Fast Close: A Guide to Rapid Month-End and Year-End Reporting

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?

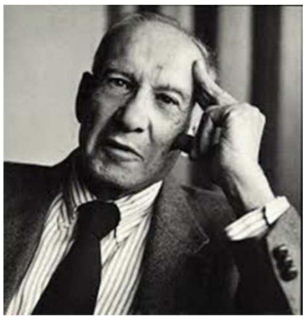
If so, this white paper will show you a way forward, a pathway blazed by some of your far-seeing peers. This white paper is based on the collective wisdoms of over 2,000 corporate accountants, to them we owe a great gratitude.

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. Importance of abandonment



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.

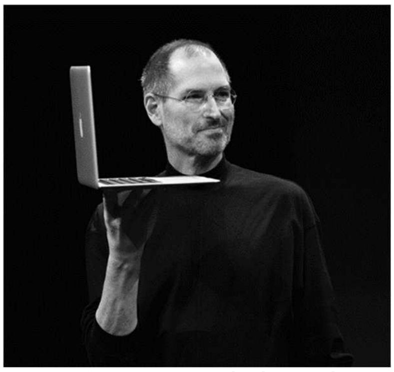
Peter Drucker observed in one organisation that the first Monday of every month is set aside for "abandonment meetings at every management level." Each session targets a different area so that in the course of a year everything is given the once-over. This process would work well in the finance team 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 has 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.



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

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.

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		

Exhibit 3.1 Costing out the current month-end reporting process

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 finance teams prepared the month-end numbers for one company for five years, there would be 10 different results each month. Each finance 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

See Appendix 2 for the draft set of rules I have prepared for your finance team. These rules are also 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

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			

Exhibit 3.2: Maintaining an 'overs and unders' schedule

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.

Change invoicing cycles on all monthly accounts such as utilities, credit cards etc. e.g. invoice cycle including transactions from 28th May to 27th June and being received electronically by the 28th June. The accruals for these suppliers can then be

4. Winning agile practices to improve month-end

There are five agile techniques to adopt for this month-end.

4.1. **Adopting Peter Drucker's abandonment**

As mentioned, abandonment needs to be incorporated into this process. Common abandonments include:

- Spring cleaning at month-end
- Supplier reconciliations
- Small accruals
- Delayed cut-offs
- Large spreadsheets
- Endless small adjustments

4.2. **Run a workshop to "post-it" re-engineering month-end reporting processes**

This can be a complex and expensive task or a relatively easy one, the choice is yours. Many organisations start off by bringing in consultants to process map the existing procedures. This is a futile exercise as why spend a lot of money documenting a process you are about to radically alter and when it is done only the consultants will understand the resulting data-flow diagrams.

The answer is to "Post-it" re-engineer your month-end procedures in an in-workshop.

There are seven stages.

Stage 1 Invitation

Having set the date, get the CEO on board and ask them to send out the invites, see Appendix 3 for a draft. The finance team needs to send out instructions, a week or so prior workshop, outlining how each team is to prepare their post-it stickers, see Exhibit 4.1.

Suggested attendees include all those involved in month-end including accounts payable, financial and management accountants, representatives from teams interface with month-end routines, e.g. someone from IT, payroll etc)

Exhibit 4.1: Post-it re-engineering instructions to be sent out to attendees a week prior to the workshop

Whilst our month-end has been streamlined in our pursuit of continuous improvement we need to eliminate more waste from the process. I have organised for _____________ to run a breakthrough lean technique to streamline the processes. During the session ________will talk about the leading practices from around the world. This session will enhance your job satisfaction as you spend more time in the future scoring goals.

Date & Time: ________ 8.45 for refreshments, start 9am, Finish at 4.45pm

Location: Room_________, ___________________________

Your presence at the workshop is important. In order to run this workshop we need you to prepare a list of all the processes you undertake as a team at month-end.

This process is quite simple, all it requires is:

Each team to list all their processes on to the "Post-it" stickers allocated to them prior to the workshop and document each process with a whiteboard marker pen as set out in the example below. It is important that these stickers can be read from four to five metres. Please do not use pencil or biro.

+2

Close-off Accounts Payable

One procedure/process per Post-it (please note, every Excel is a process and thus have a Post-it sticker)

State when it is done—time scale is -2, –1 (last working day), +1 (first working day), +2, etc.

Set up a schedule to ensure all the main teams have a unique colour of post-it sticker, see Exhibit 4.2.

Exhibit 4.2: Allocation of post-it stickers so every team has a unique colour

AP	Yellow
AR	Green
Financial Accounting team	Blue
Management Accounting Team	Purple
Capex	Pink
Payroll	Etc

Stage 2 Stand-up workshop around the whiteboard

With everyone assembled go through the agenda items starting off with an introduction to best practice, see Exhibit 4.3 below for an outline of the workshop.

Exhibit 4.3 Outline of workshop on implementing quick monthly reporting within existing system constraints

Reengineering Month-End

Agenda for Workshop

Learning Outcomes: After this workshop, attendees will be able to:

Discuss and explain why ___________ should have quicker month-end reporting.

Implement the steps required to move month-end reporting back to day 3 or less.

Describe better practice month-end routines.

9:00 A.M	Welcome by Financial Controller
9:10	**Setting the scene**—a review of better practices among finance teams, that are delivering swift reporting, topics covered include: Cost of reporting in _____ Benefits of quick reporting to management and the finance team Advice from Steve Jobs and Peter Drucker Lean month-end better practices Senior management, and a selection of budget holders (who are based locally) will be invited to attend this session “setting the scene.”
10:30	**Workshop One, When activities should start and finish,** where separate teams look at the different issues (we will cover month-end close-off of the various teams, listing bottlenecks within and between teams, reporting and forecasting issues, reconciliation issues etc.)
10:45	Morning break
11:00	Workshop Two, To analyse the month-end procedures, using each team’s coloured sticky notes
12:30	Lunch
1:00	Workshop Two, To analyse the month-end procedures, continues
2:00	Agile processes (Scrum and Kanban) and quality assurance steps to make the reports bullet proof
2:30	Afternoon break
2:45	The changes one can make in the next six months to month-ending reporting
3:15	**Workshop Three, to set out the appropriate implementation steps to implement quick reporting.** Each team prepares a short presentation of the key steps it is committed to making (teams will use PowerPoint on laptops).

