



By Ted Rose

What is the Benefit of Improving Your Company's Accounting Infrastructure?

In the current market environment, companies can not afford to leave their success to chance. As the velocity of business begins to slow, an organization has the ability to catch-up on internal projects that may have been deferred during busier times. One of the areas that many firms neglect is their accounting and financial infrastructure. This neglect can manifest itself in a number of different ways.

- Inadequately designed chart of accounts
- Lack of senior level supervision of the accounting and finance department
- Incomplete, inaccurate, and infrequent financial and management reporting
- Poorly designed, inefficient, and ineffective financial procedures and processes

During a downturn, the importance of a properly functioning accounting and financial infrastructure is critical. Management needs accurate and relevant financial and management reporting to ensure that it has enough time to react to changes in the market and the company's corresponding financial performance. Late and incomplete information can lead to heavier losses than would have otherwise been experienced. In this circumstance, a company with significant bank debt could have their cost of borrowing increase, their line of credit cancelled, or their line of credit renewed with more

restrictive covenants.

An inadequate accounting and financial infrastructure can result in loss of the company's credibility with customers as billing issues arise or even strained vendor relationships as a result of late payments. Employee relations can be strained if the company experiences persistent payroll issues or delays in issuance of expense reimbursements. Most of these issues can be avoided through the maintenance of a properly functioning accounting infrastructure.

Companies can take immediate steps to improve their accounting infrastructure.

- Maintain monthly financial statements on an accrual basis
- Implement a consistent monthly closing process
- Ensure financial statements are prepared by a senior level accounting professional
- Ensure accounting functional support, including accounts payable, billing, and payroll follows a consistent routine process
- Ensure that each accounting process has adequate reviews and an appropriate level of internal controls
- Redesign the chart of accounts and department structure to properly reflect the current business structure and practices

- Design routine reporting packages to provide management with accurate, timely, and relevant financial and non-financial information
- Ensure that financial records are organized to facilitate year-end audits and tax returns

Companies that make the investment in building out their accounting and financial infrastructure experience significant benefits, including improvements in the following:

- Quality, accuracy, and timeliness of financial and management information
- Understanding of current business performance
- Decision making capability
- Planning and ability to project future results
- Ability to hold department heads and project managers accountable for financial results
- Relationships with most stakeholders including bankers, customers, vendors, and employees
- Tax planning capabilities
- Cash flow through better management of payables and receivables
- Value of firm during a merger or acquisition

All of these improvements will reduce the day to day stress that management experiences as

a result of improved financial clarity and the reduction of unknown obstacles. A properly structured accounting and financial infrastructure will make many decisions easier for management and give quick feedback about prior decisions and if they have led to the expected results. Financial clarity is becoming more important as changing markets complicate decision making and increase the importance of solid financial information and feedback. Companies that understand and react to accurate and timely financial information will find it easier to make it through these difficult times and remain in position to grow during the recovery.

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