10 practical tips to improve the quality (and value) of your financial reports!

Organized the way you want!

Many managers put up with financial reports that aren't good at delivering actionable financial information. But you don't have to put up with that! Here's some practical advice as to how you can get usable financial intelligence out of your accounting department.
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10 practical steps to improve the quality (and value) of your financial reports.

This column is written for the non-financial managers, the staff who receive financial reports, though i do think it could be an excellent list for those who issue them as well!

In most companies, the accounting department is the collector and repository of most of the data for an organization that goes into their financial reports. The finance office may track just accounting information, or it may also record non-financial data (hours worked, units sold, employee turnover etc.) But in my forty years of experience, there is often a huge communication gap between accounting staff and the other departments in an enterprise when it comes to reporting on the numbers. And if the accounting department is responsible for issuing monthly reports, there is often a huge mismatch between what they send out and what in fact the users need.

So how do you make those reports more useful to you (and everyone else who receives them? Here are ten steps for you, the non-financial manager, to improve the quality of the financial reports you get and make them more useful to what YOU need.

1) Define exactly what you need

This sounds so obvious that you might not think it important. But time and time again I encounter managers who want meaningful financial reports and yet they haven't even been precise about what they want. "I want to get the monthly sales figures". Well what exactly do you mean by that? Total sales? Sales by revenue stream? Sales by salesperson? Sales by district? All of the above? If you don't define exactly what you need, it shouldn't be surprising that the reports you get aren't exactly what you want.

2) Decide how you want it organized

So you've defined better what you want, sales by revenue stream by salesperson. How do you want it organized?

- By district alphabetically?
- By annual sales year to date?
- By the highest producing sales person?
- By month?
- By biggest change since the previous month?

All of these could work, depending on your goals. As a manager you want to get information organized in a way that can help you do your job best. So define what you want and tell the person responsible for producing the report.

Hopefully you can get the reports formatted in the way you want (some big accounting system may be more cumbersome in this regard than accounting systems designed for SMEs), but just as you have to decide what information is useful to you, you also have to decide how you want it organized, and send that request to the person or department that produces each report. Ideally they can just print what you want out but sometimes an Excel data-dump file could be the only answer

3) Define what you are comparing it to

If I tell you my phone bill last month was $300, the figure is relatively meaningless until I compare it to something. ‘My budget was $400’ or ‘last year it was $200’ might be two possible comparisons. Now I can get a feel for what the $300 number is telling me.

And that comparison has to be useful. If I run a clothing store, comparing spring fashion sales with winter season sales probably isn’t very helpful. Perhaps you should compare it to last month, then perhaps last year in the same month. Again, defining exactly how you want it organized will mean that the format of the financial report will help make it most useful for your purposes.

4) Find out who issues the report and get to know them

One of the weaknesses of accounting that I talk about in my book is that accountants often have little or no management experience outside of accounting. That often means that they produce financial reports from the accounting system without enquiring as to whether the content and format matches what the user needs. For example, QuickBooks produces 20-25 reports on Accounts Receivable alone. I can almost guarantee you that companies that use that particular software get one report on A/R each month, and the accounting department has produced that same report in that same layout for the last five years. If no one has ever looked into whether in fact it gives the right sort of information in the right format and organized the way you want, that’s unlikely to change. So get to know your controller or VP Finance, find out the sorts of reports that the accounting system can produce, explain your priorities and listen to theirs.

5) Decide how often you want to get it

If you are running a retail store in November in the middle of the Christmas rush, you will probably want to get weekly if not daily reports as to what is selling and what is not. But in the middle of February when everyone is staying home, a sales report once a month may be just fine. You don’t need to get *every* report *every* month. In fact, if you have staff who are not financially literate, dumping a large batch of financial statements on their desk every month is likely to make them more worried than informed. And if they are not useful every month, then such financial statements waste paper as well as the time it takes for your mangers to ignore them until they are actually relevant.

6) Make the report visually easier to read

Your VP finance may think that if they just produce a report from the accounting system, then their job is done. For those users who are completely financially literate that may be the case. But if you are unsure what the numbers mean, which are the most important or just want to be told what the exceptional items are this month, a basketful of figures may not be a particularly friendly document.

Hint: don't use cents in your report. No-one is that accurate and all it does is make numbers even longer and so more confusing. Take them out!

7) Use colours

Accountants may live in a black and white world but that doesn't mean that financial reports have to be laid out using only these two colours. There is a reason that you have all those formatting options: bold, italic, underlined, different font, larger font sizes: They help the readability of any document! So why would a financial report be any different?

8) Use numbers AND visual stimuli

There are seven different and distinct learning styles:

- Visual (spatial):You prefer using pictures, images, and spatial understanding.
- Aural (auditory-musical): You prefer using sound and music.
- Verbal (linguistic): You prefer using words, both in speech and writing.
- Physical (kinesthetic): You prefer using your body, hands and sense of touch.
- Logical (mathematical): You prefer using logic, reasoning and systems.
- Social (interpersonal): You prefer to learn in groups or with other people.
- Solitary (intrapersonal): You prefer to work alone and use self-study.

So why does he accounting department almost always produce a report in only one style (usually verbal/linguistic) and think that it will satisfy the information needs for all of your staff? Would getting the information in charts and tables in your report help focus on the priority items? Have a group meeting and present the financial results, using examples and stories to get your message across and discuss them, don't just distribute bits of paper which helps the visual learner but none of the others. Give a physical demonstration as to why the new expense report form will work better than the old one. If you restrict yourself to one learning style, it is almost guaranteed that you will lose at least half of your audience.

9) You need both summary and detail

Do you like looking at all kinds of detail on the screen or does a page full of numbers produce panic and confusion? Whoever is producing the report must consider that different people have different analysis styles and ways of understanding information. Some people like to start with a summary and then drill down to the detail. Some people like seeing the month-by-month detail and then build up to how it looks from a summary point of view. It's entirely a matter of preference. There is no single right way of presenting financial information. But what is wrong is producing a single summary (or detail) report and thinking that this will satisfy everyone's needs.

10) Improve your own financial literacy

If you don't understand the numbers then you are short-changing yourself as to the amount of valuable information you can extract from whatever financial figures you are reading.

Financial literacy is much more than just looking at a profit line and believing that 'the bottom line' tells you everything you need to know about how you are doing financially.

- It means using all of the financial statements, not just the income statement.
- It's having good reports that automatically highlight both problems and opportunities.
- It's knowing what financial results you need and how you need that information organized, not just accepting a pre-packaged statement that really does not serve your purposes.
- It's appreciating that what is left out of the financial reports can be as important as what is left in.
- It's understanding why many people are afraid of numbers and what to do to overcome those fears.

I think there are better ways of considering numbers, when they are joined together in the Triple Bottom Line. But that's for a later column.

Mike Fletcher is a trainer, consultant, accountant who supports owners and managers in their desire to maximize the value of their business by helping them to understand the world of numbers. He is the author of the book ***"Better Roughly Right Than Precisely Wrong: How Accounting Is Failing All Of Us"****. For more information on the book and his training products and services as well as on Mike, go to www.highspin.com*