Rapid Month-End Reporting by Day Three or Less
by David Parmenter

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1. Introduction

Is your team one of the many who are sucked-in by processes that have more in common with the Charles Dicken's era than the 21st century? When I was a corporate accountant each period end was a disaster waiting to happen. Each month-end had a life of its own. You never knew when and where the next problem was going to come from. Always two or three days away we appeared to have it under control and yet each month we were faxing (email was not on the scene then!!) the result five minutes before the deadline. Our fingers were crossed as a series of late adjustments had meant that the quality assurance work we had done was invalid and we did not have the luxury of doing it again. Does this sound familiar?

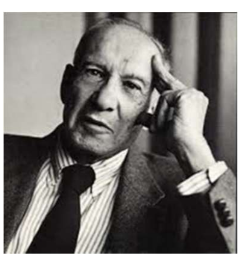
If so, this white paper will show you a way forward, a pathway blazed by some of your far-seeing peers. This white paper is based on the collective wisdoms of over 2,000 corporate accountants, to them we owe a great gratitude.

How do you fare on these questions?

Does it take longer than three business days for your Finance team to complete the monthly reporting package to the CEO and to the Board?	☐ Yes ☐ No
Do your staff burn the midnight oil to achieve this?	☐ Yes ☐ No
Are you finding that each month-end is a drama?	☐ Yes ☐ No
Do the monthly reports have a high error rate?	☐ Yes ☐ No
Do the month-end reports go through endless rewrites?	☐ Yes ☐ No
Is the month-end reporting process seen as a negative task for staff and management?	☐ Yes ☐ No

If you answer "**no"** to all of these questions you are one of the small minority who have got to grips with timely month-end reporting.

1.1. <u>Importance of abandonment</u>



Management guru Peter Drucker[1] who I consider to be the Leonardo de Vinci of management, frequently used the word '*abandonment*'. I think it is one of the top ten gifts Drucker gave us all. He said

"Don't tell me what you're doing, tell me what you've stopped doing."

He frequently said that abandonment is the key to innovation, in other words, the key to a fast month-end.

Peter Drucker observed in one organisation that the first Monday of every month is set aside for "abandonment meetings at every management level." Each session targets a different area so that in the course of a year everything is given the once-over. This process would work well in the finance team except we should meet once a week to discuss at least two abandonments each week!

The act of abandonment gives a tremendous sense of relief to the finance team for it stops the past from haunting the future. It takes courage and conviction from the CFO. Knowing when to abandon and having the courage to do so are important leadership attributes. In order for these processes in this white paper to work there needs to be an adoption of:

- an abandonment of processes and procedures
- a letting go of the past
- a commitment to change the rules

1.2. The importance of challenging the status quo

Far too often we have accepted antiquated and anti lean practices within the corporate accounting repertoire as the status quo. If the medical profession used our approach they would probably still be using leeches (well actually they still do I understand in special cases). The medical profession have breakthrough conferences on a regular basis and all the practicing surgeons, in that field attend, and adopt the new procedure. This should be the corporate finance model. The problem with corporate finance is that the surgeon "the CFO" is often too busy to attend, caught in the aforementioned "Catch-22".

In an interview, called the lost Interview, Steve Jobs, was asked, "As 22-year-old worth $10m, and a 25 year old worth $100m, how did he get his business acumen." He said that over time he realized that most business was pretty straight forward. He talked about when Apple had their first computerized manufacturing plant for the Apple II and the accountant sent Steve Jobs his first standard costing report. Jobs asked, "why do we have a standard cost and not an actual cost" The responses was "that just the way it's done". He soon realized that the reason was the accounting system. When that was fixed, standard costing reports vanished.

In business Jobs believes that few in management thinks deeply about why things are done. He came up with this quote I want to share with you.

Your time is limited, so don't waste it living someone else's life. Don't be trapped into living with the results of other people's thinking. Don't let the noise of other's opinions drown your own inner voice" **Steve Jobs**

1.3. Ranking guide

The following rating scale, see Exhibit 1.1, shows the time frames of month - end reporting across the 5,000 corporate accountants I have presented to in the past 20 years.

