

Strategic Management Accounting for Business

ACCOUNTING

With Phuthanang Motsielwa



- About the Presenter
- Introduction
- Objectives
- Financial accounting to management accounting
- Developing a framework
- Trusted business advisor
- Questions

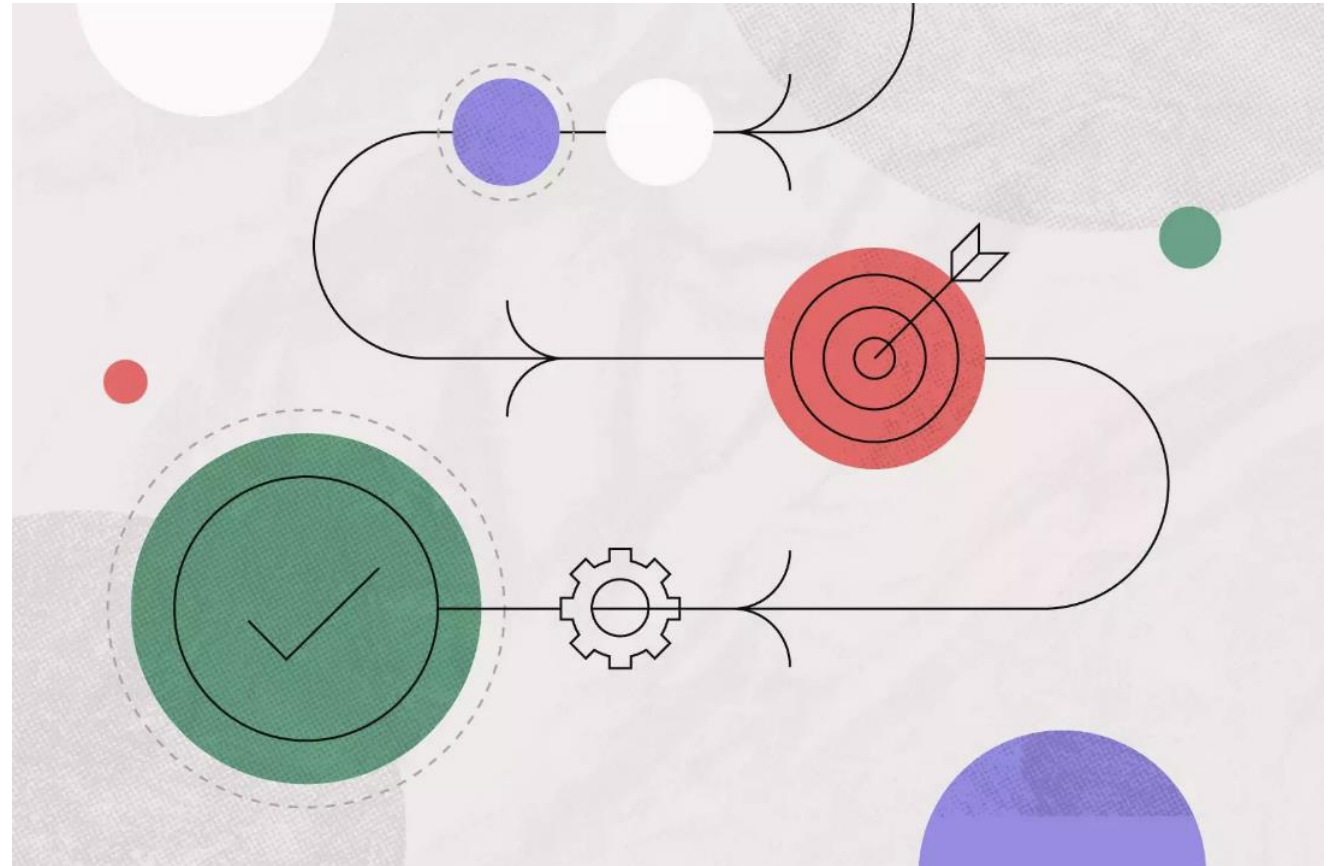


About the Presenter

- Phuthanang Motsielwa
- CA (SA)
- RA
- Director at PSTM Chartered Accountants
- Small business cheerleader
- Aspiring children's book author
- Serve on boards and audit committees