4:00	Each team presents reports to the group regarding what changes it will implement and when. The team can also raise any remaining issues. Those SMT and budget holders who attended the first session will be invited to attend this session.
4:45	Wrap up of workshop by the Financial Controller
5:00	Finish

When you get to the stage in the agenda for the Post-it re-engineering you ask a representative of each team to place the "Post-its" in time order under column headings day -2, day -1, day +1, day +2, and so forth using a white board. When all the post-it stickers are on the board it will look like Exhibit 4.4.

Then remove all desks, near the whiteboard, and ask all the staff present to come to the whiteboard, standing in semi circles, hopefully with the "height challenged" staff at the front. The standing-up is critical as it brings everybody in sight of the stickers and, more importantly, as the meeting progresses ensures swifter and swifter agreement as nobody will enjoy standing for over two hours.

Exhibit 4.4: Post-it re-engineering on a white board

<u>Stage 3 Missing processes</u>

Then you ask, "What is still missing from the list?" There will always be a forgotten process. I probe until at least two additional processes are put on the board and I ask each person in turn to acknowledge that they are in agreement that the whiteboard represents all the processes.

<u>Stage 4 Removal of duplication</u>

I then ask, "What processes have two stickers when there should only be one?" (we want to remove any duplication).

<u>Stage 5 Abandonment</u>

5. Major quality assurance tasks after day +1

When the flash report is done and has been discussed with the CEO, we need to focus on the reporting back. The important issue to remember here is that the month-end can never be right; it can only be a true and fair view.

5.1. **Ban all late changes to the month-end report**

Once the flash report has been issued, at the close of business on the first working day, teams should continue with recording any adjustment found in the relevant " overs and unders " spreadsheet.

No changes are permitted to the numbers reported in the flash report until the entire review has been completed. The finance team can then assess which adjustments are worthy of processing. As many have no P & L impact, they would be held back for adjustment in the following month.

Once the reporting pack is prepared, no adjustments are allowed unless they are very material. There is nothing worse for the finance team than to submit a finance report to the CEO that is inconsistent. This is frequently caused by a late change not being processed properly through the report. As night follows day, the CEO will be sure to find it. I am sure many readers have been guilty of this one.

It is far better to hold back the adjustments. If the CEO says to you, "I thought the sales were higher, "you can say, " Pat, it is a pleasure working for such an astute CEO. You are right, the sales are understated by $30,000; however, there are adjustments totalling $27,000 going the opposite way, so I have not booked the adjustments as the net difference is immaterial. I am booking these through this month. However, if you like I will adjust this month's report. " Most CEOs will feel pleased with themselves for spotting the shortfall and then move on to another issue.

5.2. **Check numbers for internal consistency**

Mark all pages with a number, e.g., for a five-page report mark 1 of 5, 2 of 5, see Exhibit 5.1. For every number that appears elsewhere, either in a box, table or graph write the page reference where it appears again, by the page number, and initial to indicate that you have checked this number in the subsequent page and it is right.

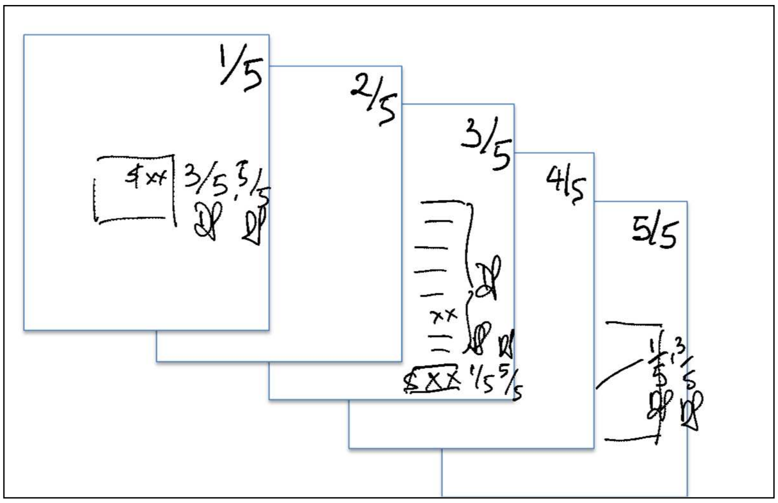


Exhibit 5.1: Checking for consistency

This quality assurance document should be left around so the CEO sees it one day. When asked "What are all these references and red ink" you say, "This is the quality assurance we do every time we issue a report to you". I assure you they will be impressed and want you on their important projects.

5.3. <u>**The two person read through**</u>

For all reports going to the senior management team, CEO or Board you should use a two-person read through. I learnt this technique, like many of you, when I was an auditor.

The originator of a report gets another person to read aloud the report while they follow the words on another copy. By hearing the words, the writer can check the 'dance of the words', their rhythm, and thus amend to correct spelling, grammatical errors and make it an easier read. Where the reader has had difficulties with your report, I can assure you the CEO will as well.

5.4. <u>**Text to voice facility**</u>

The quick access bar see arrow on Exhibit 5.2, on word and in outlook has a "speak selected text" option. Select "more commands", and then select "all commands". You will then get an alphabetical listing. This is a valuable tool for a read back. I use this facility on all emails and smaller documents. This tool is available in Word, Excel, PowerPoint and Outlook.

This facility does not replace the two-person read through on those important reports as you will miss out on some collective editing that occurs when two minds are working on the one document.

