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TOOLKIT

Management Reporting Systems

Seminar for Management

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Seminar Agenda

Agenda and Seminar Objectives

Session 1: Introduction to Management Reporting Systems

Session 2: What is the system and how do you use it?

- Defining lists and reports, sales, accounts receivable, finished products inventory reports

Session 3: What is the system and how do you use it?

- Raw materials inventory, purchasing reports

Session 4: Making the system a reality- Customizing the system

Session 5: What is the system and how do you use it?

- Summary report, Cash Flow, barter report

Session 6: Using the Management Reporting System

Session 7: Making the system a reality- Implementing the system

Session 8: Summary and review of assignment

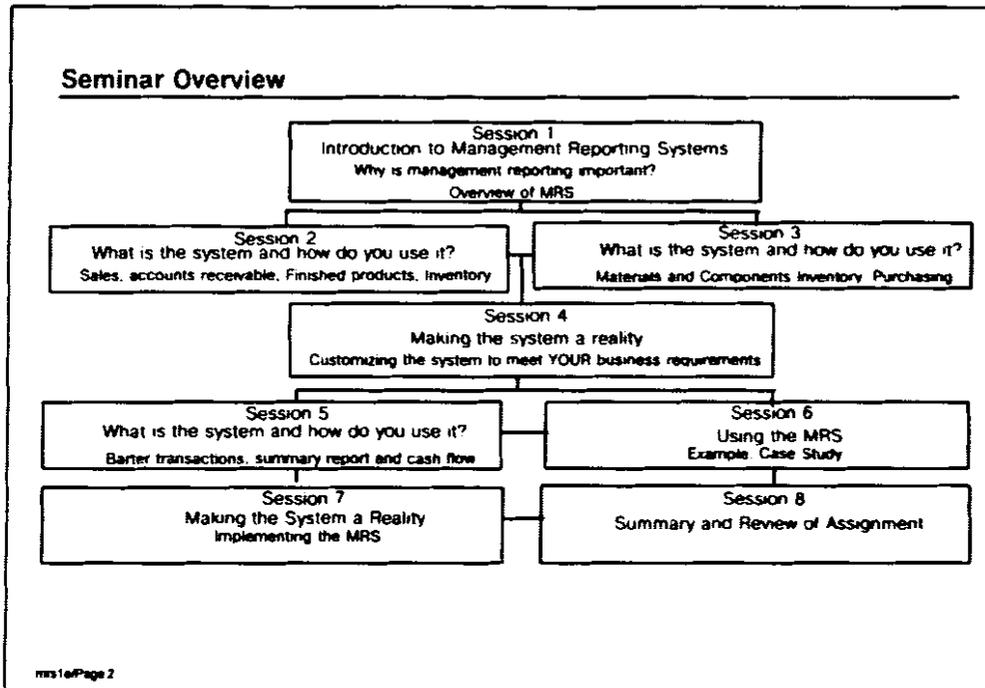
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INSTRUCTOR'S NOTES

This presentation and discussion is divided into 8 sessions over 2 days, each providing theoretical input and then using exercises or examples to demonstrate the applicability of the theoretical input.

We will go through sessions 1 to 6 on day 1. At the end of the day all participants will be given an assignment to be completed at their organizations. Participants will also be given a handout describing the basic elements of the reporting system.

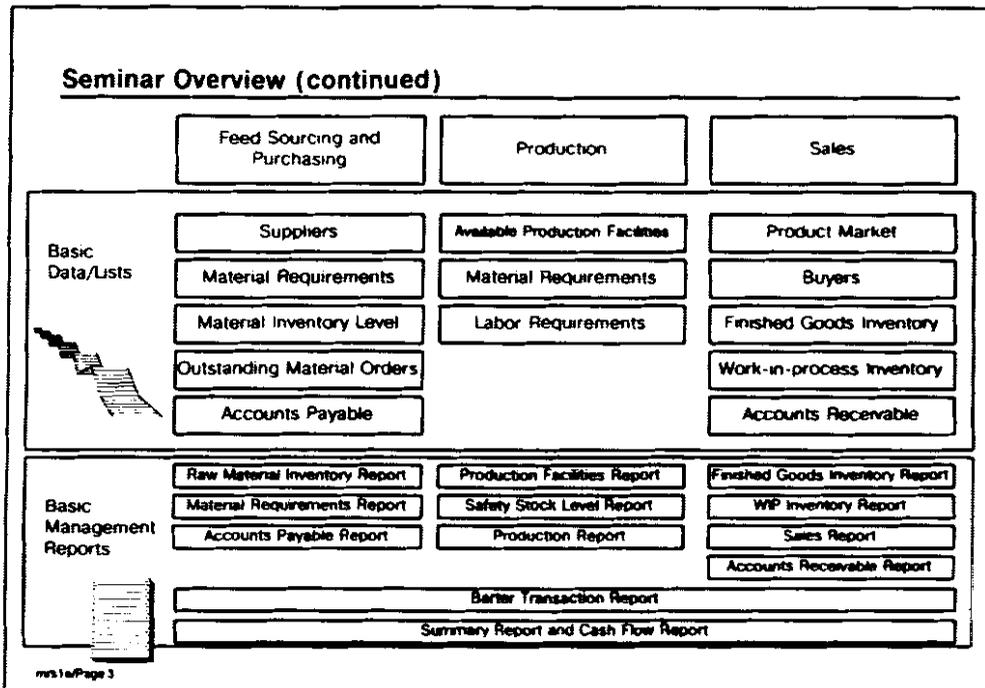
We will return after about a week for day 2 of the seminar (sessions 7&8), where we will talk about implementation and then summarize the 2 days and review the assignment.



INSTRUCTOR'S NOTES

The seminar will be structured into 8 main sessions.

We start with an introduction to Management Reporting (what is management reporting, why it is important for every company to have a good management reporting system). We'll discuss these issues using real life examples.



INSTRUCTOR'S NOTES

We go on to describe some of the components of a basic Management Reporting System:

- Lists (also called books, journals, etc.) where all the transactions in this area of company activity are registered
- Reports - summary of activities on the specified dates or for the specified periods
- Summary reports - reports which summarize activity in several areas of company operations

The seminar will provide formats and templates, as well as discuss issues related to customizing and implementing a basic management reporting system.

Seminar Format

The seminar will encourage your full participation in discussion sessions ...



... and will include class exercises and homework assignments to help you understand the material presented, practice using it and discuss the results with the presenter



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INSTRUCTOR'S NOTES

Extensive use of exercises, examples and cases through the course of the seminar, will demonstrate how management reports are used and what kind of decisions management can make based on information provided by a Management Reporting System.

Motivation for the Seminar

Our experience in this field revealed the following

- Information for management decision making is not always available
- The information that is available is too voluminous
- There may be a management information system already installed, but it is too complicated and not used effectively
- The time required to get the information is too long to use it effectively for every day operations or for making projections and forecasting



Managers in Russia are constrained by information problems and forced to make sub-optimal decisions, i.e.

- Uninformed decisions: decisions based on little or no concrete information
- Incorrect decisions: decisions based on unreliable information
- Ineffective decisions: decisions taken too late to resolve the problem

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INSTRUCTOR'S NOTES

Management reporting has been an issue at all the Russian organizations that we have worked with -- mainly because appropriate reporting is not done and information with which to make decisions is not readily available.

In most cases, information for management control and decision making originates from the tax reporting system, which is a legal requirement for all companies. The main problem with such information is that it is for a very specific purpose and does not address the needs of management.

Most senior executives do receive reports about the operations of their department, but this information is usually voluminous e.g. a stack of sales contracts rather than a summarized report giving the total sales of each product during a period.

... and the information is not received in time e.g. is received 20 days after the end of the month, by which time the sales department has already shipped goods to one of the customers whose last payment is overdue.

All these factors combined, give today's manager in Russia very little concrete basis for operational and tactical decision making. In the course of this seminar, we will illustrate how a management reporting system will contribute to the decision making process.

Objectives of the Seminar

To Explain what a Management Reporting System is

- What is management reporting and why is it useful
- Defining a basic Management Reporting System

To Discuss how to use Management Reporting Systems

- Using the lists and reports together for decision making and control
- Using the reports over time to predict trends

To Provide guidelines for installation

- Customizing the system to meet individual requirements
- Implementing the Management Reporting System

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INSTRUCTOR'S NOTES

By the end of this seminar, we hope that all participants will have gained an understanding of management reporting systems and the value a well executed MRS can add to the management decision making process.

Participants will be introduced to a standard reporting system and through examples and case studies we will demonstrate how the MRS can be used to manage more effectively.

After the presentation on customizing and implementation and the assignment to be completed at the participant's organization, we believe each participant will have taken the first few steps towards setting up a MRS for their organization.

Seminar Agenda

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INSTRUCTOR'S NOTES

Session 1: Introduction to Management Reporting Systems

- Why is management reporting important?: Plastic Manufacturing
- Defining management reporting
 - Data and information
 - Management information
 - Management reports convert data into information
 - Benefits of a management reporting system



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INSTRUCTOR'S NOTES

In this session we would like to introduce management reporting.

We started with why we thought it was useful to have a seminar on management reporting, and what we hope to achieve during this seminar.

