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**Coverdrive Ltd: Performance Reporting to the Board**

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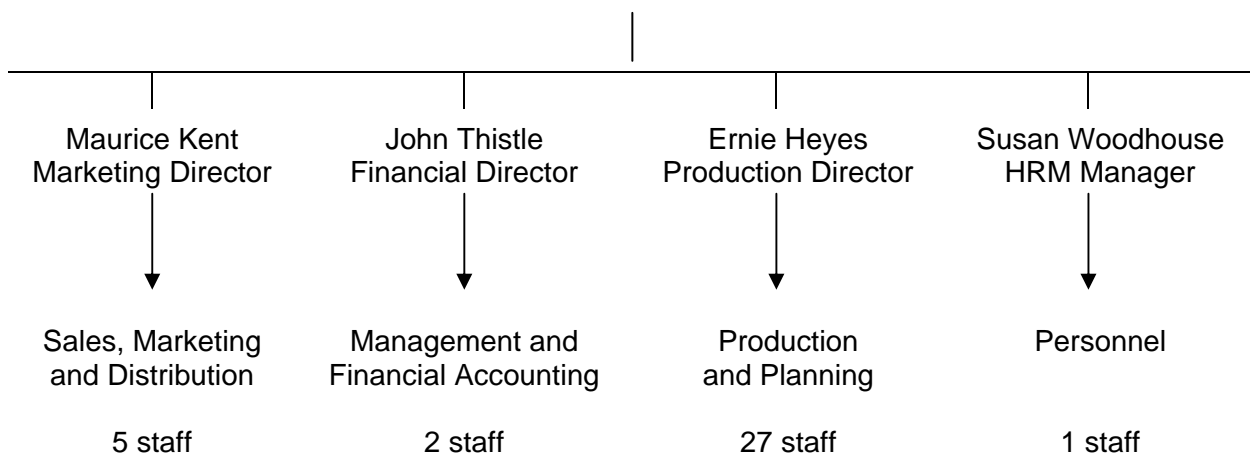
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The purpose of this paper is to illustrate by means of a case study approach the financial performance reporting needs of the board of an SME. Coverdrive Ltd is a manufacturer of cricket bats and is based in Whitby, North of England. It is an owner-managed private company and was formed in the mid 1980's with the aid of some European Funding. It is classed as a small to medium sized enterprise (SME). The managing director is Steven Ambrose who chairs the management team which comprises a financial director, a production director, a marketing director and a human resource manager.

**Coverdrive Ltd**

**Organisation Chart**

**Steve Ambrose  
Managing Director**



The company has expanded in recent years and the management team is a new structure. Turnover for the current year is forecasted as £3.20m with profit of before tax of £0.60m. The capital and reserves are valued at £3.10m.

Budgeted turnover for next year (05) is £3.90m.

The following is a summary of the financial performance for years ended 31 December 02, 03 and forecast 04.

**Coverdrive Ltd**

**Summary of Profit Statements  
Years Ended 31 December 02, 03 and Forecast 04**

	<b>02</b>	<b>03</b>	<b>Forecast</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Turnover	2.50	2.75	3.20
Cost of Sales	1.95	2.07	2.40
Gross Profit	<u>0.55</u>	<u>0.68</u>	<u>0.80</u>
Admin and Distribution Costs	0.18	0.19	0.20
Profit before Taxation	<u>0.37</u>	<u>0.49</u>	<u>0.60</u>
Taxation	0.08	0.10	0.13
Profit after Taxation	<u>0.29</u>	<u>0.39</u>	<u>0.47</u>
Dividends	0.07	0.08	0.10
Retained Profit	<u><u>0.22</u></u>	<u><u>0.31</u></u>	<u><u>0.37</u></u>

**Balance Sheet**

**As at 31 December 02, 03 and Forecast 04**

	<b>£m</b>	<b>£m</b>	<b>£m</b>
Fixed Assets (NBV)	2.16	2.45	2.86
<b><u>Current Assets</u></b>			
Stock	0.17	0.18	0.21
Debtors	0.26	0.30	0.29
Cash at Bank	<u>0.16</u>	<u>0.17</u>	<u>0.19</u>
	<u>0.59</u>	<u>0.65</u>	<u>0.69</u>
<b><u>Less Current Liabilities falling due within one year</u></b>			
Creditors	0.18	0.19	0.22
Dividends	0.07	0.08	0.10
Taxation	<u>0.08</u>	<u>0.10</u>	<u>0.13</u>
	<u>0.33</u>	<u>0.37</u>	<u>0.45</u>
Net Current Assets	0.26	0.28	0.24
Total Assets less Current Liabilities	<u>2.42</u>	<u>2.73</u>	<u>3.10</u>
Capital and Reserves	<u>2.42</u>	<u>2.73</u>	<u>3.10</u>

Since the recent director appointments at Coverdrive Steve Ambrose the MD and John Thistle the financial director have discussed the need for revision of the management reporting system.