Exhibit 5.2: Checking for consistency

5.5. <u>**The final check for the "two gremlins"**</u>

The two gremlin rule states that in every piece of work there are always at least two gremlins that sneak through. If I find them and they are minor I leave them and release the report. If you do not find them look again or someone else will spot them.

Remember that you need a sense of perspective here; if minor, do not alter as the cost both in time delays and reprinting may not merit the change. If spotted you simply congratulate the person saying, "Well spotted". Never, never mention these errors. Let your manager find them if they can.

I would always change typos in the first couple of pages or in the recommendations, as these can undermine the report.

If time is pressured, spend five minutes searching for the two gremlins, especially on the first couple of pages.

Load remittances onto your website	Load remittances electronically onto your website in a secure area so that suppliers with their password can download them. This removes the need to post remittances to suppliers. One participant said this was set up very easily by the IT team.
Key suppliers online access	Allow your key suppliers online read-only access, through password access, to their account in the AP so they can reconcile their ledger.

6.2. **Introduce a purchase card for high volume low value transactions**

It has been estimated that the average cost of the whole purchase cycle is between $65 - $85 per transaction. Pretty horrific when you realise that a high portion of your transactions are for minor amounts. Exhibit 6.4 shows a typical profile of AP invoices. The bulk of invoices can be for low value amounts, especially if consolidation invoices have not yet been organised. Remember it costs the same to process a $10 transaction as it does a $100,000 transaction.

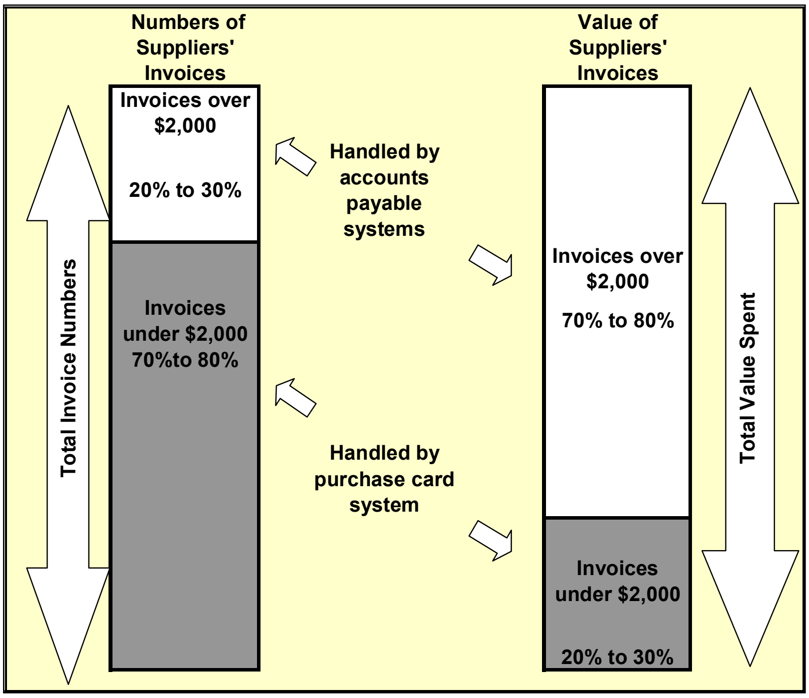


Exhibit 6.4: The AP invoices that a purchase card is targeting

In addition, is it appropriate to request budget holders to raise an order in your purchase order system for a $20 transaction? Surely the purpose of a purchase order system is 100% compliance for all material invoices.

Purchase cards, see Exhibit 6.5, are different from credit cards and are here to stay. There are three liability options (limited to genuine business, company has sole liability, and individual has sole liability). They offer more features than a standard credit card and often come with a web-based expense system, free of charge! Purchase cards can have a variety of limits put on them e.g., transactions types, total spend in a month and maximum amount of any one transaction.

Purchase cards work particularly well with high-value/low-volume items where you are purchasing through the same suppliers, because as they will be able to insert G/L code information on the transaction (e.g., organisations have told their national suppliers the relevant G/L code and department codes associated with each purchase card).

Exhibit 6.5 Purchasing Card

For more information search the web for "purchasing card" + "name of your bank".

> "My financial controller lobbied hard for a purchase card for all staff with all expenditure under $2,000 being processed via the card. The staff entered coding for purchases that were not already pre-coded by the supplier, and the approval process was on-line. Thousands of transactions were replaced by one electronic feed and one direct debit"
>
> CFO with blue chip international experience

On cut-off day all cardholder's are given 24 hours or so to ensure all their expenditure is coded. All the purchase card holder has to do is access via the web, the bank's purchase card system (which of course can be done from an airport lounge), enter their security details to get access to their statement. If they have purchased from a designated supplier all will be coded, thus underpinning national contracts. It will only be the one–off purchases that need coding. The card system can be preset with the most frequently used purchase card G/L codes to aid efficiency.

AP staff look at the status of statements, send warning emails off, "Please code your expenditure by 5pm tomorrow" and where necessary code all un-coded expenditure. Shame and name lists and the odd phone call from the CEO "What do you not understand about the importance of this system?" will ensure lapse behaviour is seen as career limiting!

The AP can simply upload all the expenditure straight into the G/L and all the purchase cards are paid by one, yes one direct debit payment!! Now can you understand why most organisations in America use this system!!

The better practices with purchase cards include:

- A minimum amount is set before Accounts payable will accrue expenditure, as a minimum I would suggest $2,000. You need to look at the profile of your expenditure. You want at least 50% of the volume to be caught by the purchase card system.
- All employees who make regular purchases are given a purchase card
- Employees who make only one-off payments do so through their own credit card and claim back or use their manager's purchase card
- Corporate credit cards are recalled as they represent a duplication
- You never take them away from staff who are not coding their expenditure; you simply set the hounds on them!
- Pick the card holder that offers the easiest system, that links well with you G/L, permits supplier to code, and has a cash expense claim add-on

These systems have been working well in many companies. All you need to do is contact your bank, they will have many better practice examples.

