A Practical Guide to

Preaccounting

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What is Preaccounting?

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While the word preaccounting may not be actively used day-to-day, it describes a process that affects an accountant's job every day. As Expensify CEO David Barrett explains it,

> " Preaccounting is the system through which financial data is gathered, coded, aggregated, and normalized so as to enable accounting to occur; accounting processes executed by non-accountants, including expense management, time tracking, etc. "[1]

By definition, preaccounting is not the accountant's job, nor is it the client's. In reality, preaccounting is an informal responsibility that neither party is accountable for. As a result, it's inefficiencies quietly go unnoticed day to day. While accounting processes have seen vast improvements in efficiency with the widespread adoption of cloud-based ecosystems, client-driven preaccounting tasks such as expense management have largely remained unchanged, and therefore inefficient, unscalable, and time-consuming.

Despite this, the future is bright. Improvements in increased accounting efficiency have indirectly resulted in a renewed interest in preaccounting processes. Once a firm standardizes on a cloud-based ecosystem like QuickBooks Online or Xero, they naturally begin to focus on improving ancillary processes that don't

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traditionally fall under the umbrella of accounting, such as collecting receipts, tracking mileage, and other client-driven tasks.

With that in mind, this white paper serves as a guide to help accountants and bookkeepers identify, diagnose, and tackle preaccounting inefficiencies with their clients. Our goal is to shine a light on current preaccounting inefficiencies, using receipts and expense management as an example, to understand and improve current practices, resulting in an increase in efficiency and time savings across the board.

Where Does Preaccounting Fit Into Your Workflow?

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As an accountant, you've already done the hard work of vetting and curating the perfect tech stacks to streamline your clients' financials. You've put countless hours towards creating an efficient ecosystem that automates the bi-directional flow of financial data from one app to another.

These efforts have accumulated into a curated toolbox of best-in-breed financial apps and add-ons tailored to each client's needs. Yet, you're still barely able to close the books on time. Why?

Preaccounting is inexplicably tied to accounting, so while accountants focus on improving their internal accounting processes, they often overlook improvements to their client's workflow. As a result, accountants are still chasing clients for receipts, confirming tracked billable hours and mileage, and other tiny, individual tasks that should be done by clients, but ends up being driven by the accountant. However, preaccounting work isn't the accountant's or CPA's responsibility, it's simply "work that needs to be done for CPAs to start their job."[2]

Let's face it - no one likes doing preaccounting, but someone has to do it.

As a result, accountants are still chasing clients for receipts, confirming tracked billable hours and mileage, and doing other tiny, individual tasks that should be completed by clients, but ends up

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being driven by the accountant. On the chance that clients do complete their preaccounting tasks, they do it grudgingly and at the last minute, resulting in the delay of other functions that rely on preaccounting data, such as reporting monthly financials on time. How can we change this?

We've seen success in implementing technology into the accounting workflow; how can we apply the same workflow improvements from the accounting process to the preaccounting process? To optimize the preaccounting workflow, we need to understand why current processes fail so that we can develop workflows that address and mitigate the underlying causes of inefficiency.

Four Reasons Why Your Preaccounting Process is Inefficient

(and How to Solve Them!)

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Before jumping in and optimizing your existing preaccounting process, it helps to understand the underlying reasons why the current process is failing.

We've identified four key areas in which preaccounting inefficiencies thrive below.

1. Manual processes are still the norm
2. Lack of urgency
3. Lack of accountability
4. Lack of incentive

1. Manual processes are still the norm

One of the key process improvements in the accounting profession is the shift from desktop to cloud products. Not only can you access data from anywhere with a cloud product, but you're able to connect one product with dozens of apps that cater to your clients' specific needs. As a result, accountants no longer need to manually input information into one system, only to repeat that data entry into another system. Instead, they can centralize their clients' financial information in one system, and create a supporting ecosystem of integrated apps that sends the information to the rest of the apps in the ecosystem.

With preaccounting tasks, accountants are still manually typing in client data over and over again on multiple platforms. This takes time away from more critical work such as analyzing the data and helping clients make informed decisions on future actions.

When an accountant is scrambling for client documents and trying to finish a month's worth of paperwork by hand, these extra minutes or hours can be crucial in successfully closing the books on time.

