Disconnect Your Accounting Rhythms From The Annual Calendar

By Rob Simons

The "year" defines the amount of time it takes the Earth to make a full orbit around the sun. During this lengthy journey, we experience 4 seasons, 12 months, 365 days, 8,760 hours and 525,600 minutes. But what does our planet's trek around the sun have to do with the accounting rhythm of your organization? The correct answer, unless you are a farmer, is: Nothing.

The calendar year is simply a construct made by humans to help explain and predict the seasons of our planet. It shouldn't have as much impact on business as it does. Frequently I hear business leaders talk about their annual budget, or this year's sales goal. Many bonuses and incentives are based on annual targets. But why should a sales goal be based on the amount of time it takes our planet to travel 92.96 million miles? They have no direct connection.

Years are Great for Taxes, Not so Great for Your Organization

The easiest explanation for the annual accounting rhythm is the government's need to collect taxes. Historically governments collect taxes based on an organization's profitability for the calendar year. Therefore, most companies have adopted the annual calendar for targets and reporting. I believe the time has come (no pun intended) for most organizations to break from the planet's orbital rhythm and adopt a rhythm that makes more sense – the weekly accounting calendar.

The reasons for the move to a weekly rhythm are many, but let's start by discussing the other most common length of time used for company accounting and planning: the month. At first glance, the month looks like an ideal time frame – not too long and not too short. But upon detailed inspection, the month is a very poor time increment. Some months have 28 days, while others have 30 or 31 days. (Even more confusing, every four years we have a month with 29 days.) Some months have four weeks and other have five weeks. Months start and end on different days of the week. Also, the number of work days is inconsistent from month to month. The month has too much variability to make it a consistent measure.

Why the Week?

In a weekly accounting rhythm, every week is exactly the same (excluding holidays). From a behavioral and psychological standpoint, it's also an increment that every human being understands and can grasp. Ask any of your team members what they did last weekend or what they have planned for next weekend and they can likely answer quickly. But ask a team member what they were doing on June 23rd or what is their plan for August 8th and they are likely to look at you like a deer in headlights. This is particularly true for any business that requires timesheets. Ask an employee to complete a missing timesheet from 4 weeks ago and you're likely to get an incomplete and inaccurate record of that week.

The week is very consistent. It always has 7 days. The work week starts on a Monday and ends on a Friday. Because it's only five days, it's easy for team members to plan their week.

The weekly rhythm also allows you to keep a tight pulse on your organization. Too frequently, we wait until the end of the month (or even worse, the end of the year) to measure our performance only to be surprised at a shortfall we didn't see coming. As opposed to seeing a week unfold in real time where adjustments can be quickly made. It also avoids the tendency to put things off until later. ("I'll catch up on my sales goals at the end of the month…")

From a behavioral psychology standpoint, the week has many advantages. First, if you have a bad week, it's easy to forget about it and move on to the next week. If you or your company has a bad month or quarter, it lingers for a long time. And, incentives based on a weekly time increment are more effective because they are awarded closer to the time of the behavior we

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want to encourage. Giving an annual bonus for something that happened 10 months ago has very little impact on behavior. Giving a bonus at the end of the week for something a team member accomplished that week is incredibly impactful.

How to Adapt to a Weekly Rhythm

To make the weekly accounting rhythm work within your organization, you need to adopt closing your books every week. (Every accountant reading this just lost interest in the article.) I'm sure many readers are thinking that it would be overly time consuming to close your books 52 weeks a year. But from a technical standpoint, it's never been easier to collect and reconcile data on a weekly basis.

Banking and credit card statements can be digested on demand. And, internal systems can easily be calibrated to a weekly rhythm – Wwhy wait until the end of the month to send an invoice when you can send it now? Another major benefit of weekly reconciliation is that leadership has more frequent data to make real-time strategic decisions. If sales start to slow down or speed up, you'll know about it almost immediately.

Weekly accounting also builds a larger and more fine-grained data set over the long term. This can be very beneficial in terms of identifying the impact of specific events on your day to day business, giving you the power to devise strategies that are responsive to a rapidly changing environment.

To implement the weekly rhythm beyond the accounting department, hold a weekly meeting to figuratively "close" the prior week and prepare for the upcoming week. I've always found Monday to be the best day for this meeting. It's a great way to look back at last week and ask, "What worked? What didn't work? What are the projects, priorities or tasks that didn't get done?" Follow that with planning for the upcoming week by asking, "What are the priorities this week? What needs to get done? Who is going to do it?" Psychologically it also provides a sense of accomplishment for last week and a feeling of confidence for the upcoming week.

What if I Still Need the Annual View?

Some readers are thinking that there are valid reasons to look at financial data in an annual format, for example, to determine the taxes due this year. In that case, simply look at your data in an annual format, but use the last week as the end of the year – a rolling year made up of the last 52 weeks. In other words, every week is the end of a "year" time period. Now you can see your annual view every week (for tax projections and other reporting).

The rolling view of your data also provides the advantage of removing any seasonality from your perspective. For organizations that deal with major changes in activity level due to seasonality, the rolling view of 52 weeks incorporates all seasons. Now it doesn't matter if we're in our slow or busy season, we just compare the upcoming week to the same week a year ago. The goal is to always improve compared to the same week the year before.

The weekly rhythm will quickly improve the effectiveness of your organization. While you still must file your taxes on a calendar year basis, your accountant will be thrilled that your data will be completed and reconciled in the first week of January. So, don't wait the 8,760 hours for another journey around the sun to adjust your company's accounting rhythm to a more sensible approach – the weekly accounting rhythm.

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