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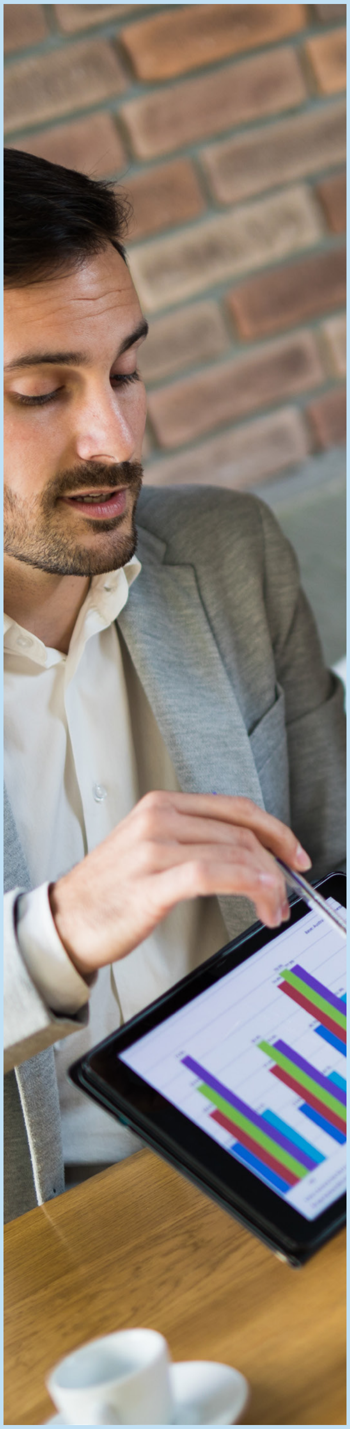

CAN FASTER PERIOD-END CLOSING CHANGE THE OUTLOOK OF AN ORGANIZATION?

Abstract

Period-end closing is a key finance activity that records accounting transactions for a period - a month, quarter, or year. The output is a financial statement (balance sheet, profit & loss statement, or cash flow statement) in accordance with the accounting standards followed (IFRS or GAAP) and it presents the financial health of an organization to management, investors, and regulatory institutions.

Not only in the normal situation but also in an unconventional present condition such as novel coronavirus (COVID-19), it is important to speed up the period-end closing process. A faster period-end closing reduces the time taken to close the books of accounts and enables investing of that time to the generation of insights and recommendations from that data.

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Staying relevant and competitive with faster period-end closing

To stay relevant and competitive in constantly changing business scenarios and to play a strategic role of an advisor to the management, the finance and accounting function has to be transparent, be quick with reporting, and have cost-efficient operations. One of the key levers to achieve this is to shorten the time for period-end closing, without a compromise on quality.

In an extraordinary situation of 'New Normal' (post COVID-19), many organizations are forced to work from remote locations, which demands close co-ordination and disciplined execution of period-end closing process. In such a period, expediting the period-end closing through a structured approach will reduce the stress on the team without compromising quality.