Exhibit 1.1: Speed of month-end reporting ranking

Exceptional	Outstanding	Above average	Average
One working day	Two to three working days	Four working days	Five working days

2. The burning platform

There is a burning platform and the finance team needs to jump. Your month-end:

- Does not create much value the horse has bolted, is part of trifecta of lost opportunities (the other two activities to re-engineer are annual planning and annual reporting)
- Forces you to invest too much time and effort as a processing centre instead of advisory time
- Is slower than your peers who are reporting quickly (some are even reporting in one day)

2.1. Benefits of quick monthly reporting to management and the Finance team

As a good friend of mine, who is a CFO of a tertiary institution, said "Every day spent producing reports is a day less spent on analysis and projects". There are many benefits to management and the Finance team of quick reporting, and these are set out in Exhibit 2.1 below.

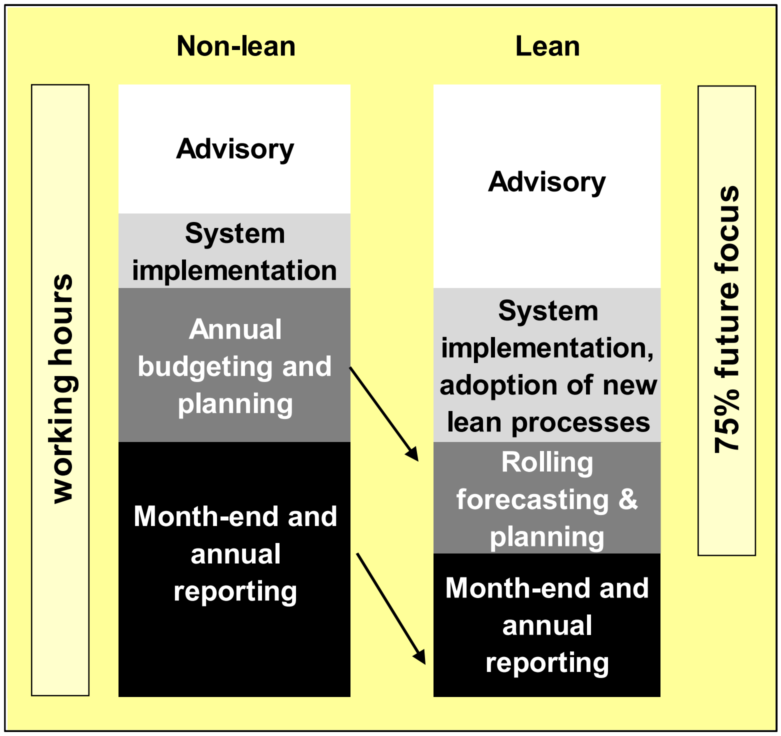
Exhibit 2.1: Table of benefits

Benefits to management	Benefits to the finance team
Reporting plays a bigger part in the decision - making process.	Staff are more productive as efficiencies are locked in and bottlenecks are tackled.
Reduction in detail and length of reports.	Many month - end traditional processes are out of date and inefficient, and these are removed.
Reduced cost to organization of month - end reporting.	Happier staff with higher morale and increased job satisfaction.
More time spent analyzing trends.	Finance staff focus is now on being a business partner to the budget holder, helping them to shape the future.
More time spent on achieving results.	The team has time to be involved in more rewarding activities, such as quarterly rolling forecasts, project work, and so forth.
Greater budget holder ownership (accruals, variance analysis, coding, corrections during month, better understanding, etc.).	More professionally qualified finance staff.
Less senior management time invested in month - end.	Less senior finance team time invested in month – end the change also leads to a very quick year - end.

2.2. The impact of quick reporting on the Finance team and the organisation

The impact of quick month-end reporting is a redistribution of work moving out of the low value processing activities of month-end, annual accounts to the more future focused activities such as rolling forecasting, systems implementation and advisory, as shown in Exhibit 2.2. This is often accompanied by a change in the mix of the finance team, with a higher percentage of qualified staff, which is good news for qualified accountants.

Exhibit 2.2: Changing the focus of our work



The significance of month-end reporting can be seen from this comparison of three reporting timeframes. Quick reporting accounting teams are far more advanced in many other areas. They should be, as they have much more time on their hands, as shown in Exhibit 2.3.

