FAST CLOSE
A Guide to Closing the Books Quickly

Steven M. Bragg

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To Richard Souders,
who always operates at warp speed.

About the Author

Steven Bragg, CPA, CMA, CIA, CPIM, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young and auditor at Deloitte & Touche. He received a master's degree in finance from Bentley College, an MBA from Babson College, and a Bachelor's degree in Economics from the University of Maine. He has been the two-time president of the Colorado Mountain Club, is an avid alpine skier and mountain biker, and is a certified master diver. Mr. Bragg resides in Centennial, Colorado. He has published the following books with John Wiley & Sons:

Accounting and Finance for Your Small Business

Accounting Best Practices

Accounting for Payroll

Billing and Collections Best Practices

Business Ratios and Formulas

Controller's Guide to Costing

Controller's Guide to Planning and Controlling Operations

Controller's Guide: Roles and Responsibilities for the New Controller

Controllership

Cost Accounting

Design and Maintenance of Accounting Manuals

Essentials of Payroll

Fast Close

Financial Analysis

GAAP Implementation Guide

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Payroll Best Practices
Sales and Operations for Your Small Business
The Controller's Function
The New CFO Financial Leadership Manual
The Ultimate Accountants' Reference

Also:
Advanced Accounting Systems (Institute of Internal Auditors)
Run the Rockies (CMC Press)

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Preface

One of the most common challenges for the controller is to close the month-end books and issue financial statements as fast as possible. The resulting statements are being demanded by corporate management, outside investors, and the Securities and Exchange Commission (SEC) (for public companies) on the shortest possible time lines. However, the closing process has traditionally been a slow one—several surveys reveal that the average company requires about two weeks to close its subsidiary's books, followed by roughly another three weeks to roll up the results into corporate-level financial statements. Companies with more organized closing systems can reduce this process to about two weeks, and those companies with the best closing processes can reduce the entire interval to four days. These results represent a slight improvement in closing times over the past few years, but there is no massive improvement trend. Thus, companies are clearly having a difficult time shortening the closing process.

This book walks the reader through the process of closing the books and creating financial statements faster. Much faster. The author uses the principles outlined in this book to issue financial statements for a multidivision company in one day and has been doing so for years. Some of the key improvement steps discussed in this book are:

- Shift the timing of closing activities out of the core closing period
- Reduce the contents of the financial statements
- Standardize and automate the use of journal entries
- Standardize the chart of accounts
- Centralize accounting functions
- Adopt inventory tracking and cycle counting systems
- Shift rebillable expense invoices out of the core closing period
- Use a web-based timekeeping system for consulting staff
- Streamline the commission calculation process
- Optimize the approval process for accounts payable

- Link supplier invoice accruals to the purchase order database
- Layer consolidation software onto the existing accounting software
- Integrate an ongoing improvement review into the closing process

These bullet points are only a microcosm of the large array of changes recommended in this book. No single change will achieve a massive reduction in the closing interval. Instead, only by gradually working through the changes listed here, in the order presented within the following chapters, can one expect to arrive at a closing interval that may encompass as little as a single day. Enjoy the journey!

Steven M. Bragg

Centennial, Colorado
May 2005

FAST CLOSE

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Introduction

Achieving a fast close is a process improvement project that requires the full attention of the accounting staff for a long period of time. Before committing to such a project, one should be clear about what type of financial close works best for a company's specific needs, what kinds of benefits will result, and the general steps required to complete the close. This chapter provides answers to these questions.

DIFFERENT TYPES OF FAST CLOSE

Several variations on the fast close concept have appeared, causing some confusion about the nature of each one. The *fast close* is simply an acceleration of the standard closing process, resulting in approximately the same financial reporting package being issued (possibly somewhat stripped down). The focus of this approach is a careful examination of the closing process to strip out wait times, consolidate tasks, eliminate unnecessary functions, add transaction best practices, and selectively apply automation where necessary. It is a task in which an industrial engineer trained in efficiency improvements would feel quite at home.

The *soft close* is less labor intensive than a regular close, because it does not generate as much information. It is designed solely for internal corporate use, so its end product is only those management reports needed to run operations. With this reduced reporting goal in mind, the accounting staff can eliminate the use of overhead allocations. It may also be possible to stop some accruals and ignore the elimination of intercompany transactions, depending on the level of reporting detail desired. The soft close is most commonly seen in companies that only issue quarterly or annual reports to outside entities, leaving all other months available for the soft close.

The *virtual close* involves the use of a largely automated accounting system, one that can produce required financial information at any time, on demand. This approach is rarely used and only in the largest companies that can afford to install an enterprise resources planning (ERP) system that automatically consolidates and reports financial information. Also, the underlying transactions that feed into the ERP system must be essentially error free, so an accurate virtual close is really the result of a hefty software investment as well as years of continual process improvements. The financial reports resulting from a virtual close tend to be stripped-down versions of reports compliant with generally accepted accounting principles (GAAP), because this approach avoids the need for such manual tasks as overhead allocation, accrual transactions, and the establishment of various reserves.

If achieved, a virtual close can be useful in fast-moving industries where financial results must be monitored frequently in order to make rapid-fire changes to a company's tactical or strategic direction, or at least to identify problem areas for fast management attention.

BENEFITS OF THE FAST CLOSE

There are numerous benefits to achieving a fast close, which vary based on the perspective of the recipient—company management, outside investors, auditors, and the accounting department. These benefits are:

- *Quicker access to financial information.* Company management generally feels that the primary benefit of the fast close is having access to financial information more quickly, allowing it to take rapid steps to improve a company's strategic and tactical position in the marketplace.
- *Marketing tool.* A company's marketing staff can use the rapid issuance of financial information to trumpet the company's openness to the investing public. This does not necessarily mean that the company will issue sterling financial results, only that it will issue results faster. Still, it implies some level of expertise on the part

of the accounting department in processing transactions and compiling them into reports, and so may impart some level of comfort to investors in that regard.

- *More time for financial analysis.* Closing the books fast does not necessarily mean that one must issue financial statements sooner. An alternative is to spend additional time analyzing the preliminary financial statements in order to issue more complete footnotes alongside the financials at a later date.
- *Improved processes.* Because the fast close improvement process requires careful attention to process enhancement, there will inevitably be side-benefit improvements to many accounting processes, leading to heightened efficiency and fewer errors. Within the accounting department, this may be seen as the top benefit of the fast close.
- *Improved control systems.* Internal and external auditors appreciate the enhanced attention to control systems needed to ensure that information is compiled properly and fast.
- *More time, period.* Although some aspects of the fast close simply push activities into the period either before or after the core closing period, some actions are completely eliminated or at least reduced in size. This results in less total time required for the closing process, which can be used by the accounting staff for a variety of other activities.

Consequently, the wide array of fast close benefits results in multiple supporting constituencies—management, investors, auditors, and the accounting department.

LEGAL ISSUES IMPACTING THE FAST CLOSE

The Sarbanes-Oxley Act has made it more difficult to achieve a fast close. The problem is Section 302 of the Act, which requires formal management certification of the accuracy of the financial statements. Specifically, Section 302 requires that the financial statements of publicly held companies do not contain any material untrue statements or material omissions or be considered misleading. Understandably, those signing this certification want to spend more time ensuring that the financial statements are