

BUSINESS GUIDE

Guide to Continuous Accounting: A Smart Approach to Better, Faster Decision-Making



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Guide to Continuous Accounting: A Smart Approach to Better, Faster Decision-Making

NetSuite is celebrating the superheroes of finance. CFOs, accounting departments and FP&A teams are all doing heroic work leading companies through difficult times and adapting to new processes like the continuous close. NetSuite is highlighting both the real and the fictional heroes of finance. The latest is Intangible Girl, hero to accounting. Learn more at NetSuite's superhero-inspired [website](#).

The standard accounting processes most organizations employ are based on practices developed hundreds of years ago, before the Industrial Revolution, when the only tools that existed for balancing a merchant's accounts were a quill pen and paper ledger. And just as then, today's accounting professionals spend an inordinate amount of their time performing repetitive, manual tasks rather than looking for ways to improve financial performance.

While today software can complete many of these tasks faster and with greater accuracy, many finance and accounting leaders are hesitant to implement new technology, preferring instead to stick with processes and systems they are already familiar with.

That's unfortunate, because traditional approaches to managing the accounting cycle not only drive up costs and increase the risk of errors but also delay access to critical financial data.

Rather than maintaining the status quo, companies that want better, more timely financial insights must replace the traditional record-to-report process with a continuous accounting approach.



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Accounting Challenges

Many finance and accounting professionals dread the arduous task of closing the books. Whether done monthly or quarterly, the process is labor-intensive, full of mundane, repetitive tasks and takes days or weeks to complete. The significant amount of time required prevents the accounting team from providing insights that can improve the organization's overall performance.

One of the biggest challenges accountants face is ensuring the data they have 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. It may even include paper records. The effort required to gather and organize this data in preparation for closing the books can be maddening. Challenges typically emerge across three areas:

- **Collaboration.** The accounting staff's difficulty collaborating with others in the organization to get the information it needs in a timely manner is a major source of frustration. 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 a drag on efficiency and delay the completion of other closing tasks.

- **Compliance.** Another challenge is making sure that accounting processes and decisions follow relevant standards (e.g. US GAAP, IFRS), industry or government regulations and tax codes for all jurisdictions in which a company does business. This also includes generating all necessary reports and collecting and paying taxes on time to avoid penalties, fines, restatements and longer, more costly audits.
- **Time.** Finally, the sheer amount of time required to close the books can be daunting. Accounting staff spend hours at the end of a reporting period reviewing transactions, tracking down errors and correcting journal entries to make sure the accounts balance. 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.

Moving to Continuous Accounting

Continuous accounting is a technology-driven approach that seeks to balance accounting workloads and provide more timely information, replacing month- or quarter-end deadlines with more frequent completion of close-related tasks. By incorporating closing tasks into the daily routine, continuous accounting spreads the work out over the entire month and, ideally, balances workloads so accounting team members do the work they are best suited to and no one is overloaded or becomes a bottleneck.

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

To achieve this goal, companies must automate routine tasks, particularly recurring and repetitive tasks, and those requiring complex calculations.

In addition, organizations must create a culture of collaboration, both within finance and between finance and other departments to identify ways to improve processes and allow accounting staff to add more value. Managers should focus on helping individual team members 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 the

Continuous Accounting

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

achievement of broader finance and accounting objectives. Collaboration tools like Slack and Zoom can also help by making it easy for people to work together, even if they are in different locations.

Finally, continuous accounting also requires a centralized data repository where financially relevant information can be easily accessed by finance and accounting personnel. For product-based companies, this would include real-time data on inventory levels, open and pending orders, and shipping confirmations. For services companies, it would include project-related details, such as performance obligations and project tracking information.

This improves the efficiency of accounting by eliminating time wasted running down information and increases accuracy because data can be entered once and instantly made available to users based on their role and permissions. That means no more manually rekeying information from one system to another.

CHAPTER 3

Benefits of Continuous Accounting

Moving from an event-driven close process to continuous accounting has many benefits:

- **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. This extra time can be put to better use. 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 replacement of 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.



Continuous Accounting Applied

Revenue Recognition

Efforts to bring U.S. and international accounting standards closer together have been underway for years. Revenue recognition was an early focal point, with rule changes designed to achieve greater 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.

All too 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 asap.

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 end-of-month 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 facility or department. This makes capturing acquisitions and disposals in a timely manner 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 in other parts of the organization to make sure the list is up to date. Entering and updating data in this way is not only a time-consuming, manual process, but also 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 applied incorrectly or changed.

A centralized system can manage fixed asset data and automate depreciation calculations, using the designated depreciation method and schedule for each asset. This saves time by eliminating the need to gather information at the end of the month and improves accuracy by ensuring that depreciation rules are applied consistently.

Lease Accounting

Due to recent changes to accounting standards, specifically ASC 842 and IFRS 16, companies are now required to include virtually all leases with a duration more than 12 months on their balance sheet. As companies adopt the new rules, they face some of the same issues that arise with accounting for depreciation, including difficulty maintaining accurate information and reliance on spreadsheets for complex calculations.

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

- The need to record the interest paid on leased assets separately from the lease expense using either an implied interest rate or the lessee's borrowing rate.
- The requirement to record 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 an organization with more than a few dozen leases, managing these tasks via spreadsheet is cumbersome. With continuous accounting, however, a system performs complex calculations automatically, without the need for human intervention, saving time and providing more consistent results.

Subscription Billing

As companies move from transactional selling to recurring revenue models, they encounter several difficulties with billing, including:

- 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.

Managing data in spreadsheets is a security concern, hurts data quality and eliminates real-time visibility. Manual processes are not only time-consuming, they also increase the risk of errors and cannot scale as the business expands.

Continuous accounting can lead to greater efficiency and more balanced workloads by automating billing processes and putting subscription and billing data in one place. That improves data quality and helps ensure accurate billing.

Multi-Entity Financial Consolidation

For organizations with multiple subsidiaries or independent business units, closing the books is particularly challenging. Multiple accounting and/or ERP systems and the lack of a common chart of accounts mean accounting staff must spend 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 from one country to another.

These tasks are ideally suited for automation because they are rules-based and can be performed over and over without deviation, so long as the rules are configured correctly and, in the case of currency conversion, exchange rates are regularly updated.

Ultimately, however, the advantages of continuous accounting decline if financial data is stored in multiple systems. To receive the full benefit of continuous accounting, organizations with multiple business entities must have a shared accounting solution 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.

- 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 add more value to the business by identifying potential development opportunities or uncovering inefficiencies that eat into profitability.

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 the results. This is only possible with continuous accounting. Companies that fail to adopt this approach, clinging instead to traditional accounting processes, will rely on outdated information and risk underperforming their peers.