Not only is the receipt tracking and data transcription manual, but so is the communication between you and your clients - emails, texts, and boxes of receipts! Manual is inefficient — it's time to identify and solve them with automation!

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Ways to identify this inefficiency:

- You notice your staff are spending too much time doing manual data entry.
- You're getting a copies of client receipts sporadically through a number of different mediums (crumpled paper, in a box, email, or not getting them at all).
- The workflow is missing a centralized repository to store and add receipts, which the client and accountant can both access in real-time.
- You notice clients are losing receipts or other paperwork required to accurately report financials. As a result, you and your team are scrambling to make up for that lost data.
- You notice public complaints about the tedious preaccounting process from both the client and your peers.

Ways to solve this inefficiency:

- Identify bottlenecks in your workflow: where is most of the time being spent by both accounting and clients in the preaccounting process?
- For each bottleneck, decide what you would need to smooth out this part of the workflow. In an ideal world, how would this task be handled?
- Implement solutions that automate the most tedious and time-consuming tasks, so staff can focus their attention to more complex processes.
  Pro-tip: *Survey your team to see what they are spending most of their time on. Because they're looking at the data daily, they'll be able to help figure out which tasks can be easily automated and which tasks need human review.*[3]

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2. Lack of urgency

Accountants are so used to getting a box of receipts at the end of the month that they've accepted their monthly fate with resigned trepidation.

There are no deadlines or timelines given to clients when it comes to submitting preaccounting paperwork, so clients will submit their receipts only when they're reminded. Guess when this typically happens? That's right, at the end of the month.

The lack of urgency placed on reporting receipts and expenses during the rest of the month means

that all of the work gets pushed until the end of the month, when it becomes a huge burden for the admin in charge, which is often you! This makes the reconciliation process at the month's end more unbearable, resulting in the tasks being pushed off for as long as possible and creating a self-perpetuating cycle.

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How to identify this inefficiency:

- You notice tasks that keep getting pushed as late as possible, either by the client, the accountant, or both.

- You notice your process lacks periodic check-ins with your client to make sure they're keeping preaccounting top of mind throughout the month.

Ways to solve this inefficiency:

- Create timeline expectations with your client. Instead of having clients "turn in" receipts or other preaccounting paper work at the end of the month, create a workflow that allows you to collect this information in one central location. **Pro-tip:** *The best practice is to create a habit of reporting and collecting data as it is received, rather than having clients wait until the last minute to turn them in.*

- Find a software that can automate this timeline on-the-go to reduce staff time spent checking paperwork for accuracy.

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3. Lack of accountability

Since preaccounting is not technically anyone's responsibility, who is held accountable for it when it's not done?

The short answer is: the accountant. Unfortunately, roles and expectations aren't typically set for oft-overlooked preaccounting processes between accountants and their clients.

As a result, the assumption is that the person accumulating receipts will be responsible for turning them in, and the accountant will process the paperwork afterwards.

However, in reality this is far from the case. Because the accountant's job relies on this paperwork, it's ultimately the accountant's responsibility to get preaccounting paperwork processed on time. The lack of accountability placed on the client reporting their expenses on time results in more work and difficulty for the accountant.

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How to identify this inefficiency:

- You notice a lack of specific processes that set expectations for staff and administrators involved, which causes confusion or inactivity in each role.
- You notice a bottleneck in your workflow that can be attributed to confusion around what's expected from the client.
- You notice that you, the accountant, are always scrambling at the end of the month to reconcile your clients' paperwork.

Ways to solve this inefficiency:

- Design a workflow process that outlines a clear set of expectations on what each person in the process is responsible for.
- Specify how each person can successfully carry out their task, and how that helps everyone involved in the process do their job.
- Identify automated software that allows accountants to pre-organize all of the manual tasks (coding, compiling, grouping, etc), taking this off of the client so that each expense comes to coded correctly.
- Hold people in the process accountable by explaining their role in making this a success.

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4. Lack of incentive

With old-school expense reporting workflows, there are no incentives for getting paperwork done. It still takes too much time to find and record all incurred expenses. It still takes too much time for the accountant to process those expense reports.

The expenser still has to wait months to get their money back, so they're not incentivized to get the paperwork in early. It's a lose-lose situation for everyone involved.

