White Paper

3 Steps to improve the closing process

Automating Journal Entry processes

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Contents

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Purpose of this paper

This White Paper is written to explain how a specific part of the financial closing process in a company can be improved, namely the preparation of journal entries. This paper is mainly targeted for people that are using SAP as an ERP system as the automation examples are related to SAP. The examples are produced with the Winshuttle software product. However the principles described in this paper can be applied for many other ERP systems in the market. In those situations Winshuttle products may not be applicable.

The paper is aimed for people who are working in the closing processes or are responsible for managing that process. The paper is also aimed for people who are responsible for improving business processes. If the reader is not familiar with Journal entries, I have included some basic explanations of what Journal Entries are. A financial Controller may skip the Journal Entries section of this document.

Introduction

Today, computerized accounting systems, e.g. SAP will automatically record most of the business transactions into the general ledger accounts immediately after the software prepares the sales invoices, issues checks to creditors, processes receipts from customers, etc. The result is that we will not see journal entries for most of the business transactions. The exception however, is the Journal entries that need to be prepared in the closing period to adjust general ledger bookings usually during a very short period of time.

The financial closing period is a very hectic time, especially in public companies. There is a tight deadline for getting the numbers published and it looks like the window between the end of a fiscal period and publishing the results is getting smaller and smaller. And if the company has many subsidiaries and is a global company this adds an additional complexity factor.

Journal Entries

The need for accrual accounting has arisen first of all from legal requirements as well as a desire for more accurate financial information and more detailed cost accounting that requires allocation of costs to various cost and profit centers. Selling on credit and projects that provide revenue streams over a long period of time affect the company's financial condition at the point of the transaction. Therefore, it makes sense that such events should also be reflected on the financial statements during the same reporting period that these transactions occur.

Accrual accounting is considered to be the standard accounting practice for most companies, with the exception of very small operations. This method provides a more accurate picture of the company's current condition, but its relative complexity makes it more expensive to implement.

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Journal Entries are used to make the adjustments in the general ledger system. Typically it has to be prepared manually and entered into SAP in one way or another, mostly via the GUI.

A manual journal entry that is recorded in a company's general journal will typically consist of the following:

-        the appropriate date,
-        the amount(s) and account(s) that will be debited, cost center(s), profit center(s), - tax code, currency, the amount(s) and account(s) that will be credited, - a short description/memo, a reference such as a check number.

Typical journal entries are *accruals*. One of many examples is e.g. selling on credit and projects that provide revenue streams over a long period of time affect the company's financial condition at the point of the transaction. Therefore, it makes sense that such events should also be reflected on the financial statements during the same reporting period that these transactions occur.

Another type of Journal entry is what is called *recurring journal entry.* This is a journal entry that is recorded in every accounting period. For example, a company issuing monthly financial statements might record depreciation by debiting Depreciation Expense and crediting Accumulated Depreciation each and every month. The term recurring journal entry can also refer to monthly journal entries where the accounts are identical but the amounts vary by month. For example, the journal entry to record property insurance expense might involve Insurance Expense and Prepaid Insurance every month, but the amounts will change when the amount of the prepaid insurance premiums change.

Internal invoices and cost allocations to cost centers and profit centers are also typical journal entries. Typical situations where cost allocations need to be done are e.g. distribution of fixed costs of Office rental, energy, telephone costs, leasing costs. Many suppliers are not yet capable or willing to provide invoices in a format that could be automatically booked into SAP and allocated to cost centers according to the actual consumption or usage. Finance departments are therefore required to reallocate the costs manually and this work can take hours unless the process can be in some way automated.

In certain journal entries where cost and profit centers are involved, the number of different data items could be almost 50 and recurring line items may vary between 2 and up to several hundred. This means in practice that there is a lot of work to be done and many points where wrong data and errors could occur that would then affect the accuracy of the financial statement. The number of journal entries per month will of course vary, depending on volume of business and company size but typically there are from several hundred to several thousand entries per month.

Organizing the work

The responsibility of creating journal entries may be within a central finance function in a smaller company whereas in larger global organizations the responsibility is at the finance departments in the business units. In large organizations several hundred people may contribute with journal entries for financial closing.

Many organizations have shared service centers that perform the actual closing, but before that, all transactions, e.g. Accruals, depreciations, internal invoices, cost allocations need to be created, reviewed, potentially corrected and then finally booked into SAP.

Usually the time available is short, maybe 5 days and then the accounts are closed and reports are produced.

Manual methods in situations like these are not sufficient. Even if email communication is fast, it is very error prone. Emails are drowning in inboxes and tasks get delayed. SAP GUI based dialogues are not either adequate as it may be impossible to implement complex business rules. Despite the challenges a large number of SAP user organizations still work with fairly manual methods.

On the other hand many organizations have developed enhanced processes. Software suppliers have also created applications on top of SAP to eliminate many of the challenges mentioned as well as solutions to automate other parts of the closing process.

This article describes 3 different approaches to automate and speed up processing of Journal Entries based on technology provided by Winshuttle.

The 3 approaches can also be seen as an evolutionary process, or steps, where a large global organization starts to improve processes using the first approach and a small team of people and progresses gradually through the second approach before moving to the third approach.

The first approach is a very simple solution that is usable for a small team of people in a central finance team that do not interact with a huge number of people. The organization is probably also a local organization.

The second example is based on a larger organization, maybe global or spread out over some countries. The organization may be a public company that needs to be compliant with industry regulations.

The third example is a large global corporation working around the world.

