

Management Accounts

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What do I want you to get
from this session?

Session outcomes

- Draft a concise and useful set of management accounts
- Explain and assist clients to manage going concern challenges
- Calculate and explain relevant ratios
- Assist clients to manage their working capital risks
- Identify additional services and revenue streams for the accountant's practice

Financial Statement Analysis

Turnover is Vanity

Profit is Sanity

Cash Flow is Reality

Non financial indicators

- Press
- Staff
- Competition
- Customer base
- Legislation (BBEEE)
- Corporate citizenship
- Technology and innovation
- Production and quality

What is the strategy of the business?

Why do businesses need a financial manager?

Financial Manager

- Internal vs external function
- Balance point of view to the managing director
- Managing of financial resources
- What resources does your business have?
- What does your business do?
- What keeps you awake at night?

Purpose of Reporting?

Purpose of reporting

- What accounting system are you using?
 - Computerised vs manual
 - Desktop vs Online
 - Real time vs Historic
- Producing data for decision making purposes
- Internal reporting vs external reporting
 - Who are your users for which reports?
- Frequency of reporting

Types of Reports

- Annual financial statements
- Bank financial info
- SARS info
- Performance Reporting – HR, Production, Sales
- Margins and profits
- Liquidity and Solvency

Going concern problems

What info do we need to track?

- Need to look for red flags and have contingency plans in place

Going Concern

- **Financial Factors**

- Net liabilities or current liabilities
- Borrowings due
- Withdrawal of creditor support
- Negative cash flow
- Adverse ratios
- Operating losses
- Dividends in arrears
- Unable to pay creditors
- Credit to COD
- Unable to obtain financing

- **OPERATING FACTORS**

- Intention to liquidate
- Loss of key management
- Loss of market, customer, supplier, etc.
- Labour difficulties
- **Supply shortage**
- **New competitor**
- **Covid 19**

Reports and Ratios

Essential Reports

- Profit and Loss Statement
 - By Nature or Function
 - Service, retail, manufacture
 - Per product or geographical
- Cash Flow Statement
 - Access
 - Inflows vs Outflows
 - Historic, budget, forecasts
 - Format
- Capital Expenditure
- Staff costs
- Sales forecasts and targets
- Productivity
- Working Capital
 - Debtors,
 - Inventory,
 - Creditors,
 - Cash

Groups of Ratios

- Liquidity
 - Asset Management
 - Debt Management
 - Profitability
 - Cash Flow
 - Market Values
- Working Capital Management
 - Accounts Receivables
 - Credit risk
 - Bad debts
 - Concentration of risk
 - Inventory
 - Reorder levels
 - Nature of inventory
 - Obsolescence
 - Accounts Payables
 - Discounts and payment terms
 - Cash flow requirements

Ratio Analysis

- **Liquidity**

- Co. ability to meet it's maturing obligations
- Cash Flow/ Cash Budget

- **Current (2:1)**

Current Assets

Current Liab.

- **Quick (1:1)**

CA - Inventory

Current Liab.

Ratio Analysis

- **Asset management**

- How effectively is management utilising the Co. assets??

- **Inventory Turnover**

Cost of Sales (or Sales)

Inventory

Stock Obsolesence Prov??

- **Average Collection Period (DSO)**

Accounts Receivable

Sales/365

Allowance for credit losses (prov for DD)??

Ratio Analysis

- **Asset Management (Cont.)**

- *Property, Plant and Equipment Turnover*

$$\frac{\text{Turnover}}{\text{Average PPE (NBV)}}$$

- *Total Asset Turnover*

$$\frac{\text{Turnover}}{\text{Average Operating Assets}}$$

Ratio Analysis

- **Debt Management**

- Total Debt : Total Assets
- Times Interest Earned

$$\frac{\text{EBIT}}{\text{Interest Expense}}$$

- Total Debt : Total Equity
- Deferred Tax

Ratio Analysis

- **Profitability**

- **GP Margin**

$$\frac{GP}{Sales}$$

- **Net Profit Margin**

$$\frac{NP (EAIT)}{Sales}$$

- **Return on Assets (Investment)**

$$\frac{Earnings}{Total Assets}$$

Ratio Analysis

- **Profitability**

- ROA

- **Earnings:**

- EBIT = **BEP**

- Also known as **BASIC EARNING POWER**

- Useful to compare co.s with different gearing and tax structures.

