Reconciliation Process

Unit: Critical Thinking and Analysis

Problem Area: Financial Information Interpretation

Lesson: Reconciliation Process

Student Learning Objectives.

Instruction in this lesson should result in students achieving the following objectives:

1. **Analyze the reconciliation process.**
2. **Review spreadsheet reconciliation software.**

Resources.

The following resources may be useful in teaching this lesson:

E-unit(s) corresponding to this lesson plan. CAERT, Inc. http://www.mycaert.com.

"Bank Reconciliation," *Accounting Coach®*. Accessed Aug. 19, 2016. http://www.accountingcoach.com/bank-reconciliation/explanation.

Kent, Jessica. "How to Reconcile General Ledger Accounts," *chron*. Accessed Aug. 19, 2016. http://smallbusiness.chron.com/reconcile-general-ledger-accounts-3915.html.

Parcells, Sarah B. "Best Practices for Account Reconciliation," *accountingweb.* Accessed Aug. 10, 2016. http://www.accountingweb.com/technology/accounting-software/best-practices-for-account-reconciliation.

Wilkinson, Jim. "General Ledger Reconciliation and Analysis," *The Strategic CFO.* Accessed Aug. 19, 2016. http://strategiccfo.com/general-ledger-reconciliation-and-analysis/



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Equipment, Tools, Supplies, and Facilities

- ✓ Overhead or PowerPoint projector
- ✓ Visual(s) from accompanying master(s)
- ✓ Copies of sample test, lab sheet(s), and/or other items designed for duplication
- ✓ Materials listed on duplicated items
- ✓ Computers with printers and Internet access
- ✓ Classroom resource and reference materials

Key Terms.

The following terms are presented in this lesson (shown in bold italics):

- accounting software
- adjusted balance per bank
- adjusted balance per books
- bank charges
- bank reconciliation
- cell
- column
- control account
- deposits in transit
- formula
- outstanding checks
- reconciliation
- reconciliation software
- row
- segregation of duties
- spreadsheet
- subsidiary ledger
- template
- workbook
- worksheet

Interest Approach.

Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situations. A possible approach is included here.

> *Ask students: Have you ever participated in a fundraiser? If so, ask: Were you required to keep track of the number of items sold, and the number you had left at the end of the sales drive? Did you make sure the amounts you collected versus the amount you had left agreed? In accounting, that process is called "reconciliation." This lesson explores the process and purpose of account reconciliation and why the process is important in accounting.*

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CONTENT SUMMARY AND TEACHING STRATEGIES

Objective 1: Analyze the reconciliation process.

Anticipated Problem: What is reconciliation?

I. The reconciliation process

A. ***Reconciliation*** is an accounting process that utilizes two sets of data to make sure figures and accounting records are in agreement. Accountants must verify that the money leaving an account matches what was spent. If so, the two values are balanced at the end of a recording period.

1. Reconciliation helps businesses verify account balances, detect fraud, and prevent balance sheet errors. This is important because mistakes can be costly.
2. Most reconciliation processes are conducted for asset, liability, and equity accounts because these types of accounts often continue for years.
3. The selection of a reconciliation method depends on the type of account involved. The most commonly performed reconciliation by all businesses is bank reconciliation.

B. ***Bank reconciliation*** is the process to explain the difference between the balance shown in a company's general ledger cash account and the balance shown by the bank on the company's bank statement. Items that may differ between the two include outstanding checks, deposits in transit, and bank charges.

1. ***Outstanding checks*** are payments that have been written by the company but have not yet been presented to the bank for disbursement. The outstanding checks have already been deducted from the cash balance in the company's accounting records but have not been deducted from the bank's balance.
2. ***Deposits in transit*** are credits that have been made but have not been processed by the bank in time to appear on the bank statement. Deposits in transit have been added to the cash balance in the company's accounting records but have not been added to the bank's balance.
3. ***Bank charges*** are fees deducted from the balance shown on the bank statement but have not been deducted in the accounting records yet. Bank charges usually include items such as service fees (i.e., paper statements and check printing), overdrafts, NSF checks, returned checks, stop payments, etc.
4. The process for bank reconciliation involves calculating an adjusted balance per bank and an adjusted balance per books. ***Adjusted balance per bank*** is the balance shown on the bank statement adjusted for outstanding checks and deposits in transit. In contrast, ***adjusted balance per books*** is the balance shown in the accounting records adjusted for bank charges and interest

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earned. Both balances may be adjusted for errors discovered during the reconciliation process.

a. To determine the amounts to be added or subtracted for adjustment, a comparison is made of the receipts and disbursements recorded in the cash account by the business, with the deposits and checks shown on the bank statement. A list is made of outstanding checks, deposits in transit, bank charges, interest, and any errors discovered.
b. When the reconciliation is complete, the adjusted balance per bank should equal the adjusted balance per books. The calculations for reconciliation are:

Balance Per Bank		*Balance Per Books*
Add deposits in transit		Deduct bank service charges
Subtract outstanding checks		Add interest earned
Add or subtract bank errors		Add or subtract company errors
Adjusted Balance Per Bank	=	*Adjusted Balance Per Books*

5. Other accounts are reconciled in various ways.
   a. The accounts receivable control account presented on the balance sheet is reconciled to ensure it agrees with the subsidiary ledger that holds the individual accounts receivable customer accounts. A ***control account*** is a general ledger account whose balance reflects the total of balances of related subsidiary ledger accounts. A ***subsidiary ledger*** is a supporting ledger that provides the details that make up the balance of the control account. The same would take place for the accounts payable control account and the subsidiary ledger.
   b. Inventory account balances are reconciled with physical counts of inventory on hand. The book value of assets presented on the balance sheet is reconciled with the depreciation records that report accumulated depreciation and depreciation expenses for the period.
   c. The cost of goods sold (COGS) computation is reconciled with beginning and ending inventory accounts as well as the purchases account.

C. Segregation of duties

1. ***Segregation of duties*** is an internal control put in place to prevent error and fraud by requiring more than one person to be responsible for completing parts of a task. The reconciliation process provides this other level of assurance that the amounts presented in the financial statements are accurate. Reconciliation usually includes protocols for segregation of duties.
2. For example, with bank reconciliation:
   a. One person might be responsible for making cash deposits, another for writing checks, and another for generating the list of outstanding checks and deposits in transit.

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b. Attention to detail is required. The advent of computer software to assist in the reconciliation process has reduced the time requirements and the number of errors involved in the process.

Teaching Strategy: *Many techniques can be used to help students master this objective. Use VM–A.*

Objective 2: Review spreadsheet reconciliation software.

Anticipated Problem: What types of spreadsheet reconciliation software are available?

II. Reconciliation software

A. ***Accounting software*** is an electronic tool used to record and report financial transactions. It is often used in the reconciliation process to detail and track transactions. In some cases, transactions can be tracked almost instantaneously. Reconciliations can be conducted by hand, by spreadsheet, and by use of reconciliation software.

B. Spreadsheet software

1. A ***spreadsheet*** is an advanced calculator that houses data in cells and conducts some advanced calculations. It displays as a worksheet with lettered columns and numbered rows into which a person loads transaction data. The process of loading this data can be time consuming. Other spreadsheet limitations include that they require a person to copy and paste, create macros, and load and match the transactions. Mistakes can happen during these data-loading processes. As of this writing, the two most commonly used spreadsheet packages are Microsoft Excel™ and Google Sheets™.

a. Excel is the business industry's spreadsheet software leader. It has many more features and is considered more powerful than Google Sheets. A variety of online reconciliation templates are available free or for purchase. Excel is widely used by accountants in a variety of industries to automate many accounting processes aside from reconciliation. [If a subscription to Excel is not available, a limited version is available free with any Microsoft email account. Google offers a less powerful version of spreadsheet software called Google Sheets with a free bank reconciliation add-on called "bank reconciliation." Another option is to use Google Sheets with a free Google account.]

b. To practice using spreadsheet software, a template is downloaded. It is advisable to watch a tutorial about spreadsheet use, specifically one about the selected template. Several free templates and tutorials are available online. Most templates include built-in formulas and functions to complete basic reconciliations.

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c. Key terms every spreadsheet user should know:
   (1) A ***worksheet*** is an electronic spreadsheet organized into columns and rows. A worksheet is stored in a workbook and allows the user to enter, analyze, and calculate data.
   (2) A ***workbook*** is an electronic file used to store multiple worksheets. Within a workbook, worksheets can share information.
   (3) A ***column*** is a vertical division of a worksheet identified by letters of the alphabet.
   (4) A ***row*** is a horizontal division of a worksheet identified by numbers.
   (5) A ***cell*** is a box formed at the intersection of a row and column in which data is entered. A cell can hold a label, a numeric value, or a formula.
   (6) A ***formula*** is an expression (equation) entered in a cell to perform a calculation, a logical comparison, or text string manipulation.
   (7) A ***template*** is a workbook used to create predesigned and identical worksheets as needed or to model a process.

2. ***Reconciliation software*** is an application package that allows a person to reconcile an account inside the system versus the more traditional paper-type reconciliation process or spreadsheet process: automated accounting software. Accountants use reconciliation software to conduct an ordered analysis and presentation of numeric data without all the data input required when using a paper ledger or an electronic spreadsheet. Automated reconciliation has primary benefits of being time-efficient and accurate as well as creating an audit trail.
   a. A variety of software choices are available to assist in the reconciliation process. Many automated accounting software packages come with reconciliation components. Some of the most widely used accounting software packages by small businesses are QuickBooks™ and Peachtree Accounting™.
   b. Software packages require the accountant to indicate the deposits and checks that have cleared the bank, according to the current bank statement. A reconciliation form is used to record the balance per bank, and the reconciliation software extracts the other information to complete the reconciliation. The accountant is required to ensure that any bank service charges or errors discovered are properly recorded with the accounting software.

