Streamlining Month-End Reconciliations

with Automated Workflows

ValueXPA

Introduction

Finance professionals deal with a variety of tasks every day. However, end of the month is always hectic, but it's made worse by all the reconciliations and reports that need to be prepared and reviewed with senior management.

How effectively can Finance teams close month-end books and manage monthly close processes when there are so many moving parts to be taken care of and tasks that need to be pushed for sign off? It gets especially frustrating if your company requires multiple levels of approvals for each account or makes automated financial reporting mandatory throughout budgeting cycles.

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.

Complete and timely financial statements are the most powerful strategic tools for any organization. They help business owners measure progress towards goals, help get an accurate view of future cash flows and enable making business decisions.

For many businesses, performing an occasional closing and a formal year-end close may be enough. But Small and Mid-sized businesses looking for more robust Finance processes leading to better ROI from Finance may need to establish the cadence of a monthly closing process so that decision-makers have a reliable baseline for shaping up operational and strategic planning. The expected outcomes are

Creating a view of where your money comes and goes each month enables you to build a clear picture of your overall business spending. Month-end close highlights where spending is not particularly necessary and helps you to optimize the company's expenditure.

The need for month-end close to be done quickly

There's a lot of pressure to get the books closed as fast as possible every month. Business owners and executives use last month's financials as a starting point to make business decisions for the upcoming month. So the sooner they get final numbers, the sooner they can see what worked well last month, and what did not work well, so they can course correct for the current month

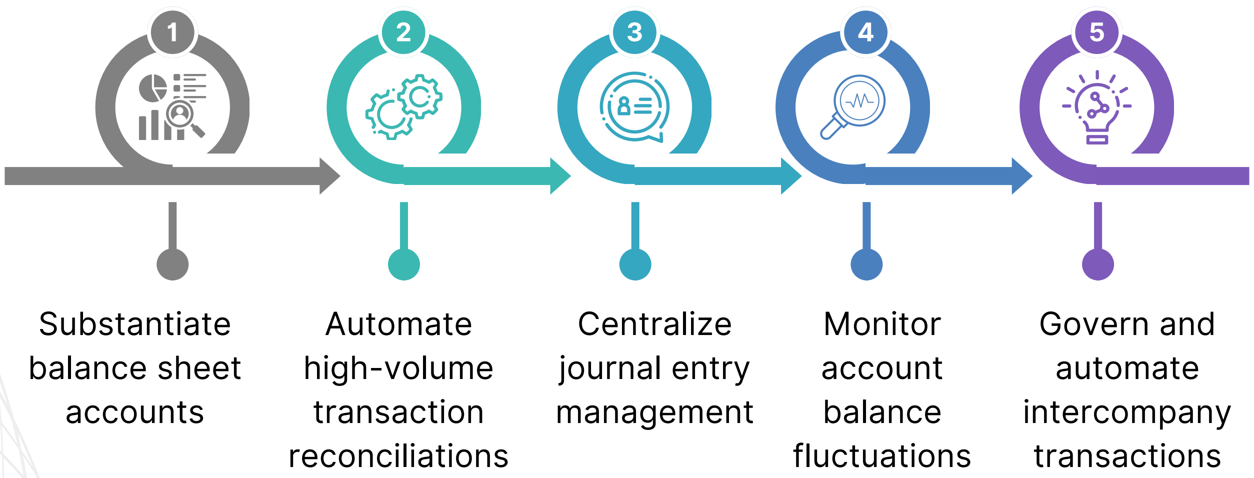
There's a lot that needs to be done before those few closing entries can happen. Balance sheet accounts need to be reconciled. Bank reconciliations have to tie to balances on the closing date. Accruals need to be posted. Revenue recognition for the period has to be squared away. Fixed assets have to be updated. Journal entries for depreciation and amortization need to be calculated and posted. Intercompany transactions need to be eliminated. Foreign currency adjustments, if any, are to be addressed. Deferred revenue has to be reclassified. Depending on your organization, you may have additional adjustments, allocations, and accruals to make. All of these steps need to be part of your regular accounting procedures.

The month end close process refers to a set of accounting steps to review, record and reconcile accounts. In order to close books for each period, it's required to collect information from various sources and ensure that records have been properly kept. While the process itself will depend on the type of business and account methods applied, a processs automation mindset and implementation can enable businesses have an edge over competition.

Use of a month-end close checklist can help improve the efficiency of the process.

For instance, a checklist can help confirm all transactions for the period by verifying all accounts payable bills, accounts receivable invoices and expense reports. It can post closing entries in the general journal, close sub-ledgers and also perform all reconciliations. In addition, a checklist can also run review reports such as P&L variance and budget vs Actual, and investigate for unusual changes.

