The Finance Coach

CONSULTING & PROJECT MANAGEMENT

Smart Transactions

An Easy Way to Close Your Books Fast

AGENDA

INTRODUCTION
FROM CLASSIC CLOSE TO FAST CLOSE
CHANGE OVER
SMART TRANSACTIONS
WRAP UP

Fast Close and ERP
Common Approaches
How To
A Different Way of Work
Questions and Answers

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Fast Close

INTRODUCTION

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Introduction

- When Steven M. Bragg wrote his standard on fast closing techniques “FAST CLOSE: A Guide to Closing the Books Quickly” with the first edition in 2005 and the second edition in 2009, technically he focused on various tasks related to the close:
  - Closing the Inventory Function
  - Closing the Billing Function
  - Closing the Payables Function
- Only at the very end, he stated the implementation of an ERP system will add the highest level of sophistication to closing processes (at the highest expense of implementation).

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Introduction

- Now you **have** an ERP system and still have high workload during period end?

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Introduction

- Performing a close is (only) transforming a company's business transactions into publishable books and records.
- In an integrated ERP system, core business transactions update the books and records automatically.
- Period end is not an event, it is just a point in time.

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Common Approaches

FROM CLASSIC CLOSE TO FAST CLOSE

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From Classic Close to Fast Close

- Implementing Fast Close is reducing the time between calendar period end and availability / publication of books and records.

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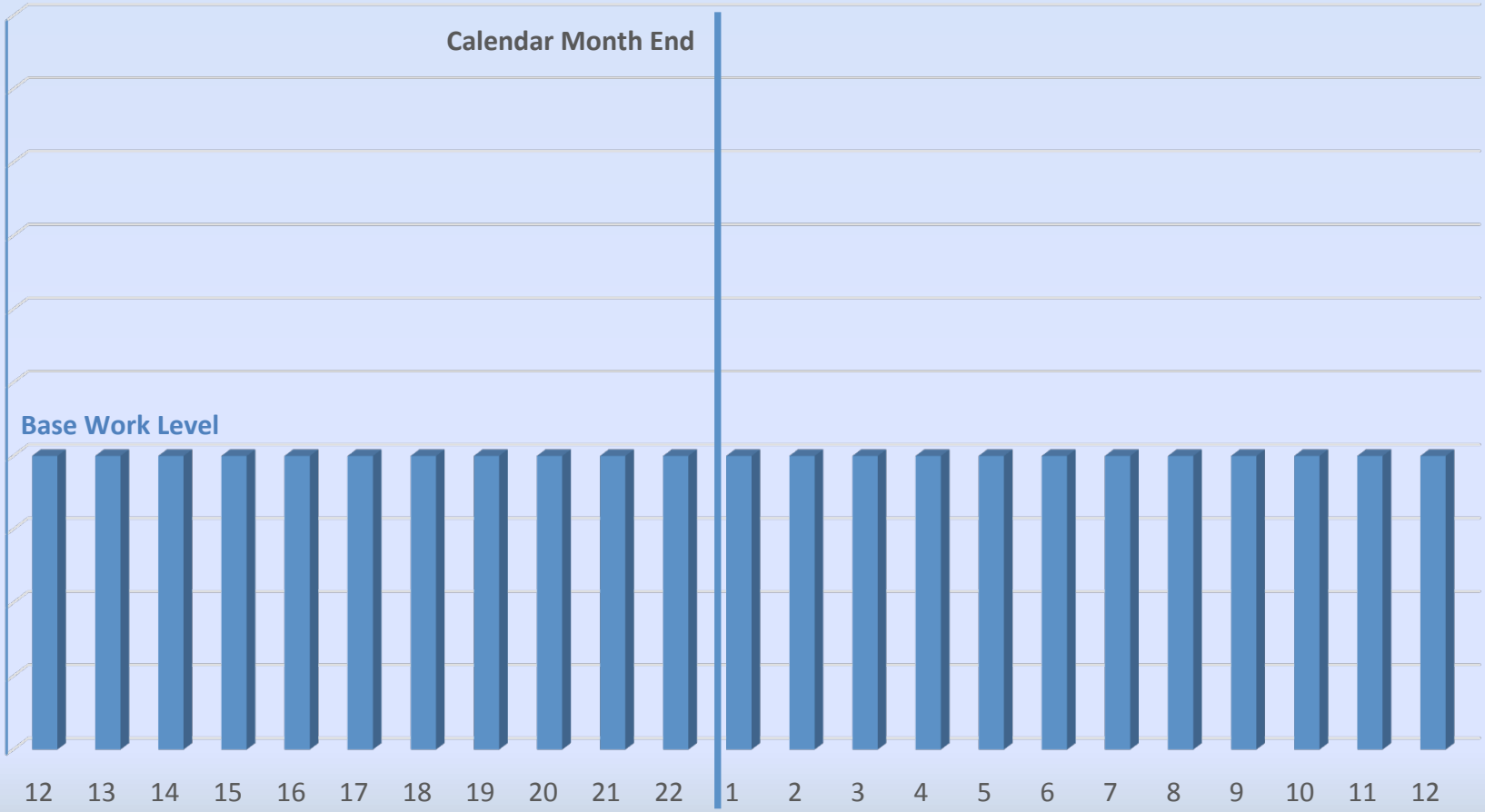
Classic Close



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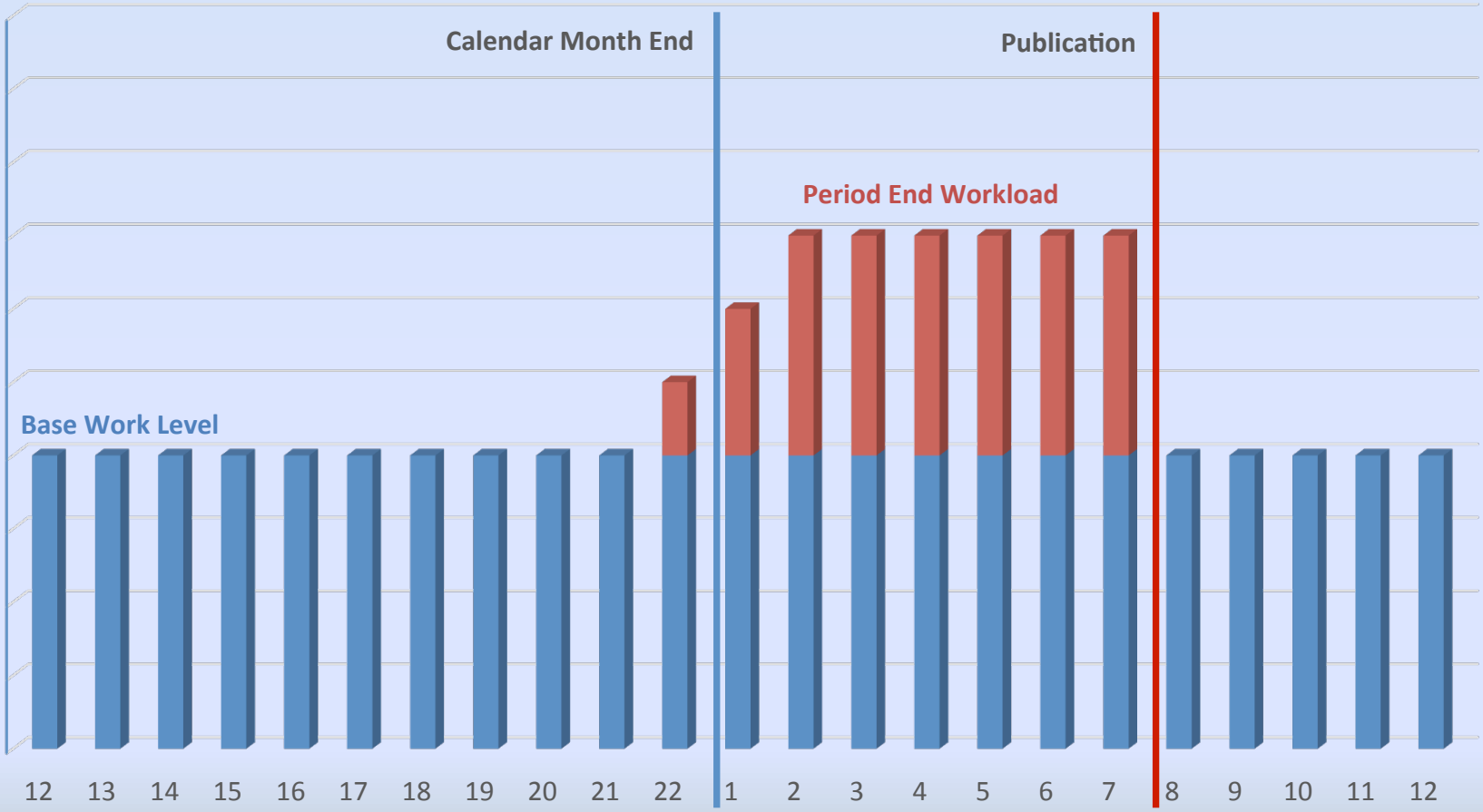
Classic Close



