

UNIT – 4

PREPARATION OF LEDGER, TRIAL BALANCE AND BANK RECONCILIATION STATEMENT

Unit at a Glance:

- Introduction
- Meaning and Importance of Ledger.
- Format of Ledger.
- Postings from Journal.
- Postings from Cash Book and other Subsidiary Books.
- Closing and Balancing of Ledger Accounts.
- Trial Balance - Meaning, objectives and Preparation.
- Meaning and importance of Suspense A/c.
- Bank Reconciliation Statement
- Generally students commits mistakes please avoid it
- Questions

“Ledger is a book which contains all accounts of the business enterprise whether Personal, Real or Nominal.”

INTRODUCTION

After recording the business transaction in the Journal or special purpose Subsidiary Books, the next step is to transfer the entries to the respective accounts in the Ledger. **Ledger is a book where all the transactions related to a particular account are collected at one place.**

LEDGER

Definition: The Ledger is the main or principal book of accounts in which all the business transactions would ultimately find their place under various accounts in a duly classified form.

According to **L.C. Cropper,** “**The book which contains a classified and permanent record of all the transactions of a business is called the ledger.**”

Points to be Remember:-

- **To know the collective effect of all the transactions pertaining to one particular account.**

By this classification / collective effect we are able to know the following –

- How much amount is due from each customer and how much amount the firm has to pay to each supplier/ creditor.
- The amount of Purchases and Sales during a particular period.
- Amount paid or received on account of various items.
- Ultimate position of Assets and Capital.

- For the preparation of Trial Balance which helps in ascertaining the Arithmetic Accuracy of the Accounts.

Points to be Remember:-

- Ledger is also called the Principal Book of Accounts

PERFORMA OF LEDGER

Dr.				Name of the Account				Cr.	
Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount		

- Each ledger account is divided into two equal parts.
 Left Hand Side--Debit side (Dr)
 Right Hand Side-- Credit side (Cr)

POSTING IN THE LEDGER

This will be dealt separately from Journal Entries and each Subsidiary Book.

Case I – Posting from Journal Entries.

- ❖ If an account is debited in the journal entry, the posting in the ledger should be made on the debit side of that particular account. In the particular column the name of the other account (which has been credited in the Journal entry) should be written for reference.
- ❖ For the A/c credited in the Journal entry, the posting in the ledger should be made on the credit side of that particular A/c. In the particulars column, the name of the other account that has been debited (in the Journal entry) is written for reference.

Points to be Remember:-

- ‘To’ is written before the A/c s which appear on the debit side of ledger.
- “By” is written before the A/c s appearing on the credit side.
- Use of these words ‘To’ and ‘By’ is optional.

1: Simple Journal Entry.

On 1st August 2011, goods are sold for cash Rs. 2,000.

SOLUTION –

Journal Entry:-

Cash A/c Dr.	2,000	--
To Sales A/c	--	2,000
(for cash sales)		

Ledger A/c:-

Cash A/c (extract)

Dr				Cr			
Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.
2011 Aug.1	To sales A/c		2,000				

Sales A/c (extract)

Date	Particulars	J.F	Rs.	Date	Particulars	J.F	Rs.
2011				Aug.1	By Cash A/c		2,000

Example 2: Compound Journal Entry.

Received Rs.14,500 in full settlement of a debt of Rs. 15,000 from Ram on Aug 8, 2011.

SOLUTION - Journal Entry

	Rs.	Rs.
Cash A/c Dr.	14,500	
Discount allowed A/c Dr	500	
To Ram		15,000
(Cash received and discount allowed)		

Ledger A/c

Cash A/c

Dr				Cr			
Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
2011 Aug.8	To Ram		14,500				

Discount Allowed A/c

Dr				Cr			
Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
2011 Aug.8	To Ram		500				

Dr **Ram's Account** **Cr**

Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
				2011			
				Aug. 8	By cash A/c		14,500
					By Discount Allowed A/c		500

Case II. - Ledger Postings from Cash Book

➤ **Important Points**

- (1) Cash Book itself serves as a cash A/c also, therefore when cash book is maintained, cash A/c is not opened in the ledger.
- (2) When Bank column is maintained in the Cash Book, Bank A/c is also not opened in the ledger. The Bank column itself serves the purpose of Bank A/c.
- (3) Opening and closing balances of Cash Book will not be entered in the ledger anywhere.
- (4) As Cash Book serves the purpose of Cash/Bank A/c, it means that, only the second A/c (other than Cash A/c or Bank A/c) is to be opened in the ledger and posting is to be made for each entry in the Cash Book.

➤ **Rules of Posting**

(a) Posting from the Debit Side of Cash Book

Entries appearing on the debit side of Cash Book are to be posted to the Credit Side of respective accounts in the Ledger by writing the words

‘By Cash A/c’ → if it is from the Cash Column

By Bank A/c → if it is from the Bank column.

(b) Posting from the Credit Side of Cash Book

Entries appearing on the credit side of the Cash Book are to be posted to the Debit side of respective accounts in the ledger by writing the words.

‘To Cash A/c’ → if it is from the Cash Column

‘By Bank A/c’ → if it is from the Bank Column

(c) All contra entries marked ‘C’ are ignored while posting from the Cash Book to the Ledger because double aspect of such transactions is completed in the Cash Book itself.

