Convert your monthly reporting to a decision-based tool

By David Parmenter

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Many management reports are not a management tool – they are merely memorandums of information. Management reports as a management tool help with the alignment of behaviour in that the reports encourage action to take place, on a timely basis and in the correct direction. In other words, you need to measure and report on those activities the board, management and staff need to focus on … "what gets measured gets done".

Chartered Accountants need to be great communicators to fulfil their role successfully. Gone are the days when reports could simply be drafted without consideration of the reader's needs. Reports should focus on how to best get the message across: what are the salient points? where can this report add value to the reader's understanding? and how can I deliver this report on a better practice time frame?

This article is condensed from a comprehensive white paper on decision-based reporting which also covers board and project reporting, reporting of performance measures (24/7, daily, weekly, and monthly), focusing on late projects and late reports and ways to enhance human resources data.

What is good monthly reporting? First, the information needs to be timely, consistent and presented as a true and fair view of the performance. The value of information provided to management after the fifth working day past month end becomes questionable. I am increasingly coming across teams that are producing month-end reports by day two and day three. Recently a New Zealand company won a $100 team shout from my firm for reaching day one reporting. The better practice benchmark now is clearly three working days with exceptional performance being in a shorter time frame.

Second, monthly reports need to be concise. Board members and senior management teams have complained for years that they are sent too much information, yet we still insist on preparing 20-page month end financials. The cost of preparing, analysing and checking this information is a major burden on the accounting function, creating significant time delays and consequently minimising its value.

The examples which follow show the development of of decision-based reports. Common features are the merging of summary financial numbers (why do we need to show more than 10 to 15 lines on a profit and loss account?), graphs, and comments on one page. ▸

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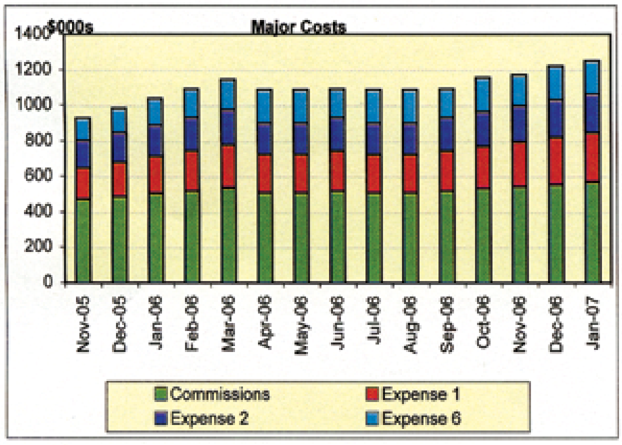
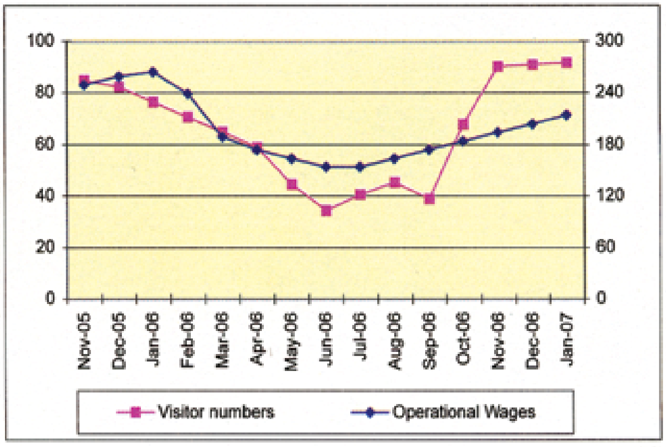
Figure 1 Reporting a business unit's performance

Operations
Operating Statement for the period ending 31 December 20XX

Month $000s					Year-To-Date $000s				Full Year $000s	
Act	Bud	Var			Act	Bud	Var		Budget	Forecast
				Revenue						
1,311	1,147	164	✓	Revenue 1	5,548	5,031	517	✓		
1,311	1,147	164	✓	**Total Revenue**	5,548	5,031	517	✓	0	0
				Less						
567	515	(52)	✗	Commissions	1,455	1,208	(247)	✗		
744	632	113	✓	**Gross Profit**	4,093	3,823	270	⇔	0	0
				Expenses						
278	262	(16)	⇔	Expense 1	898	879	(19)	⇔		
218	212	(6)		Expense 2	539	510	(29)	⇔		
188	182	(6)		Expense 3	409	407	(2)			
158	152	(6)		Expense 4	406	405	(2)			
128	122	(6)		Expense 5	406	403	(3)			
(49)	(90)	(41)	✗	Expense 6	1,042	897	(145)	✗		
520	440	(80)	✗	**Total Expenses**	3,300	3,100	(200)	⇔		
224	192	32	✓	**Surplus/(Deficit)**	793	723	70	⇔	0	0





