Five Steps to a Faster, Better Month-End Close

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Finance and accounting leaders are increasingly concerned about ease, speed and accuracy in the month-end closing process.

They need to ensure timely delivery of accurate financial statements to meet regulatory and audit deadlines and drive strategic business decisions. A key goal is to simplify and accelerate the process without increasing overhead costs or relying on already overburdened staff.

In the quest for greater efficiency, it's often a good idea to look at what has worked for industry peer organizations. Here are five steps financial institutions can take to trim days from the month-end close and put financial statements in the hands of senior management more quickly.

Step 1: Analyze Processes to Eliminate Delays

Identifying opportunities for greater efficiencies starts with an assessment of current processes.

The following questions can help uncover potential areas for improvement:

Does the process rely on spreadsheets and printouts?

Is data being manually rekeyed, and if so, what is the error rate?

How accurate is the data?

How easy is it to gain visibility into the data?

Are routine transactions and recurring journal entries manually processed?

Is the process of updating and comparing current activity to the previous month and budget a manual process?

How many review and approval cycles exist, and can that number be reduced?

Is employee access and editing of data tracked to reduce risk?

Are receivables and payables held open for late transactions?

Is reporting easy to use and does it provide in-depth supporting information for decision-makers?

Once these questions are answered and an investigation into the process is complete, staff can initiate changes to minimize delays while increasing accuracy, security and visibility.

Step 2: Automate Wherever Possible

Using the information gathered in Step 1, manual processes should be automated wherever possible using accounting software. Automation not only saves time, it reduces the potential for error and provides an audit trail. Some examples of time-saving automation are provided below.

Unattended Processing

To eliminate errors and improve productivity, monthly tasks such as general ledger transactions, accrual journal entries and prepaid amortization entries can be automated. Tasks can be scheduled to run at the same time every month.

Report Groups

Report configurations can be created and placed in a report group to automatically run together at a specific time. Ideally, reports are scheduled to run overnight so teams can review them in the morning. For instance, report configurations can be created for financial and trial balance reports and these configurations can be placed in a report group. Alternatively, a group for all prior month-end reports could be created.

Processing and Posting Transactions

Processing and posting transactions in real time (even transactions from other systems) eliminates the need to run batches, imports or separate posting runs for every session. This can shorten the close time by days.

Eliminations

If the accounting software being used includes an elimination table, an elimination entry is automatically made every time an entry is made to an account identified in the table. A report can be created that shows one column for each company, another column for the elimination company and a consolidated column. As a result, staff can review eliminations through an automated report rather than a manually created spreadsheet.

Step 3: Integrate Applications and Workflow

If core financial applications are integrated, preferably operating from a single database, organizations can eliminate much of the rekeying and redundancy that cause mistakes, delay reports and limit productivity. When information is needed, staff can simply drill down into a single database for research and record retrieval.

Automated workflow also streamlines processes. For instance, web-based invoice approvals can be enabled through a centralized workflow that automatically sends reminders. In addition to saving time, an automated workflow cuts down on late payments.

Step 4: Adopt a Pre-Close Approach

Closing throughout the month eliminates tasks from the busy days at the end of the period. Organizations can evaluate sections of financial statements, such as bad debt allowances, that can be completed quarterly rather than monthly.

Here are some specific examples of pre-close:

- General ledger entries that need to be posted at month-end could be advance-dated; for instance, if an entry posted on the 18th is dated the 30th, it would not be reflected in financial reports until the 30th (assuming the system allows it)
- Income for month-end can be projected mid-month; this ensures that all expenses through mid-month are in the expense account balances and enables more accurate projections
- Receivables and payables can be closed upfront; it's a good idea for management to create a checklist that identifies tasks, when they should be done and who will do them

Step 5: Don't Lock Down Books at Month-End

The ability to leave the books open for changes after month-end can be helpful. This enables organizations to close their books to meet deadlines while allowing for adjustments if new data comes in or a problem needs to be investigated.

What Automation Can Do

Imagine that an employee, when reviewing a monthly financial statement, notices a particularly high expense account entry. To research the expense, the employee simply double-clicks on the amount to display a list of accounts included in that balance. They can then click on a particular transaction to identify the invoice from which it originated. Attached to the electronic file is a scanned copy of the invoice, and with another click the actual invoice is displayed for review. By drilling down further, the corresponding fixed asset and/or procurement records for the item can be viewed. With automation like that, organizations can get the answers they need quickly.

Some accounting software allows previous periods to remain open after transactions for a new period have been entered. Once management is satisfied, previous periods can be locked down so no further changes can be made.

This best practice comes in handy when expensing invoices for the previous month. With the right system, staff can simply enter the invoice in the accounts payable transaction screen and backdate the transaction to the previous month. Then, a check can be issued in the current month without affecting net income.

Solving the Month-End Quandary

For organizations with high transaction volumes, closing the books at month-end is no easy feat. Without automation and updated processes, it can be difficult to accomplish an efficient, timely and accurate close.

However, with implementation of streamlined processes and the right accounting software for task automation and data integration, organizations can shorten close time while increasing data accuracy.

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Fiserv, Inc.
255 Fiserv Drive
Brookfield, WI 53045
www.fiserv.com

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