

VALUE-ADDING

IN THE ACCOUNTS DEPARTMENT

GEOFF WILLIAMS RUSHES
TO DEFEND THE HONOUR OF
NOBLE NUMBER-CRUNCHERS
FROM THE ATTACKS OF
THE TECHNOLOGISTS.

The author of the article 'Eliminate the Accounts Department' (*Charter*, September, 1997) naturally draws the response 'Eliminate the IT Department instead', but the heading for this article seems preferable.

The IT department is a new and possibly transitory phenomenon: it is unlikely that its role, in the converting of paper-based recording systems to electronic recording systems, is permanent. Once everyone has adapted to electronic communication and trade, the conversion personnel may be no longer required - and what a saving that will be!

The accounts function has been very narrowly defined by technologists, and there really does have to be objection to this. Consider the following responsibilities, commonly shouldered for little thanks by the average accountant in the average small to medium size enterprise (SME):

- financial accounts (collections, payments, statutory reports)
- management reports (budgets, forecasts, technical data, operations efficiency)
- administration (contracts, IT, office fit-out, fixed assets control)
- personnel management (contracts, payroll, hiring, firing, promotions, appraisals)
- treasury (cash management, borrowing and repayments, interest

charges, bad debts, defaults)

- taxation (income, fringe benefits, land, sales, capital gains, planning)
- planning (restructuring, business plans, investments)

The larger accounting and audit firms are apt to think all firms operate like their larger clients, with a separate accounts department concentrating on routine data consolidation for the enterprise. They overlook the majority of SMEs in Australia, where the "accounts office" takes on all the administration-type activities that the CEO, operations and marketing personnel don't do: a wide range of financial management functions.

The view of the larger accounting firms is naturally to emphasise the importance of IT in all firms, as this is a prime source of consulting revenue. It may be that IT is so important because of the practical conversion problems. Hopefully in the long term we can re-focus on business survival and growth in a very competitive world.

The article mentioned refers to accountants spending half their time re-keying data from one accounting system to another, and says that this could be quickly remedied by one programmer. The truth of the matter is that it has not been remedied by one or many programmers, and is necessitated by the very poor programs made available.

Spreadsheets are used so much for reporting internally because they are

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user-friendly and flexible, whereas the report writers associated with common packages are neither user-friendly nor flexible, and probably never can be.

The IT function is really suffering from over-confidence, in my opinion. If management reports are taken as an example, and they are one of the main reasons for re-keying data output by packages to spreadsheets, then there is really an enormous range in flexibility required in practice. It is not enough to compare budget and actual, for a period and cumulative year to date. Consider the following requirements for the end-product:

- modern management reports first have to include technical data: non-financial data regarding a firm's operations, commonly referred to as key indicators. For example, the monthly reports for one of my property management clients include a range of data on lift stoppages, breaches in security, caretaker overtime and air-conditioning engineers' hours. Explanatory comments are included in the reports on variations.

How can a programmer for an accounting package cope with combining a large number of technical business factors with routine financial data, when the technical business factors will change enormously between different business firms in different industries?

- a second complication is that management requirements change over time within any one firm, regarding the data required in monthly reports. For a period it may be bad debts; then it may be worker efficiency; then it may be factory rejects. A spreadsheet can easily cope with these changes. It is not adequate to say to management that they can't have data until new programs are written

- a third complication is that

management today is no longer satisfied with management reports which merely show historical data. Some use forecasting packages. Following directors' requests, I now build forecasts into monthly reports to show the end of year position in profits, cash flows and balance sheet

In my view, the accountant who merely produces historical data is not completing his or her job: there is an implied responsibility to warn of problems in advance. If current business trends are extrapolated, it is not difficult to track financial data over the coming financial year and to warn the client of (for example) cash flow problems.

This is not to say to a client that the firm will need a bank overdraft by a certain date but merely to say that if the firm continues as it has been going, then it is likely that an overdraft will be required in month X, and that this is likely to increase to \$Y over the year.

The forecasts in this calculation have to be bona fide, based on all available and latest data, not just a simple addition of actual to date and budget data in the future. They represent a reasonable estimate, and may conflict with expectations of some of the optimists in marketing.

In the case of such conflicts, I plead a moral obligation to put a reasonable and conservative view to warn of possible cash-flow problems. In this exercise, budget data is soon obsolete. The best results in my opinion are gained when the forecasts "grow naturally" out of current actual data.

The continuity of data is broken if actual data is output from one set of programs, and forecast data is generated in separate programs. Spreadsheets provide a medium for continuity of flow from past data to current data to future data

- lastly, there is the question of