The Objectives of This Training

- New innovative thinking skills to obtain the right business intelligence about an enterprise that will inform decision-making in creating value and growth,
- Ability to use management accounting reporting and tools in a strategic context to drive sustainable growth in a business,
- Insights to performance measures, descriptors and declarations that you can use in practice to guide you to assist clients in their strategic decision-making,
- Facilitate an appropriate guiding framework for you and your team to ensure a consistently positive client experience,
- Act as a trusted business advisor on business performance with the ability to present clear recommendations that will ensure long-term sustainable growth and profit.





Matt Margolis
@ItsMattsLaw

My accountant just googled when tax day is in front of me.
I'm going to jail.



TB4A.eth
@TheBig4Tweets

Partner: the firm will provide a team of highly qualified professionals that will leverage their industry expertise to assist you
the engagement team:



**accounting
in textbooks**

**accounting
in practice**

INTRO



What are management accounts

- Typically included:
 - Balance sheet
 - Profit and Loss
 - Debtors/Creditors age analysis
 - Cash Flow



Purpose of management accounts

- Decision making for maximising profit and cash inflow and reducing losses
 - Determination of upcoming possible liabilities/cash outflows
 - Scenario analysis
 - Identification of anomalies





Financial Accounting

- Historical basis
- Transaction and compliance based
- Uses Accounting framework
- Generally accepted format
- Usable for banks/other funding/SARS
- Macro decision making

Management Accounting

- Interpretation of financial accounting
- Future focus
- Lots more detail and intuitive
- Granular decision making
- Room for more narrative
- Building block for business planning





What are management accounts used for

- Strategic decision making
- Data analysis
- Starter for meaningful conversations
- Capital raising
- Helps achieve goals and keep accountability
- Aids in business planning
- Identification of cash draining activities
- Mergers and acquisitions



**What's an accountant's
favorite brand of cereal?**



POST!



Financial Accounting

- Up to date as often as possible
 - Clear SLA with client
 - Client accountability for document requests
 - Use of technologies
 - Automatic bank feeds
 - Skilled staff to identify any errors before reporting

<https://www.xero.com/uk/media-releases/xero-reveals-digital-divide-remains/>



The reality...

Turnover =
Vanity



Profit =
Sanity



Cash Flow
= REALITY



Financial Accounting to Management Accounting





Financial accounting to management accounting

- **Interpretation of financial accounting**

- Future focus
- Lots more detail and intuitive
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Interpretation of financial accounting



