Closing Cycle Best Practices

[Content adapted from the 2013 AICPA course, Redefining the Close Process, chapter 6. © AICPA, 2013-14]
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Introduction

Is the hard monthly close really necessary? The monthly close creates incredible costs in time and resources for most companies. At least one week is devoted to aggregating the numbers, one week to analyzing the results, one week to distributing the reports, and then it is time to prepare for the next month’s close. A soft close allows an organization to tailor the numbers reported on a monthly basis to its key performance indicators. The soft close eliminates (or uses estimates for) a host of accrual, allocation, reconciliation, contingency, and reserve accounting entries. The need for monthly GAAP-based, regulatory compliant financial statements is called into question.

The benefits of the soft close are impressive: the finance function provides monthly information that is more current and better analyzed. Finance personnel have more time to research what is going on and to anticipate future trends. Because of the currency and accuracy of the information, if there is a variance, finance does not just demand an explanation. The finance function, in conjunction with operating partners, can identify the root cause, re-evaluate processes, and reset operating targets.

To move from the traditional close model to the soft close, implement the following changes:

- **Redefine the elements of the closing cycle.**
  - Decide which activities can be eliminated, which deferred until a quarterly or annual close, and which moved outside the close period.
  - Allow time-related accruals to flow through subsystems naturally. Accrue only when material, and at quarterly or annual periods.
  - Move the forecasting process away from the close cycle.
  - Move cost allocations off the monthly close by using fixed rates, budgeted rates, or prior month. Normally variances are insignificant.

- **Eliminate interim cycles.** Eliminate extra cycles of report production and distribution. Focus on the gross changes from month to month rather than a small number of postings that might have been done the night before.

- **Collapse the level of detail.** Post allocation to a single division-level cost center instead of to every cost center within a division.
Best Practices in the Closing Cycle

• Raise the materiality level. Make only those inter-company, cross-country consolidations, and elimination entries that have high materiality to the corporation and eliminate those material only to divisions.

• Separate and integrate systems. Make the cost-accounting and billing system independent of the general ledger. Integrate the information systems functions of the close process.

Readiness to Transition to the Soft Close

Moving to a soft close requires the adoption of a continuous improvement effort in which each of the subordinate processes are evaluated and performance measures are established and tracked. The first step is to analyze what causes delays in the closing process: wait times, aggregation activities, application of GAAP recognition and measurement rules, review and approval processes, corrections, and re-entries. Use the status test below in Box 1 to determine if your current closing process includes time-consuming elements.

Box 1: Current Close Status Test

Does your closing process include any of the following?

• Unnecessarily complex calculations
• Poor data quality
• Manual processing of routine transactions
• Redundant inputs of data
• Re-keying of corrected data
• Manual processing of recurring journal entries
• Allocations deferred until close information reviewed
• Initial accounting treatment determined after month-end
• Receivables and payable held open for late transactions
• Reconciliations must be completed during close process and before reports issued
• Manual update and comparisons of current activity to prior month and to budget
• Multiple review and approval cycles

The next step is to determine if there is systems and transaction reliability that can support a soft close. Subordinate processes should be evaluated against readiness criteria.
established by the finance redesign program. The following information should be available and compared to designated benchmark partners:

- Transaction system readiness
- Availability of feeder information
- All feeders identified
- Feeder postings scheduled and monitored
- Feeders analyzed as they are posted
- Management requirements for feeders and time intervals tracked
- Variance of key performance indicators from actual results
- Feeder errors identified and monitored
- Root cause analysis completed
- Corrective action executed and monitored
- Performance measure availability
- Availability of key performance indicators
- Variance of KPIs from actual results
- Number of days from business unit general ledger feeder cut-offs to prepare management reports
- Customer perceptions of timeliness of information
- Analysis of cost as a percent of total process cost
- Number of adjustments required to complete close cycle
- Performance measures for close cycle
- Number of days from initial feeder cut-off to flash results
- Number of changes to initial results
- Number of days from initial close to final close
- Number of days from final close to management information reports
- Variances of KPIs from actual results
- Process costs as a percent of revenue
- Ratio of elimination entries to total entries
Best Practices in the Closing Cycle

