

# Understanding of Financial Close Process



# What is the Financial Close Process?

The financial close process is a series of activities undertaken by accounting and finance professionals to ensure the accuracy and completeness of financial statements at the end of a specific reporting period, such as a month, quarter, or year. This process is crucial for providing stakeholders with reliable financial information for decision-making purposes and regulatory compliance.



To increase the efficiency, accuracy and relevance of financial information, an organization must examine the entire accounting close process throughout the year to enhance the reliability and integrity of the organization's reporting practices to the various stakeholders. This can be attained by adopting, implementing and following the procedures analyzed hereunder;

## 1. Review Opening Balances:

Verify that opening balances from the previous accounting period are correctly carried forward to the current period.

## 2. Prepare, Review & Approve Journal Entries:

Record any necessary adjusting, accrual, or reclassification of journal entries to reflect accurate financial transactions and account balances.

## 3. Reconcile Balance Sheet Accounts:

Perform reconciliations for bank accounts, accounts receivable, accounts payable, inventory, fixed assets, and other balance sheet accounts to ensure accuracy and identify discrepancies.

## 4. Review Revenue and Expense Accounts:

Analyze revenue and expense accounts to ensure completeness and accuracy, and make any necessary adjustments.

## 5. Allocate Expenses:

Allocate shared or indirect expenses to appropriate cost centres or departments based on predefined allocation methods.

## 6. Review & Reconcile Intercompany Transactions:

Verify and reconcile transactions between intercompany entities to eliminate discrepancies & ensure A/P, A/R and loan accounts correlate between assorted company departments as well as proper elimination in consolidated financial statements.

## **7. Close Subsidiary Ledgers:**

Close subsidiary ledgers, such as accounts receivable and accounts payable, to ensure that transactions are properly recorded & reflected in the general ledger.

## **8. Accrue for Unrecorded Liabilities & Expenses:**

Accrue for any unrecorded liabilities or expenses that have been incurred but not yet recorded in the accounting system.

## **9. Depreciation and Amortization:**

Calculate and record depreciation and amortization expenses for fixed assets and intangible assets, respectively.

## **10. Adjust Inventory:**

Adjust inventory balances for any variances identified during physical inventory counts or valuation adjustments.

## **11. Review Prepaid Expenses & Deferred Revenue:**

Review prepaid expenses and deferred revenue accounts to ensure accurate recognition & proper accounting treatment.

## **12. Obtain Management Approval:**

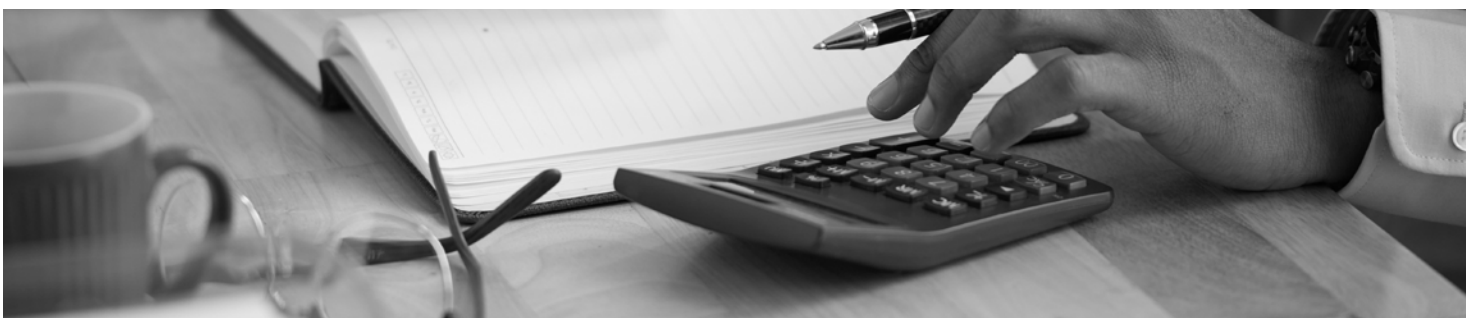
Obtain management approval and sign-off on financial statements and related closing activities to confirm accuracy and completeness.

## **13. Communicate Results to Stakeholders:**

Communicate financial results, key findings, & variances to relevant stakeholders, including management, board members, investors, and regulatory authorities.

## **14. Prepare Closing Memorandum or Report:**

Document key closing activities, issues, and resolutions in a closing memorandum or report for future reference and continuous improvement.



## Challenges in the Financial Close Process.

The financial close process is, by nature, a very time-sensitive endeavour, and staff often struggles to complete all of the required tasks within a limited time frame. The challenges accountants and financial professionals encounter during the process include lack of standardization, data inaccuracy/missing information, dependence on manual processes, resource constraints & lack of visibility.

## Best Practices for a Smooth Financial Close.

Despite the aforementioned challenges associated with the financial close process, it only makes sense to harness best practices to make the most of your team's time and energy. Some of the strategic approaches or controls that can be adopted to enhance the efficiency and effectiveness of the financial close process include establishing procedures and timelines, automating manual tasks and processes, implementing standardized processes across the departments, regularly reviewing and cleaning data, implementing segregation of duties, proactively address issues and exceptions, encouraging collaboration and communication across the departments & conduct post-close review and analysis.



In conclusion, the robust financial close process is essential to any organization in various aspects including assurance of accurate financial reporting, compliance with regulatory requirements, timely decision making, improved operational efficiency, effective risk management, and facilitates audit preparedness and stakeholder confidence.



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