THE FINANCE GUIDE TO A FASTER MONTH-END CLOSE

IOFM Institute of Finance & Management

Sponsored by bill

It's almost the end of the month again, and time to close the books. If you're like most financial leaders and accounting teams, you're probably starting to feel your heart pound and your headache ramp up as you anxiously wait to see exactly how big a mountain you have to climb. How many receipts are missing, how many unattributed transactions do you have, and how many cats are you going to have to herd to get this month closed?

According to APQC, the fastest organizations complete the monthly close in four days. The slowest take 10 days.

On the accounts payable (AP) side of the house, last-minute invoices must be logged into the accounting system and payments either processed or the liability accrued. That requires that approvers promptly review and route the invoices for the things they're responsible for. However, it's very common for invoices that are pending approval to get lost or buried by other work, particularly if they're in paper form.

Then there are expense reports. "Rubber stamping" them — processing them for payment without an adequate review — can result in reimbursing charges that fall outside of the organization's T&E policy. And in the worst cases, it can lead to employee theft and abuse. But even when things are on the up-and-up, it requires verifying, for example, that Steve from sales got approval to exceed his spending limit when taking his prospects out for lunch.

On the accounts receivable (AR) side of the business, invoices need to be issued to clients for goods sold and services rendered in order to recognize all the revenue in the period. Credit memos need to be generated to adjust any open invoices or else revenue may be overstated. Collections need to be applied to the right invoices in order to ensure a clean ledger.

You'll also want to create audit trails in case there's a question of what action was taken and when it occurred.

Yet most organizations don't have a team dedicated to month-end close. All of these tasks must be handled by existing AP or AR staff in addition to their regular processing responsibilities. This not only creates a backlog in handling the regular work — it can easily contribute to employee burnout at a time when it's very difficult to hire new staff.

Lightening the Load

While some months are more complicated than others, this is a recurring problem for financial teams, and one that won't go away on its own. However, closing doesn't need to be such a frustrating and time-consuming experience for your team every month. Many of the tedious, labor-intensive tasks that delay your ability to close your books can actually be automated — if you have the right tools in place.

"Automation can really improve the speed and accuracy of closing the books," says Doug Reed, Vice President of Finance at BILL. In fact, the right automation solution can address the month-end challenges associated with AP, AR and expense reimbursements. It seamlessly captures transaction information — bills paid and payments received — automatically creating an always-current audit trail, updating the general ledger behind the scenes and generating insightful reporting.

According to Reed, automation can help with the four key steps of a close:

- **Accurately capturing bills and expenses while generating invoices and credit memos**
- **Reconciling balance sheet accounts with external statements**
- **Recording accruals**
- **Executing test runs and generating the income statement and balance sheet**

Capturing transaction information is essential — invoices that have gone out, bills that have arrived, collections in and payments out. You want to book everything that has happened by end of day on the last day of the month.

Transparency is key here. You need to be able to see the status of all transactions in order to know what's going on and be confident that your end-of-month reporting is accurate. You may need to round up outstanding invoices, but without automation, you must first do your research so you know whether you need to email vendors.

If someone writes a paper check to a vendor or generates an invoice on their local printer and mails it out, it isn't entered into the books automatically and could easily be overlooked at the end of the month. If a customer drops off cash or a check, or a credit card is processed manually, an accountant is going to have to add it to the books by hand.

These are precisely the types of issues solid automation will prevent.

A solution like BILL is very helpful here because it is a consolidated and centralized source of information. With transactions and their accompanying details automatically recorded and synced with your accounting software, everything remains up-to-date and accessible within one system.

Another advantage of automation is that it also streamlines expense reporting and reimbursement. Instead of time-consuming policy compliance reviews that must be conducted by the AP team, along with paper receipts that must be collected and reviewed, consider an expense management solution like Divvy, a BILL company.

