

The One “Magic” (and Crucial) Question

Oliver Wendell Holmes, the great jurist, said:

“I wouldn’t give a fig for the simplicity on this side of complexity;
I would give my right arm for the simplicity on the far side of complexity.”

It took me about 15 years, doing the same thing day after day, before the question and answer, on the far side of simplicity, came to me. And since then I have used and repeated it many, many times!

First, however, a short history lesson: Until about 40 years ago ALL Accounting systems and resulting reports were developed in a “closed” mode – meaning each person involved in the process balanced before passing information or reports along to others to further process or use in reports. This was vital since, in a manual processing environment, processing accounting data normally required several individuals. They did not have the current-day luxury, when the report was several steps up or down the ladder, to note an error, make a single change and have everything along the process corrected – they had to balance the work, at each step, so that it was usable and reliable for subsequent use and integration into the system.

Over the last 40 to 50 years the quality of accounting work (in spite of the vastly superior electronic “tools” we have) has been declining since the balancing of work (the very heart of accounting for the prior 500 years) has been neglected and forgotten. “Just correct the number – change the formula and everything will be all right!” Wrong! What if the information has been used to make a key and crucial decision or used to develop a report submitted to others? Only by using the modern-day electronic tools **with** the historic controls will an accounting system properly work. Without using historic balancing techniques, we can process data more quickly, but it will still be wrong!

The question worth a right arm?

How Do You Know it is Right?

It sounds obvious (and it was for almost 500 years), but is seldom asked or answered today – knowing how to “build” systems that ask and answer this question is the art of Accounting; developing systems to properly answer this question was what Accounting professionals were trained for many years ago. Again, back to history – about 40 years ago, as computer professionals were reaching par with their prior Accounting superiors (and since then as they are usually at a higher level than Controllers), the key balancing controls dictated by this question are less and less asked and integrated into systems and reports. The result is that we are working with “open” systems and reports that would have been laughed at 40 years ago (with the ones developing these systems fired!).

Employees are now better trained at pointing fingers (“It’s not my fault!”) than in developing good closed systems – the emphasis should be changed so the system “flags” errors for correction BEFORE the data is used or too much time is wasted. Given the option of good people – average (open) systems or average people – good (closed) systems, the latter will beat the former every time! And unless a Company is located in Lake Woebegone it should expect to have average people! Only in the last 25 years or so has everyone been above average – as the quality of work has declined! Maybe average is not what it used to be.

Closing Pandora’s Box

If reports from a new “open” system are not wrong today they usually will be shortly. All the time and effort spent testing, testing and retesting any open system can be thwarted the first time a

related system's change is made (with the ramifications to "old" applications not considered), or when employees responsible for master file maintenance do not complete their required responsibility, they do it wrong . . . open systems are a disaster waiting to happen!

The answer? Become a Company that asks and answers the key question in developing EVERY report and system – **How do we (and will we each month) know the data and resulting reports are right?** Looking at royalty reporting systems as an example, the following is a closed system that will successfully answer this key question (while, at the same time, usually being far easier than what most Licensees are now doing):

- Export **ALL** Company sales to Excel. Within the Item Master File or a separate table, you can assign fields (form* and line – Licensor and Team codes) so that when the sales are exported they are assigned to each Excel line for sorting and totaling purposes.
- Compare the Excel report (sales) total to total Company sales to make sure the exported sales include all Company sales.
- Sort by Licensor – or better yet, by reporting form*.
- Review unlicensed sales to make sure this section does not include any licensed sales (and if it does, copy the sales to the applicable Licensor/form* and correct the Item Master File coding so these sales are properly classified in the future).
- Post the Licensor/form* totals to an Excel "control" spreadsheet as a check number to make sure subsequent royalty report sales are proper.
- Prepare Royalty Reports.
- Post the completed Royalty Report totals to the above Excel control spreadsheet as a check to make sure report totals agree with the Licensor sales totals.

*Form, rather than Licensor, is the preferred method of "coding" items, within the system, since when coded for a Licensor (and multiple reporting forms are required by the Licensors for different items) you must still further sort the sales by reporting form – by using an initial identification based on the Licensor form (N1, N2, N3 . . . instead of NFL) this eliminates one level of required sorting.

P.S. This same system (the same report, in fact) can usually be used for accumulating and reporting Commissions.

Contrast this closed system with the typical open royalty system. In the normal system, the Royalty Accountant will educate computer personnel in how they should program a system to "grab," sort and total the Licensed sales for reporting to the various Licensors. A few of the problems with this approach are:

- Licensor requirements often change, requiring additional and time-consuming Computer support.
- The process of identifying sales to "grab" is more difficult than simply having the Programmer "dump" all sales to Excel.
- If, as mentioned above, related system's changes are made (with the ramifications on "old" applications not considered) or employees responsible for master file maintenance do not complete their required responsibility the "numbers" will be wrong with errors easily overlooked. Closed systems are more "transparent" than open systems meaning errors are flagged and detected more quickly and easily.

In short, the suggested closed system is easier to develop, less costly to maintain while, at the same time, being BETTER than the typical system; developing a system that allows the user to KNOW what they are doing is right (balancing to "control" numbers) is both more efficient and more effective.

Close Pandora's Box! Know Your Work is Right!