

# ACCOUNTING PERIOD-END CLOSING PROCESS

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### Introduction

In the ever-changing world of finance and accounting, the period end close is an integral part of the financial reporting process. This provides the users of the reports generated to have better understanding of the business as well as make strategic and timely decisions that goes a long way in helping the business grow.

A deeper review of your finances at the end of each period close will help ensure that all reports are not only accurate but reflects the various aspects of the business e.g., revenue lines, profitability, cost centers, liquidity etc.

### Definition

A period close is the process of preparing the financial statements for a given period of time, recording all of the transactions that took place during that time period, and then summarizing those results in the form of financial statements.

This process involves recording all of a company's financial activity over a given period of time. The close process takes place at regular intervals usually at the end of the month, quarter and year. This culminates into a series of financial statements that provide an accurate and fair picture of an organization's financial health.

The core duty of Finance role is to reliably and timely account for, and report, all business activities related to an entity. The reporting process is the series of activities that starts with the compiled accounting records (i.e., ledgers and trial balance) and ends with financial reporting (e.g., profit and loss statement).

Businesses usually feel the pressure to close the books faster and prepare the financial statements but the desire for a quick close must be balanced with accuracy to ensure reliable financial status of the organization.

### **Accounting period end close process**

- ***Period end Planning***

Period end closing activities should begin with planning against the reporting deadlines to ensure timely reporting, as per organization's reporting timetable. Correct cut-off procedures should be observed to ensure transactions are posted to correct period.

- ***Bank reconciliations***

This is key towards period closure. Focus is on reconciling book bank accounts against the bank statement. Discrepancies must be resolved before closure.

- ***Accounts payable and receivable reconciliations***

Once bank reconciliations are complete, focus shift to Accounts receivable and Payable reconciliations including Intercompany accounts.

Once the related invoices are posted and reconciled, this should be system-locked to avoid post reporting postings.

- ***Review period mismatches***

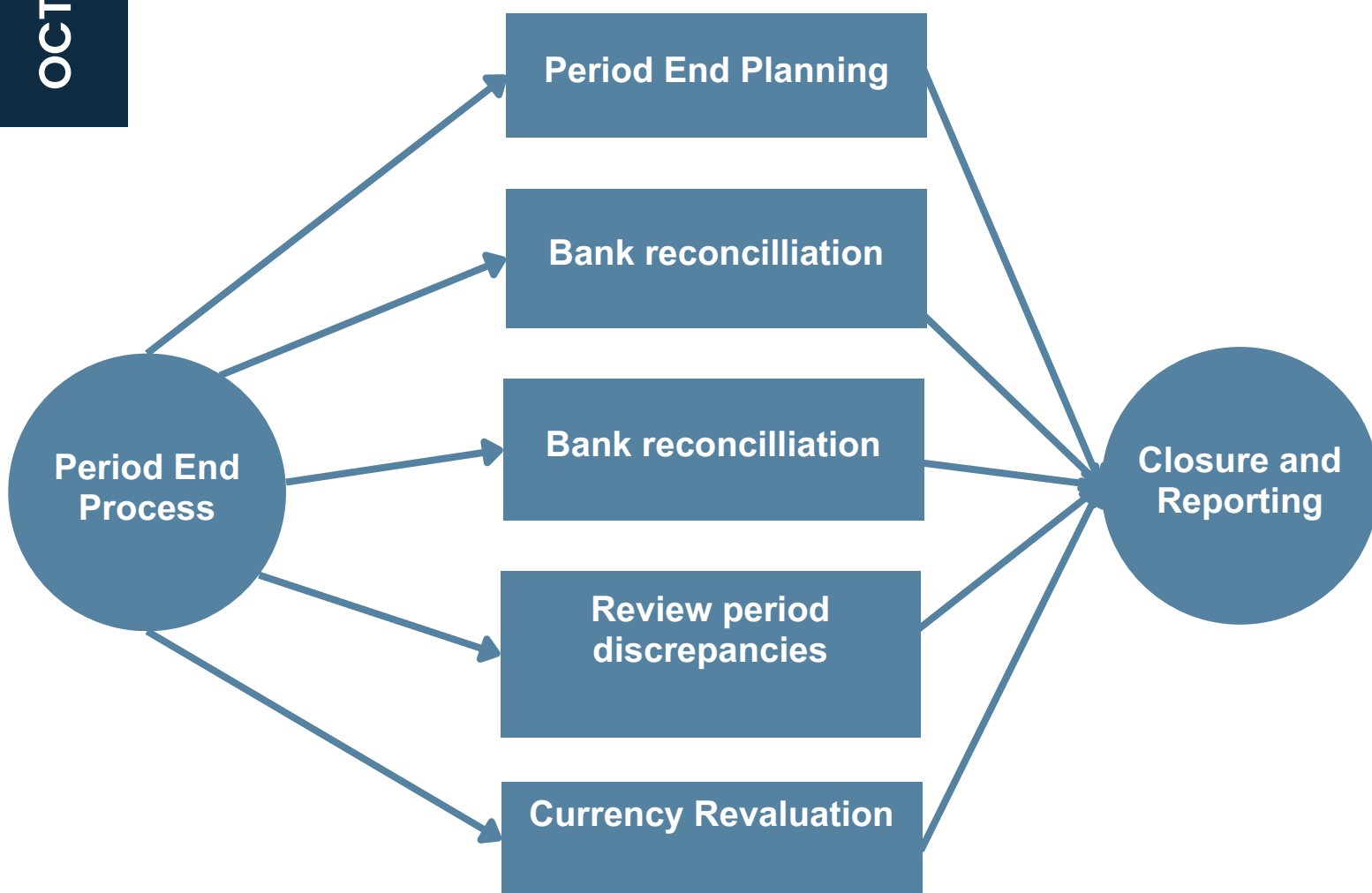
This is additional checklist for ensuring all transactions are posted in the right period and into the correct general ledgers