- Ratio of adjusting entries to total entries
- Organization readiness
- Adherence to defined closing cycle procedures
- Adherence to closing cycle schedule
- Elimination of root cause problems
- Tracking of feeder system performance
- Reporting complexity
- Availability of KPIs during the month
- Number of errors in feeder postings
- Number of days to prepare management reports
- Customer perceptions of timeliness of information
- Customer perceptions of value and reliability of reports
- Inter-unit transactions as percent of total entries

Best Practices When Transitioning to a Soft Close

Moving from a hard close to a soft (fast) close is not a 100 percent redesign of the finance function. Incremental processing improvements can be implemented within the closing cycle—a series of 1 percent improvements that together aggregate to the 40 to 60 reduction of cycle time and refocus of efforts that can be achieved. This section discusses the best practices in the feeder systems into the closing processes that have resulted in significant changes in finance function performance. For each area a wide variety of best practices are illustrated. Those that have the most significant effect on the closing cycle are discussed in detail. To facilitate the integration and coordination of the finance function redesign efforts with process improvements that may have to be pushed out to operating units, the discussion is summarized around three operating cycles: procurement/disbursements, revenues/receipts, and administration/reporting.

Best Practices in the Procurement/Disbursements Cycle

The procurement/disbursements cycle is the most labor-intensive of all the finance functions, and therefore, is an excellent source of improvements in closing cycle costs and time. Best practices fall into two categories: reduction of the numbers of steps in the process; elimination of the number of errors in the process. If the number of documents subject to matching, approval, and review is reduced and if the automatic processes followed by periodic audits are substituted for the current process flow, the speed, and accuracy of information available for the close is improved. In summary, world class finance functions utilized the following methods:
ACCOUNTS PAYABLE

- Audit expense reports
- Automate expense reporting
- Automate payments for repetitive invoicing
- Automate three-way matching
- Automate approval process
- Centralize the accounts payable function
- Create direct purchase interfaces to suppliers
- Digitize accounts payable documents; document-enabled transaction system
- Directly enter receipts into computer
- Eliminate manual checks
- Fax transmission of accounts payable documents
- Issue standard account code list
- Link supplier requests to the accounts payable database
- Outsource the accounts payable department or portions such as transportation
- Pay based on receiving approval only
- Record payables from a purchase order/estimate charges before month-end
- Receive billings through EDI
- Reduce required approvals
- Shrink the supplier base
- Substitute petty cash for checks
- Substitute wire transfers for checks
- Use stored value cards
- Transmit expense reports by e-mail
- Use blanket purchase orders
- Use procurement cards
- Use a signature stamp
Best Practices in the Closing Cycle

- Internet-based monitoring of credit card purchases
- Link corporate travel policies to an automated expense reporting system
- Shift incoming billings to an EDI data-entry supplier
- Use negative assurance for invoice approvals
- Have suppliers include their supplier numbers on invoices
- Request suppliers enter invoices through a website
- Eliminate cash advances for employee travel
- Withhold first payment until W-9 is received
- Have regularly scheduled check-signing meetings
- Incorporate copy-protection feature into checks
- Issue ACH payments with remittance detail
- Create online purchasing catalog
- Add supplier 800 numbers to master file

A labor-intensive task for finance personnel is the review and approval of every item on employee expense reports, comparing everything to company policy for allowable travel and entertainment expenses, and then contacting employees regarding inconsistencies prior to issuing a check. The solution is to replace total review of all expense reports with an occasional audit. The audit usually results in a list of common expense reporting problems that are corrected by employee education, and ongoing audits of employees with habitual accuracy or abuse problems. As a best practice alternative, automate to an online expense reporting system with built in approvals of listed expenses, notification of the need for back-up documentation, a tracking transmittal number, e-mail distribution for approval by supervisor and finance, and wire transfer of funds to the employee based on the approved online expense report.

