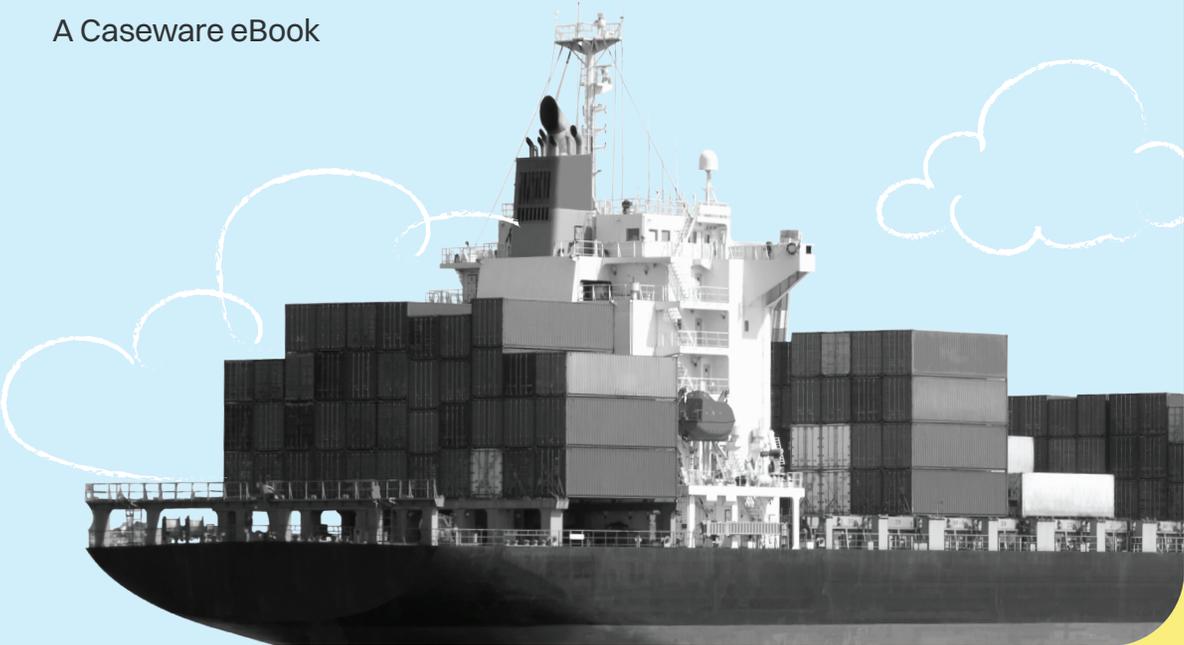
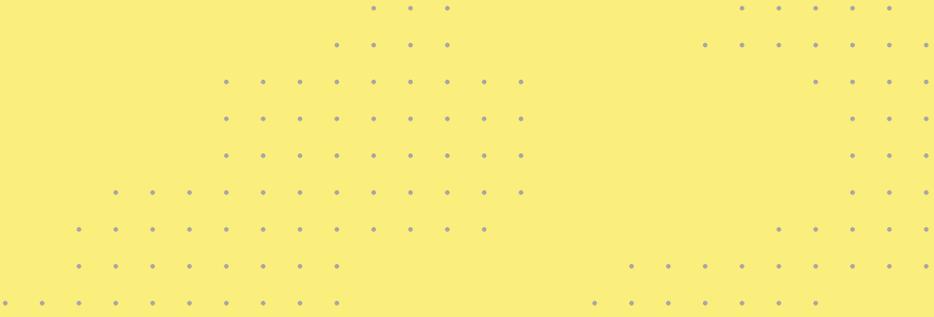
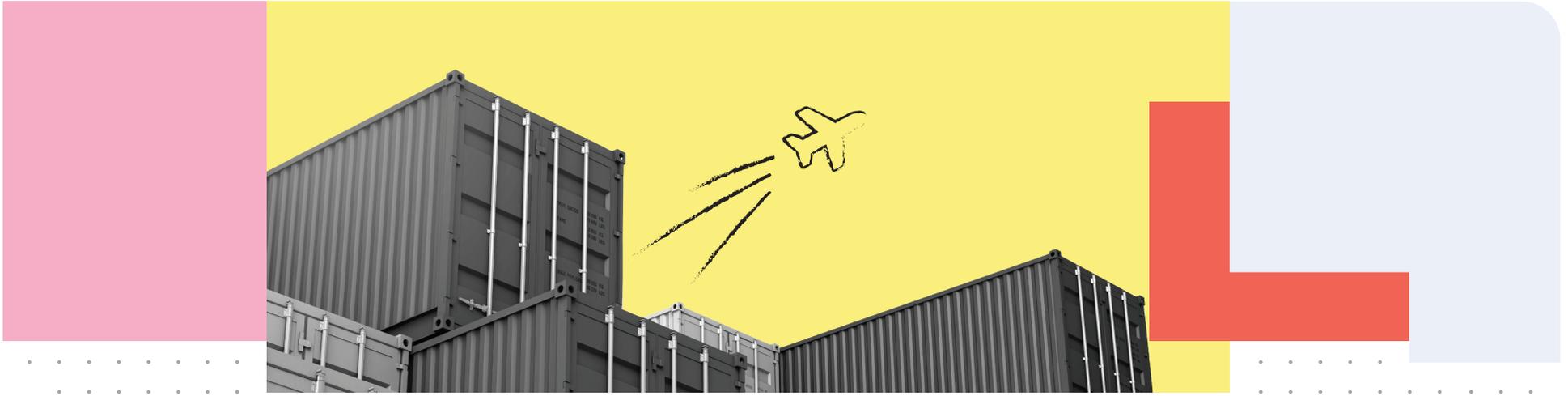