- ***Accounting period end close process***

This is important especially in a multicurrency company as it ensures the correct exchange rates are used for the period close and any variances posted to exchange gains or loss accounts. After this has been done, lock the prod and proceed with reporting process.

- ***Closure and reporting***

This is the last process in period end process. Once the proposed financial transactions have been reviewed and approved, the accounting team can complete any necessary reporting for management and pull together any documentation required for auditing, regulatory reporting or internal use withing the organization for prompt and accurate decision making.



## Best Practices and Compliance

Creating an effective financial close process is important. The below are some of the best practices an organization can adopt to ensure a seamless period end close.

- ***Automate repetitive tasks***

The automating of routine manual tasks like data entry, reconciliations and reporting summaries could relieve the accounting staff of the much-needed time and effort at the end of the process thereby making the process easier.

- ***Leverage technology***

Various technology can help automate manual tasks, thus streamlining the period close process and ensure the data reliability is achieved as well as reduction of time spent in the process.

- ***Standardize the process***

An efficient period close ensures the processes are streamlined and realistic deadlines are in place to minimize on the various reporting challenges e.g., excluding public holidays falling in between. The reporting staff should be part of the process and aligned to it by ensuring there is a clear period close process all the way to the end product – Financial reports.

- ***Accuracy vs Speed***

Closing the books is usually time consuming and strenuous. However, best practices dictate that one should never compromise on speed over accuracy.

- ***Ensure continuous accounting practice***

Period close and reporting is a process not an event. Organization which has a continuous accounting process are always advantaged at the end of the period close as most transactions have been posted and reconciled thus ensuring efficiency.

- ***Reviews***

Ensure the post reporting reviews of all the ledgers is done to ensure accuracy, through balance sheet reconciliations. This will ensure any errors made in a prior month is corrected in a subsequent month and corrective actions done.

## Challenges of period close

Financial period close can be hectic, due to the need to achieve accurate results in time and in full compliance with the various internal processes as well as regulatory requirements and in compliance with the relevant accounting standards (IFRS/IAS).

**The major challenges involved are as below;**

- ***Time pressures***

Period end close is a time-consuming process that is not only attached to the various deadlines, but also tied to the KPI (Key performance indicators) of the accounting staff. Managing the need to deliver accurate financial records and the need for speed in doing so can be daunting.

- ***Lack of Interdepartmental co-operation***

The accounts team relies on data from other departments to ensure a smooth period end close. This requires cooperation from the relevant departments in not only providing the data by the set cut off periods but also ensuring the said data is accurate/updated. In some instances, the reporting team have to chase data from other departments which leads to delays and inaccurate reports.

- ***Data inaccuracy***

Inaccurate or missing data can impact the period end close leading to delay in the closing process and thus delaying the production of the financial reports which could jeopardize crucial decisions that are pegged on the performance of the business.

- ***Inferior reporting Software***

Use of inferior reporting software or those that are easily manipulated and adjusted could give misleading reports. Ensure the organizations use the correct systems and that the processes are automated as much as possible to minimize these.

- ***Ensure the process is continuous***

Reporting is a continuous process that begins as soon as the last period is closed and reported. Last minute rush to close at the end of the period will lead to reporting pressure and possibly delays or inaccurate reports.

### **Tips to make the month/period-end close more efficient**

Ensuring your accounting at the end of the month/period more efficient will not only give an accurate insight into the financial state of the organization, but also prevent future mistakes and errors.

Streamlining the process better prepares you in case of both internal and external audits and for when KRA tax audit also sets in.

### ***Here are tips to make month-end close more efficient:***

- Use templates and checklists to avoid omissions
- Consolidate all transactions in one place
- Back up your data
- Implement company cut-offs
- Automate systems

### **Conclusion**

The period close process has become vital in the current business environment where there is demand for accurate and timely information to support business growth process as well as timely decision making. All these are hinged on the data that comes out every month, quarter or yearly and thus the push for efficiency in the whole process. The interdependency of departments is also a focus towards achieving this and ensuring there is cooperation of all departments in the company to achieve a quick and accurate period close.





For more information or clarifications on this, contact us on:

 **020 211 1331**

 **info@sterlingafricallp.com**

 **www.sterlingafricallp.com**