Implementing the Quick Close

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When I began my first controller job twenty-five years ago, my predecessor routinely distributed monthly financial statements 15 to 21 calendar days after month end. Ten years later, my department was able to distribute financial statements in only five business days. For that era, we considered five days to be very good performance. Today, according to two different articles in the ***Journal of Accountancy***, five days is merely average.

Today, some companies are able to prepare their financial statements in a single day. Others are able to do a virtual close where there are literally no month-end closing processes separate from recording the previous day's transactions.

There are many reasons why the ability to present financial information quickly is important. Fresh information tells what is happening now and is immediately actionable. However, when information is stale, managers are more skeptical and sometimes deny that the company still has the problems that the financial statements reflect. Time spent analyzing the past is time not available to work on creating the future. As a result, financial departments that can provide financial information quickly are able to make a greater contribution to the company's success.

Performing a quick close is not easy. Some accountants think they must sacrifice cost and accuracy to close quickly. Some companies "cheat" by cutting off some kinds of transactions five or six days before period end. Companies that do this are merely camouflaging their slow closing process rather than actually improving it. I advocate that companies do not sacrifice accuracy for speed. We should accept nothing less than processes that will enable us to perform our closings faster, better and cheaper.

Accountants that attempt to launch a single project to transform their closing process are likely to experience frustration and failure. The task of perfectly aligning the company's transaction collection processes can be overwhelming. It is better if we place the quick close in the context of continuous improvement. The steps required to execute a quick close are much more manageable if confronted one small part at a time.

Many accountants begin the process of moving to a quick close by documenting the existing month-end closing process. However, this starting point will only lead you down the path of seeking ways to create the same output faster. A better approach is to start by examining your preconceived ideas about the company's financial reporting processes. You can only challenge these perceptions by going to talk to the actual users of financial information.

Most accountants have never discussed the usability of the company's financial reports with their intended users. Users may include the bank, the board of directors, officers, managers and even hourly employees. Ask probing questions to determine what information is useful and not useful on each report. You will probably find your accounting department:

- Creates reports that have far too much detail.
- Fails to integrate financial and non-financial information in a meaningful way.
- "Pushes" information to users when accounting is ready to distribute it rather than allow users to "pull" information when they need it.

Broad discussions with users will often lead to the realization that your department wastes substantial data collection effort and that you can save time by eliminating non-value-added work. Your ultimate objective should be to be able to provide accurate financial information at any time.

Quality control professionals believe that most organizations spend large portions of their costs, perhaps 30%, fixing things not done correctly the first time. Accounting departments often spend substantial time performing month-end reconciliations because they are not sure their financial statements are error free. For example, reconciliations of cash, accounts receivable and accounts payable are part of almost every organization's month-end procedures.

Are account reconciliations necessary? They are when financial processes are unreliable. However, ten to twenty percent of the participants in our accounting seminars report that the reconciliation of their accounts receivable and accounts payable aging to the general ledger balance is never, or almost never, off. They have an "air-tight" process that prevents the totals ever disagreeing. In such organizations, the amount of time to perform an accounts receivable or accounts payable reconciliation is trivial because the balances are never wrong. Such accounts are never a barrier to a quick close.

In order to accomplish a quick close, we accountants must think like process engineers, analyzing the products that our users need and then designing lean, reliable processes to satisfy their information needs.

Most accountants agree that closing quickly is an important goal. However, many accounting departments will never complete even a single small project to implement process improvements because other tasks always seem to be more pressing. Your first process improvement project provides the time to perform the second project. Each project will make your life easier, your department more efficient and the users of financial information more satisfied.

If I was to go back to my first CFO position today, 16 years later, I would not be satisfied with closing in 5 days. While the accounting profession considered a five-day close very good in 1992, it is a long way from excellent today. Today, our financial software knowledge of financial statement preparation techniques is much better than it was then. There is always room to improve.

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