



Research Study „Closing Factory“

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■ Introduction

More and more companies consolidate Finance & Accounting processes of their different legal entities in Shared Service Center. In the past mostly transactional processes like Accounts Payable or Time & Expense Accounting were in the focus. But now it changed also to knowledge based processes like Management Accounting or Reporting.

Some companies summarized their closing activities in Shared Service Center or Center of Competence

The different closing activities for month-end, quarter-end or year-end processes were considered as to complex, because of their connection to the local law requirements. But nevertheless some companies summarized their closing activities in Shared Service Center or in Center of Competence. The transparency about companies who built up such and their experience and identified best practices aren't existing yet.

The survey covered companies out of 5 different industries

This study accurately examines the penetration of „Closing Factories“. It contains an empirical analysis of international top companies to get a closer look at the acceptance and spread of closing as a standardized/ industrialized process. The survey covered companies out of 5 different industries including Information Technology, Telecom, Oil Industry and Pharma.

The term “Closing Factory” is an artificial term made up of the abbreviated concept “Closing” which stands for various activities around General Accounting that lead ultimately to a financial report (month-end close or year-end close) and the word “Factory” that has recently quite often been used as synonym for standardized/industrialized tasks in administrative processes.

■ Definition

In that sense refers a “Closing Factory” to a single location (captive center, delivery center, corporate headquarter unit) where all the accounting closing activities for different legal entities are taking place in a mass-production or assembly-line approach.

Adjusting entries are made, month-end closing, quarter-end closing, year-end closing, financial statements (profit and loss, balance sheet, income statement) for each one of the legal entities providing the subsidiary ledgers to the “closing factory”.

In the idealized world of “Closing Factory” is all accounting taken away from the legal entity level. But 100% of closing in the SSC is usually not possible – percentages of 80% however, indicate factory-style closing support.

The “Closing Factory” usually takes over financial activities from the different Legal Entities

The “Closing Factory” usually takes over financial activities from the different Legal Entities in different extents. It depends vastly on the knowledge of the “Closing Factory” and the country-specifics of the entity.

