

Subject: Account Reconciliations	Author:
Effective Date: March 21, 2007	Last Review Date:
Last Revision:	Revised By:
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Guidelines for Performing Account Reconciliations

The purpose of these guidelines is to provide assistance to university staff who are responsible for reconciling financial account balances. Certain asset, liability, revenue and expense accounts for programs, projects, gift or grant activities are targeted for regular, periodic reconciliations by the Controllers Office, Audit Services and others. The reconciliation process enhances the university's internal controls by providing management, auditors and other users with the ability to substantiate a balance, detect errors and analyze the integrity of reported financial data.

What does it mean to reconcile an account?

A reconciliation entails the comparison of a general ledger balance as of a certain date to a credible, independent or related source of information. The reconciliation agrees the general ledger balance to the independent source through a process of listing and explaining any differences such as those due to timing, accounting practices, unposted items or errors. For example, a cash reconciliation must agree the cash balance according to the general ledger with the balance according to the bank statement on a particular date. Any differences between the two balances will be included in an itemized listing that is properly documented and explained as a reconciling item.

Reconciling items may include outstanding checks, unrecorded deposits, checks that clear for amounts different than recorded by the ledger. Each of these items or summaries of items must be listed on the reconciliation document and explain the disposition of each type of difference. Ex. Unposted deposits will be recorded in the following month. If these deposits are posted in the next month, that reconciling item will not appear on the next month's reconciliation. Any uncleared items will appear on subsequent monthly reconciliations until properly handled. For timing differences, the reconciling item will clear with the passage of time. For example, the general ledger may show a deposit recorded on the last day of the month, but the bank did not post the deposit until the first day of the following month. There is a reconciling difference to report, but no action is necessary since the deposit has already been recorded. The bank statement will reflect the deposit on the following month's statement.

Examples of Accounts Reconciled at the University of Louisville

Below are just a few examples of methods used to reconcile different types of general ledger accounts. It is meant to illustrate that reconciliation techniques differ according to the nature of the account and balance under review.

Assets:

- Cash - Cash balances according to the PeopleSoft General Ledger are reconciled to their respective bank statements on a monthly basis.
- Receivables – Receivable balances according to the PeopleSoft General Ledger are reconciled to outstanding, unpaid invoices or supporting receivable databases listing unpaid invoices by patient, student, contractor or donor.
- Inventory – Inventory balances according to the PeopleSoft General Ledger are reconciled to the supporting inventory system databases. Annually, the supporting database records are reconciled to a physical count of inventory items held for resale. If processes are functioning accurately, the value and number of items actually counted will agree with the database listing those items. That database total will also equal the PeopleSoft General Ledger balance.

Liabilities:

- Payroll Taxes and Benefits Payable – Each balance, according to the Peoplesoft General Ledger, is reconciled to the unpaid taxes or benefits due according to the PeopleSoft Payroll registers. These liability accounts should reconcile to the sum of any outstanding balances for taxes or benefits collected or the sum of all unremitted payroll deductions from employees and employer contributions for benefits as processed through the payroll system.
- Deferred Revenues – Deferred revenue balances usually represent income or payments received that will not be earned until a later date. A reconciliation of the balance should provide evidence that the balance is substantiated with appropriate documentation. (i.e. Season tickets sold in advance of the scheduled games or performances would be deferred income until the game or performance has occurred. At each reconciliation period, the deferred revenue balance should equal the total ticket sales revenue less any income earned by those revenues earned for performances or events that have occurred by that date.)

Revenues:

- Tuition –Tuition revenues reflected by the university’s general ledger should reconcile to the underlying student tuition records maintained by the Bursar’s Office. Also, the balance should reflect a logical calculation of the number of students enrolled for a particular semester multiplied by the tuition hours registered multiplied by the appropriate tuition rate. (This is a simplified calculation. Other factors may affect the total tuition revenue balances for a given period.) This illustration points out that a true reconciliation may require more than one type of analysis to prove the accuracy of the stated balance.

Expenses:

- Rents – Rent expense should agree to the number of months or number of payments due for the periods in the current year. This may be reconciled to the rental agreement. If rates change during fiscal years or the rental period does not coincide with the end of a month or fiscal year, the reconciliation may show a reconciling difference for those timing differences and an explanation of any rate changes. (i.e. Rental expense for a 12

calendar year is \$500 per month for year 1 and \$600 per month for year 2. To reconcile a rent expense account for fiscal year 2, the total rent expense should be \$6,600 representing 6 months @ \$500 plus 6 months @ \$600.)

How should a reconciliation be presented and documented?

Account reconciliations do not require a special form or format, but they should present information clearly and in a consistent manner each time the reconciliation is performed. The individual responsible for reviewing and approving the reconciliation should approve the format used. Reconciliations may range from a simple presentation of one or more balances compared to an independent source balance to lengthy and complex spreadsheets supported by several sources and calculations spanning several months or years. One reconciliation format may provide reconciliations of several accounts simultaneously. For example, a reconciliation of deferred income may also provide a reconciliation of the associated revenue account.

Reconciliations should be prepared or summarized on an electronic spreadsheet and include the following minimum information:

1. General Ledger Balance Information – The speedtype, name, accounts and balances to be reconciled and the accounting date of reconciliation or period covered by the reconciliation.
2. Name of preparer and date prepared.
3. Name of supervisor and approval signature.
4. Listing or summary listing of reconciling items noting dates, references, and a description of how and when the item will be cleared or who is assigned to investigate and clear the item. (i.e. “Corrected by John Doe on JV 1010, June 15, 2003.)
5. Identification of the balance and source of information that reconciles to the general ledger balance. (i.e. Balance per bank statement balance on June 30, 2003.)
6. Documentation or references to support significant reconciling items and the source document that shows the balance reconciled to. (i.e. Bank Statement.)
7. Previous period reconciliations should be available in order to compare the previous period’s ending balances and reconciling items with the current period’s reconciliation balances and items.
8. The heading of the reconciliation should include the name of the speedtype, the speedtype number, and the accounting date of the reconciliation.
9. Columns should consist of PS Account, description of reconciling transactions, debit or credit amount of transaction, balance (total for account), and description of corrective actions / comments.
10. PS account 110220 should be the total of petty cash / change fund set up in the speedtype with the custodian's name listed in description. This amount should be supported by a separate reconciliation (see petty cash procedures).
11. PS account 155110 is used to record prepayments to vendors for future fiscal year. This type of activity usually takes place in late May & June for payments that have to be made prior to June 30 for expenses related to activity for the next fiscal year.

12. PS account 155120 is used to record temporary advances authorized by the Controller's Office for travel and other advances as approved. A listing for each outstanding advance is needed to support the balance.
13. PS account 130105 is used to record accounts receivable owed to the speedtype for services for which payment has not been received. See accounts receivable guidelines for handling of accounts receivable. A monthly IUT / journal entry may be necessary to update the receivables to the supporting records. Due to the closing date of PS, monthly entries may not be posted until the following month on PS. Therefore, a reconciling difference will occur each month. The A/R reconciliation should include a detailed listing of A/R balance.