Steve has agreed with his co-directors that the board will now meet monthly and that John is to implement a revised system of monthly reporting. He asks John to prepare a paper for the next meeting on the objectives of performance reporting and to prepare drafts of the schedules which will comprise the monthly management accounts.

John has recently read the CIMA publication Performance Reporting to Boards: a guide to good practice, which was featured on accountingweb and has drawn down copies of the publication for Steve and his fellow directors. This excellent paper is accessible at [www.cimaglobal.com](http://www.cimaglobal.com).

Structure of John's paper:

## **Management reporting**

The periodic performance reports will be underpinned by the management accounting function.

Management accounting is defined in CIMA terminology as "an integral part of management concerned with identifying, presenting and interpreting information used for:

- formulating strategy;
- planning and controlling activities;
- decision taking;
- optimising the use of resources;
- disclosure to shareholders and others external to the entity;
- disclosure to employees;
- safeguarding assets"

The factors outlined in the definition above link directly with Cadbury's distinction between direction and management. "It is the job of the board to set the ends – that it is to say, to define what the company is in business for – and it is the job of the executive to decide the means by which those ends are best achieved".

The provision of sound information drives the process of direction and management.

Attention has focussed in recent years and will continue with the international harmonisation debate, on the objectives of financial statements.

The ASB's (Accounting Standards Board) Statement of Principles for Financial Reporting (1999) states the objective of such statements is "to provide information about the financial position and performance and financial adaptability of an enterprise that is useful for assessing the stewardship of management and for making economic decisions".

This objective applies to both published financial statements and those prepared on periodic performance and used for the purpose of financial control.

The ASB's framework together with the one issued by the International Accounting Standards Board (IASB) identifies the qualitative characteristics of financial information.

The information which comprises the financial statements and non-financial reports must be useful, relevant and reliable. Relevance and reliability are primary characteristics which underpin presentation and the concepts of comparability and understandability.

## **What makes financial information useful?**

Danka Starovic in Performance Reporting to Boards (CIMA 2003) states:

"According to the Institute of Chartered Accountants in England and Wales in its draft guidance for UK directors (July 2002), useful financial information has the following characteristics:

### **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 is provided in time to influence economic decisions of investors.
- It has predictive value or, by helping to confirm or correct past evaluations or assessments, it has confirmatory value.

### **Reliable**

- It can be depended upon by investors as a faithful representation of what it purports to represent – or what it could reasonably be expected to represent.
- It is neutral, because it is free from deliberate or systematic bias intended to influence a decision or judgement to achieve a predetermined result.
- It is free from material error.

- It is complete within the bounds of what is material.
- It is prudent in that a degree of caution is applied in making judgements under conditions of uncertainty.

### **Comparable**

- It can be compared with similar information for other periods and other entities so that similarities and differences can be discerned and evaluated.
- It reflects consistency of preparation and presentation, providing that this is not an impediment to improvements in practice.
- It is supported by the disclosure of the accounting policies used in its preparation.

### **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.
- It presumes that users have a reasonable knowledge of business and economic activities and accounting, and have a willingness to study information with reasonable diligence.

According to management consultancy Metapraxis, board members should consider the following questions about the information they are receiving:

- Accuracy. Can I trust data?
- Relevance. Does it cover the critical issues?
- Timeliness. Is it sufficiently up to date?
- Clarity. Is it presented in such a way that I can digest it quickly?
- Risk assessment. Is the information purely historic or does it assess future risks?
- Depth. Do I receive only summaries or can I access individual subsidiaries?
- Provision. Can I access the data via a secure internet connection?"

Having identified the primary objective of managerial accounting and the characteristics of good information which support the reporting cycle it is clear that these factors influence the reporting system.