- EBIAT (most correct)

- NP (Understates Return)

Ratio Analysis

- **Profitability**

- **Return on Equity**

$$\frac{\textit{Earnings after tax}}{\textit{Total Shareholders' Funds}}$$

- **Cash Flow to Total Debt**

- Indicator of financial stability

- $$\frac{\textit{CF from operations}}{\textit{Total Debt}}$$

Ratio Analysis

- Market Value Ratios

- Dividend yield (SH getting)

$$\frac{\text{DPS}}{\text{Price per share}}$$

- Earnings yield (SH demanding)

$$\frac{\text{EPS}}{\text{Price per share}}$$

- Price Earnings (SH willing to pay for reported earnings)

$$\frac{\text{Price per share}}{\text{EPS}}$$

Ratio Analysis

- Market Value Ratios

- Dividend Cover

$$\frac{\text{EPS}}{\text{DPS}}$$

- Market vs Book

$$\frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

- Book Value = Net Assets/ No of Shares
 - Indicates value added by Management

Limitations of FS Analysis

- Difficult to compare a highly diversified enterprise to industry averages
- Average performance is not necessarily good
- Inflation distorts BS
- Seasonal factors distort ratios
- “Window Dressing” AFS
- Different operating and accounting policies
- Difficult to tell if ratio good or bad
- Difficult to tell if Co’s ratios overall are good or bad (conflicting signals)

What makes a good set of management reports?

Is Integrated Reporting relevant to the SME space?

- “An **integrated report** is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term.”
- Information is power
- Assist in making good decisions
- What information does each part of the business need to track performance and forecast for the future

Budgeting process

- Most basic but critical report needed
- Accountability is king
- Numbers mean nothing without context
- What do you need?
 - Past data
 - Sales forecast
 - Strategy of entity
- Types of budget
 - Cash flow
 - Capex
 - Productivity

Starting point

Good data

- Source of data
- Capturing process
- Level of data
- Chart of accounts
- Case study – Training and Consulting Co
- Products vs departments

Example

- Fictitious
- Using what I know
- Can take it further – per presenter

	Presenter 2	Presenter 1	360	Other	Total
Consulting					
Seminar					

Chart of accounts

Income
Admin Fee
Compilation Engagements
Consulting - Accounting
Consulting - General
Consulting - Legislation and MOIs
Consulting - Tax
General Retainers
Inhouse training - 360
Inhouse training - Accounting
Inhouse training - Assurance and Ethics
Inhouse training - Legislation
Inhouse training - Tax
Recovery of venue and catering costs
Referral Fee
Seminar - 360 training
Seminar - Accounting
Seminar - Assurance and Ethics
Seminar - Legislation
Seminar - Other
Seminar - Tax
Training retainers
Travel time and costs
Webinars - 360 topics
Webinars - Accounting
Webinars - Assurance and Ethics
Webinars - Legislation
Webinars - Other
Webinars - tax
Total Income

Profit and Loss
Training and Consulting Co
For the month ended 31 May 2019

	Budget	YTD Budget
Income		
Admin Fee	5,000	15,000
Compilation Engagements	30,000	90,000
Consulting - Accounting	15,000	45,000
Consulting - General	15,000	45,000
Consulting - Legislation and MOIs	15,000	45,000
Consulting - Tax	-	-
General Retainers	35,300	105,900
Inhouse training - 360	10,000	30,000
Inhouse training - Accounting	9,000	27,000
Inhouse training - Assurance and Ethics	9,000	27,000
Inhouse training - Legislation	9,000	27,000
Inhouse training - Tax	-	-
Recovery of venue and catering costs	4,600	13,800
Referral Fee	5,000	15,000
Seminar - 360 training	12,000	36,000
Seminar - Accounting	6,500	19,500
Seminar - Assurance and Ethics	6,500	19,500
Seminar - Legislation	6,500	19,500
Seminar - Other	-	-
Seminar - Tax	-	-
Training retainers	500	1,500
Travel time and costs	2,500	7,500
Webinars - 360 topics	5,000	15,000
Webinars - Accounting	5,000	15,000
Webinars - Assurance and Ethics	5,000	15,000
Webinars - Legislation	5,000	15,000
Webinars - Other	-	-
Webinars - tax	-	-
Total Income	216,400	649,200

Less Cost of Sales		
Handouts - printing	500	1,500
Subcontractors	15,000	45,000
Venue hire and catering	4,600	13,800
Total Cost of Sales	20,100	60,300
Gross Profit	196,300	588,900
Less Operating Expenses		
Advertising	1,000	3,000
Bank Fees	1,000	3,000
Cleaning, refreshments and Staff welfare	4,500	13,500
Computer and software expenses	5,500	16,500
Consulting & Accounting	1,500	4,500
Depreciation	6,334	19,002
Directors Salary	120,000	400,000
Entertainment	3,000	9,000
Fines and penalties	-	-
General Expenses	500	1,500
Insurance	1,300	3,900
Interest Expense	2,500	7,500
Light, Power, Heating	3,000	9,000
Motor Vehicle Expenses	7,000	21,000
Office Expenses	500	1,500
Printing & Stationery	1,000	3,000
Rent	4,000	12,000
Repairs and Maintenance	500	1,500
Staff training	500	1,500
Subscriptions	2,500	7,500
Telephone & Internet	4,500	13,500
Travel - National	4,000	12,000
Wages and Salaries	4,000	12,000
Workmens compensation	366	1,098
Total Operating Expenses	179,000	577,000
Net Profit	17,300	11,900

