Continuous Accounting: A Paradigm Shift for Finance Teams

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Since the principles of modern accounting were first established early in the 20th century, the record-to-report model has been the dominant accounting process. This approach manages the accounting cycle as a repeatable, end-to-end process that includes all steps starting with the booking of transactions and going all the way through the publishing of financial statements.

For most of the 20th century, record-to-report worked fine for the majority of companies. However, the close activities and processes that are inherent in this model are insufficient for 21st century businesses in the modern economy. The record-to-report process was designed to accommodate rigid accounting systems that don't integrate well with other sources of data or provide good visibility into the chart of accounts.

An Evolutionary Step in Accounting

Today, progressive companies are adopting the principles of *continuous accounting* — an evolutionary step in accounting that goes beyond just providing a view into the past to provide real-time financial intelligence to CFOs, controllers and corporate decision makers.

Continuous accounting represents a paradigm shift for accounting and finance departments that in the past have had to rely on antiquated paper-driven processes. In the process, it enables the finance function within a corporation to play a more strategic role and add real value to the larger corporate enterprise in a way that isn't possible using the record-to-report model.

Continuous accounting applies modern financial principles to accounting to increase flexibility, efficiency and effectiveness. This approach to managing the accounting cycle embraces three core principles:

1. Automation of repetitive accounting processes in an ongoing fashion in order to improve efficiency, enhance visibility and ensure the integrity of data.

2. The distribution of accounting tasks on a continuous basis over the accounting period (e.g., month, quarter or year). This eliminates period-end bottlenecks in the process and helps ensure that accounting tasks are performed at the most opportune times.

3. The establishment of a culture of continuous improvement in management of the accounting cycle. In this kind of culture, fresh new objectives are set for financial and accounting performance, such performance is objectively reviewed on a regular basis, and performance improvement becomes a top management priority.

Continuous accounting goes beyond simply automating existing processes. It establishes a new foundation for financial responsiveness and agility by utilizing the flexibility and capabilities of modern accounting software to make sure that all of the different tasks performed throughout the course of the accounting cycle are done at the most efficient time. Automation, control and period-end tasks are embedded in all of an organization's day-to-day financial and accounting activities.

The record-to-report model collects, reviews and verifies all the data from an accounting period only after the period ends. However, leaving much of the close work until the end of the accounting period puts companies at a serious disadvantage in today's complex, 24/7 global business environment. In addition, it can lead to chaos and confusion at period-end, which can result in errors and high levels of stress for the accounting team.

Bank account reconciliation offers a good example of the differences between record-to-report and continuous accounting. Many companies do account reconciliation at the end of each month. With continuous accounting, reconciliation is a continuous process that's performed on a daily basis. This requires daily effort and attention, but the benefits of time savings, less stress, higher accuracy, greater efficiency and cleaner financial statements at the end of the accounting period make the effort well worth it.

The key benefits of continuous accounting include the following:

1. **It modernizes finance and accounting.** Other departments have adopted modern operations like agile methodology for product development and just-in-time delivery for inventory management. Continuous accounting similarly brings the accounting and finance function into the 21st century.

2. **It accelerates financial analysis and enables real-time accuracy.** Data and transactions are processed and reconciled on a continuous basis and then flagged for further research, if necessary. Therefore, data analysis can also be performed continuously.

3. **It embeds operational efficiency into the accounting process.** As a result, the peaks and valleys that are inherent in traditional record-to-report accounting are reduced, if not eliminated.

4. **It puts cloud technology to work for your company.** A unified cloud platform can integrate with your accounting and other financial systems to match transactions on a continuous basis, execute reconciliations on a daily basis, and automatically analyze any account fluctuations.

Concluding Thoughts

Progressive companies are adopting the principles of *continuous accounting* — an evolutionary step in accounting that goes beyond just providing a view into the past to provide real-time financial intelligence. Continuous accounting applies modern financial principles to accounting to increase flexibility, efficiency and effectiveness. An outsourced CFO services provider can help you implement the principles and practice of continuous accounting in your organization.

About CFO Edge

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