CHAPTER THREE

3

Rapid Month-End Reporting: By Working Day Three or Less

OVERVIEW

Although many large organizations have made massive inroads into fast and accurate month-end reporting the vast majority of finance teams around the world have month-end processes that are career limiting, to say the least.

This chapter explores the processes you can abandon, those you need to bring forward, and when the cutoffs should occur. All these changes can occur before your next month-end. Many of these practices are common sense, however common sense is not always evident.

Many large organizations have made massive inroads into fast and accurate month-end reporting. I say to them, "Celebrate your achievement", but still read this chapter as you may be able to achieve a quicker month-end close. However, the vast majority of finance teams around the world have month-end processes that are career limiting.

This chapter is an extract from my white paper, "Reporting rapidly, informatively and error free."[1]

When I was a corporate accountant, each month-end had a life of its own. You never knew when and where the next problem was going to come from. Two or three days away, we always 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 (QA) work we had done was invalid and we did not have the luxury of doing the QA again. Does this sound familiar?

CEOs need to demand a complete and radical change if they are to free management and accountants from the shackles of a zero-sum process—reporting last month's results halfway through the following month. Here are the facts:

- Leading finance teams are now providing commentary and numbers by the first working day.
- Companies are migrating to closing the month on the same day each month (i.e., months are either four or five weeks).
- In leading organizations, the senior management team (SMT) is letting go of report writing—SMT members are no longer rewriting reports. They have informed the board that they concur with the writer's findings but it is a delegated report.

See the attached electronic media for a checklist of implementation steps to reduce month-end reporting time frames and for the common bottlenecks in month-end reporting and techniques to get around them.

RATING SCALE FOR MONTH-END REPORTING

The following rating scale, see Exhibit 3.1, shows the time frames of month-end reporting across the 4,000 corporate accountants I have presented to in the past 20 years.

EXHIBIT 3.1 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

BENEFITS OF QUICK MONTH-END REPORTING

As a CFO of a tertiary institution said, "Every day spent producing reports is a day less spent on analysis and projects." There are a larger number of benefits to management and the finance team of quick reporting, and these are set out in Exhibit 3.2.

IMPACT OF A QUICK MONTH-END ON THE FINANCE TEAM WORKLOAD

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 3.3. This is often accompanied by a

EXHIBIT 3.2 Table of Benefits of Quick Reporting

Benefits to Management	Benefits to the Finance Team
1. Reporting plays a bigger part in the decision-making process. 2. Reduction in detail and length of reports. 3. Reduced cost to organization of month-end reporting. 4. More time spent analyzing trends. 5. More time spent on achieving results. 6. Greater budget holder ownership (accruals, variance analysis, coding, corrections during month, better understanding, etc.). 7. Less senior management time invested in month-end.	1. Staff are more productive as efficiencies are locked in and bottlenecks are tackled. 2. Removal of out of date and inefficient processes. 3. Happier staff with higher morale and increased job satisfaction. 4. Finance staff focus is now on being a business partner to the budget holder, helping them to shape the future. 5. The team has more time to be involved in rewarding activities, such as quarterly rolling forecasts, project work, and so forth. 6. More professionally qualified finance staff. 7. Less senior finance team time invested in month-end the change also leads to a very quick year-end

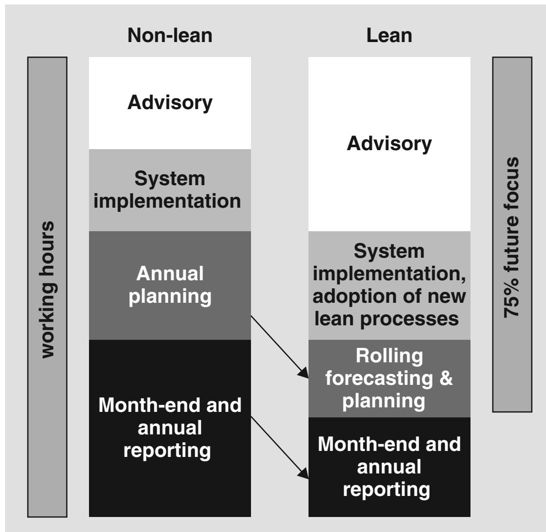

EXHIBIT 3.3 Changing the Focus of Our Work

change in the mix of the finance team, which results in a higher percentage of qualified staff.