Approach to Month-end Close Automation



Challenges in the reconciliation process

Lack of data standardization

Data is extracted from the ERP systems and transferred to spreadsheets, with supporting documents stored on file servers or in shared drives. For many teams, printing copies of account reconciliations is a standard practice. Each team has its own set of processes, as well as unique customizations to the spreadsheets. All of this makes it difficult for managers to sign off on the reconciliations due to poor traceability and auditability of supporting documents.

There are also complex data transformation issues when importing data from source systems. For example bank statements have different formats, which first requires a user to align and standardize files before the upload. Most teams undertake a manual approach. However, with advanced data parsing techniques using scripts or no code/ low code platforms, the data transformation has been easily achieved and set for repeatability.

There is a lack of central database and no standardization; electronic and paper copies are stored in locations globally, which makes the review and approval process a significant burden. Even small changes to existing manual processes — such as requiring a uniform spreadsheet format or change in supporting documentation procedures can not be effected without significant time spent in manual reconciliation systems.

Slow data input process

Multiple data downloads from various data sources, for example: Credit Card Purchases, Online sales, Cash Payments, Location-based cash collection is time-consuming, and for large Organizations, it can quickly drain a finance team's resources, leaving them less time in the day for other important activities.

Error-prone outcomes

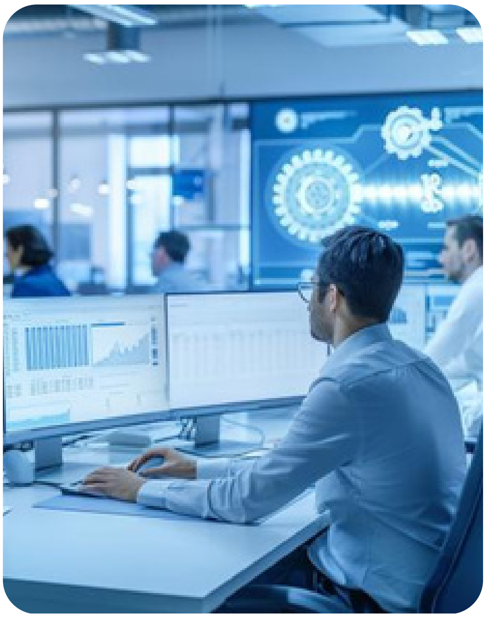
There is difficulty overseeing and evaluating the effectiveness of responsibility assignment. Another consequence of these manual inputs is they become prone to errors. Mistakes can slip in at any stage when data is being manually moved and re-entered between systems. Also, the more the number of steps in the process, the more likely is the occurrence of errors. Some of the common mistakes include double entry, missing transactions.

Use of automation in reconciliations

Account reconciliations

Account reconciliation is often the bottleneck in closing the books on time. Numerous accounts have to be analyzed and reconciled each month. When performing these reconciliations manually, the sheer volume can make the task seem daunting. With the proliferation of financial process automation systems today, it’s now possible to automate unnecessarily manual and time-consuming tasks across functions and applications.

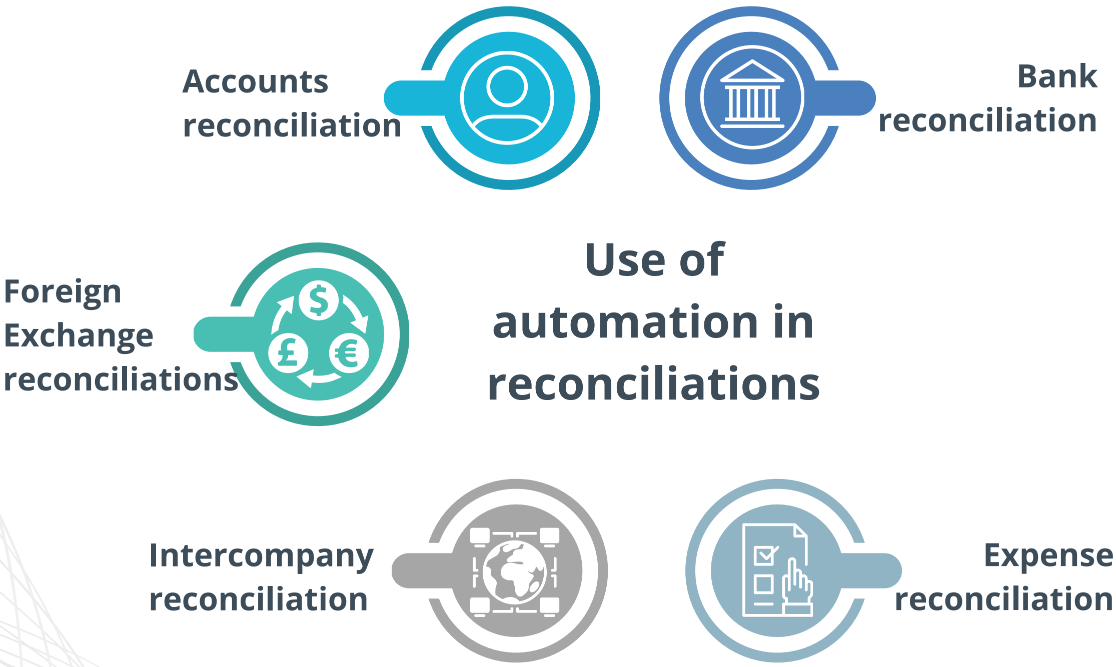
- Connecting your General Ledger, sub-ledgers and other source systems directly to the software you use for account reconciliation, and to feed them into budgeting, forecasting and other FP&A platforms.
- Identifying exceptions to review, adjust, reconcile and post to the GL in final form.
- Facilitating workflow automation throughout the process of identification, remediation and reconciliation.