Illustration: Given some Cash Book entries post there into ledger A/c

Date	Particulars	Vr.	L.F.	Cash	Bank	Date	Particulars	Vr.	L.F.	Cash	Bank
2011											
Jan 10	To Capital A/c			20,000	-	Jan,12	By Purchases A/c			5,000	-
Jan 15	To Cash A/c		C	-	10,000	Jan,15	By Bank A/c		C	10,000	-
Jan 22	To Sales A/c			3,000	-	Jan,25	By Sumit			-	4,500
Jan, 28	To Anil			-	2,900	Jan,31	By Balance C/d			8,000	8,400
				23,000	12,900					23,000	12,900

SOLUTION:

15th Jan. entry will not be posted (Contra Entry)
Closing Balance will not be posted in the ledger

Capital A/c

Dr				Cr			
Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
			Rs.				Rs.
				2011 Jan. 10	By Cash A/c		20,000

Sales A/c

Dr				Cr			
Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
				2011 Jan. 22	By Cash A/c		3,000

Anil's A/c

Dr				Cr			
Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
				2011 Jan. 28	By Bank A/c		2,900

Purchases A/c

Dr				Cr			
Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
2011 Jan. 12	To Cash A/c		5,000				

Sumit's A/c

Dr				Cr			
Date	Particulars	L.F	Rs.	Date	Particulars	L.F	Rs.
2011 Jan. 25	To Bank A/c		4,500				

Case III- Ledger posting from Purchases book

Journal Entry for Credit Purchases is

Purchases A/c Dr

To Supplier A/c

Therefore the rules of posting from Purchases Book are.

(1) The total of the Purchases book will be posted to the Debit side of Purchase A/c and the words “To Sundries as per Purchase Book” will be written in the particulars column.

(2) Each of the Supplier’s A/c will be Credited and the words. “By Purchases A/c” will be written in the particulars column.

Illustration:

Purchases Book

Date	Name of the Supplier	Inv. No.	L.F.	Details	Total Amount
2011				(Rs)	(Rs)
June 4	Sahil & Co.				10,000
June 14	Geeta Industries			20,000	
	Less Trade Discount 20%			(4,000)	16,000
June 26	Vijay & Co.			12,000	
	Less 20% Trade Discount			(2,400)	9,600
June 30	Purchases A/c Dr				35,600

SOLUTION: LEDGER A/C s

Purchases A/c

Dr

Cr

Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
2011			Rs.				Rs.
June 30	To Sundries as per Purchases Book		35,600				

Sahil & Co.

Dr

Cr

Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
			Rs.	2011			Rs.
				June 4	By Purchases A/c		10,000

Geeta Industries

Dr

Cr

Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
			Rs.	2011			Rs.
				June 14	By Purchases A/c		16,000

Dr				Vijay & Co.				Cr			
Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount				
			Rs.	2011 June 26	By Purchases A/c		Rs. 9,600				

Case IV- Ledger Postings from Sales Book

Journal Entry for Credit sales is

Customer A/c Dr.

To Sales A/c

Hence rules for posting from sales Book are

1. Total of the **Sales Book** will be posted to the **credit side** of **sales A/c** by writing the words "By Sundries as per Sales Book"
2. Customer's personal A/c s are **debited** by writing the words "**To Sales A/c**"

Case V- Ledger Postings from Purchase Return Book

Journal Entry for purchase Return is

Personal A/c of Supplier a/c Dr

To Purchase Return A/c.

Hence the **rules for posting** are.

1. Supplier's A/c (to whom the goods are returned) is **debited** by writing the words "To Purchase Return A/c"
2. The **total of the Purchases return Book** is **credited** to the Purchases Return A/c by writing the words "By Sundries as per Purchases Return Book".

Case VI - Ledger Postings of Sales Return Book

Journal Entry for the Sales Return is –

Sales Return A/c Dr

To Customer A/c

Hence the Rules for Posting are

- (1) **Individual Customer's A/C** s by whom the goods are returned are **credited by writing** the words "By Sales Return A/c".
- (2) The total of the **Sales Return Book** is posted to the **Debit of Sales Return A/c** by writing the words. "**To Sundries as per Sales Return Book**".

a. Ledger Postings from Bills Receivable Book.

Bills Receivable book shows the names of the persons from whom the Bills are received. Therefore the Journal Entry is

B / R A/c Dr.

To Personal A/c

Hence. (1) Posting will be done on the **Credit side of the Personal A/cs** by writing the words. “By Bills Receivable A/c”.

(2) **The total of the Bills Receivable Book** will be posted to the **debit side of Bills Receivable A/c** by writing the words “To Sundries as per Bills Receivable Book”.

b. Ledger Postings of Bills Payable Book

Bills payable is a liability, therefore the Journal Entry is

Personal A/c Dr
To Bills Payable A/c.

Hence the rules of Posting are

1. **Personal A/C s** will be **debited** by writing the words. “**To Bills Payable A/c**”.
2. Total of the Bills Payable Book will be posted to the **credit of Bills Payable A/c** by writing “**By Sundries as per Bills Payable Book**”.

Closing and Balancing of Accounts

Normally after every month or whenever a businessman is interested in knowing the position of various A/C s, the accounts are balanced. Various steps for this purpose are .

- (1) Debit and Credit sides of each A/c are totalled.
- (2) The **difference between the two sides is written** on the **side which is shorter** so as to make their totals equal.
- (3) The words “Balance C/d” i.e. the balance carried down and written against the amount of difference.
- (4) In the next period, the balance is brought down on the other side by writing the words ‘Balance b/d’.
- (5) If the **Debit side exceeds the Credit Side** the **difference** is a **Debit Balance** whereas.
- (6) If the **Credit side exceeds the Debit side** the **difference** is a **Credit Balance**.

➤ **GENERALLY STUDENTS COMMITS MISTAKES PLEASE AVOID :-**

1. Debit Balance of a Personal A/c means the person is a Debtor of the firm whereas Credit Balance of a Personal A/c indicates that the person is a Creditor of the firm.

2. Real A/c s (which include Cash and all other Assets A/c s) will usually show Debit Balances.

3. Nominal A/C s (A/c s of Income and Expenses) are transferred to **Trading and Profit and Loss A/c of the firm** at the end of the Accounting Period.

4. Debit Balance of any A/c means an **Asset** or an **Expense** whereas **Credit Balance** means a **liability, Capital or Income earned**.

TRIAL BALANCE

I Meaning – When posting of all the transactions into the Ledger is completed and accounts are balanced off, then the balance of each account is put on a list called Trial Balance.

II Definition – Trial Balance is the list of debit and credit balances taken out from ledger. “It also

includes the balances of Cash and bank taken from the Cash Book”.

