

**Effective Bookkeeping and Payroll**

**Chapter 4 - Reconciliations**

**WORKBOOK**

## Purpose

Account reconciliations verify the accuracy of balance sheet accounts and ensure proper financial reporting.

- All General Ledger (G/L) balances must be supported by a detailed subsidiary ledger or other independent records.
  - ❖ System generated
  - ❖ Manually generated
- Any and all differences between the two must be evaluated, supported with documentation and adjusted on one of the two ledgers.

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## Accounts To Be Reconciled

All Balance Sheet accounts must be reconciled monthly

- ❖ Cash Accounts
- ❖ Investment (Short Term and Long Term) Accounts
- ❖ Accounts Receivable
- ❖ Inventory Accounts
- ❖ Property Plant and Equipment and related (CIP, Capitalized Interest) Accounts
- ❖ Accounts Payable/Received Not Billed Accounts
- ❖ Wages and Employee Benefit Accruals
- ❖ Notes Payable Accounts
- ❖ Stockholder Equity Accounts

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## Ownership & Accountability For Reconciliations

A Bookkeeper owns and is accountable to the reconciliations they prepare.

- Reconciliations must be accurate
- Reconciliations must be complete
- Proper adjustments must be made
- Never turn one in as complete until you understand and have disposed of every reconciling item

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## A Reconciliation is a Critical Internal Control

### Detective Control

- ☐ Detect errors for correction on a timely basis
- ☐ Reconciliation detects errors that may or may not flow through to the General Ledger
- ☐ Transactions not reaching the G/L that should or system errors
- ☐ Transactions done erroneously that generate wrong entries
- ☐ Improper adjustments that could be irregular

### Preventive Control

- ☐ Corrective action based on defined root cause will prevent future errors
- ☐ Human nature! People are more careful when someone is checking their work.

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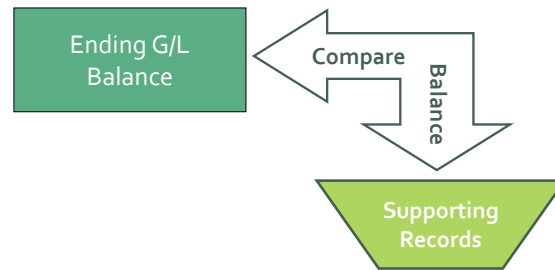
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## What is a Reconciliation

Account reconciliation is a comparison of the General Ledger Balance for an account to the supporting records.



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## Reconciliation

<u>Account Name</u>		
G/L account Balance as of ...	\$xxxxx	
-Reconciling Items	+/- xx	
<b>Reconciled G/L Balance</b>		\$XXXX
Subledger Balance as of ...	\$xxxxx	
-Reconciling Items	+/- xx	
<b>Reconciled Subledger Balance</b>		\$XXXX




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## “Reconciling Items” and Unreconciled Differences

**Reconciled differences** are *reconciling items* that we have researched, identified and understood.

- Be specific and descriptive, along with dates
- Adjustments should be made immediately

**Unreconciled differences** cannot be explained.

- Make adjustments no later than the month following the reconciliation

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## Bank Reconciliation Example

 <b>Nugget Mining Company</b> <b>Bank Reconciliation</b> <b>Denver National Bank, November, 30</b>			
Balance per bank statement (end of period)			\$22,190
Add:			
Deposit in transit	(1)	\$3,680	
Bank error incorrect check charged to account by bank	(7)	175	3,855
			26,045
Deduct: Outstanding checks	(2)		5,001
Correct cash balance			<u>\$21,044</u>
Balance per books			\$20,502
Add:			
Interest collected by the bank	(3)	\$600	
Error in recorded check #7322	(6)	180	780
			21,282
Deduct:			
Bank service charges	(4)	18	
NSF check returned	(5)	220	238
Correct cash balance			<u>\$21,044</u>

## Inventory Reconciliation Example

Erwin Auto OU1010 (BU 14)  
11400000 (03220000) Raw Materials Inventory  
31-Dec-07

Prepared by \_\_\_\_\_  
Date \_\_\_\_\_  
Approved by \_\_\_\_\_  
Date \_\_\_\_\_

	Aug-07	Sep-07	Oct-07	
Ending Balance Per PSSC Costed Inv	\$ 4,071,239	\$ 3,653,726	\$ 4,394,892	Subledger
OU1046 inventory	\$ (166,741)	\$ (164,223)	\$ (197,084)	
7761 Glass from Darville	\$ -	\$ -	\$ -	
Ramad 55783 rel 07027	\$ -	\$ -	\$ -	
*Beginning Balance error on ramad 55286	\$ -	\$ 3,197	\$ -	
*Beginning Balance error on ramad 30101	\$ -	\$ 496	\$ -	
Total Reconciled Ending Balance	\$ 3,904,498	\$ 3,493,196	\$ 4,197,808	
Ending Balance Per TB	\$ 3,904,495	\$ 3,493,191	\$ 4,197,808	General Ledger
Difference	\$ (3)	\$ (5)	\$ (0)	

Input linked from PSSC Costed Inventory

Input linked from Trial Balance

## Who Should Perform the Reconciliation?

### An individual who:

- ✓ Knows the content of the account
- ✓ Understands if a debit or credit increases/decreases the account
- ✓ Is familiar with normal activity for the account and how to verify it.
- ✓ Communicates with those who are responsible for the activity in the account.
- ✓ Knows the correct resource to research issues.

