THIRD EDITION

JUST-IN-TIME ACCOUNTING

HOW TO DECREASE COSTS AND INCREASE EFFICIENCY

STEVEN M. BRAGG

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To my Lifelong Partner, Melissa

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About the Author

Steven Bragg, CPA, has been the chief financial officer or controller of four companies, as well as a consulting manager at Ernst & Young and auditor at Deloitte & Touche. He received a Master's degree in Finance from Bentley College, an MBA from Babson College, and a Bachelor's degree in Economics from the University of Maine. He has been the two-time president of the Colorado Mountain Club, and is an avid alpine skier, mountain biker, and certified master diver. Mr. Bragg resides in Centennial, Colorado. He has written the following books through John Wiley & Sons:

Accounting and Finance for Your Small Business

Accounting Best Practices

Accounting Control Best Practices

Accounting for Payroll

Accounting Reference Desktop

Billing and Collections Best Practices

Business Ratios and Formulas

Controller's Guide to Costing

Controller's Guide to Planning and Controlling Operations

Controller's Guide: Roles and Responsibilities for the New Controller

Controllership

Cost Accounting

Design and Maintenance of Accounting Manuals

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The New CFO Financial Leadership Manual

The Ultimate Accountants' Reference

Throughput Accounting

Also:

Advanced Accounting Systems (Institute of Internal Auditors)

Investor Relations (Accounting Tools)

Run the Rockies (CMC Press)

Preface

This third edition of *Just-in-Time Accounting* is designed for anyone who wants to streamline an accounting system so that transactions can be processed with minimal errors and staff time. The book uses a multi-step approach to improving accounting systems. First, we describe and chart an existing process, focusing on the inputs, processing steps, and outputs associated with each transaction. In many cases, this includes an analysis of wait times and paper flow among employees and departments, in order to differentiate non value-added from value-added activities. Second, we list a number of suggestions for reducing or streamlining the workload. This can include the application of new technology, eliminating redundant or unnecessary control points, reducing the number of people involved, and compressing some activities.

Each chapter outlines the effects on accounting controls of the suggestions for improvement. This includes a discussion of which controls can be eliminated, how to bolster remaining controls, and which new controls should be added.

Each chapter contains samples of cost/benefit analyses that can be used as models when creating actual cost/benefit analyses for justifying the implementation of revised systems. Special problems with identifying some costs and associated savings are also noted.

Streamlining the accounting function eliminates some of the old accounting reports. In many cases, this requires their replacement with new reports that are more useful for the revised system. Consequently, sample reports are described in each chapter, which can be used as templates. In addition, the chapters include new metrics that monitor the revised systems.

This multi-step approach applies to Chapters 2 through 8, covering transactions in the following areas: the sales cycle, cash, inventory, accounts payable, cost accounting, payroll, and the budget. Chapters 9 through 12 discuss improvements to other accounting areas that either require streamlining or are needed in the streamlining effort: closing the books, data collection and storage systems, process documentation, and change management.

The introductory chapter contains an overview of how to properly organize a new accounting department to achieve maximum levels of efficiency. The activities addressed include the creation of job descriptions, performance reviews, work calendars, policies and procedures, training programs, and work flow analysis—all basic ‘‘blocking and tackling’’ issues that are all too frequently ignored.

This book is intended for accounting managers who want to improve the performance of the accounting department. It describes how to integrate best practices into accounting systems, resulting in remarkable gains in operating efficiencies.

STEVEN M. BRAGG
Centennial, Colorado
November 2008

Free Online Resources

Steve offers a broad array of free accounting resources at www.accountingtools.com. The site includes dozens of *Accounting Best Practices* podcast episodes, as well as hundreds of best practices articles. It also contains control charts, process flows, costing methodologies, job descriptions, metrics, and much more.