Step 1 - The simple solution

The simple solution is based on routines where different Excel files tailored for different types of journal entries contain all information about the specific Journal Entries. The data can be easily maintained and calculations can be done when the journals are prepared. The approach is very popular amongst Controllers as the fact is that Excel is used extensively when journal entries are prepared and if the material can be re-used without re-typing or re-processing in the actual posting phase the time savings can be very large.

The data can be loaded as mass-uploads where several journal entries reside in the same spreadsheet or as individual transactions. The next picture shows an example where an individual journal entry is booked into SAP.

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January 27, 2016

When Winshuttle products are used to automate the data entry process, data can be validated against SAP at the data entry process in 2 ways.

First of all for critical fields the permissible values can be searched dynamically via look-up functions where the Excel routine has embedded queries against SAP.

The second alternative is that a validation run is executed before the data is actually updated into SAP.
 Instead of retyping the data, routines have been built to load the data into SAP.

This simple approach can itself save a lot of time and speed up the closing process. However, if journal entries need to be reviewed and approved by other people than the originators, this approach has its drawback. The Excel files need to be sent back and forth and there is always a possibility that some data is lost and people are not present to action the transactions. Typical solutions in this category are based on LSMW, ABAP programs, Winshuttle and other 3rd party suppliers. Solutions like these will already provide significant productivity improvement compared with native GUI dialogues.

Step 2 – The intermediate solution

As in all activities in the world, we also want to improve work processes. A natural step in the evolution from a simple Excel based solution is to build a workflow where the Excel files and supporting documents can be easily directed to other people in the organization for review and finally for approval. In this solution the Excel templates could be controlled by a central workflow system and all transactions could be logged. Full Audit trail and compliance can be achieved. A solution like this starts to become a feasible alternative for companies that are regulated by SOX or other rules.

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January 27, 2016

Similar controls as in the simple solution can be built into this solution where data validation is performed at the data entry stage automatically against SAP. The review and approval process of the journal entry can be automated. If the posting has a financial value greater than a specific value the posting can be directed first to an approver and thereafter when approved it will be posted to SAP.

Another alternative is that the posting can be forced to go through a post approval process.

The big benefit compared with the 'simple approach' from a productivity improvement aspect is the elimination of email communication and the automation of the data flow within the organization as well as the auditability of the total process.

The example above shows the data for a FB50 transaction were several journal entries are posted into SAP.

The Excel is attached to the workflow posting entry and posted to SAP with the Winshuttle script. It is also possible to attach any supporting documents that may be necessary by book keeping regulations or other regulatory requirements.

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Step 3 – The complete solution

The complete solution is a solution where the end-user cannot make errors in the data entry processes because rules and interdependencies between different data fields can be programmatically controlled. This solution is based on a modern web-based workflow where all forms can be tailored exactly based on data content in different journal types, local country regulations and where extensive controls are built in to guarantee maximum data quality. As Controllers are using Excel in the preparation of journal entries data import/export functions are available to improve end-user productivity as well as uploading of supporting documentation for the journal entries.

SLA reporting and monitoring functions are also available to monitor the progress of the work.

The data quality in this solution can be almost 100 %. Especially in complex company structures and organizations trading with countries outside of EU where tax rules may be extremely complex and where internal intra company trading rules need to be followed rigorously extensive controls can be built to avoid human errors.

Summary

Companies grow by mergers and acquisitions or thorough organic growth. The administrative costs need to be reduced and the business needs to grow. The only way to avoid the exponential growth of expenses is by doing more with the same resources, and even more with less than our current resources. This is the objective of applying Winshuttle technology and solutions in financial as well as other processes. By applying these techniques with iterative continuous improvement, users will standardize and improve their business processes in an agile and rapid way and reduce the costs.

Changing inefficient manual processes with standardised processes that can be continuously improved with short cycles and without any changes to SAP, allows a real implementation of a Lean philosophy in the company. Where you previously had cost increases and risks with delays or errors, you will now have continuously improved standardised processes. All these mean an increase of your company's competitiveness, thanks to the implementation of Winshuttle technology.

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January 27, 2016

About Winshuttle products

Winshuttle is the fast and flexible approach that allows companies to apply the described techniques so organizations can initially develop simple solutions and continuously improve their process, allowing them to automate not just financial processes but a wide range of SAP processes and operations.

Winshuttle products can be used to develop processes to manage all type of financial data – not just journal entries. The products are widely used to develop processes to manage also Master data for FI, MM, SD, HCM and many other SAP mosules

These processes and operations are usually between the low complex and low volume range that would probably otherwise stay as a manual process and high volume and high complexity scenarios that would be normally covered with "Big IT solutions" for that specific domain.

Companies that use Winshuttle can improve their processes in different ways:

-Streamlining their process by the usage of Winshuttle workflows solutions that allow them to create defined and optimized processes with the participation of all the parties involved

-Validation of data collected and entered at every stage to ensure that it is high quality from the source and throughout the process

-Analysing the performance of these processes with out of the box process performance reporting that allows the detection of bottlenecks and inefficiencies in their processes

-Mass interaction from Excel into SAP for those scenarios with high volume of data.

And all this with developer tools that reduce the time and cost of development cycles and hence the time to value of the investment in the Winshuttle products.

About the writer

Christer Mäkelä is CEO of ADSOTECH Scandinavia Oy, a Finnish corporation providing IT solutions for SAP users in the Nordic and Baltic countries Mr. Mäkelä graduated from Aalto University in 1974 and holds a Bachelor's degree in Economics. He has a long experience of development and IT management tasks in large Finnish corporations before he started ADSOTECH in 1988 to deliver IT solutions for large corporations in the Nordic Countries.
ADSOTECH is distributor of Winshuttle in the Nordic countries.

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