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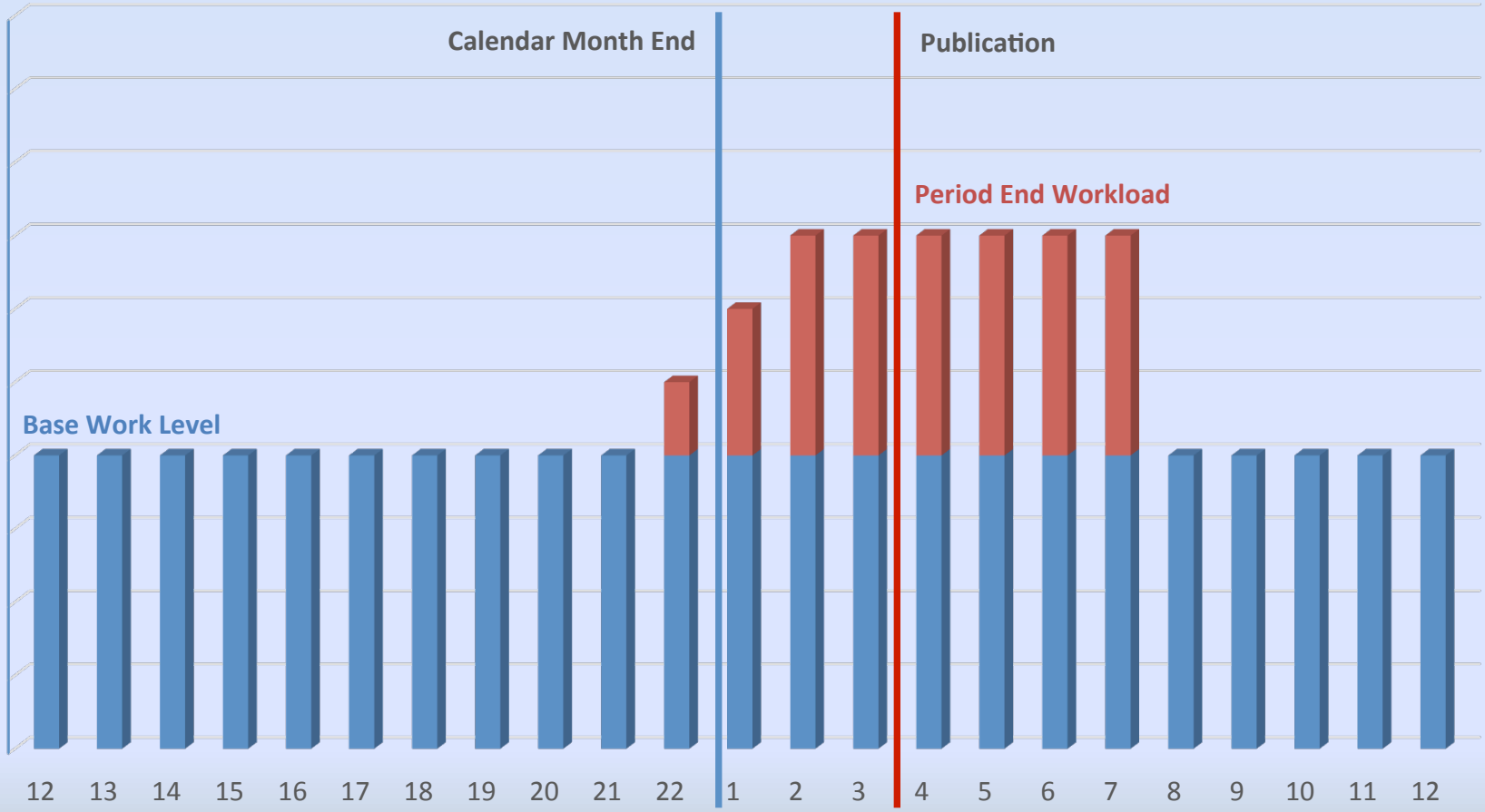
Classic Close



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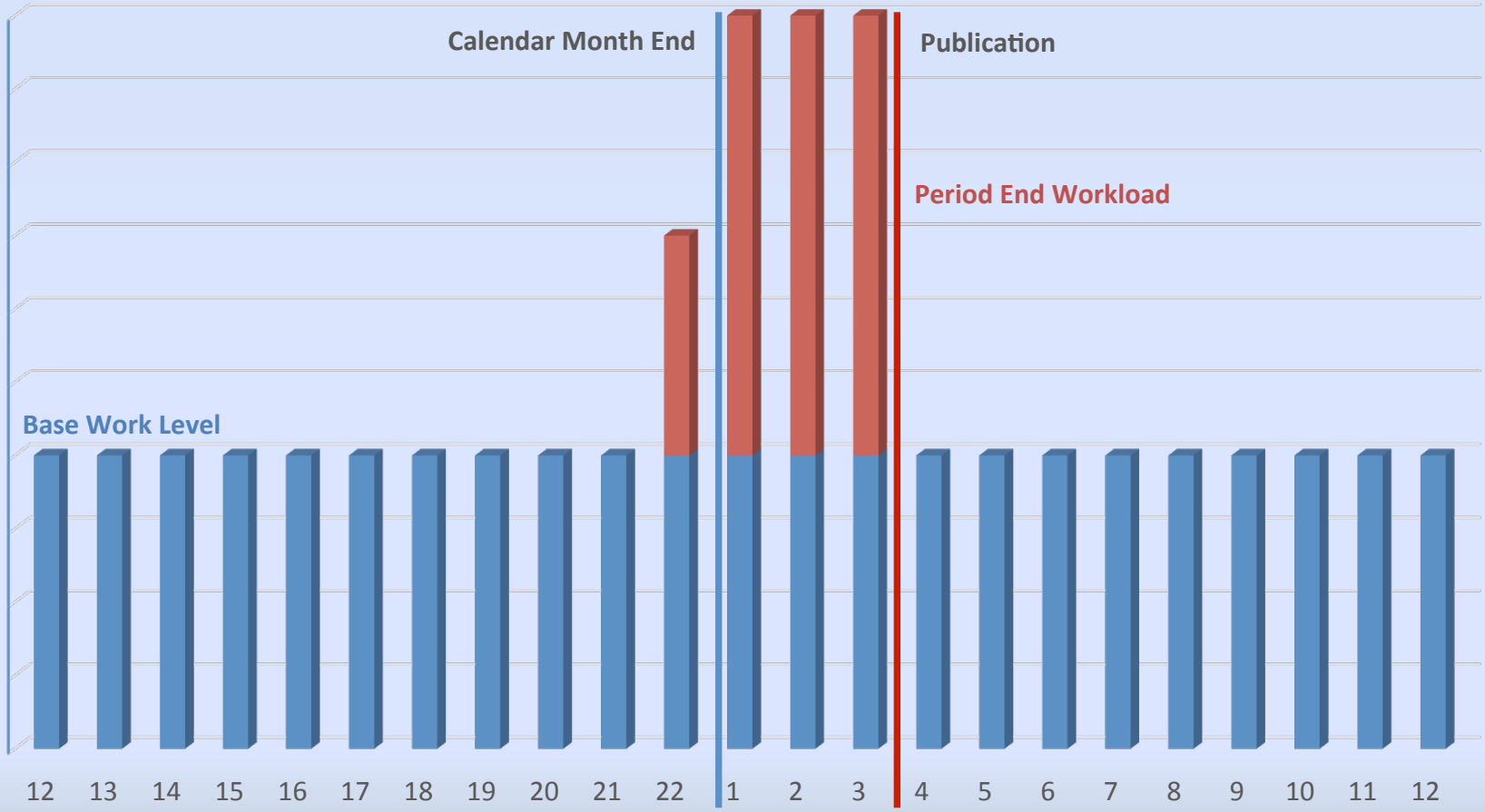
The “Peak” Approach



