Control your inventory

Like manufacturers, CAs need to make sure that clients' raw materials (their records) are up to scratch. John Haylock explains

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VIRTUALLY every Chartered Accountant in public practice helps their clients to measure and manage their inventory levels. The advice they give is intended to help clients avoid cash-flow problems from purchasing excess stock or having to discount to get rid of old stock. But it's surprising that there is a widespread lack of awareness among Chartered Accountants in public practice of the effects that poor inventory management has on the performance of their own firms.

To recognise the problem, it's important to understand what inventory means for an accountancy practice. Just like manufacturers, accountants have raw material and finished goods. Finished goods for an accountant are simply jobs that have been finished but not yet billed. Accountants are usually good at billing promptly, ensuring that this type of inventory is kept under control.

However, raw materials are a completely different story. Many accountants struggle to recognise that they have raw materials, let alone manage their supply. These raw materials that accountants process and turn into finished goods are simply client records.

Client records are different from manufacturers' raw materials in one very important way – accountants don't pay their suppliers (ie, clients) for their raw material and this has an important consequence. As the old saying goes:

"If you don't pay for it, you don't value it." And there is considerable evidence that accountants don't value their clients' records.

> **Problems with the quality of client records leads to queries, which in turn lead to delays and lots of wasted time as jobs are picked up and put down many times**

The first piece of evidence is that accountants exercise little quality control over their raw material. As a result, client records are typically highly variable in quality and accompanying checklists are usually not completed. As I have covered in earlier articles, problems with the quality of client records lead to queries, which in turn lead to delays and lots of wasted time as jobs are picked up and put down many times. This leads to blowouts in the time taken on jobs, which is a prime cause of write-offs.

Contrast this with manufacturers, the best of whom ensure their suppliers provide them with perfect (or as near perfect as possible) raw materials. The best manufacturers require suppliers to be ISO or Q-Base registered, reject raw materials that aren't up to scratch at the time of delivery, and know that rubbish leads to wasted time and scrapped products. Action should therefore be taken by accountants to ensure the quality of records provided by clients is maintained at a very high level, such as by using client records folders.

The second piece of evidence is that the typical accountant gets most of their client records in during a relatively short period of the year, usually from April to July. Because accountants don't pay for these records, this blow-out in raw material doesn't have the same cash-flow effect that it would on a manufacturer.

Other problems also stem from this excess of raw material, combined with the way in which most firms are managed. Where team members are measured on a percentage of chargeable hours, they will look for the easiest way to stay busy. If they are forced to stop a job, say because of a query, the easiest way to keep chargeable hours up is to start another job. This is much easier than chasing the client to get the query resolved.

Operating in this way leads to a blow-out in work-in-progress each year, such as

in the April to September period where jobs are being started at a rate much faster than the jobs already started are being finished. This also leads to long turnaround times, which in turn frustrates clients.

Controlling the amount of raw materials or client records that are available to be worked on should therefore be an important goal for accountants. There are two key steps to take.

First, schedule the delivery of records by clients. For example, if your average accounting job takes a team member 12 hours to complete, you should schedule around 10 jobs per team member per month, or 120 hours of work. This time

commitment takes into account the non-chargeable work that will be done and allows spare capacity for additional work that invariably arises during the year. You should then put in place a throughput-based management system to ensure scheduled jobs go through a firm quickly (eg, within four weeks) and don't get held up at bottlenecks (often managers and directors). Your target in this example should be to complete 10 jobs per person per month as well.

By starting jobs at the same rate at which they're being finished, work-in-progress is kept under control, a firm can provide certainty of delivery to its clients

and team performance can be managed based on outcomes (ie, jobs completed on time) rather than on inputs (ie, chargeable hours worked). Better outcomes are provided to all three key stakeholder groups – clients, owners and team members. That's got to be good for business.

Implementing throughput-based management in accountancy firms was the focus of the CPD course "Running an Efficient Compliance Practice" that John Haylock and Grant McQuoid ran for the Institute in October. If you didn't attend the seminar, the course paper is available from the Institute's Registry Services. ▪

Employers prefer students with ethics

Employers have replaced "creativity and innovation" with "professional ethics" on a wish list for the top-10 graduate attributes in a survey carried out by Victoria University's Career Development and Employment team.

"The emphasis on professional ethics could well be attributed to a global scene characterised by volatile markets, fraud and accounting scandals, internet scams, intellectual property issues and terrorism," says Liz Medford, Manager of Victoria's Career Development and Employment service.

The top 10 skills/attributes that employers seek in university graduates are:

1. Strong verbal and interpersonal communication skills
2. Self-motivation/self-management/self-starting
3. Team players
4. Sound academic achievement
5. Analytical and conceptual skills
6. Strong written communication skills
7. Flexible and adaptable "can-do" attitudes
8. Problem-solving skills

9. Energy and enthusiasm
10. Professional ethics.

Employers were asked to rank in order of priority 15 skills/attributes which have been most commonly requested in previous years of the study. Employers also added that they were looking for well-rounded, social graduates who get on well with others, have a knowledge of central government processes and have basic computer skills.

Ms Medford says the results showed that employers vary the emphasis on different skills/attributes according to the position to be filled and not all recruiting staff within the same organisation would necessarily agree upon the same ranking. "Consequently, the best approach to the top-10 skills and attributes is to view them collectively rather than individually. Academic performance alone is not sufficient – it is the combination of skills that holds the key to employability," she says.

Although there were no significant differences in the rankings received from the private sector versus those received from the public sector, "academic strength" and "analytical skills" were much more highly prized by government agencies than the IT industry, which placed more emphasis on "energy and enthusiasm". ▪