### **Structure of future periodic performance reports**

The monthly report will comprise:

- Operating statement:

Current period } actual v budget

Year to date

- Current revised forecast
- Flexible Budget Statement
- Current period

**Year to date**

- Balance Sheet
- Previous period
- Current period
- Cash Flow Statement
- Previous period
- Current period
- Product sales and profitability
- Performance Indicators
- Balanced Scorecard
- Strategic Perspective, Performance Indicators

The draft pro-formas for the report include:

**Coverdrive Ltd**  
**Operating Statement: Profit and Loss Account**

Year to date				Period: _____				
Actual	Budget	Increase/ (decrease)		Actual	Budget	Increase/ (decrease)	Annual Budget	Current/ Revised Forecast
			Sales					
			Cost of Sales:					
			Direct material					
			Direct labour					
			Variable overhead					
			Contribution					
			Fixed overheads					
			Net profit					



**Flexible Budgetary Control Report  
Operating Statement**

Year to date				Current Period		
Actual	Flexed Budget	Variance F/(A)		Actual	Flexed Budget	Variance F/(A)
			Sales			
			Cost of Sales:			
			Direct material			
			Direct labour			
			Variable overhead			
			Contribution			
			C/S %			
			Fixed costs			
			Net profit			

**Balance Sheet**

Date: .....

Previous Period			Current Period				
Actual	Budget		Cost	Depn	Actual	Budget	Variance from Budget
£	£		£	£	£	£	£
		<u>Fixed Assets:</u>					
		Land and Buildings					
		Plant and Machinery					
		Motor Vehicles					
		Office Equipment					
		Fixtures and Fittings					
		<u>Current Assets</u>					
		Stocks					
		Debtors					
		Bank					
		<u>Less Current Liabilities</u>					
		Creditors					
		Bank Overdraft					
		Taxation					
		Dividends					
		Net Current Assets					
		Long Term Liabilities					
		Loan Notes					
		Share Capital and Reserves					

### Cashflow Statement

Date: .....

Previous Period			Current Period		
Actual	Budget		Actual	Budget	Variance from Budget
£	£		£	£	£
		Net cash flow from operating activities:			
		Net profit			
		Depreciation			
		Changes in:			
		Stocks			
		Debtors			
		Creditors			
		-----			
		Returns on investment and servicing of finance:			
		Interest			
		Taxation			
		Capital expenditure:			
		Acquisitions			
		Disposals			
		Equity dividends paid			
		Management of liquid resources			
		Financing			
		Net increase / (decrease) in cash			

### Product Sales and Profitability

Year to date						Current Period: .....						
Sales			Contribution / C/S %			Product Description	Sales			Contribution / C/S %		
Actual £	Budget £	Variance £	Actual £	Budget £	Variance £		Actual £	Budget £	Variance £	Actual £	Budget £	Variance £
*	*	*	*	*	*		*	*	*	*	*	*
			%	%	%					%	%	%

**Performance Indicators**

Year to date			Current Period	
Actual	Benchmark		Actual	Benchmark
		<u>Profitability:</u> Return on capital employed Contribution % to sales Net profit % to sales  <u>Working Capital and Liquidity</u> Current ratio Acid test Debtor days Stockholding in days  <u>Resource Utilisation</u> Asset turnover Value added per employee Value added per '£' of employee costs  <u>RI and EVA</u> Cost of capital Earnings Residual income / EVA *		

\* EVA – Economic Value Added is a term trademarked by Sterne Stewart

**Balanced Scorecard –  
Strategic Perspective, Performance Indicators**

Year to date		Perspective	PI	Current Period	
Actual	Benchmark			Actual	Benchmark
		Financial:	ROI NP % of Turnover		
		Customer:	Customer Support Costs % of Turnover % of turnover to existing customers		
		Internal:	Quality Assurance Costs % of Turnover Admin / Distribution Costs % of Turnover		
		Innovation and Learning:	Training Costs % of Turnover New Products % of Turnover		

## Conclusion

The consolidated monthly report will incorporate the above reporting schedules and provide board members with a clear and concise review of on-going company performance from a number of perspectives which include:

- Performance in terms of turnover, cost of sales and profit.
- Product sales analysis and product profitability.
- The above concepts from both a budget and actual review.
- Performance measurement expressed as : profitability, liquidity and resource utilisation.
- A cash-flow perspective budget to actual
- Level of investment, a Balance Sheet overview.
- A strategic Balanced Scorecard review and Benchmarking

The reporting cycle will keep all members of the senior management team fully informed of corporate performance our strengths and weaknesses and will enable the company to implement Responsibility Accounting to enhance our stewardship of resources.

These schedules will be supported by a written summary of performance for the current period, year to date and a rolling current revised forecast.

## References

ASB – Statement of Principles – 1999

CIMA, Performance Reporting to Boards, Danka Starovic – 2003

Sir Adrian Cadbury, Corporate Governance and Chairmanship – a personal view

Sterne Stewart – The Quest for Value – the EVA Management Guide