III Preparation – Steps (Only Balance Method)

- (1) Ledger A/Cs which shows a debit balance is put on the Debit side of the trial balance.
- (2) The A/c's Showing credit balance are put on the Credit side of the Trial Balance.
- (3) Accounts which show no balance i.e. whose Debit and Credit totals are equal are not entered in Trial Balance.
- (4) Then the two sides of the Trial Balance are totaled. If they are equal it is assumed that there are no arithmetical error in the posting and balancing of Ledger A/cs.

Objectives or Functions of Trial Balance

- It helps in ascertaining the arithmetical accuracy of ledger accounts.
- Helps in locating errors.
- Provides the summary of Ledger A/cs.
- Helps in the preparation of Final A/cs.

Recording in the journal and subsidiary Books, Posting into the Ledger and Preparation of Trial Balance can be clearly understood with the help of the example given on next pages.

Illustration: Enter the following transactions in proper Subsidiary Books, post them into Ledger Accounts, balance the accounts and prepare a Trial Balance.

2011

- June 1. **Assets :** Cash in hand Rs. 20,000; **Debtors :** Amit and Co. Rs. 15,000, Sumit Bros. Rs. 30,000, Stock Rs. 1,75,000, Machinery Rs. 1,20,000, Furniture Rs. 40,000.
Liabilities : Bank overdraft Rs. 33,000, **Creditors :** Virat and Co. Rs. 24,000, Vishal Rs. 16,000.
- June 2 Purchased from Ramesh and Sons goods of the list price of Rs. 20,000 at 10% trade discount.
- June 5 Returned to Ramesh & Sons goods of the list price of Rs. 2,000.
- June 10 Issued a cheque to Ramesh and Sons in full settlement of their account.
- June 12 Sold to Amit and Co., goods worth Rs. 25,000.
- June 15 Received cash Rs. 10,000 and a cheque for Rs. 8,000 from Amit and Co. The cheque was immediately deposited into the bank.
- June 16 Withdrawn for personal use cash Rs. 5,000 and goods of Rs. 3,000.
- June 17 Accepted a bill for 45 days drawn by Virat and Co. for the amount due to him.
- June 18 Acceptance received from Sumit Bros. for the amount due from them payable after 30 days.
- June 19 Sold to Mohit Bros., goods for Rs. 16,000.
- June 20 Cash purchases Rs. 15,000.
- June 22 Withdrawn from bank for office use Rs. 10,000.
- June 23 Purchased from Vishal goods valued at Rs. 24,000.
- June 24 Amit and Co. returned goods worth Rs. 2,000.
- June 25 Received from Mohit Bros. Rs. 10,000.

June 27 Accepted a bill for Rs. 25,000 for 1 month draw by Vishal.
 June 27. Paid by cheque, Rent Rs. 2,800
 June 27 Received Commission in Cash Rs. 800
 June 30 Paid salaries Rs. 5,000.

SOLUTION:

Cash Book (with cash and Bank Columns)

Date	Receipt	L.F.	Cash Rs.	Bank Rs.	Date	Payments	L.F.	Cash Rs.	Bank Rs.
June 2011					June 2011				
1	*To Balance b/d		20000	--	1	*By Balance b/d		--	33000
15	To Amit & Co.		10000	8000	10	By Ramesh Son.		--	16200
22	*To Bank a/c	C	10000	--	16	By Drawings a/c		5000	--
25	To Mohit Bro.		10000	--	20	By Purchases a/c		15000	--
27	To Commission A/c		800	--	22	*By Cash a/c	C	--	10000
30	To Balance C/d		--	54000	27	By Rent a/c		--	2800
					30	By Salary a/c		5000	--
					30	By Balance c/d		25800	--
	Total		50800	62000		Total		50800	62000
July 1	To Balance b/d		25800		July 1	*By Balance b/d (Bank Overdraft)		--	54000

Notes :

1. Extras marked with will* not be posted anywhere in the ledger.
2. Closing Balances of Cash and Bank will be shown in the Trial Balance.
3. All other A/cs shown in the **Debit** side will be **credited** & All other A/cs shown in the Credit side will be debited.

Purchases Book

Date	Name of the Supplier (Account to be Credited)	Inv. No.	L.F.	Details Rs.	Total Amount Rs.
2011					
June 2	Ramesh & Sons			20,000	18,000
	Less Trade Discount 10%			2,000	
June 23	Vishal				24,000
June 30	Purchases A/c Dr				42,000

Sales Book

Date	Name of the Supplier (Account to be Debited)	In. No.	L.F	Details Rs.	Total Amount (Rs.
2011					
June 12	Amit & Co.				25,000
June 19	Mohit Bros.				16,000
June 30	Sales A/c Cr				41,000

Sales Return Book

Date	Name of the Customer (Account to be Credited)	Credit Note No.	L.F	Details Rs.	Total Amount Rs.
2011					
June 24	Amit & Co.				2,000
June 30	Sales Return A/c Dr				2,000

Purchases Return Book

Date	Name of the Supplier (Account to be Debited)	Debit Note No.	L.F	Details Rs.	Total Amount Rs.
2011					
June 5	Ramesh & Sons. Less Trade Discount 10%			2,000 200	1,800
June 30	Purchases Return A/c Cr				1,800

Bills Receivable Book

Date of Receipt	From whom received	Period of the bill	Due Date	L.F	Amount Rs.	How Disposed
2011						
June 18	Sumit Bros.	30 days	July 21		30,000	
June 30	Bill Receivable A/c Dr				30,000	

Ledger Accounts
Amit & Co.

