

Balance Sheet Reconciliation Guide

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Typically, accounting transactions for campus entities are recorded to revenue and expense accounts. These entries adjust balances on the Budget/Expense Summary reports. Every campus entity also has a Balance Sheet. The balance sheet lists assets (claim on cash, prepaids, receivables, inventory, etc.) and liabilities (accrued liabilities, payroll and taxes payable, notes payable, deferred revenue, etc). Many campus entities record transactions to balance sheet accounts and are therefore responsible to know what activity is occurring and to assure proper classification for those transactions. *Even departments that do not make such entries should occasionally look at their balance sheet to make sure a miscoded entry has not hit their accounts.*

Reconciliation of Balance Sheet Accounts

What does it mean to “reconcile” an account? Not all accounts are created equal. For some accounts, reconciliation means “agree the balance on the regular (PeopleSoft) financial reports to a supporting system.” (A “**supporting or subsidiary system**” is a non-PeopleSoft system that is used internally by the dept. to keep track of transactions. It can be anything from a simple handwritten list or Excel spreadsheet to a Quicken-type program or even a larger system). In other cases, reconciliation means “provide a list of transactions that make up the balance and assure that all the transactions have been properly classified.” A more detailed explanation of the various types of accounts is provided below.

Financial Services Reconciliation Responsibility

Not all balance sheet accounts are controlled and reconciled by campus departments. Certain university balance sheet accounts are reviewed and reconciled regularly by Financial Services personnel. Campus entities are not responsible for reconciling these university accounts, as opposed to department accounts.

For assets these include:

- University Bank Accounts
- University Receivables
- Pledges & Trusts Receivable
- Investments
- Land, Buildings and Equipment
- Gifts in kind, held for Liquidation

For liabilities these include:

- Accounts Payable
- Accrued Payroll
- Accrued Vacation & Benefits
- Taxes Payable
- Loans and Notes Payable

CAMPUS CONTROLLER RECONCILIATION RESPONSIBILITY

Campus controllers are responsible to assure reconciliation of other balance sheet accounts. Discussion of each type and appropriate means for reconciling follows:

Department Bank Accounts, 10xx (allowed only as approved by Treasury Services) — Agree to another system

Certain departments maintain bank accounts to facilitate distant operations (e.g. Study abroad, Jerusalem Center.) A traditional bank reconciliation performed monthly will reconcile the balance per the general ledger to the balance per bank. Reconciling items typically include: deposits in transit at month end, bank fees not recorded on the general ledger, and outstanding checks not yet recorded by the bank.

Department Receivables, 12xx—Agree to another system

Certain departments do not utilize the central University Receivables system (UCA). Where departments maintain their own receivables from customers, reconciliation of the general ledger balance will entail agreement to their subsidiary listing of customer invoice balances.

Inventories, 13xx—Agree to another system

Certain areas maintain inventories for sale as part of their business operations. Recording of inventories on the balance sheet is not encouraged unless the inventory value is in excess of \$50,000. Records supporting inventory balances vary. Some areas have perpetual inventory systems that accurately support the general ledger balance. Others make estimated adjustments to the inventory based upon a percentage of sales activity and then periodically adjust the general ledger balance to actual by physically counting and pricing the inventory on hand at a particular date (and at least annually.) Reconciliation of the inventory balance requires agreement of the general ledger balance to the supporting perpetual inventory system or agreement to the priced physical count of inventory, which will occur at least annually. Physical count of inventories almost always results in minor adjustments to the balance in the general ledger which should be carefully evaluated for reason.

Prepaid Expenses and Other Assets, 14xx—Explain the balance by providing list of transactions, assure continued proper classification

To simplify accounting in academic areas, most campus departments will record items to expense as they are purchased. For areas such as Auxiliaries that need to match revenue to expense for income statement presentation purposes, items purchased in advance of use may be classified as a prepaid expense. In these cases, it is proper to record these “prepaid expenses” as an asset until the items are to be used. At that later time the prepaid expenses are then removed from assets and recorded to the income statement as an expense to match with the period of use.

Areas recording prepaid expenses will reconcile the balance in that account by listing the vendor, vendor invoice number and amount that add up to the balance. The reconciler should be assured that the benefit of those items has not already been received (in which case the amount should be expensed.)

Any balances recorded as “other assets” should be identified similarly to prepaid expenses noted above.

