



Bank Reconciliation

Purpose

Reconciling bank accounts is one of the simplest ways to make sure all transactions are recorded in the accounting system.

Overview

A bank reconciliation is a process to compare the amounts of cash in the bank account to what is recorded in the accounting records. The reconciliation is not complete until all items affecting the bank account are recorded in the accounting records and a list of outstanding items that will affect the bank balance are totaled to obtain a true amount of cash available.

Implementation

Although there is not any one way to perform a reconciliation and accounting systems may use different names or report styles, what follows is a step by step walk through for those that are unfamiliar with the reconciliation process.

1. Gather the items you will need: Copy of the bank statement for the period being reconciled, List of all payments, deposits and cash account balances from the account system (most accounting systems have a reconciliation module where these lists are found).
2. Work your way through the items on the bank statement that left the bank account (checks, transfers, service charges etc). Everything on the bank statement should be found on the list from the accounting system. If something doesn't show up in the accounting record it needs to be recorded.
3. The process in step 2 is known as "redeeming" or "clearing" items, once it is complete there is usually a number of "uncleared" or "Outstanding" transactions. These transactions need to be reviewed to make sure they are real transactions that will eventually go through the bank. If there are old items or entries that will never go through the bank they need to be researched and corrected.
4. Next, look at all the transactions on the bank statement that positively affect the bank account (Interest, deposits, transfers, bank adjustments etc). Everything should have an entry recorded in the accounting system. If an item is missing it needs to be recorded.

5. This step involves looking at any items that didn't appear on the bank statement after going through step 4. Generally there are not many items that belong on the list of "deposits in transit" or "outstanding deposits" as these items are commonly called.
6. The reconciliation is complete when the balance in the accounting record (after making adjustments for any items in step 2) is equal to the bank statement balance less any "outstanding checks" plus any "outstanding deposits"

Monitoring

Those tasked with governance should monitor the reconciliation process. What follows is a list of items to look for and consider if you are tasked with reviewing the reconciliation process.

1. Make sure the dates on the reconciliation match the bank statement
2. Did the person performing the reconciliation sign and date when it was completed (this lets you know who is reconciling and if it is happening in an appropriate time frame, the person reconciling the account should not be the same as the person who receives cash and makes disbursements).
3. Check the "cleared" items, take special notice of any payment to employees or related parties.
4. Review the checks on the bank statement (do they have the correct signatures, are the checks written to the same people recorded in the accounting system). Does anything look different about any payment, ie handwritten or typed when the system generally prints checks?
5. Are there any abnormal items (no check number or deposit number)
6. Review the outstanding checks and deposits, look for old items, generally it is normal to have outstanding checks but they should clear in the next month. Inexperienced staff may believe that after clearing all the transactions from the bank statement the reconciliation is complete without investigating the uncleared items.
7. After the review is complete you should indicate that it has been reviewed and sign/date the reconciliation.