Chapter 1

Setting Up and Improving the Accounting Department

Before we can dig into the minutia of how to improve each of the various accounting functions, it is first necessary to set up the infrastructure to ensure that the accounting department will function in a reliable manner. These basic tasks are ignored all too frequently when first setting up an accounting department.

In many instances, accountants are given a pile of work to complete, with no hint as to the priority of each item or how they interrelate. The result is a daily scramble to complete whatever is "hot" on that day. Assignments of accounting staff members are often changed with excessive regularity, so that no one acquires an area of expertise in which he or she can improve skills and overall level of confidence. As a direct result of this unstructured work pattern, the number of transactional errors is extremely high; employees do not have the expertise to "lock in" the procedures and related training that will keep errors from occurring. Once errors are found, considerable staff time must be reallocated to fixing them. Thus, we enter into a vicious circle of constant daily problems, with the department always struggling to keep up with the workload. The simple organizational techniques outlined in this chapter can resolve many of these problems.

FORECAST CASH

The single most important priority is forecasting the flow of cash. Without money to pay employees or suppliers, a company will very quickly find itself out of business. All other considerations are secondary to this issue. Accordingly, there should be a weekly cash forecast, such as the one shown in Exhibit 1.1. This report reveals the time periods when there may be cash flow difficulties, thereby enabling management to plan well in advance for additional financing or other activities that will avoid any cash shortfalls. This format can vary considerably by type of business, and may be an automated report in some accounting systems.

The forecast in Exhibit 1.1 starts with a sales forecast for each company subsidiary, showing expectations for the next eight weeks. Next is a breakdown of the largest accounts receivable items by expected date of cash receipt, as well as a single “Cash, Minor Invoices” line item that summarizes all other small cash receipts. The next section lists all expected cash outflows from payroll, payables, and capital expenditures. The bottom of the spreadsheet lists the rolling cash balance at the end of each reporting period.

This forecast should be verified with the sales staff, collections personnel, and purchasing employees to ensure that the numbers are accurate. Accounts payable tend to be the most accurate, since these figures are under the direct control of management, and can be managed to some extent to fit the requirements of the forecast. Also, compare previous cash forecasts to actual results to see what differences arose. By incorporating these differences into future reports, the cash forecast can gradually become a reasonably accurate indicator of future results.

The report is hand-delivered to key recipients each week, along with a verbal or written discussion of any key problem areas. Leaving

Exhibit 1.1 Sample Cash Forecast

Company Cash Forecast								
For the Week Beginning on								
Week Beginning Date	9/6/2009	9/13/2009	9/20/2009	9/27/2009	10/4/2009	10/11/2009	10/18/2009	10/25/2009
Beginning Cash	$ 300,000	$ 142,992	$ 32,022	$ 171,485	$ 6,077	$ 3,660	$ 698,445	$ 656,380
Receipts from Sales Projections:								
ABC Subsidiary						$ 170,500		
DEF Subsidiary						$ 500,000		
GHI Subsidiary						$ 584,425		
Uncollected Invoices:								
Amber Exploration		$ 63,667		$ 62,501		$ 64,975		
Botany Bay Drilling		$ 38,425		$ 18,872	$ 12,521			
Callow Consulting Co.	$ 29,423		$ 100,472					
Deep Drilling Divers		$ 41,290						
Eastern Europe Pipeline	$ 62,976	$ 53,135	$ 24,772	$ 6,676	$ 22,327	$ 33,816		
Franklin Moss Consulting	$ 81,005		$ 20,440		$ 29,500		$ 14,935	
Guttering Oil and Son		$ 54,564		$ 55,000				
Hinter Drilling		$ 80,250			$ 21,204			
Indian Express Pipe Repair		$ 121,360			$ 99,231			
Cash, Minor Invoices	$ 5,380	$ 14,029	$ 28,990	$ 48,044				
Total Cash In	$ 178,784	$ 466,720	$ 174,674	$ 191,093	$ 184,783	$ 1,353,716	$ 14,935	$ —

