Measuring the Real Cost of Manual Accounting

Manual accounting processes are one of the top frustrations of every accountant—the repetitive work, the endless spreadsheets, and the late nights at month end.

BLACKLINE

There is much room for improvement in the office of finance. In a typical organization, we still see deep penetration by Microsoft Excel for executing, monitoring, and tracking financial processes.[1]

But what is the real cost of traditional manual processes? How can CFOs, controllers, accounting managers, and accounting operations leaders measure the actual impact on the bottom line and identify where the most significant issues are? Taking this one step further, can we quantify the value of shifting from manual to automated accounting processes?

This guide provides some answers to these questions, with insights gathered from APQC, the Financial Education & Research Foundation (FERF), the American Accounting Association, the Association of Certified Fraud Examiners, and BlackLine's independent research conducted by Censuswide.

We'll quantify some of the biggest manual accounting challenges that some of the world's most successful companies, like The Coca-Cola Company, Aviva Canada, and eBay have all faced.

You'll find a checklist that summarizes ways in which organizations have tackled these challenges using a combination of process reinvention and technology.

Finally, we share an independent economic analysis from leading analyst firm Nucleus Research, which evaluated the value of moving to a more automated accounting function. Research was conducted on Dun & Bradstreet, SiriusXM, and Quest Diagnostics, among others, and is based on detailed interviews with their accounting staff.

Let's get started.

[1]Magic Quadrant for Cloud Financial Close Solutions, 21 October 2019, Gartner.

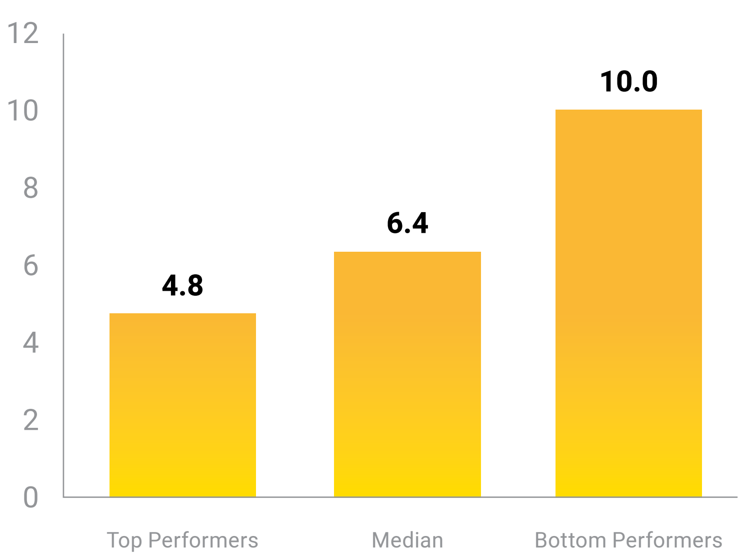
The Five Major Costs of Manual Accounting

1. Time

It's no secret that manual accounting at period end costs valuable time often spent on compiling, validating, and processing spreadsheets and paper binders. Journal entries, allocations, and adjustments, as well as general ledger and intercompany accounting reconciliations, all suck up time. There's often little transparency into who's doing what, which means even more time is wasted waiting on others to learn the status of tasks like the completion of a reconciliation.

All of this extends the time to close the books, with more than five days typically separating top performers from those at the bottom end of performance. That translates to an entire work week where accountants could be identifying exceptions and variances to further mitigate accounting or business risk... or working on meeting new regulatory rules... or answering questions from business teams. Manual processes also cost FP&A time—they must wait longer to get financial results before they can begin planning, forecasting, analyzing, and modeling in earnest.

TIME IN DAYS TO COMPLETE MONTHLY CONSOLIDATED FINANCIAL STATEMENTS



Metric of the Month: Cycle Time for Monthly Close, CFO.com

30-40%

of time can be reduced with finance automation and behavior change.[2]

[2]Finance Effectiveness Benchmark Report 2019, October 2019, PwC.

Spotlight: eBay

At eBay, an intricate system of accounts complicated its month-end financial close, resulting in a process that took up to 10 days. A significant reason for this extended cycle was that the company relied on a mostly manual, paper-based account reconciliation system. Employees were repeatedly tracking down supporting documents in three-ring binders, making copies, and then re-filing.

When supporting documentation was required for several different legal entities, it set off rounds of phone calls and emails to track down and file the necessary paperwork. Language barriers, time differences, and planned or unplanned days off all contributed to potential hold-ups. A 24-hour lag time was even built into the financial close cycle to account for these inefficiencies. Moving away from manual accounting to automation, eBay cut their financial close time from ten days to just three.

Learn more.