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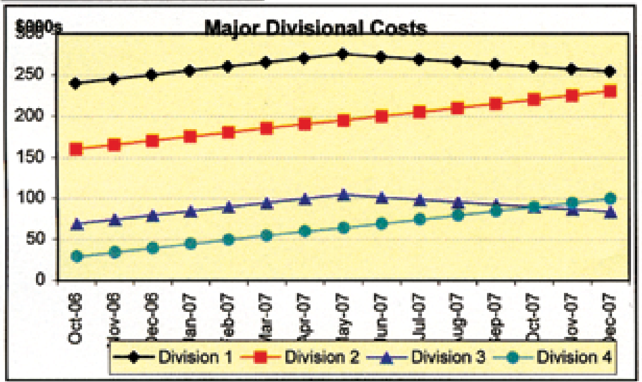
Features: Summarises the P&L. One graph looks at the trend of the major expenditure items (and revenue if a profit centre). The other graph may contrast financial and non-financial numbers, in this case tourist numbers against personnel costs. The notes are the main highlights and action steps to take. No other commentary is provided on the business unit's P/L.

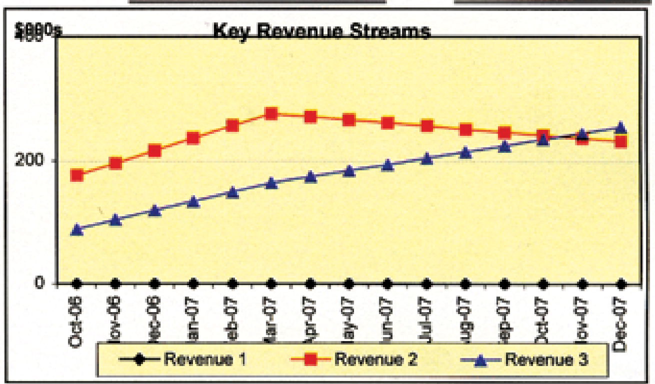
Each business unit may have up to five different graphs and the two that show the most pertinent information are shown in that month's report. Each business unit report will look slightly different. The titles of the key lines and graphs may be different.

Figure 2 Reporting a consolidated Profit & Loss account

Statement of Financial Performance for the period ending 31 December 20XX

Month $000s Act	Bud	Var			Year-To-Date $000s Act	Bud	Var		Full Year $000s Budget	Forecast
				Revenue						
950	930	20	⇔	Revenue 1	6150	5630	520	⇔	8261	8800
220	200	20	✓	Revenue 2	2770	2900	(130)	⇔	3947	3800
220	220	0		Revenue 3	1750	1630	120	⇔	2190	2300
190	170	20	✓	Revenue 4	1330	1280	50	⇔	1372	1400
1,580	1,520	60	⇔	**Total Revenue**	12,000	11,440	560	⇔	15,770	16,300
250	270	20		**Other expenditure**	1370	1480	110	⇔	1607	1500
				Divisional Costs						
250	230	(20)	⇔	Division 1	2710	2420	(290)	✗	3073	3400
230	210	(20)	⇔	Division 2	2090	2180	90	⇔	2786	2700
75	70	(5)		Division 3	1530	1460	(70)	⇔	1819	1900
100	80	(20)	✗	Division 4	1050	1090	40	⇔	1124	1100
75	70	(5)		Division 5	1660	1700	40	⇔	1909	1900
65	50	(15)	✗	Division 6	1470	1500	30	⇔	1623	1600
105	40	(65)	✗	Division 7	990	250	(740)	✗	666	1400
900	750	(150)	✗	**Total Divisional Costs**	10,500	9,600	900	⇔	12,000	13,000
430	500	190	✓	**Surplus/(Deficit)**	130	360	(450)	✗	2,163	1,800





