Bank Reconciliation Statement (BRS)

A bank reconciliation statement is a summary of banking and business activity that reconciles an entity's bank account with its financial records. The statement outlines the deposits, withdrawals and other activities affecting a bank account for a specific period. A bank reconciliation statement is a useful financial internal control tool used to thwart fraud.

For a successful business, BRS need to be prepared on a periodical basis for checking that bank related transactions are recorded properly in books of accounts because-

1. It makes accounts to be in good standing.

Keeping your account in good standing through bank reconciliation means that, when you are aware about the amount that you can spend in your account, you are less likely to overdraw the account, which means withdrawing or attempting to withdraw more money than what your account have. Keep in mind that overdrawing will negatively affect your credit score and can prompt the bank to charge you fees. While some financial institutions offer overdraft protection, most often they would charge you or your company a fee for using such a service. And if you do not have such type of protection on your account, you will suffer worse consequences.

2. It prevents theft.

As you are going to compare your bank book's transactions with the bank's financial transactions, you will be able to spot transactions that are recorded by the institution, but are not in your records. As you can see, recording bank fees is a standard practice as you process your reconciliation, though it might a transaction that you have overlooked to record. By examining further the available original documents, these discrepancies will be revealed. Most importantly, this will reveal bank transactions that were initiated by unauthorized individuals who try to steal money from your account.

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3. It will keep mistakes at bay.

You will know that a bank is reliable when it implements procedures to avoid making mistakes in your account, but unfortunately, mistakes do happen sometimes, with the most common being a simple entry error. Nevertheless, banks will be able to correct these mistakes when you point them out after you complete your reconciliation.

4. It helps you detect accounting errors.

By reconciliation, you will be able to detect accounting errors that commonly occurs in business, such as double payments, addition and subtraction errors, missed payments and lost checks. For example, if you have mistakenly recorded an invoice as "paid" on your ledger, bank reconciliation can reveal that you have forgotten to write the check. There are also cases where your bank committed an error in your favor, so you will be liable to return that money, even if you have already spent it.

5. It achieves accurate balance.

A bank reconciliation will reveal which cash transactions have been cleared with the bank and which of those are still outstanding. While a check is the most common form of transaction that would remain open at the end of the statement period, the bank may not clear it as of the ending date of the statement if you made a deposit at the end of the month.