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Limitations

- Resources will limit the volume of work per day that can be executed during the closing period.
- Resources therefore will limit the possibility of shortening the period between calendar month end and closing the books and records.

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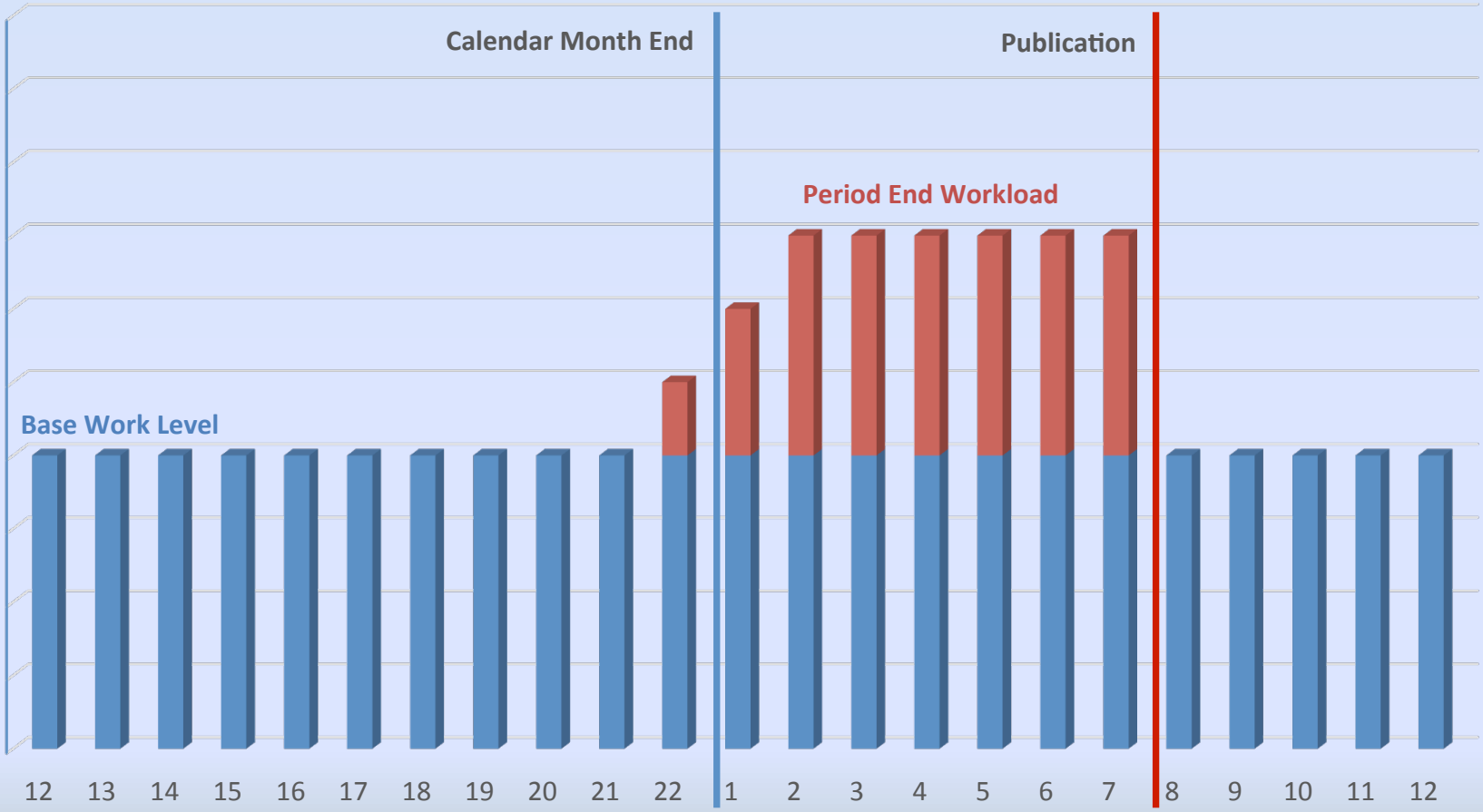
Classic Close



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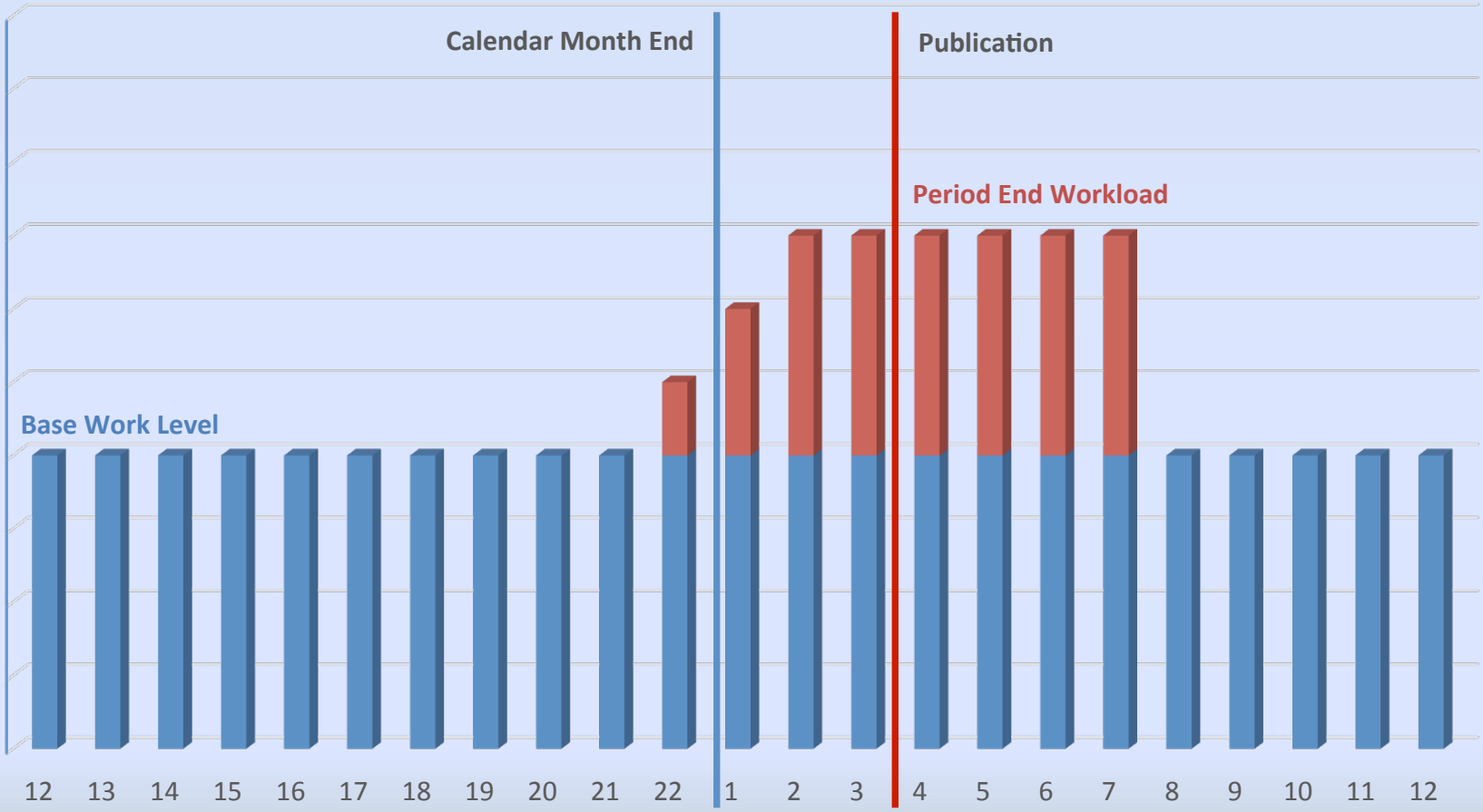