Bank reconciliations

Automating the bank reconciliation process delivers much the same value as that of reconciling subledger exceptions. Flagging just the transactions requiring investigation and reconciliation, automation frees up your Finance team's time from searching for those exceptions manually. When you have multiple bank accounts and in different currencies and high-volume transactions each month, automation addresses an even greater degree of complexity and magnitude of transactions to review – a process that would otherwise take up days or even weeks of your Finance team's time.

Bank statements reconciliation is historically performed in spreadsheets: comparing online payments plus batches of offline transactions with the internal records. With automation, input data from disparate sources can automatically populate the reconciliation accounts. The system can apply the necessary data cleaning and enrichment operations without human intervention.



Reconciliation at the transaction level can now be executed with user-selected degree of automation – from the traditional manual typing of selected lines, all the way to completely hands-off scheduled match across all accounts. Rule-driven matching by multiple criteria increased the successful match rates. Automation also supports matching by amount with predefined variance tolerance.

The categorization of bank fees, commissions, taxes, and currency differences happens instantly by exceptions identification and automated labeling to streamline the investigation and resolution of outstanding items. With Automation, the client also has granular user access controls at account and functional level.

Foreign exchange reconciliations

Working with various bank accounts involving different currencies requires a enormous resources and efforts fore reconciliations. Foreign exchange rates fluctuate day over day and changing FX rates will impact a company's realized gain/loss on its financial statements. Moreover, timing differences across the various financial systems can also cause differences in cash. These typically include differences between Billing System and Payment Processor payouts, and Bank cash. Timing differences are often tedious to identify at month-end, especially when FX reconciliations are performed manually. Companies must consider automating their FX reconciliation and cash matching process to decrease risk of manual errors.

FOREX markets also tend to be strongly regulated, requiring transparent audit trails for financial processes. Therefore a tailor-made automation solution is the need of the hour that can rapidly match and manage foreign exchanges, streamline your FX trade flow, flag critical anomalies early and save time and perform multi-process reconciliations efficiently.

With automated matching rules, firms can quickly match thousands of transactions. This speeds up the reconciliation process exponentially.