> **"Even though we've tripled the amount of line items, we're still saving at least 15 hours a week on expense management, thanks to Divvy."**
>
> – Courtney Smith, Accounting Manager, aboutGOLF

With Divvy, employees with spending privileges are issued cards that have spending limits pre-set by category. When Steve from sales realizes he's probably going to exceed his limit for meals, he can send a request through the app and receive real-time approval from his manager. Afterwards, he can snap a photo of the receipt, which is then automatically matched, verified and logged into the app. No more time is wasted shuffling through papers, trying to find all of the month's receipts, stuffing them into an envelope or scanning them, then handing them off to AP for a complete review.

Throughout the month, managers and budget owners can see who's spending how much and for what. In addition, expense automation solutions can remind spenders to categorize their expenses before the end of the month, preventing a last-minute crunch and a flurry of email exchanges.

Royce Grayson Morse, IOFM's Managing Editor, notes, "Manual handling of expense reports can pose other problems — for example, when an employee has exceeded their spending limits or is otherwise noncompliant with policy. Accounts payable going head-to-head with out-of-policy spenders is never a pleasant experience. Instead, managers, employees and the app can handle discrepancies before the report ever gets to AP — and even before the money is spent."

> **"If you are a busy controller looking to save time, bank reconciliation is just one more great benefit of BILL."**
>
> – Gary Hornbeek, CFO, Quicken

Reconciliation doesn't need to be a painful process either. Of course, you'll need to reconcile your balance sheet accounts with external records like bank statements, lender account information and so on. However, a good automation solution makes it easy to match these things up. And having the software constantly updating things means there are no delayed postings, thus preventing double entries or missing some altogether because of online banking transactions. Furthermore, instead of AP generating dozens or even hundreds of bank transactions (one per invoice), automation from a solution like BILL combines all the payments into a single withdrawal, saving considerable time and effort.

Although automation allows for faster payments to be generated on the AP side or posted on the AR side, there will always be some transactions still pending while the books are being closed. Accruals, both for outstanding payments that haven't yet been received and invoices recorded but not yet paid, can easily be viewed and recorded. This enables the finance team to forecast the organization's cash position. A solution like BILL helps with accruals because it is easy to find your vendors and see the status of invoices sent so that you know what you may need to accrue.

Less guesswork means better financials, which is key for public companies that must meet compliance standards. Automation will create both the income statement and the balance sheet, providing data that is also important for internal financial planning, control and process improvement. Once generated, the preliminary income statement and balance sheet should be examined for anything that looks odd or appears to be missing. Reed notes, "BILL is really good for researching anomalies or for answering questions. It is easy to run reports on collections, payments, customers, vendors — or look at specific transactions or details."

> **"When it's time to audit our books, it's very easy just to provision audit access in BILL – I don't need to babysit."**
>
> – Nik Hurley, Finance Manager, Bloom Credit

In the event of an audit, whether internal or external, automation ensures you have the information the auditors will need right at your fingertips. "If you've ever experienced a manual audit, you know how time-consuming that can be and how it distracts your people from their regular work," says Morse. "There's also the chance that you may not be able to find the records you're asked to provide. With reliable automation, there's no risk of that happening."

8 Helpful Tips

Automation, along with solid processes, can take the pain out of the month-end. Here are some practical suggestions for making your monthly close a bit easier.

