Month-End Closing Process in Accounting

Whether you're a small business owner, a CPA, or part of a dedicated corporate accounting team, the success of your business relies heavily upon certain standardized procedures and the data they generate. This is particularly true for the accounts payable department, where the *month-end closing process* must be done properly to ensure the accuracy and completeness of your financial statements and balance sheet. It's neither glamorous nor particularly enjoyable for many, but month-end close *is* essential to the health and happiness of not just your accounting department, but your entire organization.

Traditionally, month-end closing has been regarded as a time-consuming and occasionally frustrating process—a sort of "necessary evil" in bookkeeping. But by taking the time to understand its particulars, implementing a clear and concise checklist, and investing in the right technology, you can ensure your month-end close is quick and (nearly) painless, without sacrificing accuracy or completeness.

What is the Month-End Close Process?

At the end of every month, a business needs to review its accounts to ensure it has properly recorded and reconciled all of the transactions that have taken place during that specific month. This helps to ensure all accounting data is organized, accurate, and complete. In turn, this simplifies and streamlines a number of other accounting procedures, including month-end for each month to come and the annual version of month-end known as *year-end close*.

Closing the books benefits your organization in several ways:

- Accurate, comprehensive, and current financial records.
- Provides context necessary for informed decision-making.
- Simplifies tax filing.
- Highlights areas in need of improvement and provides insights on how to implement such improvements.
- Streamlines audits.

A successful month-end closing process requires you to collect some essential information. Increasingly, collecting and organizing this information has been greatly simplified with help from tech tools such as comprehensive procurement solutions. Cloud-based, mobile-friendly, and designed to help you achieve lasting and continuous improvement through data analysis and process automation, these software solutions give you complete and transparent access to, and control over, all of your spend data. This improves the accuracy and completeness of *all* your financial records, including accounts payable reports that drive your strategic spend management and financial planning.

Every business is unique, and what works for a mega-corporation may not be in the cards for a small business. That said, generally you'll need the following items to perform a month-end close:

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

Remember, your specific procedures may vary based on your industry, accounting methods, available technology, etc. If you're using a cloud-based, automated solution such as PLANERGY, many of these data sources will already be connected, organized, and ready for real-time access, manipulation, and analysis as needed.

> *The more complete and accurate your financial statements are:*
>
> - *the more likely you'll be to have an accurate trial balance;*
> - *the more useful the insights they'll reveal;*
> - *the more informed you'll be when crafting strategies and making crucial business decisions.*

Month-End Closing Process Checklist

Collecting the necessary information is just the first step. To ensure your month-end close is as smooth and painless as possible, it pays to follow a month-end close checklist. A checklist will help you keep track of essential information and minimize time-consuming errors and redundancies.

1. Record All Incoming Cash

Whether it's revenue, invoice payments, or loans, you need to record all the funds your organization received during the month in question. Verify all invoices have been sent. Cross-check to ensure the invoices you have sent have been paid.

If you're using procurement and accounting software with automation and artificial intelligence, then automatic three-way matching of purchase orders to invoices to shipping documents will make this step much simpler—and faster.

2. Review Accounts Payable Records

Knowing when and where your team is spending money is at the core of effective spend management. If you're still using pen-and-paper accounting practices, you may not have real-time records of all your purchases for the month.

As with Step 1, this part of the month-end close is much more transparent, accurate, and swift if you've been recording and tracking spend automatically in your accounting system. You'll have much less risk of maverick spend or fraud throwing a spanner in the works, too.

3. Reconcile All Accounts

Matching the entries in your financial statements with the corresponding entries from vendors, banks, etc. is known as reconciliation.

Generally speaking, accounts fall into one of three categories:

- Bank loans or notes
- Prepaid or accrued accounts
- Cash, checking, and savings accounts

Reconciling accounts payable and accounts receivable in this way is also known as the *accruals* process, as dictated by accrual-based accounting principles.

Accruals are adjusting entries made to ensure that all transactions that take place within a given period (e.g., a month) are recorded properly.

In accounts receivable, accruals are used to report revenue (and corresponding accounts receivable) earned during a given month that have not yet had their transactions recorded.

In accounts payable, accruals record expenses, losses, and any associated liabilities incurred during the month that have not yet had their transactions recorded.

