



## KNOW THY NUMBERS: TIMELY, ACCURATE AND ACTIONABLE INFORMATION

VINCENT KILLEWALD

This is the second in a series of articles entitled *Know Thy Numbers: The Eleventh Commandment*. This article will focus on further defining the concepts of timely, accurate and actionable historic information. Future articles will focus on business plans, forecasts and budgets.

Business owners frequently ask how long it should take to complete a monthly close. Unfortunately, there is no single answer to this question. The one truthful answer is that, all other things being equal, sooner is better than later. While there is some tradeoff between accuracy and the time allowed for the monthly close, a properly designed system can remove the risk of material misstatements while accelerating the closing process. The time required for a close is also somewhat dependent on the complexity of the business and the knowledge and experience of the accounting/finance staff. As a general rule, finalized financial statements should be submitted to management within five or ten business days after month-end, and they should be accompanied by a set of notes that answer the owners' questions related to the statements. A seasoned professional can design a system and closing process to accomplish this end.

A seasoned professional is capable of determining which parts of the closing process can be completed prior to the end of the month, or prepared using estimates, without jeopardizing the accuracy of the financial statements. Such entries usually include depreciation expense, amortization of intangible costs, amortization of prepaid expenses, bad debt provisions, and warranty expense accruals.

Having effective processes for ensuring the accurate and timely recording of daily transactions is crucial to providing timely and accurate financial reports to management as it is far too costly and unreliable to "inspect in" quality later in the process. Another problem with attempting to inspect in quality is that the company would not be able to rely on financial information during the month.

The first article of this series described a system as including policies, procedures, documentation, and training. The purpose of an accounting system is to ensure the timeliness and actionability of the financial reports while ensuring their accuracy.

The policies and procedures required by any company's accounting system are largely dependent on the nature of the company's business and the software that they are using. There are certain policies and procedures that one would expect to find in almost any company. These include, but are not limited to, separation of duties, procedures regarding timely deposits and recording of cash receipts, bank reconciliations, timely recording of accounts payable and the classification of related costs, capitalization

thresholds, depreciation policies, entering customer orders, recording shipments, invoicing customers, and monthly workpapers substantiating balances in certain balance sheet and income statement accounts.

The use of software that is not designed to handle the intricacies of a particular company's business often requires additional policies and procedures to allow the company to "work around" the inadequacies of the software. Over time, these work-arounds can require additional staff and can be very costly. In addition, they can increase the risk of costly errors.

Just as policies and procedures are dependent on the company's business, so is the information required to make sound business decisions and to operate it effectively. For this reason, the specific definition of actionable information is different for different businesses. As presented in the first article, the level of detail must allow the users of the information to find those few precious facts that identify business problems and opportunities for improvement that can significantly contribute to the company's bottom line. As a general rule, any information used in preparing a budget should be tracked and reported by the financial system. Common forms of actionable information include: actual vs. standard costs; unit sales; sales discounts; profitability by product, product line, customer, plant, division, etc.; budget variances; currency exchange rates vs. budgeted and planned rates; headcount vs. plan; direct and indirect hours vs. budget; and days-sales-outstanding and inventory turns vs. plan.

An experienced CFO with system implementation experience can help business owners identify the key pieces of information needed in order to operate their businesses effectively. Such a professional, knowledgeable about your business, with system implementation experience can help select appropriate software and design systems such that they will provide you with the accurate and timely information that you need in order to operate your business effectively and efficiently. Such a professional can also help you understand this information and use it effectively to better manage your business.