Actual vs Budget

	Actual	Budget	Var ZAR	Var %	YTD Actual	YTD Budget	Var ZAR	Var %
Income								
Admin Fee	-	5,000	- 5,000	-100%	9,000	15,000	- 6,000	-40%
Compilation Engagements	50,000	30,000	20,000	67%	175,000	90,000	85,000	94%
Consulting - Accounting	10,000	15,000	- 5,000	-33%	30,000	45,000	- 15,000	-33%
Consulting - General	4,000	15,000	- 11,000	-73%	36,000	45,000	- 9,000	-20%
Consulting - Legislation and MOIs	-	15,000	- 15,000	-100%	9,800	45,000	- 35,200	-78%
Consulting - Tax	18,000	-	18,000		42,000	-	42,000	
General Retainers	50,000	35,300	14,700	42%	300,000	105,900	194,100	183%
Inhouse training - 360	10,000	10,000	-	0%	10,000	30,000	- 20,000	-67%
Inhouse training - Accounting	-	9,000	- 9,000	-100%	-	27,000	- 27,000	-100%
Inhouse training - Assurance and Ethics	18,000	9,000	9,000	100%	18,000	27,000	- 9,000	-33%
Inhouse training - Legislation	-	9,000	- 9,000	-100%	-	27,000	- 27,000	-100%
Inhouse training - Tax	-	-	-		17,000	-	17,000	
Recovery of venue and catering costs	3,522	4,600	- 1,078	-23%	11,000	13,800	- 2,800	-20%
Referral Fee	13,000	5,000	8,000	160%	13,000	15,000	- 2,000	-13%
Seminar - 360 training	9,565	12,000	- 2,435	-20%	15,652	36,000	- 20,348	-57%
Seminar - Accounting	33,415	6,500	26,915	414%	43,000	19,500	23,500	121%
Seminar - Assurance and Ethics	-	6,500	- 6,500	-100%	-	19,500	- 19,500	-100%
Seminar - Legislation	21,083	6,500	14,583	224%	30,000	19,500	10,500	54%
Seminar - Other	-	-	-		7,500	-	7,500	
Seminar - Tax	7,748	-	7,748		46,000	-	46,000	
Training retainers	-	500	- 500	-100%	-	1,500	- 1,500	-100%
Travel time and costs	4,056	2,500	1,556	62%	21,000	7,500	13,500	180%
Webinars - 360 topics	6,000	5,000	1,000	20%	6,000	15,000	- 9,000	-60%
Webinars - Accounting	22,000	5,000	17,000	340%	25,000	15,000	10,000	67%
Webinars - Assurance and Ethics	-	5,000	- 5,000	-100%	-	15,000	- 15,000	-100%
Webinars - Legislation	-	5,000	- 5,000	-100%	-	15,000	- 15,000	-100%
Webinars - Other	4,000	-	4,000		12,000	-	12,000	
Webinars - tax	-	-	-		10,000	-	10,000	
Total Income	284,388	216,400	67,988	31%	886,952	649,200	237,752	37%