Exhibit 2.3: Impact of a quick month-ends on a 22 working day month

Tasks	Day 1	Quick m/e	Slow m/e
	No. of working days a month		
Month-end reporting	1	4	9
Remaining days	21	18	13
Percentage of extra time for project work & daily routines	60% more time	40% more time	
Based on a 22 working day month			

3. Lean best practice for your next month-end

3.1. Get the CEO supporting fast month-end reporting

It is important to get the CEO behind a fast month-end. You start by costing out to management and the Board the month-end reporting process.

Such an analysis can be easily performed by a management accountant in 30 minutes, and will be valuable in the sale process of changing month-end reporting time frames.

Exhibit 3.1 Shows the time invested in an organisation with 40 budget holders with around 500 full time staff. The cost estimate is between £0.6m to £1m.

Exhibit 3.1 Costing out the current month-end reporting process

500 FTE organisation with monthly management and Board reports

	Accounting team	BHs	Direct reports	SMT
Accounts payable cut-off				
Accounts receivable cut-off				
Capex, inventory etc				
Accruals				
Adjustments				
First run of GL	2 to 3			
Researching variances by staff		0.5		
Drafting papers		0.5 to 1	0.5 to 1	
Flash report				
Review and redrafting	0.5 to 1	0.5		
Second run of GL				
Preparing consolidated accounts commentary	2 to 3			
Review by CFO and Financial Controller	0.5 to 1			
Presentation to SMT (senior management team)	0.5 to 1			
	5.5 to 9	1.5 to 2	0.5 to 1	
40 budget holder reports		60 to 80		
100 direct reports reporting progress by way of a written monthly report			50 to 100	
Board papers				
Preparing board financial report	2 to 3			1 to 1.5
Review reports before they go to Board				
Preparing business unit progress reports to the Board				4 to 6
Review by CEO				0.5 to 1
Preparing one-off board reports		10 to 20		6 to 10
Working days per month	7.5 to 12	70 to 100	50 to 100	11.5 to 18.5
Average salary cost	$65,000	$80,000	$55,000	$200,000
Average productive weeks	42	42	42	32
	Low	High		
Average personnel cost	$600,000	$1,100,000		
Consultants reports	$100,000	$200,000		
Estimated annual cost of monthly reporting to managers, SMT and Board	$700,000	$1,300,000		

When doing this exercise, remember that senior management barely have 32 weeks of productive time when you remove holidays, sick leave, travelling time, and **routine management meetings**. Thus a cost of £800-£1,000 per senior management day is not unrealistic. The Excel on which this costing was based is available to all readers of this white paper.

Having performed the calculation I would then approach the CEO with a 30 second elevator speech to catch their attention.

"We have just done some calculations that estimate that we will spend between £8m-£10m over the next 10 years reporting monthly results well and truly after the 'horse has bolted'. I want to undertake a project to speed up month-end reporting, giving you access to numbers inside three working days and saving over £5m in the next ten years. Could I have 15 minutes of your time to outline the project, its benefits and your role in helping make it happen?"

There is not a CEO on this planet who will not say "I am with you, how can I assist?" Many things happen with the CEO's total co-operation. All communiqués about changes to processes or requests to attend training sessions on the new regime should be sent out by the CEO instead of by the finance team.

Major breaches of procedures should be listed weekly (invoices over £10,000 with no raised order, no receipting of receipt of goods and services over £10,000, budget holders with over three months of outstanding purchase card receipts etc) and the CEO asked to phone the culprits and give a one-minute reprimand making it clear that full cooperation is expected and non-compliance will be career limiting.

3.2. Establish month-end reporting rules within the finance team

I always point out to accountants that we are all artists. Every month we sculpt a month-end result and it can never be the right number, as there is no such thing as a 'right' number, it can only be a "true and fair "number. If 10 accounting teams prepared the month-end numbers for one company for five years there would be 10 different results each month. Each accounting team will have made different judgement calls, yet over the five years the cumulative result will be very similar.