- forecasting is carried out on an appropriate planning tool that can handle a bottom-up forecast once a quarter - Excel is not, and has never been, an appropriate tool for a key company system

6.6. **Limit your account codes for the P/L to less than 60**

Show me a company with less than 60 account codes for their P/L and I will show you a management accountant who has seen the light. However, I have seen many charts of accounts with more than 300 expense account codes in the G/L, with up to 30 accounts for repairs and maintenance creating a volume like the one shown in Exhibit 6.7.

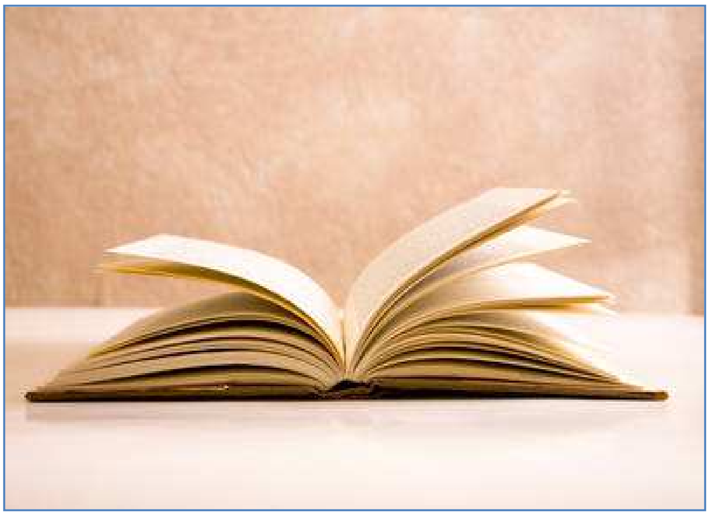


Exhibit 6.7 The chart of accounts that is certainly not lean

Why is it that the least experienced accountant volunteers for re-setting the chart of accounts? I think I know the answer! All the wise owls duck for cover. Yet, the chart of accounts sets the Finance team up for disaster in many ways. It determines how we report and set targets.

Common sense goes out the window, the CFO eyes just glaze over at the chart of accounts progress meetings, the objective to reduce the account codes by over 40% gets lost and slowly but surely, just like the budget instructions, the chart of accounts takes on a life of its own.

Action:

Do not breakdown costs into a separate account unless they represent at least 1% or greater of total expenses. This will reduce your costs to somewhere between 40 to 60 account codes.

Do not break revenue in separate codes unless revenues represent over 3% or greater of total revenue. This will reduce your revenue to somewhere between 15 to 20 account codes.

Have larger buckets and when you are asked a stupid question ask them what decision is going to be made based on the information requested or tell them the answer is '42'. A skilled management accountant can always investigate 6 weeks of expenditure and then annualise the number. Remember whatever the answer is you can assume it is a true and fair view, besides nobody else is going to follow you into that canyon!

Manager	Number of purchase invoices without an order
Kim Bush	7
Pat Carruthers	5
Robin Smith	3

Exhibit 6.9: A non-compliance reports

Remember, you will never want to invite all the budget holders to your Sunday afternoon barbeque so do worry about being unpopular with the non-compliant budget holder. You need to make one thing clear. Not complying with the accounting system requirements is going to be career limiting. In other words there are three options open to these non-conforming budget holders: either you leave the organisation, they leave the organisation, or they change. You might, as one attendee pointed out, want to call these lists "budget holders requiring further training".

<u>Reward good budget holder behaviour</u>

One accounting function gives a bottle of wine a month to the budget holder who provides the first complete month-end submission. This simple acknowledgement has provided the appropriate environment for timely submissions from budget holders. It is also important to record the "winner" on your intranet page so the relevant BUDGET HOLDER gets the recognition, which is the main reward.

<u>Increase budget holder turnaround on approving invoicing</u>

One attendee to my accounts payable course, stated that their company has now a 24-hour turnaround for all branches to approve invoices. If a branch manager does not achieve this on one single day in the month they lose one month's performance bonus. The CEO was approached and got behind this initiative. This takes clever marketing, and is well worth the effort.

6.10. **Close on the same day each month**

Julius Caesar gave us the calendar we use today. It is not a good business tool because it creates 12 dramas a year for the finance team and budget holders, with each month being slightly different.

Between three and five months every year will end on a weekend, and finance teams often find that the month-end processes are smoother for these months. Why not close-off on the last or nearest Friday/Saturday of every month like many U.S. companies do? The benefits of this include precise four or five week months, which make comparisons more meaningful, and there is less impact on the working week as the systems are rolled over at the weekend.

Otherwise every month is a drama because we close on a different calendar day. Every month we have to issue detailed instructions which effectively says "What you did on Wednesday last month please do on Thursday, what you did on Thursday."

Closing off at the weekend can be done for all sectors; some will require more liaison than others. It would also make a big difference in the public and not-for-profit sectors. You simply present to the Board June's result and balance sheet You do not need to highlight the July 2 close. At year-end the missing two or extra two days of income and balance sheet movement will be taken up in the auditor's "overs and unders" schedule!

You need to choose is it to be the last Saturday or the nearest Saturday, last Sunday or nearest Sunday to month end etc. The last Saturday can have you closing six days before month-end, whereas the preferred option of nearest Saturday will only be a maximum of 2 working days out. See Exhibit 6.10 for a table.

Exhibit 6.10 Closing on the same day each month

Dates for a Friday Close (nearest to calendar month-end)	**A/P close**	**A/R close**	**Fixed assets close**	**Inventory close**
Friday, 30 September 2011	noon 30 Sept	5pm 30 Sept *	23-Sep	5pm 30 Sept*
Friday, 28 October 2011	ditto	ditto	ditto	ditto
Friday, 25 November 2011				
Friday, 30 December 2011		* may need to move to noon if numbers cannot be ready immediately		
Friday, 27 January 2012				

By making this change you are beginning to create "12 non-events a year," the "El Dorado" of all corporate accountants.

