CUT TO THE CHASE

DELIGHT THE CEO BY COMPLETING YOUR MONTH-END REPORTING PROCESS INSIDE THREE WORKING DAYS. DAVID PARMENTER

When I was a corporate accountant, each period end was a disaster waiting to happen. Each month end had a life of its own. I never knew when or where the next problem would come from. Always two or three days away we appeared to have it under control, and yet, each month we were faxing the result (no email then), with our fingers crossed that the numbers were right. The many last-minute adjustments negated the 'quality assurance' work we had performed earlier, leaving the month-end result exposed to a late error. Does this sound familiar?

The table below right is a guide to rating your month-end reporting process.

I do not know of any organisation that cannot complete month-end reporting by the third working day if the 12 steps summarised below are adopted.

1. Establish reporting rules within the finance team

The finance team has to realise that the monthly accounts will never be right as there is no such thing as a 'right' number, they only need to do enough work to arrive at a 'true and fair' view. All work done after this point has been reached will thus not be adding value. We therefore need some rules about the month-end reports. The month-end financial report should:

- not be delayed for detail
- be consistent between months, eg, same judgment calls, same format
- be a true and fair view and free from any report-writing errors
- be concise - less than a 10-page finance pack eg, 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 summary numbers, trend graphs and bullet point comments on one page

2. Ban spring cleaning at month end

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

All miscoding errors, unless resulting in a material misstatement of the profit & loss, are processed during the following month. Budget holders are educated to review their cost centre numbers via online access to the general ledger during the month and are requested to highlight any discrepancies immediately with the finance team.

3. Avoid high processing of AP invoices at month end

It is important to push processing back from month end by avoiding a payment run at month end. It is a better practice to have weekly or daily direct credit payment runs with none happening within the last and first two days of month end. Major budget holders are visited on a regular basis by the accounts payable team to ensure they are not sitting on invoice approvals. The last thing you need is to receive a large pile of invoices on the last day of cut-off.

4. Avoid late month-end inter-company adjustments

Clever organisations ban all inter-company adjustments at month end except for major internal profit adjustments. They have automatic interfaces with inter-group transactions where one party does the transactions for both general ledgers.

When there is a difference, instigate a rule whereby the accounts payable (AP) or accounts receivable (AR) ledger is always right, and adjust accordingly, leaving the inter-company parties to sort the issues out the following month. This change requires a directive sent by the CEO to all subsidiaries.

5. Early closing of the accounts payable ledger and accruals

If AP is held open after month end, you will find it difficult to complete prompt month-end reporting. What benefit does holding open AP for one or two days do? For a tight cut-off, budget holders will need to

	Virtual* and day one reporting	2 to 3 days from month-end	4 to 5 days	Over 5 days
Rating	exceptional performance; world best practice	better practice benchmark	now considered slow reporting	career-limiting performance!

**Virtual reporting is where the finance team can report a bottom line number at any time during the month.*

Source	Raised by		Adjustment			P/L impact		B/S impact	
						Dr	Cr	Dr	Cr
xxxxx	Pat	1	Dr		fdgdfhsdfhsdfhfgg ergergqerry ertyqe	45			
				Cr	fasd fasd as asdas d		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			

have cleared all outstanding issues regarding purchase invoices a day earlier (day -2) in order to give the AP team time to meet the cut-off deadline. Budget holders can complete their accruals in the afternoon of day -2, directly into the general ledger (G/L) as long as they are given a guarantee that all invoices sent to AP within the deadline will be processed prior to the AP cut-off, or accrued directly by the AP team.

6. Early closing-off of accounts receivables

Immediately close off accounts receivables on the last working day, or better still noon on the last working day with transactions in the afternoon being carried forward to the first day of the new month. Closing off earlier is more important if you have an organisation where the sales representatives make a lot of sales on the last working day of the month, eg, car dealers.

7. Early capital expenditure cut-off

Clever organisations close off capital projects at least one week before month end. Any equipment arriving in the last week is therefore treated as if it arrived next month. It still can be unwrapped, driven or plugged in. The depreciation is calculated and posted by day -3.

8. Early inventory cut-off

Sophisticated organisations can get their month-end inventory cut-off immediately at close of business on the last working day (day -1). However many manufacturing organisations take a few days into the next month to manage this process. This creates an unnecessary delay in month-end accounts.

If the last day of the month's production is delaying your month end, make the inventory cut-off at the close of business on day -2 with all production on the last day being carried forward to the next month. This gives one day to check the valuation and records.

Always avoid a month-end stock count as these should be done on a rolling basis and be held no nearer to month end than the third week of the month eg, one jewellery chain I know counts watches one month, gold chains the next month at a quiet time during the month.

9. From 5pm last day to 5pm first working day

What happens in the next 24 hours is critical to the success of month-end reporting. At 5pm on the last working day all the cut-offs should be done. We can print off the first cut of the numbers. This report would be designed for a detailed review and would contain current month, the last three to six months' numbers and the month's numbers from last year in a series of columns. All the reporting and management accountants should take a copy home and look for areas where they think the numbers could be wrong.

At 9am, the following day, all the accountants meet to discuss the areas where further work needs to be done to be sure that the numbers are 'true and fair'. At the meeting, 'who is reviewing what' is decided and a time is set to meet again before the flash report numbers are finalised that day.

One of the most important practices is to catch all material adjustments the accountants find and see the net result before you decide to adjust. Two 'overs and unders' spreadsheets can be set up, see above, one to trap major adjustments, say over £5,000, £20,000 or £50,000 depending on the size of the company, and one for smaller items that can be tidied up during the quiet time in the following mid month. If they find adjustments, the accountants will enter them on the appropriate spreadsheets that reside on a shared drive on the local area network.

Between 3pm to 4pm on the first day you call all the accountants back and ask what they found. Often you will note that adjustments have a tendency to net each other off. You discuss and agree on the one or two material adjustments that should be booked to restate the numbers as 'true and fair'. You are now in a position to prepare the one-page flash report for the CEO.

10. Provide a flash report of the expected month-end numbers at the end of day one

Issue a flash report on the profit and loss statement that gives a handful of numbers making up the 'best estimate' of the bottom-line to the CEO. Immediately inform the CEO of any real problems with the flash report numbers in the next couple of days.

It is important not to provide too many lines because you may find yourself with another variance report on your hands if you have a CEO who fails to look at the big picture. Remember to state your degree of accuracy (eg, +/–5%, +/–10%). Never attempt a flash report until the AP, AR, accruals and inventory cut-offs have been successfully moved back to the last working day of the month.

11. Freeze the numbers after 5pm the first working day

It is important to stop adjusting the month-end result after the flash report is issued at close of play at day +1. By maintaining an 'overs and unders' schedule for all material adjustments, see below, you can monitor the net impact on the bottom line.

12. Perform a 'Post-it' re-engineering of your month-end routines

One important step is to remove all the tasks that were only done last month because they were done the month before. It's the report that Pat does for Sam, who bins it because he thinks he is only 'copied in'. Instead Sam is the sole recipient of a report that nobody has used. The 'Post-it' re-engineering technique, which originated at Motorola, effectively replaces £30,000 in consultancy fees with £3 of 'Post-it' stickers. This process is fully explained in my book, *Winning CFOs – Implementing and Applying Better Practices*.

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