(Continued)

Exhibit 1.1 Continued

	Company Cash Forecast							
	For the Week Beginning on							
Cash Out:								
Payroll + Taxes		\$ 330,500		\$ 331,500		\$ 332,500		\$ 332,500
401k Payments		\$ 32,000			\$ 32,000		\$ 32,000	
Commissions		\$ 12,000				\$ 12,000		
Contractors	\$ 26,628	\$ 168,190				\$ 279,431		
Rent					\$ 53,000			
Medical Insurance	\$ 69,200				\$ 69,200			
Capital Purchases	\$ 81,500				\$ 8,000			
Expense Reports	\$ 5,000	\$ 15,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 15,000	\$ 5,000	\$ 5,000
Other Expenses	\$ 153,464	\$ 20,000	\$ 30,211	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Total Cash Out:	\$ 335,792	\$ 577,690	\$ 35,211	\$ 356,500	\$ 187,200	\$ 658,931	\$ 57,000	\$ 357,500
Net Change in Cash	\$ (157,008)	\$ (110,970)	\$ 139,463	\$ (165,408)	\$ (2,417)	\$ 694,785	\$ (42,065)	\$ (357,500)
Ending Cash:	\$ 142,992	\$ 32,022	\$ 171,485	\$ 6,077	\$ 3,660	\$ 698,445	\$ 656,380	\$ 298,880

the report on someone's desk is an invitation for future trouble, since the recipient may not see the prime indicators of a cash shortfall that are so evident to the person who prepared it.

REVIEW CONTRACTS

A complete examination of all unexpired legal agreements ranks high on the accounting priority list. These may contain any number of requirements for cash expenditures or receipts that should be included in the cash forecast, such as a balloon payment on a debt agreement, or a scheduled increase in a rent payment. Another example is a periodic minimum royalty payment. If not carefully tracked, these issues can result in very unpleasant and sudden crises, as well as missed opportunities to collect additional funds.

Rather than just reviewing legal agreements in a cursory manner, it is better to organize them into a summary–level format, such as the one shown in Exhibit 1.2. This summary should be included in the standard calendar of department activities (described later), so that actions can be scheduled based on the agreements. By using the exhibit, a manager can quickly determine the dates when payments are due, when key contractual dates occur, and the names of the other parties to the agreements. These are the key factors to be aware of when incorporating legal agreements into the accounting department's activities. Organize the filing system for the legal documents that are referenced in the summary, so that anyone can quickly access the original document.

Better yet, scan all legal agreements and store the scanned documents in a file server, where they are easily accessible from remote locations. Then store the original documents in a locked fireproof safe, so that no one can remove or misfile them.

Proper custody and knowledge of the contents of legal agreements is a fundamental requirement for the proper management of the accounting department.

Exhibit 1.2 Sample Format for Legal Summary

Party Name	Start/Stop Dates	Revenues or Expenditures	Description
Acme Leasing	Jan. 2009 – Dec. 2012	\$504.52/mo, due on 15th of the month	Copier lease. Requires balloon payment of \$5,400 on 12/31/2012
GEM Leasing	Ongoing	\$228.15/mo, due on 10th of the month	Storage trailer lease. Ongoing. Review need for trailer each quarter.
Bartony Design Co.	June 1, 2010 Renewal	8% of sales on Kid-Jump product, due on 20th of the month	Royalty on Kid-Jump product, payable as long as there are product sales. Agreement renews on 6/01/2011.
Play & Go Inc.	Lifetime franchise	4% of sales, incoming franchise fee, due on 5th of the month	Franchise fee paid by operator of Play & Go store, based on percentage of net sales.

