Tidy minders

Reconciling accounts

The key to preparing accurate financial statements is an efficient and well-organised system for reconciling company accounts, argues Indra Abeysekera

The crux of financial reporting is the integrity of the information conveyed to users. Regular reconciliation of accounts is therefore vital as it is a fundamental way of identifying errors and omissions.

Despite this, most organisations tend to treat reconciling accounts as a low priority when preparing financial statements. When time runs out, unidentified transactions are transferred into a suspense account. Even when suspense accounts fill with unidentified transactions, these are rarely cleared into appropriate accounts.

There are a few basic steps companies should follow when reconciling accounts. First, make it at least a monthly exercise. Whatever the size of an organisation, it is good practice to prepare financial statements this often. Reconciling accounts on a monthly basis also removes the pressure when you prepare more important quarterly and yearly financial statements.

Many organisations transfer unreconciled items into suspense accounts to clean up normally active accounts. It is a good idea to keep them there until the transaction is dealt with appropriately, since it forces you to revisit unreconciled items in active accounts, which have a direct impact on your financial statements.

Applying a threshold, such as 5 per cent above or below a given amount in the account, forces you to keep the accounts clean within a safety margin. Wherever necessary, extra resources, such as staff and time, should be invested to keep them within this.

When new accounts are created or deleted, this should be communicated to users and they should be told how to use them. This may sound obvious, but it is one of the blatant omissions made by accountants in organisations. Staff who do not understand what an account means may record transactions that create misleading results.

Ideally, companies should prepare a manual describing each account in the chart of accounts with examples. They should update these when accounts are deleted or created, and should keep the manual where all users can access it.

The chart of accounts should be visited periodically and the pattern of activity in each account should be examined. Unnecessary and inactive accounts leave room for error and can lead to inconsistencies in recording transactions.

There should also be written policies and procedures for reconciling accounts. Prepare a manual that lists steps for reconciling each account using real examples. Identify a member of staff who can be consulted for help. When necessary, update the manual with effective ways to reconcile accounts.

A manual can also be used to train staff and it is a way of retaining knowledge in an organisation. It makes reconciliation consistent and reduces the risk of user error, saving time and resources.

Firms should take care when accounting systems interface with other information systems. This is especially important for big organisations which tend to use other systems to track detailed transactions. For example, a leasing company may use “Leastrac” to keep track of financing leases, “Kerridge” to monitor operating lease transactions and “Activa” or “Taipan” to keep track of payment instalment or track depreciation. These applications then connect to the accounting system.

The systems are unlikely to connect properly first time. This allows errors to creep into the accounting system and you must take great care until they are all working satisfactorily.

It is important to back up journal entries with sufficient evidence. This may seem obvious, but many organisations rely on staff memories to retrieve historical information. Wherever necessary, write memos and attach them to the journal in a logical order so that a new user would be able to understand the background to the transaction.

IT departments may produce reports that do not easily relate to the accounting entries. For example, stamp duty billings (accruals) may be up-loaded daily into the stamp duty clearing account in the accounting system by an interface with another information system. But the stamp duty payment report is based on receipts and that report may not be cross-referenced to daily up-loads.

Such arrangements can mean that the finance department is left in the dark about which transactions have been paid. It also takes lots of resources and time to reconcile that account. It is far better to pay stamp duty on a billings (accrual) basis, since this is accepted by the commissioner of taxation. Keeping accounts clean and meaningful saves both time and money.

Lastly, companies must recognise the limitations of their accounting system and work around them. For example, some systems, such as SAP, allow you to review historical data by calendar month only.

When you determine payments such as sales tax, make sure you calculate payment to the correct period. Payment may be due 21 days after a calendar month, but it is good practice to stick to calendar month end when determining payment. That way you and the auditors can investigate historical transactions accurately.

Good procedures and policies keep accounts, and the task of reconciling them, simple. More importantly they uphold the integrity of data and help to produce more meaningful financial statements. ■

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