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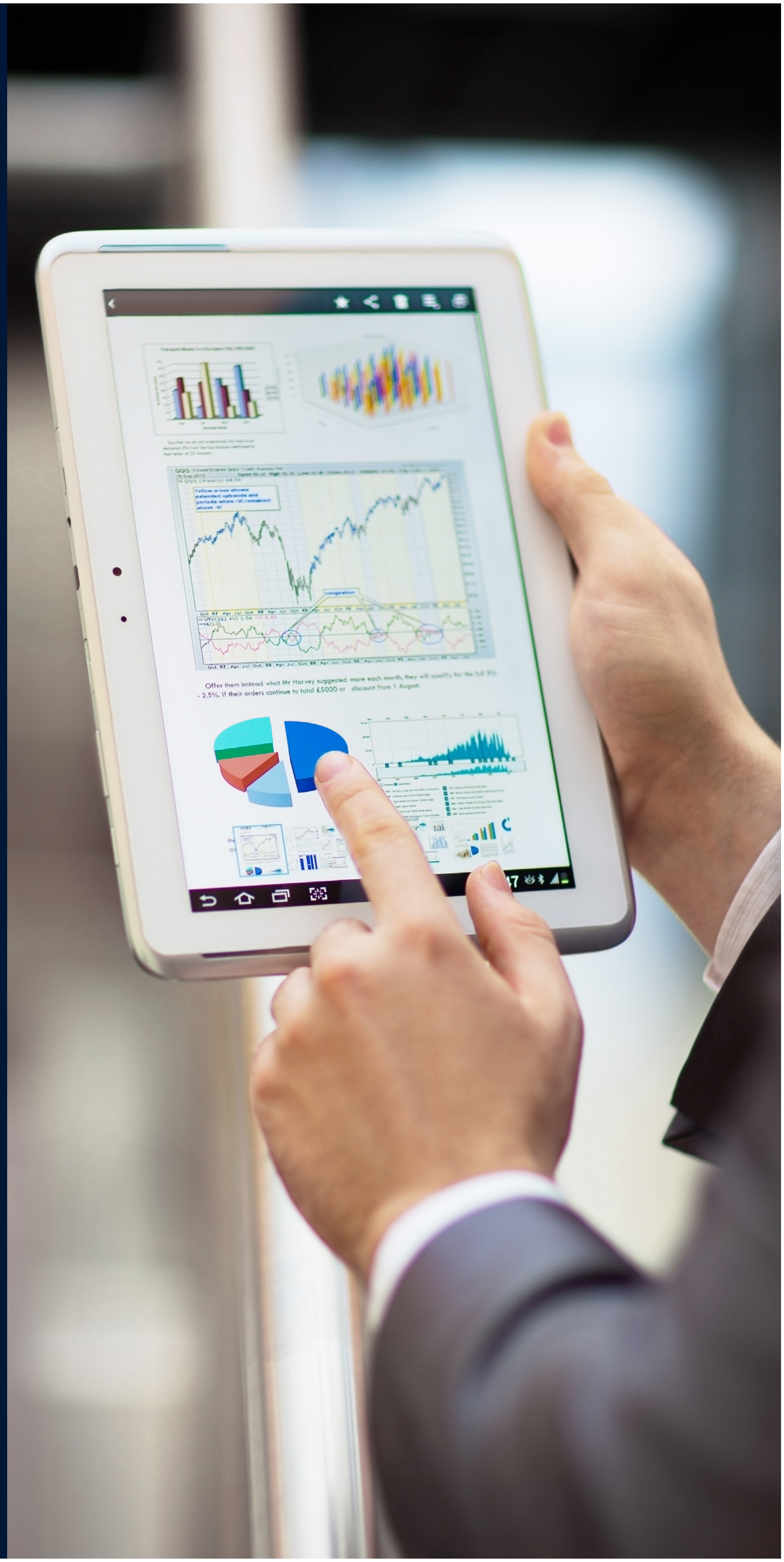


Accounts Receivable	General Accounting	Fixed Assets
Intercompany	Reconciliation	Treasury and Tax
Journal Processing	Accounts Payable	Consolidation and Reporting

Finance teams continue to spend enormous amounts of time and effort to 'close the books'; and always strive to accelerate the process. A faster period-end closing reduces the time taken to close the books of accounts and enables investing of that time to generation of insights and recommendations from that information instead – enhancing the value of the finance function to management and investors.

Key advantages of a shorter period-end closing

Organizations that have accelerated their period-end closure cycles have benefited immensely. The following are the major advantages observed, while the actual ones will vary a little from one organization to the other.

01

Brings transparency

Period-end closing involves consolidation of financial activities of the period, clearly outlining the scope, setting roles and responsibilities, and assessing the business performance against the targets. Speeding up these activities brings transparency and synergy among different teams. The management now gets quicker access to accurate real-time financial data.

"The three things that worry me most about the close are the lack of visibility into the process (what is being done, by whom, and when); lack of transparency into the results of that work (where do we have exposure on the balance sheet and who is responsible for tracking and resolving it); and the lack of financial analytics depth."

– VP and corporate controller of a recently public, high growth company[1]

02

Helps finance play the role of a strategic advisor

As finance processes are constantly evolving, expectations from the function are on the rise. Businesses across the globe are expecting the finance function to rise as a strategic advisor instead of a mere data providing service. The time saved from faster book closure can be utilized to perform advanced financial analysis and provide key business inputs and recommendations to the executive management.

"70% of CFOs say that their overall level of strategic influence has increased over the past three years. But for now, most CFOs say they still play a supporting, rather than leading, role in strategy, despite an appetite to become more deeply involved. Among our respondents, 35 percent identify shortage of time as key barrier to being more effective in their role."