ESTABLISH JOB DESCRIPTIONS

Accounting staffs do not always know precisely what they are supposed to do. Instead, they are hired, trained briefly in a few key tasks, and then left alone. They do not know if there are additional tasks to be completed on a less frequent basis, nor do they know when tasks are to be completed, or what constitutes a good job. This has several ramifications. First, it is impossible to review the work of such a person when there is no baseline against which to judge. Second, key tasks that are performed infrequently tend to be completely ignored, because no responsibility has been assigned. Third, it is difficult to determine an employee's pay scale when there is uncertainty about the boundaries of that person's job. Finally, many employees do not know for certain to whom they report. All of these factors present a

Exhibit 1.3 Sample Job Description

Position Name: Cost Accountant

Reports to: Assistant Controller

Supervises: None

Basic Function: This position is accountable for the ongoing analysis of process constraints, target costing projects, and margin analysis. The cost accountant must also construct and monitor those cost-effective data accumulation systems needed to provide an appropriate level of costing information to management.

Principal Accountabilities:

1. Construct data accumulation systems for a cost accounting system
2. Create and review the controls needed for data accumulation and reporting systems
3. Conduct ongoing process constraint analyses
4. Update bill of material standard costs
5. Report on breakeven points by products, work centers, and factories
6. Report on margins by product and division
7. Report on periodic variances and their causes
8. Analyze capital budgeting requests
9. Perform cost accumulation tasks as a member of the target costing group
10. Coordinate physical inventories and cycle counts
11. Accumulate and apply overhead costs as required by generally accepted accounting principles

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strong case in favor of creating a job description for every employee as soon as possible.

An example of a job description is shown in Exhibit 1.3. It states reporting relationships, gives a general overview of the position, and then itemizes specific accountabilities. It is also useful to list the last date on which the job description was updated, which can be used as a trigger to periodically review the description.

ISSUE PERFORMANCE REVIEWS

The job description does not provide a sufficient amount of detail about exactly what level of performance is expected to conduct a performance review. To use the job description in Exhibit 1.3 as an example, item number one is "construct data accumulation systems." Does this mean that all possible systems must be created to give the cost accountant a good review, or is some lesser achievement acceptable? How will this translate into a salary adjustment? If neither the supervisor nor the employee knows the answers to these questions, the expectations of both parties may be far apart, resulting in an interesting performance review.

To resolve this problem, it is necessary to precisely define expected performance levels in advance. This information should be developed as soon as the job description is complete, and then be reviewed with the employee in detail to make sure that there is no confusion about the expectations for each item. The description of these performance levels takes considerable effort to develop; the effort is needed, since they are the basis for a great deal of ensuing employee activity that is vital to the operation of the department.

One way to write performance level expectations is to list them in terms of low, medium, and exceptional performance. Each of the categories should be thoroughly described. Exhibit 1.4 contains a review that is based on item 1 in Exhibit 1.3—for the cost accountant to create data collection systems.

The cost accountant's performance review criteria will take a great deal of time to complete if all other job functions are described in the same manner as the example. Nonetheless, this level of detail is needed to convey to the employee the exact expectations for the job. Since job requirements will change, the manager must review and adjust these written expectations frequently. Each time a change is made, the manager must review the changes with employees.

The performance review format can also be expanded to include the precise amount of pay change that can be expected as a result of meeting each objective. For example, the low performance category in

Exhibit 1.4 Example of Performance Level Expectations

Performance Expectations:

1. Create costing data collection systems.
   a. Low performance. The cost accountant creates no additional data collection systems beyond those already in place, but may create plans for new ones.
   b. Average performance. The cost accountant creates new data collection systems, but the level of data accuracy is not increased by more than 10% or the amount of labor required to collect the data does not decrease by more than 20%.
   c. Exceptional performance. The cost accountant creates new data collection systems that result in data accuracy improvement of more than 10% and reduction in data collection labor of more than 20%.

Exhibit 1.4 might have listed alongside it a pay decrease of 1%, with average performance worthy of no change, and a 2% pay increase associated with the exceptional performance level. Using this approach, an employee can tell precisely how much of a pay change will be occurring before a pay review even begins, which takes all of the tension and uncertainty out of the process. However, this approach can result in excessively high or low pay changes if the person preparing the document does not pay sufficient attention to the difficulty of completing those tasks against which automatic pay changes are listed.