We will go on to demonstrate, with the help of a case, how management reporting can benefit the participants and their organizations.

We will then define some basic concepts related to management reporting and MRS.

Structure of the Management Reporting Process

We introduce the basics of management reporting by showing how data about the basic activities of a company is transformed into meaningful management information:

- A company conducts its activities and records all the transactions in lists (journals) of activities
- At regular intervals (daily, weekly, monthly) activity reports showing specific information related to the activity are produced from the lists
- At regular intervals (daily, weekly, monthly) summary reports including specific information from activity reports are produced for top management

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INSTRUCTOR'S NOTES

Let Us Begin With a Look at a Common Situation: Plastic Manufacturing is in Serious Trouble

Problem

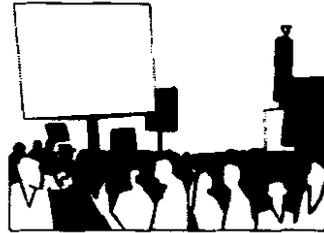
- Unable to pay employees for the second successive month
- Employees paid with plastic buckets in previous month
- Bank account frozen

Problem exists despite:

- Increasing production levels over the previous 6 months
- Taking a loan 3 months ago
- Using barter for purchases of raw materials

Proposals

- Delay purchase of raw materials
- Take additional bank credit
- Three-party barter deal to pay employees



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INSTRUCTOR'S NOTES

We start by looking at a common situation:

(The presenter should narrate the following case and summarize the narration using the main points highlighted on the slides)

The Chief Economist Kislovsky has requested a meeting with the Commercial Director Brodsky, Chief Accountant Petrov, Head of Production Ivanov and General Director Sidorov.

Kislovsky: We can't pay our employees this month. This is the second month in a row. Why isn't there money available? We're producing at a higher level than 6 months ago when we had no problems with cash. My suggestion is that we postpone purchasing raw materials until we have enough cash to pay our employees. A group of employees filled up the lobby of my office with plastic buckets which we paid them with last month to protest because they can't find anyone to buy them. We have to find some cash to pay them.

Ivanov: We have to buy the raw materials to make the order of door panels or else ZAZ Automobile Factory will stop ordering from us, they are our biggest customer you know. Besides, Brodsky's been bartering for the raw materials, not spending money, so not purchasing the raw materials won't help us find money to pay the workers. We'll just have to get some more credit like we did three months ago.

Brodsky: Over the last year I've been able to reduce the cost of raw materials with some good barter deals, mostly I did that because of the cost reduction in price I got by giving ready-to-sell products that didn't go through the supplier's bank account. But now I have to barter because our own bank account is frozen - because we haven't paid taxes for two months. Even if some money comes in most of it will be taken by the bank to pay the state budget. We need to set up a three way barter deal to have another company pay our employees, or else we'll have to take on more credit to pay our employees.

What is Even Worse Than the Cash Problem?



It comes as a surprise to management !

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INSTRUCTOR'S NOTES

Petrov: We can't take on any more credit, we barely have enough cash this month to make the interest payments on the credit we took three months ago - if we don't make the interest payments the bank will seize our factory and we'll all be looking for pay . I think we need to find another company to pay our employees through a barter deal. (Here Petrov pulls out a listing of all companies owing them money, 80 sheets or so and begins to offer various company names ...)

Sidorov: Stop! I've been in this company for 45 years, I built this company with my hands, and now I run it with my head. My head is saying something is wrong. We've got a high quality product that is in demand, and our customers can pay cash - why are we in such a predicament?

The Director Needs Information to Help Resolve the Problem

What issues lie behind the problem?

What specific information would be helpful in resolving the crisis?

- How much is required to pay salaries?
- How much is owed for taxes?
- Which customers owe the most money?
- What payments can be delayed?
- What specific items are available in finished goods inventory to sell?

Is this information available?

How could this information be used to help make a decision? Discuss.

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INSTRUCTOR'S NOTES

DISCUSS:

What should the director do?

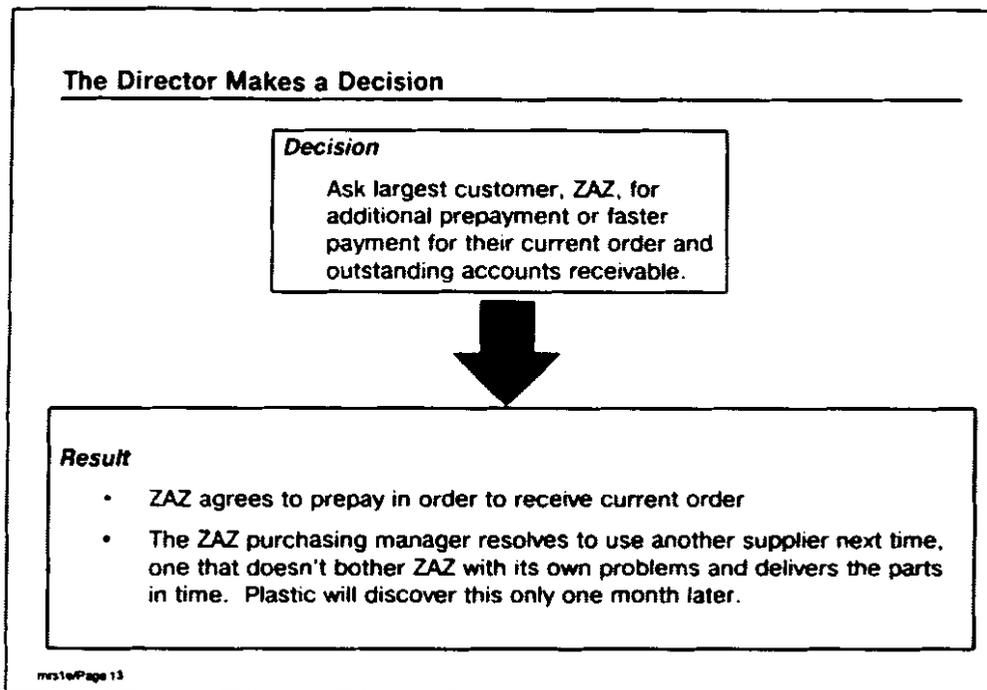
What are the ways to solve the problem?

What information might be helpful to the General Director or the other directors to help them solve the problem?

DISCUSS:

If we do know how much money we need to pay the employees, and how much we need to pay state taxes and how much we need to unfreeze the bank account. We also have the listing of customers which owe us money, and the listing of creditors.

What now? Do we need more information?



INSTRUCTOR'S NOTES

One possible decision:

The directors decide to call up their biggest customer, ZAZ, and request some additional down payment or faster payment in order to pay the employees. Because ZAZ is so big, this company really doesn't care too much about Plastic's problems, but wants the present order to be filled, so offers to send enough cash to get out of the current problem.

However, unknown to Plastic, the purchasing manager at ZAZ has been getting a lot of offers to make door panels from several other plastic manufacturers and decides to try a different manufacturer for the next order, a manufacturer that doesn't bother him with their problems and just delivers the parts on time. Plastic will find out in a month or so when they lose a big order from their largest customer.

But What Decision Did the Director Really Make ?

Plastic resolves the immediate problem, but harms its relationship with a major customer

→ This could harm the company in the long run

By solving the problem externally, there is no guarantee that the problem will not recur

→ The director's decision is a short term one - he has no means of measuring the long term implications, nor has he been able to think of a real solution to the problem

Plastic has still not identified the real cause of the problem

→ The real problem is poor control and planning of cash flow, production and sales - not no money for salaries. The real problem is likely to recur

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INSTRUCTOR'S NOTES

DISCUSS:

What specific information would be helpful that probably isn't available?

A cash flow forecast?

A summary aging of your customer accounts? (Explain: aging)

A sales report showing which items are selling the best?

DISCUSS:

How do you think the information should be organized to be used effectively?

e.g. - Aging by product, by customer?

e.g. - Sales broken down by cash and barter, by product into cash and barter

Additional Information Would have been Helpful

The Director could have made a better decision if he had more complete information:

- Cash flow statement
- Inventory report for raw materials and finished goods
- Accounts receivable report
- Accounts payable report
- Sales report
- Production report
- Purchasing report

How might these reports have helped the Director make a more informed decision? Discuss.

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INSTRUCTOR'S NOTES

DISCUSS:

What will each of the above reports tell the director and his team about the business, and how can each of them contribute to resolving the situation.

Use the following slides to summarize the discussion

The Director Could Have Made a Better Decision If He Had More Complete Information

Cash flow statement

- Shows the sources and uses of cash within the company's operations. It indicates whether the business is using more cash than it is bringing in

Sales report

- Indicates how each product has been selling. It can also indicate the relative importance of each customer

Production report

- Analyses production of each product and compares it to planned production

Purchasing report

- Summarizes the current status of purchases and indicates cash or barter requirements for purchases

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INSTRUCTOR'S NOTES

Introduce the idea that the reports work together to give a more complete picture of the situation. Using the same report over time also helps in analyzing trends.

The Following Reports Would Have Also Assisted the Director to Make a More Informed Decision

Inventory report for raw materials and finished products

- Shows the level of stocks of raw materials and finished goods, the usability of the these items, and pre-determined safety levels based on sales and production requirements

Accounts receivable report

- Shows the details of what is owed to the company by its customers. The report can indicate when payment is expected, and if payment is overdue, how long it has been outstanding

Accounts payable report

- Shows the details of what the company owes to its suppliers and when payments are to be made

All these reports can work together to provide a more complete picture of the actual situation !