INVENTORY BALANCE = R 1
000 000



CREDITORS BALANCE = R
800 000 – PAYMENT WITHIN
60 DAYS OF INVOICE



INVENTORY DAYS = 96



POSSIBLE SOLUTIONS



NEGOTIATION OF CREDIT
TERMS

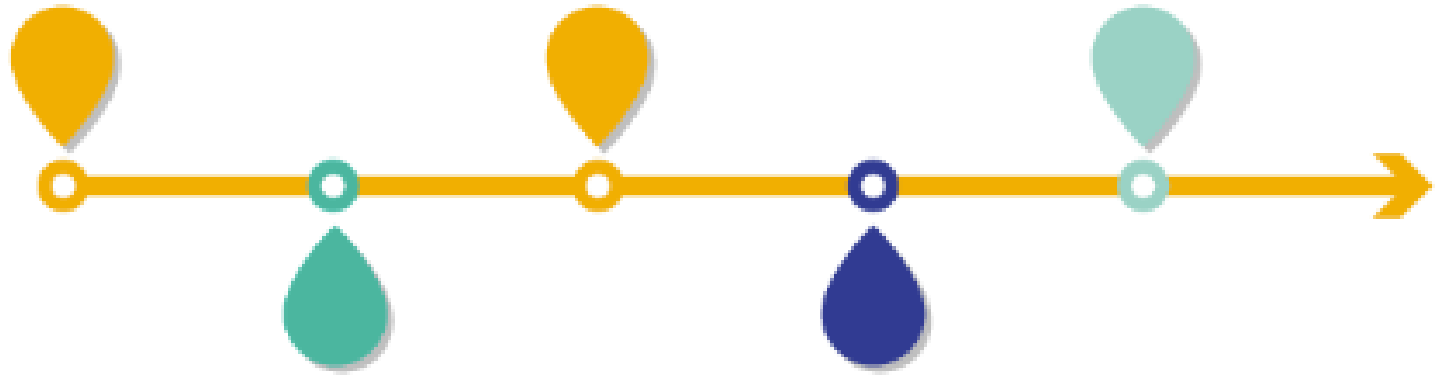


PURCHASE LESS INVENTORY
AT ANY TIME



DEBTORS TO SETTLE
INVOICES WITHIN AT MOST
30 DAYS

Interpretation of financial accounting



- Net loss = R 500 000
- Shareholder loan = R 800 000 (comparative R 0)
- Services contract in place for R 9 500 000 to commence after 1 month
- Investment required to get ready to service contract = R 800 000



 **CASH IS KING**

 **CASHFLOW IS QUEEN**

Identifying cash drivers



- Decide what you want to call them (KPI's/business drivers/cash drivers/value drivers/growth drivers)
- Make it relatable for your clients
- Be consistent in your usage of the language
- Keep calling your team and clients back to the objective – cash flow



Identifying cash drivers – History of accounting

- Accounting's history can be traced back thousands of years to the cradle of civilisation in Mesopotamia and is said to have developed alongside writing, counting and money. The early Egyptians and Babylonians created auditing systems, while the Romans collated detailed financial information
- Double entry system of accounting invented in Italy in the 15th century
- Industrial revolution required multiple strategies for businesses, among them was the need for sophisticated accounting systems to form part of business strategies, to enable businesses to handle the complex world of global transactions
- 19th century in Glasgow, Scotland saw the development and signature of the first charter of accountants. The accountants sought to separate themselves from solicitors (mainly legal services)
- 1887 – Formation of the American Institute of Certified Public Accountants
- 1904 – 8 people were the first members of the London Association of Accountants
- Early 20th century saw economists and accountants 'arguing' about cost and financial accounting, and finally concluded that they are different but related disciplines, and that there is a need for both
- We are yet to uncover the non-modern history of accounting on the African continent with the Timbuktu manuscripts and other texts
- **PRESENT DAY ACCOUNTING**