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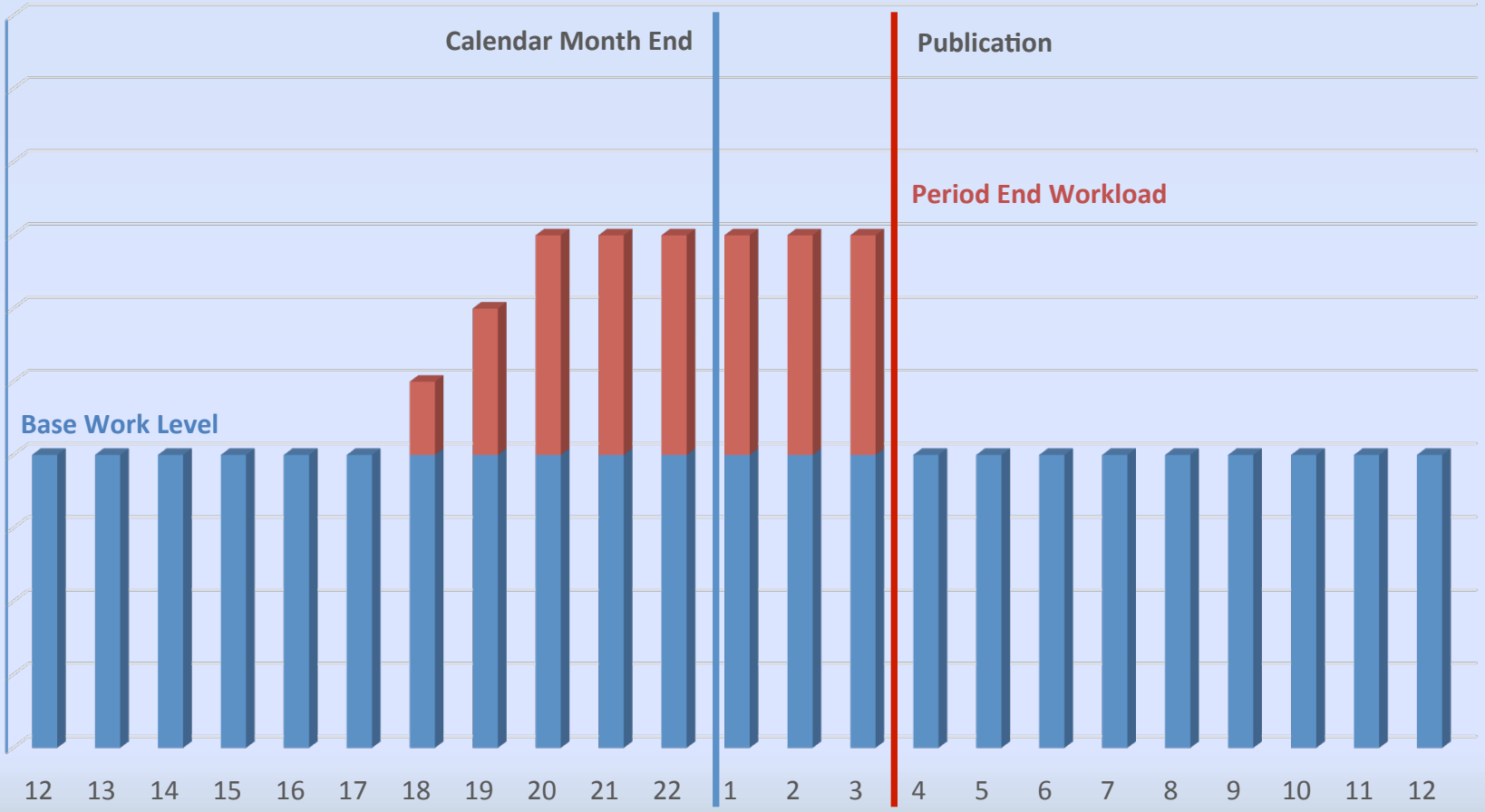
The “Move” Approach



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Limitations

- The earlier the cut off starts, the less accuracy can be achieved.
- Earlier cut off will require true ups which add workload.

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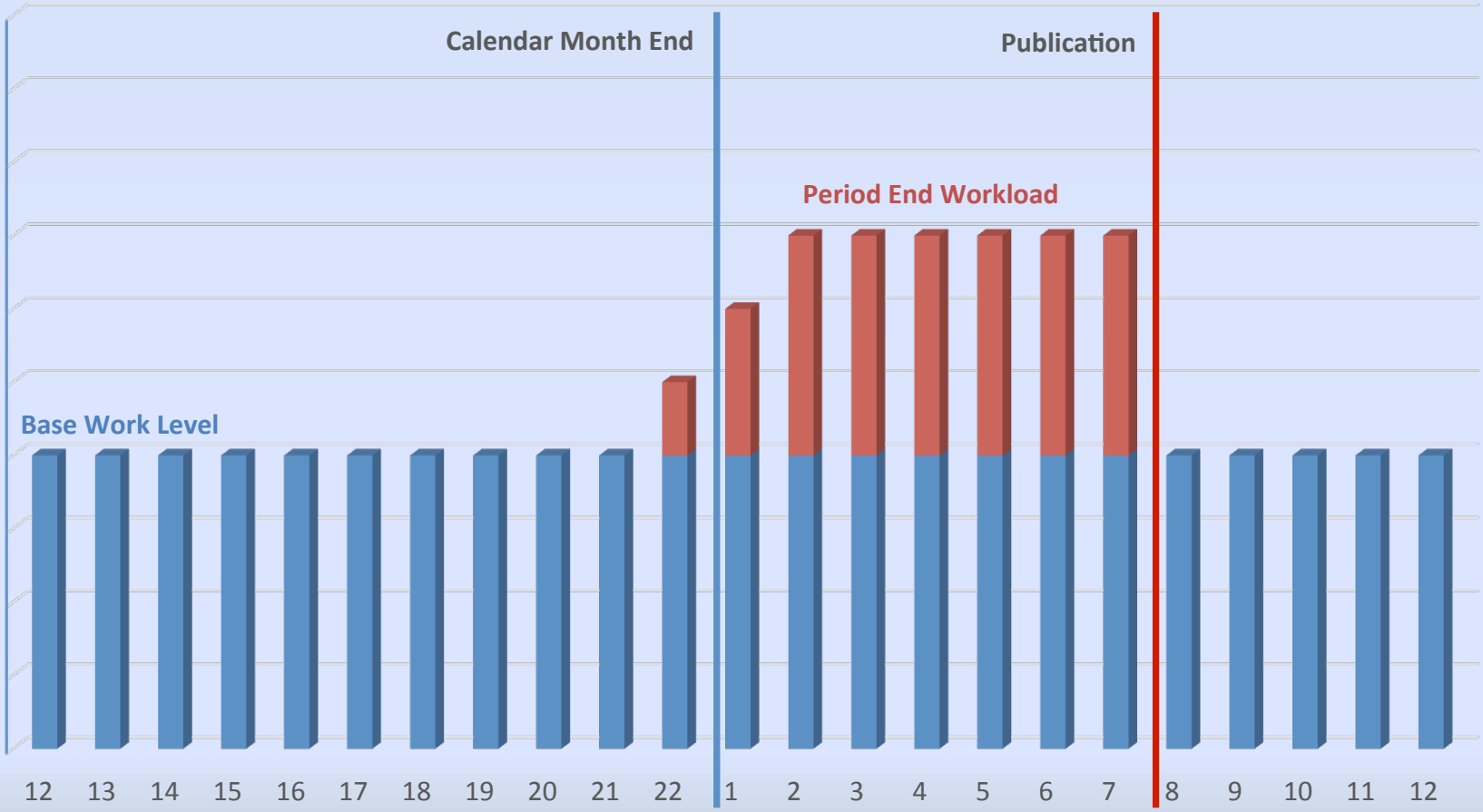
Classic Close