CREATE WORK CALENDARS

Even with a job description, an employee does not know *when* tasks are to be completed. It may be necessary to always complete a report on a Monday, so that it is available for a Tuesday meeting, or perhaps one employee has to complete a deliverable so that it can be used as input to some other process by a different employee on the following day. These are issues that have a major impact on the efficiency of the entire department.

A good way to handle the timing of work steps is to schedule them on an individual work calendar that is handed out to each employee. There should be two calendars—one that lists the major tasks to be completed on a monthly basis, and another that itemizes the daily tasks within each month. An example of a monthly calendar is shown in Exhibit 1.5 . This calendar itemizes those tasks that are not necessarily repeated constantly, such as government reports that need only be created once a year (such as the VETS-100 report in August that lists the number of employees who are veterans), and which could easily be forgotten if not itemized.

A monthly calendar of activities contains all of the tasks noted on the annual calendar, plus all of the continuing daily activities that are

Exhibit 1.5 Annual Calendar of Activities

January	February	March	April
1st Commissions	1st Commissions	1st Commissions	1st Commissions
10th 1099 Forms	20th Merker royalty	15th 401(k) Enrollment	15th Property
15th NM Sales Tax	28th Property Taxes	22nd Audit Begins	20th Merker Royalty
20th UT Sales Tax	28th Trademark review		
May	**June**	**July**	**August**
1st Commissions	1st Commissions	1st Commissions	1st Commissions
20th Rent increase	15th 401(k) Enrollment	15th NM Sales Tax	10th VETS-100 Report
31st Update Procedures	28th Property Taxes	20th UT Sales Tax	20th Merker Royalty
September	**October**	**November**	**December**
1st Commissions	1st Commissions	1st Commissions	1st Commissions
15th 401(k) Enrollment	10th Initial Budget Mtg	30th Budget Due	15th 401(k) Enrollment
20th Merker Royalty		30th Update Procedures	30th Mail W-9 Forms

repeated within the department. An example is shown in Exhibit 1.6. Of the two calendars, this one is used much more frequently; it becomes a daily reference for every employee.

Though the concept of the calendar is an extremely simple one, it is highly effective, for it ensures that the accounting staff completes its assigned tasks on time, every time. However, this degree of effectiveness will continue only if the accounting manager constantly updates these calendars. This typically means that a new calendar should be issued to all accounting employees at the end of every month or quarter.

Exhibit 1.6 Monthly Calendar of Activities

Monday	Tuesday	Wednesday	Thursday	Friday
2 Cash Forecast Flash Report Pay Rent	**3** Issue Financials Staff Meeting	**4** Print AP Checks Pay Sales Taxes	**5** Job Profit Report	**6** Open AR Review
9 Cash Forecast Flash Report	**10** Staff Meeting	**11** Print AP Checks Process Payroll	**12** GSA Payment	**13** Open AR Review Update GSA Schedule Issue Paychecks
16 Cash Forecast Flash Report	**17** Staff Meeting	**18** Print AP Checks	**19** Holiday	**20** Open AR Review
23 Cash Forecast Flash Report	**24** Staff Meeting	**25** Print AP Checks Process Payroll	**26** Pay Summary Report	**27** Open AR Review Issue Paychecks

CREATE POLICIES AND PROCEDURES

Job descriptions and work calendars tell an employee what to do and when to do it, but they do not contain any details regarding *how* to perform any tasks. This is not a problem for an employee who has been working in the department for a long time. However, new employees or those who are filling in on unfamiliar tasks on a short-term basis need assistance.