The significance of month-end reporting can be seen from this comparison of three companies reporting in different time frames. Waymark Solutions analysis of over 500 finance teams shows that the 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 3.3.

It is important to cost out to management and the board the month-end reporting process. When doing this exercise, remember that senior management barely has 32 weeks of productive time when you remove holidays, sick leave, travel time, and routine management meetings. Thus, a cost of $1,000 per day is not unrealistic. Based on an organization with 40 budget holders, with around 500 full-time staff, I believe the cost estimate is between $0.9 million to $1.5 million.

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

I have included a costing template in the reader download as a guide to this exercise.

MAJOR STEPS YOU CAN DO BEFORE YOUR NEXT MONTH-END

Set out next are the major steps you can achieve within the month you are currently in.

Establish Reporting Rules within the Finance Team

Members of the finance team have to realize that they are sculptors; not scientists. There needs to be recognition that the monthly accounts are not precise documents. Assessments need to be made, and the monthly accounts will never be right; they can only be a true and fair view. We could hold the accounts payable open for six months after month-end and still not have the plumber's invoice that arrives when the plumber's company is doing its year-end and realize that it has forgotten to invoice for work done.

We therefore need some rules about the month-end reporting process which need to be signed off by all the accountants. The month-end financial report should:

- Not be delayed for detail.
- Be consistent—between months, judgment calls, and format.
- Be a true and fair view and error free.
- Be concise—less than 10 pages (include the major business units' one-page reports but exclude minor units reports. These are shown as a consolidated number in the consolidated P/L).
- Be a merging of numbers, graphs, and comments on one page.
- Not be changed for adjustments that are likely to be set off by others yet to be found- instead all adjustments are to be offset against each other on an "overs and unders" schedule.
- Be based on an agreed, corporate view of materiality. Materiality will not be set at a different level for each budget holder. If materiality is set at $20,000 for a P/L item consolidated result, then this amount is set for adjustments, variance reporting, and accruals across all entities.

I have included a draft set of rules for the finance team in the reader download.

Catch All Adjustments in an "Over and Under" Schedule

Month-end reporting is not the time for spring cleaning, no matter how tempting it can be. This requires a reeducation 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 center numbers via online 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). The first time you do this, set up two "overs and unders" spreadsheets, see Exhibit 3.4, at the close of the last working day.

One spreadsheet is to trap major adjustments. If materiality is set at $40,000 for a P/L adjustment, I would recommend setting the threshold for the "over and unders" schedule at around 40-50%. In this case it would be between $16,000 and $20,000, so I would go for $20,000. The other "over and unders" schedule is to trap minor adjustments between $5,000 and $19,000.

Source	Raised by	JV #			Adjustment	P/L impact		B/S impact	
						Dr	Cr	Dr	Cr
Budget holder	Pat	1	Dr		Consultancy Fees (Dept 10)	45			
				Cr	Consultancy Fees (Dept 12)		45		
Budget holder	John	2	Dr		Training courses (Dept 6)	10			
				Cr	Training courses (Dept 16)		10		
Debtors review	Jean	3	Dr		Bad debts write-off (ABC in liquidation)	25			
				Cr	Provision for doubtful debts				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 3.4 Maintaining an "Overs and Unders" Schedule

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. In the quiet of mid-month, the minor adjustments are reviewed for their causes and work done to fix the problems. This minor schedule is now no longer continued.

Avoid a Huge Wave of Accounts Payable Invoices at Month-End

The last thing the AP team needs is to receive a tsunami of invoices on the last day of cutoff, as shown in Exhibit 3.5. 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, stationery and so on (e.g., invoice cycle including transactions from May 28 to June 27 and being received electronically by June 28). Since you are looking at one month's activity it is not worth preparing accruals for these suppliers as the previous month's reversing accrual will make any difference immaterial.