<u>Action:</u>

Contact your G/L provider and ask "Who uses our G/L and closes on a set day each month?". They will link you to them and you will see at first hand the benefits.

Choose which day. It is best to be the nearest rather than the last 'Friday', 'Saturday', 'Tuesday' to month end etc. The last Saturday can have you closing six days before month-end, whereas the preferred option of nearest Saturday will only be a maximum of 2 working days out.

Just do it! You will owe me a drink when you see how easy and beneficial it is.

be a comprehensive list as this would be a paper in itself. The following "search strings" will help unearth many applications:

"Planning tools"

"Quarterly rolling forecasting" + "applications"

"Forecasting tools" + "rolling"

Exhibit 7.1 An Analysis of Planning Tools

Tier	Package Name	Website	Cloud option	Free Trial / Demo
3	A3 Modelling	www.a3solutions.com	Yes	Free model
3	Active Planner	www.epicor.com	No	Demo, Webinars
1,2,3	Adaptive Planning	www.adaptiveinsights.com	Yes	Free trial
2,3,	Alight Planning	www.alightplanning.com	No	Demos
2,3	Anaplan	www.anaplan.com	Yes	Demos
3	Big Boss	www.bigbosssoft.com	No	Free trial
3	BizBudg Online	www.bizbudg.com	No	Free trial
1,2,3	BOARD International	www.board.com	No	Demo, Webinars
2,3	Budget Maestro	www.centage.com	Yes	Free trial
3	Calxa Premier	www.calxa.com	Yes	Guarantee
3	Castaway	www.castawayforecasting.com	No	Demo
1,2	Cognos TM1	www-03.ibm.com	Yes	Demo
2,3	Budget Maestro	www.centage.com	No	Free trial.
2,3	Forecast5	www.forecast5.com/	No	Free trial, Webinars
2,3	4cast Pro	4Castsolutions	No	Free trial
2,3	Forecast Server	www.vanguardsw.com	No	Webinar
2,3	GIDE Financial Modelling Suite	www.capterra.com/budgeting-software	No	Free trial for 30 days
1,2	Host Analytics EPM Suite	www.hostanalytics.com	yes	Demo
1,2	Hyperion Planning	www.oracle.com	Yes	Video, Pod and on line chat
2	Infor CPM Planning and Budgeting	www.infor.com	No	Demo
3	Invest for Excel	www.datapartner.fi/en	No	Free trial
2,3	Jedox	http://www.jedox.com	Yes	Free trial
2,3	Maxiplan	www.maxiplan.com.au	No	No
2,3	Mondelio 6.3	www.mondelio.com	Next version	No
2,3	Planguru	www.planguru.com	Yes	Free trial

8. Lean one-page reporting

Management has always been pleading the same message "report on a page please." Being lean makes brevity a necessity. To be consistent with lean we should not produce reports that are merely information memorandums. They need to be decision based tools that are received on a timely basis and encourage action in the right direction.

8.1. Minimise budget holders' month-end reporting

Budget holders' reports should be limited to half an hour of preparation. A one-page report should suffice; two pages if you are using performance indicators.

I once saw a pile of reports on a finance manager's desk, when asked what they were, he said the budget holders' month-end reports. "What do you use them for?", I asked. "I do not use them, I ring them if I need an explanation of a major variance" he replied. Hundreds of hours of budget holder time were wasted each month which could have been better spent getting home at a reasonable hour!

A good starting point is to cost out the monthly report preparation, as already described in an earlier section.

Some participants of the ***waymark solutions*** better practice studies and accountants who have attended David Parmenter's workshops have made progress in developing decision-based reports. Common features are summarised financial numbers (Why do we need to show more than 10 to 15 lines on the profit and loss statement) graphs and comments on the one page, see Exhibit 8.1.

8.2. A3 page summary report for the CEO

All CEOs like a great summary page where they can see the whole picture. In my research I came across this one-pager that I believe is an excellent example of clever reporting. On one A3 page (U.S. standard fanfold), the finance team has summarized the areas to note, referred to the last end-of-year forecast, reviewed the major business units, and commented on the summary P and L and balance sheet (see Exhibit 8.2).

The concept here is to give the CEO a summary of the financial report that is easier to read than the full finance report. Once you have designed this carefully, you will find, I am sure, that this page becomes the main report. Both sides of the page can be used. The back side of the page could include summary business unit performance, or ranking tables for retail branches, or a dashboard summarizing financial and nonfinancial information.

Whatever you include on the back side, ensure you do not go below a 10 - point font size.

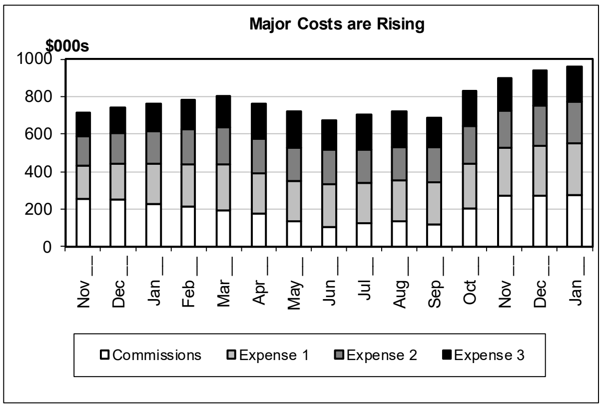
8.3. A3 dashboard for the Board

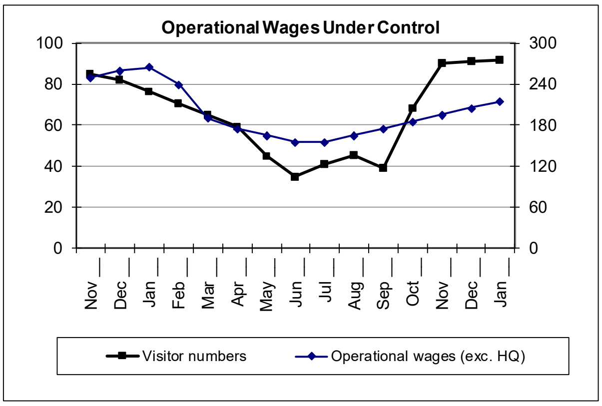
There is a major conflict in most organisations that have boards, as to what information is appropriate for the board. Since the board's role is clearly one of governance and not of management, it is appropriate to be providing the board with information to concentrate on what it does best: focusing on the horizon for icebergs or looking for new ports to call and coaching the CEO, as required.