Figure 1: Idealized „Closing Factory“

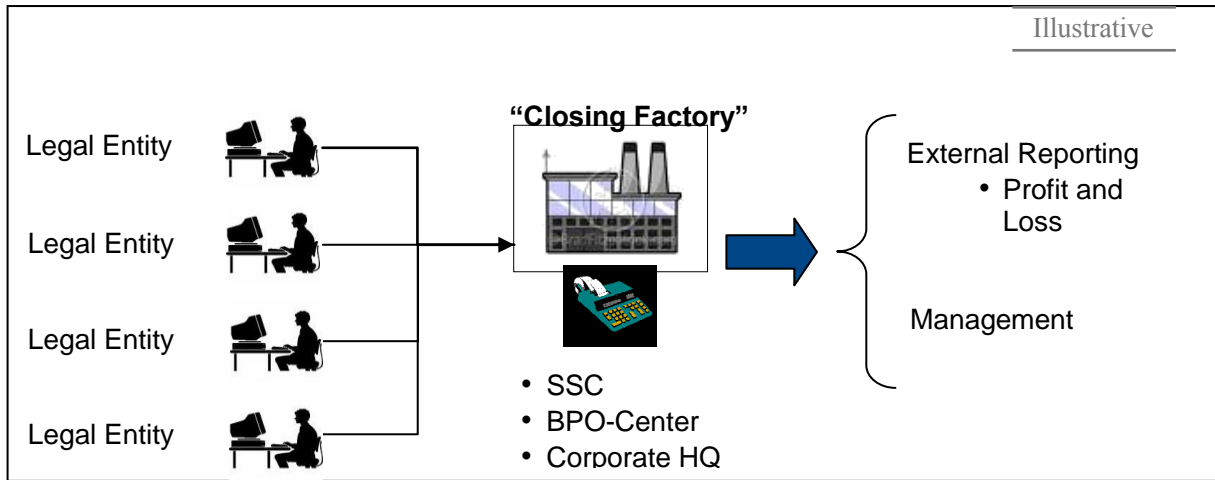
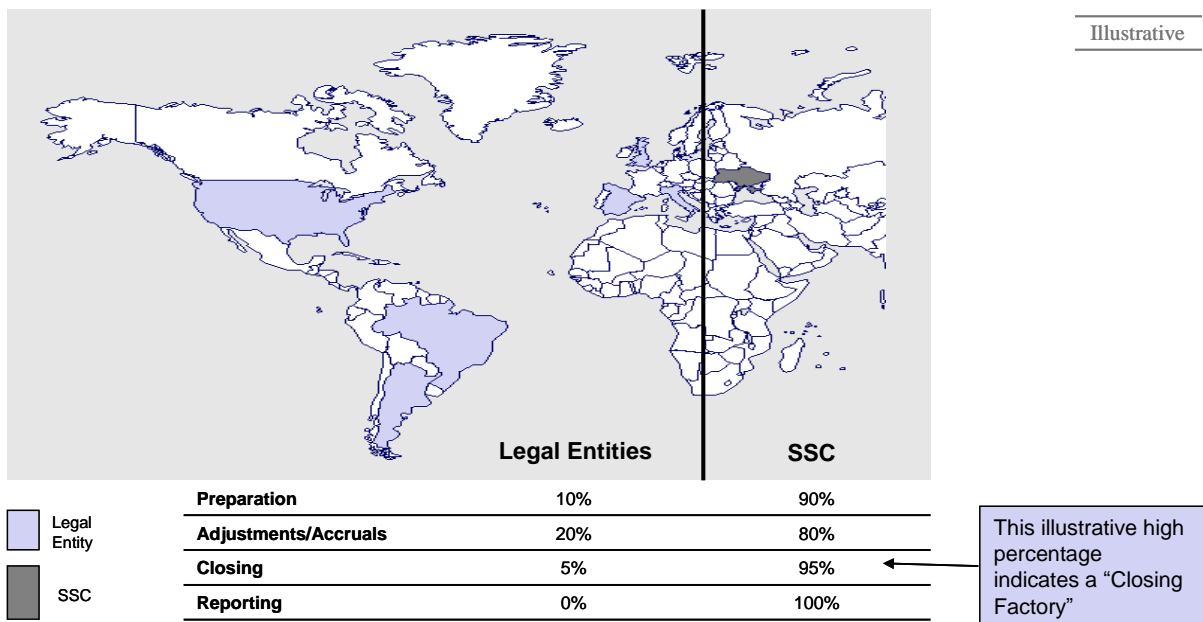


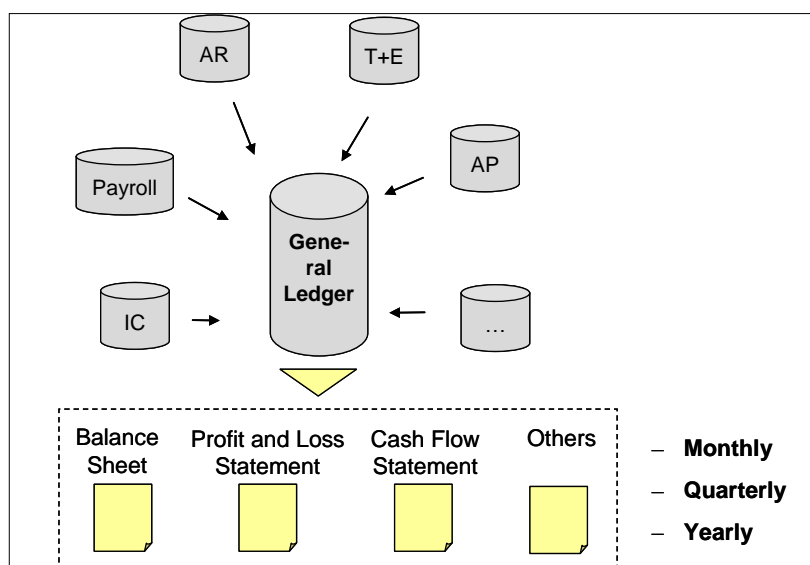
Figure 2: Process split between LE and SSC



The “Closing Factory” carries out a lot of activities In addition to the closing and reporting many preparatory tasks such as reconciling sub-ledgers and posting journal entries are part of the “Closing Factory”. The “Closing Factory” carries out, in a broader or lesser extent, and among others, the next activities:

- Accruals building
- Journal entries
- Currency conversion
- Reconciliation
- Transaction analysis
- Posting
- Financial Statements
- Closing entries
- Adjustment entries

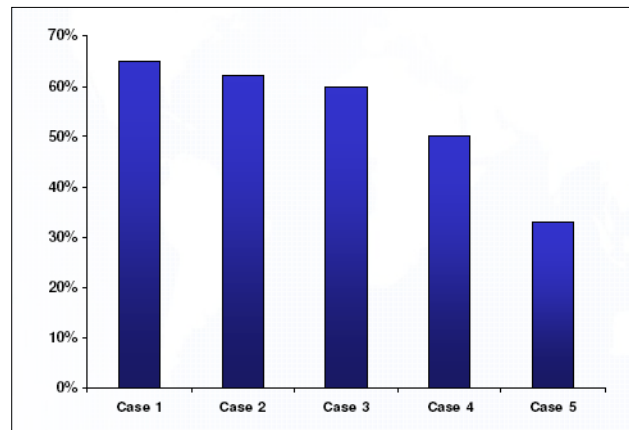
■ Figure 3: General Ledger related processes



■ The SSC provides important support to the closing process – however the closing itself is mainly realized decentralized

Standardized tasks are much more often handled by the SSC. Local reporting knowledge regularly remains decentralized. Therefore, closing activities are frequently handled by local legal entities.

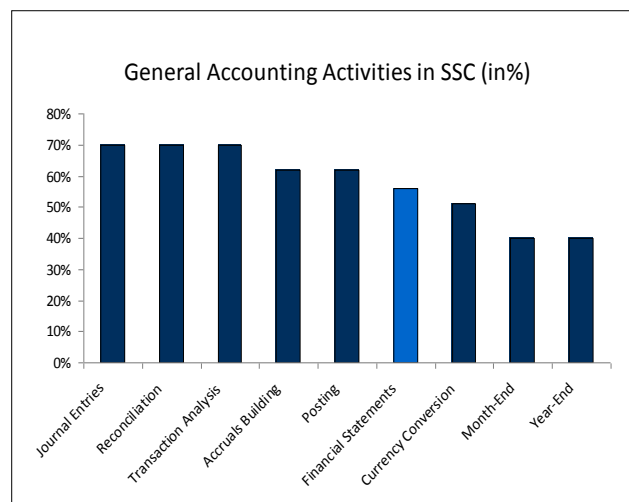
■ Figure 3: General Ledger related processes



■ Closing Activities at Shared Services Center are planned to be expanded.

Most companies with SSCs are eager to have more closing activities performed by the SSC in order to further standardize processes and increase efficiency.

■ Figure 3: General Ledger related processes

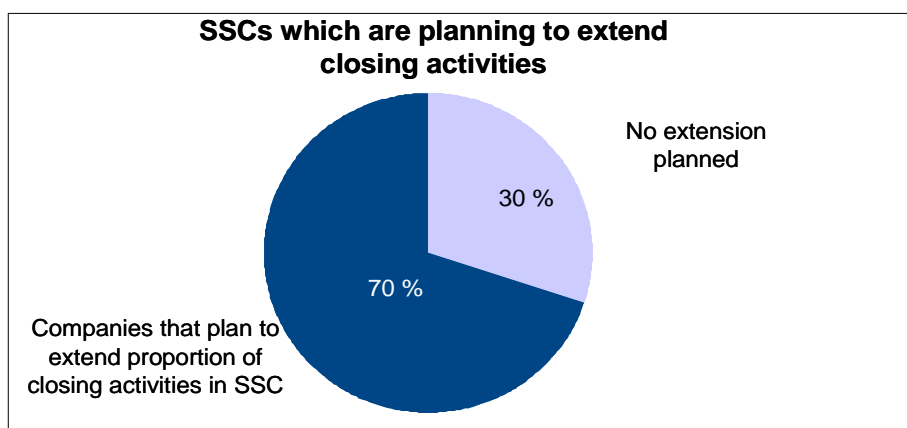


■ The level of “Closing Factory” performance

Out of the selected companies are significant differences among the selected case companies in the level perform closing activities in their SSC

The best performers are reaching the ceiling of 70%, which remains difficult to increase due to legal and bureaucratic reasons.

■ Figure 3: General Ledger related processes



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