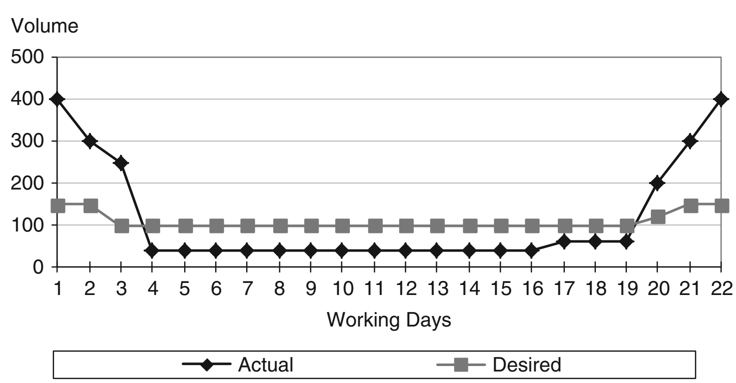

EXHIBIT 3.5 Accounts Payable Invoice Processing Volumes During Month

EXHIBIT 3.6 Month-End Timings Explanation

Day –2	Day –1	Day +1	Day +2
Second to last working day	Last working day	First working day of new month	Second working day of new month

Early Closing of the Accounts Payable Ledger

I have not come across an organization that can justify closing off accounts payable after the last day of the month. Whatever date you pick to close AP, you will never trap all the invoices. Remember, we are after a true and fair view, we are sculptors rather than scientists.

If accounts payable is held open after month-end, you will find it difficult to complete prompt month-end reporting. What benefit does holding open the accounts payable for one or two days do? We could hold the accounts payable open for six months after month-end and still not get the plumber's invoice that arrives when they are doing their year-end and realize they have forgotten to invoice for work done on the refit.

Better practice is to cut off accounts payable at noon on the last working day. In my workshops, I have come across organizations that cut off account payable even earlier, on day 2 and day 3 (see Exhibit 3.6). They manage this by more reliance on recurring reversing accruals, supplemented by budget holders accruals for the larger one-off amounts. They place timeliness above preciseness. This requires good communication to budget holders and suppliers, with the latter sending their invoices earlier through changing the billing timings, as already mentioned.

> "Your month-end result doesn't become more accurate the longer you leave it. It just becomes more expensive to produce."
>
> —*Quote from a CFO with blue chip international experience*

In order to lock in this change you may need to run a workshop with the budget holders and follow up with one-to-one educational support, as required.

Close Accruals before the Accounts Payable Cutoff

The accruals cutoff does not need to be after the AP cutoff; it can and should be before. Let me explain.

One smart accountant I have come across worked out that budget holders know little more about month-end purchase invoices at day +2 than at day2. So, the accountant introduced accrual cutoff on day2, the day before month-end. Budget holders were required to send their last invoices for processing to meet the month-end AP cutoff by noonday2, which gave AP 24 hours to process them before the day1 AP cutoff. He also told them to prepare their accruals in the afternoon of day–2, directly into the G/L.

All that is required is a guarantee that all invoices approved for payment by budget holders within the deadline will in fact be processed prior to the AP cutoff, or accrued directly by the AP team.

Cutting off accruals early recognizes that month-end invoices will not arrive miraculously by day+1 or day+2 so staff will need to phone some key suppliers to get accrual information regardless of when the cutoff is.

Set a Materiality Rule for Accruals

We need to set a materiality rule for accruals. If materiality is set at $40,000 for a P/L item, I would recommend setting the threshold for the minimum department accrual at around 40-50% of this number. In this case it would be between $16,000 and $20,000, so I would go for $20,000. If a department is too small to have $20,000 worth of accruals then it does not need to do accruals.

If materiality is set at $20,000 for a P/L item, then we might set the minimum threshold for accrual total for each business unit. I would recommend around 40-50% of the material number ($20,000 in this example), which would be, say $10,000. If a department is too small to have $10,000 worth of accruals then it does not need to do accruals. This should limit accruals to less than half the budget holders in the organization. If a manager of a small budget complains, point out that they will be able to accrue when they get promoted. We also need to set limits on the individual items in the accruals, so for this example: Each debit must be greater than $5,000, somewhere around a quarter of the accrual threshold.

Total department accrual must be greater than $20,000.

Avoid Inter-Company Adjustments

To stop the politics of intercompany disagreements at month-end instigate a simple rule that the accounts payable (AP) or accounts receivable (AR) ledger is always right, and the other party has to adjust accordingly. Leave the intercompany parties to sort the issues out in the following month. I have included a draft memo in Appendix A that the CEO would be advised to send out.

Resourceful organizations use intercompany software, where the transaction is entered by the selling party, and the software simultaneously posts the transactions in the buyer's and seller's general ledgers. They also only amend for major internal profit adjustments.

