Considerations for 4-4-5 Calendar Adoption for Retail Industry Customers

Traditionally 4-4-5 accounting calendar is a common arrangement for Manufacturing and Retail companies. This paper discusses considerations involved in moving to a 4-4-5 calendar as well as benefits and drawbacks of doing so.

Executive Summary

The 4-4-5 calendar is a common method of managing accounting periods for some industries such as retail and manufacturing. Over the years, we have had clients in the retail and manufacturing space asking what it entails if they were to change the accounting calendar to 4-4-5. Points laid out in the following sections will help any team guide their customers in a more structured and informative way that is backed by real-life consulting experience in such areas.

Prior to inventing the 4-4-5 calendar, retailers who used a straight monthly calendar faced difficulties reporting and comparing their monthly sales since Saturdays and Sundays typically have increasingly large percentage of sales over other days of the week, and the number of weekends in a calendar month always varies. A calendar that maintains the same number of weekends in comparable months was desired and the 4-4-5 calendar was hence developed.

Understanding the 4-4-5 Calendar

It is important to understand how a 4-4-5 calendar is structured before discussing the benefits and drawbacks of moving to such a calendar.

- The 4-4-5 calendar serves as a voluntary guide for the retail industry and ensures sales comparability between the years by dividing the year into 4 quarters with each quarter having two 4-week periods and one 5-week period.

- Grouping of 13 weeks within a quarter may be set up as 5-4-4 weeks or 4-5-4 weeks, but 4-4-5 is the most common arrangement.

- The next three quarters repeat the same formula to complete the fiscal year.

- With the 4-4-5 calendar, you can always end each period on the same day. Typically companies want to end the period on the weekend (Sunday).
The layout of the calendar lines up holidays and ensures the same number of Saturdays and Sundays in comparable months. Hence like days are compared to like days for sales reporting purposes.

Due to the layout of the 4-4-5 calendar (52 weeks x 7 days = 364 days), which results in one remaining day each year, and the occurrence of leap year, it is sometimes necessary to add a 53rd week to the end of the calendar. This occurs approximately every five to six years, though this is not always the case. For example, 1995, 2000, 2006, and 2012 were all 53-week years under the 4-4-5 calendar.

Benefits across the Enterprise Value Chain

Benefits to the enterprise of moving to 4-4-5 calendar are laid in the form of a diagram that discusses such benefits to multiple business areas spanning across the enterprise.

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**Sales Management**
- Same number of selling days as the period last year
- A consistent 13 week, 91 day quarter to measure quarter over quarter financial and operating results
- Allows looking at each year week-to-week
- Provides same number of weekends for comparable periods, especially since weekends tend to be heavier in sales than weekdays
- Easier to understand selling trends due to predictable & uniform year-on-year period-pattern, completely removing the extra effort of adjusting variances otherwise influenced by non-uniform number of selling days

**Budgeting & Forecasting**
- Ability to forecast and plan sales in standard weekly buckets of data
- Each accounting period for one business year corresponds to the same period last year, and the next year
- Assembly of annual sales plan and financial budget becomes easier with consistent predictable periods

**Inventory Management**
- Assures comparable periods always include same number of selling days & also same number of each day of the week
- Inventory Counts can always be on the same day each period

**Labor Planning**
- Helps in shift & payroll planning since end date of any period is always the same day of the week and that every period is the same length (with the exception of 4 periods that have 5 weeks)

**Profitability Analysis**
- Restaurants need to jive today's labor with today's sales - weekly P&L for a restaurant could easily have the ability to marry labor with sales generated from that labor

**Compensation Management**
- If pay schedules are bi-weekly, there may not be a need to do payroll accruals for accounting purposes at all

Figure 1
Drawbacks across the Enterprise Value Chain

It is also important to understand drawbacks of moving to a 4-4-5 calendar before taking the decision or making the recommendation to do so. Some drawbacks that involve multiple business functions across the enterprise are laid out in the diagram below.

Other considerations

Transitioning to a 4-4-5 calendar may have an impact on some other business functions and we have to discuss the same with the client as well, to ensure the client fully understands what it entails to move to a 4-4-5 calendar.

- 4-4-5 calendar has 364 days (7 days * 52 weeks), so approximately every 5/6 years there will be a 53-week year to catch up on the lost days, which can make year-on-year comparison a little difficult, every 5/6 years.
- For the first year of change, sales comparisons with previous year can only be made at the end of each 13-week quarter.

Financial Analysis

- Probable challenge in reporting of taxes because of different reporting periods for sales and payroll taxes vs. financial statements.

Tax Planning

- Changes to 3rd-party applications that interact with Oracle might be warranted, to adhere to change in calendar frequency.

3rd Party Applications

- Since lot of expenses are billed on a monthly basis, accounting for accruals can become cumbersome under a 4-4-5 calendar pattern.

Accounting Impact

Bank reconciliations would have to move from monthly to periodic (4-4-5).
AR Invoicing schedule may have to change.
Client would have to devise an appropriate change management strategy for its staff, since fiscal periods will not strictly adhere to calendar months after the change and that might lead to some amount of confusion amongst the user community.
Conclusion

While there are many benefits for retail customers to move to a 4-4-5 calendar, there are drawbacks as well that will have to be clearly explained to the customers seeking such a change. The important factors and considerations discussed in sections above will definitely help any implementation team gain a better understanding of the complete picture and have more valid discussions with and recommendations for the customer.

About the Author

Parag Mehta is a Senior Manager in Cognizant’s Oracle Cloud Practice. He has been with Cognizant for 5 years now and has overall consulting experience in Oracle of more than 10 years. While Parag has experience in working on Oracle EBS applications, his area of expertise now lies in working on Oracle Cloud applications. He has been part of one very successful financials implementation of Oracle Fusion/Cloud applications and is currently working on another such implementation project.

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