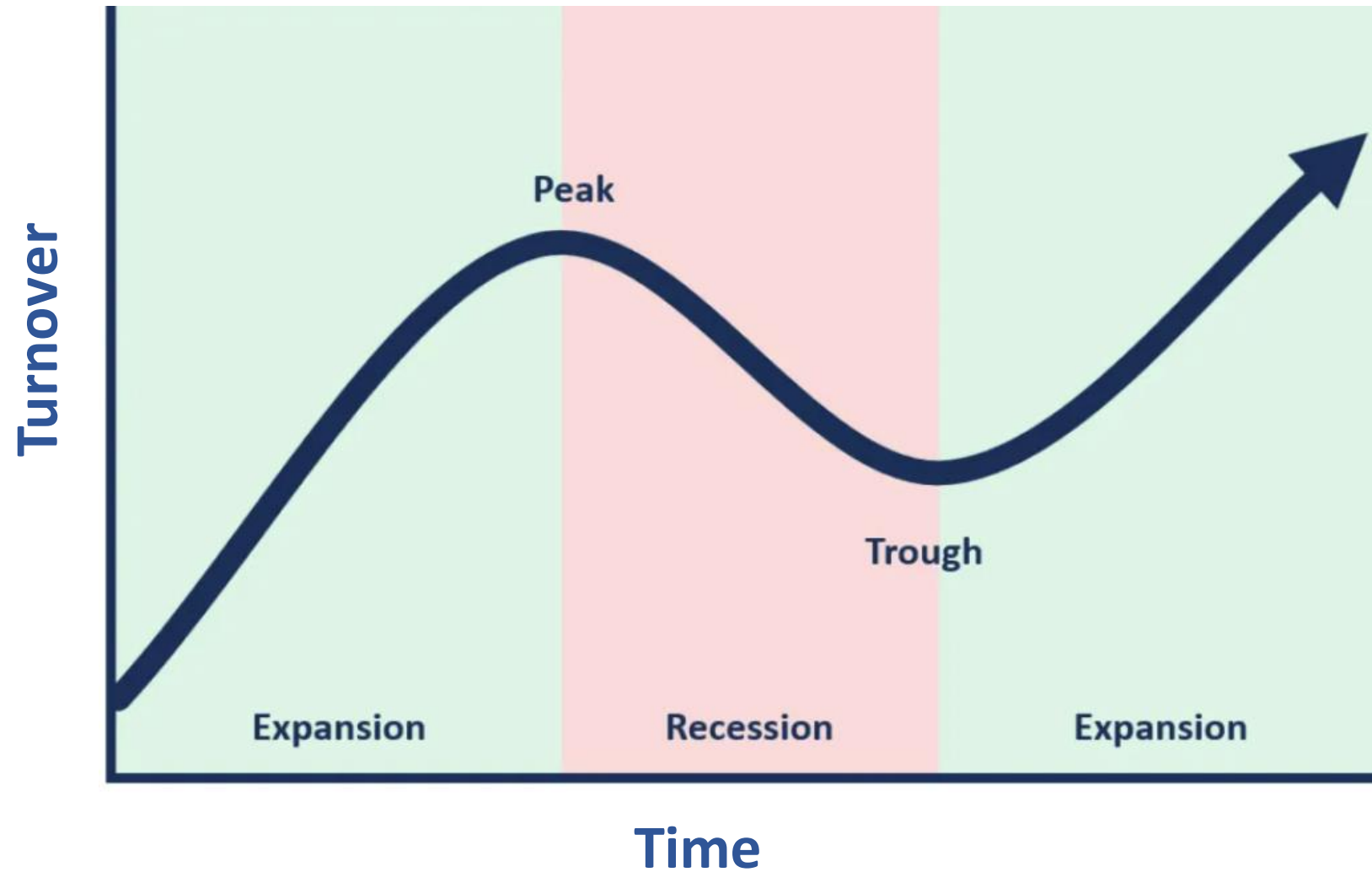
Identifying cash drivers

Accounting equation

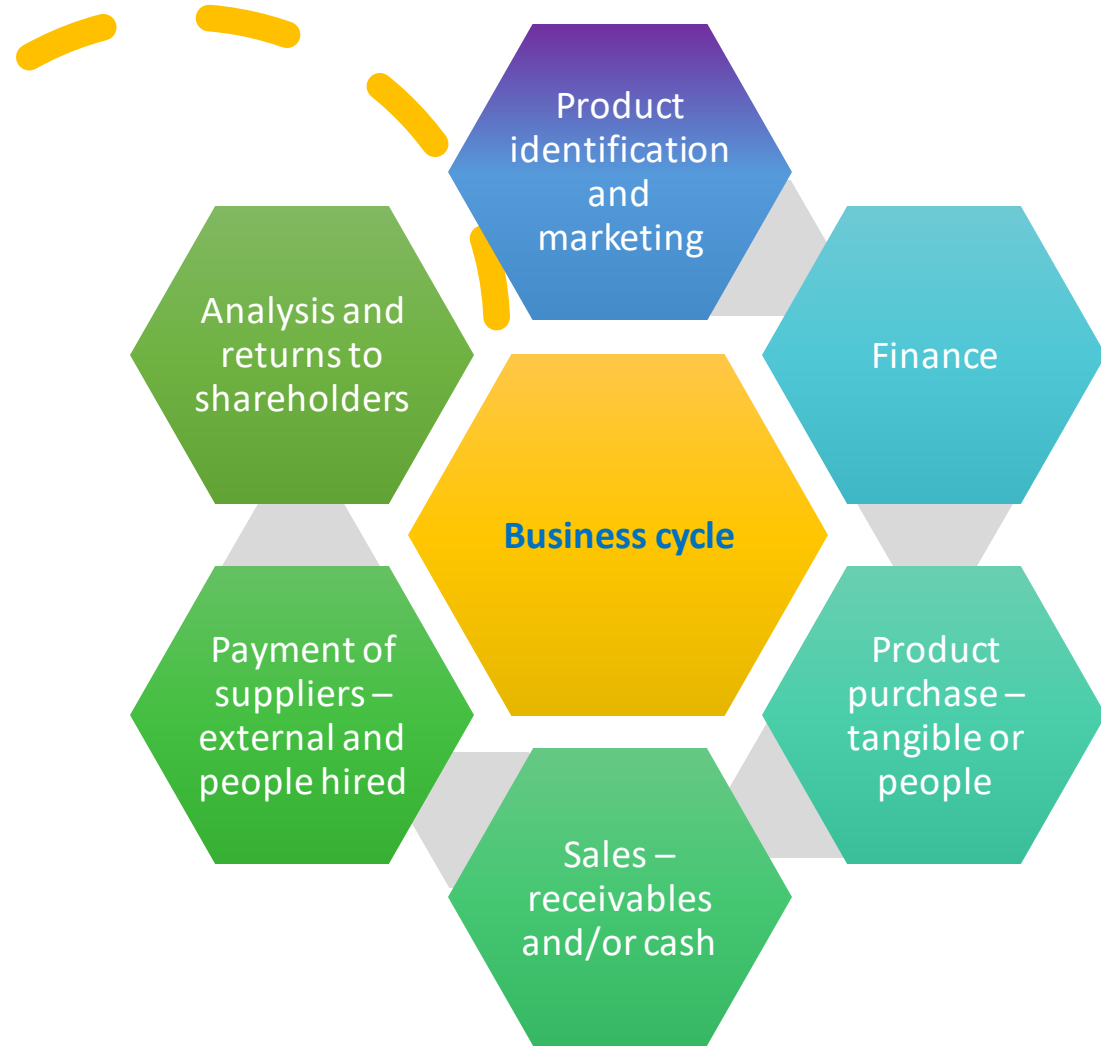


Total assets = liabilities + equity

Identifying cash drivers – business cycle



Identifying cash drivers





Examples of cash drivers

- Financial systems and the identification thereof
- People
- Personalised and rapid reporting
- Advisory and consulting
- Use of technology
- Financial and other skills transfer
- Strategic planning and growth
- Customer satisfaction (NPS)
- Compliance
- etc