Payable processes are by nature repetitive. Automate recurring processes and edit checks in order to improve accuracy. The improved information quality can eliminate the need to hold the close process open. End of period adjustments are allowed to roll-through on a normal cycle, or, based on more accurate data, are estimated based on prior period actual. Streamline repetitive payments, automate or eliminate the three-way match (invoice-purchase order-receiving report), limit approvals to a single event or document and, wherever possible, limit the approval to receipt of the invoice (and strengthen controls over authorizations), and install approval for payment at the receiving dock.

INVENTORY

- Audit all inventory transactions
• Compare recorded inventory activity to on-hand inventories
• Audit bills of material
• Move inventory to floor stock
• Eliminate the warehouse
• Eliminate the receiving function
• Segregate customer-owned inventory
• Lock down the warehouse area
• Verify that all receipts are entered in the computer at once
• Review inventory returned to the warehouse
• Track inventory accuracy
• Modify the bills of materials based on actual scrap levels
• Streamline the physical count process
• Eliminate the physical count process
• Shift raw materials ownership to suppliers
• Compare open purchase orders to current requirements
• Train the warehouse and accounting staffs in inventory procedures

Many of the best practices in this area are designed to keep inventory accuracy within reasonable limits, such as auditing inventory transactions or cycle counting. For those organizations with extremely expensive materials, daily comparisons of on-hand quantities to every transaction associated with them—receipts, movement, scrap, production, returns, shipments—of a sample of items may be conducted. If this is done, items audited should be eliminated from the review process as soon as the defect rate is immaterial.

COSTING

• Audit bills of material
• Audit labor routings
• Eliminate high-leverage overhead allocation bases
• Eliminate labor variance reporting
• Follow a schedule of inventory obsolescence reviews
• Implement activity-based costing/management
Best Practices in the Closing Cycle

- Implement target costing
- Limit access to unit of measure changes
- Review cost trends
- Review material scrap levels
- Revise traditional cost accounting reports

Best practices in costing focus on three areas: improving the information quality of bills of material, labor routings, and units of measure; modifying or eliminating cost reports in favor of a tighter control on direct costs, materials, cost trends, and obsolete inventory; and implementing activity-based costing or target costing systems. The first category affects the inputs into the close cycle: reduce the defect level of material and labor data and push down the responsibility for review of the accuracy of the information to engineering, production, and logistics. But the biggest close process cost and time reductions come from eliminating unnecessary cost reporting:

- Switch to target cost trend reporting.
- Cluster variations by product, customer, etc.
- Issue cost reports at the beginning, not end, of design and production processes.
- Produce only exception reports.
- Redesign reports to include product margins, and contribution margins.

COMMISSIONS

- Automatically calculate commissions
- Calculate final commissions from actual data
- Construct a standard commission terms table
- Include commission payments in payroll payments
- Lengthen the interval between commission payments
- Only pay commissions from cash received
- Periodically audit commissions paid
- Periodically issue a summary of commission rates
- Show potential commissions on cash register
- Simplify the commission structure
• Post commission payments on the company Intranet
• Install incentive compensation management software

PAYROLL
• Automatically fax-back payroll forms
• Automate vacation accruals
• Avoid job costing through the payroll systems
• Consolidate payroll systems
• Disallow prepayments
• Eliminate personal days
• Give employees direct access to deduction data
• Link the 401(k) plan to the payroll system
• Link the payroll and human resources databases
• Minimize payroll cycles
• Outsource the payroll function
• Prohibit deductions for employee purchases
• Send remittances as e-mail messages
• Switch to salaried positions
• Use bar coded time clock
• Use default 401(k) sign-ups
• Use direct deposit
• Use honor system to track vacation and sick time
• Link payroll changes to employee events
• Use biometric time clocks
• Use web-based payroll outsourcing
• Minimize payroll deductions
• Post forms on an Intranet site
• Issue electronic W-2 forms to employees
Best Practices in the Closing Cycle

- Offer clear cards to employees
- Transfer payroll to credit card balances

The payroll function requires a large clerical workload shortly before, and at the end of, each pay period contributing to the possibility of errors. Current trends focus on streamlining the payroll system by paring away unnecessary functions such as job costing, manual accruals, manual tracking and automating what remains, e.g., bar-coding, direct input by employees, and links to benefit systems and financial institutions. Central to the best practice improvements is reduced manual labor and centralized systems. Shifting deduction changes to employees, automating vacation accruals, simplifying and standardizing commission structures, merging all payroll systems into one system and combining the human resources database with the payroll database significantly accelerates the availability of information for the close cycle.