The finance team has to realise that they only need to do enough work to arrive at a 'true and fair' view. All work done after this point that has been reached will thus not be adding value. We therefore need some rules that the month-end financial report should:

- not be delayed for detail
- be consistent between months, e.g., same judgment calls, same format
- be a true and fair view and error free e.g. hunting for the perfect number is now unacceptable and the final report will have extensive quality assurance checks to ensure it is free from any report writing errors
- be concise - less than a 10-page finance pack e.g., only include a one-page report on each major business with minor businesses being reviewed by the CFO and omitted from the pack
- be a merging of numbers, trend graphs and bullet point comments all on one page
- Not be changed for adjustments that are likely to be set off by others yet to be found - allowing adjustments to offset each other on an "overs and unders" schedule

I have prepared a draft set of rules for the finance team for you and these are in the accompanying electronic media.

3.3. Catch all adjustments in an 'overs and unders' schedule

Month-end reporting is not the time for spring cleaning no matter how tempting it can be. This requires a re-education within the finance team and with budget holders.

All miscoding, unless resulting in a material misstatement of the P/L, are processed during the following month. Budget holders are educated to review their cost centre numbers via on-line access to the G/L during the month and are requested to highlight any discrepancies immediately with the finance team.

We want to have a regime where we catch all material adjustments and see the net result of them before any decision is made to adjust e.g. only a material month-end misstatement will result in processing an adjustment. Set up two 'overs and unders' spreadsheets, see Exhibit 3.2, at the close of the last working day. One spreadsheet is to trap major adjustments, say over £5,000, £20,000 or £50,000 depending on the size of the organisation, and the other for smaller items. If they find adjustments, the accountants will enter them on the appropriate spreadsheets that reside on a shared drive on the local area network. More often than not you will note that adjustments have a tendency to net each other off.

If there is a material misstatement of the net result we will process one or two appropriate adjustments and then remove them from this schedule. This will bring the total of the overs and unders to an acceptable figure. We then process all the other adjustments during the quiet time in the following mid-month

Exhibit 3.2: Maintaining an 'overs and unders' schedule

Source	Raised by	JV #	Adjustment			P/L impact		B/S impact	
						Dr	Cr	Dr	Cr
xxxxx	Pat	1	Dr		xxxxxxxxx xxxxx xxxx	45			
				Cr	xxxx xxxxx xxxxx		45		
xxxxx	John	2	Dr		xxxx xxxx	10			
				Cr	xx x x xxxxxxxxx		10		
xxxxx	Jean	3	Dr		xxxx xxxx	25			
				Cr	xx x x xxxxxxxxx				25
xxxxx	Dave	4	Dr		xxxx xxxx			15	
				Cr	xx x x xxxxxxxxx		15		
		etc							
						80	70		
						-70			
					Net impact on P/L	10			

3.4. Avoid a huge wave of AP invoices at month-end

The last thing the AP team needs is to receive a tsunami of invoices on the last day of cut-off, as shown in Exhibit 3.3. It is important to push processing back from month-end by avoiding a payment run at month-end. It is a better practice is to have weekly or daily direct credit payment runs with none happening within the last and first two days of month-end.

7.5. Using a reporting tool

The advancement of reporting tools has meant that the G/L is used merely as a collecting area for financial data for the month. A better practice today is to have a reporting tool collect this data from the G/L overnight, or in some cases weekly, so that the budget holders can drill into their revenues and costs during the month. Management accountants also will use this reporting tool when analyzing costs because it contains prior months' figures in a continuous stream, enabling them to do cross - year financial comparisons seamlessly. Exhibit 7.3 outlines some reporting tools offered by application providers.

Excel has no place as a reporting tool. Again, it is too prone to disaster. There is no problem where the system automatically downloads to Excel, with all the programming logic being resident in the system and basically bombproof. The problem arises when the system has been built in - house, often by someone who has now left the company, with the accuracy of formatting the G/L download relying on Excel formulas reading the imported file. This is simply a disaster waiting to happen.

