



# Bank Reconciliation

## Purpose

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

## Overview

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

## Implementation

Although there is not one way to perform a reconciliation, and accounting systems may use different names or report styles, what follows is a step-by-step process for those 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 accounting 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 appear 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 are usually a number of "un-cleared" or "outstanding" transactions. These transactions need to be reviewed to ensure 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. Review all 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. Review any items that didn't appear on the bank statement. 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. Below is a list of items to look for and consider if you are tasked with reviewing the reconciliation process:

1. Ensure the dates on the reconciliation match the bank statement.
2. Ensure the person performing the reconciliation signed and dated the reconciliation when it was completed.
  - This informs you of which individual is reconciling, and if the reconciliation is begin performed within an appropriate time frame.
  - The person reconciling the account should not be the same as the person who receives cash and makes disbursements.
3. Review the "cleared" items and 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 individuals recorded in the accounting system.
  - Does anything look suspicious about any payment (i.e. handwritten or typed, when the system generally prints checks)?
5. Review any abnormal items (i.e. 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 upcoming month.
  - Inexperienced staff may believe that after clearing all the transactions from the bank statement the reconciliation is complete without investigating the un-cleared items.
7. After the review is complete, indicate it has been reviewed by signing and dating the reconciliation.