

CHRISTOPHER MILLER CONSULTING
Excellence in Management Accounting

NEW CLIENT REVIEW

We adopt a structured approach to reviewing the needs of new clients and identifying how best we will add value.

FINANCIAL OBJECTIVES

The first duty of a board of directors or management committee is to define what represents good, bad or indifferent financial performance.

Does the business have clearly defined, realistic financial objectives? (Few businesses do.)

If so, what are they?

THE FOUNDATIONS

Good management is financial management; it is done with numbers.

Does the general ledger system produce every month a trial balance that reliably reflects the financial position of the business?

Does the format of monthly management reports present a relevant model of the revenue and expense structure of the business?

Does senior management focus on a manageable number of key performance indicators?

Are they the right ones?

MANAGEMENT FINANCIAL INFORMATION

Most management financial information is far too detailed. The finance director should be able to address the board without looking at the board papers.

Is management financial information prepared in pyramid form:

- Led by summary information for profit insight and management discussion?
- Supported by tiers of increasing detail from which any specific question can be answered?

Is management financial information presented to senior management:

- In a defined, consistent and appropriate format?
- In accordance with a set monthly time-table?

PLANNING

No-one makes money by accident.

Is there a budget for the year ahead?

Does operating management take ownership of it?

Is the budget format appropriate?

In particular, are costs of employment projected on a position-by-position basis?

Does it include price change analysis?

Is it fully consistent with the actual reporting format?

MARKETING

Few businesses have marketing plans of the quality they need.

Is there a marketing plan for they year ahead?

Does it reflect the importance of *branding*?

Does it include appropriate metrics?

Is actual performance measured against those metrics as part of normal monthly management reporting?

COSTING

You must know your costs – but cost accounting as taught in universities simply does not work.

How many product lines does the business recognize? (Ideally, there are six. Too few and it's somebody else's subcontractor, too many and it lacks focus.)

Does senior management understand the importance of material costs of sales as opposed to full absorption costs?

Does the business know the material cost of each product line?

Is costing a top-down process, not a bottom-up one. (Top-down works. Accounting systems universally reflect bottom-up concepts, which don't.)

Does costing information tie every month to relevant general ledger controls?

TERMS OF TRADE

In the low inflation climate, many businesses are failing to manage the impact of price changes. Of particular importance, real wages are rising faster than underlying inflation.

Does senior management recognize the concept of the Terms of Trade of the business?

Is the business systematically analyzing price changes? In particular, changes in payroll costs?

Does the business effectively manage selling price changes?

Does the business systematically plan productivity improvements?

FUNDS SUPPLIED

Many balance sheet formats are so opaque it would take an Einstein to figure them out.

Does senior management apply the concept of Funds Employed / Funds Supplied?

Is funding adequate?

Is gearing appropriate?

ANY OTHER SPECIAL CONSIDERATIONS

We have never seen a deep seated business problem turned around short of two years.

Ownership structure

Statutory environment

Technology: threat or opportunity?

THE BOTTOM LINE

In any business, there won't be more than three people who really understand the fundamentals of the business.

Last Year – This Year – Next Year analysis:

- What has been the profitability of the business?
- What is it planned to be?
- What can it achieve?

Is a key objective of senior management not merely the maximization of profitability but the maximization of the value of the business?

Does senior management understand the link between profitability and valuation?

Does senior management have a reliable understanding of the valuation of the business?