

Management accounts and Key Performance Indicator (KPI'S)

The majority of SME's primarily focus on 3 issues; (1) managing & reducing costs, (2) developing new business & growing revenues and (3) ensuring that their business provides the best possible value proposition and/or customer service. Few consider how these 3 critical success factors are measured. Management information can do this.

Management information (MI) is highly specific and must always be tailored to the business they represent. Consequently, it is difficult to generalise and compile a set of standard operational KPI's and financial metrics.

It is however, possible to set out a broad framework, which all businesses can consider with guidelines that we at Broadoak Consulting, use with our clients.

Key Performance Indicators (KPI's)

KPI's should be focused on both the financial and operational aspects of your business. Where appropriate, the metrics should be accompanied by relevant commentary (exception reporting) for the end-user.

KPI's should have the following characteristics:

- consolidate and integrate management information;
- reflect the critical success factors;
- be part of a normal business routine;
- balance the need to provide both detail & broad coverage in a timely fashion and
- be suitable to the industry sector.

We have included some ratios below that are particularly useful for specific industries.

Common KPI ratios by Industry

Hospitality	Construction Industry
<ul style="list-style-type: none"> • Average revenue per guest / room / table • Complaints per head / order • Average margin per guest / room / table 	<ul style="list-style-type: none"> • Actual vs. available working days • Client satisfaction • Cost predictability • Customer satisfaction level • Project completion ratio • Labour cost - actual vs. budget • Number of defects • Percentage of downtime / backlogs

Manufacturing	Retailers
<ul style="list-style-type: none"> • Capacity utilisation • Comparatives for products, plants, divisions • Cycle time • Pipeline / production forecasts • Plant downtime • Job or product costing • Manufacturing cost per unit • Unfulfilled orders 	<ul style="list-style-type: none"> • Gross margin • Sales per square foot • Sales - like for like • Time range • Labour costs • Inventory days
Wholesalers	
<ul style="list-style-type: none"> • Turnaround time • Freight / logistic costs • Inventory accuracy, stock outs, turns per year 	

Key characteristics for Management Information

The Institute of Chartered Accountants in England and Wales has set out the following characteristics that should be considered when preparing useful financial information:

Material - it comprises only items of information whose size or nature mean that their misstatement or omission might reasonably be expected to influence the economic decisions of investors.

Relevant - it has the ability to influence economic decisions of investors. It should also have predictive value or, by helping to confirm or correct past evaluations or assessments, it has confirmatory value.

Reliable - It is dependable & free from deliberate or systematic bias intended to influence a decision or judgment to achieve a predetermined result.

Comparable & consistent - with similar information for other periods and other entities so that similarities and differences can be discerned and evaluated.

Understandable - it involves the characterisation, aggregation and classification of transactions and other events in accordance with their substance and their presentation in ways that enable the significance of information to be understood by users.

East Devon Engineering (EDE)

Below we have returned to our case study to provide some financial data that could also be included in the MI package. MI will always have to balance both timeliness and the level of detail provided & must be suitable for the size and complexity of your business.

We advocate including the following MI sections:

1. **Executive summary**
2. **Profit & loss** - period & cumulative positions with highlighted variances & commentary
3. **Projected outturn** - expected year-end performance based on YTD performance
4. **Cash flow reconciliation** - profiled cash flow summarising actual and projected receipts
5. **Balance sheet** - cash on hand, net debt (where applicable), working capital position

Financial Templates

At Broadoak, we have developed the following Excel templates that may assist you making in the correct decisions in a timely fashion.

We would emphasise that these are in addition to standard MI reports that are automatically generated by your bookkeeping or ERP software (Sage, QuickBooks, Zero etc). Consideration must also be given to both the level of coverage and the detail of the commentary included.

Decemnber 2017 - by Region

Revenue

GBPk	December 2017				
	Dec 2016	Budget	Actual	+/- % (1)	+/- % (2)
Devon	94.0	92.0	100.0	6.4	8.7
Somerset	46.0	41.0	38.0	(17.4)	(7.3)
Dorset	50.0	52.0	58.0	16.0	11.5
Rest of UK	31.0	38.0	33.0	6.5	(13.2)
Total	221.0	223.0	229.0	3.6	2.7

YTD December 2017				
YTD 2016	Budget	Actual	+/- % (1)	+/- % (2)
552.0	585.0	570.0	3.3	(2.6)
265.0	275.0	245.0	(7.5)	(10.9)
272.0	285.0	350.0	28.7	22.8
185.0	210.0	200.0	8.1	(4.8)
1,274.0	1,355.0	1,365.0	7.1	0.7