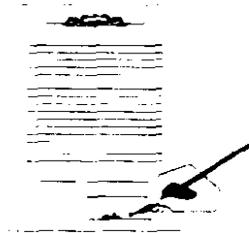
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INSTRUCTOR'S NOTES

Consider a Second Scenario

The problem is the same, but the company has recently installed a management reporting system which will help to highlight the source of the problem and avenues for resolution

How might the Director use the new information available to him to resolve the situation?



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INSTRUCTOR'S NOTES

The Cash Flow Statement Indicates a Negative Cash Flow

Summary of Cash Flow and Barter Transactions

	CASH TRANSACTIONS		BARTER TRANSACTIONS	
	Items	Debit	Items	Debit
CASH FLOW FROM OPERATIONS				
Proceeds from Sales				
Product 1	415000		315000	
Product 2	7000			
Other	1500			
Interest and Dividends Received				
Proceeds from Other Activities				
VAT from Sales	45000			
Total Proceeds	478000		315000	
Payments to Suppliers/Contractors				250000
Materials and Components				
Direct Payroll		200000		
Social Insurance		80000		
Energy		21000		
Production Overhead		9000		
Operations, Taxes and Duties				
VAT Paid on Operations		55000		
Total Payments to Suppliers/Contractors		305000		250000
Research and Development				
General and Administrative, Training				
Other and Other Components				
Cash Flows: Barter Interest and Fees	15000	60000	315000	250000
Interest on Debt				
Taxation Income				
Net Cash Provided and Used in Operating Activities	51000	11000	15000	15000
CASH FLOW FROM INVESTING ACTIVITIES				
Proceeds from Sales of Investments	10000			
Proceeds from Sales of Fixed Assets				
Capital Expenditure				
Net Cash Provided and Used in Investing Activities	10000			
CASH FLOW FROM FINANCING ACTIVITIES				
Long-Term Debt				
Proceeds from Borrowings	100000			
Repayment of Long-Term Debt		20000		
Net Cash Provided and Used in Financing Activities	100000	20000		
Net Cash Provided and Used in All Activities	161000	13000	15000	15000
CASH AT END OF PERIOD	400000			

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INSTRUCTOR'S NOTES

Looking at the new cash flow statement on his desk, the Director can clearly see that there has been a net outflow of cash during the past month.

There has been some relief from barter transactions (which, in general, are detrimental to cash flow in a longer term), but the true benefit of the barter income is not clear from this report. If the barter income had been in cash, the enterprise would be able to pay its employees this month.

Sidorov: How long has this been going on? We've got to turn this around. We've got to get our customers to pay cash. We may not be able to do it with ZAZ, but we've got to put pressure on some of our smaller customers.

Inventory Report Shows High Finished Goods Inventory, Primarily in Buckets

Finished Products Inventory

No.	Product Name	Location	Unit	Quantity on Hand	Quantity Off-Specification	Quantity Available for Sale	Production Date	Production Cost
1	Distributor caps	Warehouse 1	100 units	530		530	20/02/96	96,330
2	Doorpanel handles	Warehouse 1	100 units	100		100	21/02/96	110,128
3	Gear shift handles	Warehouse 1	100 units	21		21	22/04/96	140,518
4	Polyethylene tubing (blue)	Warehouse 1	m	310		310	22/01/96	70,363
5	Polyethylene tubing (red)	Warehouse 1	m	35		35	21/02/96	75,333
6	Ashtrays (polyphenol)	Warehouse 2	25 units	4		4	30/03/96	145,896
7	5-liter buckets	Warehouse 2	10 units	1000		1000	15/04/96	1,175,163
8	Electrical outlets	Warehouse 2	100 units	2		2	15/02/96	170,216
9	Picture frames	Warehouse 2	20 units	55	8	47	25/02/96	140,775
10	Polyethylene film	Warehouse 3	sq/m	15		15	30/03/96	180,964
11	Shopping bags	Warehouse 3	1000 units	18		18	28/02/96	175,634

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INSTRUCTOR'S NOTES

The Finished Goods inventory report clearly shows an excess in 5-liter plastic buckets. The Director is immediately curious why there are so many buckets.

Sidorov: Part of the cash problem appears to be a build-up in finished goods inventory. The inventory report shows the build up is in buckets. Why are we still making buckets?

Ivanov: I've had enough production capacity to make buckets and door panels, and Brodsky kept bartering for the raw materials for buckets, so I've kept making them.

Sidorov: That's no answer. We should be producing to meet our customers needs, not to use up materials. If the bucket materials can't be used for something we can sell, then let's sell the materials. It's no wonder we had to try to pay our employees with buckets -- that's where all our MONEY is.

Planned Sales for Buckets Is "0" As There Are No Orders for Buckets

Sales Report (units)

No.	Product Name	Unit	Sales Plan for the Month	Monthly Sales to Date	Variance (plan vs fact)	Current Finished Product Inventory	Estimated Finished Product Inventory Safety Level
1	Distributor caps	100 units	450	250	(200)	530	45
2	Doorpanel handles	100 units	250	125	(125)	100	25
3	Gear-shift handles	100 units	35	8	(27)	21	3.5
4	Polyethylene tubing (blue)	m	300	245	(55)	310	32
5	Polyethylene tubing (red)	m	135	0	(135)	35	3.5
6	Ashtrays (polyphenol)	25 units	10	0	(10)	4	.
7	5-liter buckets	10 units	0	0	0	1000	300
8	Bowls with lids	100 units	500	0	(500)	2	50
9	Picture frames	20 units	100	45	(55)	55	10
10	Polyethylene film	sq/m	50	45	(5)	15	5
11	Shopping bags	1000 units	50	26	(24)	18	5

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INSTRUCTOR'S NOTES

Sidorov: The sales report shows we've not got any orders for buckets, and we're three times over our safety stock level. If we're not selling any buckets, we'd better stop making them. The sales report says we've had a lot of requests for bowls with covers, how come we haven't been making these?

Ivanov: I've wanted to, but we don't have enough cash to buy the new pressform and we're already set-up for buckets.

Sidorov: Brodsky, do you think the bowl demand will continue?

Brodsky: Yes

Sidorov: Enough to merit buying a new pressform?

Brodsky: The indications are there

Sidorov: Let's find a way to get it then.

Director Immediately Alters the Production Plan to Reflect Sales Information

Production Report

Product Number	Product Name	Unit of Measurement	Production Plan for the Month	Daily Production	Monthly Production to Date	Variance (plan vs fact)	Reasons for Variance
1	Distributor caps	100 units	450	15	220	(230)	lack of supplies
2	Doorpanel handle	100 units	25	1	12	(13)	lack of supplies
3	Gear-shift handle	100 units	20	1	5	(15)	lack of supplies
4	Polyethylene tube	m	20	1	8	(12)	
5	Polyethylene tube	m	10	0	0	(10)	
6	Ashtrays (polyph)	25 units	10	0	0	(10)	
7	5-liter buckets (p)	10 units	0 → 500	20	200	(300)	
8	Bowls with lids	100 units	500 →	0	0	0	
9	Picture frames	20 units	100	3	48	(52)	lack of supplies
10	Polyethylene film	sq/m	50	2	24	(26)	lack of supplies
11	Shopping bags	1000 units	50	2	25	(25)	lack of supplies

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INSTRUCTOR'S NOTES

Sidorov: Let's plan on making 50,000 bowls in May. That will agree with our sales report. We can't afford to lose those sales. We must stop bucket production IMMEDIATELY. Those things are just going into the warehouse. We'll need to find some way to get rid of our excess stock.

Maybe we can use it to barter for materials we really need.

There are a few other items here that look strange. Ivanov, I want you to review this production report, compare it with the sales and inventory reports and bring your production figures into line. Get back to me this afternoon. Also, get a copy of the latest raw materials report, adjust it to meet your new production plans, and come back to me with an estimate on how much money we need to get the materials we really need.

Having Identified the Cause, the Director Seeks to Resolve the Crisis

- Amend production report
 - stop bucket production
 - increase bowl production to 50,000 units
- Decide to purchase new pressform for bowls
- Liquidate excess bucket stock
 - sell at discount to liquidate quickly
 - accept tax penalties if necessary
- Review accounts receivable older than 60 days
 - increase efforts to collect
- Review accounts receivable less than 60 days
 - offer discount for payment earlier than planned
- Decide to meet in 2 days to discuss results



A management reporting system does not relieve managers of decision making responsibility, but helps them make timely and sound decisions

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INSTRUCTOR'S NOTES

Sidorov: Now let's figure out how to get some cash to pay for the pressform and pay our employees. Brodsky, those buckets aren't helping me by piling up in inventory - find a way to sell them. I think we can accept up to a 50% loss on production cost to move them down to the safety stock level, we'll take the tax hit on this and won't make the mistake again. Petrov, look at all of our customer accounts which are older than 60 days (Plastic's normal time to offer customers to pay) and find a way to collect, for those accounts less than 60 days offer a 2% discount for each week they pay sooner than planned. (Point out that ZAZ's order is less than 30 days old, so ZAZ isn't even called.) Get enough cash to unfreeze our bank account too. Let's meet back here in 2 days.

