BUSINESS GUIDE

Finance Hacks for a Faster Close

How Continuous Accounting Saves Time and Keeps You Compliant

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The chaotic business conditions of the past two years have invalidated most of the assumptions and planning processes that served businesses so well in the decade prior. When history no longer offers an accurate forecast of the future, planning gets more difficult and more frequent—and the need for accurate and timely data becomes paramount.

Most finance teams experienced this firsthand while simultaneously learning to work remotely. For many, the month-end close cycle didn't necessarily change, but the demand for accurate and complete data around it did—from monthly to whenever business leaders needed it.

And it's not just the finance team. Leaders are asking for inventory, sales, marketing, production and supply chain data more frequently to help keep the business going, and then growing. Planners have learned that more frequent data updates help drive business changes that translate to the bottom-line.

As a result, thriving businesses have come to prize accurate and complete data on demand.

Much of this same data is required for the month-end close. The value of more frequent updates should suggest a better process for keeping the books up to date. Continuous accounting leverages technology to achieve those goals. And it starts with technology for finance, but isn't limited to just that.

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CHAPTER 1

Accounting Challenges

One of the biggest challenges accountants face is ensuring the data outside their department is up to date, accurate and complete. Key information that accounting requires, such as inventory levels, project milestones or the status of fixed assets, is typically spread across multiple departments and systems across the organization and often includes paper records. The effort required to gather and organize this data in preparation for closing the books can be significant—just as it's been frustrating to collect data for more frequent forecasts and course corrections by business leaders.

Challenges typically emerge across three areas:

- Collaboration. The accounting team has long had difficulty collaborating with others in the organization to get timely information, and the many people now working from home have added a new dimension to the problem. Waiting for information to be updated by other departments, a lack of visibility into the status of recent orders and pending contracts, and frequent last-minute changes to data that has already been processed are drags on efficiency and delay the completion of other closing tasks.
- Compliance. Another challenge is making sure that accounting processes and decisions comply with relevant standards, including U.S. GAAP and IFRS, and industry or government regulations as well as tax codes for all jurisdictions in which a company does business. This includes generating all necessary reports and collecting and paying taxes on time to avoid penalties, fines, restatements, and more costly and complex audits.

  Note that as businesses create new sales channels, compliance becomes more complicated. In particular, selling online can bring businesses into fluid tax code situations as states figure out how to tax out-of-state online sellers.
- Time. Finally, the sheer amount of time required to close the books is at odds with the need for up-to-the-moment decision-support data. Reviewing transactions, tracking down errors and correcting journal entries all take time, particularly if adjustments happen well after the transaction and details need to be researched and recalled. Other time-consuming activities include manually calculating depreciation and accruals and ensuring that revenue is recognized correctly. Much of this work must be done outside of the accounting system, using spreadsheets, which increases the risk of errors.

CHAPTER 2

Moving to Continuous Accounting

Continuous accounting uses technology to balance accounting workloads and provide more timely information, replacing month- or quarter-end deadlines with more frequent completion of close-related tasks. By automating closing tasks and building them into the daily routine, continuous accounting rationalizes the process and allows for continuously updating relevant documents while eliminating bottlenecks.

Continuous Accounting

- Centralizes account data
- Replaces event-driven activities
- Creates a culture of collaboration

The ultimate objective of continuous accounting is to generate accurate, real-time financial reports as often as decision-makers need them—providing instant insight into the business, rather than reporting results two or three weeks after the fact.

The key is to automate routine tasks, particularly recurring and repetitive tasks and those requiring complex calculations.

Further, creating a culture of collaboration both within finance and between finance and other departments improves processes and gives accounting staff the timely data needed. It's critical for individual team members to build and maintain strong relationships. One way to do this is by making sure each person—and the group as a whole—sees how the tasks they perform contribute to achieving broader finance and business objectives. Collaboration tools like Slack and Zoom can also help by making it easy for employees to work together, even if they are in different locations.

Finally, continuous accounting requires a centralized data repository where relevant information can be easily accessed. Insights such as real-time data on inventory levels, open and pending orders, and shipping confirmations are central to product companies. For services firms, project-related details, such as performance obligations and project tracking information, will be included.

The goal is to eliminate the time wasted running down information and improve accuracy by entering data once and instantly making it available across the company. With a single data repository, there's no more manually rekeying information from one system to another.