Dr.				Cr.			
Date	Particulars	J.F	Amount (Rs)	Date	Particulars	J.F	Amount (Rs)
2011 June 1	To Balance b/d		15,000	2011 June 15	By Cash A/c		10,000
June 12	To Sales A/c		25,000	June 15	By Bank A/c		8,000
				June 24	By Sale Return A/c		2,000
				June 30	By Balance c/d		20,000
			40,000				40,000
July 1	To Balance b/d*		20,000				

Sumit Bros. A/c

Dr.				Cr.			
Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 1	To Balance b/d*		30,000	2011 June 18	By B/R. A/c		30,000

Stock Account

Dr.				Cr.			
Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 1	To Balance b/d*		1,75,000	2011			

Machinery A/c

Dr.				Cr.			
Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 1	To Balance b/d		1,20,000	2011 June 30	By Balance c/d		1,20,000
			1,20,000				1,20,000
July 1	To Balance b/d*		1,20,000				

Furniture A/c

Dr.

Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 1	To Balance b/d		40,000	2011 June 30	By Balance c/d		40,000
July 1	To Balance b/d		40,000				

Virat & Co.

Dr.

Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 17	To Bills Payable A/c		24,000	2011 June 1	By Balance b/d		24,000

Balance on June 30th is Nil in this A/c (Virat & Co.)**Vishal's A/c**

Dr.

Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 27	To Bills Payable A/c		25,000	2011 June 1	By Balance b/d		16,000
June 30	To Balance c/d		15,000	June 23	By Purchases A/c		24,000
			40,000				40,000
				July 1	By Balance b/d*		15,000

Capital A/c

Dr.

Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 30	To Balance c/d		3,27,000	2011 June 1	By Balance b/d		3,27,000
				July 1	By Balance b/d		3,27,000

Drawings A/c

Dr.

Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 16	To Cash A/c		5,000	2011 June 30	By Balance c/d		8,000
June 16	To Purchases A/c		3,000				
			8,000				
July 1	To Balance b/d*		8,000				

Ramesh & Sons

Dr.

Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011 June 5	To Purchase Return A/c		1,800	2011 June 2	By Puchase A/c		18,000
June 10	To Bank A/c		16,200				
			18,000				

Purchases A/c

Dr.

Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)		
2011 June 20	To Cash A/c		15,000 J	2011 June 16	By Drawings A/c		3,000		
June 30	To Sundries as per Purchases Book		42,000	June 30		By Balance c/d			54,000
			57,000						
July 1	To Balance b/d*		54,000						

Mohit Brothers A/c

Dr.

Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)		
2011 June 19	To Sales A/c		16,000	2011 June 25	By Cash A/c		10,000		
			16,000	June 30		By Balance c/d			6,000
July 1	To Balance b/d*		6,000						

Rent A/c

Dr.				Cr.			
Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011				2011			
June 27	To Bank A/c		2,800	June 30	By Balance c/d		2,800
June 30	To Balance b/d*		2,800				

Commission A/c

Dr.				Cr.			
Date	Particulars	J.F	Amount (Rs)	Date	Particulars	J.F	Amount (Rs)
2011				2011			
				June 27	By Cash A/c		800

Salaries A/c

Dr.				Cr.			
Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011				2011			
June 30	To Cash A/c		5,000				

Sales A/c

Dr.				Cr.			
Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
				2011			
				June 30	By Sundries as per Sales Book		41,000

Sales Return A/c

Dr.				Cr.			
Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
2011							
June 30	To Sundries as per Sales Return Book		2,000				

Purchase Return A/c

Dr.				Cr.			
Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
				2011 June 30	By Sundries as per Purchase Return Book		1,800

Dr. Bills Receivable A/c Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
June 30	To Sundries as per B/R Book		30,000	June 30	By Balance c/d		30,000
July 1	To Balance b/d*		30,000				

Dr. Bills Payable A/c Cr.

Date	Particular	J.F	Amount (Rs)	Date	Particular	J.F	Amount (Rs)
June 30	To Balance c/d		49,000	June 30	By Sundries as per B/P Book		49,000
				July 1	By Balance b/d*		49,000

**TRIAL BALANCE
as on 30th June, 2011**

Name of the Accounts	L.F	Debit Balances	Credit Balances
		(Rs)	(Rs)
Cash A/c		25,800	—
Bank (overdraft) A/c		—	54,000
Amit & Co.		20,000	—
Stock A/c		1,75,000	—
Machinery A/c		1,20,000	—
Furniture A/c		40,000	—
Vishal's A/c		—	15,000
Capital A/c		—	3,27,000
Drawings A/c		8,000	—
Purchases A/c		54,000	—
Mohit Brothers		6,000	—
Rent A/c		2,800	—
Commission A/c		—	800
Salaries A/c		5,000	—

Sales A/c		–	41,000
Sales Return A/c		2,000	–
Purchase Return A/c		–	1,800
Bills Receivable A/c		30,000	–
Bills Payable A/c			49,000
Total		4,88,600	4,88,600

SUSPENSE ACCOUNT

When Trial Balance does not agree, then first of all we try to locate the errors. Sometimes, in spite of the best efforts, all the errors are not located and the Trial Balance does not tally. Then in order to avoid delay in the preparation of final accounts, a new account is opened which is known “Suspense Account” Difference in Trial Balance is posted to this Account.

1. If there is <u>Excess Debit</u> in the Trial Balance	Difference is posted to the <u>Credit side</u> of Suspense A/c
2. If there is <u>Excess Credit</u> in the Trial Balance	Difference is posted to the <u>Debit side</u> of Suspense Account.

Illustration:

S. no.	Trial Balance		Difference (Rs.)	Posted to the Suspense A/c ? (Debit / Credit Side)
	Dr. Total (Rs)	Balance (Cr Total) (Rs)		
1.	2,25,000	2,16,500	8,500 (Excess Debit)	Credit Side of Suspense A/c.
2.	2,16,500	2,25,000	8,500 (Excess Credit)	Debit Side of Suspense A/c.