A dashboard should be a one page display such as the example in Exhibit 8.3. The commentary should be included on this page.

Operating Statement for the Period Ending 31 January 20__

Month $000s					Year-to-date $000s				Full Year $000s			
Actual	Budget	Variance			Actual	Budget	Variance		Budget	Forecast	Variance	
				Revenue								
1,430	1,380	50	⇔	Revenue 1	5,720	5,520	200	⇔	17,200	16,600	600	⇔
1,430	1,380	50	⇔	**Total Revenue**	5,720	5,520	200	⇔	17,200	16,600	600	⇔
				Less								
267	220	(47)	✘	Commissions	1,068	880	(188)	✘	3,200	2,600	(600)	✘
1,163	1,160	3		**Gross Profit**	4,652	4,640	12		14,000	14,000	0	
				Expenses								
278	260	(18)		Expense 1	1,240	1,040	(200)	✘	3,300	3,100	(200)	⇔
218	210	(8)		Expense 2	672	840	168	✔	2,600	2,500	(100)	⇔
188	180	(8)		Expense 3	752	720	(32)		2,300	2,200	(100)	⇔
158	150	(8)		Expense 4	632	600	(32)		1,900	1,800	(100)	⇔
128	120	(8)		Expense 5	512	480	(32)		1,500	1,400	(100)	⇔
50	70	20	✔	Expense 6	672	680	8		1,000	1,300	300	✔
1,020	990	(30)	⇔	**Total Expenses**	4,080	3,960	(120)	⇔	12,200	11,900	(300)	⇔
143	170	(27)	✘	**Surplus/(Deficit)**	572	680	(108)	✘	1,800	2,100	(300)	✘





Areas to Note

1. ____

____

2. ____

____

3. ____

____

4. ____

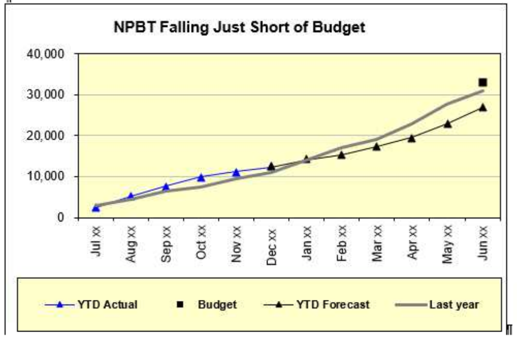
____

Exhibit 8.1: Reporting a business unit's performance

Finance Report
31 December ________

Areas to Note

The expected shortfall at year-end is largely a result of the electrical consumer division and the ____________ division.



Financial Performance – For the Six Months to 31/12/______

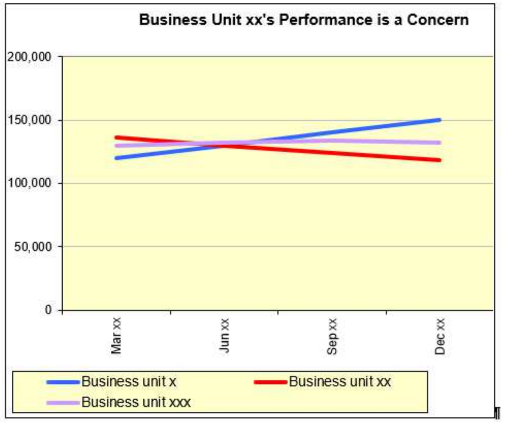
The expected shortfall at year-end is based on current sales demand and our product range is expected to be ________________.

Significant variances:

- *Plastics sales were 15% on the month and 25% on the year to date.*

  The plastics business is benefiting from the local and overseas demand from the motor industry.

Performance of Business Units



The electrical consumer division decline is of concern. A special strategy meeting is being held on 31 January to investigate new revenue avenues to help weather this storm.

Major Business Units Performing Well

- Plastics has had another good month. The sales exceed target and gross profit margin was maintained at 35%. The launch of _________ will further increase the momentum this business already has.

Under Performing Business Units:

- The sales for the **electrical consumer division** have further declined and there is every chance that the year-end result may hold further surprises. There will be a weekly watch on sales and order volumes and these will be reported by 9am every Monday morning.

Financial Performance for the __ months ended ______ 20__

All figures are $Ms	YTD Actual	YTD Budget	YTD Variance[1]	Full Year Forecast	Full Year Plan	Full Year Variance
Revenue						
______	55.2	60.1	(4.9)	73.6	85.9	(12.3)
______	42.1	41.7	0.4	56.1	59.6	(3.4)
Total Revenue	97.3	101.8	(4.5)	129.7	145.4	(15.7)
Expenses						
Personnel	50.2	53.4	3.2	66.9	76.3	9.4
Accommodation costs	28.1	26.0	(2.1)	35.6		
Telecommunication costs	10.2	11.5	1.3	14.7	16.4	1.7
______	4.5	3.0	(1.5)	5.0		(5.0)
	5.1	5.3	0.2	6.8	7.6	0.8
Total	98.1	99.2	1.1	11.8	7.6	6.9
Surplus/(deficit)	(0.8)	2.6	(3.4)	117.9	137.9	(8.8)