Teaching Strategy: *Many techniques can be used to help students master this objective. Use VM–B to review. Assign LS–A.*

Review/Summary. Use the student learning objectives to summarize the lesson. Have students explain the content associated with each objective. Student responses can be used in determining which objectives need to be reviewed or taught from a different angle. If a textbook is being used, questions at the ends of chapters may be included in the Review/Summary.

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Application. Use the included visual master(s) and lab sheet(s) to apply the information presented in the lesson.

Evaluation. Evaluation should focus on student achievement of the objectives for the lesson. Various techniques can be used, such as student performance on the application activities. A sample written test is provided.

Answers to Sample Test:

Part One: Matching

1. e
2. d
3. f
4. a
5. b
6. c

Part Two: Completion

1. segregation of duties
2. control account
3. deposits in transit
4. spreadsheet
5. reconciliation software
6. outstanding checks
7. bank charges

Part Three: Short Answer

Answers will vary but should be similar to the following: Reconciliation helps businesses verify account balances, detect fraud, and prevent balance sheet errors. Mistakes can be costly. Most reconciliation processes are conducted for asset, liability, and equity accounts because these types of accounts often continue for years. The selection of a reconciliation method depends upon the type of account involved. The most common reconciliation performed by all businesses is the bank reconciliation.

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Sample Test

Name _____

Reconciliation Process

Part One: Matching

Instructions: **Match the term with the correct definition.**

a. bank reconciliation
b. cell
c. reconciliation
d. template
e. workbook
f. worksheet

_____1. An electronic file used to store multiple worksheets

_____2. A workbook used to create predesigned and identical worksheets as needed or to model a process

_____3. An electronic spreadsheet organized into columns and rows

_____4. The process to explain the difference between the balance shown in a company's general ledger cash account and the balance shown by the bank on the company's bank statement

_____5. A box formed at the intersection of a row and column in which data is entered

_____6. An accounting process that uses two sets of data to ensure figures and accounting records are in agreement

Part Two: Completion

Instructions: **Provide the word or words to complete the following statements.**

1. An internal control put in place to prevent error and fraud by requiring more than one person to be responsible for completing parts of a task is _____.

2. A general ledger account whose balance reflects the total of balances of related subsidiary ledger accounts is a/an _____.



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3. Credits that have been made but have not been processed by the bank in time to appear on the bank statement are a/an _____.

4. An advanced calculator that houses data in cells and conducts some advanced calculations is a/an _____.

5. An application package that allows you to reconcile an account inside the system versus the more traditional paper-type process is a/an _____.

6. Those payments that have been written by the company but have not been presented to the bank for disbursement yet are _____.

7. Fees deducted from the balance shown on the bank statement but have not been deducted in the accounting records yet are _____.

Part Three: Short Answer

Instructions: **Answer the following.**

What are the purposes of conducting account reconciliations?

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BANK RECONCILIATION PROCESS

Balance Per Bank		Balance Per Books
Add deposits in transit		Deduct bank service charges
Subtract outstanding checks		Add interest earned
Add or subtract bank errors		Add or subtract company errors
Adjusted balance per bank	=	Adjusted balance per books



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SPREADSHEET KEY TERMS

A spreadsheet is an advanced calculator that houses data in cells and conducts some advanced calculations. It displays as a worksheet with lettered columns and numbered rows columns into which you load transaction data. As of this writing, the two most commonly used spreadsheet packages are Microsoft Excel™ and Google Sheets™.

- Worksheet
- Workbook
- Column
- Row
- Cell
- Template
- Formula



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LS–A

Name _____

Reconciliation Software Practice

Purpose

The purpose of this activity is to practice using spreadsheet software to complete an account reconciliation.

Objectives

1. Become familiar with spreadsheet software.
2. Download a free bank reconciliation template.
3. Practice completing bank reconciliation with spreadsheet software.
4. Participate in a discussion upon completion of the reconciliation.

Materials

- lab sheet
- writing utensil
- device with Internet access
- Excel
- paper

Procedure

1. Using a device with Internet access, open Excel. [OPTIONS: If Excel is not available on your device, use a Microsoft account to access it. If Microsoft products are not available at your school, use Google Sheets with the bank reconciliation add-on.]
2. Complete an Internet search to locate a free bank reconciliation template for your spreadsheet software. Locate the template on your screen.



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3. Then follow this link to a sample bank reconciliation problem: http://simplestudies.com/bank-account-reconciliation.html/page/4.

   a. Follow the steps in the SimpleStudios reconciliation process as you fill in the reconciliation template you downloaded in Procedure 2.
   b. Note the differences in the way the spreadsheet software may appear compared to a written solution on your paper. [NOTE: However, the result of the reconciliation should be the same.]

4. Discuss your experience with your classmates and instructor. Share the spreadsheet template you downloaded.

5. Turn in your completed lab sheet and a hard copy of the reconciliation, if requested, to your instructor.

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