A Caseware eBook



The Accountant's Guide to Managing Supply Chain Disruption





The Global Supply Chain — A Time of Unprecedented Upheaval

Most consumers never think about the supply chain. It's an invisible network that somehow sources and transports goods from halfway around the world so we can purchase them in our local stores.

However, thanks in large part to the recent, global-scale disruptions to supply chains caused by the COVID-19 pandemic, the visibility of the supply chain is increasing. The public is more knowledgeable about it than ever before, but, unfortunately, only because of the upheaval that currently surrounds it.

As an accountant, you're painfully aware of these supply chain problems — but you're also in a position to make a difference.

This eBook will examine the key areas accountants need to focus on to counter the calamity surrounding their organizations' and clients' supply networks. It will serve up useful tips and strategies, while also examining the role new technologies can play to help mitigate the harmful fallout of supply chain disruptions — both those occurring today and those of tomorrow.

Among surveyed CFOs,

44%

report that supply chain shortages or delays increased their companies' costs by 5% or more.¹



The Key Causes of Supply Chain Disruption

Several factors combine to create enormous disruption:

01

Pandemic pressures

that weaken the workforce, slow down logistics and make it difficult to source and manufacture products.

02

Reduced manufacturing capacity

as suppliers mothball production lines and facilities, making them slow to restart and meet renewed demand.

03

Port, shipping and transport delays

due to a lack of workers, shipping assets being in the wrong place, demand spikes and disruptive events.

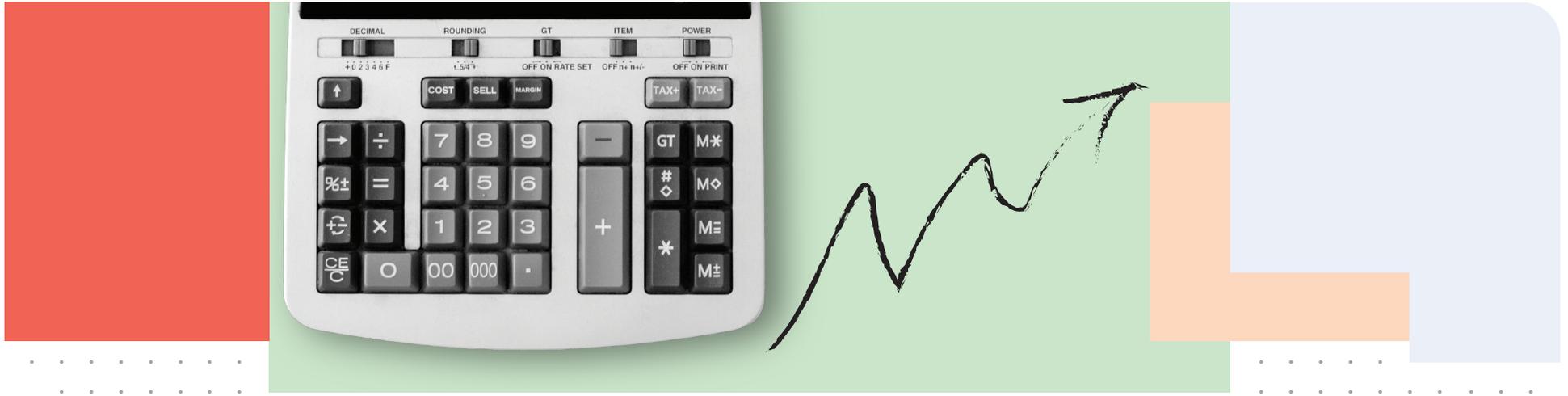
04

Increased consumer demand

as customers come out of the pandemic, get government support, and want to spend their money.

The main focus of this disruption has been on the impact to consumers. However, these problems affect every supply chain stakeholder, from suppliers and manufacturers, through the transportation and logistics sectors, down to retailers and distributors.

This means accountants have a part to play across the entire supply chain.



How Supply Chain Disruption is Impacting Accounting Functions

These pressures are creating unique challenges for accountants. Here are the main problem areas and what you can do to reduce their impacts.

Inventory Management and Valuation

Companies have a lot of their capital tied up in inventory. Supply chain disruption means this inventory and value is often floating in a container ship waiting to be unloaded at a port. Mismatches between stock availability and consumer demand can also mean you'll be left with excess or obsolete inventory values where you will need to minimize losses.

