CHAPTER ONE

Why the Continued Focus on the Fiscal Closing Process?

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INTRODUCTION: THE FISCAL CLOSING process is one of the most fundamental indicators of the efficiency of your fiscal infrastructure, and is the critical foundation that must be in place before your finance and accounting team can even begin to optimize its role as a true consultative business partner and trusted advisor, assisting in achieving strategic goals and creating shareholder value. Getting accurate and timely fiscal information is critical in today's global market because:

1. Financial statements are the ultimate scorecard for a company. A company's financial statements reflect the company's business results and trends—its products, services, and macro-fundamental events.
2. The critical information obtained from fiscal information is used to perform analysis. The absolute numbers in financial statements are of little value for shareholder and investment analysis. These numbers from financial statements must be transformed into meaningful relationships to judge a company's fiscal performance and determine its fiscal health at the current time. The resulting ratios and indicators must be viewed over extended periods to spot trends and predict performance.

If your finance organization is bogged down in a never-ending closing process, they have little time to focus on enhanced reporting or analytics.

Visibility to accurate fiscal information and underlying operating metrics are critical to your management team in any economic environment, but particularly in times of uncertainty, where rapid and knowledgeable responses to changing business and market dynamics are imperative.

There are many factors that place the spotlight on the fiscal close process, which is usually led by a team of individuals in the corporate finance and accounting department managed by the corporate controller. The complexity of the process is driven by the nature of the company (private, public, nonprofit [tax-exempt or mission based], or government) and the type of industry or industries the company has responsibility for. Sometimes the organizational structure of the company, the fiscal systems and tools, and the management style can impact the fiscal close process cycle time and the resources needed.

Key Point: The signs that the fiscal close needs attention include:

- The close is completed later than four days after the period end.
- No formal management review of the fiscals is done after every close.
- The driving force behind completing the financial reports is an external reason—bank covenant reporting, tax payments, government reporting, etc.—rather than a sincere belief it is a key management tool.
- The current fiscals are not integral to the company's forecasting system.
- The accounting and finance team is focused on past shortcomings, not getting the most out of the company's future potential.
- Executives are not pushing to get the fiscals as soon as possible each month.
- Every fiscal close event results in chaos, delays, and unexpected results.

The fiscal closing cycle is also referred to as the Record to Report (R2R) process. Record to Report (R2R) forms an important aspect of the finance and accounting process. It provides the necessary insights on the strategic, operational, and fiscal facets, which gives an in-depth idea of an organization's performance. It involves complex processes of gathering, converting, and supplying information to stakeholders who want to know if their expectations have been met.

Regulatory bodies and analysts expect organizations to review their account books in less than a week and release their earnings statements within a month. Industry-specific regulations and the ever-increasing

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financial reporting has put a huge burden on an organization's reporting process.[i]

Key Point: When fewer days are devoted to month-end close activities, more time can be spent providing performing analytics and addressing finance and accounting process improvements.

AN OVERVIEW OF THE FISCAL CLOSE

The accounting process can differ slightly from one business to another based on variances in the chart of accounts, revenue and expense recognition, and cost center breakdown. Despite these differences, the overall monthly closing process is the same. Following the same standard procedures to close the books each month will help ensure consistent and accurate reporting. Here are some basic processes that will add discipline to the fiscal close. These processes will also help to expedite closing processes.

1. Establish a Closing Date

Establish a closing date by which all expenses and revenue must be posted. Communicate the closing date to everyone who has access to modify the ledger. Close the books for the month as of the date communicated, prohibiting any further changes to the ledger for the period.

2. Trial Balance Report

Start the closing cycle with a trial balance report. Review the balances to identify any anomalies from what is expected. Review the transaction details for any accounts you are uncertain of and note any adjustments that need to be made.

3. Adjusting Entries

Create the adjusting entries to recognize prepaid expenses, accrue outstanding invoices, relieve accruals that have been paid, and recognize depreciation and

[i] Senthil Kumaran, Operations Manager—Finance and Accounting, "6 Best Practices for Record-to-Report Process," Invensis Technologies. Last modified February 12, 2016. Accessed February 8, 2019. https://www.invensis.net/blog/finance-and-accounting/6-best-practices-record-report-process/.

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other amortizations. Post adjusting entries to correct the current balance of any ledger account that reflects expense postings in error.

4. Adjusted Trial Balance

Generate an adjusted trial balance report to review the final balances in the ledger. Verify that the trial balance matches on the debit and credit side. Verify that the balances are accurate, checking the account activity if needed. Trial balances will vary from the initial report due to the adjusting entries. This helps you identify any entries that posted incorrectly.

5. Reporting

Create reporting to show the final expense activity for the period and year-to-date. Include documentation of the balance sheet, income statement, and depreciation schedules. Save copies of the entire journal entries posted along with the documentation supporting their necessity for audit purposes.

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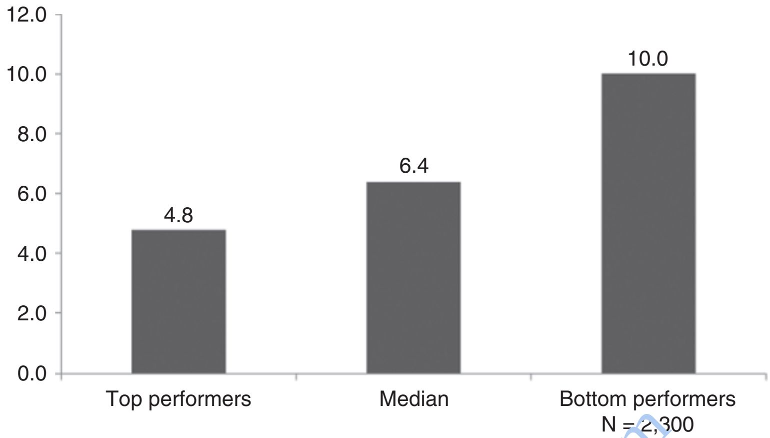
CYCLE TIME TO MONTHLY CLOSE

The following background on the "cycle time to monthly close" comes from APQC's General Accounting Open Standards Benchmarking survey. For this open-ended question, the metric is defined as the cycle time in calendar days between running the trial balance to completing the consolidated financial statements. Cycle time is the total time from the start of the process to process completion, including time spent actually performing the process as well as time spent waiting to move forward.

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.[ii]

[ii] Perry D. Wiggins, "Metric of the Month: Cycle Time for Monthly Close," CFO.com. Last modified March 5, 2018. Accessed February 11, 2019. http://www.cfo.com/fiscal-reporting-2/2018/03/metric-month-cycle-time-monthly-close/.



Cycle Time in Days to Complete the Monthly Consolidated Financial Statements

For multisite companies with separate reporting entities, finance has to ensure the chart of accounts' naming and numbering conventions are as closely matched as possible. Organizations that strictly adhere to common fiscal definitions need fewer days to complete their monthly consolidated financial statements.

Common data definitions set the business rules for every aspect of the fiscal close and can prevent transactional errors and will help set the foundation for accurate metrics and support consistency through all phases of the fiscal closing process.

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