Create a lean machine

A catch-22 is a situation characterised by absurdity or senselessness, and it's one in which many finance teams find themselves. David Parmenter explains how to escape

The annual planning process and the long, drawn-out annual reporting cycle are both perfect examples of catch-22s. To break out of them, finance teams need to attack the onerous processes that are hangovers from the past and that they have mistakenly stuck with.

A company with fewer than 60 account codes for their P/L is as rare as hen's teeth. There are simply too many charts of accounts with more than 200 expense account codes in the general ledger. The chart of accounts, which determines how we report and set targets, sets the finance team up for disaster in many ways.

Resetting the chart is a job that wise owls avoid, which is why the least experienced accountant usually ends up doing it. The CFO's eyes glaze over at the subsequent chart of accounts progress meetings; the aim of reducing the number of 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.

So here are some rules of thumb that might help to bring your chart of accounts to heel:

* **Impose a 1% rule for expense account codes.** Do not break down costs into a separate account unless they represent at least 1% of total expenses. As personnel costs will represent between 40% and 60% in up to five codes, this rule will reduce your costs to somewhere between 40 and 50 account codes.
* **Have a 5% rule for revenue account codes.** Do not break revenue into separate codes unless a revenue item represents over 5% of total revenue. This will reduce your revenue to somewhere between five and 15 account codes.
* **Have larger buckets.** And when you are asked a stupid question, ask what decision is going to be made based on the information requested. If they still think they need some analysis, a skilled management accountant can always investigate five weeks of expenditure and then annualise the number. Remember, the resulting estimate will approximate a true and fair view – besides, nobody else is going to follow you into that canyon! ■

David Parmenter is a writer and presenter on measuring, monitoring and managing performance

Streamline your systems

Onerous area	Leaner practice
Month-end reports	See my earlier articles for producing these by day three (of the next month) and ultimately by close of the first working day; aim for virtual reporting within three years.
Year-end accounts	Commit the auditors, your finance team, board and executive to a 15-working-day signed set of annual accounts. This will be covered in a future article.
Annual planning	Produce it in under two weeks from rolling planning. Eventually, drop it in favour of quarterly rolling planning (covered in my earlier articles).
Key performance indicators	Carefully test all KPIs to ensure they promote a positive outcome. Have no more than 10 KPIs and 18 non-key indicators. I will cover this in a future series of articles.
Ad hoc Excel systems	Replace all spreadsheets of more than 100 rows with a modern planning and reporting tool. Excel replacement has been covered in earlier articles.
Chart of accounts	Streamline your account codes: having more than 50 for P/L is unnecessary, leads to miscoding and encourages a focus on unnecessary detail.

Next steps

1. Work out revenue and expenditure code thresholds.
2. Amalgamate all sub-threshold codes into a new code.
3. Sell the need for change to the 'oracles' in your organisation – their support is critical. Email me at **parmenter@waymark.co.nz** if you need advice on how.
4. Access my *How finance teams can help their organisations get future-ready* IBM business analytics paper from **tinyurl.com/DP-future**

For more information:

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