Accounting Automation Guide for Manufacturers

Practical insights and real-life examples of improving financial close efficiency, visibility, and agility.

A BlackLine & UHY White Paper
For many manufacturers, years of M&A has led to fragmented systems, complex intercompany processes, and a lack of standardization across the close. Increased global competition, economic disruption, and evolving regulations lead to uncertainty, fluctuations in materials and transportation costs, and a workforce that must learn to work in a whole new way—whether on the shop floor or in the office.

This is challenging manufacturers to improve transparency and agility around financial and operational insights and performance. These changes are also putting renewed pressure on spreadsheet-driven manual accounting.

Finance and accounting leaders are moving to cloud-based, scalable solutions to automate transactional accounting processes and improve the overall visibility, transparency, and efficiency of their financial close. Leading companies are shaving days off period-end, refocusing their efforts on higher value tasks, and achieving 2.67X ROI.

But where do they start? Identifying processes most ripe for automation can be a challenge. Based on their experience with modernizing Accounting at manufacturers, UHY and BlackLine share what’s possible and where to focus, including:

**FOUR**
Manufacturing accounting processes that are ripe for automation

**FIVE**
Reasons manual accounting hurts financial and operational performance

**THREE**
Real-life examples of manufacturers driving efficiency and accuracy in their close
Manufacturing Accounting Processes Poised for Automation

Reconciling In-Transit Inventory
With complex supply chains and omni-channel strategies in place, capturing a complete picture of inventory as of a balance sheet date is easier said than done for manufacturers. Add in a multi-level business structure with facilities receiving and moving inventory from third-party logistics providers across different time zones, and you’ve got yourself an accounting nightmare.

While capturing on-hand inventory can be fairly straightforward, the complexity around in-transit inventory largely lies in the number of data sources. Reconciling reports from external sources against internal systems, capturing and comparing logistics events against shipping terms, and costing and classifying (e.g. raw materials, work-in-process, or finished goods) inventory often requires massive, error-prone manual processes full of VLOOKUPs and other manipulations.

Not only is this approach unsustainable, but it can negatively impact downstream business decisions if not done accurately or on time.

Accruing for Supply Chain Costs
Accruing for various manufacturing costs like freight, packaging, and insurance is another often error-prone, spreadsheet-driven month-end process. Like capturing in-transit inventory, a dependency on third-party logistics providers for data often comes at the cost of receiving accurate or timely information.

With accruals often reversing after month-end (to be replaced with actual results), the level of effort needed to capture the information is an even tougher pill to swallow. For this reason, many accounting teams resort to estimates for supply chain accruals.

However, in the current environment, historical trends and other estimation strategies are no longer reliable as freight, fuel, and materials costs are fluctuating more than normal, and the availability of truck drivers, capacity on carrier lanes, and other factors are impacting in-transit times.

Ultimately, the estimates need to be compared to actuals for controls, audit, and other purposes, and with substantial variances not uncommon, manufacturers can be faced with late adjustments that require even more effort and negatively impact forecasts and other downstream processes.
Clearing Open Items

Open items are individual transactions that should have an offsetting transaction in the same or future period. Manufacturers commonly have several open item managed accounts where transactions can quickly build up. These include but are not limited to cash, accruals, T&E, receivables, and prepaid accounts.

Like the examples above, the volume of transactions and complexity of data can make it impossible for manufacturers to keep up with manual clearing. While transactions are often immaterial individually, open items are typically significant in the aggregate. A manual process—or worse, no process—creates substantial balance sheet risk, results in unexpected write-offs and control deficiencies, and even negatively impacts ERP system performance.

Reconciling Procure-to-Pay Transactions

Procurement processes often involve point solutions and other data sources outside of the ERP. This landscape adds complexity and risk to the month-end reconciliation of invoices against purchase orders (POs) and receipts, and the substantiation of key liability balances at month-end.

