

# Optimizing the Financial Close Process



For countless financial professionals around the world, the slightest mention of the financial close process is enough to conjure images of drudgery and frustration.

Given that the closing process is often a harried, hurried, and high-pressure affair, this reaction is more than understandable. But does the financial close process have to work this way?

The short answer is: “No.” With the right tools and techniques, finance teams can break free from the bottlenecks and busywork that defined the closing process prior to the digital age, and optimize their account reconciliation and financial statements for maximum speed, accuracy, and strategic value.

## What is The Financial Close Process?

Whether they call it month-end closing, the month-end close process, financial close, or simply “close,” finance teams wrap up the month’s accounting with the financial closing process.

They record all transactions as journal entries, then carefully review them to

confirm their legitimacy.

Companies generally close the books at the end of every month, but they also must perform quarterly and annual financial closings.

The close process is critical to an organization's financial and strategic planning. Its workflows produce the financial reporting chief financial officers (CFOs) use to:

- Update stakeholders—including management, creditors, investors, and regulatory bodies—on the company's financial position.
- Engage in strategic decision-making regarding the company's investments, budgeting, strategic sourcing, marketing, etc.

To begin, the finance team collects all the information relevant to the closing process at the end of the month (or period end, for quarterly and annual closes).

This includes (but is not limited to):

- Balance sheets.
- General ledger.
- Income and expense account data.
- Financial statements.
- Inventory levels.
- Petty cash.
- Bank account information.
- Total fixed assets.

The closing process itself can be broken down into four basic steps, focused on an income summary and retained earnings, zeroing out temporary accounts to start fresh with the new accounting period.

A typical close will look something like this:

1. Close the revenue accounts to the income summary.
2. Close the expense accounts to the income summary.
3. Close the income summary to retained earnings.
4. Close withdrawals/dividends to retained earnings.

Diving deeper into the closing process, these four steps are supported by ten sub-

tasks.

1. All incoming cash is recorded.
2. Accounts payable are updated.
3. Account reconciliation.
4. Petty cash values are reviewed and confirmed.
5. Fixed assets are reviewed.
6. Inventory taken and confirmed.
7. Financial statements are prepared and reviewed.
8. Totals for the expense and revenue accounts are verified.
9. All data is given a final review prior to closing.
10. The finance team begins preparing for next month's financial activity.

*While not having internal controls in place for performing the actual month-end close presents its own set of frustrations, a lack of standardization in other business processes can create an even bigger headache.*

## **The Financial Close Process: Headaches and Bottlenecks**

While it might seem pretty straightforward in the abstract, the closing process can be an uphill slog for the accounting team if they're taking a classic (i.e., manual processes and paper-based workflows) approach.

From locating missing documents to tracking down and correcting data errors to the tedium of manual data entry, finance teams have plenty to frown over when they're stuck navigating manual workflows.

These frustrations are often exacerbated by the need to manually update stakeholders about the status of close or respond to questions whose answers aren't readily available to people outside accounting.

Some of the most common reasons these frustrations persist include:

### **1. An Undefined Financial Closing Process**

Companies that are still handling close by hand (and with paper) may not have formalized processes for month-end close or its quarterly and annual brethren.

Without a clear, standardized set of protocols in place, the accounting team may be relying on knowledge written down in multiple places or, worse yet, locked away in the heads of specific staff members who will take it with them when they leave.

## **2. Lack of Real-Time Data Access**

As with driving an automobile or archery practice, a lack of visibility in accounting can quickly lead to disaster.

In larger organizations with plentiful expense reports and minimal data transparency, it's entirely possible that the finance team may not have a fix on actual expenses until the month-end close is complete.

As a result, tracking down and correcting errors can quickly become a massive bottleneck. A manual accounting system can quickly become overwhelmed by financial information from expense accounts spread across multiple departments and business units.

The accounts team is on the proverbial hook when it comes to getting complete, clean, and accurate information from across the organization.

And if they're spending valuable time chasing lost documents, playing email tag with traveling and remote staff in different time zones, or correcting simple errors created by manual data entry, the process of closing the books can grind to a halt.

## **3. A General Lack of Standardization**

While not having internal controls in place for performing the actual month-end close presents its own set of frustrations, a lack of standardization in other business processes can create an even bigger headache.

If team members are submitting their expenses on seven different apps, using a mishmash of forms and formats, following only their own instincts with regard to what information to include, things will quickly go from bad to worse.

Standardization is essential to closing the books and producing financial reports

while they're still strategically useful to the senior management team and other stakeholders.

#### **4. An Incomplete or Inefficient Financial Tech Stack**

Some companies invest in a measure of digital transformation technology, but then continue to struggle during the closing process. Maybe they've implemented limited process automation, such as OCR, into their workflows.

Maybe they've added enhanced financial data management and analysis capabilities, but haven't made them readily accessible or provided the time, structure, and controls necessary to make optimal use of them.