1. Positive numbers represent under expenditure or additional revenue
2. xx.xx% of the year has been completed.

Statement of Financial Position

All figures are $Ms

	As at	Previous month	Movement
SHAREHOLDERS' FUNDS	25.5	25.0	0.5
Represented by:			
Bank and Cash	6.3	9.5	(3.2)
Debtors	5.3	5.5	(0.2)
Total Current Assets	11.6	15.0	(3.4)
Property and equipment	16.2	18.1	(1.9)
Intangible assets	22.6	18.2	4.4
Total LT Assets	38.8	36.3	2.5
Total Assets	50.4	51.3	(0.9)
Creditors and payables	9.1	9.5	(0.4)
Unearned income	5.3	6.1	(0.8)
Employee entitlements	6.3	6.5	(0.2)
Total Current Liabilities	20.7	22.1	(1.4)
Non Current Liabilities	4.2	4.2	-
Total Liabilities	24.9	26.3	(1.4)
NET ASSETS	25.5	25.0	0.5

1. Working capital ratio: __:1

Areas to Note

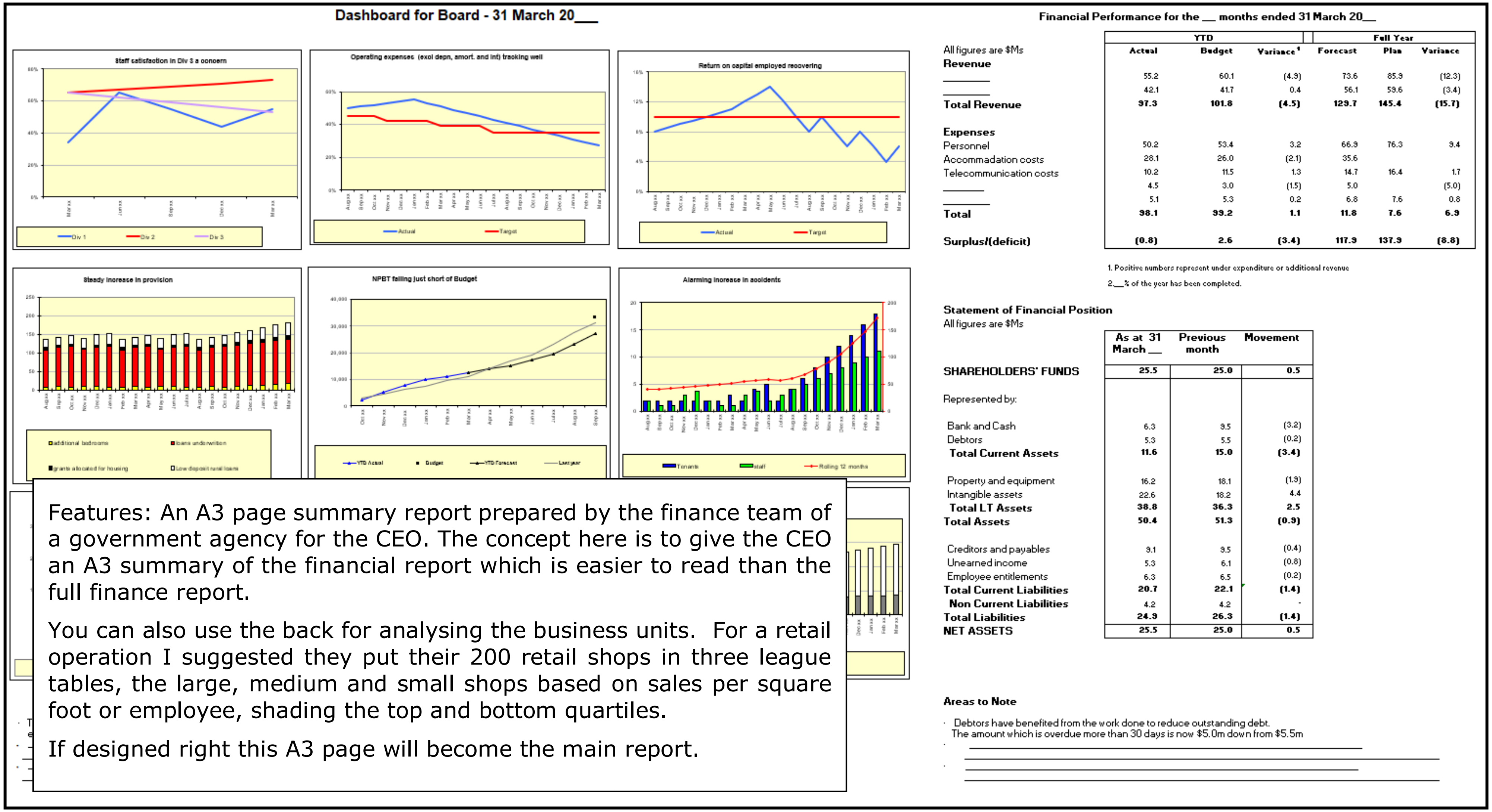
Debtors have benefited from the work done to reduce outstanding debt.

The amount which is overdue more than 30 days is now $5.0m down from $5.5m

Key Actions Required

Section Break (Continuous)

Exhibit 8.2: An A3 one page report for the CEO



Features: An A3 page summary report prepared by the finance team of a government agency for the CEO. The concept here is to give the CEO an A3 summary of the financial report which is easier to read than the full finance report.

You can also use the back for analysing the business units. For a retail operation I suggested they put their 200 retail shops in three league tables, the large, medium and small shops based on sales per square foot or employee, shading the top and bottom quartiles.

If designed right this A3 page will become the main report.

Exhibit 8.3 An A3 page dashboard for the Board

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 quick month-end reporting team (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

Appendix 2 Suggested Rules For Month-End Processes

Based on better practice from around the world our finance team is going to complete its month-end reporting radically quicker. Instead of reporting in _____ days to the CEO we are targeting ____ days next month.