CHAPTER 3

Benefits of Continuous Accounting

The main impetus driving companies to adopt continuous accounting is the need for better data throughout the month. The new processes and systems needed to get there should also lighten the load on accounting teams, preventing the week or more of long hours that accompany most current month-end closes.

And, the technology businesses adopt to enable the continuous close will ultimately improve accuracy by providing a single source of data for all groups in an organization.

To sum up the selling points:

- Visibility. Continuous accounting provides real-time visibility into daily financial performance, giving department heads and other senior leaders the insights they need to control costs, make smart investments, and achieve profitability goals. This is a crucial advantage in a rapidly changing business environment.
- Automation. Automating repetitive tasks, such as creating journal entries or reconciling account statements, and eliminating the need to collect and normalize data from other departments can save dozens of hours every month. Rather than tracking down and consolidating information, finance and accounting staff can focus instead on reviewing transaction details, investigating anomalies and analyzing trends.
- Accuracy. The combination of automated processes and replacing spreadsheets for complex calculations boosts accuracy by eliminating duplicate data entry and the potential errors caused by out-of-date spreadsheets or incorrect formulas.
- Compliance. Automation also helps ensure compliance with accounting standards, government regulations, tax laws and internal policies by consistently applying the appropriate rules and schedules to revenue recognition, depreciation, prepaid and deferred expenses, and other financial processes.

CHAPTER 4

Continuous Accounting Applied

Revenue Recognition

Efforts to bring U.S. and international accounting standards closer together have been underway for years. Revenue recognition is an early focal point, with rule changes to improve consistency in financial reporting across industries and countries. The resulting standards, ASC 606 and IFRS 15, provide a five-step framework for making revenue recognition decisions:

1. Identify contracts with customers.
2. Identify the separate performance obligations in each contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when or as a company satisfies a performance obligation.

Often, the finance team doesn't review these steps until near the end of an accounting period. A few days before the close process begins, calls and emails go out requesting project updates and the timing of deliverables. And because deals are often closed at the end of the month, quarter or year, there is added pressure on accounting to get contract details recorded and invoices generated in a compressed timeline.

Continuous accounting embeds the five steps into contract management and accounting procedures so they become part of the daily routine, instead of being triggered by month-end deadlines.

Depreciation of Fixed Assets

Despite its importance, managing fixed-asset depreciation is a largely manual task in many organizations. Asset registries, if they exist, are often poorly maintained and the information they provide is either out of date or incomplete, making it difficult to know when assets were purchased and their total depreciable expense. In other cases, assets are tracked by facilities or departmental teams. This makes capturing acquisition and disposal details particularly challenging, as facilities personnel may not think to alert accounting to these events.

The lack of centralized data means accounting must maintain its own list, typically using spreadsheets. At the end of the month, the team has to contact people throughout the organization to make sure the list is up to date. Managing data this way is not only time-consuming, it's error-prone. If multiple people are updating the spreadsheet, there is a risk that information will be entered in the wrong place, that depreciation methods will be applied inconsistently, or that formulas will be used incorrectly or changed.

A centralized system saves time by managing fixed-asset data and automating depreciation calculations, using the designated depreciation method and schedule for each asset.

Lease Accounting

With ASC 842 and IFRS 16 now in place, companies are required to include virtually all leases with a duration of more than 12 months on their balance sheets. As companies adopt these new rules, they face some of the same issues as with accounting for depreciation, including difficulty maintaining accurate information and reliance on spreadsheets for complex calculations.

The new standards create additional challenges that are unique to leases, including:

- Tracking the interest paid on leased assets separately from the lease expense using either an implied interest rate or the lessee's borrowing rate.
- Recording an operating lease on the balance sheet as both an asset with a value equal to the accumulated lease payments minus interest and a liability equal to the value of the remaining lease payments.

For organizations with more than a few dozen leases, managing these tasks with spreadsheets is cumbersome. With continuous accounting, however, the system performs complex calculations automatically, saving time and providing more consistent results.

Subscription Billing

Managing subscriptions brings its own challenges to maintaining accurate books. These include:

- Keeping track of multiple subscription plans, pricing schedules and promotions.
- Billing the correct amount for usage-based plans with variable rates.
- Managing complex billing scenarios that combine one-time payments with recurring fees.
- Making changes to individual subscription plans, such as upgrades, downgrades or holds.

Continuous accounting helps by automating billing processes and putting subscription and billing data in one place, improving data quality, and ensuring accurate billing.