Clearing Accounts, 18xx series—Explain the balance by providing list of transactions, assure continued proper classification

Certain campus areas use clearing accounts to facilitate the recording of revenue and expense. For example, one system will record a debit to a clearing account that is to be matched by a later companion entry that credits the clearing account and re-distributes the debit to other accounts. Clearing accounts should net to zero except for the timing difference while waiting for the companion entry to be made, usually within one month of the original transaction. Reconciliation of clearing accounts will identify the pending transactions and when they will be made.

Accrued Liabilities, 22xx—Explain the balance by providing list of transactions, assure continued proper classification

Accrued Liabilities occur when goods for services have been received, and presumably used, but the vendor has not invoiced the University. Because the benefit has been received, an expense is necessary and a credit to accrued liabilities offsets that expense. At the time the vendor does invoice for goods or services the invoice will generate a new entry to expense with a credit to Accounts Payable. Thus when the invoice is recorded the original Accrued Liability/Expense entry should be reversed. For example:

Supplies Expense	\$2,500	
Accrued Liabilities		\$2,500

Goods received from vendor in May but vendor does not invoice in May

Supplies Expense	\$2,500	
Accounts Payable		\$2,500

Vendor invoice in June

Accrued Liabilities	\$2,500	
Supplies Expense		\$2,500

Reverse accrual pursuant to late vendor invoice

Reconciliation of the accrued liabilities balance in the general ledger will identify specific vendor transactions and amounts and when the vendor invoice is expected to be received and recorded via the Accounts Payable entry (indicating when the accrual is expected to be reversed.)

**Deposits Due to Others, 23xx (excluding Agency Fund 47 and account 2300)
—Explain the balance by providing list of transactions, assure continued proper classification**

Occasionally, some campus areas will receive deposits that are to be returned to the depositor. Reconciliation procedures would list the depositor, date, amount, and when the deposit is expected to be returned to the depositor.

Fund 47 Agency speedtypes with activity in account 2300 do not require reconciliation since this is simply a summation of their cash activity which is evaluated through the bank reconciliation for Agency funds as a whole. Responsible managers of Fund 47 Agency speedtypes are however cautioned to carefully review activity noted on their monthly financial statement to assure the propriety of transactions.

Deferred Revenue, 26xx—Explain the balance by providing list of transactions, assure continued proper classification

In some cases, customers pre-pay for goods or services. When this occurs, the payment should be recorded as deferred revenue (debit cash, credit deferred revenue). When services or products are provided, the deferred revenue should be adjusted to revenue on the income statement (debit deferred revenue, credit revenue). Proper reconciliation of the general ledger balance would include a detail list (that matches the general ledger balance) for the customers, payment date and when the products or services pre-payments area expected to be adjusted to revenue.

OTHER TOOLS

In addition to this Balance Sheet Reconciliation Guide, there are at least 3 other tools that can be used to help reconcile Balance Sheet accounts:

1. **Balance Sheet Reconciliation Balances Query** – A BOB* query found under Corporate Documents by clicking on Financial System Information then Reconciliations Support Queries then Balance Sheet Reconciliation Balances. The query prompts for Fiscal Year and Accounting Period. It will show the balance sheet accounts with their respective balances for dept. codes for which you are either a Manager or Contact or permission has been delegated to you to see those accounts. It will only show the accounts for which the campus entity has direct control and responsibility.
2. The various **BOB* Transaction Queries** found under Corporate Documents by clicking on Financial System Information then Transactions. There are about a dozen queries that will allow you to see the details that make up the balance in the accounts

*If you experience problems running any of the BOB reports, call Kurt Huntington.

3. **Balance Sheet Reconciliation Template** – The template can be found on the Financial Services website, <http://finserve.byu.edu/index.jsp>. Click on Services, then Accounting. The template is on the right side under the heading “Financial Accounting System”. This simple format can be used when reconciling most accounts.

Obviously, regular reconciliation of balance sheet accounts will assure that transactions are resolved timely to income statement accounts. Reconciliation of balance sheet accounts is recommended monthly or quarterly. Financial Services asks that at both the interim audit and at year end a copy of supporting documentation be provided to facilitate audit reviews and to assure that reconciliation processes are adequate. If you have additional questions, please contact Guy Curtis (Academic related funds) or Marion Golding (Auxiliary Related Funds) or Wayne Bailey (Designated and Restricted Funds.)