



Article # 1187

Technical Note: Reconciling AR Aging Report with the Accounts Receivable GL Account Balance

Difficulty Level: Beginner Level AccountMate User

Version(s) Affected: AccountMate 7 for SQL or Express; AccountMate 6.5 for SQL, MSDE or LAN

Module(s) Affected: AR, SO, GL, RA (SQL, Express and MSDE versions only)

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DESCRIPTION

Accounts Receivable is one of the most important assets of a company. It is therefore necessary to establish its accuracy. One way to achieve this is to reconcile the AR Aging Report with the Accounts Receivable GL account balance because the reconciliation helps prove the accuracy and completeness of the recorded Accounts Receivable transactions and the Accounts Receivable GL account balance.

This Technical Note discusses the factors that should be considered in the reconciliation and the procedures involved.

SOLUTION

I. Considerations

These are the factors that you should consider when reconciling the Accounts Receivable GL account balances with the AR Aging Report.

A. *AR GL Account ID used*

The Accounts Receivable GL Account ID is generally used in **Accounts Receivable (AR)**, **Sales Order (SO)** and **Return Authorization (RA)** transactions. For these transactions, the AR GL Account ID is the value entered in the **Customer Maintenance Settings** tab. For new customer records, the default AR GL Account ID comes from **AR** or **SO Module Setup**.

If you maintain more than one AR GL Account ID, you must remember to generate the General Ledger Listing report for all AR GL Account IDs because you are reconciling the sum of all Accounts Receivable GL account balances with the total AR Aging report amount.

B. Report data sources

The **AR Aging Report** and **General Ledger Listing** functions are available in the **AR** and **General Ledger (GL)** modules, respectively. As the information on these reports come from different source modules there may be differences in their data.

1. AR Aging Report

The AR Aging Report displays information for transactions recorded in the **AR**, **SO** and **RA** modules that affect customer balances. The table below enumerates the transactions that comprise the information in the report and the effects that these transactions have on the report amount.

#	Customer Transactions	Effect(s) on AR Aging Report
1.	AR invoices	+
2.	Sales returns (credit invoices)	-
3.	Payments	-
4.	Finance Charges	+
5.	Open credits	-
6.	Open credit refunds	+

The open credit transactions will only appear in the AR Aging Report if the **Include Open Credits** checkbox is marked. The application of open credits to AR invoices will have a zero net effect on customer balances.

In generating the AR Aging Report to be used during reconciliation, be sure to include all customer accounts.

2. General Ledger Listing for AR GL Account IDs

The General Ledger Listing displays the balances of the AR GL Account IDs as well as the details of the GL postings. These GL postings are comprised of posted GL journal entries and entries transferred from subsidiary modules. The report generally displays the **AR** or **GL** module in the **Src** column (source column) Use the values in the **Src** column to identify the non-AR GL postings that do not affect the AR Aging Report.

***Note:** Journal entries for credit invoices created in the **RA** module are transferred to GL through the **AR** module; thus, for these GL postings the source module is **AR**.*

C. Report cut-off

The AR Aging Report and General Ledger Listing should have the same cut-off dates. These reports, however, have different report date options; thus, you need to establish what period or date ranges to use in generating these reports in order to facilitate the reconciliation.

1. AR Aging Report

Use the History Aging Report so that you can specify a cut-off date. In the **Report Date** field, specify the last day of a certain period. This period should be the same as the period range used when generating the General Ledger Listing.

2. General Ledger Listing

Prior to generating an AR General Ledger Listing, run the **Transfer Data to GL** function for all activated subsidiary modules. Alternatively if you are ready to close the period, you may perform the **Period End Closing** function. This is to ensure that all Accounts Receivable GL postings are included in the General Ledger Listing.

You can only specify a period range for the General Ledger Listing (e.g., GL Listing for period range Jan 2006 to Aug 2006); these periods are grouped by fiscal year. You cannot generate a report across fiscal years so if you have open AR transactions and GL postings from a prior fiscal year you need to generate separate General Ledger Listings for the current fiscal year and for the prior fiscal year.

To make the General Ledger Listing comparable with the AR Aging report, the period cut-off for the current fiscal year's GL listing should match the period of the AR Aging cut-off date. It is also important to generate the AR Aging Report as of the last day of a certain period because the General Ledger Listing can only be generated for period ranges.

II. Reconciliation

You can use the following formula in reconciling the Accounts Receivable GL account balance with the AR Aging Report. The formula starts with the sum of the AR GL Account ID balances which will be adjusted by the reconciling item amounts to arrive at the AR Aging Report balance.

Accounts Receivable GL account balance as of mm/dd/yy		
AR GL Account ID 1	\$ xxx	
AR GL Account ID 2	xxx	\$ xxx
Reconciling items:		
Add(Deduct) Non-AR transactions (a)	\$ xxx	
Add(Deduct) Erroneous postings (b)	xxx	
(Deduct) Open credit amounts (c)	(xxx)	xxx
AR Aging Report balance as of mm/dd/yy		\$ xxx

Reconciling items

Below are the details of the reconciling items that cause the differences between the AR Aging Report and Accounts Receivable GL account balance.

(a) Non-AR transactions

Depending on whether the posting is a debit or credit entry, you should deduct or add back the non-AR transactions, such as postings from the **GL** module, because these transactions are not included in the AR Aging Report. Note that these GL postings are valid but because the transactions are not posted in **AR**, **SO** or **RA**, they do not become part of the AR Aging Report.

(b) Erroneous postings

There may be non-AR transactions which are erroneously posted to the AR GL Account ID. These postings may come from **GL** or subsidiary modules such as **Accounts Payable** and **Inventory Control**. Aside from identifying these transactions during reconciliation they should be corrected in the records by posting the appropriate adjustments. For example, you may have posted an expense to the Accounts Receivable GL Account ID when you were posting an AP invoice. If the AP invoice is not transferred to the history file, you can amend it; otherwise, you need to post an adjusting journal entry in the **GL** module.

(c) Open credit amounts

The system uses the value entered in the **Customer Deposits GL Account ID** field in the **GL Accounts** tab of the **AR** or **SO Module Setup** in posting open credit transactions. If you use a GL Account ID which is different from the Accounts Receivable GL Account ID to post overpayment, advance payment and deposit transactions, you should deduct the open credit amounts from the Accounts Receivable GL Account balance because these transactions reduce the customer account balances in the AR Aging Report.

If the Customer Deposits GL Account ID is different from the Accounts Receivable GL Account ID, you should also reconcile the former with your Accounts Receivable payment and refund transactions to establish its accuracy.

Reconciling the AR Aging Report with the Accounts Receivable GL account balance helps establish the accuracy of your Accounts Receivable. Knowing the possible causes for the differences between the two reports and understanding the formula that you can use to compare these reports will help you to perform the reconciliation with ease.

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