entry.

If the errors/ mistakes found out **before preparing final accounts but after preparing trial balance** – complete omission rectified by passing the entry. Partial omission by passing rectification entry or if the errors were not

found out, the difference will be posted in a separate account called **suspense account** and principle errors rectified by passing rectification entry.

If the errors/mistakes found out **after the preparing of final account-** complete omission by passing entry a fresh. Partial omission rectified by passing rectification entry in such a way that the suspense account should be closed.

If errors have impact on the profit and loss, such errors rectified by passing necessary entries by using **profit and loss adjustment account**.

Q1] unintentional omission or commission of amounts and accounts in the process of recording transactions are known as

- A] frauds B] Misinterpretation C] Errors D] none of the above

Q2] difference of totals of both credit and debit side of the trial balance is transferred to

- A] Trading account B] profit and loss account
C] Miscellaneous account D] suspense account

Q3] a suspense account facilitates the preparation of _____ even when the _____ has not tallied

- A] Financial statements, trial balance B] Ledgers, trial balance
C] Trial balance, financial statements D] Journal, trial balance

Q4] a trial balance will not tally if

- A] Correct journal entry is posted twice
B] Purchase on credit basis is debited to purchases and credited to cash
C] Rs.5000 cash payment to creditors is debited to creditors for Rs.500 and credited to cash as Rs.5000
D] None of the above

Q5] closing stock appearing the trail balance will be taken to

- A] Trading account only B] Balance sheet only
C] Profit and loss account only C] Trading account and balance sheet

D] Analyse, enter, post, adjust, prepare, close

Q19] cartage paid for newly purchased computer posted to cartage account

A] Errors of commission

B] Errors of omission

C] Errors of principle

D] Compensating errors

Q20] the equality of debits and credits can be tested periodically by preparing

A] Trial balance

B] Trading Account

C] ledger account

D] Balance sheet

1] C	2] D	3] A	4] C	5] B	6] B	7] C	8] A	9] D	10] B
11] C	12] A	13] C	14] B	15] B	16] D	17] A	18] D	19] C	20] A

Mr. Aswin closed his books of account on 31st March 2013 in spite of difference in the trial balance. The difference was Rs.830 the credit being short; it was carried forward in a suspense account. In 2013-14, the following were located

1] A sale of Rs.2300 to Abraham was posted to the credit of Abraham

2] The total of the returns inward book for July Rs.1240 was not posted

3] Freight paid on a machine Rs.5600 was posted to freight account Rs.6500

4] While carrying forward the total in the purchases account to the next page Rs.65590 written instead of Rs.56950

5] A sale of machine on credit to Mehta for Rs.9000 was not entered in the books at all. The book value of the machine was Rs.7500. The firm had the practice of writing off depreciation @ 10% on the balance at the end of the year.

Pass necessary rectification entries and close suspense account