

Grasping the Business Logic

Peter Morley says that to make the most of your finance systems, you must understand how your company really works.

When you build up your requirements for a finance system, it is important to go right back to basics and understand the logic of your business. Put aside any thoughts of what people do at present and look at your organisation afresh.

What is your core business? What are the mainstream processes within the company? What's the overall process and where does it give rise to financial transactions? Then stand back and consider the business techniques and accounting methods which are required.

Identifying these techniques and methods is essential. Depending on the nature of your business, examples could be:

- ◆ Product and job costing.
- ◆ Management of real estate.
- ◆ Treasury management.
- ◆ Professional service provision.

When it comes to using IT to support your finance operation, it's vital to obtain the most suitable tools for your organisation.

There are many good software packages available, but they are each subtly different, so you need to choose carefully. And the issue is not just about the software itself but how the software is implemented, managed and supported. This is vital to ensure your organisation truly benefits from the systems in the long term.

Organisations fare very differently in how well they use their current systems. Some will have a well-honed operational and finance system which allows the business to function efficiently; others may have a few generic systems, purchased many years ago, supported by spreadsheets valiantly trying to fill the gaps. Others still might own a relatively new system, but one that was not implemented with the business needs in mind and therefore doesn't

support the organisation appropriately, while the system functionality is not fully utilised.

If your business is in the latter two groups, the risk is that the technology will not support you efficiently and might even become an obstacle to future growth and success.

Do your systems interrelate with each other?

Most organisations will have more than one system in addition to its finance systems – operational systems that support your everyday business activity.

But where exactly your operational system should end and your finance system starts is a matter for debate. It should be at the simplest and most efficient point where they touch.

To achieve this, the fundamental questions you need to ask yourself include: do your operational systems capture the activities which lead to financial transactions? Do they support the financial management of these transactions?

For example, a simple event would be an item chargeable to a client. So:

- ◆ Does the system highlight or alert you to the event having happened?
- ◆ Does it bill the client?
- ◆ Does it help you manage the debt?
- ◆ Does it record the receipt of cash?

If this data is only captured by the operational system, you will need to interface it across to your core finance system to manage it in the appropriate way.

In the example above, this would mean raising an invoice in accounts receivable.

Other examples might include:

- ◆ Recording it as a charge to 'work in progress'.

- ◆ Creating post-purchase documents to settle a debt with a third party.
- ◆ Raising a sales invoice to collect money from a third party.
- ◆ Recording an increase or decrease in stock levels.

In these cases, the finance systems will manage the transactions from a financial point of view.

If the information is captured and managed in the operational system you will need to reflect this in your finance system with a 'control account', reflecting the total value and current balance. This recognises that the financial management of the asset or liability is taking place in the operational system, but its total value is mirrored in the financial ledgers so the balance sheet is complete.

Doing it the right way

There is an adage that the easiest way to do most things is the proper way. How often have you heard: "We have an XYZ ledger, but we have never fully implemented it, instead we keep it all on spreadsheets?" Whilst this might work for a while, it is not a robust long-term solution.

If you understand how your business works across the piece, you will be able to employ the appropriate features to support you. Look at the methods you need to use and ask yourself if you have the appropriate tools for the job. In summary, you need to:

1. Consider your organisation's core business.
2. Interpret this in general terms to identify the systems you need to support the business.
3. Map the finance system interface in the most efficient way in order to capture all the relevant information from the operations systems so you can make best use of the technology at your disposal