## Bank Reconciliation Process

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**Purpose**

The objective of this SOP is to ensure the accuracy of cash balances recorded in the general ledger (GL) by reconciling them with bank statements. This process ensures that all bank transactions are recorded correctly, discrepancies are resolved, and the cash balance is properly reflected in financial reports.

**Note:** This SOP serves as a general framework. We recommend refining and adjusting it to align with your company's policies, systems, and reporting requirements. Regular updates should be made to ensure relevance.

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**Scope**

These procedures apply to the finance team responsible for reconciling all bank accounts at the end of each accounting period.

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**Responsibilities**

| Role | Responsibility |
|---|---|
| **Finance Analyst/Specialist** | Gathering data, performing the reconciliation, and documenting discrepancies. |
| **Finance/Accounting Manager** | Reviewing the reconciliation for accuracy and approving adjustments. |
| **Treasury Team** | Providing support for bank-related issues or missing transactions. |

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**Frequency**

Bank reconciliation should be performed **monthly** or more frequently, depending on company policies and the volume of transactions.

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**Procedure**

### Preparation:

- Obtain the bank statement for the period being reconciled.
- Retrieve the general ledger balance for the bank account.

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- Ensure that all bank transactions (deposits, withdrawals, fees, etc.) have been recorded in the accounting system before beginning the reconciliation.

## Data Comparison

- Compare the opening balance on the bank statement to the opening balance in the GL.
- Match individual transactions (deposits, withdrawals, payments) from the bank statement to the transactions recorded in the GL.
- Identify discrepancies between the bank statement and GL.

## Analyze Discrepancies

- **Unrecorded Transactions:** Check for bank transactions (e.g., fees, interest) that may not have been recorded in the GL.
- **Outstanding Checks:** Identify checks issued but not yet cleared by the bank.
- **Deposits in Transit:** Identify deposits recorded in the GL but not yet reflected on the bank statement.
- **Duplicate or Erroneous Entries:** Review for duplicate or incorrect entries in the GL.
- **Categorization:** Classify discrepancies by type (e.g., unrecorded fees, outstanding checks) to streamline adjustments and reviews.

## Adjustments

- Prepare correcting journal entries for discrepancies such as unrecorded bank fees, interest income, or errors.
- Document each adjustment, including a brief description, amount, and supporting evidence (e.g., bank statement, GL report).
- Obtain approval for adjustments from the Finance/Accounting Manager before posting entries.
- Maintain an audit trail for all adjustments, including dates and approvers' names.

## Documentation

- Maintain a reconciliation worksheet summarizing:
    o Bank statement opening and closing balances.
    o GL opening and closing balances.
    o Adjustments made (with descriptions and amounts).
    o Final reconciled balance.
- Attach supporting documentation for all adjustments, including:
    o Bank statements.
    o Payment confirmations or remittance advices.
    o Journal entries for adjustments.
    o Approval logs for adjustments.
- Store all documentation digitally in a centralized, secure location for easy retrieval during audits.

## Review and Approval

- Submit the reconciliation worksheet and supporting documents to the Finance Manager for review.
- Obtain approval for all adjustments and ensure they are posted to the accounting system.

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- Maintain a log of approvals, including names and dates, to create a clear audit trail.

### Reconciliation Finalization

- After approval, finalize the reconciliation by saving the worksheet and supporting documents in a secure location (e.g., shared drive or accounting software).
- Update the reconciliation status in the period-end checklist.
- Schedule periodic reviews of past reconciliations to identify recurring discrepancies and implement process improvements.

**Key Performance Indicators**

| KPI | Description | Target/Benchmark |
|---|---|---|
| Reconciliation Completion Rate | The percentage of bank accounts reconciled by the required deadline. | 100% |
| Discrepancy Resolution Time | The average time taken to resolve discrepancies identified during the reconciliation process. | ≤ 2 business days |
| Outstanding Item Clearance Rate | The percentage of outstanding items (e.g., checks, deposits) cleared within the following period. | ≥ 90% |
| Unexplained Variances | The count of unexplained variances remaining after the reconciliation process. | Zero unexplained variances |
| Bank Reconciliation Accuracy | The percentage of reconciliations completed without errors upon review. | ≥ 98% |

**Tools and Systems**

| Tool/System | Purpose |
|---|---|
| ERP System (e.g., SAP, Oracle, QuickBooks) | For GL data extraction and bank transaction recording. |
| Banking Portal | For obtaining bank statements and transaction details. |

| | |
|---|---|
| **Spreadsheet Software** (e.g., Excel, Google Sheets) | For maintaining reconciliation worksheets. |
| **Document Management System** | For storing and organizing supporting documentation. |

**Best Practices**

- Automate bank reconciliation where possible using ERP tools or bank feeds.
- Reconcile high-activity accounts more frequently (e.g., weekly) to catch discrepancies early.
- Maintain open communication with the treasury team for timely resolution of bank-related issues.
- Conduct periodic training for staff on bank reconciliation procedures to ensure consistency and accuracy.

**Compliance**

- Ensure compliance with accounting standards (eg. GAAP or IFRS).
- Retain reconciliation documentation for the audit period as per company policy.
- Follow the company's internal controls and approval workflows for all adjustments

**Change History**

| Revision Date | Revision | Description of change(s) | Author |
|---|---|---|---|
| | Initial Draft | Initial draft of the SOP | |

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