These complexities also stem from the many-to-many relationships between supplier invoices, POs, and payments, along with currency fluctuations, and other factors. Without automation in place, manufacturers rely on spreadsheets to compare data. As a result, accounts like GR/IR and other payables frequently have aged balances, are difficult to forecast, and create audit and control issues.

TAKEAWAY

Transactional Accounting Consumes ~50% of Finance Resources

In addition to manufacturing-specific close tasks, Accounting also spends time on numerous other period-end processes, such as bank, credit card, AR/AP, and fixed asset reconciliations, manual journal entries, and other control certifications. It all adds up to half of Accounting’s time consumed in repetitive, error-prone transactional processes—that can be readily automated using modern accounting technology.

Source: APQC Metric of the Month: How Finance People Spend Their Time
Manual Accounting is the #1 Bottleneck for CFO’s

1. Time
With many complex account reconciliations and journal entries to prepare, such as inventory in-transit and freight accruals, doing so manually can add five days or more to closing the books. This is time that could be better spent identifying exceptions, variances, and reporting on critical KPIs.

2. Cost
The cost of accounting operations is up to 3X more for manufacturers that rely on manual spreadsheet-driven processes, where resources are spent wrangling financial data spread across different plants, entities, ERPs, and subledgers.

3. Risk
Organizations with material weaknesses in internal controls have an 80% higher risk of fraud. And nearly 70% of finance leaders surveyed say they’ve made a significant business decision based on inaccurate financial data.

4. Compliance
73% of SOX and internal control professionals at organizations, including manufacturers, still depend on spreadsheets, while external audit costs have been rising by 10% at many organizations. With increasing regulation, manual accounting is untenable.

5. Talent
About a third of employee productivity can be lost through employee disengagement due to repetitive work performing highly transactional accounting like inventory reconciliations.
UHY + BlackLine: 
Transforming Accounting for Manufacturers

UHY has worked with numerous manufacturers to help them upgrade their accounting processes and technology so they can navigate a disrupted and high-risk environment. UHY’s specialized consulting services help manufacturers optimize profitability and growth, improve workflow and procedures, identify and implement technologies, and manage risk and compliance.

BlackLine, the leader in accounting automation, provides an easy-to-use, cloud-based financial close platform that serves over 50% of the Fortune 50 and is a Gartner Leader four years running. BlackLine enables manufacturers to transform their manual accounting processes so they are unified, automated, and continuous, often boosting accounting productivity by 50% or more, in addition to elevating balance sheet integrity.

THE BLACKLINE ACCOUNTING CLOUD ENABLES:

Financial Close Management & Visibility
Orchestrating period-end tasks in a sequential manner with appropriate reviews and approvals requires visibility and standardization across all locations, from the plant-level up. Task dependencies between plant-level and corporate are also critical to the timely completion of period-end.

BlackLine enables Accounting to assign tasks, report on and track the status of every close activity, automate certifications and assignments, and monitor the overall progress through dashboards and analytics—never missing a beat.

Process Standardization, Control & Auditability
With a typically decentralized organizational structure and reporting taking place at all levels of the business, standardization and control are critical to auditability for manufacturers.

BlackLine enhances compliance and internal controls from preparation to review with embedded policies and procedures, standardized reconciliations templates, segregation of duties, and a complete audit trail. Regardless of whether activities are performed at the plant or corporate, the processes are unified and integrated within one platform.
Accounting Automation

Data is automatically imported into the BlackLine Accounting Cloud from any source, whether one ERP, dozens of ERPs, billing, inventory, and freight systems, or other data sources. In BlackLine, companies can set up intelligent matching rules that automatically reconcile high volumes of transactions between these data sources.

Once established, millions of transactions can be processed, automating the reconciliations, identifying exceptions, and if necessary, routing them to the preparer for review and resolution. Recurring and adjusting journal entries can be scheduled, automatically posted to the general ledger, and reviewed and certified in BlackLine.

Intercompany Governance

Intercompany accounting stands at the nexus of a multi-system and multi-entity business structure—it requires a neutral hub to centralize and harmonize it all. BlackLine provides a proactive approach to intercompany, and one that doesn't wait until consolidation to identify and correct errors.