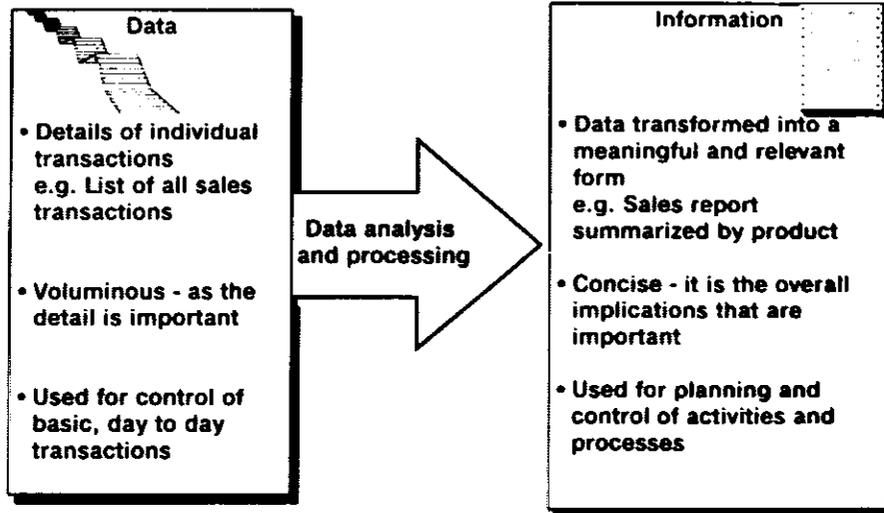
Director's meeting two days later:

Sidorov: Petrov, did you find the money we need to pay the employees and get those pressforms?

Petrov: Yes, we just got enough to unfreeze our bank account and pay the employees, Brodsky bartered some buckets at 20% discount to the pressform supplier to get the pressforms. Then we got three of our customers, whose payments were over 60 days old to pay us the penalties, but not yet the principal payments, but we'll get the principal in a month or so. Four customers, whose accounts were between 30 and 60 days, decided to take the discounts and pay sooner.

Sidorov: Kislovsky, take these reports and make sure we don't get in this situation again. From now on I only want to see the summary and cash flow reports. I've got to take more time to plan how to get financing to update our production line and bring in that big German customer and don't want to be bothered with the details

Before We Define Management Reporting, We Would Like to Distinguish Between Data and Information.



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INSTRUCTOR'S NOTES

What is information? Data that has been analyzed and processed to serve a specific purpose

The distinction between data and information is very important - and we will be returning to this concept later when we talk of reports and associated lists that provide the source data for reports.

The following example can be used to further illustrate this distinction:

The purchasing department produces a list of orders that it has outstanding. This data is useful on its own - but what if we want to know how much in orders we have outstanding from supplier "A". We know that supplier A has shut down production and our supplies may not get to us.

It would be useful to have a report that summarizes purchases by supplier - if we could tell at a glance that we have ordered 400 mln Rubles worth of materials from A - that would be useful information.

Objective of Management Reporting: To Help Management Manage

Management Reporting

*Help management
with planning
decisions*

*Help management
with control of
business*

*Help management
measure results*

- Production planning
- How to best use available materials
- Planning whether to make or buy components for a product

- Keeping the right levels of inventory
- Avoiding waste of materials or labor
- Keeping costs within the budget and ensuring plans are carried out

- Analyzing costs of a department
- Measuring the efficiency of production workers
- Measuring performance of department managers

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INSTRUCTOR'S NOTES

Plan, Control & Measure performance

All the responsibilities of any manager can be classified under one of these three heads. Management reporting addresses each of these issues and therefore effectively helps managers manage better.

Going back to our case for a moment - what did the general director have to do?

Plan : What are we going to produce next month

Control: the level of inventory, the cash inflows and outflows

Measure performance: have we solved the problem of paying the employees?

We saw how management reports addressed each of these tasks.

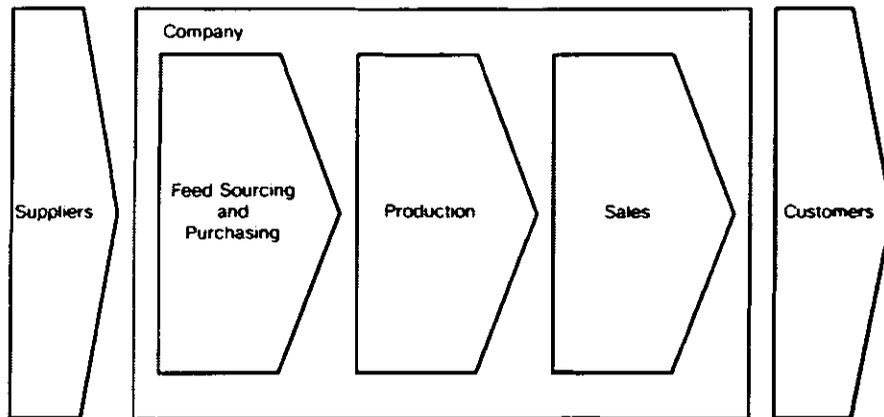
EXERCISE

The instructor may want to conduct an exercise where one of the participants is called up and asked to list his main job responsibilities - the audience should then be asked to classify each activity as either - planning, control or measuring performance. This is an effective way of driving the point home !

Follow up by asking - which of the reports we came across in the case would assist the manager in his work.

Management Reports Are Summaries of Operations and Cover All Basic Activities

Simplified flow of a company's activities:



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INSTRUCTOR'S NOTES

What are the main activities of any manufacturing company?*

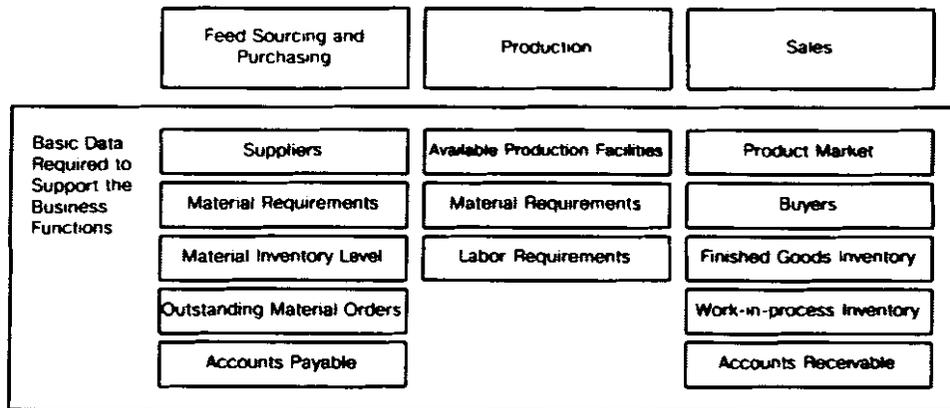
- Buying feed materials from suppliers
- Processing those materials and supplies into finished goods
- Selling finished goods to the customers with profit

This classification of activities can be extended to service companies as well

Management reporting covers all these operations - and we will see how management reports summarize and report these basic activities.

* Underlying structural activities (like finance, accounting, human resources, administration) could be mentioned by the presenter. We have not listed them, because discussion of management information for other activities are beyond the scope of this presentation.

Business Operations Require and Produce a Lot of DATA



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INSTRUCTOR'S NOTES

What does a company need to know to conduct these three basic activities?

Purchasing:

- what materials (and in what quantities) do we need to produce our products?
- do we already have those materials? (Material Inventory)
- if not - who can supply materials required?(suppliers)
- have we already ordered the materials required?
- how much do we owe our suppliers, and when is it due?

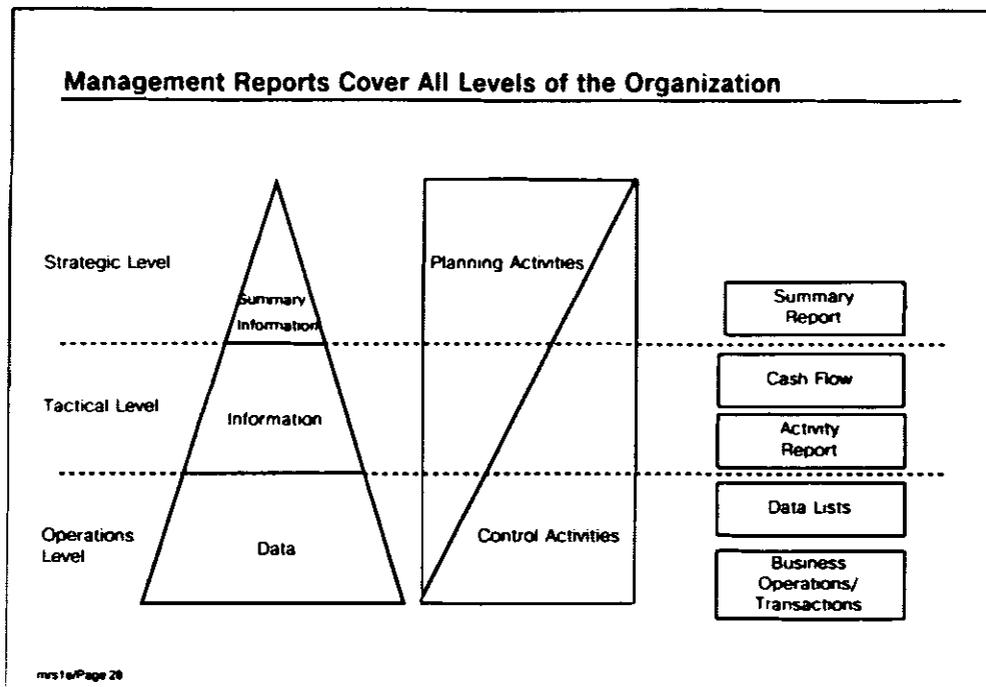
Production:

- what are we producing and what facilities do we have to support production?
- what human and material resources do we need to produce the quantity (and quality) required?

