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What is Accounts Reconciliation by Hrishikesh Mundani

Article published on January 10th 2012 | Finance

In most transactions based on accounts, periodic verifications are done to make sure that the money leaving an account is equal to the actual money spent. This is ensured by making sure that the balances tally at the end of a particular accounting period. In accounting terminology, the process of comparing two sets of records to make sure that they are in agreement is known as reconciliation. The sets of records that are compared in reconciliation are usually the balances of two accounts and so itself reconciliation process is also known as accounts reconciliation.

The comparisons done as the part of accounts reconciliation are basically between the sums that are being put in and the sums that are being spent. It can be seen that each account that is being compared will be provided with a characteristic number. This number is known as work breakdown service number or WBS number in short. Work breakdown service number of an account is vital in determining the costs associated to it. When comparing two accounts, their respective WBS numbers are compared so as to make sure that they balance at the end of an accounting cycle. In the accounts reconciliation process, Discrepancies are indicated when the WBS numbers do not balance.

Accounts reconciliation procedure is relevant for various types of accounts. A common business accounting system can be seen to deal with five types of accounts, they are, asset, liability, equity, revenue and expense accounts. These types of ledger accounts are usually considered in the procedure of reconciliation. Income statement accounts, which deal with revenue and expenses, are usually closed into equity accounts at the end of the financial year and their balances begin from zero all over again. Such equity accounts are known as Retained Earnings. In case of accounts that deal with assets, liabilities and equities, called balance sheet accounts, the balances roll from year to year and period to period.

Among the procedures adopted and followed so as to ensure the credibility of financial records, accounts reconciliation can be considered as a premium method. In addition to increasing the precision of financial reporting activities, a wholesome reconciliation process also permits the finance department to issue financial reports with higher assurance. Another form of account reconciliation, which involves explaining the difference between the bank balance calculated by the bank and the corresponding amount shown in the organizationâ€™s records, is known as bank account reconciliation.

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Article Keywords:
accounts reconciliation, accounts reconciliation procedure, reconciliation process, Bank account reconciliation, Accounts receivable reconciliation

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