BlackLine Intercompany Hub enables up-front agreement on intercompany transactions, centralizes all documentation, including invoices and other regulatory or tax support, securely imports transactions across plants to a single location, facilitates netting and settlement, and automates intercompany/inter-plant reconciliations.
How 3 Manufacturers Modernized Accounting

A Multi-Billion-Dollar Industrial Manufacturer Transforms Their Manual Inventory Accounting Process

An industrial group that manufactures fire hydrants, gate valves, and other water distribution products to the largest metropolitan areas in the United States was facing significant challenges with balance sheet accuracy and accounting productivity.

With eighteen plant locations and entities, they were looking to gain improved visibility into intercompany inventory variances and cut the manual, spreadsheet-driven work from their inventory in-transit reconciliation process.

The Challenges

Even though they were running a single instance of their ERP, Accounting at each location was buried with significant workloads as they struggled to reconcile inventory in-transit between each of their sites. At month-end, plant accounting teams would run an in-transit report that was sent to each plant they had operations with, resulting in often dozens of detailed spreadsheets emailed between each site.

The reconciliation process was an error-prone, multi-tabbed spreadsheet detailing goods received, goods sent, and the resulting in-transit list. The team collectively spent hundreds of hours reviewing the spreadsheets to ensure the balances were accurate and complete. With the added pressure for Accounting to be more strategic and spend more time on reporting and analysis, corporate accounting began searching for a solution.
The Solution

Before any technology decision was made, UHY worked with the accounting team to understand the process, including evaluating the detailed transactional data flows between plants, and the various subledger and homegrown systems in play.

After careful assessment, UHY proposed BlackLine as the platform that would drive automation and ensure visibility across processes, enabling the organization to make the move to modern accounting. BlackLine eliminated the back and forth of inventory in-transit reports by securely importing that data into a single, centralized platform.

After the data was centralized, UHY worked with the industrial manufacturer to configure BlackLine Transaction Matching with business-owned rules that automatically matched in-transit transactions with inventory received by each plant. Any unmatched transactions would automatically be recorded as still in-transit and added to the accrual amount, while any differences reconciled.

The Results

The manufacturer was able to achieve instant visibility into the status of in-transit inventory across all plants. In the first few months of operation, the accounting team noticed a significant amount of unreconciled inventory between plants that they were now able to address, achieving significant increase in balance sheet accuracy. By centralizing inventory in-transit data, they provided self-service access to inventory reports for all plants, eliminating the need for managing the reconciliations in spreadsheets.

Accounting also realized significant time savings, with each of the 18 plants saving approximately 8 to 16 hours a month, equivalent to one to two FTEs freed up for more value-added activities.
A Leading Chemical Manufacturer Automates Their Manual Freight Accrual Process

One of the world’s leading manufacturers of soda ash and hydrogen peroxide was facing significant accuracy and productivity challenges around their monthly freight accrual reconciliation process.

The Challenges

With a complex system landscape—a primary ERP, billing and freight systems, data from their rail company, and other applications—the monthly freight accrual process was both painful and error-prone, with detailed spreadsheets, manual data extracts, and time wasted waiting for information.

Due to untimely data, the monthly freight accrual was estimated, causing inaccuracies and significant true-ups. Miscellaneous expenses, such as repairs and accessorial items, were not properly expensed. As a result of the manual effort, the monthly freight accrual reconciliation process took three to four days to complete, often with subpar results.
The Solution
After conducting interviews with the team to clearly understand the current process and pain points, UHY built a go-forward plan that started with a proof of concept automating freight accruals at the transactional level for one full month using BlackLine. With compelling results and high automatic match rates, the team moved forward with the implementation.

UHY automated all feeds from the various data sources and created configurable rules that matched data at the detailed transaction level, going one step further than at the summary level.

