

How This New Accounting Feature Can Save Businesses From Fraud and Financial Mishap

Reconciliation has been a pain point for small businesses for a long time, but new technologies now enable payments companies like banks to automate the reconciliation process. The small business banking market in North America still leaves much to be desired, leaving room for innovative banks to differentiate themselves from competitors.

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Imagine this. John Carter begins his job as the country club's new finance and administration director by reconciling its payroll journal entries with employee [payroll](#) logbooks provided by its payroll processor. It takes him weeks and distracts him from other important issues. Eventually, Carter deduces that the club's HR director is misappropriating thousands of dollars in overpayments to herself and other employees.

Without reconciliation, Carter might not have been able to discover the [fraud](#). He might have caught it sooner — maybe even prevented it — if the club had a monthly or biweekly reconciliation policy that provided tight oversight of its bookkeeping.

Reconciliation reliably helps monitor cash by cross-validating accounting data with an independent financial record like a bank

Does your accounting data show more cash than is available in your bank account? Maybe a customer's payment bounced, or you forgot to account for bank fees. Reconciliation bolsters the integrity of your bookkeeping, helps monitor [cash flow](#), identifies fraud, prevents overspending, and creates accurate financial statements.

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Small and medium-sized businesses have very limited resources, typically with one overworked accountant reconciling financial records manually. Depending on factors like a small business's purchasing and sales values, number of employees, operational history, etc., reconciling can be time-consuming, laborious and error-prone. Consider the steps involved:

- Logging onto the banking portal.
- Downloading bank statements.
- Manually comparing each entry against its counterpart in the accounting records.
- Documenting the process across multiple spreadsheets.

A misstep at any stage, with any entry, can jeopardize the whole process.

Moreover, most payment methods take time to settle. Here's a breakdown:

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Payment methods and settlement times

- ACH (Automated Clearing House) credit
 - Approx. 1 business day

- Same-day ACH credit
 - 1 business day
- Same-day ACH debit
 - 1 business day
- Wire transfer
 - Instant
- Real-time payments (RTP)
 - Instant
- Checks
 - 3-7 days

Some of these settlement times force a lag that masks the available balance, which transactions are still processing, and when different sets of transactions are likely to settle. Small businesses usually work with thin margins, and making financial decisions on outdated or faulty information can be incredibly costly.

Banks also process transactions in batches. A small business may make ten separate ACH credit transactions of \$1,000, yet, the bank processes it as one \$10,000 transaction, making it challenging to tie each payment to the appropriate transaction on the bank statement.

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Automatic reconciliation solves these issues by uploading and cross-validating banking records with their accounting platforms. It offers accurate financial statements, sped up bookkeeping and improves financial management. With small businesses under increasing pressure to [close their books faster](#), think of the time, cost and labor savings owners could have with auto-reconciliation.

But businesses are limited in choice. Some auto-reconciliation tools require manual intervention, like uploading bank statements, while major accounting platform providers like [QuickBooks](#) allow users to import banking data for cross-verification via proprietary APIs with large financial institutions. But what if a small business banks with a financial institution that doesn't link with their accounting platform or vice versa?

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accounting system. [Auto-reconciliation](#) via APIs ensures that a business's accounting records are always up-to-date because its bank automatically populates its accounting platform with real-time information. Offering a universal accounting API ensures that banks never come up short in serving the small business community and that businesses never have to think twice about whether their banks and accounting systems are compatible.

The broad application of APIs in the banking industry offers immense value to other services, like loan origination. Lending APIs streamline and accelerate the underwriting process by establishing a direct connection between lenders and loan applicants, increasing transparency and access and reducing the potential for fraud. Banks with supercharged services via third-party APIs are becoming more common in places like the UK, where open banking is government-mandated.

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We're still quite behind in the US and Canada, but not for long. The reality is that auto-reconciliation is one small business need that speaks to a larger one: Small businesses need specialized care. Banks must catch up or risk losing customers to competitors who understand the game and are expanding to access a broader range of niche services. Banks and payment providers that quickly offer value-added services via APIs to their small business clients will benefit long-term through client retention.

Of course, technology is not 100% foolproof — some degree of manual checking will still be necessary. But by offering their small business clients a chance to automate a critical accounting process, banks can invest both in their clients and their own futures.



Nick Chandi is the CEO and Co-Founder of Forwardly, an award-winning instant payment provider for small businesses in the USA. Forwardly helps businesses get paid and pay bills faster, easier, and for up to 80% less processing fees.

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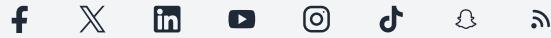


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