Sales:

- does a market exist for our products? (what is required in terms of quality, quantity, technical or other requirements)
- do we have goods available for sale right now?
- do we have unfinished (semi-finished) goods that will shortly be available for sale?
- who are our buyers?
- how much do our buyers already owe us?

The basic transactions are recorded in 'journals' or "lists". The concept of LISTS is important and forms the basis for the management reporting system.



INSTRUCTOR'S NOTES

Management reports cover and are used across all levels of the organization:

- Starting from operational (day to day activity)
- To tactical (medium-term decisions)
- And up to strategic levels (long-term decisions)

Management concentrates its attention differently at each level of organization activity:

- At the operational level more attention is given to control and less to planning
- At the strategic level- vice versa
- With tactical level in between

Lists and reports are also used differently at different levels (and their content changes from daily transaction data to strategic information):

- Data lists are used mainly at the operational level to record and control daily transactions
- Basic activity reports are compiled from lists and are used by middle managers to make daily operational and tactical decisions - involving control and measurement of performance
- Summary reports can be used by top management for decision making and for more broad (strategic) planning

Some Characteristics of Useful Management Information

- Concise
 - Set out clearly, without unnecessary items
- Accurate
 - The user should have confidence that the information will not contain errors or omissions
 - Information should be free from any manipulation
- Timely
 - Must be produced in time for some action to be taken on it.
- Consistent
 - Should be comparable across time and over departments/ business units
- Appropriate
 - Must be suitable for the purpose for which it is produced
- Cost effective
 - Information should cost no more to produce than the benefits which result from it.
- Unbiased
 - There should not be any bias in the information due to the way it has been presented or produced.
- Appropriately directed
 - Communicated to the person responsible for the action to be taken; confidentiality considerations must be taken into account.

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INSTRUCTOR'S NOTES

We have seen briefly what management information can do - can any type of management information do this?

Data that is not accurate can lead to poor decisions being made. Accurate data also, if received too late loses its value - the management of would not have found themselves in such a situation if they had timely reporting in place to warn them of the problem in advance !

An important consideration while establishing a management reporting system is that it be cost effective - i.e. the benefits of having the system in terms of improved decision making ability should far outweigh the costs of setting up and running the reporting system.

Cost effectiveness will dictate to a large extent the scope of the system and the degree of computerization vs manual preparation.

We will discuss all these considerations again when we come to customizing and implementing the MRS.

Benefits of Introducing a Management Reporting System

- **Enhanced efficiency**
 - efficiencies of time, resources and costs can be realized
- **Quality of information**
 - better information in a timely manner
- **Increased flexibility and responsiveness**
 - specific information requirements can be provided
- **Increased access for users**
 - managers at a tactical level can make better decisions by information sharing
- **Sharing common lists**
 - two departments using the same list will increase effectiveness and reduce chances of error
- **Improved user interaction**
 - may improve the system by identifying new uses or new information requirements
- **Improved effectiveness of communications**

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INSTRUCTOR'S NOTES

We saw in the opening example how having a management reporting system helped address the issues the company was facing.

Enhanced efficiency, increased flexibility and responsiveness : management was able to take the decision quickly and effectively, without having to go through the process of - what information is needed, how do we get it etc.

Increased access for users, sharing common lists, improved interaction, improved effectiveness of communications :

e.g. The production manager needs to know what the sales department is doing. As we saw at Plastic manufacturing, a lack of proper communication resulted in the production, sales and purchasing departments having their own agenda for operating! A well designed and implemented MRS would help avoid such situations

Important Considerations to Keep in Mind About the System

- Does not change your current tax reporting system
- Able to produce the most important data accurately and on time
- Summary reports are no more than one or two pages each
- Not too complex, yet able to capture the majority of transactions
- Cost effective
- Usable by all levels of management
- Overlaid on existing tax or financial reporting systems

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INSTRUCTOR'S NOTES

Having talked about what led us to create this seminar, what we hope to achieve through it, and how MRS would help management do a better job; we would like to point out some of the key considerations that influenced the design of this management reporting system.

In order that the MRS can become an integrated organization support function, we believe it is important that the MRS not change the existing systems, but add on to them. The existing tax reporting system is a legal requirement, and therefore cannot be modified

All the above considerations, we believe, will add up to greater acceptability of the system within the organization, which in turn implies a more effective system

EMPHASIZE:

The system presented here is essentially a manual system - the first step.

It is essential to first get the manual paper flows right and then move on to automation.

Over time organizations should look at computerizing and automating the reporting system - but this process needs to be in line with the computerization of other areas.

A Management Reporting System is Needed Because Tax Reporting Does Not Provide the Information Required for Managerial Decision-Making

"The Statement of Financial Results": Does This Report Really Tell You What You Want to Know About Your Business ?

1	2	3
Gross receipts (Gross revenue) from sales		
Value added tax		
Excise duties		
Export duty		
Cost of goods and services sold		
Operating profit (loss)		
Profits (losses) from other sales		
Other non-operating income and expenses - total including those earned from securities and participation in joint ventures exchange gains/losses		
Total profit or loss		
Balance profit (loss)		
ONLY FOR REFERENCE		
Amount of increase (decrease) of wages & salary expenses		

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INSTRUCTOR'S NOTES

The report shown here is one that all organizations produce, each quarter, to report their tax liabilities. All participants should be very familiar with this report.

EXERCISE

Give each participant 10 minutes to list:

- What are the limitation of this report in terms of quality of data, timing, and consistency with other reports
- What this report doesn't tell them about their operations

Before turning to the next slide discuss what the participants came up with during the exercise.

Current Reporting Systems Are Meant to Satisfy Tax Reporting Requirements

Existing "Statement of Financial Results"

1	2	3
Gross receipts (Gross revenue) from sales		
Value added tax		
Excise duties		
Export duty		
.....		
Cost of goods and services sold		
Operating profit (loss)		
Profits (losses) from other sales		
Other non-operating income and expenses - total		
including those earned from securities		
and participation in joint ventures		
exchange gains/losses		
Total profit or loss		
Balance profit (loss)		
ONLY FOR REFERENCE		
Amount of increase (decrease) of		
wages & salary expenses		

- Sales are recorded on a cash basis rather than accrual - not indicative of actual performance
- Does not truly indicate 'cost of production'; as costs may be based on norms and many elements of cost are not included - this can lead to poor product and pricing decisions
- Does not show details of cost of production i.e. materials, energy, payroll, taxes - not useful for control purposes
- 'Operating profit' does not give a true indication of actual performance as a number of costs are not taken into account
- Produced quarterly, not frequently enough to aid control and decision making

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INSTRUCTOR'S NOTES

Use this slide to summarize the main points that the participant's came up with during the exercise.

EMPHASIZE:

Recent Russian legislation specifies standards for financial reporting (as different from tax reporting) Although these standards are a step forward, - in that they mandate a separate (or semi-separate set of financial reports); we believe that they are a long way away from addressing the requirements that the MRS we are presenting here does.

Rather than a fixed format across all - what we emphasize here is customizing to meet business requirements. Timeliness, consistency, accuracy and regular reporting are important management reporting requirements that the new legislation does not directly address

Management Reports Provide Help to All Vital Processes of the Company, Beyond Tax Reporting...

- Provide a snapshot of operations
 - information on actual performance as opposed to norms
 - e.g. improvement in overall performance
- Identification of existing problems and inefficiencies
 - e.g. high inventory holding costs due to poor production planning
- Identification of potential problems in advance
 - e.g. upcoming shortfall in cash
- Day-to-day operational decision making and problem solving
 - e.g. how much metal do we need to buy to produce 4000 trucks
- Strategic and long term decision making
 - e.g. determining the capital structure of the company
- Direction for planning and budgeting
 - e.g. which departments drive the production plan and how

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INSTRUCTOR'S NOTES

DISCUSS

Ask the participants for other examples of the ways in which management reports assist the management process .

EXERCISE

Based on the previous exercise - ask the participants to list out the differences between management reporting and financial reporting - discuss.