Automating the freight accrual reconciliation at the transaction-level detail left the unmatched transactions from the shipping data sources constituting the accrual amount. Additional in-transit matching rules automated the creation of reconciling items, further automating the end-to-end reconciliation process more frequently than just at month-end.

The Results
The chemical manufacturer achieved substantial results, ranging from a dramatic increase in freight accrual accuracy to sheer time savings, as well as increased balance sheet integrity and transparency. Without the need to estimate freight accruals, they eliminated the substantial “true-ups” by achieving 98% accuracy.

Additionally, by removing the need for manual data extracts and spreadsheet-based reconciliations, they cut completion time from three days to just two hours at each period-end. Shifting to a freight accrual process based on detailed transactions also highlighted other process improvement opportunities to continue their path to modern accounting.
The Challenges

Running a combination of multiple subledgers, including one for inventory and supply chain management and one for their general ledger, introducing new products was an arduous process. Accounting required significant spreadsheet PivotTables and VLOOKUPs to match and reconcile detailed inventory transactions, pulling data from multiple subledger systems and reconciling that data with their GL for balance sheet substantiation.

Performing this process for one location was painful and took several days every month. However, urgency ensued as they were looking to roll out these new products across nearly 70 locations, which would not only increase the volume of transactions and complexity of reconciliations but also require an unsustainable amount of work for their accounting staff.
The Solution

With their subledger system in flux and many locations to manage, the accounting team realized they needed a cloud-based accounting automation platform to unify their data and processes to avoid a potentially massive spike in spreadsheet-based accounting.

After UHY performing a proof of concept using BlackLine to automate data feeds and processes and show the automotive company how this would scale across all locations, the team decided to move to production. The implementation included automated matching of all detailed inventory transactional data and reconciling all general ledger account balances to subledger balances using BlackLine’s pre-built templates to accelerate the process.

With so many locations, BlackLine’s completely web-based platform enabled teams at any location to investigate unmatched transactions or the exceptions for outstanding reconciliations and create adjusting journal entries.

The Results

With BlackLine deployed, the team immediately reduced reconciliation time from several days to just hours each period—even after scaling the process across all locations. Without BlackLine and UHY, managing manual accounting across so many sites would have potentially consumed weeks of effort, likely requiring more headcount and ultimately an unsustainable workload.

Improved process efficiency and scalability weren’t the only benefits. By eliminating the error-prone, spreadsheet-centric activities, it also meant a significant boost in accuracy. Data integrity and consistency improved after they shifted the process to a single platform, and rules-based automated reconciliations enabled instant tracking of any issues at any location by using reason codes and alerts to trace and resolve.

Scalable process

enabled new products to be added by Accounting every period across ~70 locations without an increase in workload.

Balance sheet integrity

was boosted with detailed and traceable automated reconciliations.

Unified, consistent data

allowed for accounting process transformation while moving to a new subledger.
There’s never been a better time for manufacturers to automate manual accounting processes. With a rapidly changing and uncertain global business environment, automating transactional accounting processes is a clear opportunity to drive significant efficiencies, boost productivity, and enable the reallocation of talent toward more strategic activities.

UHY Consulting, Inc. is a subsidiary of UHY Advisors, which comprises 8,200 staff members in 300 independent member firms in more than 100 countries. UHY has been a leading implementation partner of BlackLine since 2009, improving efficiencies in Fortune 500 and dynamic middle-market companies.

Companies come to BlackLine, Inc. (Nasdaq: BL) because their traditional manual accounting processes are not sustainable. Today, BlackLine is helping more than 280,000 accounting and finance leaders shift from manual to automated so their processes, period-end, and teams can run faster, more efficiently, and with greater transparency and integrity.

To learn more, visit blackline.com.

1APQC
2APQC
3American Accounting Association
4Mistrust in the Numbers, A Study into the Potential Global Scale of Financial Data Inaccuracies
52019 State of the SOX/Internal Controls Market Survey, SOX & Internal Controls Professionals Group
6Benchmarking SOX Costs, Hours and Controls, Protiviti, 2019
7LinkedIn/Gallup