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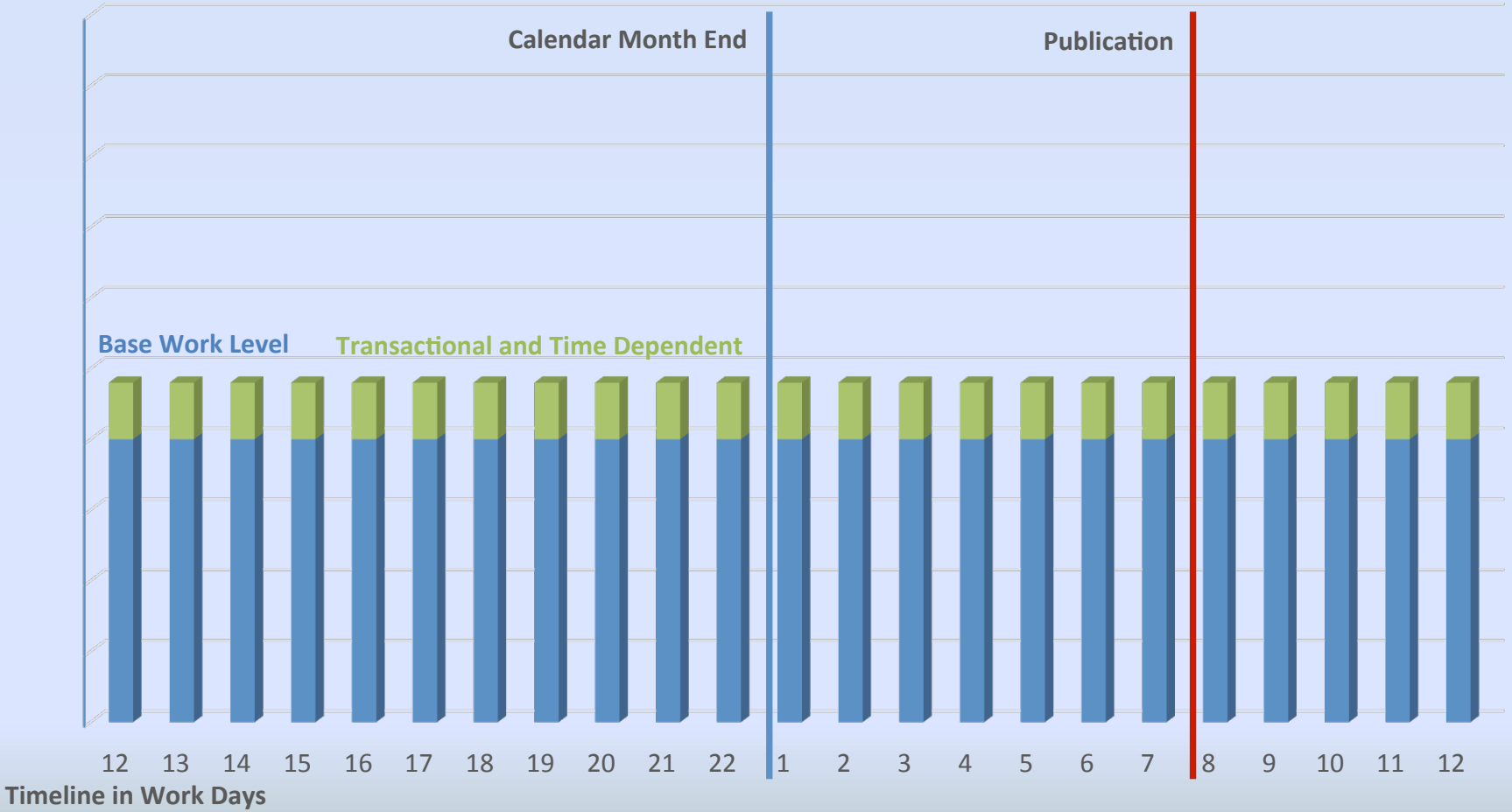
Smart Transactions



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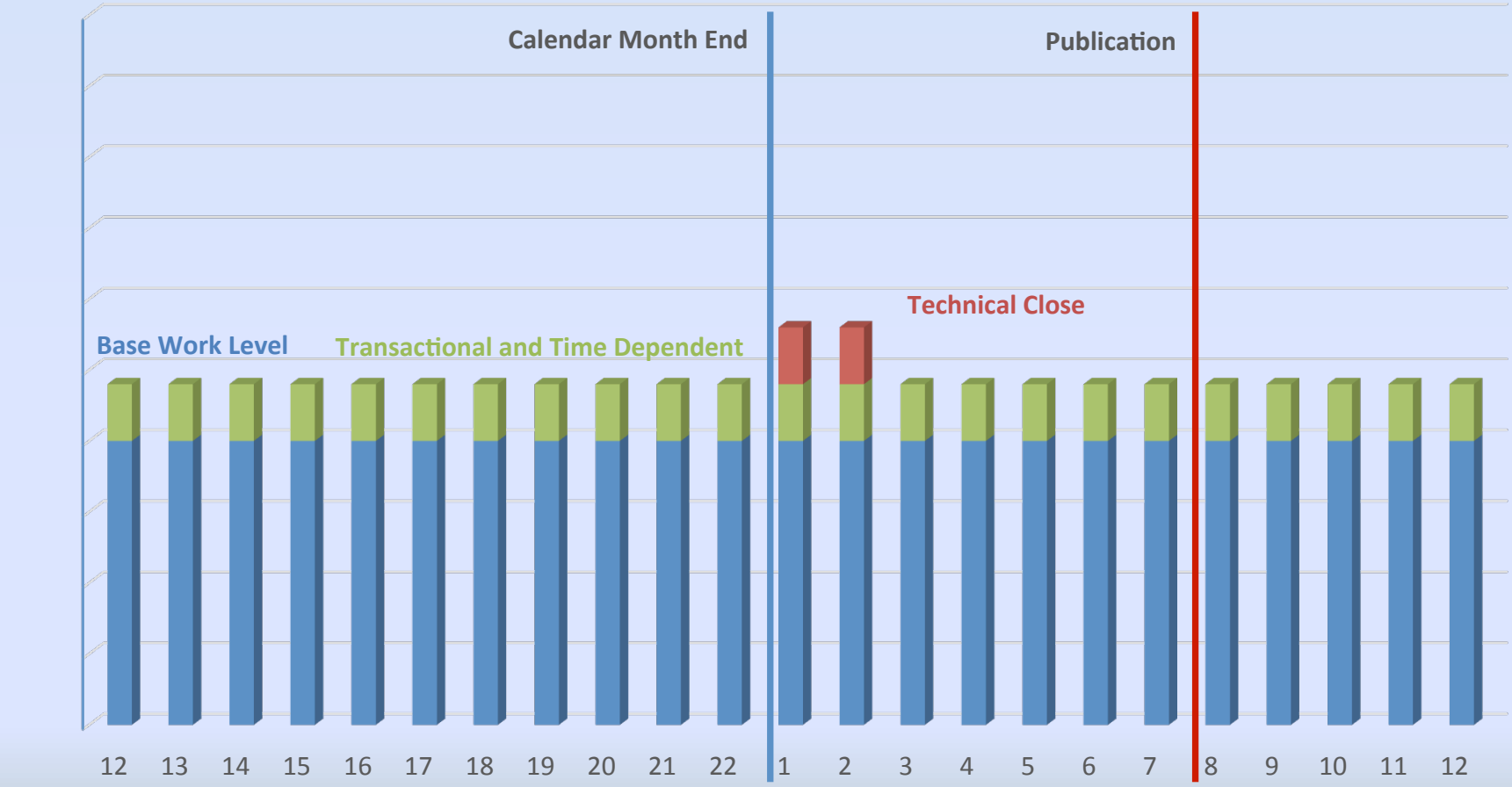
Smart Transactions