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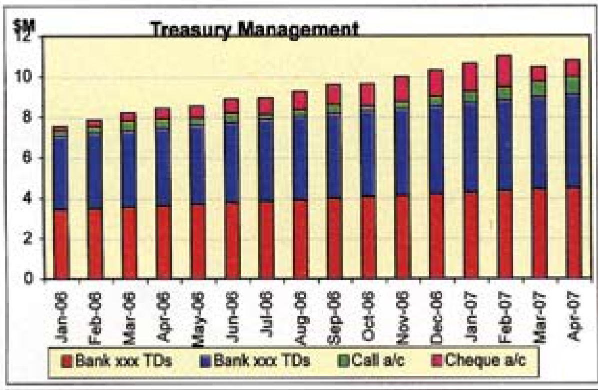
Key
all variances greater than 10,000 are marked with
⇔ within +/- 10% of budget
✗ unfavourable variance
✓ favourable variance

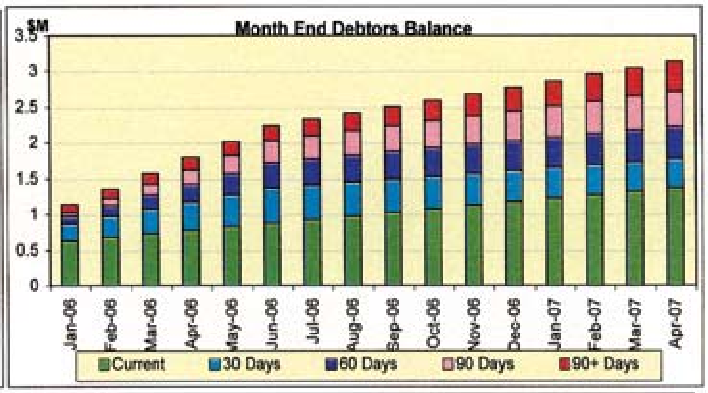
Features: This report summarises the P&L in 10-15 lines. Instead of looking at consolidated costs such as personnel, premises etc, the report summarises the divisions'/business units' expenditure. The graphs look at the trends in major revenue and expenditure. A number of different graphs will be maintained and the most pertinent will be shown. The notes are the main highlights and action steps to take. There is no other commentary on the P/L. The icons are fully automated based on pre-set criteria.

Figure 3 Reporting the balance sheet

Statement of Financial position as at 30 April 20XX

	Month-end Actual	Last month Actual
Bank and Cash	4,000	5,800
Accounts receivables	2,000	1,800
Inventory	2,000	1,800
Fixed Assets	9,000	8,800
Other Non-Current Assets	1,000	800
Total Assets	18,000	19,000
Accounts Payable & Accruals	(3,500)	(2,500)
Other Liabilities	(1,000)	(800)
Net assets	13,500	15,700
Funded by		
Current Year profit	2,700	2,500
Accumulated Funds	10,800	13,200
Total Equity	13,500	15,700





Highlights:

Features: Summarises the balance sheet in 10 to 15 lines and rounds all numbers. Tell management debtors are $2m rather than $1,967,234 – I can assure you they will remember $2m but have forgotten the other number. The graphs focus on main balance sheet issues such as debtors' ageing, stock levels and cash. The notes cover the main highlights and action steps to take. There would be no other commentary on the balance sheet. Another point is that every line added to a balance sheet serves to confuse management and benefits only the accountants. The detailed balance sheet, balanced to the cent, should be left to our working papers!

Figure 4 **Simplified balance sheet**

XXXXXXXXXXXXXXXX
SUMMARY BALANCE SHEET
TEN MONTHS ENDED XXXXX 20XX

		AS AT 30 APR. 20XX As reported $	PREVIOUS MONTH As summarised $
	WORKING CAPITAL		
	Current Assets	2,100,000	2,000,000
	Current Liabilities	(1,200,000)	(1,300,000)
	Total Working Capital	900,000	700,000
	FIXED ASSETS		
	Fixed Assets (orig. cost)	500,000	400,000
	Provision for Depreciation	(200,000)	(300,000)
		300,000	100,000
	Represented by:		
	TAXPAYER EQUITY	$ 1,200,000	$ 800,000

Comments:

1. Equity has increased $xxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

2. We have successfully collected $xxxxxx xxxxxxxxxx xxxxxxx xxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxx xxxxxx.