EDE has a June year-end

(1) % difference between Actual vs. prior year

(2) % difference between Actual vs. Budget

EBITDA

GBPk	December 2017				
	Dec 2016	Budget	Actual	+/- % (1)	+/- % (2)
Devon	15.6	16.5	16.7	7.1	1.2
Somerset	12.3	12.4	13.5	9.8	8.9
Dorset	12.0	13.5	12.9	7.5	(4.4)
Rest of UK	7.6	6.7	6.8	(10.4)	2.4
Total	47.5	49.1	49.9	5.1	1.8

YTD December 2017				
YTD 2016	Budget	Actual	+/- % (1)	+/- % (2)
75.2	78.0	83.0	10.4	6.4
65.2	67.0	72.0	10.4	7.5
72.1	73.0	74.0	2.6	1.4
45.5	74.0	76.0	67.0	2.7
258.0	292.0	305.0	18.2	4.5

EBITDA margin (%)

GBPk	December 2017		
	Dec 2016	Budget	Actual
Devon	16.6%	17.9%	16.7%
Somerset	26.7%	30.2%	35.5%
Dorset	24.0%	26.0%	22.2%
Rest of UK	24.6%	17.5%	20.7%
Total	21.5%	22.0%	21.8%

YTD December 2017		
YTD 2016	Budget	Actual
13.6%	13.3%	14.6%
24.6%	24.4%	29.4%
26.5%	25.6%	21.1%
24.6%	35.2%	38.0%
20.3%	21.5%	22.3%

December 2017 - by Product / Service / Customer

Revenue

GBPk	December 2017				
	Dec 2016	Budget	Actual	+/- % (1)	+/- % (2)
Product A	94.0	92.0	100.0	6.4	8.7
Product B	46.0	41.0	38.0	(17.4)	(7.3)
Product C	50.0	52.0	58.0	16.0	11.5
Product D	31.0	38.0	33.0	6.5	(13.2)
Total	221.0	223.0	229.0	3.6	2.7

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Product D	7.6	6.7	6.8	(10.4)	2.4
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24.6%	35.2%	38.0%
20.3%	21.5%	22.3%

CONSOLIDATED REPORTING

GBPk	December 2017					YTD December 2017				
	Dec 2016	Budget	Actual	+/- % (1)	+/- % (2)	YTD 2016	Budget	Actual	+/- % (1)	+/- % (2)
Total revenue	221.0	223.0	229.0	3.6	2.7	1,274.0	1,355.0	1,365.0	7.1	0.7
Gross profit (GP)	88.4	92.5	91.6	3.6	(1.0)	529.0	561.5	558.0	5.5	(0.6)
GP Margin (%)	40.0	41.5	40			41.5	41.4	40.9		
EBITDA	47.5	49.1	49.9	5.1	1.8	258.0	292.0	305.0	18.2	4.5
EBITDA Margin (%)	21.5	22.0	21.8			20.3	21.5	22.3		
Net profit/loss	14.4	15.5	15.7	9.0	1.3	86.4	93.2	96.3	11.5	3.3

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CASHFLOW RECONCILIATION - December 2017

GBP k	Budget	Actual	+/- %
EBITDA	49.1	49.9	1.8%
Working capital	7.1	34.0	378.9%
Cash generated from operations	56.2	83.9	49.4%
Capex	(47.5)	(53.5)	12.6%
Free cash flow	8.7	30.4	251.3%
Taxation	(8.7)	(1.5)	
Financing	(6.7)	(6.2)	
Dividends paid	(29.4)	(29.5)	
Other	(1.8)	(0.7)	
Change in cash	(37.9)	(7.5)	
Opening cash	121.5	130.8	
Closing cash	83.6	123.3	47.6%

BALANCE SHEET - as at December 2017

GBP k	Budget	Actual	+/- %
Current assets			
Cash at bank	275.6	123.3	-55.3%
Investments	11.2	70.3	527.7%
Trade debtors	803.9	854.6	6.3%
Inventory	369.5	421.9	14.2%
Prepayments	-	-	
Other	-	-	
	1,460.2	1,470.1	0.7%
Non-current assets			
Property, plant & equip	510.0	501.3	-1.7%
Financial assets	18.0	66.9	271.7%
Intangibles	46.9	43.9	-6.4%
Other	89.0	47.1	-47.1%
	663.9	659.2	-0.7%
Current liabilities			
Bank loans & overdrafts	(2.7)	(1.9)	-29.6%
Other ST loans	(79.6)	(105.4)	32.4%
Trade creditors	(582.0)	(509.2)	-12.5%
Dividends payable	(75.2)	(78.2)	4.0%
Tax Payable	(78.3)	(63.1)	-19.4%
Other	(38.4)	(118.6)	208.9%
	(856.2)	(876.4)	2.4%
Non-current liabilities			
Long term loans	(799.9)	(840.6)	5.1%
Accruals	(196.6)	(198.6)	1.0%
Other	(27.8)	(35.7)	28.4%
	(1,024.3)	(1,074.9)	4.9%
Total Equity	243.6	178.0	-26.9%

EDE has a June year-end