

Management Accounts



CALDWELL PENN
chartered accountants • chartered tax advisers

Overview

Whether you are a start-up or an established business, preparing management accounts can be the key to running a successful business. They provide you with essential insight into how the business has been performing (in real-time) and therefore give you an idea of where to direct your attention and strategic focus moving forward.

Not sure where to start? No problem, we are here to help and we are confident that this guide will provide you with all the tools you need to get up and running.

Prefer to leave it to the experts? Great! Get in touch for a free 15-minute consultation with one of our in-house management accountants today.

What you need to know

What are management accounts?

Management accounts are financial reports that provide the tools for management and business owners to better execute day-to-day decision making and create strategies which will improve business performance.

Management accounts are typically produced monthly or quarterly and contain both a Profit & Loss and a Balance Sheet. Additional financial reports are then included, such as an outstanding receivables/payables report and a historic cash flow summary.

In principle, management accounts are similar to year end financial statements, but the key difference is that they are less formal, produced more regularly and can be personalised to management's requirements.

Why are management accounts important?

Management accounts help to provide direction and visibility, which are critical for businesses to reach their goals.

Simply put, the information provided by management accounts is specifically designed to inform management on how each part of their business has been performing and thereby guide decision making to benefit the future performance of the business.

The benefits

1. Measures past performance as a basis for improving future performance
2. Helps anticipate cashflow problems and manage liquidity
3. Visibility of business performance
4. Identifies focus areas

What should management accounts contain?

Regular management accounts are essential to your business in helping you to monitor performance. But what should they contain?

They are not a legal requirement so there isn't anything that is compulsory, but they're business specific so typically they include the financial reports that are of most importance to you.

Generally speaking, you would expect to see the following within a management accounts pack:

- Profit and loss (with comparative periods)
- Balance sheet
- Aged receivables report
- Aged payables report
- Historic cashflow summary report

In addition to the above, management accounts lend themselves nicely to **budgets** and **forecasts** so you may see these reports included as well.

Overview - continued

Why do so few businesses prepare management accounts?

There are a mixture of reasons:

- perceived as unnecessary
- never considered preparing management accounts
- the business is thought to be too small (but is not)
- never started - too busy and have other jobs to do
- no formal accounting system/software in place
- assumed insufficient or inadequate in-house skill
- worried about the complexity
- assumed unaffordable

There will be some businesses that truly are too small to require detailed management accounts. However, they will still benefit from at least a basic, quarterly summary of their business with a comparison to prior periods.

Historically, the roadblock to producing management accounts has come from out of date, inaccurate accounting records (bookkeeping). Without up to date bookkeeping records, you simply cannot produce accurate and reliable management accounts.

However, with the birth of cloud-based accounting softwares such as Xero and QuickBooks, alongside the additional regulations from the government's Making Tax Digital initiative, the majority of businesses now have their bookkeeping records updated weekly, some even daily. This puts them in a key position to benefit from management accounts at minimal expense or effort - they just don't know it yet.

The following pages share our 5 Step Process to preparing a set of management accounts

Contact Us

For the latest news and advice please visit our Facebook, LinkedIn and website pages. If you have any immediate questions or if you would like to discuss anything further please contact us via email or give us a call on:

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5 Step Process

How to prepare management
accounts

1. Reconcile

The first stage to producing management accounts is to ensure your bookkeeping records are accurate and up to date. We call this stage Reconcile.

This process includes the following:

- Post your purchase invoices
- Post all expenses, including payroll
- Produce and process all of your sales invoices
- Reconcile all business bank accounts
- Process cut-off adjustments such as depreciation, closing stock etc.

TIP: Utilise software packages such as Xero and Receipt Bank to help automate the above steps. If you need support with this, please get in touch and one of our in-house experts will be happy to help.



2. Time frame

As we have established, the key benefit from management accounts is that it provides business owners and management with the visibility and insight into business performance. This allows them make better and more informed decisions.

Therefore, the more frequently management accounts are prepared, the additional benefit they can provide to your business.

The time frames can vary business to business, but typically we expect management accounts to be produced either:

- Monthly
- Quarterly
- Six monthly



3. Design

The two key reports for management accounts are Profit and Loss and Balance Sheet reports. These can be produced from your accounting software such as Xero or QuickBooks, or if you are not using these, you can also produce them using Microsoft Excel or similar programs.

First, set up your Profit and Loss and Balance Sheet reports, ensuring you use the correct date ranges for both and choose comparative periods that aid your Insight (more on this below).

Now it's time to consider what additional information you may need. What are your business's KPIs (Key Performance Indicators) and what reports would you and your management team find useful to check you are on track to meet them?

If you are a service-based business with high outstanding customer balances, you may benefit from a summarised receivables report. If you are a retail business that receives cash upfront for your products then you may want to focus on your margins and may benefit from understanding your stock turnover days and average mark up.

You can download an example of a Caldwell Penn management accounts pack using the download link on the last page of this document.

TIP: We suggest you align your chart of accounts in your accounting software to the year end financial statements, as this ensures the reports you generate are easier to understand and they will be familiar to you whilst also being in a professional format.




4. Insight

Now your management accounts have been prepared (design) you will have the Insight on how your business is performing. You can now use this insight to improve future business decisions.

The goal is to turn the data provided in the management accounts into information and then the information into actionable points (Insight).

So what have you learnt?

- are your debtor days too high? If so, chase customers for payment and consider changing your payment terms
 - is your gross profit margin lower than you expected? If so, maybe you need to consider raising your sales price or looking at means to reduce your direct costs
 - are your salary costs too high? If so, perhaps you need to consolidate your workforce or look for means of increasing your sales pipeline
 - are you performing better than expected? Great, consider paying yourself a special dividend or reinvesting your profits into the business
- 



5. Habit

Management accounts are so valuable because they are produced in real-time. Therefore, for you to truly benefit, you need to ensure they are produced regularly and that this process becomes a Habit.

Putting in the work to create your management accounts may seem like a hassle, but whilst it takes a lot of time and energy at the offset, it's worth it in the end. Useful and timely management accounts provide you with the financial insights you need to make the right decisions for your business to grow, scale, and prosper in the future.

What now?

Once you produce your first set of management accounts, review them and see how the findings can both benefit your decision making and aid you in running a successful business in the long term.

Don't forget that we specialise in not only producing management accounts and providing a summary of findings, but taking that one step further and looking at both **budgeting** and **forecasting**.

If this is of interest to you, please get in touch today for a free 15-minute consultation with one of our in-house experts to find out how we can assist your business.

DOWNLOAD A CALDWELL PENN MANAGEMENT ACCOUNTS EXAMPLE

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