These tools are priced to be available for the SME market. To source this software, simply use one of these searches in your preferred search engine ("intercompany +software," "intercompany accounting + software).

Early Closing-Off of Accounts Receivables

Close off accounts receivables immediately on the last working day. If you have high last-day transaction volumes, it is better to go for a cutoff at 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 organization where the sales representatives make a lot of sales on the last working day of the month (e.g., car dealers). You simply say to them, "All sales made on the last day of the month will now be in the following month." This will start their game a little earlier.

Remember that training will be required in dispatch and accounts receivable to ensure cutoff is clean each month-end.

Early Capital Expenditure Cutoff

Why are you performing depreciation calculations at month-end when inventive organizations have this already done much earlier? They 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 and plugged in or driven.

The depreciation is calculated and posted by day 3. In my workshops, I have found accountants, with organizations where depreciation is not significant, who use the depreciation calculations from the annual plan and correct to actual at month 12.

Early Inventory Cutoff

Sophisticated organizations can get their month-end inventory cutoff immediately at close of business on the last working day (day1). However, some manufacturing organizations take a day or two into the next month to manage this process. This creates an unnecessary delay in month-end accounts.

If your systems are not state of the art, make the inventory cutoff at the close of business on day2 with all production on the last day being carried forward to the next month. This gives one day to check the valuation and records. The close-off transfer of work in progress to finished goods also is done on day2, with day1 production treated as belonging to the next month.

These early cutoffs will require cooperation between accounts payable and inventory staff to ensure raw materials arriving on the last day and the matching liability are treated as the next month's transaction or accrued.

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 (e.g., one jewelry chain I know counts watches one month, gold chains the next month at a quiet time during the month).

From 5 p.m. Last Day to 5 p.m. First Working Day

What happens in the next 24 hours is critical to the success of month-end reporting. At 5 p.m. on the last working day all the cutoffs 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 the last three 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.

Budget holders should be sent their accounts and they should be given until noon day+1 to complete their commentary on major variances. The variance must be over $___ (based on materiality level for whole organization) and >10 percent of budget before a comment is required.

At 9 a.m. the following day, all the accountants meet to discuss the areas where further work is needed 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 finalized that day.

Between 3 and 4 p.m. on the first day, you call all the accountants back and ask, "What did you find?" and then look at the net effect of all adjustments on the "overs and unders" schedule. More often than not, you will note that adjustments have a tendency to net each other off. Book only the adjustments required to restate the numbers as "true and fair." You are now in a position to prepare the one-page flash report for the CEO.

Deliver a Flash Report at the End of Day 1

Issuing a flash report on the (P & L) bottom line to the CEO stating a level of accuracy of, say, + / – 5% or + / – 10 by the close of business on the first day is a very important practice. There is not a CEO on this planet who would not welcome a heads-up number on such a timely basis. See Exhibit 3.7 for an example of a flash report.

Flash report for the Month Ending 31 December 20XX

	This month $000s			
	Actual	**Target**	**Variance**	**>$100K**
Revenue				
Revenue 1	5,550	5,650	(100)	⇔
Revenue 2	3,550	3,450	100	⇔
Revenue 3	2,450	2,200	250	✓
Other revenue	2,250	2,350	(100)	⇔
Total Revenue	13,800	13,650	150	⇔
Less: Cost of sales	(11,500)	(11,280)	(220)	⇔
Gross Profit	2,300	2,370	(70)	
Expenses				
Expense 1	1,280	1,260	(20)	
Expense 2	340	320	(20)	
Expense 3	220	200	(20)	
Expense 4	180	160	(20)	
Other expenses	170	110	(60)	
Total Expenses	2,190	2,050	(140)	⇔
Surplus/(Deficit)	110	320	(210)	✖

✓ Major positive variance, comment required
✖ Major negative variance, comment required
⇔ Within expectations, no comment required

Areas to Note
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EXHIBIT 3.7 Flash Report to CEO at End of Day One

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. Never attempt a flash report until the AP, AR, and accrual cutoffs have been successfully moved back to the last working day of the month. Otherwise, you will be using the accruals to change final numbers so they can closely match your flash numbers, a practice I would not recommend.

The flash result will act like a great appetizer, and the CEO's appetite for month-end information will be largely satisfied. This creates a great opportunity to reduce the CEO final report to an A3 page, as shown in Chapter 7.