	Actual	Budget	Var ZAR	Var %	YTD Actual	YTD Budget	Var ZAR	Var %
Less Cost of Sales								
Handouts - printing	-	500	- 500	-100%	192	1,500	- 1,308	-87%
Subcontractors	2,898	15,000	- 12,102	-81%	12,898	45,000	- 32,102	-71%
Venue hire and catering	4,930	4,600	330	7%	6,026	13,800	- 7,774	-56%
Total Cost of Sales	7,828	20,100	- 12,272	-61%	19,116	60,300	- 41,184	-68%
Gross Profit	276,560	196,300	80,260	41%	867,837	588,900	278,937	47%
Less Operating Expenses								
Advertising	-	1,000	- 1,000	-100%	8,609	3,000	5,609	187%
Bank Fees	1,026	1,000	26	3%	3,954	3,000	954	32%
Cleaning, refreshments and Staff welfare	1,020	4,500	- 3,480	-77%	7,082	13,500	- 6,418	-48%
Computer and software expenses	1,738	5,500	- 3,762	-68%	24,500	16,500	8,000	48%
Consulting & Accounting	4,348	1,500	2,848	190%	12,296	4,500	7,796	173%
Depreciation	-	6,334	- 6,334	-100%	-	19,002	- 19,002	-100%
Directors Salary - CAM	120,000	120,000	-	0%	-	400,000	- 400,000	-100%
Entertainment	1,764	3,000	- 1,236	-41%	8,432	9,000	- 568	-6%
Fines and penalties	-	-	-		10,325	-	10,325	
General Expenses	160	500	- 340	-68%	892	1,500	- 608	-41%
Insurance	1,402	1,300	102	8%	4,207	3,900	307	8%
Interest Expense	1,814	2,500	- 686	-27%	4,969	7,500	- 2,531	-34%
Light, Power, Heating	2,331	3,000	- 669	-22%	3,836	9,000	- 5,164	-57%
Motor Vehicle Expenses	4,142	7,000	- 2,858	-41%	16,694	21,000	- 4,306	-21%
Office Expenses	1,216	500	716	143%	7,011	1,500	5,511	367%
Printing & Stationery	451	1,000	- 549	-55%	4,977	3,000	1,977	66%
Rent	-	4,000	- 4,000	-100%	7,128	12,000	- 4,872	-41%
Repairs and Maintenance	-	500	- 500	-100%	-	1,500	- 1,500	-100%
Staff training	4,283	500	3,783	757%	4,283	1,500	2,783	186%
Subscriptions	-	2,500	- 2,500	-100%	-	7,500	- 7,500	-100%
Telephone & Internet	4,339	4,500	- 161	-4%	13,628	13,500	128	1%
Travel - National	985	4,000	- 3,015	-75%	11,091	12,000	- 909	-8%
Wages and Salaries	-	4,000	- 4,000	-100%	-	12,000	- 12,000	-100%
Workmens compensation	-	366	- 366	-100%	-	1,098	- 1,098	-100%
Total Operating Expenses	151,020	179,000	- 27,980	-16%	153,912	577,000	- 423,088	-73%
Net Profit	125,541	17,300	108,241	626%	713,924	11,900	702,024	5899%

Basics of dashboard reporting

Detailed vs Dashboard

- Dashboard
 - Overview
 - Need to provide useful info on a regular basis
 - Highlight key issues, risks and trends
 - Visual format
 - Clear and concise
- Reporting package reports
- Limitations
 - Value lost
 - Excel spreadsheets – data entry risk, data manipulation

Creating dashboard reports

Planning the report

- What are your overall needs?
- Outline
 - The info needs of the users
 - Key areas that should be monitored
 - Info that is currently available
 - Info that will have to start being collected
- Which key players need to be involved?
- Which systems need to be drawn from?
- Consulting with external accountants

What is in the report?

- Step 1 – What needs to be included to evaluate business performance and underperformance
- Step 2 – incorporate any key measures implemented to improve performance as a result of evaluating the report
- Step 3 – identify key strategic goals and other key goals (eg marketing plans)
- Step 4 – incorporate key risks (eg breach of compliance issues, loan covenants)
- Step 5 – incorporate opportunities – forecasts and trends

What is in the report? (continued)

- Step 6 – Who is the audience? What are their needs? Internal vs External
- Step 7 – speak with your users and get their input (feedback cycle)
- Step 8 – Speak to employees and others – what do they believe the users should know?
- Step 9 – Step back and evaluate. Filter the above to identify key of business risks and drivers.
- **At all times – ask why is this information important to the users and business?**
- **Suggestion – top 5 factors**

Developing the information

- How should this info be presented in the report?
- Filtering system when considering what to include:
 - Why is this info important? (So what principle?)
 - Why is the issue presented happening?
 - The performance measure or business metric of the business
 - The acceptable levels of variance for the key metric
 - Impact of each issue on future performance
 - How often users need this info?
- Categorise info
 - Historic, forecasts, trends
 - Operational activity
 - Compliance
 - Strategy

Developing key metrics

- Need something to compare things to
- Benchmarks
 - Industry, Historic, Budgets
- Key performance indicators (KPIs)
 - Sales, Margins, Productivity, BBEEE level
- Metrics should be easy to **create, understand, and explain**
- Highlight assumptions used in business
- **Only set as many metrics as necessary**
 - Used as a trigger for further analysis
 - Needs to be flexible
 - Highlights real – need to limit number reported on
 - Mix and match principle (keep risks and key drivers to a minimum)

Examples of Key Metrics

Sales

- Sales for the period
- Comparison to same period last year
- Comparison against budget
- Cumulative YTD
- Total discounts given
- Discounts as a % of sales
- Physical number of sales
- Quotes made vs accepted
- Averaged value of individual sales
- Sales - % cash vs % credit
- Sales per employee
- Sales per item
- Top selling item
- Sales growth
- Number of new customers

Work in Progress

- Number of orders taken
- Orders in progress
- Orders completed, not invoiced
- Outstanding deliveries
- Production issues

Gross profit

- Stock purchases for the period
- Stock on hand (projected sales)
- Stock aging
- Stock on order
- Gross profit %
- Gross profit margin
- Mark up