		ACTUAL AS AT 30 APR. 20XX $	ACTUAL Previous Month $
1	**BANK CALL ACCOUNT**		
	Funds on deposit -	$1,200,000	$250,000
		500,000	550,000
		$1,200,000	$800,000

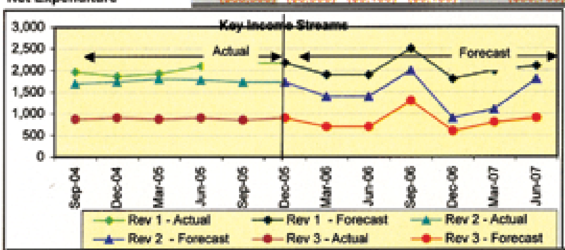
		ACTUAL AS AT 30 APR. 20XX $	CURRENT $	30 to 60 DAYS $	60 to 90 DAYS $	90 DAYS PLUS $	ACTUAL Previous Month $
2	**ACCOUNTS RECEIVABLE**						
	Gross accounts receivable	60,000	35,000	25,000	2,000	6,000	98,000
	Provision for doubtful debts	-	-	-	-	-	-
	Net accounts receivable	$60,000	35,000	25,000	2,000	6,000	$98,000

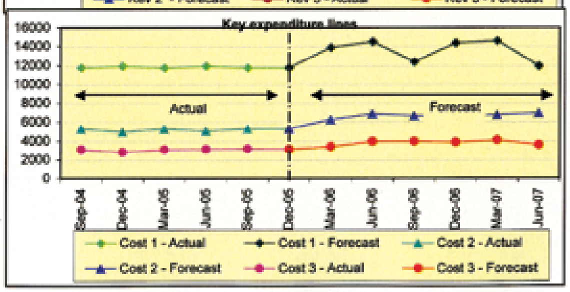
Figure 5 **Reporting Profit & Loss forecast**

Summary of Forecast Profit & Loss for the period ending xxxxxx

* includes estimate for December

	9 months to 31/12 *	Quarter 1 Jan	Quarter 1 Feb	Quarter 1 Mar	Y/E forecast	Quarter 2 Apr	Quarter 2 May	Quarter 2 Jun	Quarter 3 Jul- Sept	Quarter 4 Oct - Dec	Quarter 5 Jan - Mar	Quarter 6 Apr - Jun
Income												
Income 1	6,500	600	700	600	8,400	600	700	600	2,500	1,800	2,000	2,100
Income 2	5,200	500	400	500	6,600	500	400	500	2,000	900	1,100	1,800
Income 3	2,700	200	300	200	3,400	200	300	200	1,300	600	800	900
Total Revenue	14,400	1,300	1,400	1,300	18,400	1,300	1,400	1,300	5,800	3,300	3,900	4,800
EXPENDITURE												
Cost category 1	35,400	4,600	4,700	4,600	49,300	4,800	4,900	4,800	12,400	14,400	14,600	12,000
Cost category 2	15,900	2,000	2,100	2,200	22,200	2,200	2,300	2,400	6,700	6,600	6,800	7,000
Cost category 3	9,500	1,100	1,200	1,100	12,900	1,300	1,400	1,300	4,000	3,900	4,100	3,600
Cost category 4	5,700	600	500	600	7,400	800	700	800	2,300	1,800	2,000	2,100
Cost category 5	4,300	500	600	500	5,900	700	800	700	2,200	2,100	2,300	1,800
Cost category 6	4,100	500	400	500	5,500	700	600	700	2,000	1,500	1,700	1,800
Other operational costs	8,100	900	1,000	900	10,900	1,100	1,200	1,100	3,400	3,300	3,500	3,000
Total Expenditure	83,000	10,200	10,500	10,400	114,100	11,600	11,900	11,800	33,000	33,600	35,000	31,300
Net Expenditure	($68,600)	($8,900)	($9,100)	($9,100)	($95,700)	($10,300)	($10,500)	($10,500)	($27,200)	($30,300)	($31,100)	($26,500)





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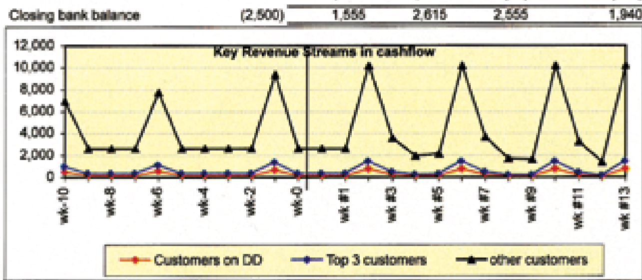
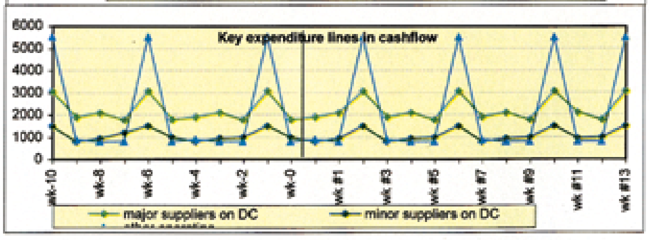
Features: Rolling quarterly forecast showing year end position and the remaining 18 months forward. The expenditure graph looks at the main three expenditure lines and highlights where budget holders are playing the old game of locking in slack. The revenue graph highlights the reasonableness of the sales team's projections.