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 pack. The important issue to remember here is that the month-end can never be right, it can only be a true and fair view.

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 accounting 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 adding up to $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.

Stop Variance Reporting at Account Code

This month-end we need to stop reporting variances at account code level. We should report at a higher level. I call this a category level, which is discussed in Chapters 9 and 16 on annual planning and rolling forecasting.

We also need to establish some rules for variance reporting. If materiality is set at $40,000 for a P/L item, then this amount should also be incorporated in the variance reporting rules:

A variance has to be the greater of 10% of budget and over $__________ ($40,000 in the above example).

Stop Monthly Reforecasting of Year-End

One process that corporate accountants have done, without really thinking about it, has been the monthly reforecasting of the year-end position.

Reforecasting the year-end position, monthly, is wrong on many counts:

- The task is done after the month-end numbers are known, and it now delays the month-end results. It produces a number that, due to time constraints, has little input and no buy-in from the budget holders. I call these forecasts *top-top forecasts*, where the finance team members talk among themselves and with senior management.
- Why should one bad month, or one good month, translate into a change of the year-end position? We gain and lose major customers and key products rise and wane. This is the life cycle we have witnessed many times. Besides, if you change your forecast each month, management and the board know whatever number you have told them is wrong—you will change it next month, as shown in Exhibit 3.8.
- Reforecasting should occur only four times a year, using a bottom-up process and a proper planning tool, as explained in Chapter 16 on rolling forecasting. Only businesses that are in a volatile sector would need to forecast parts of their operations monthly (e.g., the airline industry would update exchange rates, passenger volume predictions and aviation fuel costs).

Key Month-End Activities after Reengineering

The key activities in a day three month-end are set out in the Exhibit 3.9.

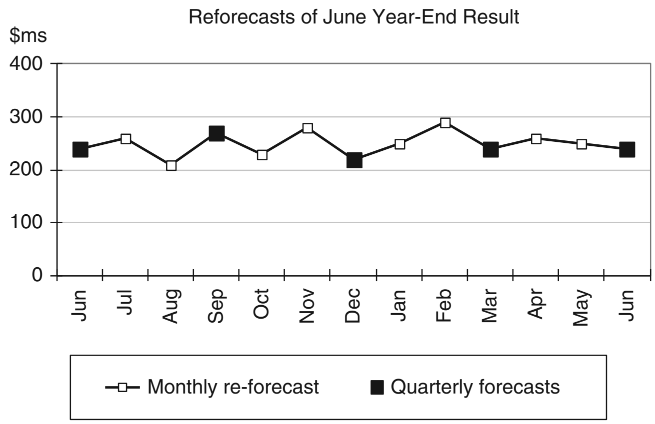

EXHIBIT 3.8 Replacing the Number Noise of Monthly Reforecasts With Quarterly Rolling Forecasts

PDF DOWNLOAD

To assist the finance team on the journey templates, checklists, and book reviews have been provided. The reader can access, free of charge, a PDF of the following material from davidparmenter.com/TheFinancialControllersand CFOsToolkit.

The PDF download for this chapter includes:

- Template for Costing the Month-End Processes
- Draft Set of Month-End Rules for the Finance Team

EXHIBIT 3.9 The Key Activities of a Day Three Month-End

Day –3 & earlier	Day –2	Day –1	Day +1	Day +2 & +3
▪ Payroll accrual finalized ▪ Depreciation finalized ▪ Balance sheet G/L a/cs reviewed for reasonable ▪ Daily bank a/c reconciliation (DBR)	▪ Close-off accruals ▪ DBR	▪ Close-off AP, AR, work in progress (WIP), WIP to finished goods, production for last day, time sheets, noon ▪ First close of G/L ▪ Numbers available to budget holders by 5 pm ▪ DBR	▪ Flash report by 5 p.m. to CEO ▪ Second close of G/L ▪ Budget holders complete their two-page report ▪ DBR	▪ Report preparation ▪ Quality assurance procedures ▪ Report preparation ▪ Issue report ▪ DBR

- Month-End Reporting Checklist
- Month-End Bottlenecks and Techniques to get around them
- Useful Draft Memos
- Implementation Plan for an Organization with over 600 FTEs

NOTE

1. David Parmenter "Rapid Reporting in Three Days or Less and Error Free," www.davidparmenter.com 2015.