Net profit

- Total amount of variable expenses
- Variable expenses as a % of sales
- Total amount of fixed expenses (% of sales)
- Monitoring variation in individual expenses – trigger for investigation
- Net profit value
- Net profit %
- Break even calculation
- Performance against budget

Business efficiency

- Debtors days (bad debt write offs, concentration of debt)
- Creditors days
- Inventory days
- WIP days
- Stock turnover
- Quality control – returns
- Inventory to total assets
- Age analysis – debtors, creditors

Cash flow/liquidity

- Cash balances and investments
- Financing facilities
- Cash flow forecast
- Working capital available
- Current ratio
- Quick ratio
- Leverage ratio
- Debt: asset ratio

Solvency/Balance sheet

- Total sales to total assets
- Return on assets
- Return on investments
- $E = A - L$

Other

- Business planning
 - Designed to entity specific
- Other KPI's
 - Department targets
 - Goals
 - Strategy
 - Drivers
 - Risks

Data Collection

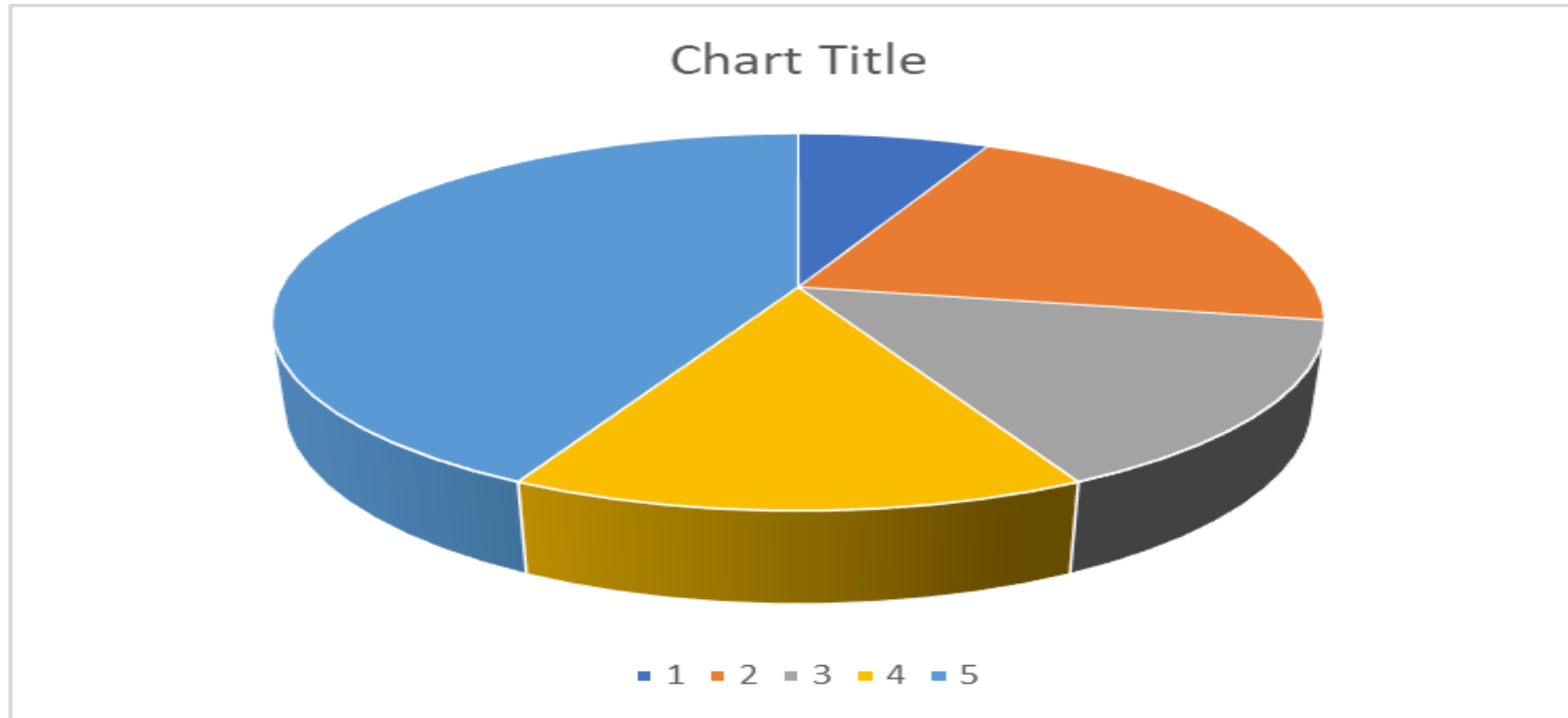
- Initially will take time and resources
- Once designed and implemented – system must be streamlined
- Must be easy to populate and produce
- Automatic and no intervention required
- Part of routine business operations