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How to identify this inefficiency:

- You notice the client prioritizing other tasks, which results in a buildup of their preaccounting tasks.
- You notice a bottleneck in your accounting workflow that stems from the accountant not getting information they need to do their job.

Ways to solve this inefficiency:

- Convey to the clients why finishing this task early and on time will be beneficial to their job and happiness.
- Incentivize quick submissions with timely review and reimbursements.

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The manual nature of preaccounting, as well as the lack of urgency, accountability, and incentive in the process have resulted in a difficult and time-consuming preaccounting process that everyone dreads. With so much on their plate, it's no wonder clients and accountants alike have often pushed preaccounting until the end of the month, rather than having a process in place that spreads the work evenly throughout the month.

While it's been established that preaccounting is a reactive process for most firms and their clients, the costs of preaccounting inefficiencies build up over time. See how taking charge of your clients' preaccounting can lead to better return on investment (ROI) for your firm.
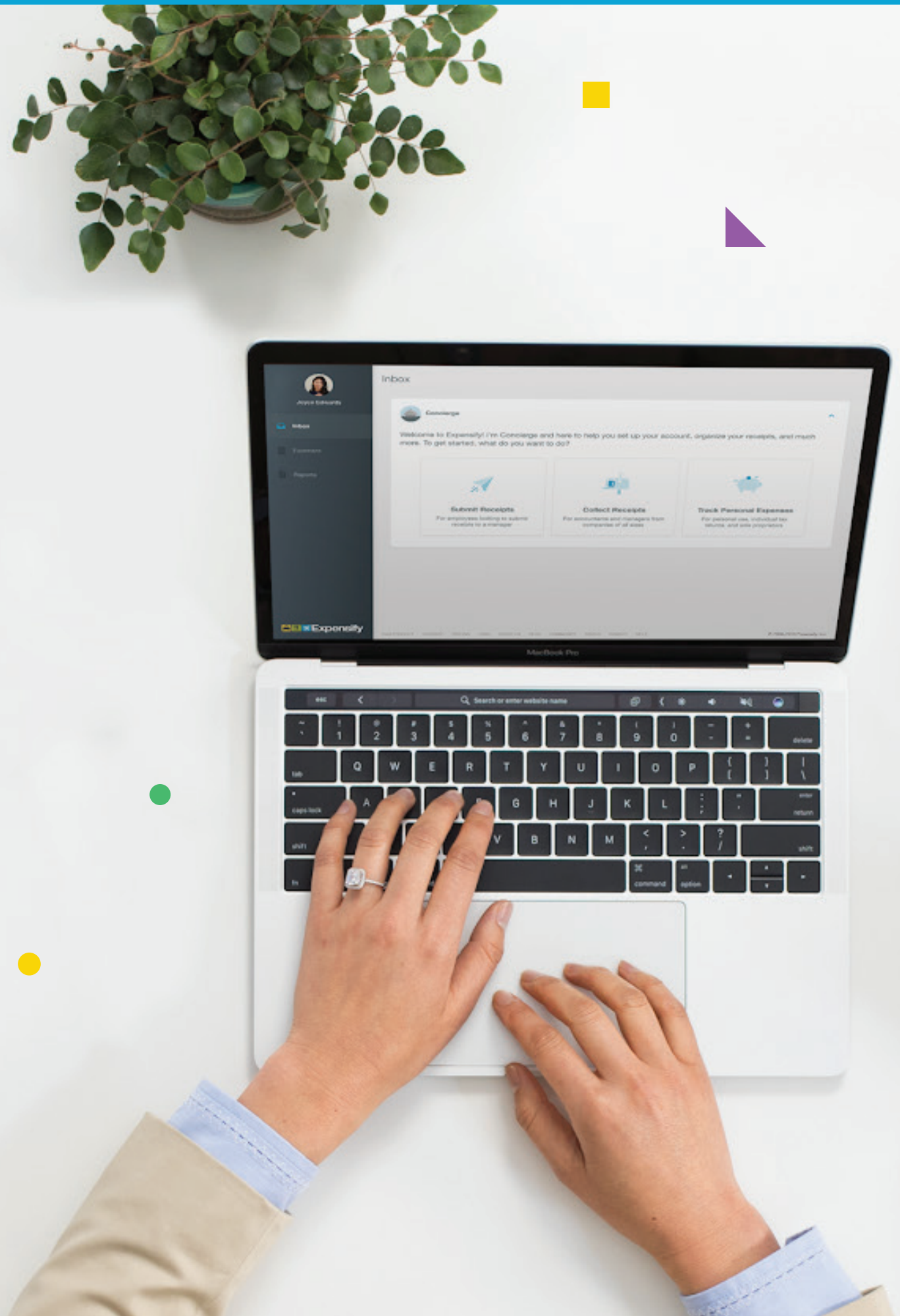
The Cost of Preaccounting Inefficiencies

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The cost of ignoring preaccounting can be staggering.