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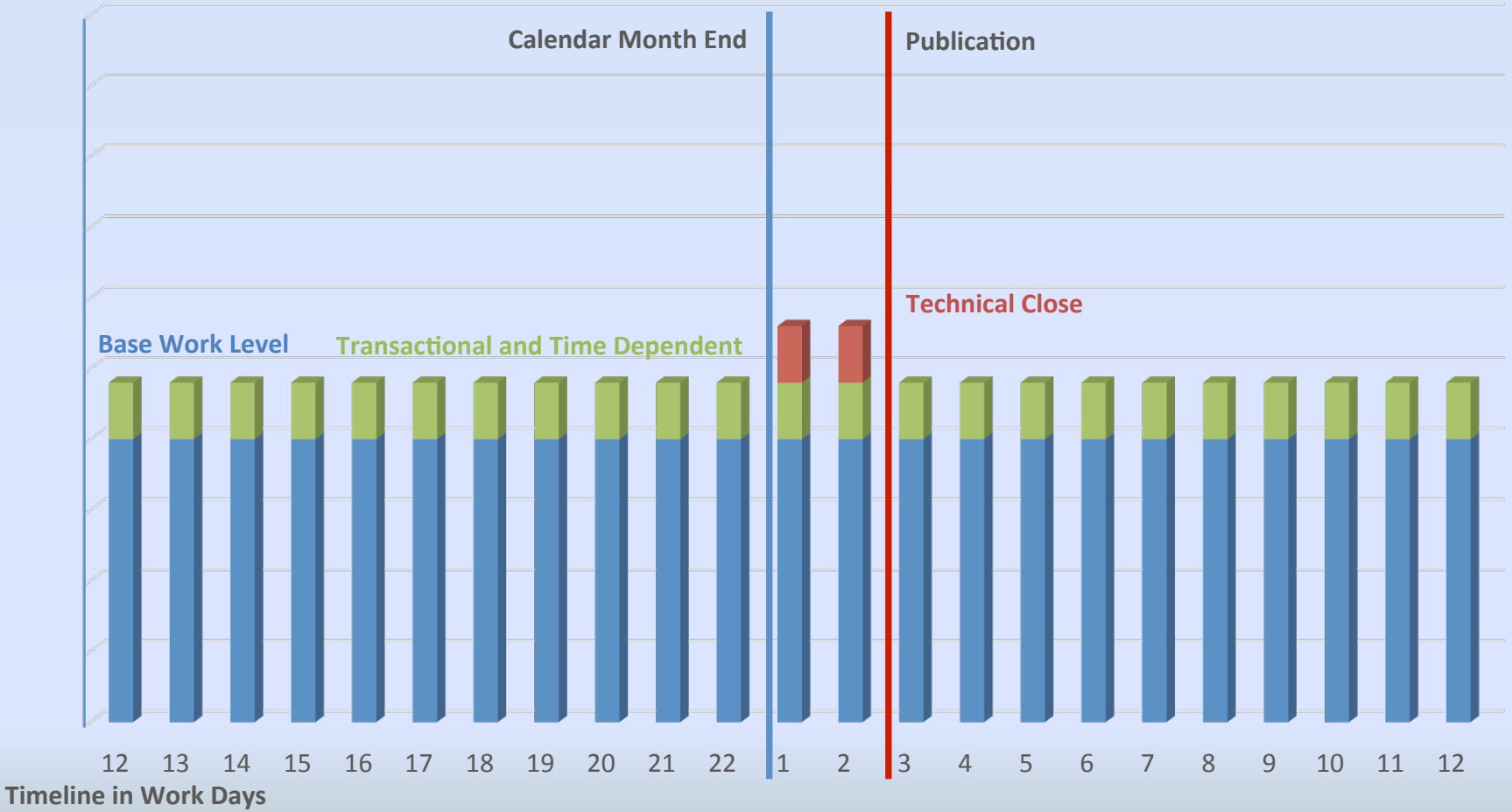
Smart Transactions



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Benefits

- Period end is only technical. In other words, there is no “month end processing”.
- This actually gives online visibility!