Nearly one-third

32%

of surveyed CFOs note that their 2021 sales have fallen due to delays or shortages, with 28% expecting future sales this year to suffer.²

Accountants can help by:

- Developing detailed reports on exactly how much capital is tied up in inventory values, where that inventory is currently situated, and when it will be available to consumers to release the capital.
- Comparing and contrasting inventory balances and turnover with sales levels, identifying outliers and prioritizing throughput with supply chain management.
- Working closely with order management to balance budgets with the increased lead times required between ordering a product and it being available to consumers.
- Tracking the aging of inventories and how that might impact market-place viability.
- Working closely with product pricing teams to create pricing strategies that allow for some recovery of inventory value, particularly if products are not available during peak season and high-demand cycles.

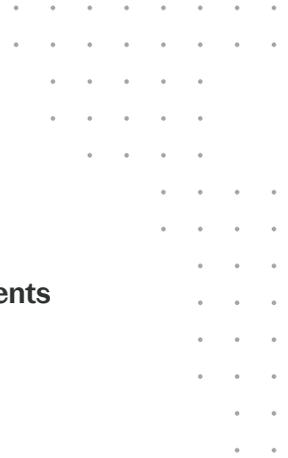
Receivables Recovery

Supply chain disruption and pandemic-induced economic instability are creating difficulties for businesses around the world. These impacts include much thinner margins, cashflow issues and business failures and bankruptcies.

Accountants must be aware of any issues with their direct and indirect downstream partners — particularly a reduced ability to pay and how that will affect accounts receivable.

To help ward off these dangers, they can:

- Create aging receivables and delinquent receivables reports, particularly for businesses where you have a direct relationship.
- Review credit reports for your main partners for early identification of potential issues.
- Focus on the geographic regions and industry sectors most impacted by supply chain disruption.
- Be prepared for additional accounts receivable write-offs and a necessity to increase reserves.



Asset Recovery and Impairment

Delays in the supply chain can also result in falling values for long-term assets. You may need to reduce and write down assets on the company's balance sheet to reflect their real-world value.

- Review the values and possible impairment of contract assets, particularly if a customer cannot pay due or upcoming amounts.
- Audit Property, Plant and Equipment (PP&E) assets that might be affected by declining revenues, cost increases or reduced cashflow.
- Revise amortization and depreciation estimates if the useful life of an asset has been impacted by supply chain delays.
- Test intangible assets and goodwill for impairment due to the pandemic and ongoing supply chain issues.

Cashflow Management

Just as a customer's cashflow can be impacted by supply chain delays and disruptions, so can yours. Accountants can improve cash flow and free up reserves in the business through several approaches:

- Tighten up Accounts Receivable and Accounts Payable reporting so that you can identify potential cashflow issues early.
- Review third-party service level agreements and ensure they're being met by upstream and downstream partners. Enforce financial or other penalties if required.

More than two-thirds of respondents

69%

indicate that their supply chains would become more diversified over the next three years, with 23% expecting greater vertical integration of their supply chains.³

- Keep a close eye on demand, lead times and inventory levels to reduce the amount of capital tied up in inventory.
- Become a key stakeholder in budget negotiations and caution against overspending.
- Encourage stronger Accounts Receivable recovery methods and limit loan amounts.
- Present robust pricing methods and price points that minimize losses.



Supporting Activities to Minimize Supply Chain Disruptions

There are several steps you can take to enhance the supply chain accounting function:

- Develop new metrics to accurately measure the impact of supply chain disruption.
- Audit and strengthen existing metrics and refine them to reflect real-world scenarios.
- Create more realistic financial and business models based on continuing supply chain delays.
- Get more involved in financial risk identification and mitigation, and develop several contingencies for possible scenarios.
- Diversify the supply base to reduce dependencies on specific suppliers, manufacturers, regions or marketplaces.

“Across businesses and industries, key learning for the future relates to increasing supply chain resilience and recognizing that, despite all the pandemic issues, globalization is here to stay. As a result, facets of lean manufacturing should be enhanced rather than abandoned. Associated costing systems such as lean accounting, value-chain accounting and make-or-buy decisions around different warehouse and logistics configurations will remain important.”⁴



Good Accounting Software Can Help Manage Supply Chain Disruption

Advanced accounting software [like Caseware's](#) can help predict problems and manage disruptions in several ways. Such solutions will:

- Allow your team to collaborate effectively on supply chain reports in real time across different locations.
- Automate key reports from multiple sources to ensure data is always consistent and up-to-date.
- Roll over supply chain data across multiple periods to allow for easy comparisons and problem identification.
- Get transparent data to answer questions, model future scenarios and manage information.
- Analyze data and fraud detection in purchase to pay (P2P) cycles, and order to cash (O2C) sales cycles.

Interested in learning more?

Discover how to gain insights to identify problems in your supply chain before they happen with Caseware's advanced accounting software.

[GET IN TOUCH](#)

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