Best Practices in the Revenue/Receipts Cycle

More than anything else the elimination of errors and redundancies in revenue/receipts cycle yields significant improvements in closing cycle costs and time. Best practices fall into two categories: reduction of the numbers of documents in the process; elimination of the number of errors in the process. If the number of documents subject to matching, approval, and review is reduced and if the automatic processes followed by periodic audits are substituted for the current process flow, the speed, and accuracy of information available for the close is improved. In summary, world class finance functions utilized the following methods:

BILLING

- Automatically check errors during invoice data entry
- Computerize the shipping log
- Delivery person creates the invoice
- Delivery person delivers invoice
- Eliminate month-end statements
- Issue single, summarized invoices each period
- Reduce number of parts in multi-part invoices
- Replace inter-company invoicing with operating transactions
- Track exceptions between the shipping log and invoice register
- Transmit transmissions via EDI
- Use automated bank account deductions
- Add carrier route codes to billing addresses
• Early billing of recurring invoices
• Issue electronic invoices through the Internet
• Offer customers secure Internet payment options
• Print separate invoices for each line item
• Estimate month-end sales close based on prior period actual/allow natural timing differences
• Use fingerprint verification for credit card and check payments

COLLECTIONS

• One point-of-entry customer activation
• Online sales cycle
• Access to customer assets database
• Access to customer orders database
• Automatic bankruptcy notification
• Automatic fax of overdue invoices
• Automatic issuance of dunning letters
• Collection call database
• Collection call stratification
• Customer order exception tracking
• Grant percentage discounts for early payment
• Immediate review of unapplied cash
• Lockbox collections
• Outsource collections
• Pre-approved customer credit
• Pricing structure simplification
• Standardized credit level determination system
• Write off small balances with no approval
• Linkage to comprehensive collections software package
• Install payment deduction investigation system
Best Practices in the Closing Cycle

- Accept receipt signature invoice
- E-mail invoices in Acrobat format

CASH MANAGEMENT

- Area-concentration banking
- Consolidate bank accounts
- Controlled disbursements
- Electronic funds transfer
- Lockbox collections
- Lockbox imaging
- Online access to bank account information
- Positive payment system
- Proliferate petty cash boxes
- Utilize an investment policy
- Zero balance accounts
- Avoid delays in check posting
- Negotiate faster deposited-check availability
- Shift money with electronic funds transfer
- Utilize Internet-based cash flow analysis software

Errors during the data entry phase can result in a variety of downstream problems that require large amounts of time and research to fix. To prevent as many data entry problems as possible, best practice organizations use computerized data-checking methods, automatic field entries or smart entry systems that flag initial entries and verify with underlying databases, or reject if the item is an illegal entry.

Secondly, best practice organizations focus on the elimination of unnecessary documents and/or document processing. Direct entry of shipping information by the shipping staff at the shipping location reduces processing time, re-keying of data, and lost documents. Smart entry systems backed up with frequent internal audit review should improve the quality and timeliness of shipping information. Eliminate documentation considered unnecessary by the customer: month-end statements and/or multiple mid-month statements, and inter-company invoicing. All but a few retail-type invoices can be replaced with electronic transactions.
Many of the problems that result in collections work begin much earlier, from the time an order is entered into the system to the time it is produced, shipped, and invoiced. The problems upstream have a direct and continuing effect on the quantity and type of problems that the collections staff must handle. Best practice organizations set up a reporting system to track exceptions for customer orders as they move through the organization’s various processes: non-standard prices, late production, late delivery dates, unavailable inventory, partial shipments, special orders, special transportation, and special packaging. Best practice organizations also standardize and simplify the revenue cycle: simplified pricing schemes, standardized credit and terms, granting credit levels in advance, and materiality levels for pre-approvals and account write-offs.