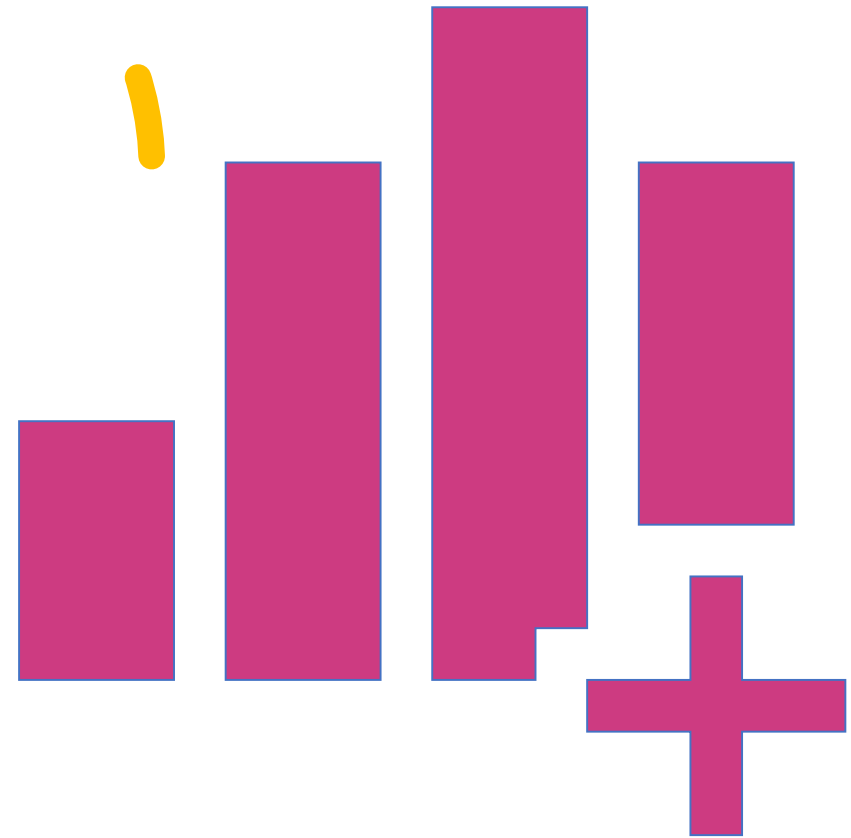
Why are these useful

- Assists in directing the conversation
- Assists in training your client on value preservation for their business
- Assists staff in processing information and asking questions from clients
- Assists in defining a methodology
- Reduces margin of error in interpretation of financial information
- Enables the client to see the value of the work you are doing



Reporting against cash drivers

- Remember: we start with financial reporting and adapt it for what is important in each business, that we would want to point out to management



Reporting against cash drivers – people example



- Management has determined that they require 16 staff members to service current clients and the expected growth
- The company currently has 14 staff (P+L against budget shows 'saving') with 2 actual vacancies, and staff turnover has typically been at an average of 1 per year
- Now there is a phenomenon of the great resignation, and we can expect more than the typical 1 person movement per year
- You as the accountant would indicate to management to review staff engagement and career paths for staff, and to invest in their recruitment processes, and ensure that they are comfortable with what is in place, in case they are required to recruit additional staff
- Management may have access to further insights from other HR related information, e.g. all leave types taken by staff on average, staff that is currently studying, staff on promotion path etc, which may also help with decision making

Reporting against cash drivers – use of technology

- Management makes use of a system for the generation of invoices and statements for clients
- You as the accountant make use of a different system and are required to manually import that data into your system to produce their financial reports
- This process is quite tedious and requires quite a bit of time and investment from your staff, as such they are always playing catch-up, also because your client is not diligent in sending through this data to you as their service provider. This hampers on the process of decision making
- You identify that the two systems can in no way be integrated
- You find that your system has an extra module that allows for invoicing and statement compilation for clients





Financial accounting to management accounting

- Interpretation of financial accounting
- **Future focus**
- Lots more detail and intuitive
- Granular decision making
- Room for more narrative
- Building block for business planning

Future focus – forecasting and budgeting

- Financial forecasting tells us whether the company is heading in the right direction, and what needs to be put in place to achieve certain objectives/goals
- Budgeting is based on current scenario and facts
- The need for both is determined by where your client is in their business cycle



Future focus - Budget



All businesses generally require a budget

A budget is generally sufficient when a business isn't going through a growth phase

Generally sufficient where there is predictability of finances with normal disruption to be expected

Future focus - Forecasting

- Generally useful in the growth/expansion phase of a business
- Useful for integration into the business budgeting process
- Takes into account various scenarios – e.g. what type of capital can the business get or testing out two different products which can not be incorporated at the same time



Future focus – how do we budget/forecast

- Make use of technologies – templates available, and will assist you with review of data vs compilation of data from scratch
- Prepare and have the conversation with your client to account for possible trends/expected anomalies etc
- Monitor as you move through time and compile your financial reports
- Consider if any data on your models should be adjusted and have another conversation
- Decision making process





Financial accounting to management accounting

- Interpretation of financial accounting
- Future focus
- **Detailed and intuitive**
- Granular decision making
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I don't Know





Detailed and Intuitive

- Two companies, same industry, similar financial reports, but very different management reports
- Two different strategies and management styles
- Different focus areas
- Direction driven by you and your client

How to determine what to report?