1. **Establish a firm closing date in your ERP.** Publish it, then stick to it, no matter what. Also be sure you create an internal policy to address non-invoice related requests at the end of the month, such as rush checks. This also gives you a head start on the closing process. Automated reporting can allow you to review any open invoices the week beforehand and decide what to do with them.
2. **Create a schedule for closing the books.** In addition to establishing a deadline, make sure you have a checklist of tasks that need to be completed before that. When those tasks are done, place a "books closed" flag in the accounting system. If you use an automation tool like BILL, that will prevent additional changes from being made from that point onward, and the data will sync over to your ERP.
3. **Make sure you have a policy for any transactions occurring after that closing date.** This should address invoices by type and amount, which may need to be handled differently (for example, an invoice for consulting services vs. one for utilities).
4. **Be clear about how you'll treat invoices that are on hold.** This may be due to a PO-to-invoice mismatch, a problem in receiving, an incorrect quantity, a missing shipment or damaged goods. How will you research these and how do you account for them during the resolution process?
5. **Have a process in place to ensure you're booking things in the right month.** This applies to pending transactions in both AP and AR. Something to keep a close eye on are bills for legal services, which tend to be large and often arrive after the month in which the expense was incurred.
6. **Is it an operating expense or a capital expenditure?** You need to be sure, since many organizations record these things in separate budgets and account for them differently. High-ticket invoices for furniture, computers and other depreciable goods may be capital expenses.
7. **Stay aligned with procurement (AP) or sales (AR).** Some businesses are seasonal. In order to be prepared for month-end, you'll need to know the anticipated volume of work so you can better manage employees' efforts and regulate time-off requests.
8. **Ditch the paper expense reports and go digital.** Use expense management software throughout the month to capture categorization info on the go. Automation greatly streamlines payments and alleviates the need for AP staff to try to resolve policy violation issues.

Automation Really Does Do It Better

With the current labor shortage, you need to maximize the staff you have without overstressing them. "Managing late payments on either side of the house creates risk for your organization," says Morse. "That can take the form of misreported accruals or missed transactions altogether. A month-end rush invariably contributes to that situation."

> **Monthly close used to take Christy O'Neill, CFO of nonprofit The Life Link, 10 days. Now with BILL, month-end close takes only a day.**

Reed agrees. "Month-end close for many small and midsize businesses that don't have large staffs is often neither timely nor accurate. That not only impairs business decision-making — it makes the company's finance department look bad."

Instead, take control! The answer is an automated solution that streamlines the very things that tend to bog finance staff down and create opportunities for error when handled manually. In fact, Reed reports that automation with BILL can save more than 50 percent of the time needed to manage AP, based on a 2021 survey of BILL customers. And it can save significant time. He cites a 2019 survey that showed that BILL saves organizations an extra 36 business days per year on average, versus previous accounts payable methods.

It's true: Streamlined month-end closes that don't stress out your staff while providing accurate reconciliation and reporting are a reality. Reed says, "Closing the books quickly and accurately will help propel your business in the right direction."

The path to that destination is, without a doubt, automation.

About Bill.com

BILL (NYSE: BILL) is a leader in financial automation software for small and midsize businesses (SMBs). We are dedicated to automating the future of finance so businesses can flourish. Hundreds of thousands of businesses trust BILL solutions to manage financial workflows, including payables, receivables, and spend and expense management. With BILL, businesses are connected to a network of millions of members, so they can pay or get paid faster. Through our automated solutions, we help SMBs simplify and control their finances, so they can confidently manage their businesses, and succeed on their terms.

For more information visit www.bill.com.

About the Institute of Finance & Management

Accounting and finance professions have each undergone nothing short of a complete transformation since the Institute of Finance and Management (IOFM) was founded in 1982 and since then our mission has been, and continues to be, to align the resources, events, certifications, and networking opportunities we offer with what companies need from the accounting and finance functions to deliver market leadership. IOFM empowers accounting and finance professionals to maximize the strategic value they offer their employers.

Our enduring commitment to serving the accounting and finance professions is unmatched. IOFM has certified over 25,000 accounting and finance professionals and serves several thousand conference and webinar attendees each year.

IOFM is proud to be recognized as the leading organization in providing training, education and certification programs specifically for professionals in accounts payable, procure-to-pay, accounts receivable and order-to-cash, as well as key tax and compliance resources for global and shared services professionals, controllers, and their finance and administration (F&A) teams.

Learn more at www.IOFM.com

IOFM Institute of Finance & Management