Management Reporting Is Based Only on Management Requirements and Is Done in Real Time

Management Reporting:

- Is for internal management decision making
- Deals with the past, present, and future
- Analyses data in a relevant and meaningful manner
- Is confidential
- Is not subject to legal requirements
- Is designed for the needs of the business, by the organization
- An organization may choose to have a formal management reporting system, an informal system usually exists in all organizations in different forms
- Is often real-time or short term elaboration

Financial Reporting

- Is for reporting to external users e.g. tax authorities, shareholders and creditors
- Deals with historical data only
- Summarizes totals
- Is published (or submitted to tax authorities)
- Is subject to local laws and standards
- Has set formats - defined externally
- Is a legal requirement

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INSTRUCTOR'S NOTES

Use this slide to summarize the differences between management reporting and financial reporting - follow up from the discussion on the last exercise.

The previous exercise should be used to check the participants understanding of the difference - have they really understood why they need management reporting.

If the instructor feels that they are not thoroughly convinced of the need for management reporting - time should be spent explaining each point on this slide further.

Seminar Agenda

Agenda and Seminar Objectives

Session 1: Introduction to Management Reporting Systems

Session 2: What is the system and how do you use it?

- Defining lists and reports, sales, accounts receivable, finished products inventory reports

Session 3: What is the system and how do you use it?

- Raw materials inventory, purchasing reports

Session 4: Making the system a reality- Customizing the system

Session 5: What is the system and how do you use it?

- Summary report, Cash Flow, barter report

Session 6: Using the Management Reporting System

Session 7: Making the system a reality- Implementing the system

Session 8: Summary and review of assignment

ms2ePage 1

INSTRUCTOR'S NOTES

We now get specific about management reporting systems.

What are the basic components of the system?

How do they relate to each other to make up the whole system?

Session 2: What Is the System and How Do You Use It?

Defining lists and reports

- What is a list? what is a report? How do they work together?

Sales are the most important activity of a company: sales determine how much income the company receives

- The sales report enables management to track performance of each product
- It is a useful tool to evaluate customers

Accounts receivable: Most companies in Russia today face problems with collection

- The accounts receivable report is used to track how much is due from customers, and when it is due
- The report can also track customer accounts that are overdue - so that management can take prompt action

Inventory of finished products: How much do we have available for sale

- The finished products inventory report helps the sales department plan sales
- and the production department plan production

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INSTRUCTOR'S NOTES

In this section we introduce some of the basic lists and reports - sales, accounts receivable and inventory of finished products.

We end the session in a simple exercise which demonstrates how the reports can indicate an irregularity in operations.

EMPHASIZE:

Although we are discussing each report individually, they are all related and form part of a system.

The receivables report relates essentially to the same transactions that are analyzed in the sales report - the receivables report analyses them to serve a different purpose.

The finished products inventory report provides an important indicator to the sales report- what is available to be sold.

DISCUSS

Why is the sales report important?

Why is the accounts receivable report important?

Why is the finished products inventory report important?

The Management Reporting System That We Present Here

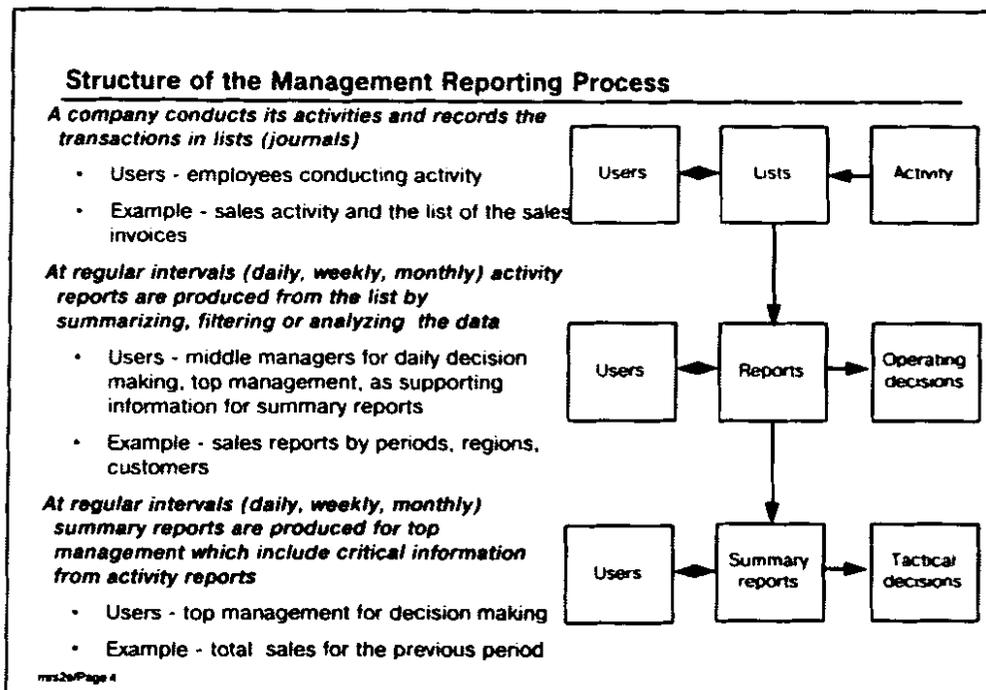
- Has been developed keeping in mind the requirements of a medium sized Russian enterprise
 - can be applied to a large enterprise, but should be computerized
- Tries to incorporate all the basic activities, keeping in mind general applicability
 - some companies have very specific activities that can't be included without making the system unappreciable for the rest of the potential users
- Tries to add on additional data requirements to your company's current lists, without changing the existing system's need for tax reporting
 - we don't want to change your system for tax reporting, but instead would like to use it more effectively to allow some management reporting also
- Should to be tailored to individual corporate requirements to be more effective
 - customizing : we'll discuss how to do this

mrs2wPage 3

INSTRUCTOR'S NOTES

We have based the development of this generic management reporting system on the following assumptions:

- The system is to be used by small to medium sized manufacturing companies
- The company should conduct normal operations
- Company may already have a reporting system in place and may use the presented materials to add to and enhance the existing reporting system
- Companies may continue to develop the system using the presented materials as a basis, modifying and enhancing it to satisfy specific company requirements



INSTRUCTOR'S NOTES

The description of the components of the management reporting system is structured as follows (for every list and report relating to basic company activities):

•Lists

- description of the list (for which activity this list is used)
- list format
- who may be interested in maintaining and using the list

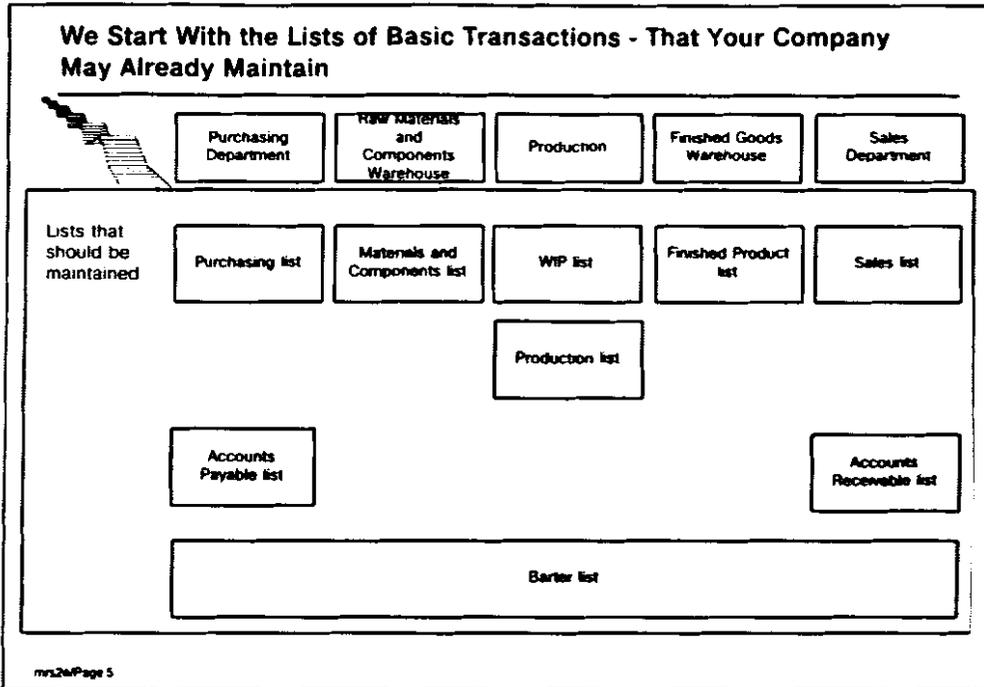
•Reports

- description of the report
- report format
- who may prepare and use the report

Summary Reports (introduce the concept of Critical Decision Information, which usually results from processing several lists or reports)

- description of the report
- report structure
- who may prepare and use the report