- Management focus and their why
- Specific events within client environment – e.g. founder exit strategy underway or client looking to expand geographies in the near future
- Project that is proving to be cash draining
- Develop your own intuition in terms of what clients say vs what they actually need. E.g. your client may say to you that they can see they are busy working and they have clients, but they don't feel like they themselves have improved their lives in any way
- Have a directed conversation with your client



Development of reporting templates



- Use of technologies
- Understand that what you are reporting on in June 2022 may look completely different from what you report in June 2023
- Patience with your client is the game
- Realisation of value with your clients
- Have a clear understanding of your client's why

the 3 keys to success in accounting



-
- **Accounting Intuition:** “If we make the principles of accounting accessible to everyone, then not only will that benefit those individuals but society as a whole.”



Developing accounting intuition

- The gift of time – be patient
- Consult with more experienced accountants
- Use technology
- Invest in yourself – reading, webinars, YouTube, podcasts etc
- Read listed financial statements for understanding and read between the lines





Financial accounting to management accounting

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Financial accounting



Management accounting



Granular decision making

- Financial accounting
 - Revenue = R 10 000 000
 - Staff salaries = R 4 000 000
- Management accounting
 - Average revenue per staff member = R 1 000 000
 - Support staff salaries = R 2 000 000
 - Revenue range per staff member = R 500 000 to R 2 000 000
 - Is this scenario wrong or right?



Financial accounting to management accounting

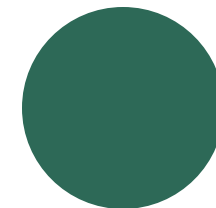
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- Not directed by standards
- Not fixed and quite fluid depending on current strategy and business focus areas
- Opportunity to be very analytical
- Opportunity for future assumptions
- Allows for management creativity in performing their duties
- Opportunity for focus



Room for more narrative





Financial accounting to management accounting

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- **Building block for business planning**

Building block for business planning – Strategy being key

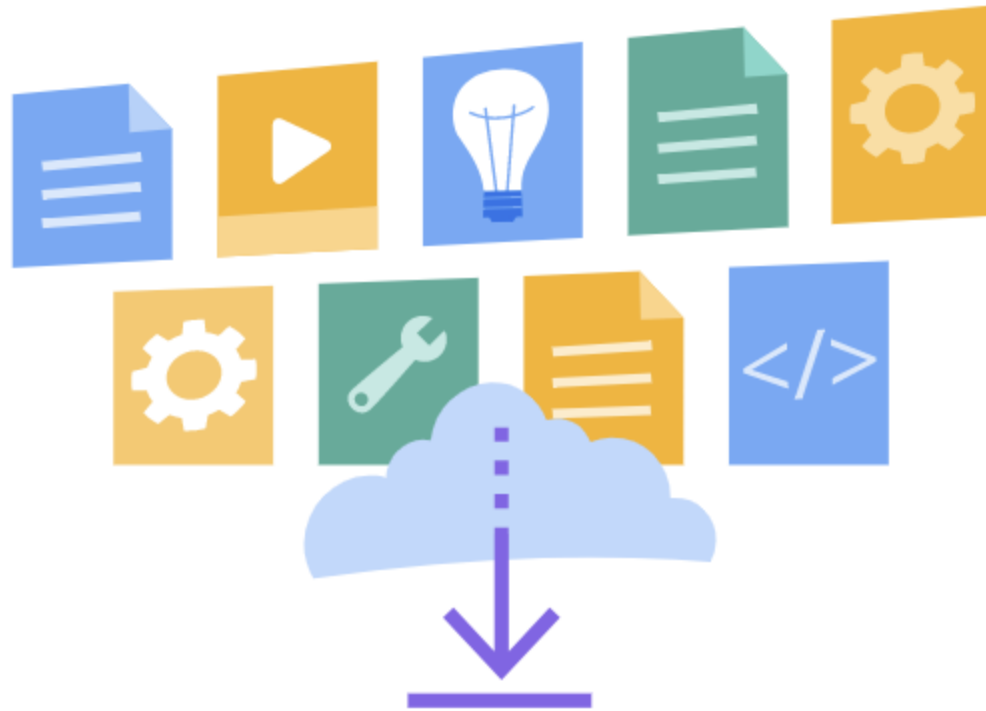
- Where are we making money?
- Where are we losing money?
- Do we have the right product mix?
- Should we be investing more in sales and marketing?
- Is there an opportunity to build better relationships with our suppliers?



