Corporate accountants' top 20 mistakes: 20-16

In this new series, Performance management thought leader David Parmenter analyses the top 20 corporate accountants make, and how to avoid them. In doing so, he demonstrates how you can revolutionise a finance team's performance.

As a failed corporate accountant (I had to organise my own leaving party) I feel particularly well qualified to analyse the top 20 blunders since Paciolo sent us on our way. Having studied better practices carried out by winning finance teams from across the world I have set out the common mistakes corporate accountants typically make, along with the solutions.

20: over 80 account codes for the P/L

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 with more than 300 expense account codes in the G/L, and up to 30 accounts for repairs and maintenance.

Resetting the chart of accounts may be a thankless task, but it is crucial in determining how we report and set targets. If prepared poorly, CFOs' eyes glaze over, the objective to reduce the account codes fails and, slowly but surely, 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 asked a simple 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 six weeks of expenditure and then annualise the number.

19: only forecasting to year end

Typically corporate accountants have reforecast the year end numbers every month. This is flawed on a number of counts.

Firstly, why should one bad or good month translate into a change of year end position? It is normal to gain and lose major customers, and see products rise and fall in popularity.

Such forecasts are also usually top-top with little input and no buy in from the budget holders. Furthermore, two months before year end management appear to ignore the oncoming year.

Finally, management and the board know whatever number you have told them is wrong.

Action

Forecast quarterly six quarters ahead using a planning tool (not Excel) as it is a commonly accepted better practice. The trick to rolling forecasting is to a fast light touch, so managers can do it quickly. Quarters two to one are not as important; the key is to get quarter one correct.

18: breaking the annual plan into 12

We like things to balance and our work to be neat and tidy. Thus it appeared logical to break the annual plan down into twelve monthly breaks before the year had started.

We could have been more flexible. Instead we created a reporting yardstick that undermined our value to the organization.

Action

If you still need to perform an annual planning process you can remove the need for twelve monthly targets arising from this process. Report against more recent targets derived from quarterly rolling forecasting process, rather than a monthly budget potentially set 17 months before the period under reviewed.

See the first of my two part series on quarterly rolling planning for more information.

17: giving budget holders an annual entitlement

Preparing an annual plan is problematic enough. Asking budget holders what they want and giving them an ‘annual entitlement’ to funding is even worse.

Action

Instead, inform a budget holder you are aware of their annual request but will only fund what they need to run the next quarter. Advantages include:

- ‘spend it or lose it’ can no longer work, as budget holders find it nearly impossible to hide their reserves in the next three month period
- budget holders are encouraged to seek funding for initiatives not in the annual plan
- budget holders are weaned off asking for an annual entitlement they may not need.

16: budgeting at account code level

Having budgets at account code level has encouraged budget holders to allocate expenditure to an account that that has room for it, thus undermining the purpose of the G/L (accounting for costs and revenue in the right areas).

If you have good trend analysis captured in the reporting tool, you should not need a target or budget at account code level. Apply Pareto’s 80/20 rule and establish a category heading which includes a number of G/L codes.

Action

Limit the number of categories in a budget holder’s budget to no more than 12. Have a budget category line if the account code is over 10% of the total (eg show revenue line if account code is over 10% of the total revenue).

If the account code is under 10%, consolidate it with other account codes until it forms a category representing over 10% of the total. Map the account code expenditure history to these categories – a planning tool can easily cope with this issue without the need for a revisit of the chart of accounts.

*According to Douglas Adams’ ‘The Hitchhiker’s Guide to the Galaxy’, 42 is the answer to ‘life, the universe and everything.’

This article is an extract from a 110 page white paper that can be purchased from his website www.davidparmenter.com.