Closing of Suspense A/c :

- The errors which led to the difference still remains to have to be located.
- These errors will be rectified through Suspense A/c (One sided errors) which will be explained in the topic Rectification of Errors.
- **When all the errors are rectified, this Account closes down automatically. If the difference in Trial Balance persist, it is shown in the Balance Sheet.**

Points to be Remember:-

-
- (1) **Debit Balance of Suspense Account** is shown in the **Asset Side of the B/Sheet.**
 - (2) **Credit Balance of Suspense Account** is shown in the **Liability Side of the Balance Sheet.**

BANK RECONCILIATION STATEMENT

Unit at a Glance:

- Introduction
- Meaning of B.R.S.
- Causes of Differences in Bank Balance as per Cash Book and Pass Book.
- Importance of Bank Reconciliation Statement.
- Procedure of preparation of B.R.S.
- Preparation of Adjusted Cash Book.

INTRODUCTION

Usually all the firms open a current account with the bank as there are so many transactions and record these transactions in the Bank column of the Cash Book. Bank also maintains a separate ledger account of each firm (customer) and periodically supplies a copy of the account to the firm for information. This copy of the firm's Account supplied by the bank is known as Bank Statement or Bank Pass Book.

Since all the transactions with the bank are entered in both the books Cash Book and Pass Book, the balances of the two books should tally with each other. But usually the two balances don't tally.

Bank Reconciliation Statement is prepared to reconcile the difference between the Bank Balance shown by the Cash Book and Bank Pass Book.

DEFINITION

A schedule showing the items of difference between the bank statement and the bank column of Cash Book is known as Bank Reconciliation Statement.

CAUSES OF DIFFERENCES IN CASH BOOK AND PASS BOOK

The differences may be caused by either

- A. Time gap in recording transactions or
- B. Errors Committed in recording transactions.

(A) Differences Caused by the time gap:-

Reasons for the time gap in recording the transactions in the two books (Cash Book and Pass Book) are as given below –

- (1) Cheques issued but not yet presented for payment in the bank.
- (2) Cheques deposited or paid into the bank for collection but not yet credited by the bank.
- (3) Cheques deposited but dishonoured by the bank.
- (4) Interest allowed by the bank.
- (5) Interest on overdraft, bank charges, commission etc. charged by the bank.
- (6) Direct Deposit by the customers into the bank.
- (7) Interest, Dividend etc. collected by the bank.
- (8) Direct payments made by the bank on behalf of customer as per standing instruction.

(B) Differences caused by Errors Committed

Such errors may be of two types

(1) Errors committed by the firm

- (i) Cheques issued to some creditors but omitted to be recorded in the Cash Book or recorded twice.
- (ii) Cheques deposited into the bank omitted to be entered in the Cash Book or recorded twice.
- (iii) Error in totaling or balancing the bank column of the Cash Book.

(2) Errors committed by the bank

Sometimes bank records a wrong entry in the customer's account which causes a difference in the two balances.

NEED AND IMPORTANCE

- It helps in locating and rectifying the errors or omissions committed either by the firm or by the bank.
- Customer becomes sure of the correctness of the bank balance shown by the cash book.
- Facilitates the preparation of amended or revised Cash Book.
- Reduces the chances of fraud by the staff of the firm or bank.
- Helps in keeping a track of the cheques deposited for collection.

Procedure of Preparing Bank Reconciliation Statement

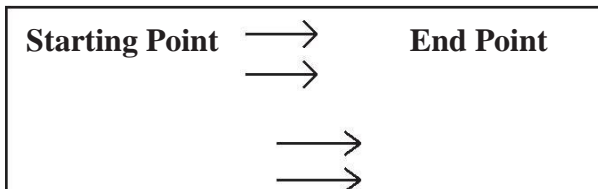
A Bank Reconciliation Statement is prepared when we get the duly completed Pass Book from the Bank. On receiving the Cash Book

- (1) First of all tally the Debit side entries of the cash book with the Credit side entries of the Pass Book and vice versa.
- (2) Tick the items appearing in both the books.
- (3) Un ticked items will be the points of differences.
- (4) A BRS is then prepared by taking either the balance as per Cash Book or Pass Book as a starting point.

Important Points to Remember:-

- (1) If the Starting point is Cash Book Balance then the ending point will be Pass Book Balance.
- (2) If the starting point is Pass Book Balance then the ending point will be the Balance as per Cash Book.
- (3) Debit Balance as per Cash Book or Credit Balance as per Pass Book, means that the firm has that much amount of deposited at the bank also called favorable balance write the amount under (+) item.
- (4) Credit Balance as per Cash Book or Debit Balance as per Pass Book, means that this much amount has been withdrawn in excess of deposit also called over-draft or unfavorable balance write the amount under (-) item.

Method of Preparing BRS Starting with by the Balance / overdraft as per Bank Column of Cash Book.



Cash Book		Pass Book
Less Balance	+ item	More Balance
More Balance	- item	Less Balance

Note : To get more from less means something is to be added therefore + item
& To get less from more, something is to be deducted therefore _ item.

1. First of all write

Under Plus Item – If the Cash Book Balance is debit or favorable or simple balance.

Under Minus Item – If the Credit Balance or overdraft as per Cash Book is given.

2. Now study the point of difference.

(a) If the entry is done in the Cash Book and not in the Pass Book then .

(i) if it is done on the debit side of Cash Book, Balance in the Cash Book will be more as compared to Pass Book and hence the item will be (-) item as shown in the box above.

(ii) where as if the entry is done on the Credit side of Cash Book, the Balance in the Cash Book will be less as compared to Pass Book and hence the item will be (+) item.

(b) If the entry is done in the Pass Book and not in the Cash Book then.

(i) if done on the Credit side of Pass Book –

Pass Book Balance is more as compared to Cash Book (-) item.

(ii) If it is done on the Debit side of Pass Book –

Pass Book Balance is less as compared to Cash Book → (-) item

3. At the end + items and – items are totaled.

(a) If total of Plus Items is more than the total of (-) items → Difference is Cr Balance or favorable balance as per Pass Book.

(b) Whereas if the – items total is more than the (+) items total → Difference is Dr Balance or overdraft as per Pass Book.

Ready Reference

(+) Items (Items which increases the Pass Book Balances or decreases the Cash Book Balance)

(1) Cheques issued but not yet presented.