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## Exercise – Accounts Receivable Reconciliation

1. Should this account have a Debit or Credit Balance?
2. What normal entries affect this balance and what system do they come from?
3. What are common reconciling items and how do we resolve them?

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## Exercise – Accounts Receivable Reconciliation

1. Should this account have a Debit or Credit Balance? **Debit**
2. What normal entries affect this balance and what system do they come from? **New sales and payments from customers**
3. What are common reconciling items and how do we resolve them?

**Sales accruals at the end of the period**

**customer does not pay full balance and credit note is due**

**A/R transactions don't flow through to the G/L account**

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## Who Can Review a Reconciliation?

The Approver assigned to each account should be:

- ✓ An accountant or individual with knowledge of accounting
- ✓ Generally the supervisor of the reconciliation Preparer
- ✓ Have sufficient knowledge of the account, business and accounting to perform a thorough and effective review.

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## A Roll-forward Analysis

A **roll-forward** analysis is a common method used to verify the activity within a subledger account is accurate and complete and to trouble shoot an account that does not reconcile.

You should **NOT**:

- consider a roll-forward a reconciliation
- perform roll-forward on G/L balance, only subledger

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## Analytical Roll-forward

**Start** - Beginning Balance (Ending Balance from previous month) of subledger

**+/-** Add/Subtract  
account activity



Activity includes any typical or non-typical increases or decreases in the account. This is what we verify!

**End** - Ending Balance that ties to the subledger

*Ending Balance on the GL **must equal** the subsidiary ledger balance for this to be useful*

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## Analytical Roll-forward of a Trade A/R Account

Beginning Balance (Ending Balance from previous month) of subledger

**Add** Sales this period (taken from Sales System)

**Less** Payments by customers (taken from cash system)

**Less** Adjustments due to A/R write-offs

Ending Balance

Compare to prior months activity for reasonableness

Ending Balance on the GL should tie the A/R subledger with Customer detail

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## Analytical Roll-forward of Cash

Beginning Balance (Ending Balance from previous month) of subledger

**Add**    Cash receipts from customers

**Less**    Cash payments to suppliers

**Less**    Cash payments to employees

**Add/Less**    Adjustments due to errors & Bank fees

Ending Balance

Speak to Controller to verify reasonableness

Ending Balance on the GL should tie the Bank Statement

The diagram illustrates the analytical roll-forward of cash. It starts with the 'Beginning Balance (Ending Balance from previous month) of subledger'. Then, it lists four items: 'Add Cash receipts from customers', 'Less Cash payments to suppliers', 'Less Cash payments to employees', and 'Add/Less Adjustments due to errors & Bank fees'. These four items are grouped by a green bracket on the right. A green line extends from the bottom of this bracket to a green oval containing the text 'Speak to Controller to verify reasonableness'. Below the list, the 'Ending Balance' is shown. At the bottom, a note states 'Ending Balance on the GL should tie the Bank Statement'.

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## Other Verifications of Account Balances

When you are:

- ✓ Comfortable that the G/L agrees to the Sub-ledger?
- ✓ Comfortable that the Sub-ledger activity is reasonable?
- ✓ Comfortable the account has been properly reviewed?

**Then:** Reconciliation is complete and in compliance for all Balance Sheet accounts.

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Questions

and

Answers

## Review Questions:

1. A reconciliation is a comparison between:
  - A. The subsidiary ledger and the sales account
  - B. The accounts payable and the accounts receivable subledger
  - C. The general ledger and the subsidiary ledger of a balance sheet account
  - D. None of the above
2. True or False: All balance sheet accounts must be reconciled.
3. The following accounts must be reconciled:
  - A. Inventory
  - B. Long-term Liabilities
  - C. Owner's Capital
  - D. All of the above
4. A reconciliation is a:
  - A. Detective control
  - B. Preventative control
  - C. Both a detective and preventative control
5. True or False: A subledger is the supporting detail for a general ledger account.

## **Answer Key:**

1. C

A reconciliation is a comparison between the general ledger and the subsidiary ledger of a balance sheet account.

2. A

True. All balance sheet accounts must be reconciled.

3. D

Inventory, Long-term Liabilities, and Owner's Capital are all accounts that must be reconciled.

4. C

A reconciliation is both a detective and a preventative control.

5. A

True. A subledger is the supporting detail for a general ledger account.