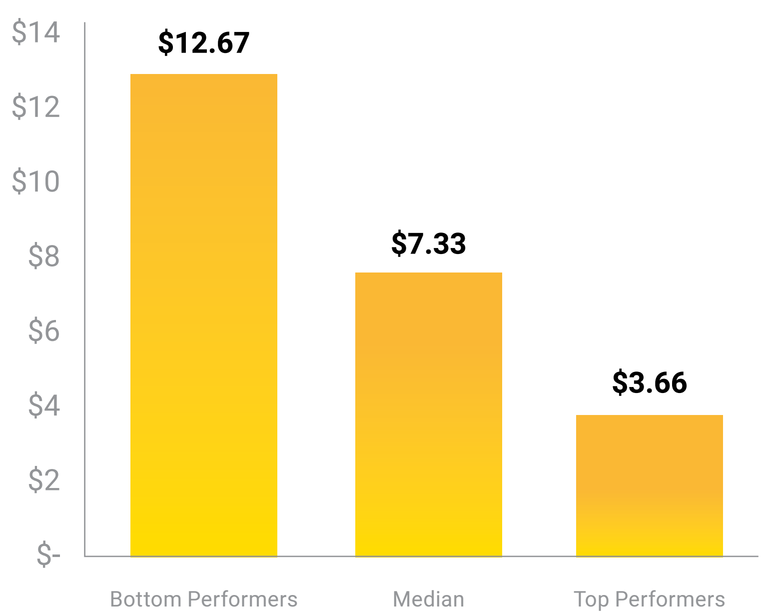
2. Cost

With so many organizations having a high degree of labor-intensive accounting, reducing the cost of accounting operations is an almost impossible proposition. Physical data extracts, spreadsheets, manual adjustments, and data entry take a heavy toll on efficiency because they often serve as the "glue" that connects accounting processes across a vast array of systems, data sources, and entities.

The average cost to run Finance and Accounting varies significantly across industries and company size, with larger enterprises often seeing benefits from economies of scale and shared services. Regardless, there remains a significant difference between bottom performers and top performers when comparing peer groups. The best achieve around three times the efficiency of those at the bottom of their cohort, typically due to automation, standardization, and centralization.

As PwC reports, however, many CFOs often aren't applying the savings back to the bottom line. They're using it to drive more value from the finance budget: reinvesting those savings to provide business support for teams and legal entities, analytics, forecasting, and planning.

PERSONNEL COST TO RUN THE FINANCE FUNCTION FOR $1,000 IN REVENUE



Metric of the Month: Cost to Run the Finance Function, CFO.com

While trending down, 48% of U.S. companies still don't use any automation for GL account reconciliation,[3] which is a meaningful way to reduce the cost of accounting.

[3]Benchmarking Accounting & Finance Functions: 2019, FERF/Robert Half.

Spotlight: The Coca-Cola Company

A few years ago, The Coca-Cola Company began reviewing its existing balance sheet reconciliation process across 50,000 GL accounts. Multiple systems and manual processes had created serious challenges—more than 800 associates were spending 14,000 hours a month on reconciliations alone.

By moving from manual processes to automation, The Coca-Cola Company was able to reallocate 40% of the team who were involved in manual and routine reconciliations. The team was then able to focus more on metrics, reporting, IT controls, and change governance. Since the shift in 2015, The Coca-Cola Company has realized millions in efficiencies that have been reinvested into the accounting function.

Learn more.

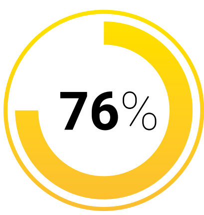
3. Risk

Manual accounting is highly correlated to financial statement integrity risk and elevates the chance of fraud. In a recent survey of over 1,100 C-level executives and finance professionals worldwide, 55% shared that they are not entirely confident they can identify financial errors before reporting results. And nearly 70% of leaders said they'd made a significant business decision based on inaccurate financials. Worryingly, of those closest to the process—finance professionals—just 38% said they trusted the numbers.[4]

The reasons were manifold. Of those who didn't trust the numbers, 41% blamed manual data inputting, and 56% highlighted issues around a lack of automated controls and checks, labor-intensive data extraction processes, and spreadsheet sprawl.[5] However, beyond financial statement inaccuracy, processes that are too reliant on human intervention also raise the specter of fraud.

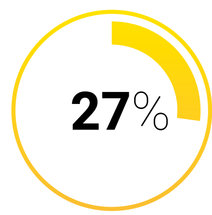
It may come as no surprise that the risk of fraud at companies with material weaknesses is significantly higher than the norm. However, among other reasons, manual accounting is usually a significant factor. Drivers include dependencies on spreadsheets and other files that can be altered, or allowing too much manual control over journal entries and adjustments.