(2) Credits made by the bank for Interest.

(3) Amount directly deposited by the customers in our bank A/c.

(4) Interest and dividend collected by the bank.

(5) Cheques paid into the bank but omitted to be recorded in the Cash Book.

(-) Items (Items which, decreases the Pass Book Balance or increase the Cash Book Balance)

1. Cheques sent to the bank for collection but not yet credited by the bank.

2. Cheques paid into the bank but dishonoured.

3. Direct payments made by the bank.

4. Bank charges, commission etc. debited by the bank.

5. Cheques issued but omitted to be recorded in the Cash Book.

Illustration: Balance as per Cash Book is given

Prepare BRS as on 31st July 2011

- (1) Balance as per Cash Book is Rs. 25,000 as on 31st July 2011.
- (2) Cheques for Rs. 15,000 were deposited into the Bank in the month of July but only cheques for Rs. 11,000 were credited by the bank till 31st July 2011.
- (3) Cheques issued for Rs. 13,000 in July, out of which a cheque for Rs. 3,800 was presented for payment on 3rd August.
- (4) Bank charged Rs. 50 as Bank charges and credited interest of Rs. 370.
- (5) A customer directly deposited Rs. 1,550 in firm's bank A/c.
- (6) Bank paid the Insurance Premium of Rs. 1,200 as per standing instructions on 25.07.2011.

SOLUTION:-

**Bank Reconciliation Statement
as on 31st July 2011**

Particulars	+ items (Rs.)	– items (Rs.)
(1) Balance as per Cash Book.	25,000	–
(2) Cheques deposited but not yet collected by the bank (15,000–11,000)	–	4,000
(3) Cheques issued but not yet presented for payment	3,800	–
(4) (a) Bank Charges	–	50
(b) Interest credited by the bank	370	–
(5) Directly deposited by the customers not recorded in the Cash Book	1,550	–
(6) Insurance Premium paid by the bank not recorded in Cash Book.	–	1,200
Total	30,720	5,250
Balance as per Book (30,720 – 5,250)	25,470	–

Explanation :

- (1) Balance per Cash Book means favourable Balance, hence + item. **If nothing b(i.e. Debit or Credit) is written with the Balance given, it is treated as favourable.**
- (2) Cheques were deposited into the bank for Rs. 15,000 but credited by the bank for Rs. 11,000 in the month of July, implies that cheques for Rs. 4,000 (15,000– 11,000) are entered in the Cash Book but not in the Pass Book increasing the Cash Book Balance by Rs. 4,000 as compared to Pass Book. Hence to get Pass Book Balance from the Cash Book Balance Rs. 4,000 will have to be deducted. – **item**

- (3) Cheque issued but not presented for payment till 31st July is for Rs. 3800 entered more on the credit side of Cash Book as compared to Pass Book.
Cash book Balance is less by Rs. 3800 as compared to Pass Book (+) item.
- (4) (a) Bank charges of Rs. 50 entered in the Pass Book decreases the Balance of Pass Book. To reach Pass Book Balance from Cash Book Balance, this item has to be deducted i.e. (-) item.
- (b) Interest credited by the Bank Rs. 370 entered in Pass Book increases the, balance of Pass Book, hence to search the Balance from cash book and this item is to be added (+) item.
- (5) Direct deposit by a customer Rs. 1,550 increases the Pass Book Balance (+) item
- (6) Payment made by the bank for insurance premium decreases the Pass Book Balance (-) item.
- (7) (+) items total Rs. 30,720 is more than (-) item total Rs. 5250 by Rs. 25,470. Hence the difference of Rs. 25,470 will be (+) item i.e. Favourable Balance or Cr. Balance as per Pass Book.

Illustration:-when overdraft as per Cash Book is given

- (1) Overdraft as per Cash Book is Rs. 10,500 on 30th June 2011.
- (2) Cheques deposited but not yet collected Rs. 2,000.
- (3) Cheques issued but not yet presented for payment of Rs. 2,800.
- (4) Bank charges of Rs. 50 and Interest on overdraft of Rs. 250 are charged by the bank.
- (5) A customer directly deposited Rs. 1,200 into the Bank.
- (6) Insurance Premium of Rs. 1,500 is paid by the bank as per standing instructions.
Prepare Bank Reconciliation Statement for the month of June 2011.

SOLUTION :

**Bank Reconciliation Statement
as on 30th June 2011**

Particulars	+ item (Rs.)	- item (Rs.)
(1) Overdraft as per Cash Book*	-	10,500
(2) Cheques deposited but not yet collected.	-	2,000
(3) Cheques issued but not yet presented for payment	2,800	-
(4) (a) Bank Charges	-	50
(b) Interest on overdraft charged by the bank.	-	250
(5) Directly deposited by a customer	1,200	-

in the bank.		
(6) Insurance Premium paid by the bank not entered in Cash Book.	–	1,500
Total	4,000	14,300
Overdraft as per Pass Book (14,300 – 4,000)	–	10,300

Overdraft means unfavorable balance or Negative Balance Hence put it under – item.

Explanation for all other items is similar as example 1 except the following.

- (1) Item No. 4 (b) – Interest on overdraft decreases the Pass Book Balance hence it is to be deducted from Cash Book Balance to reach at Pass Book Balance → item.
- (2) This time the total of (–) items Rs. 14,300 is more to the total of + item is Rs. 4,000 by Rs. 10,300.

Hence this is a (–) item or in other words overdraft as per Pass Book.

Case II – Starting with Pass Book Balance / overdraft.

Starting Point		Ending Point
Pass Book	→	Cash Book
Less Balance	+ item	More Balance
More Balance	– item	Less Balane

1. First of all write under

+ **Item** – If Cr Balance, favourable balance or Simply Balance as per Pass

Book is given.

(–) **Item** If Debit Balance or overdraft as per Pass Book is given.

2. Now study the point of difference between the Cash Book and Pass Book.

(a) If the entry is done in the Cash Book and not in the Pass Book then.