Let's say your company has earned $200,000 in revenue this month, in the form of customer purchases. Invoices have been issued, but payment isn't due until the 15th of *next* month. So an accrual entry of $200,000 is added to record earned revenue, offset by a corresponding entry to the Accounts Receivable account. When the customer pays their bill next month, the cash entry of $200,000 generates a corresponding drop in Accounts Receivable.

On the other side, imagine your company purchased $5,000 in office supplies this month, and received an invoice from the vendor. However, it's not due until the 10th of next month, and that's when payment is scheduled. So the $5,000 becomes a current liability and is placed in Accounts Payable, with a corresponding entry in the Office Supplies expense account. Next month, when payment is issued, an entry will be added to reduce cash by $5,000, along with a corresponding entry that drops the Accounts Payable balance by the same amount.

This process may be viewed by those outside the accounting department as time travel or financial legerdemain. But the truth is it’s the simplest and most effective way to ensure you can see, measure, and track expenses and revenue as they occur, and provide accurate, comprehensive financial records for internal planning, internal and external audits, and tax preparation.

Centralized data management and close integration between your procurement and accounting systems will streamline reconciliation and keep both revenue and expenses from slipping through the cracks.

4. Don’t Forget Petty Cash

If your company uses a petty cash fund, that spend will likely become invisible unless you have systems in place to track it. Manual accounting involves tracking receipts and cross-checking them with withdrawals from petty cash. Better yet, developing workflows that integrate automatic recording of all petty cash purchases (scanning receipts, etc.) into the system will help you avoid skewed totals due to forgotten or misplaced receipts, and make verification that much simpler at month end.

5. Review Your Fixed Assets

Anything that adds long-term value to your business is likely to be considered a fixed asset. Their lifespans extend through multiple periods, years, and even decades. Examples of fixed assets include:

- Buildings
- Computer hardware and software
- Furniture and fixtures
- Intangible assets (intellectual property, brand names, Internet domains, etc.)
- Land
- Machinery
- Vehicles

Fixed assets are generally big-ticket items that readily convert to cash in the general ledger. Instead, they may generate expenses for your company in the form of repairs, depreciation (for tangible assets), amortization (for intangible assets), or impairment costs (if an asset dips below its net book value). For the purposes of the month-end closing process, you simply need to record any of these expenses that occur for each of your fixed assets.

6. Perform an Inventory Count

If your company maintains a physical inventory of materials or finished goods, a monthly count will reveal any discrepancies created by error, damage, theft, or spoilage. Mark-downs due to inventory shrinkage should be recorded as losses in the month they occur.

Again, a centralized, cloud-based, and fully integrated inventory/procurement/accounting system can be a lifesaver at this stage. Having eyes on all your inventory, in real time, means less inventory shrinkage from theft, damage, and loss. It also provides a virtual benchmark for your physical inventory counts that can reveal areas in need of improvement or “blind spots” that create needless ongoing expense. If your system supports barcoding, RFIDs, or other information management protocols, physical inventory counts will be even faster, since all items will be tracked in the system in real time.

7. Collect and Review Financial Documentation

Month-end close requires accurate and organized financial statements, including your general ledger, balance sheet, and profit/loss statement. You’ll use these documents to establish your listing of final balances for all accounts, known as your *trial balance*. The purpose of the trial balance is to show that your financial records are properly balanced, with a net balance of zero for all credits and debits.

The more complete and accurate your financial statements are:

- the more likely you’ll be to have an accurate trial balance;
- the more useful the insights they’ll reveal;
- the more informed you’ll be when crafting strategies and making crucial business decisions.

A software solution with advanced data analysis and reporting support can generate and populate these documents automatically, and then provide detailed analyses you can use to plan for the months and years ahead with confidence.

8. Plan Ahead

Month-end close is an essential process that can be refined and streamlined to achieve maximum efficacy with minimum error, waste, and disruption. Invest in developing a fully integrated software environment to slash the “grunt work” of tedious manual workflows and eliminate obstacles like rogue spend, fraud, and human error. Establish firm closing dates, and develop processes to ensure all the necessary information is available and complete when it’s time to wrap things up for the month.

Closing the Books Properly Opens the Door to Greater Success

Like all business processes, the month-end closing process has the potential to help your company thrive, or hinder its growth and success. Investing in the proper tools, developing effective processes, and ensuring you have the greatest possible visibility of, and access to, your financial information, will help take the sting out of month-end, and help you transform bookkeeping into value-building with rock-solid financial data, actionable insights, and better decision-making.

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