REPORT TO THE NATIONS: GLOBAL STUDY ON OCCUPATIONAL FRAUD AND ABUSE



of fraudsters created or altered accounting system transactions

of fraudsters created or altered electronic documents or files



of fraudsters created fraudulent journal entries

Manual account reconciliation processes are often fertile ground for fraud, with gaps in standardization, controls, flux analysis processes, separation of duties, balance sheet analysis, completeness, and spreadsheet dependencies. Journal entries also create exposure due to sheer volume, correcting entries, lack of supporting detail and validation, top-side journals, and other areas.

There is an

80-90%

higher incidence of fraud in companies with material weaknesses.[6]

[4]Mistrust in the Numbers, BlackLine Study into the Potential Global Scale of Financial Data Inaccuracies, 2019.

[5]Ibid.

[6]Internal Control Weaknesses and Financial Reporting Fraud, August 2017, American Accounting Association.

4. Audit & Compliance

Overall, audit costs keep relentlessly ticking higher. While fees themselves have stabilized somewhat after the initial spike from SOX, the increasing amount of accounting time spent meeting audit requests has not. Controls in the reconciliation processes that are both spread out and different across multiple locations and business units, and inadequate explanations and supporting documentation are often a factor. At the same time, a lack of follow-up on aged items, incomplete reconciliations, inability to quickly answer auditor questions, and lack of overall visibility all tie up accounting resources further. In turn, this runs up the overall cost of an audit.

Things are likely to become more painful over the coming years, given the expanding regulatory and compliance landscape. New revenue recognition and lease accounting rules are taking a significant toll on accounting operations. And evolving PCAOB standards are shining a brighter light on internal controls over financial reporting, creating further pressure.

Spotlight: Ascension

ASCENSION

One of the largest non-profit health systems in the U.S., Ascension used a decentralized finance model with various divisions using many different enterprise resource planning systems. The accounting team for headquarters faced the task of 20,000 to 25,000 reconciliations that were typically tracked and shared on spreadsheets, which created a significant amount of effort at audit time.

By moving away from manual accounting to a more automated and centralized approach, Ascension was able to devote 400 fewer hours to audit, and in turn, reduce audit fees.

Learn more.

5. Talent

Repetitive period-end processes exact a final toll—one that's increasing in urgency every year. The inability to attract or retain accounting talent due to lack of job satisfaction creates substantial operational risk. A talent crunch hampers the ability to execute new business initiatives or meet new regulatory requirements. It also runs the risk of raising financial statement risk due to a lack of proper analytical scrutiny, not to mention the cost of hiring and retraining replacement personnel. Manual processes can also have other detrimental effects, reducing employee engagement, lowering productivity, and ultimately decreasing the value each employee is able to drive for the organization.

Accountants who have a combination of finance and data expertise, those who are enthusiastic to use the latest technology or are looking to rethink and reinvent business processes, are susceptible to be lured away when they're bogged down with manually matching transactions, extracting data from their ERP into spreadsheets, or manually entering journals.

It should be no surprise then, that in a recent report conducted by the NC State Poole College of Management on behalf of Protiviti, succession challenges and the ability to attract and retain top talent hit the number two spot for the top risks of 2019, moving up from the sixth position just a year earlier.[7]

Manual Accounting Disengages Employees

Gallup found that an actively disengaged employee costs their organization $3,400 for every $10,000 of salary, or 34%.[8] That means an actively disengaged employee who makes $60,000 a year costs their company $20,400 a year.

Spotlight: Aviva Canada

At Aviva Canada, more than 1,800 GL accounts across 6 insurance companies and 10 legal entities needed to be reconciled every month. The highly manual process required 50 team members, many of whom spent their time on transactional activities, including matching and validating data between GL and third-party information in Excel. As Amanda Lam, vice president of finance operations at Aviva Canada puts it, "We needed a way to streamline our processes and reduce the workload on our already overtaxed staff."

Learn more.

[7]Executive Perspectives on Top Risks for 2019, December 2018, North Carolina State University ERM Initiative and Protiviti.

[8]Worldwide, 13% of Employees Are Engaged at Work, October 2013, Gallup.

10 Ways to Cut the Real Cost of Accounting

OPPORTUNITY	POTENTIAL BENEFIT
Auto-certify reconciliations	Save time by using automation that applies intelligent business rules to auto-certify up to 85% of your accounts each month—no human intervention required.
Cut the manual	Regular, comprehensive, and automated bank reconciliations ensure that employee payments are made and posted, and certifies that payments are accurately reflected, both in the payroll expense account on the general ledger and in an employee's pocket.
Reduce waiting on close tasks	Centralize close tasks and dependencies into an online checklist that provides visibility into bottlenecks and keeps reviews and approvals moving.
Auto-match transactional detail	Use an AI-powered rules engine to help optimize the automation of detail-heavy recs, such as bank recs, credit card matching, intercompany reconciliations, and invoice-to-PO matching.