Format of Report

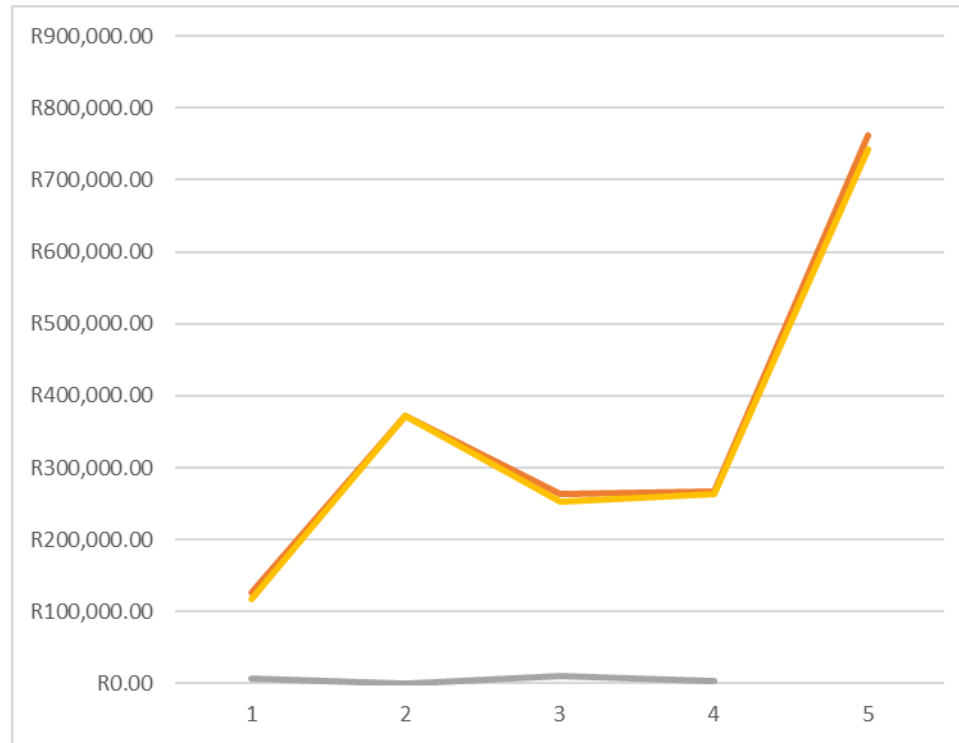
- **Fit to purpose**
- May produce a couple for different departments/purposes
- Group info
- Visual not tabular
- Critical to success – understandable at a glance
- Charts, colours, symbols (arrows, pictures)
- Numbers kept to a minimum
- Objective is to create an **OVERVIEW** of data
- Frequency – minimum monthly, but certain info may be needed weekly or daily