One possibility is to assign an experienced employee the task of providing training to anyone who needs it, but this is a very expensive proposition, and will not work well if there are too few employees who possess a comprehensive knowledge of procedures. A better approach is to document all accounting policies and procedures in a manual that is issued to all members of the department. This codifies all information needed to complete the daily tasks of the department. It can be posted online for ready access by employees, where its text can also be more readily updated.

This manual takes considerable time to complete, since each person in the department must be carefully interviewed regarding his or her work, which must then be translated into both text and a flowchart that adequately explains what he or she does. Also, this information requires constant updating, since procedures change over time. Despite the time required for these activities, it is highly profitable to have up-to-date policy and procedure manuals available to the accounting staff at all times. Policies and procedures are addressed further in Chapter 11, Process Documentation, and much more comprehensively in the author's *Accounting Policies and Procedures Manual.*

ESTABLISH TRAINING SCHEDULES

All of the groundwork for running an effective accounting department has now been laid—job descriptions, performance criteria, work calendars and a policies and procedures manual. However, employees may lack the skills required to use these tools to the fullest degree. There are two types of training that will overcome these issues:

1. *Orientation training* for new employees or those who are transferring to a new position. This relatively short seminar presents each person with the various tools already described in this chapter. Conducted one-on-one, this training ensures that an employee gets up-to-speed as soon as possible. There should be a series of one-on-one follow-up training sessions for the first few weeks of each person's new job, so that any questions regarding unfamiliar tasks can be adequately answered. A vital part of these ongoing sessions is the development of a training plan by the trainer that identifies the weaknesses in each person's job knowledge; this training plan becomes the foundation for the second type of training, which is skills enhancement.
2. *Skills enhancement training* is specifically designed to eliminate any weaknesses in each employee's package of skills, rather than being a broad-based set of training requirements that all employees must complete. For example, rather than requiring all employees to attend a seminar on the legal requirements of reporting foreign exchange transactions (which is usually of interest to only a select few), some employees may attend a remedial English class, while others will need to improve their electronic spreadsheet skills. These are much more basic issues than the high-level topics that are typically taught to employees.

Determining training requirements at this much more basic and individualized level requires very specific training programs that are tailored to the needs of each employee. Here are some options for locating those training programs:

- *College degree classes.* A small number of carefully-selected classes works best; paying for an entire program of study is expensive, and probably imparts more knowledge than is needed for a specific job.
- *Continuing professional education (CPE).* CPE is a relatively inexpensive option that is targeted at very narrow topics, and which can involve seminars or home study. A number of CPE providers are listed at www.accountingtools.com.

- *One-on-one training*. If there are sufficient resources available, this form of training is best, because the instructor can directly observe a trainee's comprehension of a topic and revise the training method on the spot. Unfortunately, the trainer is usually a senior staff person who has little time available for training.
- *Seminars*. A full-day seminar may cover substantially more than an employee's specific need, so review the exact contents of the program before sending an employee off for what may be a day of wasted training.
- *Specially-designed in-house classes*. If there is an in-house training department, request that it design a set of courses for the accounting department. This is not normally a cost-effective option unless the accounting department is large. It may be justified, however, if the topic covers an area in which the company occupies a particular niche in an industry; for example, a company that sells to the federal government may be justified in creating a comprehensive course that covers all accounting aspects of dealing with the government.
- *Trade association training*. There are a number of trade associations that publish a multitude of specialized books, many of which will be applicable to a company's training needs. Examples are the American Production and Inventory Control Society, the American Institute of Certified Public Accountants, and the Institute of Internal Auditors.

There can be considerable resistance to any type of training by employees, who often feel that they do not have enough time available for it. This issue is best dealt with by creating a formal training tracking system that records the hours spent on training, as well as any resulting test scores. These training results can then be incorporated into each employee's ongoing performance reviews. Also, if the accounting manager is responsible for updating each employee's monthly calendar of activities, she can add the training sessions to the calendars. Continuing attention to these issues is necessary to ensure that employees become fully trained in all areas of responsibility.