**Best Practices in the Administrative/Reporting Cycle**

Many organizations find the budgeting process to be an excruciating slow and painful process, requiring many months of continual effort before a reasonable budget document is completed. Once it is done, they wonder why the organization went to all the effort, since no one makes a strong effort to follow it. To avoid the problem, best practice organizations link the budget to the purchasing database; the system then compares the total year-to-date or period-to-date expense for the item to the budgeted amount, and either issues a warning for an over-budget expenditure, or rejects it. This avoids the re-keying of information for closing package reports. Also, create a centralized budget database and give managers and subsidiaries direct access to the budget model so that they can enter data, make any necessary changes, and review the results. Finally, streamline the budget model, reduce the number of line items in the budget to critical items, and create a summarized budget model of one to three pages for use by upper management in “what if” scenario building.

Best practices in the general ledger function cluster into three groups: those that affect the chart of accounts, those that affect the general ledger, and those that improve the reporting of information. The first cluster, which improves the efficiency of the general ledger function, focuses on streamlining the chart of accounts, as well as various methods for incorporating the charts of accounts of subsidiaries into those of the parent organization. The second cluster uses a number of techniques not only to improve the ability of the general ledger function to research information in the general ledger (drill-down queries or restricting the use of journal entries), but also to reduce the amount of work needed to maintain it. In this latter category are best practices such as having subsidiaries load their own financial results into the master general ledger, using automated error-checking, and automating the interfaces with subsidiary ledgers. Finally, the third cluster of best practices provides more information to other parts of the company, either by way of an activity-based costing analysis, or through a data warehouse.

**BUDGETING**

- Automatically link the budget to purchase orders
- Budget by groups of staff positions
Best Practices in the Closing Cycle

• Clearly define all assumptions
• Clearly define all capacity levels
• Create a summarized budget model for use by upper management
• Establish project ranking criteria
• Establish the upper limit of available funding
• Identify step costing change points
• Include a working capital analysis
• Issue a budget procedure and timetable
• Link to performance measurements and rewards
• Reduce the number of accounts
• Simplify the budget model
• Store budget information in a central database
• Use activity-based budgeting
• Use flex budgeting (use cost drivers)
• Use online budget updating
• Use video conferencing for budget updating
• Purchase budgeting and planning software
• Revise budgets on a quarterly basis

GENERAL LEDGER

• Construct automatic interfaces to software that summarizes into the general ledger
• Create general ledger drill-down capability
• Eliminate small balance accounts
• Modify account code structure for storage of ABC information
• Reduce the chart of accounts
• Restrict the use of journal entries
• Subsidiaries update their own data in the central general ledger
• Use automated error checking
• Use identical chart of accounts for subsidiaries
• Use the general ledger as a data warehouse
• Use data warehouse for report distribution
• Overlay the general ledger with a consolidation and reporting package
• Use forms/rates data warehouse for automated tax filings

FINANCIAL STATEMENTS

• Assign closing responsibilities
• Automate recurring journal entries
• Automate cut-off
• Avoid the bank reconciliation
• Complete allocation bases in advance
• Conduct daily review of the financial statements
• Conduct transaction training
• Continually review wait times
• Convert serial activities to parallel ones
• Create a closing schedule
• Defer routine work
• Document the process
• Eliminate multiple approvals
• Eliminate small accruals
• Move operating data to other reports
• Reduce investigation levels
• Restrict the level of reporting
• Restrict the use of journal entries
• Train the staff in closing procedures
• Use cycle-counting to avoid month-end counts
• Use internal audits to locate transaction problems in advance
Best Practices in the Closing Cycle

• Use standard journal entry forms
• Write financial statement footnotes in advance
• Post financial statements in an Excel PivotTable on the Internet

