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FACT SHEET

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WHAT SHOULD MY FINANCIAL REPORT TELL ME?

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As manager of an agribusiness firm you are a busy person. Today you may be concerned about (1) employees who did not show up for work, (2) that rush order you have to get out this afternoon with the delivery truck in the shop for service, (3) an item that you desperately need which cannot be delivered for 3 days and (4) your accountant wanting to spend all afternoon with you going over your books for last month.

ALL AFTERNOON? You are tempted to tell your accountant, "I can't spend all afternoon. I'll spend half an hour with you." If you train your accountant right, you can get all the information you need to analyze your business in ½ hour. This fact sheet gives guidelines for training accountants to present periodic information to management.

A manager's instructions to accountants or bookkeepers should include the following information:

- How *often* you want reports
- The *type* of information you want
- How data is to be *presented*

Frequency

How *often* you want certain reports depends upon the business' type and volatility. In most businesses, monthly reports of cash income, expected expenditures and loan repayments are adequate. Businesses with extreme variations in sales volume may need financial information weekly. Extremely volatile businesses may even want this information daily.

Type of Information

The *type* of information you want, especially on a recurring basis, should be simple and meaningful. All a manager needs under normal conditions is an overview of the business. He does not need to be involved totally in all of the financial statement details in every periodic report. Financial information presented in the accountant's report should be aimed at answering the following questions:

- What was last month's *profit?*
- What is our *cash* position? Do we need to borrow or can we invest money in short term securities?
- How did last month *compare* with the previous month, the same month last year and our budget?
- What were last month's *operating ratios?* How have these changed?

Profits are the important factor in any business firm. Frequency of profit and loss statements is a manager's judgment. In volatile businesses, weekly profit figures may be useful; however, most agribusiness firms need only monthly figures. Slowly changing or seasonal firms may need only annual profit and loss figures. Some businesses with several services or products may need a profit report by business activity.

Cash position reports are necessary for scheduling borrowings and repayments. "Running out of cash" is an embarrassing position for any firm manager and often increases costs of short term loans.

Comparing the accounting period just completed with the previous period, the same period 1 year before and the budget is useful in evaluating the importance of economic and business changes.

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For example, the lack of a sales increase after using a new advertising technique may indicate that the new technique was not effective.

Important *operating ratios* vary from business to business also. The ones you ask your accountant to prepare depend on your business activity. Commonly used ratios are gross margin, cost per dollar of goods sold, sales per square foot of floor space and sales per employee. If your trade association publishes financial reports and ratios for your type of business, selecting similar ratio types gives an excellent opportunity to compare your business with similar businesses. These comparisons can reveal symptoms of "trouble areas" in the firm's operation.

Presentation Form

Once you decide what you want from your accountant, be reluctant to change the reports. Caution the accountant that you want the same methods used each period. Stability in accounting procedures can provide valid comparisons to chart changes in the business. And, these comparisons are some of the most important functions of periodic accounting reports to the manager.

In summary, managers need periodic financial information to help them analyze their business activity. They need only an *overview* of the happenings. The reports, data and charts which accountants and bookkeepers prepare should *answer specific questions* and *show financial trends*. Structure accounting reports to show *comparisons* with the past and with the budget. They should show the projected *cash position* of the firm through the next accounting period. And, finally, the reports' format should *not be changed* without the manager's specific direction. Properly proposed accounting reports can be used easily by managers to analyze the business and to provide a sound basis for future decision making.

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