In a study conducted by Forrester, a Business Process Outsourcing (BPO) firm saw an average net ROI increase of 598% when they implemented Expensify for their clients' preaccounting workflow, which took advantage of the app's automation and user-friendly features.[4]

Among the findings, Forrester found that the BPO firm and their clients experienced:

- A 50% decrease in the average processing time of creating and approving an expense report, from 30 minutes to 15 with Expensify's mobile app.
- A 50% increase in productivity gains with Expensify's automation features. Managing the backend of the client's previous expense reporting system took 30% of an IT professional's time; with Expensify that time decreased to 15%.
- An implementation process that finished in a matter of hours, not days.

Financially speaking, the time and cost savings of adopting an automated expense management tool amounted to a 598% ROI. As a case study in preaccounting, these numbers further prove how important it is for firms to proactively get a hold of their preaccounting processes sooner than later by transforming clients from workflow blockers to workflow enablers.

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Improving Your Preaccounting Process

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Just a few years ago, it was standard procedure for employees to manually file expense claims via Excel, or worse, via paper and pen. It's now the norm to recommend apps that function within the existing cloud-based ecosystem to accelerate these cumbersome, client-driven preaccounting processes. With their own processes optimized and updated, accountants are refocusing on streamlining communication and interaction with their clients regarding preaccounting paperwork.

Mark Stricker, a Partner from Top 100 firm Wipfli, works with his team to help small businesses migrate to the cloud. He explains why introducing clients to apps like Expensify for receipt and expense management processes are good for long term business:

> " When we started talking to clients about their biggest struggles, [expense reports] were a common thing, so we found Expensify to solve that pain point. If you come in and help a business owner and their accounting team save hours of time that they can use to work on their business, that's huge. If you don't tell them about these things, then someone else will. "[5]

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A PRACTICAL GUIDE TO PREACCOUNTING

Thanks to the cloud-based ecosystem, the benefits of a few simple process adjustments make a world of difference for everyone involved. With apps like Expensify, preaccounting can finally be brought into a firm's carefully constructed ecosystem for a more automated, seamless experience — for both accountants and their clients. Now that you have the tools, it's time to get started on improving your preaccounting process!

Endnotes

[1] Barrett, David. **"Preaccounting: The Job We All Hate But Must Do."** *Expensify Blog*, 9 June 2017, https://blog.expensify.com/2017/06/09/preaccounting-the-job-we-all-hate-but-must-do/. Accessed 19 January 2018.

[2] Sheedy, Chris. **"What CPAs need to do to survive the automation revolution."** *Journal of Accountancy*, 26 June 2017, https://www.journalofaccountancy.com/newsletters/2017/jun/survive-automation-revolution.html. Accessed 1 February 2018.

[3] Kruger, Jason. **"How to Use Automation to Improve Your Accounting Processes."** *Insightful Accountant*, 27 March 2017, http://www.intuitiveaccountant.com/people-and-business/how-to-use-automation-to-improve-proadvisors-accounting-processes/. Accessed 26 January 2018

[4] Expensify. The Total Economic Impact of The Expensify Expense Management Platform.

[5] Alexander, Antoinette. **"The Expense Reporting Nightmare Eases."** *Accounting Today*, 05 July 2017, https://www.accountingtoday.com/news/the-expense-reporting-nightmare-eases. Accessed 15 January 2018.

About the Author

With more than five million users worldwide, Expensify is the global innovation leader in automated receipt and expense management. The easy-to-use mobile and web app automates the entire expense reporting process with SmartScan OCR receipt tracking technology, company card management, and integrations with all major accounting softwares.
Get started with Expensify's automated receipt and expense management today!

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