Creating
value for
our clients



Developing a Framework



Developing a framework



Use your cash drivers
as a basis



Develop open
questions per driver



The point is to listen
to your client and
allow them to speak



Develop a high level
template



Understand this is an
iterative process





Example

- Cash driver – Strategy
 - Does the company have a documented strategy?
 - How often is it reviewed?
 - What is management intending to focus on in the next few years?
 - Does your company have a board of directors?
 - Has there been a change of strategy in recent years?
 - What is your biggest concern regarding your strategy?
 - Are there any elements of your strategy that you consider to be very ambitious?
 - Any metrics in place to measure quality?
 - Are we clear on what performance is?

Example

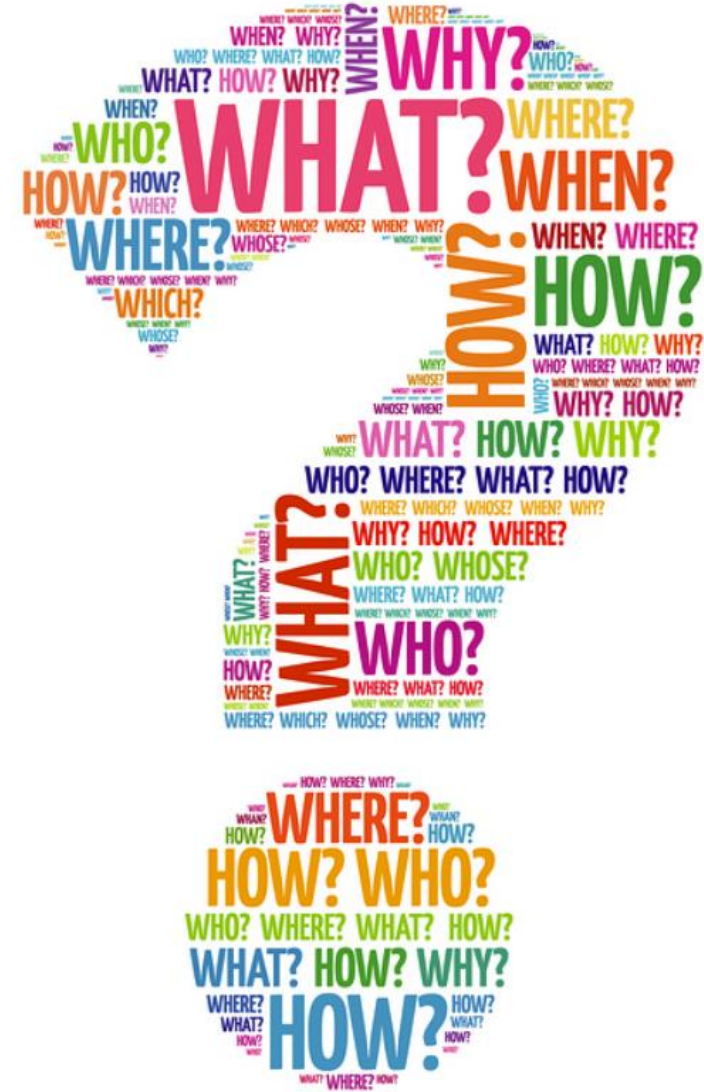
- Cash driver – Compliance

- Are you SARS compliant?
- Are you CIPC compliant?
- Does your company require to be audited?
- When was the last audited financial year?
- Are your financial statements from the previous year signed?
- Are you compliant with COIDA?
- Are there industry specific compliance requirements?
- Who keeps track of all compliance in the business?





Developing a framework





Developing a Framework



Developing a Framework



Becoming a Trusted Business Advisor

Elon Musk unveils humanoid robot to take over 'boring' work

Accountants:





Becoming a Trusted Business Advisor

- Listen
- Ask the right questions
- Be considerate
- Relationship building
- Demonstrate your value

THE BIG 4
ACCOUNTANT

i'm an accountant

**that's
cool!**

can you do my taxes?

Bottom Line



Questions



Connect With Me



 Phuthanang Motsielwa



Thank You.