Whatever the reason, they reach month-end and then continue to struggle.

Why? In the age of Big Data, half measures can sometimes be more damaging than failing to update at all.

Standardization, formal controls, and process optimization are essential to successfully leveraging digital technologies, but it's just as important to ensure the tools selected can automate *all* the relevant workflows, provide visibility into and control over *all* financial information, and integrate effectively with the disparate data sources the accounting team must access to successfully close the books each month, quarter, and year.

## **Best Practices for Optimizing Your Financial Close Process**

The foes of a successful closing process are clear: fragmented, siloed, and opaque financial information; paper-based, manual workflows; lack of standardization and automation.

Take the fight to the enemy by following a few simple best practices.

### **1. Perform a Needs Analysis**

You need to know what's broken in order to fix it. A detailed review of your current closing processes and workflows will reveal the primary sources of inefficiency and waste, and help you develop effective solutions.

Some of the areas to consider in your analysis are:

- Resources and timeframe required to complete the closing process effectively and efficiently.
- Potential roadblocks created by financial complexity, e.g. intercompany transactions and consolidations.
- Your current software environment, its level of integration, and workflows affected by it. For example, do you have multiple reporting packages being used by different business divisions? Are some departments submitting expense reports in Excel while others use a write-in form? Is data transparency and analysis hampered by the need to manually enter data from some departments? Do you have multiple systems reporting transactions in multiple formats that require manual intervention to reconcile effectively?
- What metrics are being used to evaluate the efficiency and effectiveness of the month-end close process? Which key performance indicators (KPIs) are being monitored, if any?

## **2. Invest in True AP Automation, P2P, and Spend Management Software**

The leather-bound ledger and Excel spreadsheet were both gold standards in their distant heydays.

But accounting teams who want a quick, clean, accurate, and complete closing process understand that paper documents and manual workflows are simply too slow, wasteful, and costly to get the job done any longer.

Investing in a cloud-based, comprehensive procure-to-pay solution like PLANERGY gives finance teams access to more effective and accurate spend management, powerful AP automation tools, and a centralized data management solution that shatters data silos, integrates with their existing software environment, and standardizes communication and collaboration.

- Total visibility into all spend data, from a single centralized location. Role appropriate, secure access from any device and platform (including mobile) makes it easy to collect, organize, and analyze financial data quickly.
- Fully automated workflows and policies with built-in support for

contingency and context standardize data collection and reporting, help eliminate rogue spend and invoice fraud, simplify approvals, and ensure all relevant data is factored into essential calculations and financial statements.

- Automation eliminates the waste, human error, tedium, and delays that come with manual workflows while reducing storage, materials, and labor costs.
- Standardized forms and workflows, combined with automatic expense report verification, help to eliminate errors and help teams collect expense reports and more quickly.
- Automated invoice processing further reduces manual tasks.
- Data centralization and standardization simplify intercompany consolidation for organizations with multiple subsidiaries.

### 3. **Engage, Educate, and Empower Your Organization**

Everyone needs to be on the same page for business processes to work effectively and consistently.

- **Provide perspective.** Folks outside the accounting department may have only the faintest understanding or awareness of the month-end close and its importance to the organization—including the dependencies to its success created by their spending activities.

Creating awareness of the closing process and the need for everyone to do their part makes it much easier to ensure everyone's following protocol and providing the best possible financial information to the finance team.

Engage both senior management and your IT team to provide leadership, guidance, and technical acumen. Develop and implement training and enforcement procedures to help team members understand and adapt to the protocols and workflows that support a successful, swift, and accurate close.

- **Break down silos.** Standardizing workflows and file formats will go a long way toward reducing redundancy, improving data quality and transparency, and speeding the overall closing process. It will also improve communication and collaboration between departments, business units, and stakeholders in general, reducing needless expense and waste created by redundancies and errors.
- **Collaborate to remove roadblocks.** The finance team can collaborate

with other stakeholders across the organization to identify and address obstacles to a successful close. *Constraint analysis*—i.e., a formal process for uncovering and eliminating constraints (bottlenecks) placed on a given system—can help.

- Clearly and accurately describe the constraint.
- Categorize the constraint appropriately (policy, people, processes, or systems).
- Identify the root cause of the constraint.
- Define the direct impact of the constraint on the closing process.
- Identify the benefit of eliminating the constraint.
- Strategize a solution to remove the constraint.

## **Streamline Your Financial Close Process for Less Stress and Greater Success**

Whether your accounting team is preparing the month-end, quarterly, or year-end close, the process doesn't have to be painful.

Invest in technologies that improve your real-time data access, transparency, and quality, whether you're sharing across the office or between business units.

Automate and standardize your processes to improve the accuracy, speed, and efficiency of your accounting cycle.

Once you've removed the bottlenecks and smoothed out the speed bumps, you can enjoy a financial close that's faster and easier than ever before—and give your CFO and other leaders better insights (and more time!) to make optimal business decisions.

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