Examples of visual aids

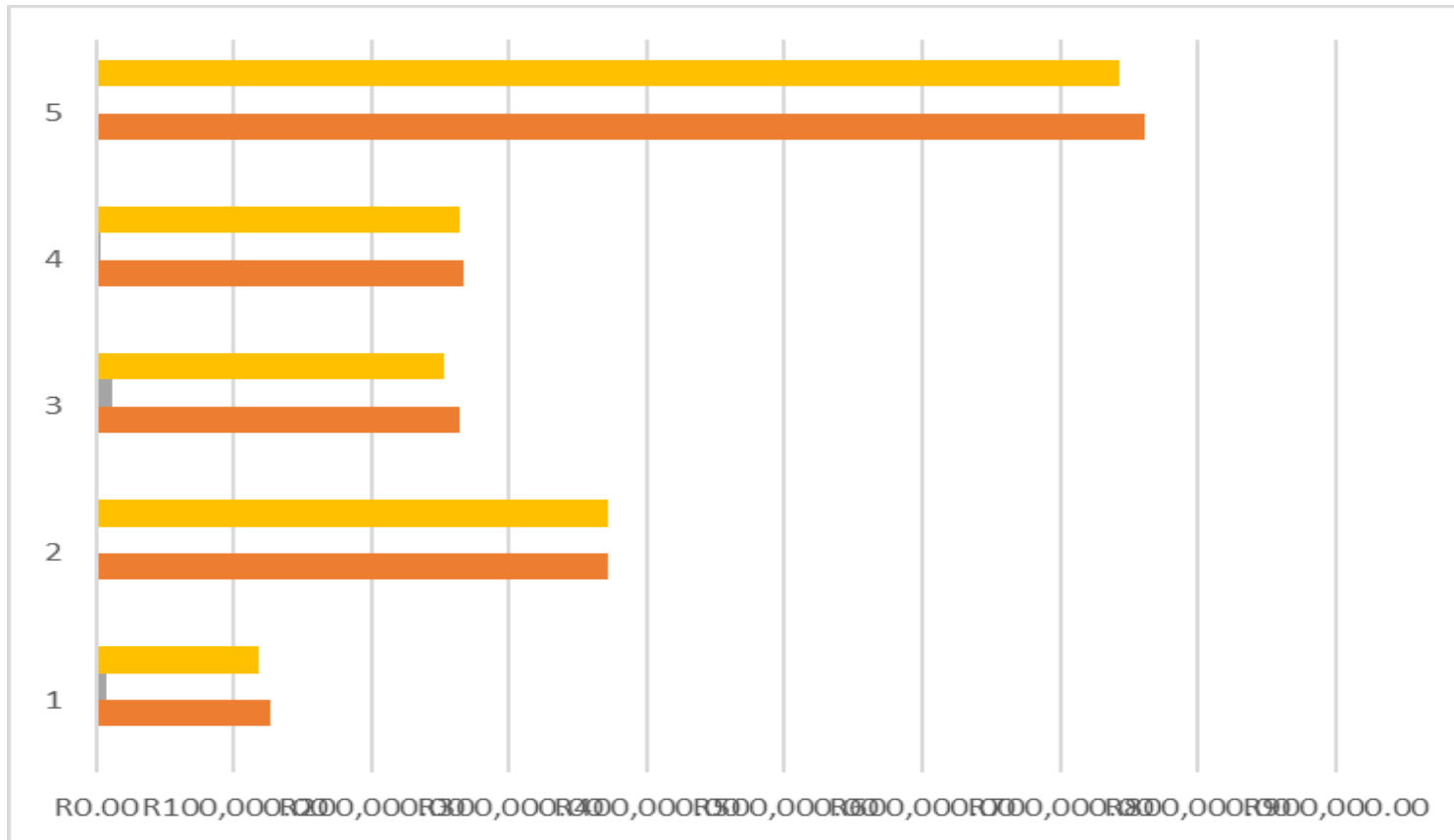
Pie Chart



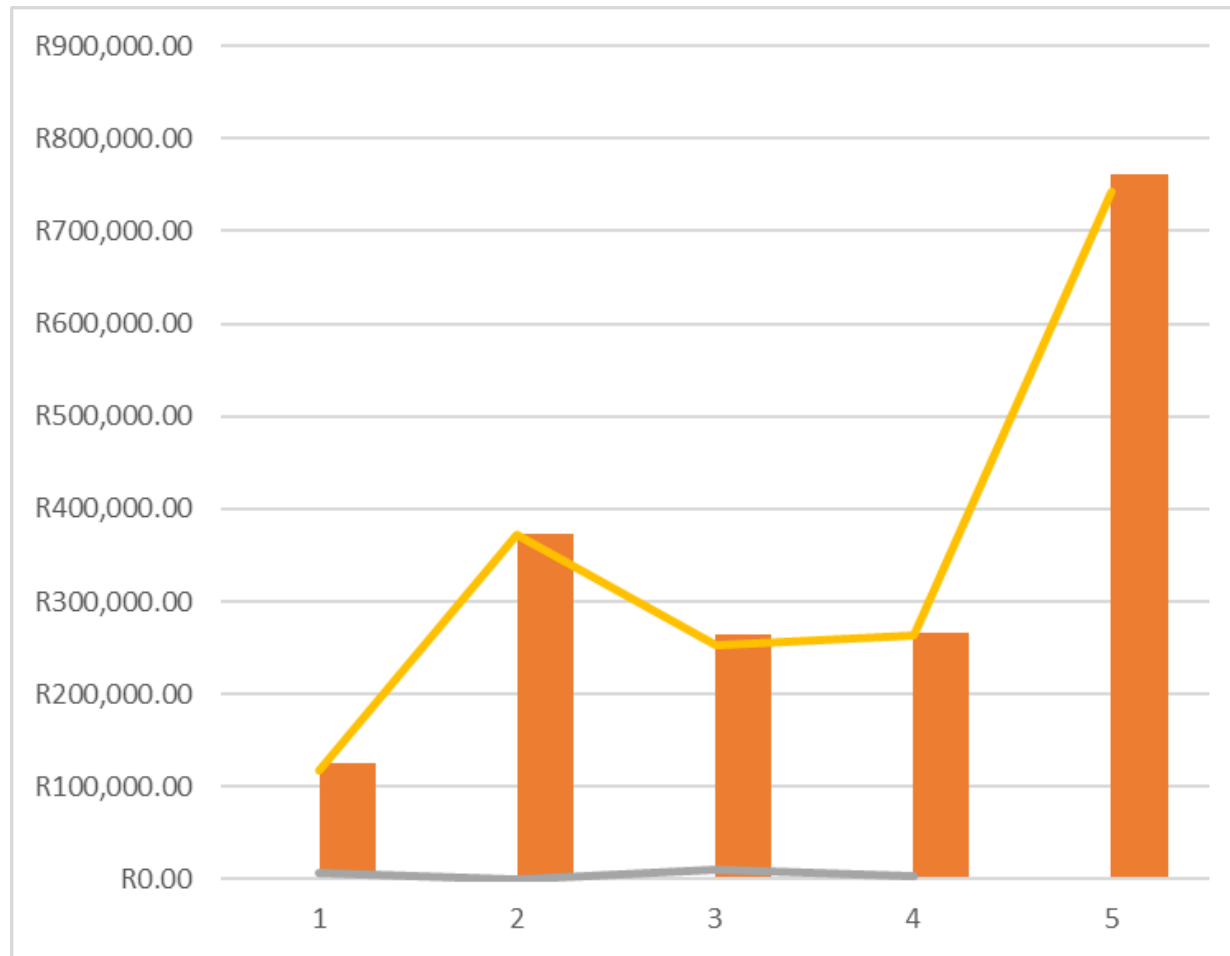
Graphs



