CLOSE OPTIMIZATION · TECHNICAL ACCOUNTING

Reconciliation Standards Guide

What a complete, audit-ready balance sheet reconciliation looks like — by account type. Use this to set standards before your next close.

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Why Standards Matter More Than Effort

The most common cause of audit delays is not missing reconciliations — it is incomplete reconciliations that were reviewed and signed off. This guide defines what 'complete' means for each major account type so reviewers have a standard to enforce.

> *An incomplete reconciliation reviewed and signed off is a control deficiency. Auditors test whether the review was substantive — not just whether a signature exists.*

Universal Standards — Every Account, Every Period

- Account name, account number, entity, and period clearly labeled in the header
- GL ending balance agrees to the trial balance — tied with a cell reference, not manually entered
- Subledger or external source balance documented with the data source identified
- All reconciling items listed individually — amount, description, and date each item arose
- No unexplained reconciling items — every variance has a documented resolution path
- Preparer identified by name and date the reconciliation was completed
- Reviewer identified by name, date reviewed, and evidence of independent review
- Completed within 15 business days of period end

Cash and Bank Accounts

Element	Standard
Outstanding deposits	Listed individually with deposit date, expected clear date, and amount — not as a single total
Outstanding checks and payments	Aged — items over 90 days require a documented follow-up or void decision
Bank fees and adjustments	All bank-side items posted to the GL before the reconciliation is finalized
Interbank transfers	Both the sending and receiving side confirmed as cleared in the same period
Petty cash	Physical count performed and documented if the balance is material

Accounts Receivable

Element	Standard
AR aging	Prepared from the subledger — not a manual summary or pivot table
Allowance for doubtful accounts	Methodology documented: aging percentage, specific identification, or historical rate
Credit memos	Applied to specific invoices or open items explained with expected resolution date
Intercompany AR	Agreed to the counterparty's AP listing — differences are an elimination error
Unbilled AR	Supported by contract milestones, delivery confirmation, or time records

Prepaid Expenses

Element	Standard
Prepaid schedule	Shows vendor, original payment date, coverage period, monthly amortization, and remaining balance by line
No single-line balances without detail	Each prepaid traced to a specific payment — 'misc prepaids' is not acceptable
Fully amortized items	Removed from the schedule promptly — zero balances create audit noise
Unusual items	Any prepaid over 12 months requires a documented business justification

Fixed Assets

Element	Standard
Asset rollforward	Beginning balance + additions - disposals - depreciation = ending balance, by asset class
Additions	Supported by invoice and capitalization analysis: meets dollar threshold and useful life test
Disposals	Gain or loss calculated, documentation attached, asset removed from schedule
Depreciation	Calculated by asset class using consistent method and useful life
Physical count	Performed at least annually, results reconciled to the fixed asset schedule

Accounts Payable

Element	Standard
AP subledger to GL	Must agree exactly — any difference is an error, not a reconciling item
Vendor statement reconciliations	Performed for significant vendors at least quarterly
Credit balances	Each explained: vendor credit, overpayment, or duplicate — with a resolution plan
Invoices in transit	Goods received before period end accrued in AP even if invoice has not arrived
Cut-off	Confirmed: AP balance includes all obligations as of period end

Accrued Liabilities

Element	Standard
Line-item detail	No single 'accrued liabilities' catch-all — each accrual on its own line
Basis for each estimate	Contract rate, invoice estimate, or calculation — not 'consistent with prior periods' alone
Rollforward	Beginning balance + accruals posted - payments made = ending balance, by liability
Payroll accruals	Calculated to the actual hours worked through period end
Bonus and commission accruals	Tied to the approved compensation plan, YTD attainment, and expected payout timing

The Five Gaps That Create Audit Delays

Gap	Why It Matters
Reconciling items with no description	Every reconciling item must have an explanation. 'Timing difference' is not an explanation.

Old items carried forward without resolution	Items over 90 days suggest the reconciliation is not being used as a control.
Review evidence that is a timestamp, not a decision	There should be evidence the reviewer evaluated the content — not just that they logged in.
GL balance not pulled from the trial balance	The GL balance must start from the TB, not be typed in. Auditors test this.
Reconciliations prepared after the audit request	File metadata shows creation dates. Retroactive preparation is a significant red flag.

Need reconciliation templates or a standards review?

VAO CPA designs reconciliation frameworks and account-level standards for finance teams preparing for audit or implementing an AI close platform.

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