Optimizing the General Ledger

A Study in Meeting both Management Reporting & Statutory Requirements with Minimal Change

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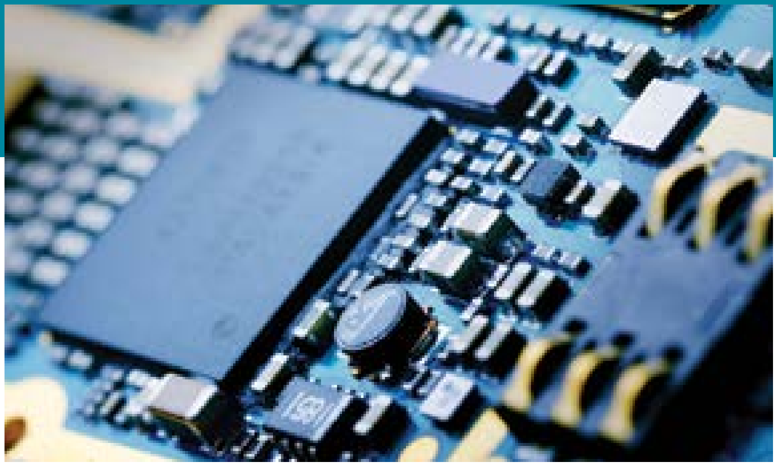


Introduction

As small companies mature into near mid-market or mid-market firms, Controllers and CFOs of those firms find themselves needing to provide more sophisticated financial information to their peers to develop further business growth. This need hardly ever occurs as a singular event, but rather as a progression over time.

Most firms at the same time face the transition from a ledger that was adequately sized to handle the volume and detail required to manage and maintain linear growth of the business. But as the business grows in complexity, variety, and volume, so does the information contained in the General Ledger. It is at this point accounting directors and corporate controllers find themselves at a crossroads. One that drives them to several decisions:

- Thin vs. Thick Ledger
- How to best meet both management and statutory reporting requirements
- Whether there is a need to implement a financial data warehouse

These are but a few of the decisions required. Nonetheless they represent a few of the most common arrival points that need to be agreed upon by senior Finance leadership.

Problem Description

The client was struggling to initially even articulate the problem they were trying to solve. However, after brief initial discussions it became clear that the individual business lacked insight into their current financial position and that management was not getting an accurate, point in time, view of overall business performance. The symptoms of the problem which were clear and present:

- No effective way to translate currency of entries other than the use of a cumbersome, manual month end close process
- No way differentiate entries from detail ledger needs [statutory/local GAAP] and management ledger needs [Leadership and External Reporting]

Now, the above bullet points really illustrate the problems that would be solved at a macro or management level. There were several lower level issues which first needed to be re-mediated:

- No formal inter-company billing/receivables mechanism.
    - o No capability to break out due to/due from by business unit; it was all rolled up into a single general ledger account

- No formal way to trigger journal entries or cash movement for accurate point in time state of financials in the individual business unites
- No point in time currency conversion. Entries were not being translated within the ledger. Also, there was no formal way to track currency gain/loss.

Generally speaking, the environment is one of many manual journal entries, reconciliations, and reporting. While comfortable and manageable for a period of time, a firm expecting near 100% growth cannot maintain a world-class operation in that manner. At the end of each month, inter-company due to/due from was settled, currency conversions and valuations occurred and management adjustments booked; all manually.

Solutions Options

There were a few guiding principles as the following options were evaluated.

- Maintain a thin ledger
- Do not consider an enterprise performance management reporting solution as viable currently
- Keep the solution as tactical and isolated as possible