(i) If is done on the Debit side of Cash Book Balance in the Cash will be more as compared to Pass Book and hence the item is to be added in the Pass Book Balance to get the Cash Book Balance i.e. (+) item.

(ii) Where as if the entry is done on the Credit side of Cash Book Cash Book Balance will be less as compared to Pass Book hence (–) item

(b) If the entry is done in the Pass Book and not in the Cash Book then.

(i) if it is done on the Debit side of Pass Book Pass Book Balance is less as compared to Cash Book item is to be added in Pass Book Balance to get the Cash Book Balance + item.

(ii) if is done on the Credit side of Pass Book Pass Book Balance is more as compare to Cash Book item. (–) item

3. At the end + item and – item are totalled

(a) If total of (+) items is more than the total of (–) ⇒ Differences is favourable Balance or Debit Balance as per Cash Book .

(b) Where as if the total of (-) items is more than the total of + items ⇒ Difference is Dr Balance or overdraft as per Pass Book.

Difference is unfavourable or overdraft as per Cash Book.

Ready Reference

(+) Items [items which increases the Cash Book Balances or decreases the Pass Book Balance]

- 1) Cheques sent for collection to the bank but not yet credited / collected by the bank.
- 2) Cheques deposited into the bank but dishonoured.
- 3) Direct Payments made by the bank.
- 4) Bank charge, commission etc. debited by the bank.
- 5) Cheques issued but omitted to be recorded in the Cash Book.

(-) Item [Items which decreases the Cash Book Balance or increases the Pass Book Balance]

- (1) Cheques issued but not yet presented.
- (2) Credits made by the bank for interest.
- (3) Amount directly deposited by the customers into the Bank.
- (4) Interest and dividend collected by the Bank.
- (5) Cheques paid into the bank but omitted to be recorded in the Cash Book.

Illustration: Balance as per Pass Book is given

Given (1) Balance as per Pass Book is Rs. 25,470 Point No. (2) to (6) are same as given in example (1) Prepare B.R. Statement for the month of July 2011.

SOLUTION :

Bank Reconciliation Statement as on 31th July 2011

Particulars	+ item (Rs.)	- item (Rs.)
(1) Balance as per Pass Book (Cr)	25,470	–
(2) Cheques deposited but not yet collected by the Bank (15,000–11,000).	4,000	–
(3) Cheques issued but not yet presented for payment		3,800
(4) (a) Bank Charges	50	–
(b) Interest Credited by the Bank.	–	370
(5) Directly deposited by the customer not recorded in the Cash Book.	–	1,550
(6) Insurance Premium paid by the bank not recorded in Cash Book.	1,200	–
Total	30,720	5,720
Balance as per Cash Book (Dr) (30720-5720)	25,000	–

Important Points –

● Starting and Ending Points are reversed as compared to Example No. 1, Hence + items and (–) items are interchanged.

● Favourable balance whether of Cash Book or Pass Book is always a + item.

● If + items total is more than the – items total then the difference in the two totals is always a favourable balance.

● where as if + items total is less than the – items total then the difference in the two totals is overdraft.

Example:- 4 – Overdraft as per Pass Book is given.

Given that (1) Overdraft as per Pass Book is Rs. 10,300 Rest of the contents (points 2 to 6) are same as given in example No. 2

Prepare B.R. Statement for the month of June 2011.

SOLUTION**Bank Reconciliation Statement as on 30th June 2011**

Particulars	+ item (Rs.)	– item (Rs.)
(1) Overdraft as per Pass Book	–	10,300
(2) Cheques deposited but not yet collected or Credited by the Bank	2,000	–
(3) Cheques issued but not yet presented for payment	–	2,800
(4) (a) Bank Charges not entered in in Cash Book	50	–
(b) Interest on overdraft chargeg by the bank	250	–
(5) Directly deposited by a customer in the Bank	–	1,200
(6) Insurance Premium paid by the Bank	1,500	–
Total	3,800	14,300
Overdraft as per Cash Book (14,300–3,800)	–	10,500

Important Points –

1. Overdraft whether as per Cash Book or Pass Book is always a (–) items.

2. Starting and Ending points are interchanged as compared to Example No. 2, hence + items and (–) are also interchanged.

3. Here (–) items total is more as compared to (+) items total, therefore the difference in the two balance is a negative items i.e. overdraft as per Cash Book.

Amended Cash Book Method:-

Introduction : So far we have studied the preparation Bank Reconcillation State-ment simply by reconciling the causes of differences between the Cash Book and Pass Book. In actual practice adjustments are done in the Cash Book by comparing the Bank column of Cash Book with the Bank Statement and after that B.R. Statement is prepared. It is called Amended Cash Book Method.

Procedure

1) Adjusted Cash Book is prepared starting with the Balance of the Cash Book given in the question.

2) All errors that have been committed in the Cash Book will have to be rectified by passing adjusting entries in the Cash Book.

Usual or General Errors are

- (a) Overcasting or Undercasting of Debit / Credit Column of Cash Book.
 - (b) Cheques deposited or Issued but omitted to be entered in the Cash Book.
 - (c) Incorrect amount (if any) entered in the Cash Book.
 - (d) Entries on the incorrect side or in the wrong column of Cash Book. (e)
 - (e) Any amount recorded twice in the Cash Book.
- (3) Certain amounts for which Bank has debited our A/c will be recorded on the Credit side of Cash Book. Such items are
- (a) Interest charged by the bank on overdraft etc.
 - (b) Debits made by the bank for the bank charges, commission etc.
 - (c) Direct payments made by the Bank on behalf of the A/c holder.
 - (d) Cheques sent for collection but dishonoured by the bank.
- (4) Cash Book is then balanced and the new Balance of the Cash Book is taken as the Starting point for preparing the B.R. Statement.

Important:-

It should be noted that the following items must not be recorded in the Amended Cash Book.