Figure 6 **Reporting a cash flow forecast**

Summary of cashflow for the next 13 weeks		day 1	day 2	day 3	day 25 last day of the 5th week	week 6		week #13	Last weeks accuracy check: Actual	Cash forecast	Variance (all negative)	
Revenues										-	-	⇔
Customers on DD		405	230	250	405	800	etc	800	1,290	1,500	(210)	×
Customer #1				340			etc		340	280	(60)	
Customer #2		280				1,500	etc	1,500	280	130	(150)	×
Customer #3			240				etc		240	90	(150)	×
Other customers		2,550	1,800	1,900	2,000	10,200	etc	10,200	8,250	8,100	(150)	⇔
Revenue cashflows		3,235	2,270	2,490	2,405	12,500		12,500	10,400	10,100	(720)	⇔
Certain expenditure							etc					
major suppliers on DC		(250)	(350)	(450)	(550)	(3,050)	etc	(3,050)	(1,600)	(1,500)	(100)	⇔
minor suppliers on DC		(110)	(120)	(220)	(320)	(1,500)	etc	(1,500)	(770)	(670)	(100)	×
tax paid (GST, PAYE)		-	(450)	-	-	(450)	etc	(450)	(450)	(350)	(100)	×
payroll				(1,700)	(1,700)	(1,700)	etc	(1,700)	(3,400)	(3,300)	(100)	⇔
Other operating costs		(180)	(190)	(200)	(210)	(5,500)	etc	(5,500)	(780)	(680)	(100)	×
Operating free cash flow		2,695	1,160	(80)	(375)	300		300	3,400	3,600	(200)	⇔
interest expense		(240)			(240)	(240)	etc	(240)	(480)	(480)	-	
Loan & dividends		2,000	(100)	-	-	-	etc	-	1,900	1,900	-	
capital expenditure		(400)					etc	(1,200)	(400)	(400)	-	
Other items e.g. proceeds, other income				20					20	20	-	
Total cash flow		4,055	1,060	(60)	(615)	60		(1,140)	4,440	4,640	(200)	⇔
Closing bank balance	(2,500)	1,555	2,615	2,555	1,940	2,000		860	(2,500)	(2,750)	(200)	⇔





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Features: Summarises the cash forecast and also looks at the accuracy of the forecast of the month just gone against the actual. It is important to:

- separate out those cash flows you are more certain about
- focus on major flows of your top five 5 customers
- analyse expenditure by certain and other operating costs – the certain costs are the flows which are paid by direct credits.

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Figure 7 **Flash report to CEO at end of day one**

Flash report for the period ending 31 December 20XX

	This month $000s			
	Act	Target	Var	
Revenue				
Revenue 1	5,560	5,660	(100)	⇔
Revenue 2	3,560	3,450	110	⇔
Revenue 3	2,450	1,800	650	✓
Other revenue	2,250	2,350	(100)	⇔
Total Revenue	13,820	13,260	(100)	⇔
Less				
cost of sales	11,500	11,780	280	⇔
Gross Profit	2,320	1,480	180	✓
Expenses				
Expense 1	780	760	(20)	⇔
Expense 2	540	520	(20)	⇔
Expense 3	220	200	(20)	✗
Expense 4	180	160	(20)	✗
Other expenses	470	620	150	✓
Total Expenses	1,790	1,860	70	⇔
Surplus/(Deficit)	530	(380)	910	✓

Highlights:
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It is important not to give to many numbers as you will set up another set of variance reporting. Remember to state your degree of accuracy e.g. +/- 5% , =/- 10%.

Action points:

- brainstorm the changes you want to make
- obtain better practice templates to avoid reinventing the wheel
- redo last months report based on the new formats and obtain clearance from management to go ahead.