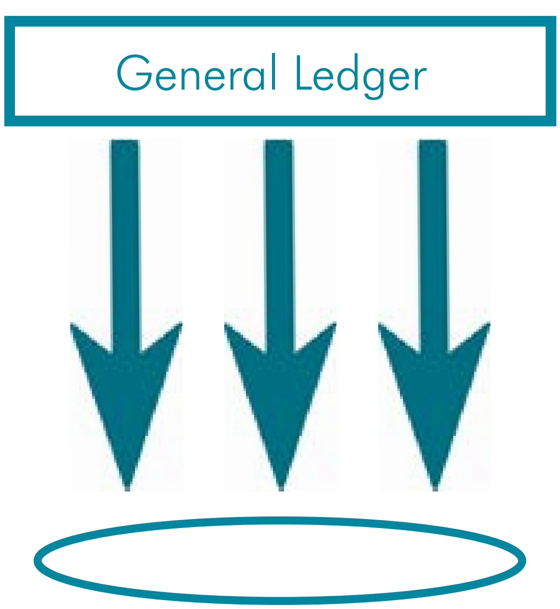
There was interesting discussion to be had in attempting to avoid the introduction of new data elements in the ledger and not expanding the number of accounts used in the existing chart. Something would have to give, and the result was the addition of new accounts to handle inter-company due to and due from in addition to improved mechanisms for handling top of the house adjustments.

Thick Vs. Thin Ledger

When keeping the business contained and limited, a case can certainly be made to consider a thick ledger. However, in this case, there was significant growth on the horizon in addition to having only limited clarity on what senior leadership would define as key performance metrics. Those conditions should be considered limiting when attempting justify a change to the core structure of the general ledger. The truth being, with so many manual processes in play there were several operational efficiencies to be exploited that could take the burden off of the Controller's office.

Enterprise Reporting Solution

At a point in time, even with the most straightforward of reporting metrics, sheer volume will eventually demand a more robust solution to reporting than the general ledger environment alone.



Forces Driving Reporting Away from Ledger

- Rapid increase in journal volume
- Increased metric complexity
- Non-ledger elements now required for enterprise reporting
- Expansion of product/offering base either organically or via acquisition

Further, the company was going to maintain a concentrated product and services suite. If you recall to earlier, the problems that were being solved for here were limited to Corporate Finance. This unique problem set lends itself to a solution within Corporate Finance.

Solution Overview

The enablement of the future state environment went such as:

1. Enable the ERP Billing module to operate alongside the existing Accounts Receivable and Payables module that were already employed by the enterprise. Configure this module to to handle the inter company business load that is manually handled today.
2. Configure Book Codes. Entries served two very different purposes in this environment. Both the Finance operation and the individual business units had very different needs for the financial detail to serve when compared with the duty it was to fulfill for management report ing. Summarization entries needed to exist for management reporting and there was detail that needed to be retained in the local ledger.
3. Configure Translation and Translation Steps. This entire process had been the responsibility of the distributed Finance function or manually effort at period close. By implementing native, delivered, and vanilla ERP functionality the client was able to:
    a. Automate a manual process and gain period-end close efficiency
    b. Reduce the financial risk of not translating translations point in time
    c. Enable the capability to translate equity transactions historically where require.

Conclusion

This study is an example of Finance Optimization delivered with an impact to only the Finance organization. Surely, in time this new local business architecture will shape interface design and the interaction with Finance going forward. Regardless, the new business architecture is far more sustainable than the former, manual, risk-laden environment that existed prior. A process of distilling and articulating problems must be undertaken. Without a clear understand of the problem or sub-problems that need to be addressed, organizations run the risk of admiring problems because they are perceived as more complex than they are in actuality.

Without the inclusion of inter-company billing automatically through the delivered ERP functionality, the solution would still have met the requirements as a solution to the outlined problem. However, there is real value to striking while the iron is hot: meaning Management is ENGAGED and supportive, Resources are available from both IT and the business to execute, and the enterprise environment is Ready for change.

About Astute Business Solutions

Astute is dedicated to providing innovative solutions that address our clients' unique and industry-specific pain points. We specialize in extending the out-of-the-box functionality of enterprise applications using our seamless add-on solutions so our clients can be spared the burden of messy and difficult-to-maintain customizations. Our unique combination of on-site, off-site and offshore resources enable us to provide the best-in-class service and support to our clients at a significant cost reduction.

Astute's PeopleSoft practitioners excel in delivering value-based solutions for PeopleSoft by helping our customers get the maximum out of their PeopleSoft investments. Our Quick Win Assessments focus on unlocking value in your current implementation version by recommending OOTB features to improve operational efficiencies or solve business problems while our Health Check Assessments help clients analyze their current needs and lay the road-map and plan for their 9.2 upgrade or re-implementation projects.