– The CFO as Catalyst for Change (Accenture, Longitude Research, Oracle)[2]

03

Improves compliance

Across the world, there are periodic regulatory changes and strict guidelines for accounting and financial reporting of companies. Increase in fraud and misrepresentations is a reason for periodic changes in regulatory compliance norms. There are also internationally accepted financial reporting standards and region-specific standards that need to be adhered to. Companies listed in multiple countries may have to follow multiple standards as well (e.g. a listed company in India has to follow the IND AS, while the same company in the USA can follow IFRS or US-GAAP). Organizations can stay compliant in financial reporting by developing a built-in control through process automation. Deploying automations (robotic process automation (RPA) or workflows) helps reduce human interventions, eventually resulting in reduced manual errors in the financial data recording, processing, and analysis. Automation keeps a track of every action performed and facilitates storage of supporting documents, which can be useful in compliance audits.

04

Increases investor confidence:

The quality and accuracy of period-end closure are often compromised because of the time required for it. Organizations can increase investor confidence by publishing financial statements faster. This allows investors more time to perform their own analysis of the firm's financial position and take appropriate investing decisions.

05

Supports strategic decision-making

By accelerating the closing cycle, the Finance team gets early access and understanding of the financial health of the business. Thus, Finance can support the management with faster decision making by being more responsive with accurate financials. Multi-national businesses that operate globally and have to spend huge effort in closing and consolidating financial data benefit greatly from this.

06

Improves efficiencies and reduces costs:

Reducing closing cycle time frees up resources involved in period-end closing processes, thus reducing the cost per transaction. The avoidable expenses of additional personnel and overtime payments are saved. This also helps reduce the pressure on people and improves employee satisfaction.

The Industry outlook towards a shorter period-end closing

The previous section demonstrated the advantages of reducing period-end closing time. Does the industry also have the same opinion on faster period-end closures?

Numerous industry surveys that were carried out across the world concur that faster period-end closing is a supreme ask. CFOs and other finance professionals are of the opinion that closing books of accounts faster can enable them to play a major role in supporting the business. Below are some industry opinions.

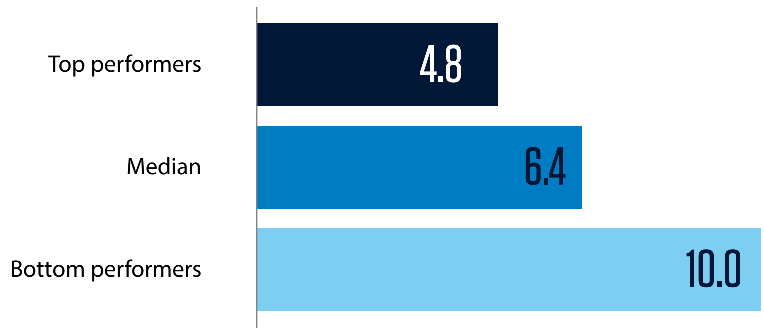
"Senior financial leaders are increasingly concerned about speeding up the month-end closing process. They need timely delivery of financial statements to meet regulatory and audit deadlines and to drive strategic business decisions. The key, though, is to simplify and accelerate the process without increasing overhead costs."

- Fiserv Inc.[3]

"52% of senior finance professionals surveyed believe they still spend too much time on transaction processing, leaving not enough time for activities that create value."

Source: FSN [4]

"Of the 2,300 organizations that answered this survey question, the bottom 25% said they need 10 or more calendar days to perform the monthly close process. The top performers, or the top 25%, can wrap up a monthly close in just 4.8 days or less — about half the time of the bottom 25%. At the median are the organizations that need 6.4 calendar days to close out a month's books."



N=2,300

Source: CFO.com[5]

The above graph from APQC's 'General Accounting Open Standards Benchmarking' survey shows that more than 50% of closing cycle time can be saved (by moving from a bottom performer to a top performer) and utilized in diving deeper into the data to provide better, quicker, more transparent and real-time financial insights to support business decisions.

Conclusion

There is a huge opportunity with the finance function to gain competitive advantage through the acceleration of period-end closing that can be achieved by consolidating, simplifying and automating accounting processes. Additionally, in an unprecedented situation such as COVID-19, completing the month-end closing process fast can be an image booster for an organization that shows stability and ability to perform in an unfavourable situation. To achieve a fast, well-organized and efficient closing process, it is important to take a comprehensive approach where the finance operations & processes in its entirety are reviewed and improved.

About the Author

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Ravindra is a Principal Consultant with Infosys BPM's Digital Transformation Services, responsible for improving the health of business processes, matrices, operating structures and managing digital transformation improvement projects of the clients across Finance and Accounting domain.

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Prior to Infosys, Sunil had been with KPMG, Deloitte, E&Y across a variety of roles in India, UAE, and US.

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