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THE MONTH-END CLOSE PROCESS

Timely and accurate financial statements can help your organisation make informed, strategic decisions.

Arguably, monthly financial statements are the most important strategic tool for an organisation. Accurate and timely statements provide vital data to support fiscal monitoring and decision making, prevent costly mistakes, and prepare you for tax time.

But financial statements are only valuable when prepared accurately using a sound basis of accounting such as Generally Accepted Accounting Principles (GAAP) and produced within a reasonable period after the month has ended.

Month-end close is an essential process that can be refined and streamlined to achieve maximum efficacy with minimum error, waste, and disruption. 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. Invest in developing a fully integrated software environment to slash the "grunt work" of tedious manual workflows and eliminate obstacles and human error.

The month-end closing process must be correct 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 organisation.

Traditionally, month-end closing has been seen 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.

Successful monthly (or other periodic, e.g. quarterly) reports are critical to developing financial statements and other data such as key performance and risk indicators. This result requires controlled and coordinated activities throughout the month. It also means processes and procedures that are well thought out, documented, and incorporate internal controls such as segregation of duties across all appropriate departments.

THE MAJOR TASKS

Although the closing process must be well orchestrated, it doesn't have to overwhelm. Let's break down the major tasks as follows:

- Record daily transactions;
- Reconcile accounting systems and subsidiary ledger;
- Record monthly journal entries;
- Reconcile balance sheet accounts;
- Review revenue and expense accounts;
- Prepare financial statements;
- Management review.

1. Record daily transactions

Since the goal is to create timely and accurate financial statements, any procedures integrated into the daily operations will enable a quicker monthly closing process. Ideally, activity should be recorded when it happens, rather than waiting until the end of the month. While this may seem straightforward, this is an area that can cause undue pain come month-end.

Also, departments whose activities impact financial records should complete activities on an ongoing basis. They should ensure the accounting department receives complete and accurate source documents to record information into the accounting system.

2. Reconcile accounting systems and subsidiary ledgers

Accounting systems often have integrated modules such as payables, sales, or investments to manage a specific function of the company. Part of the closing process is to reconcile the subsidiary ledger with the general ledger.

3. Record monthly journal entries

Presenting a complete and accurate organisation representation typically requires monthly journal entries for accrued expenses, amortisation, depreciation, and other activity. In most cases, accounting systems can automate recurring journal entries.

4. Reconcile balance sheet accounts

Reconcile cash accounts first. It is one of the easiest ways to locate missing or incorrect entries since cash is part of most transactions. Organisations with numerous monthly transactions will also benefit from reconciling cash daily or weekly. This will help you know how much cash is on hand at all times.

Once you have reconciled cash accounts and made any necessary adjustments, you are ready to reconcile the remaining balance sheet accounts.

5. Review revenue and expense accounts

Finally, review revenue and expense accounts to confirm that they are accurate. Revenue is often linked to a subsidiary ledger and therefore has been reconciled. Check expenses to see if they have been recorded in the correct accounts and in the correct period and that accruals and prepaids are all recorded.

6. Prepare financial statements

Once the accounting team is satisfied that the general ledger is accurate, you can prepare financial statements. Many organisations can generate these statements through their accounting systems, while others need to run reports and compile data.

7. Management review

The final stage occurs when all the documentation required to produce the financial statements, along with the statements themselves, are given to the senior management for review. This is a critical internal control, as the person reviewing the statements and supporting documentation typically is not part of the preparation process.

The follow-up and assessment of variances represent an essential control in many organisations. Often this process includes a line by line comparison of the actual results with the monthly forecast. This analysis will generally lead to variances between actual and forecast results.

THE IMPORTANCE OF MONTH-END CLOSE PROCESS CONTROLS

Most accounting teams use a process control checklist to control the month-end close process.

On one end of the spectrum are organisations with minimal documentation of the month-end process. And run the month-end process based on the CFO's knowledge and experience. This often leads to ad hoc manual processes. That can work for a while, but as the accounting department grows, that process can become chaos when tasks can be easily overlooked, especially if a key person is out for a few days.

On the other end of the spectrum are accounting teams that follow a well-thought-out and optimised process with interactive checklists, workflow tools, and who leverage all the automation they can. These teams use everything their accounting system has built-in plus technology used to the maximum advantage.

Wherever your team is in that spectrum, a comprehensive checklist that includes all the processes and assignments is a must to streamline the closing process. Ideally, your checklist should make it easy to swap tasks between team members to keep the process moving efficiently.

At Phundex, we wanted to make these processes more straightforward and transparent, so everyone can quickly see who is working on what and communicate efficiently on shared tasks. Phundex can immediately add significant value to your existing processes, whatever they are, by adding

- process scheduling and cascading;
- instant team communication;
- reminders;
- document management.

All of which improve governance and make your work more manageable at the same time.

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