FILING

• Adopt a document-destruction policy
• Archive computer files
• Document imaging
• Eliminate attaching back-up materials to checks for signing
• Eliminate reports
• Eliminate stored paper documents if already in computer
• Extend time period before computer records are purged
• Extend use of existing computer database: add indexes, etc.
• Improve computer system reliability
• Move records off-site
• Reduce number of form copies to file
• Add digital signatures to electronic documents
• Archive canceled checks on CD-ROM

GENERAL PRACTICES

• Consolidate all finance functions
• Continually review key process cycles
• Create contract terms database
• Create a policy and procedures manual
• Create an ongoing training program for all accounting personnel
• Implement cross-training for mission-critical activities
• Implement process centering
• Issue activity calendars for all finance positions
• Outsource tax form preparation
• Outsource internal audit function
• Switch to online reporting
• Track function measurements
• Use balanced scorecard reporting
• Avoid over-auditing of internal audits
• Schedule internal audits based on risk
• Create an online tax policy listing
• Create computer-based training modules
• Post the policies and procedures manual on the company Intranet
• Scan data with modified palm computing platform
• Scan fingerprints at user workstations
• Consolidate functions into a shared service center
• Switch to a limited usage application service provider
• Switch to an application service provider
• Compare performance to peer metrics on the Internet
• Eliminate transaction backlog
• Sell the shared services center
• Pay federal taxes online
• Reduce tax penalties with Internet-based penalty modeling
• Subscribe to an online tax information service

FINANCE FUNCTION

• Access bank account information on the Internet
• Automate 401(k) plan enrollment
• Avoid delays in check posting
• Centralize foreign exchange management
• Consolidate insurance policies
• Grant employees immediate 401(k) eligibility
Best Practices in the Closing Cycle

• Install a treasury workstation
• Negotiate faster deposited check availability
• Optimize cash management decisions through the Internet
• Use Internet-based cash flow analysis software
• Use Internet-based options pricing services
• Use Internet-based risk measurement services
• Use Internet-based technical analysis services
• Use Internet-based treasury management services
• Use web-broadcasting for public reporting
• Obtain financing through Internet lender sites
• Purchase debt directly from the government
• Eliminate small investors

Best Practices in the Closing and Reporting Cycle

Best practices used to issue financial reports are designed to create quality information more quickly and to move the focus of the finance function from report generation to content analysis. The goal is a more efficient closing cycle with fewer errors; a world class benchmark of two days. Secondarily, the shift of finance function workload into the week prior to the end of the reporting period from the week following it.

Detailed closing procedures, defined deliverables, and assigned responsibilities on a closing calendar (see an example of a closing calendar in exhibit 1) that is strictly followed become the foundation document that drives the timely completion of the closing cycle.
<table>
<thead>
<tr>
<th>Task</th>
<th>Cycle Days</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revise the closing schedule and distribute to staff</td>
<td>4 days prior to period end</td>
<td></td>
</tr>
<tr>
<td>Verify that recurring journal entries are still correct for the</td>
<td>4 days prior to period end</td>
<td></td>
</tr>
<tr>
<td>current period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review updated financial statements and investigate unusual</td>
<td>4 days prior to period end</td>
<td></td>
</tr>
<tr>
<td>variances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review contract schedule and verify that all contractual agreements</td>
<td>2 days prior to period end</td>
<td></td>
</tr>
<tr>
<td>have been either paid out to suppliers or billed to customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complete all allocation bases</td>
<td>2 days prior to period end</td>
<td></td>
</tr>
<tr>
<td>Update fixed asset schedule and calculate depreciation</td>
<td>2 days prior to period end</td>
<td></td>
</tr>
<tr>
<td>Audit inventory to determine accuracy level</td>
<td>1 day prior to period end</td>
<td></td>
</tr>
<tr>
<td>Complete online preliminary bank reconciliation, if necessary</td>
<td>1 day prior to period end</td>
<td></td>
</tr>
<tr>
<td>Process period-end closing program</td>
<td>Day of period end</td>
<td></td>
</tr>
<tr>
<td>Print all period-end reports</td>
<td>Day of period end</td>
<td></td>
</tr>
<tr>
<td>Reconcile period-end reports to general ledger balances</td>
<td>First day after period end</td>
<td></td>
</tr>
<tr>
<td>Complete all accruals, and close payables, and receivables</td>
<td>First day after period end</td>
<td></td>
</tr>
<tr>
<td>Review cut-off information</td>
<td>First day after period end</td>
<td></td>
</tr>
<tr>
<td>Update detailed schedules for all balance sheet accounts</td>
<td>Second day after period end</td>
<td></td>
</tr>
<tr>
<td>Complete all operating data for inclusion in the financial</td>
<td>Second day after period end</td>
<td></td>
</tr>
<tr>
<td>statements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complete financial statements</td>
<td>Second day after period end</td>
<td></td>
</tr>
<tr>
<td>Finalize and distribute flash reports and closing package</td>
<td>Third day after period end</td>
<td></td>
</tr>
<tr>
<td>Distribute closing package to top management and operating units</td>
<td>Third day after period end</td>
<td></td>
</tr>
<tr>
<td>Distribute financial information to external parties</td>
<td>Third day after period end</td>
<td></td>
</tr>
</tbody>
</table>
Best Practices in the Closing Cycle