Automate journal entry creation	Create and post validated journals automatically from any data source, supporting items, bank files, and matched transactions.
Use an approval workflow engine	Use an online task workflow that automatically sends and tracks approvals based on thresholds, exceptions, or any other dependency or business rule to cut the wait and improve control.
Centralize supporting documentation	Auto-attach all supporting documentation related to a given journal and reconciliation in a cloud store to accelerate audits.
Identify exceptions automatically	Use a platform that applies variance rules that accurately detect material fluctuations and routes issues to control owners—for less risk and work.
Shift to auditor self-service	Enable auditors to login and access reconciliations, supporting detail, and identify variances and exceptions, without relying on Accounting.
Streamline intercompany	Reduce intercompany back and forth by centralizing and reconciling intercompany transactions and balances across currencies and geographies.

The Economics of Moving from Manual to Automated

What does success look like? BlackLine engaged Nucleus Research, a leading independent analyst firm registered with the National Association of State Boards of Accountancy (NASBA), to conduct a detailed review of the economic value of moving away from manual accounting.

NUCLEUS RESEARCH

Quest Diagnostics™

An $8 billion healthcare organization with around 45,000 employees.

Manual Accounting Challenge

The accounting team was leveraging a combination of Microsoft Excel spreadsheets and paper-filing systems to fulfill its monthly financial-close obligations. Employees had difficulty tracking the status of account reconciliations, a challenge which was compounded by acquisitions and the addition of more general ledger accounts.

Learn more.

Automation Outcome

User and team productivity

Enabled Accounting to save time on matching and reconciling the hundreds of accounts in their general ledger.

Organizational visibility

Executives can track the status of each financial close and drill down into the underlying data to evaluate trends and anomalous data.

Culture change

Prebuilt automation workflows enable a more productive and less stressful close process, and Accounting can work on tasks that support the company's long-term objectives.

Economics of Automation

$565K
reduction in annual accounting close costs

9.2 mo.
payback period

140%
annual ROI

A $2 billion financial services company with around 5,000 employees.

Manual Accounting Challenge

The accounting team used a combination of SharePoint, Microsoft Excel, and physical printouts to track and manage its account reconciliations, which numbered in the thousands from over 50 entities spread around the world. The complexity and volume of accounts forced accounting personnel to manually reconcile many of the accounts, which was time-consuming and inefficient.

Automation Outcome

Improved policy

Established better segregation of duties and standard procedures for journal entries and reconciliations across every entity.

Increased accounting productivity

Automated certifications means that accounting personnel don't need to touch about 40% of the company's reconciliations.

Reduced audit costs

Auditors no longer need to come on-site, reducing overall cost, while Accounting can collect and provide information to audit faster.

Learn more.

Economics of Automation

$287K

reduction in annual audit and related costs

$24.3K

reduction in annual accounting close costs

224%

annual ROI and 5-month payback period

A $5 billion leading broadcaster with over 2,300 employees.

Manual Accounting Challenge

The accounting team was handling millions of credit-card transactions each month from its subscribers and was unable to reconcile the order-to-cash process across multiple systems efficiently.

Learn more.

Automation Outcome

Automated journal entries

Automated approximately 50% of their journals and plan to expand more going forward.

Automated matching

Automatically import transactions, matching each with appropriate journal entry or subledger transaction with 99.9% accuracy.

Automated certification

Enabled low-risk accounts, journals, and tasks to be certified without manual review.

Simplified financial close

Orchestrated process for multiple close steps, reduced time to complete tasks, reconcile accounts, and produce reports.

Economics of Automation

$155K
reduction in annual accounting close costs

1.7 yr.
payback period

95%
annual ROI

Manual processes present too high a cost for accounting teams, CFOs, the broader business, and investor confidence. They sap time and resources, elevate risk, place a shadow over audit and compliance processes, and burn out talent. But more than that, in today's fast-moving landscape—where companies are rolling out new business models, conducting M&A, and looking to direct more resources into planning and analysis—it can stymie business performance.

BlackLine is helping more than 260,000 accounting and finance leaders to shift from manual to automated—so their processes, teams, and the company can run better, faster. The secret is the BlackLine Modern Accounting Platform—a single cloud solution that enables Accounting to centralize, automate, and reorchestrate stubborn manual processes like reconciliations, journal entries, period-end task management, and much more. The value of moving to automation has never been more apparent—and tapping into it never more accessible.

To learn more, go to blackline.com.

Measuring the Real Cost of Manual Accounting

BLACKLINE