Multi-Entity Financial Consolidation

For organizations with subsidiaries or independent business units, closing the books is particularly challenging. Multiple accounting or ERP systems and the lack of a common chart of accounts means hours reviewing transactions before updating the general ledger. In addition, if the company does business globally, it has to perform currency conversions and sort out differences in depreciation, revenue recognition and other rules that vary by country.

These rules-based tasks are ideally addressed with automation. Once the rules are configured correctly, recurring calculations are easily managed, and in the case of currency conversion, exchange rates are regularly and automatically updated.

Ultimately, however, the advantages of continuous accounting decline when multiple systems are in use. To receive the full benefit, organizations with multiple business entities must have a shared system that allows subsidiaries to maintain separate financial records but a common general ledger.

CHAPTER 5

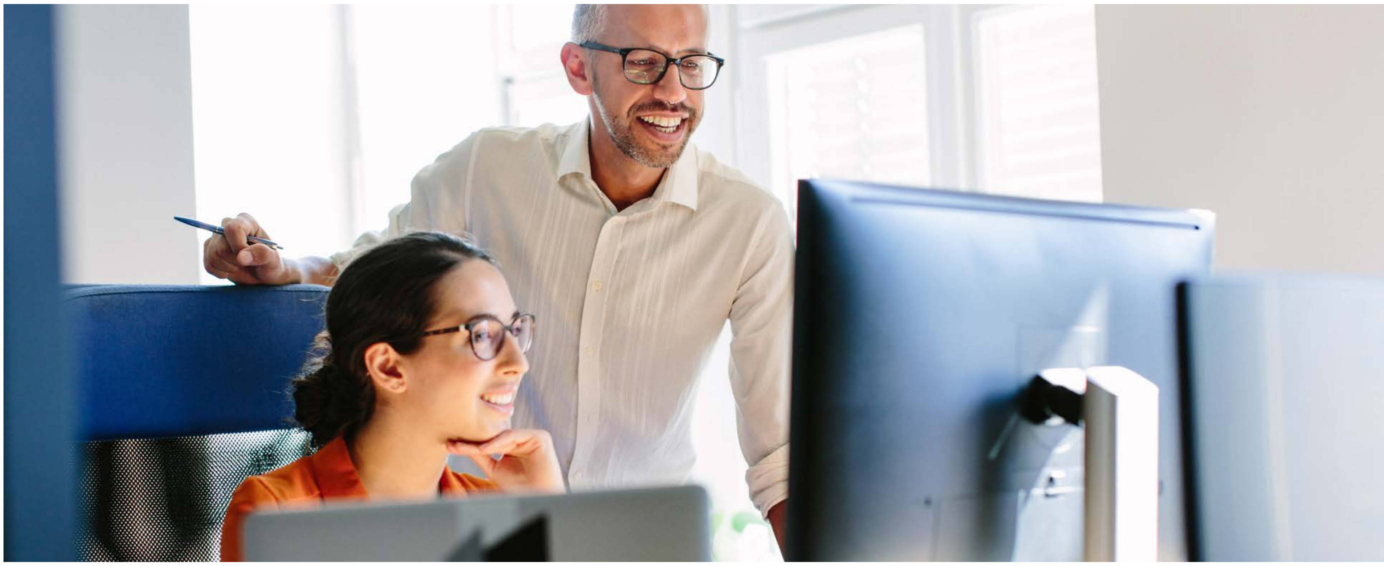
How NetSuite Enables Continuous Accounting

NetSuite delivers a complete financial management solution for companies ready to begin moving from a standard, event-driven close process to a continuous accounting approach. Key benefits include:

- Automation of repetitive tasks, like creating journal entries, managing amortization and depreciation, and elimination of intercompany transactions, saves time.
- A centralized database provides a single source of real-time transactional, financial and operational data, reducing the risk of error by eliminating duplicate data entry.
- Collaboration features make it easy to share information, begin conversations, or work with cross-functional teams to solve problems.
- Embedded analytics help finance and accounting groups add value to the business by identifying potential growth opportunities or uncovering inefficiencies that eat into profitability.

And with NetSuite's cloud architecture, accounting staff have access to the information they need to do their jobs from anywhere with an internet connection.

In today's ever-changing business environment, organizations need real-time information and metrics to inform decisions and quickly evaluate results. This is possible only with continuous accounting. Companies that fail to adopt this approach, clinging instead to traditional accounting processes, will rely on outdated information and risk underperforming competitors.



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