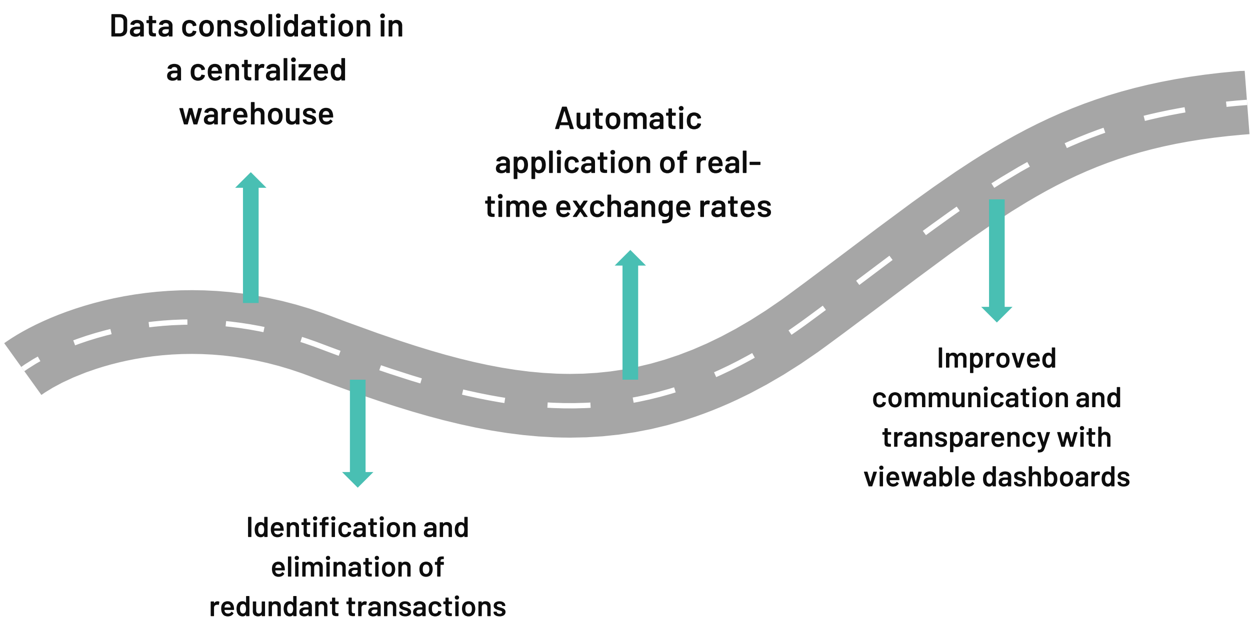
Intercompany reconciliations

Intercompany reconciliation is when two branches of a parent company reconcile figures as a result of engaging in a transaction. The problem is that an invoice booked on the Accounts Receivable (AR) at one subsidiary is often not booked on the Accounts Payable (AP) of the payer, on time, correctly, or at all. This gives rise to differences affecting the consolidated accounts. In addition to this the reconciled data and documentation is often not stored centrally, there are frequent mismatches at the accounts level due to delays and consolidated balance sheets need manual adjustments, which is error-prone.

The entire process demands a lot of time and attention. Finance teams also experience a high level of dissatisfaction during this process and the effort undertaken to resolve any issue is significant and demotivating for Finance teams.

Therefore, an automation solution that can improve the efficiency of this process is crucial.

Intercompany reconciliation solution advantages



Expense reconciliations

Growing firms see a substantial increase in transactional volumes which require automation of transaction matching, more refined aggregated reporting, and better visibility into outstanding items. The legacy tools and the manual spreadsheet-driven approach are not sustainable under the growing data volumes of transactions from accounts payable vendors, accounts receivable partner, bank account statements, credit card processors, third party issuers, and the ERP.

Expenses reconciliation involves matching the payments reported through their merchant account statement against the cash arriving at their bank account. The goal is to make sure your bank transactions tie up with what's recorded in your financial statements.

Month-End Revenue Recognition Automation

Reconciliation challenges in the month-end close process can be daunting. For organizations with high transaction volumes, closing the books at month-end is no easy feat. Without automation and updated processes, it can be much more streamlined to accomplish an efficient, timely and accurate close. Hence, with a thorough analysis to pinpoint delays, implementation of streamlined processes, and the right accounting solution for task automation and data integration, organizations can shorten close time while increasing data accuracy. In this publication, we covered how analytical process automation solutions can make reconciliations such as accounts, bank, forex, intercompany and expense more efficient and error-free by producing detailed up-to-date financial reports. Moreover, these solutions also produce accurate financial statements and reduce the time it takes by harnessing the power of technology. Every business leader recognises the value of a month end close process that is error-free and easy to perform.

Final thoughts

Reconciliation challenges in the month-end close process can be daunting. For organizations with high transaction volumes, closing the books at month-end is no easy feat. Without automation and updated processes, it can be much more streamlined to accomplish an efficient, timely and accurate close. Hence, with a thorough analysis to pinpoint delays, implementation of streamlined processes and the right accounting solution for task automation and data integration, organizations can shorten close time while increasing data accuracy.

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About the Author:

Karthikeyan V Raaj has over 18 years of experience as a Senior Finance Executive and as a CFO business partner. He has championed strategic projects and helped transform finance functions to enable growth of his client organizations. Currently, he is the Founding Partner of ValueXPA, a Global technology- enabled Finance-as-a-Service Partner for Small and Mid-sized Businesses and Institutions. As a CFO Partner, he has advised and helped over 50 small and mid-sized businesses, start-ups and Not-for-profit Institutions - across areas like financial planning, tracking and managing their financial performance through systems, optimizing finance processes through automation and outsourcing.

His specialties include CFO Partnering on Strategic and Business Financial Advisory, Finance Transformation, Financial Modelling, Financial Planning and Analysis, Performance Management Reporting & Decision-support, Development of KPIs and Management Dashboards, Valuation and Analytical Process Automation using Low code/ No code tools. Earlier, he held leadership roles at Barclays and S&P Global. For Global Business Leaders/companies & Financial Institutions, he offered Financial Decision and Controller Solutions and also built & led Investment Research teams globally. He holds an MBA degree specializing in Finance and is also a qualified Engineer.

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