

# FINANCIAL ADVISORY SERVICES



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## INVESTING IN FINANCIAL REPORTING AND ACCOUNTING PROCESS IMPROVEMENTS: A SILVER BULLET FOR BETTER DECISION MAKING

Regardless of the size and nature of a business, one of the most critical recurring processes is the period-end financial close.

The building blocks typically consist of the same functions: reconciling accounts; reviewing transactions; making adjustments to entries, if necessary; preparing financial statements; and then using the data available to analyze performance and make forward-thinking decisions based on that analysis. Within this straightforward list of accounting tasks, however, we can often see the difference between a business that is thriving and a business that is flailing.

A recurring theme in middle market private businesses that professionals in our field see over and over is that business owners and operators often spend most of their time and efforts focused on their company's output. While this can lead to great success in innovation and efficiency, their business growth can be stymied by internal operational challenges that may go undetected and therefore unaddressed over time, until they have effectively undermined the top line success of the business.

Within the scope of the financial and accounting activities, the most vital tool to the navigation of the business is the month-end close. We

have found in many cases that any effort to shorten the close process timeframe and increase the accuracy of the data produced, can have an immediate positive impact on owners' and executives' ability to make informed decisions. We have identified three main areas to focus on improving to ensure a successful close process:

1. **Timeliness:** Getting information 60, 45, or even 30 days after a period end is an enormous hinderance to the reporting and decision-making process as underlying facts and circumstances may have changed dramatically. An early start is essential—an efficient full close process generally takes two weeks to complete; if the accounting department starts a week before the end of the period, it should be done a week after.

Automating where possible will help keep things moving quickly.

2. **Accuracy:** One of the things that can distract accounting departments from the task at hand is too much focus on the Profit & Loss (P&L) statement instead of the balance sheet. For this process, the emphasis should be on what the results are, not what they should be. Once the balance sheet, and by extension net income is correct, then the team can worry about where various expenses belong on the P&L. Incorrect balances lead to adjustments later and poor data usually results in poor decisions.

3. **Decision-based Reporting (Management Reporting vs. Generally Accepted Accounting Principles, or GAAP):** For the most part, GAAP is a very good starting place for all reporting. However, do not be afraid to develop additional, semi-GAAP reporting for internal purposes. Prioritizing the most important elements of a business and reporting the related key performance indicators will assist management in their decision-making process.

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In this same vein, it is helpful to give users the information they need to make operational adjustments. For example, GAAP adjustments made for accounting purposes only (i.e. asset impairment) should not be included in reporting against budget for middle management (i.e. non-C-Suite) purposes. Only expenses that are within the control of the individual manager should be included in that report.

It is important to make sure that users understand the information they are receiving and how to apply it. Complex calculations such as purchase price variance for a manufacturing company should be simplified to a point where it is actionable to plant management or the purchasing department.

We recently helped a client through this exact process.

## CASE STUDY

Our client had a reasonably expedient close process, but it lacked accuracy. The company was closing its books by the 10th of the month but needed to make numerous correcting entries from prior months nearly every month. The inaccurate information was unusable for decision making. Focus during the close was on the P&L with almost no balance sheet analysis. Paradoxically, because the balance sheet was wrong in many areas, so was the P&L.

Capstone's Financial Advisory Services (FAS) team implemented a three-step process to fix this main issue. Capstone took measures to spread out the closing duties and analysis to allow controllers more time post-close to review balances prior to issuance; shifting focus to balance sheet tie-in; and moving the P&L analysis on a line-by-line basis after the balance sheet tie in was completed.

Further review by the team also revealed that there was a disconnect

between how the executive management understood the company's operations versus how that information was expressed in the regular financial reports. This led to frustration and a lack of confidence in the data. The solution for this part of the problem was to redo the chart of accounts to match budgeted categories and redo the financial statements to match the way budgets were built.

These actions have helped create a solid foundation for other, more comprehensive performance improvement measures which will be more effective—now that they are informed by reliable and timely data and the impact of implemented changes is more immediately visible in the financial reporting process.

## FINANCIAL ADVISORY SERVICES GROUP

Capstone's [FAS](#) professionals have deep experience advising clients across all states of the business lifecycle. If you would like more information about our financial reporting and accounting support services or how we help organizations implement transformational performance improvement measures, please [contact us](#).