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How To

CHANGE OVER

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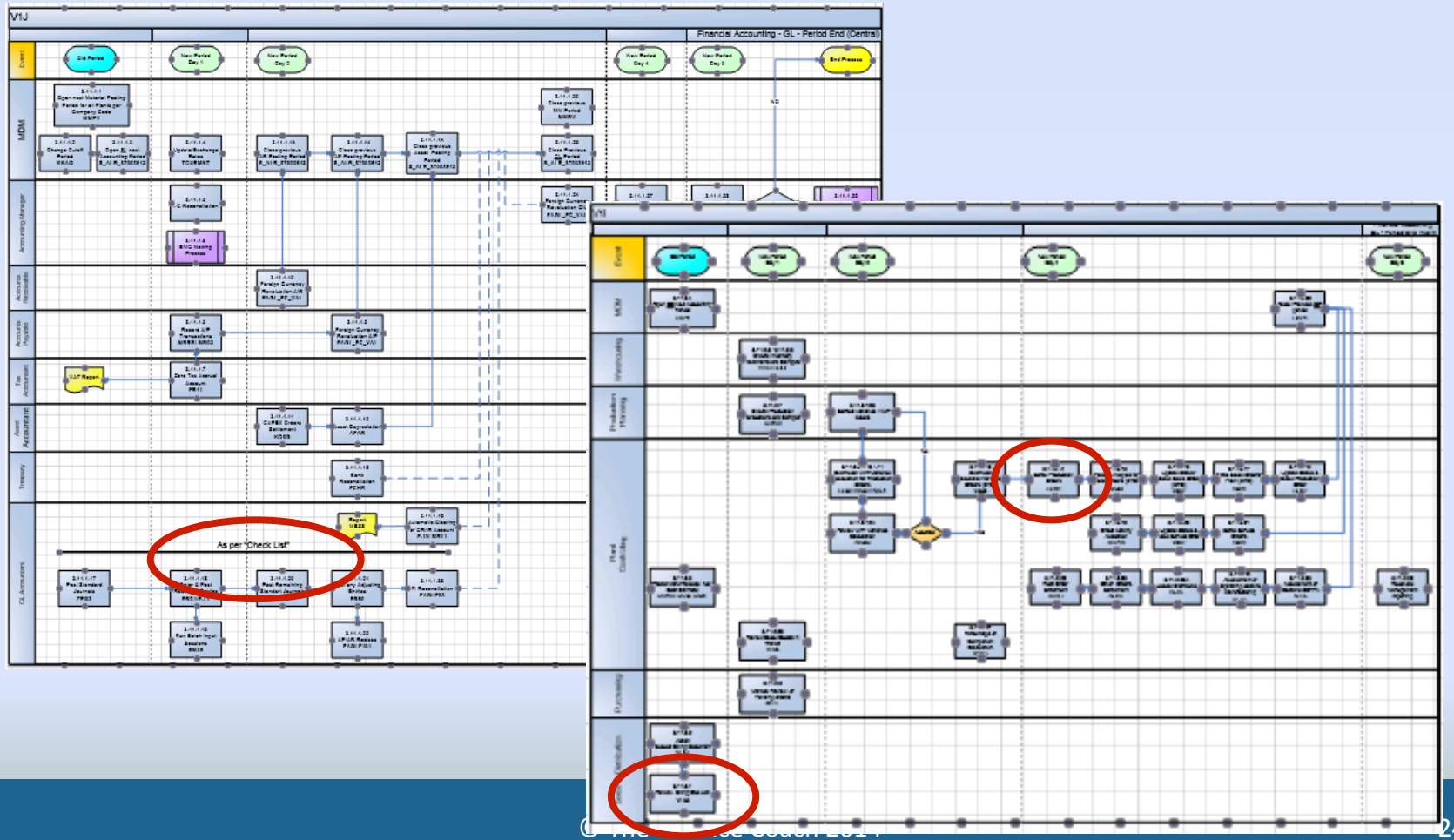
Status Review

- How does your current closing process look like?



Status Review

- How does your “Check List” look like?

Single Company: 211 Tasks

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The Baseline

- Companies tend to look at period end “closing oriented”.
- In these instances, period end processing is focused on
  - Posting activities
  - Review activities
  - Correcting activities
  - Technical closing steps

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How To – Define (1)

- Transactional activity stands for postings based on or triggered by a core business process (purchasing, sale, production). Such activities are of continuous nature – therefore period end is just a point in time.
- Exclude transactional activity from period end tasks.
- Ensure
  - Transactional completeness: All transactional activity has been executed and recorded.
  - Completeness by characteristics: Transactional activity carries all information that is required for the close.
  - Technical correctness and correctness by contents.

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How To – Define (2)

- Time dependent activities stand for tasks that need to be executed or repeated at certain intervals or where information is available only at a certain point in time.
- Exclude time dependent activity from period end tasks.
- Ensure
  - Time dependent activity is executed outside the closing cycle if of repeated nature
  - Time dependent activity is executed at the earliest point in time when underlying information is available
  - Differences are captured, based on materiality

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How To – Define (3)

- Event driven activity stands for journals that are based on a business event, where the business event is not of transactional nature.
- Exclude event driven activity from period end tasks.
- Ensure
  - The financial effects of this activity is captured at the time when the event occurs

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New Baseline

- Historic period end tasks are getting obsolete or are being moved.
- Period end processing is now focused on
  - Technical closing steps
  - Analysis

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A Different Way of Work

SMART TRANSACTIONS

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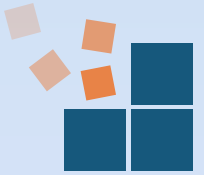
Smart Transactions – Basis



- The target is that all posting activity related to the period that is to be closed is being executed **within** that period.
- Identify tasks on the process and on the period end check list and categorize these to
  - Transactional
  - Time dependent
  - Event driven
- Set up a support mechanism to ensure completeness and correctness.
- Establish an exception routine.

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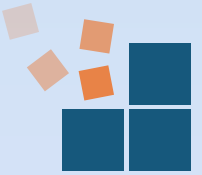
Smart Transactions – Moving Items (1)



- Goods in transit
  - Invoice received without goods received. Appropriate GR/IR maintenance allows goods in transit being booked through technical routine.
  - ➢ Define GR/IR accounts as housekeeping object.
- Accrual for invoices not received
  - Purchase order compliance triggers expense at receipt of goods or services.
  - ➢ Define PO compliance as monitoring object.

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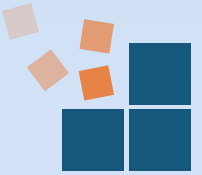
Smart Transactions – Moving Items (2)



- Secondary systems
  - Execute periodic transfers at availability.
- Recurring entries
  - Execute prior to period end.
- True up entries
  - Use “Soft Close” techniques and use permanent entries.

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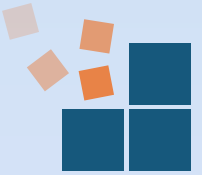
Smart Transactions – Supporting Mechanism



- Transactional items
  - Housekeeping to ensure completeness
  - Monitoring to ensure correctness
- Time dependent items
  - Calendar / check list
- Event driven items
  - Information culture

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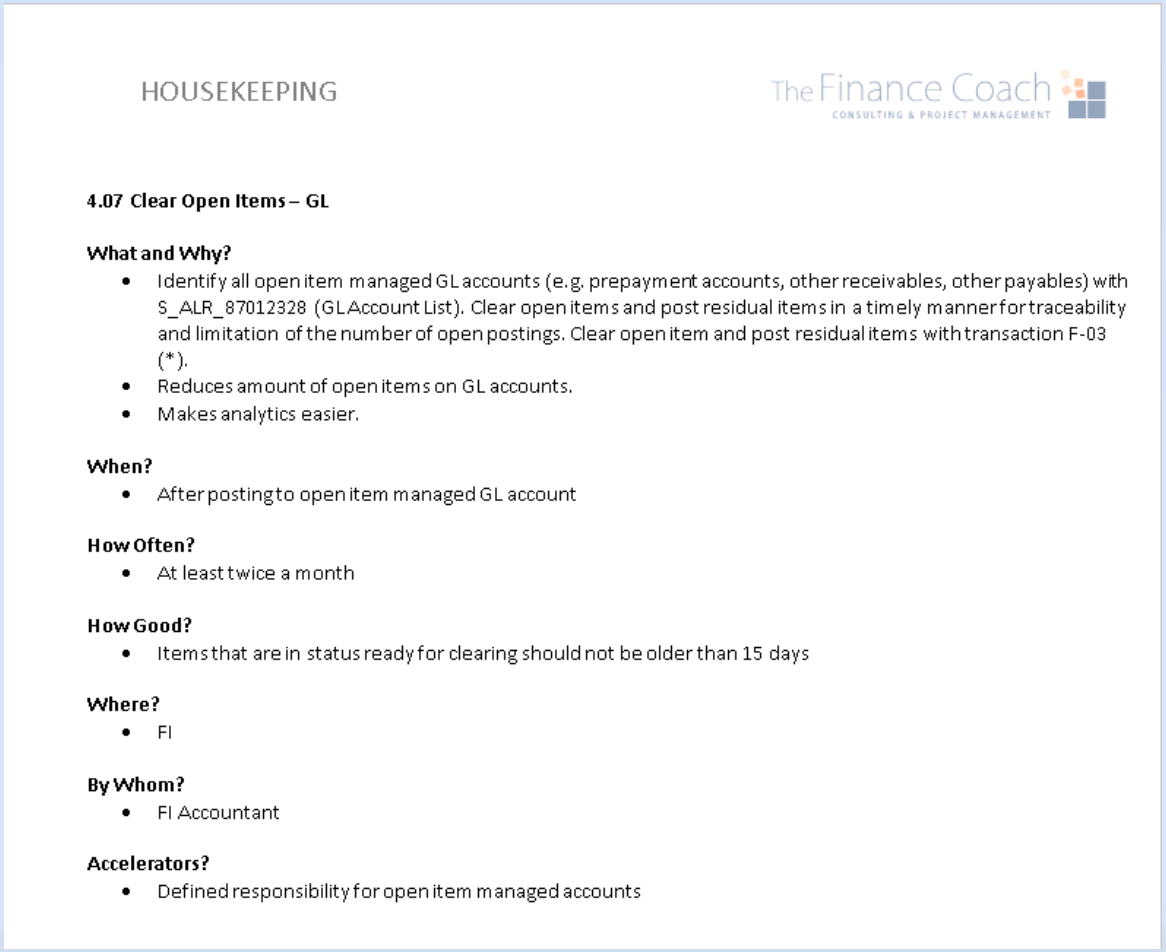
Smart Transactions – User Manuals