1. Cheques deposited into the Bank but not yet credited by the bank.
2. Cheques Issued but yet not presented for payment.
3. Any wrong entry in the Pass Book.

Illustration:

The Cash Book of Mr. Sharma showed a balance of Rs. 3,560 as on 31st Dec. 2010 at the Bank where as Pass Book showed a balance of Rs. 4,230 Comparison of the Cash Book and Pass Book revealed the following.

- (1) The Bank has debited Mr. Sharma with Rs. 460, the annual premium of his life policy according to his standing instructions and Rs. 20 as Bank charges.
- (2) Mr. Sharma paid into the Bank cheques totaling Rs. 3,100 on Dec. 26th 2010 of which those for Rs. 2,500 were collected in December. One cheque for Rs. 200 was returned dishonoured on 2nd Jan. 2011.
- (3) The Bank has credited Mr. Sharma by Rs. 1,600, the proceeds of a bill.
- (4) Cash collected on 31st Dec. 2010 totaling Rs. 850 was entered in the Cash Book in the Bank column on the same date but banked on 2.1.2011.
- (5) Mr. Sharma issued cheques totaling Rs. 2,300 in the month of Dec. out of which cheques for Rs. 1000 have not been presented for payment till 31st Dec.

SOLUTION:-**Amended Cash Book (Bank Column only) as on 31st Dec. 2010**

Receipt side

Payment side

Particulars	(₹)	Particulars	(₹)
To Balance b/d	3,560	By Drawings	460
To B/R (Proceeds of a Bill)	1,600	By Bank charges	20
		By Balance c/d.	4,680
	5,160		5,160

Bank Reconciliation Statement
As on 31st Dec. 2010

Particulars	+ item	- item
	(Rs.)	(Rs.)
(1) Balance as per Adjusted Cash Book (Dr)	4,680	–
(2) Cheques paid into the Bank but not Credited by Dec. 31 st , 2010 (3100–2500)	–	600
(3) Cheques issued but not presented till date	1,000	–
(4) Cash collected entered in the Cash Book but not banked. till 31 st Dec.	–	850
Total	5,680	1,450
Balance as per Pass Book (Cr) (5680 – 1,450)	4,230	–

GENERALLY STUDENTS COMMIT MISTAKES PLEASE AVOID:

- Amended or adjusted Cash Book is started with the given balance of bank as per Cash Book.
- Closing Balance of the adjusted Cash Book is the opening balance of Bank Reconciliation statement.
- Entry for the dishonour of the cheques of Rs. 200 is not done.
 1. In the Cash Book as it was dishonoured after 31st Dec.
 2. In Bank Reconciliation Statement it is included in the adjustment (Rs. 3100– 2500)

QUESTIONS

Q.(1) Give journal entries of M/s Krutagna traders, Post them to the Ledger from the following transactions and prepare a Trial Balance :

April- 2012	Rs.
1. Commenced business with cash	1,10,000
2. Opened bank account with H.D.F.C.	50,000
3. Purchased furniture	20,000
7. Bought goods for cash from M/s Rupa Traders	30,000
8. Purchased good from M/s Hema Traders	42,000
10. Sold goods for cash	30,000
14. Sold goods on credit to M/s. Gupta Traders	12,000
16. Rent paid	4,000
18. Paid trade expenses	1,000
20. Received cash from Gupta Traders	12,000
22. Goods return to Hema Traders.	2,000
23. Cash paid to Hema Traders	40,000
25. Bought postage stamps	100
30. Paid salary to Rishabh	4,000

Q. (2) Journalise the following transactions in the Books of M/s Bhuj traders. Also post them in the ledger and prepare a Trial Balance.

May- 2012	Rs.
1. Started business with cash	2,00,000
2. Bought office furniture	30,000
3. Paid into bank to open a current account	1,00,000
5. Purchased a computer and paid by cheque	2,50,000
6. Bought goods on credit from Ritika	60,000
8. Cash sales	30,000
9. Sold goods to Krishna on credit	25,000
12. Cash paid to Mansi on account	30,000
14. Goods returned to Ritika	2,000
15. Stationery purchased for cash	3,000
16. Paid wages	1,000
18. Goods returned by Krishna	2,000
20. Cheque given to Ritika	28,000

Bank Reconciliation Statement

Q.(1) The cash book shows a bank balance of Rs. 7,800. On comparing the cash book with passbook the following discrepancies were noted :

- (a) Cheque deposited in bank but not credited Rs. 3,000
- (b) Cheque issued but not yet present for payment Rs. 1,500
- (c) Insurance premium paid by the bank Rs. 2,000
- (d) Bank interest credit by the bank Rs. 400
- (e) Bank charges Rs. 100
- (d) Directly deposited by a customer Rs. 4,000

(Ans: Balance as per passbook Rs. 8,600).

Q.(2) The passbook of Mr. Mohit current account showed a credit Balance of Rs. 20,000 on dated December 31, 2005. Prepare a Bank Reconciliation Statement with the following information.

(i) A cheque of Rs. 400 drawn on his saving account has been shown on current account.

(ii) He issued two cheques of Rs. 300 and Rs. 500 on of December 25, but only the first cheque was presented for payment.

(iii) One cheque issued by Mr. Mohit of Rs. 500 on December 25, but it was not presented for payment whereas it was recorded twice in the cash book.

(Ans: Balance as per cash book Rs. 18,900).

Q.(3) Prepare bank reconciliation statement.

(i) Overdraft shown as per cash book on December 31, 2005 Rs. 10,000.

(ii) Bank charges for the above period also debited in the passbook Rs. 100.

(iii) Interest on overdraft for six months ending December 31, 2005 Rs. 380 debited in the passbook.

(iv) Cheques issued but not in cashed prior to December 31, 2005 amounted to Rs. 2,150.

(v) Interest on Investment collected by the bank and credited in the passbook Rs. 600.

(vi) Cheques paid into bank but not cleared before December, 31 2005 were Rs.1,100.

(Ans: overdraft as per passbook Rs. 8,830).