Remind the participants: Lists list out Data, while Reports report Information

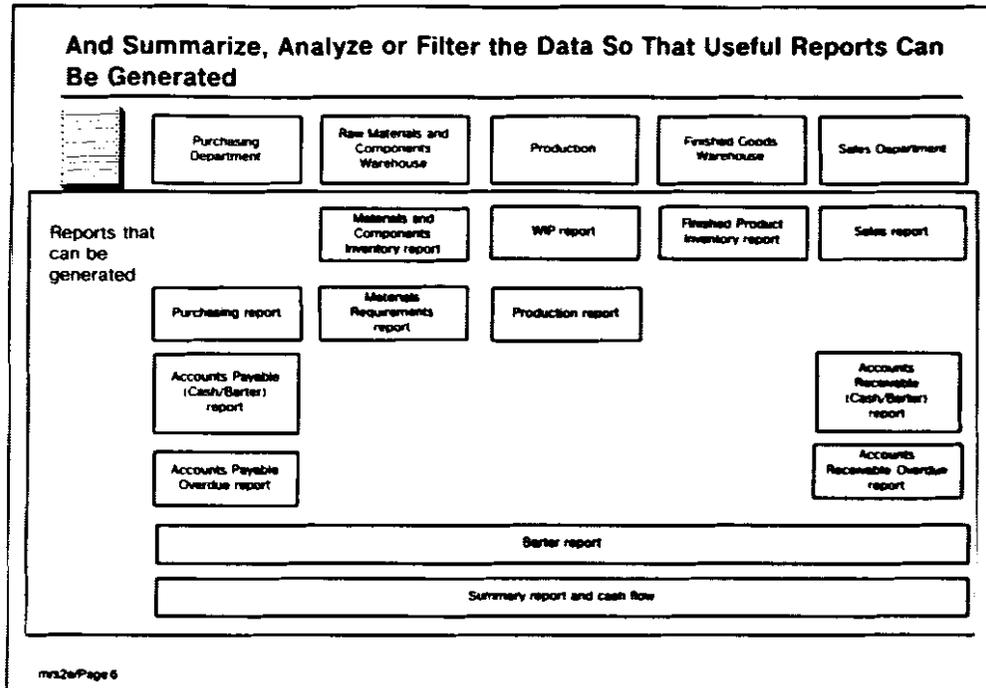


INSTRUCTOR'S NOTES

By maintenance of lists we mean recording every transaction (in the relevant activity) in the list (journal, book) by the person conducting this activity.

Most companies record the basic transactions listed above in journals or lists of some sort, although they may not be exactly in the formats described in this presentation. If these lists are not currently maintained at your organization, they can be organized with little effort.

Again Lists = Data



INSTRUCTOR'S NOTES

From the lists already maintained reports can be produced.

Report - summary or analysis of the data contained in the list

- This can be summation of the data in the list for specified period
- Or selection of specific data from the list

Why should reports be produced, if your company already maintains detailed lists?

- Reports are intended for management's (who lack time to go through and understand all the details in the extensive lists) use and should be:
 - more concise
 - contain only information required for the intended manager
 - be easily understandable

EMPHASIZE

REPORTS CONTAIN INFORMATION

Once the Reports Are Ready, They May Be Distributed to Many Managers to Help Them Manage Their Part of the Business More Effectively

No.	Report Name	Recipient	Period		
			daily	weekly	monthly
1	Sales Report	Sales Manager	X		
		General Director			X
2	Finished Product Inventory Report	Warehouse Manager	X		
		Sales Manager		X	
3	Work in Process Inventory Report	General Director			X
		Chief Engineer	X		
4	Production Report	Sales Manager		X	
		Purchasing Manager		X	
		General Director			X
		Chief Engineer	X		
5	Raw Materials and Components	Sales Manager		X	
		Purchasing Manager		X	
		General Director			X
		Warehouse Manager	X		
6	Purchasing Report	Purchasing Manager	X		
		General Director			X
7	Accounts Receivable Report	Sales Manager	X		
		Accounting (Finance)		X	
		General Director		X	
8	Accounts Payable Report	Purchasing Manager	X		
		Accounting (Finance)		X	
		General Director		X	
9	Cash Flow Report	Sales Manager	X		
		Purchasing Manager	X		
		General Director		X	

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INSTRUCTOR'S NOTES

Each manager should analyze what information he needs to effectively run his area of responsibility.

The results of this analysis should be summarized (may be with previous discussion on the management meeting) and checked against the availability of information and resources needed to produce the reports.

Based on this analysis a reporting schedule (what reports, when and by whom produced) and distribution list (who and when receives what report) is created and made official by management order.

We will return to this process when we talk about customizing the reporting system to meet the requirements of the organization.

Lists and Reports in a Basic Management Reporting System

Lists and reports defined

- Sales lists and reports
- Purchasing lists and reports
- Accounts receivable lists and reports; Overdue receivables report
- Accounts payable lists and reports
- Finished product inventory lists and reports
- Work in process inventory lists and reports
- Raw materials and components inventory lists and reports
- Production lists and reports
- Barter transactions lists and reports
- Summary report
- Cash flow report

Creating and using lists and reports

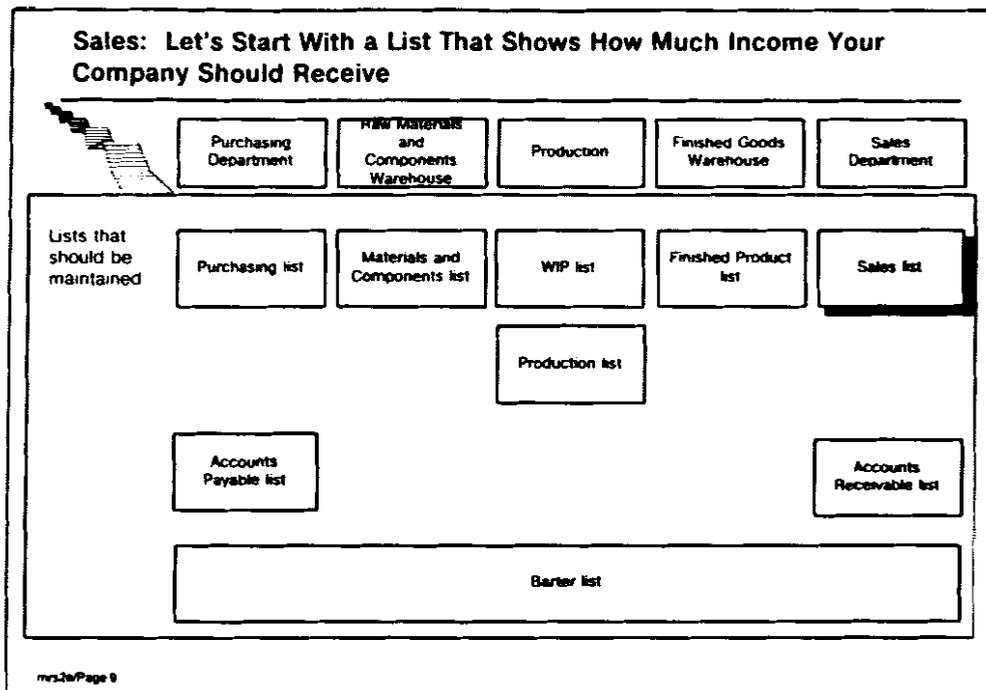
Suggested formats

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INSTRUCTOR'S NOTES

Through the course of the day we will be discussing most of the reports that we believe form an essential part of the system. (the highlighted reports- and not necessarily in the same order).

Each participant will be provided with a handout that outlines the entire system and how it can be used, including blank templates. All lists and reports that we will not cover during the day i.e. the production lists and reports, work in process lists and reports, accounts payable lists and reports, will be described in detail in the handout.



INSTRUCTOR'S NOTES

SALES is the indicator of how much revenue the company is earning, or will expect to earn. It is therefore probably the most important activity to report.

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The Sales List Captures Data Generated Before the Actual Sale

List of sales transactions:

- Prepared by sales staff on the basis of invoices issued to the buyers, and information from other departments

This list should include the following basic information (any additional details may be included, if required):

- Product identification number, Product name
- Unit of measurement
- Sales plan for the period
- Planned sales price
- Product available for sale (units), which can be calculated and further separated into:
 - finished product inventory that was available for sale at the beginning of the period
 - finished product received from production
- Estimated (planned) finished product inventory safety level for the end of the period (your sales department should be involved in establishing this level)

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INSTRUCTOR'S NOTES

The sales department of the company should maintain the sales list - a record of all sales transactions.

Basic data that the sales staff needs to control and manage sales activity includes:

- Information about the product they are selling, including:
 - product name and specifications
 - how much the company plans to sell and at what prices (this is decided by management and included in sales list for reference and variance analysis and control)
 - quantity available for sale during the period (which can be calculated as follows: beginning finished products inventory + received from production during the period - already sold)

Data for the sales list is obtained from the sales department and the warehouse, as well as the planning department (for the planned sales price and the sales plan). It is important that when identifying a product all departments of the company use the same system of codes. The documents that relate to transactions of the same type should be kept in a single location.

Sales List: Also Contains the Basic Sales Information

This is the information that your company almost certainly maintains

- Sales (units)
- Buyer
- Contract number
- Sales price
- Sales (amount)
- Delivery terms

If the sale is a barter transaction - this fact needs to be recorded

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INSTRUCTOR'S NOTES

The sales list should also contain information on all the products (or product groups) sold:

- How many units have been sold
- Who was the buyer (reference to buyers database, if buyer database is maintained by the company, if not - maintenance of such a database should be encouraged)
- Contract number for reference (we assume that sales department keeps copies of all contracts, if not - it should be encouraged)
- And some useful information from the contract:
 - actual sales price (total sales amount)
 - delivery terms
- If the sale is a barter transaction, this fact and the details of the transaction need to be recorded

Sales List: Tips on Maintaining and Using

The lists can be prepared for every product in the company's product range.

The list maintaining process can be manual or computerized.