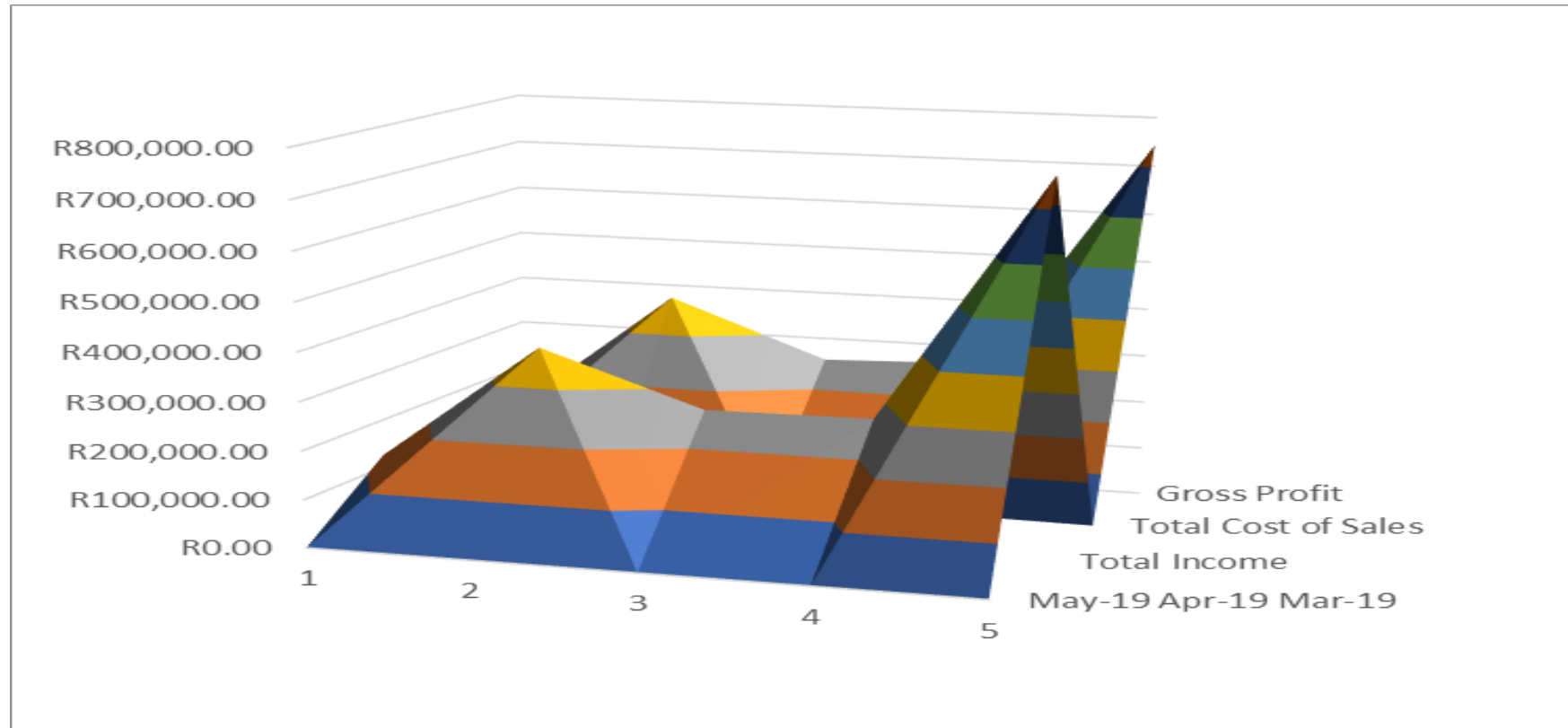
Bar Charts



Cluster column



Surface area



-
- QUESTIONS





for your participation!