August 2019

Five Steps to Optimizing the Month-end Close

Executive Summary

- Most highly effective finance teams can complete their monthly close in 5 days or less
- More than 50% of finance tasks can be mostly or fully automated
- The first step in shortening the monthly close is to document the process
- Next, management should identify all the dependencies and prioritize key tasks to avoid delays

Overview

Although accounting systems and related applications have improved dramatically over the past twenty years, the monthly close remains inefficient for many companies. Recent research by the McKinsey Global Institute indicates that more than 50% of finance activities can be either fully automated, or mostly automated, based on the tools available today. As companies continue the transition toward automation, the keys to an efficient month-end close may be found across the entire function. Streamlining the close provides not only quicker access to financial results, but can also generate significant recurring cost savings and higher employee morale. Here are five initial steps companies should consider to optimize their month-end close process:

Step 1: Document the process

The first step in improving the monthly close process is to document all the steps and activities, including internal controls, currently performed during the month-end close. This is most effectively accomplished by engaging every individual involved in the process. The documentation should include each system, process and person involved in the close and either establish or validate a formal close calendar and checklist. The objective is to determine whether there is a well-defined process and whether the key parties involved understand their role in driving that process. Once the overall process

- Review the chart of accounts and account reconciliations to identify time-consuming procedures
- Analyze journal entries and post- close adjustments
- Once streamlined, organization and communication are the keys to an efficient close.

as well as the underlying systems, sub-ledgers and manual spreadsheets are identified, management can begin to search for bottlenecks and other opportunities to implement best practices.

Step 2: Identify the dependencies and inefficiencies

Once the overall process is documented, companies should break it down into a series of sub-processes and discrete tasks to help identify all the actual and potential dependencies that contribute to delays. Each of these dependencies should then be scrutinized and prioritized to ensure they are completed timely to avoid a series of cascading delays. Additionally, this process should involve identifying workload balance inequities, opportunities to automate data-transfer and refocus individual tasks from ‘create’ to ‘review and assess.’

Step 3: Review the chart of accounts and account reconciliations

Once the close process itself is evaluated for inefficiencies, management should analyze the chart of accounts and balance sheet account reconciliations to identify opportunities to implement best practices. As businesses grow, the chart of accounts frequently becomes bloated or antiquated. Companies should periodically review their chart of accounts and associated cost- and profit-center designations to ensure the structure remains appropriate for the current business priorities. Part of this review should include an evaluation of the account reconciliations. Any account reconciliation that is overly complicated or time-consuming should be carefully reviewed for simplification or automation. At the very least, complicated account reconciliations should be completed at the earliest possible point to avoid delays.

Step 4: Analyze journal entries and post close adjustments

A high volume of manual journal entries and post-close adjustments typically indicates that either the Company has a flawed estimation process or that there are other process and control weaknesses that should be evaluated for improvement. In this regard, each post-close adjustment should be investigated to identify the root cause of the entry. These root causes should then be systematically eliminated or remediated.

Step 5: Communicate, communicate, communicate

Highly effective finance teams communicate early and often to avoid surprises and delays later in the process. Tools such as close calendars, checklists and process-flow software can be effective to avoid confusion and ensure that everyone understands what they should be doing and when. Layering on top of these tools pre- and post-close meetings can help to focus the entire group on the common objective and ensure that everyone is rowing in unison. Finally, for those sub-processes requiring involvement from parties outside the finance group, routine education, engagement and communication should be instilled to ensure optimal interaction.

Conclusion

The capabilities of most accounting systems and their potential for integration with other widely available applications are advancing rapidly. When evaluating the existing month-end close process, management should identify and challenge any historical precedent with a focus on leveraging recent developments in technology and automation. For instance, integrating a third-party payroll application with the general ledger might eliminate dozens of recurring manual payroll journal entries. As another example, there may be time incurred performing detailed calculations of amounts that are no longer material to the Company which could be replaced with a thoughtful estimate. Logical analysis, solid project management and focus on an aspirational future state can help to align everyone in embracing the implementation of best practices in the monthly close.

WILLIAMS MARSTON

WilliamsMarston LLC

- Former Big Four experts with deep industry, operational and technical accounting expertise
- We provide actionable insights into the latest technical accounting and financial reporting developments

How we can help

With offices in Boston and New York, WilliamsMarston LLC is comprised of former Big Four accounting experts. The firm routinely advises pre-IPO and public companies on the accounting and reporting for complex transactions, including initial public offerings, mergers and acquisitions, revenue recognition, debt and equity instruments, variable interest entities and stock-based compensation amongst many others. Chief Financial Officers and Controllers rely on WilliamsMarston for assistance with their most complex accounting and reporting initiatives.

Boston Office
265 Franklin Street
4th Floor
Boston, MA 02110
www.williamsmarston.com

New York Office
205 E 42nd Street
19th Floor
New York, NY 10017

Landen C. Williams
Partner – Boston
Phone: (617) 306-0951
landen@williamsmarston.com

Jonathan T. Marston
Partner – Boston
Phone: (617) 851-0891
jon@williamsmarston.com

Marcello Castellano
Managing Director – Boston
Phone: (617) 981-3451
mcastellano@williamsmarston.com

Michael R. Donoso
Managing Director – New York
Phone: (646) 757-0572
mdonoso@williamsmarston.com

Gregory McKenzie
Managing Director – Boston
Phone: (617) 386-6837
gmckenzie@williamsmarston.com