Exhibit 7.3 Reporting Tools Offered By Application Providers

Reporting Tool Suppliers	Website
Caspio	www.caspio.com
Combit Software	www.combit.net
Devexpress	www.devexpress.com
Dundas Data Visualization	www.dundas.com
Qlikview	www.Qlik.com
Megalytic	www.megalytic.com
Phocas	www.phocassoftware.com
Power BI	Powerbi.microsoft.com
SAP BusinessObjects	www.sap.com
SAP Crystal Reports	www.sap.com
Sisense.com	www.sisense.com
Spotlightreporting.com/	www.spotlightreporting.com
SQL Server Reporting Services	www.msdn.microsoft.com
Tableau	www.tableau.com
Targit.com	www.targit.com

7.6. Turbo your G/L with a friendly front end

It is important that budget holders take ownership of their part of the G/L. To this end we need to offer them a user - friendly interface to their part of the G/L. There are a number of tools that can make an old G/L feel like a 21st - century version. In Exhibit 7.4 I have outlined some front-end tools for General ledgers.

Companies are reporting that they have had great success by downloading transactions (daily or weekly) from the G/L into these drill-down tools, allowing read - only access to budget holders.

With a drill-down tool, budget holders never look at the G/L. Management accountants and budget holders also will use this reporting tool when analyzing costs. The drill-down tool offers trend analysis that transcends the year - end, enabling budget holders to look at the last 18-or 24-month trend seamlessly.

A byproduct of these reporting tools is that CFOs are now questioning why they need to invest in the first-tier accounting systems. In Australia, one CFO is running the G/L of an organization with 400 full-time employees on the mind-your-own-business (MYOB) accounting G/L. As he said, "Why invest thousands when all the G/L does is to hold the historic numbers and only a couple of accountants access it? In our company, all the reporting against budget and drill-down access used by budget holders is performed in auxiliary systems."

Exhibit 7.4 Front-end tools for general ledgers

Supplier	Website
AccountMate Software Corporation	www.accountmate.com/source.asp
Combit	www.combit.net
Infor F9	www.infor.com
Praxinet Drillanywhere	www.praxinet.com
SQL Power Group	www.sqlpower.ca/

7.7. Consolidation and intercompany software

Performing a consolidation in a spreadsheet is inappropriate, or put more bluntly, is stupid. There are now excellent systems that organize this for you and enable the subsidiaries to have their own general ledger and account code structure. Their trail balance is simply mapped into the consolidated entity's account codes. An exploration of any search engine will also find some freeware, robust older versions available at no cost. Try this search consolidation+software. Using this search I soon found the solutions outlined in Exhibit 7.5.

Exhibit 7.5 Consolidation tool offerings

Supplier	Website
Adaptive Consolidation	www.adaptiveinsights.com
BlackLine Consolidation Integrity Manager	www.blackline.com
Board International	www.board.com
Host Analytics Inc	hwww.hostanalytics.com
Hyperion Financial Management	www.oracle.com
Intacct	www.intacct.com
Mona Group Reporting	www.sigmaconso.com
Netsuite	www.netsuite.com

Appendix 1 Month-end reporting checklist

There are a wide range of steps that can be taken for tackling month-end processing. The following checklist allows you to see if you are utilizing all of them.

Key Task	Tick if covered
All management aware of the problem with a slow m/e	☐ Yes ☐ No
Buy-in obtained from CEO and senior management team (SMT)	☐ Yes ☐ No
Have held a “post-its” re-engineering workshop where all relevant people have attended .	☐ Yes ☐ No
Adopted Scrum and Kanban agile techniques.	☐ Yes ☐ No
Mandate made by SMT that all service operations are to adhere to new deadlines issued by the QMERT .	☐ Yes ☐ No
Rigorously apply the Pareto principle (80/20), focusing on the big numbers and establish materiality levels (e.g., >$_____ for any debit entry in an accrual list, >$____ for any accrual total from a department etc) .	☐ Yes ☐ No
Manual journal entry line items reduced by over 50% (80% has been achieved).	☐ Yes ☐ No
Eliminated all interdepartmental corrections at m/e.	☐ Yes ☐ No
Eliminated management review of budget holder’s numbers as budget holders now have responsibility to resolve issues.	☐ Yes ☐ No
Estimates used to avoid slowing down process.	☐ Yes ☐ No
Eliminated all spreadsheets over 100 rows from month-end	☐ Yes ☐ No
Set up an “overs and unders” schedule to catch **material adjustments** (this allows the natural set-off to occur reducing the processed adjustments). Only process those that lead to a material misstatement	☐ Yes ☐ No
Set up an “overs and unders” schedule to catch **minor errors**. Do not post these. Simply investigate reasons and give training so they will not happen again.	☐ Yes ☐ No
Budget holders tracked activity throughout the month eliminating the usual surprises found during the close process.	☐ Yes ☐ No
Allocations, if used, are now processed without seeing departmental spending.	☐ Yes ☐ No
Preparations for m/e close moved before period end instead of after.	☐ Yes ☐ No
Moved all month-end cut-offs to the last working day (Day -One) or the day preceding day (Day-Two) (e.g., AP cut-off, accruals cut-off).	☐ Yes ☐ No
Developed concise one page reports.	☐ Yes ☐ No