A common problem in implementing a closing calendar similar to the one illustrated above in exhibit 1 is the considerable amount of wait time built into the closing process because there are too many activities being conducted in a serial manner—one process does not start until another is finished. Best practice organizations have converted as many serial processes into parallel activities as is possible, as shown in exhibit 2. The goal is to separate the individual closing activities so that they can be independently completed.

Exhibit 2: Parallel Closing Activities

<table>
<thead>
<tr>
<th>Accounts Receivable</th>
<th>Accounts Payable</th>
<th>Fixed Assets</th>
<th>Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review shipping log</td>
<td>Scan receiving log</td>
<td>Enter additions and deletions in fixed asset ledger</td>
<td>Enter hours earned during last period of month</td>
</tr>
<tr>
<td>Bill un invoiced items</td>
<td>Accrue un invoiced expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review old A/R</td>
<td>Scan visitor log</td>
<td>Review fixed asset detail for correct depreciation</td>
<td>Accrue wages and salaries</td>
</tr>
<tr>
<td>Delete uncollectible accounts</td>
<td>Accrue un invoiced expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjust bad debt accrual</td>
<td>Match A/P detail to general ledger</td>
<td>Match fixed asset detail to general ledger</td>
<td>Accrue payroll taxes</td>
</tr>
<tr>
<td>Match A/R detail to general ledger</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Close A/R module</td>
<td>Close A/P module</td>
<td>Close fixed asset module</td>
<td>Close payroll module</td>
</tr>
</tbody>
</table>

Secondly, to make a soft (fast) closing cycle possible the redesign of the finance function has to consider best practices that eliminate redundancies and unnecessary work and push down responsibility for the quality of close information to the operating units that generate it:

- Standardize and automate journal entries, including allocations, and restrict the use of journal entries to one person.

- Automate the cut-off at the receiving function.

- Avoid the bank reconciliation by advancing the account close, including fees in the recurring journal entries, and using the bank’s online transaction review system.

- Continually review wait times using process mapping techniques.

- Eliminate multiple approvals and/or implement ranges within which approvals are not required.

- Set a materiality level.

- Eliminate small accruals and adjustments.
Reduce investigation levels to large variances (dollars, percentages, and designated accounts).

Use internal audit to locate transaction defects in advance.

Conduct daily review of key components of the financial statements.

Defer certain tasks to days prior to and after the closing cycle.

Separate internal operating reports (flash reports) from external financial reporting.

Automatically create operating reports.

Standardize the close package.

Cycle internal reports on a monthly, quarterly, or annual basis.

Distinguish between the level of detail needed for internal reports and that required by external parties