This change is only possible when we adopt new practices and discard processes that are broken, time consuming and of questionable benefit. We need as Peter Drucker preached, to embrace "Abandonment".

As an accountants are all artists: we sculpt a month-end result and there is no such thing as a 'right' number, only a 'true and fair 'number. The finance team need only do enough to arrive at a 'true and fair' view. All work done after this point has been reached will thus not be adding value. The new rules for the finance team during month-end reporting are:

- We will not delay for detail. If we have not got a final number by the last working day we will estimate, or cut-off the last days transactions and include them in the next month's activities.
- Materiality for a misstatement to any month-end result is _______. To this end we need to limit the number of journals posted as many are immaterial. From now on I propose that :
  - no department is to raise accruals if the total accrual is less than __________
  - no one debit in an accrual listing can be for less than ________
  - no journal voucher is to be raised at month-end for less than ________
- There is a ban on spring cleaning at month-end. Month-end reporting is not the time for spring cleaning no matter how tempting it can be. All miscoding, unless resulting in a material misstatement of the P/L, are processed during the following month. Budget holders are to be 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. All adjustments are to be processed first on two 'overs and unders' spreadsheets, see Exhibit 1, at the close of the last working day. One to trap major adjustments, say over _______, and one for smaller items. If we find adjustments we are to enter them on the appropriate spreadsheets that reside on a shared drive on the local area network. I am expecting that the adjustments will 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.

Appendix 3 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

Memo from accounts payable sent to new budget holders

Date

Dear

Welcome from the accounts payable team

The accounts payable team is committed to adopting and implementing best practice. To this end we need to work in an effective partnership with all budget holders.

Practices in our organisation may differ significantly from those you are used to.

We would like to meet with you for 20 minutes or so to go through our procedures, which will help you in your role as a budget holder. We have a short 20-minute PowerPoint presentation, which we would like to present on a laptop at your desk. Please advise us of a suitable time within the next few weeks.

In the meantime you might like to visit our intranet page on _____________

We look forward to offering you a seamless service.

Kind regards

AP Team Leader

Appendix 5 Suggested Rules for The Year-End Processes

Based on better practice from around the world our finance team is going to complete its year-end radically quicker. Instead of having audited accounts by _______ weeks we are targeting ____weeks this year.

This change is only possible when we adopt new practices and discard processes that are broken, time consuming and of questionable benefit. We need as Peter Drucker preached, to embrace "Abandonment".

Accountants are all artists: we sculpt a year-end result and there is no such thing as a 'right' number, only a 'true and fair 'number. The finance team need only do enough to arrive at a 'true and fair' view. All work done after this point has been reached will thus not be adding value. The new rules for the year-end accounts are:

- We will not delay for detail. If we have not got a final number by the required deadline we will make an estimate.
- Materiality for a misstatement to the year-end result is ___________. To this end we need to limit the number of journals posted as many are immaterial. From now on I propose that :
  - no department is to raise a year-end accrual if the total accrual is less than ___________
  - no debit in an accrual exercise can be for less than _______
  - no journal voucher to be raised for less than _______at year-end
- There is a ban on spring cleaning at year-end. Year-end reporting is not the time for spring cleaning no matter how tempting it can be. All miscodings, unless resulting in a material misstatement of the P/L, are to be ignored. Budget holders are to be educated to review their cost centre numbers via on-line access to the G/L during month 12 and are requested to highlight any discrepancies immediately with the finance team.
- The month 12 result will be the year-end number. 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. All major adjustments say over __________ are therefore to be entered on the 'overs and unders' spreadsheet, see Exhibit 1, that will reside on a shared drive on the local area network.
- We will maintain a shared 'overs and unders' spreadsheet when the auditors arrive for their final visit. I am expecting that the adjustments will have a tendency to net each other off and our month 12 result will be the number the auditors sign off on.
- 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 will use appropriate technology, limiting our reliance on spreasheets.

Appendix 6 Annual accounts checklist

Key tasks	Is it covered?
Planning meeting with auditors	
Preparation of agenda: it should include the following	
Status of prior year significant audit findings	☐ Yes ☐ No
Unresolved internal control and accounting issues	☐ Yes ☐ No
Draft milestones should be discussed and agreement reached	☐ Yes ☐ No
Content of this checklist	☐ Yes ☐ No
Proposed deadlines	☐ Yes ☐ No
Discussions of New Standards and Policy	☐ Yes ☐ No
Procedures to alert each other to any potential issues or known obstacles that could affect the audit opinion	☐ Yes ☐ No
Role of internal audit team, their plan work, documentation and degree of reliance that can be placed on their work	☐ Yes ☐ No
"Information Needs" list	☐ Yes ☐ No
Schedule out your desired dates for the following:	
Commencement and completion of interim audit field work	☐ Yes ☐ No
Scheduled progress meetings	☐ Yes ☐ No
Pre year end meeting to address accounting issues with action plans and deadlines (where possible)	☐ Yes ☐ No
Completion of draft financial statements	☐ Yes ☐ No
Commencement and completion of final audit field work	☐ Yes ☐ No
Exit conference meeting	☐ Yes ☐ No
Audit Committee meeting	☐ Yes ☐ No
Release of audited financial statements	☐ Yes ☐ No
Ensure headquarters and field representatives attend this meeting with the auditors	☐ Yes ☐ No
Between planning meeting and first visit	
Formal agreement to deadlines in writing by CFO and auditors	☐ Yes ☐ No
Information needs list	
Agreement on the “Information Needs” list – this list should contain all key items required by the auditors prior to the commencement of the final audit fieldwork	☐ Yes ☐ No
Itemize schedules and working papers for each financial statement component along with the scheduled completion date	☐ Yes ☐ No
Schedule and working paper formats should be determined and agreed upon by both yourself and the auditor	☐ Yes ☐ No