HOUSEKEEPING

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4.07 Clear Open Items – GL

What and Why?

- Identify all open item managed GL accounts (e.g. prepayment accounts, other receivables, other payables) with S_ALR_87012328 (GL Account List). Clear open items and post residual items in a timely manner for traceability and limitation of the number of open postings. Clear open item and post residual items with transaction F-03 (*).
- Reduces amount of open items on GL accounts.
- Makes analytics easier.

When?

- After posting to open item managed GL account

How Often?

- At least twice a month

How Good?

- Items that are in status ready for clearing should not be older than 15 days

Where?

- FI

By Whom?

- FI Accountant

Accelerators?

- Defined responsibility for open item managed accounts

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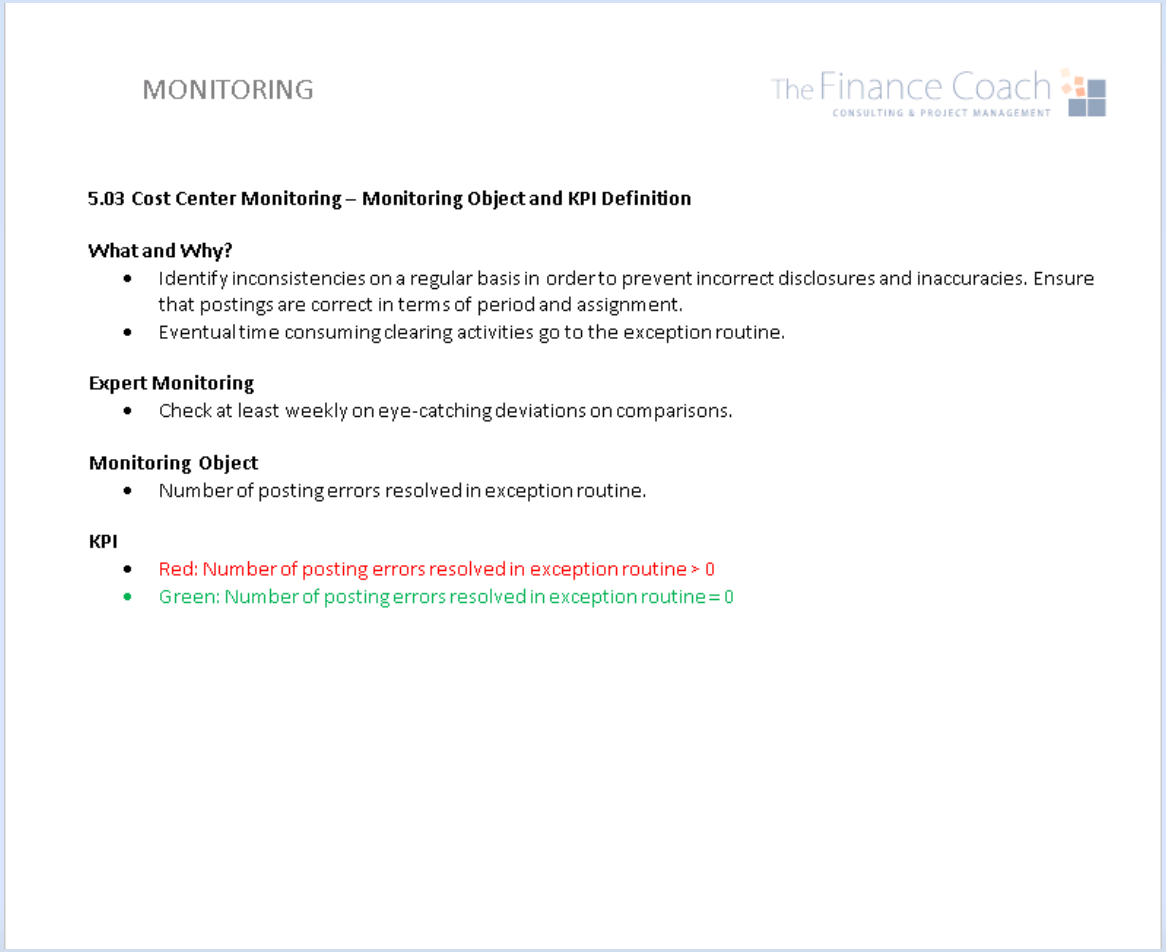
Smart Transactions – User Manuals



MONITORING

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5.03 Cost Center Monitoring – Monitoring Object and KPI Definition

What and Why?

- Identify inconsistencies on a regular basis in order to prevent incorrect disclosures and inaccuracies. Ensure that postings are correct in terms of period and assignment.
- Eventual time consuming clearing activities go to the exception routine.

Expert Monitoring

- Check at least weekly on eye-catching deviations on comparisons.

Monitoring Object

- Number of posting errors resolved in exception routine.

KPI

- Red: Number of posting errors resolved in exception routine > 0
- Green: Number of posting errors resolved in exception routine = 0

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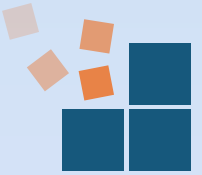
Smart Transactions – Exception Routine



- Nothing is perfect.
- Instead of “repair” during the closing process, record non compliance and exceptions, and execute reversing journals to capture the financial impact. Correct on transactional basis during the following month.
  - The target is that all posting activity related to the period that is to be closed is being executed **within** that period:
- Effect: Corrections do not impact the technical closing routines, and you have reportable transparency on exceptions.

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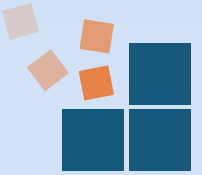
Smart Transactions – From Check List to KPI



- Definitions in the User Manual allow monitoring through KPIs
- Define Service Levels
- Retain and drive knowledge

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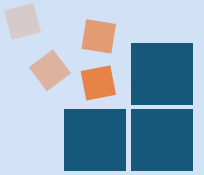
Smart Transactions – One Step Further



- Assess materiality
- Assess requirement
- Reduce complexity
- Apply soft close methods
- Enrich data

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Who We Are

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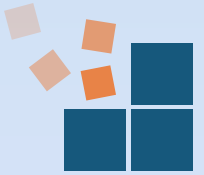
Who We Are



- The Finance Coach provides business consulting and project management by experts who have a practical business background.
- Our services cover the full system lifecycle – from implementation support through to general process optimization.
- Our vision is to align people, processes, and technology.
- Our mission is to transfer knowledge through coaching.

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Questions and Answers

WRAP UP

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Wrap Up

- Questions and Answers

- How to contact us:
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  - +49 6105 99697 30

- Please do not forget to complete your session evaluation!

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