All key systems upgraded to be on-line real time.	☐ Yes ☐ No
Removed duplicate data entry.	☐ Yes ☐ No
Ceased to perform reconciliations of suppliers' statements	☐ Yes ☐ No
Management accountants assigned to budget holders.	☐ Yes ☐ No
Closing-off capital projects one week before month-end.	☐ Yes ☐ No
In last week only essential operating entries are processed.	☐ Yes ☐ No
Issuing a flash report by end of first working day.	☐ Yes ☐ No
Final number and commentary ready by at least close of business Day Three.	☐ Yes ☐ No
Bring management meetings to the third working day after month end, effectively locking in the benefit.	☐ Yes ☐ No
Adopted a continual focus on process improvement e.g. every month some new change is implemented to improve processing by adopting Kaizen meetings	☐ Yes ☐ No
Set up league tables allowing natural competition between sectors to reduce errors (nobody likes being on the bottom).	☐ Yes ☐ No
Set up listings of process breaches for the CEO to follow-up with errant budget holders.	☐ Yes ☐ No
Started counting errors e.g. Motorola went from 10k errors for 700,000 to 1000 per 2m events	☐ Yes ☐ No
Using a consolidation tool rather than Excel	☐ Yes ☐ No
Map different chart of accounts to a consolidated summary set in the consolidation tool (thus allowing subsidiaries to keep their own accounting systems and chart of accounts)	☐ Yes ☐ No
Closing on the same day each month (4,4,5 reporting periods per quarter).	☐ Yes ☐ No
Pushing processing back from month end by avoiding having payment runs, inter-company adjustments etc. at month-end.	☐ Yes ☐ No
Re-focus of "variance to budget" reporting to YTD variances which are more stable, or better still to latest forecast for the month.	☐ Yes ☐ No
Limit budget holder's reports to one page (about ten lines of numbers, a couple of graphs and a third of a page for commentary).	☐ Yes ☐ No
Banned all late changes to the reports once the flash report has been sent to the CEO unless a material misstatement.	☐ Yes ☐ No
Performing a call through on the final report. One person reads the report out aloud to another person who is reading it simultaneously. This will help find all grammatical and spelling errors.	☐ Yes ☐ No
Letting the financial report, written by the management accountant, go unaltered to the CEO and the Board.	☐ Yes ☐ No

Appendix 2 Useful letters and memos

Letter from accounts payable team leader to suppliers

Date

Dear

We have thrown away the cheque book—and are at a loss as to how to pay you

We are a modern company and have now thrown away the cheque book, which is a "Charles Dickens technology." In fact the last cheque is mounted in a frame in the CEO's office. Other than trying to recycle that mounted cheque, little chance as the CEO is proud of its symbolic meaning, we have no means of paying you.

You should be aware that we have sent you a number of direct credit forms for completion.

One solution is that you complete this direct credit form today and fax it to us at ___________, another solution is that you direct debit us, alternatively we could start a barter system (I am joking).

We value the relationship we have with your company and are looking at ways we can link our IT systems with yours so that we only process a transaction once between us. Our IT experts will be in contact with yours sometime in the future.

Let's move in the 21st century together.

Kind regards

AP Team Leader