The list is prepared by every sales person issuing an invoice to customer, or receiving information that new items have been produced and become available for sale by inputting required information and adjusting all columns affected:

- Example, subtracting number of units sold from available for sale amount
- Adding number of units that became available for sale

This list is used by sales staff to:

- Monitor sales activity and market trends (volume of sales, variation of sales price)
- Know at any point in time the amount of product available for sale
- Plan safety level of inventory (to sustain long-term contracts, to meet preferred customer requirements, etc.)
- Prepare sales reports for managers

mva20Page 12

INSTRUCTOR'S NOTES

It is up to every sales manager to decide who and in what form maintains the sales list:

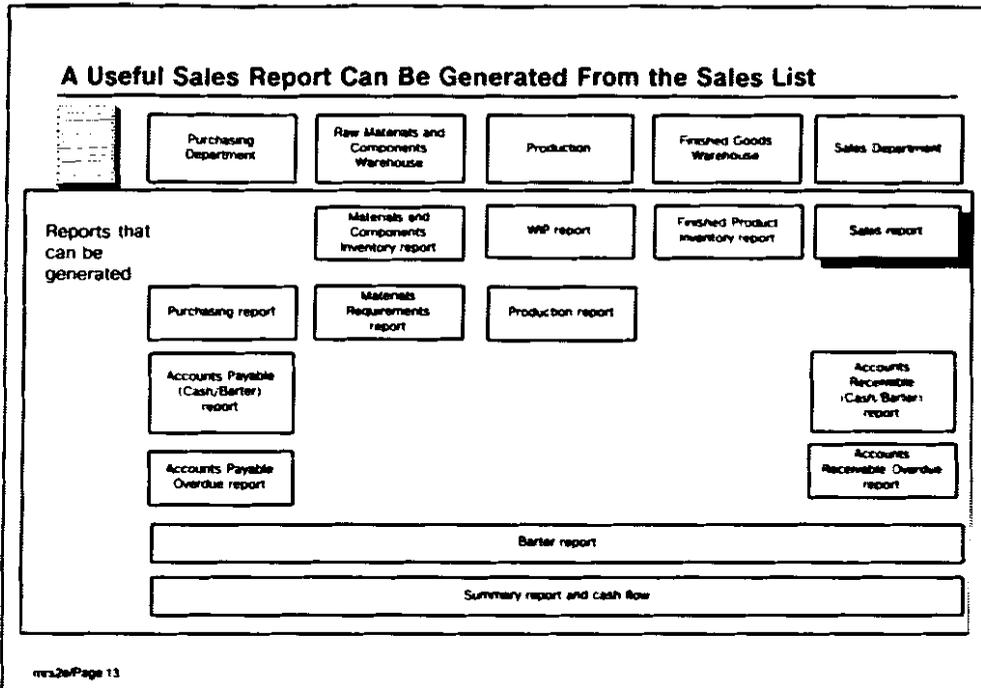
- It can be a single list, where each sales person makes a record (this is more appropriate if company has centralized Sales Department)
- Or each sales person may maintain separate sales lists, which are consolidated in the reports (this is more appropriate if company has decentralized Sales Department)

Simple electronic spreadsheets (in Excel, Lotus 1-2-3, SuperCalc, etc.) can be used to facilitate maintenance of the lists.

We have listed several possible uses of the sales lists, we are sure that when the sales staff starts to use them several new applications can be found. Some companies may already be using the sales list for additional purposes.

EXERCISE

Ask participants if they know or can find some additional uses for sales lists



INSTRUCTOR'S NOTES

As we mentioned before:

Report - summary or analysis of the data contained in the source list.

- This can be a summary of the data in the list for a specified period
- Or a selection of specific data from the list

Sales Report (Units)

Product Number	Product Name	Unit of Measurement	Sales Plan for the Month	Monthly Sales to Date	Variance (plan vs. fact)	Current Finished Product Inventory	Estimated Finished Product Inventory Safety Level
YO	Yttrium Oxide	kg	450	250	(200)	520	45
EO	Europium Oxide	kg	25	12	(13)	24	2.5
SO	Samarium Oxide	kg	20	8	(12)	21	2
GO	Gadolinium Oxide	kg	20	24	4	23	2
MO	Neodymium Oxide	kg	10	0	(10)	6	1
TO	Terbium Oxide	kg	10	0	(10)	4	1
SM	Samarium Metal	kg	10	0	(10)	6	1
GM	Gadolinium Metal	kg	10	0	(10)	2	1
YP	Yttrium Phosphor	kg	100	45	(55)	55	10
ETP	Red TV Phosphor	kg	50	45	(5)	4	5
GTP	Green TV Phosphor	kg	50	26	(24)	10	5

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INSTRUCTOR'S NOTES

This is a sales report summarized by product.

DISCUSS

What does this report tell you about sales?

Sales Report (Amount)

Product Number	Product Name	Unit of Measurement	Sales Plan (units)	Planned Sales Price	Planned Sales (amount)	Actual Sales (units)	Actual Sales Price	Actual Sales (amount)
YO	Yttrium Oxide	kg	450	120.413	54,185.85	250	110.000	27,500.000
EO	Europium Oxide	kg	25	137.680	3,441.500	12	140.000	1,680.000
SO	Samarium Oxide	kg	20	175.648	3,512.950	8	175.000	1,400.000
GO	Gadolinium Oxide	kg	20	87.954	1,759.075	24	90.000	2,160.000
YO	Yttrium Oxide	kg	10	94.166	941.663	0	90.000	0
TO	Terbium Oxide	kg	10	182.370	1,823.700	0	180.000	0
SM	Samarium Metal	kg	10	219.538	2,195.375	0	200.000	0
GM	Gadolinium Metal	kg	10	217.720	2,177.200	0	215.000	0
LP	Red Phosphor	kg	100	175.867	17,586.875	45	175.000	7,875.000
RTF	Red TV Phosphor	kg	50	226.200	11,311.500	45	225.000	10,125.000
GTG	Green TV Phosphor	kg	50	219.543	10,977.125	26	220.000	5,720.000

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INSTRUCTOR'S NOTES

This sales report gives total value of sales during a period - analyzed by product.

Another Sales Report May Summarize Sales by Customer



This is a sample report showing period sales summarized by customer:

- Client (buyer)
- Product identification number
- Product name
- Unit of measurement
- Planned sales price
- Sales (units)
- Average sales price
- Sales (amount)

mrs2w/Page 16

INSTRUCTOR'S NOTES

This is an example of one of the sales reports that can be required by company management:

- Sales by customer report (which includes specific customer information and can be grouped by customer)

Some other reports, such as:

- Sales by product (with product specific information and grouped by product)
- Sales by region
- By salesperson
- By type of customer e.g. end user, own dealer network, other retailers
- By type of outlet e.g. kiosk, shop, supermarket
- By type of product packaging e.g. bottles Vs cans
- Barter sales reports

Can also be produced from the data in Sales lists.

DISCUSS:

What other ways can we meaningfully analyze the data in the sales list?

Every company manager should have a better understanding of what specifically he needs to know about sales, and should ask for this information to be included in the reports.

The Sales Report Summarizes Data As Required for the Business Situation

Can be produced easily by sales staff or senior sales staff at required intervals (daily, weekly or monthly) from the sales lists



- Sales reports can be a summary of sales activity for the reporting period grouped by sales region, product, sales person, customer, etc. (based on management requirements)
- They can be prepared by sales staff at the end of the period

Depending on management requirements and potential uses, the sales report may include all information from the list (or a selection) summed up and grouped. The report should be designed to assist in control and evaluation of the effectiveness of the sales function.

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INSTRUCTOR'S NOTES

Management should decide what sales information they need to evaluate sales function (and company as a whole) performance.

We will later talk about customizing the system - which should provide the participants a guideline for determining the most appropriate format for their organization.

After this decision is made and if Sales list is maintained consistently - it will not require a lot of effort (or employees time) to produce useful sales reports.

The reports may be used not only for such simple tasks as identifying better selling products and finding out which sales person is more successful. At a manufacturing enterprise in the Ural Region the sales report were used to distinguish between the sales that should be made directly and those that should go through the dealers.

The dealers were unhappy about a too aggressive direct sales approach employed by the company. That represented a threat that the dealers could switch to other suppliers (and some of them did so). The decision was made not to sell directly to a customer if the size of the contract was less than a certain amount. Sales reports, grouped by customer, are instrumental in implementing this decision.

How to Use the Sales Report - It Is Flexible and Informative

Sales reports can be used by sales department managers...

- To analyze the sales activity of the company and monitor product market trends (amend sales policy if required by the market)
- To plan sales activity (change the sales plans), monitor finished product inventory available for sales, and issue production requests
- To compare finished product inventory reported by accounting and warehouses to products available for sale reported by sales staff
- To monitor sales staff performance
- To report sales results to top management

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INSTRUCTOR'S NOTES

We have listed several possible uses of the sales reports, we are sure that when the sales department and company management starts to use them several new uses can be found.

DISCUSS

Ask participants if they know of or can find some additional applications for sales reports.

Sales Reports Are Used by Top Management



To know how much cash company sales has generated (or can generate in near future); so that management can plan operations in the following periods

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INSTRUCTOR'S NOTES

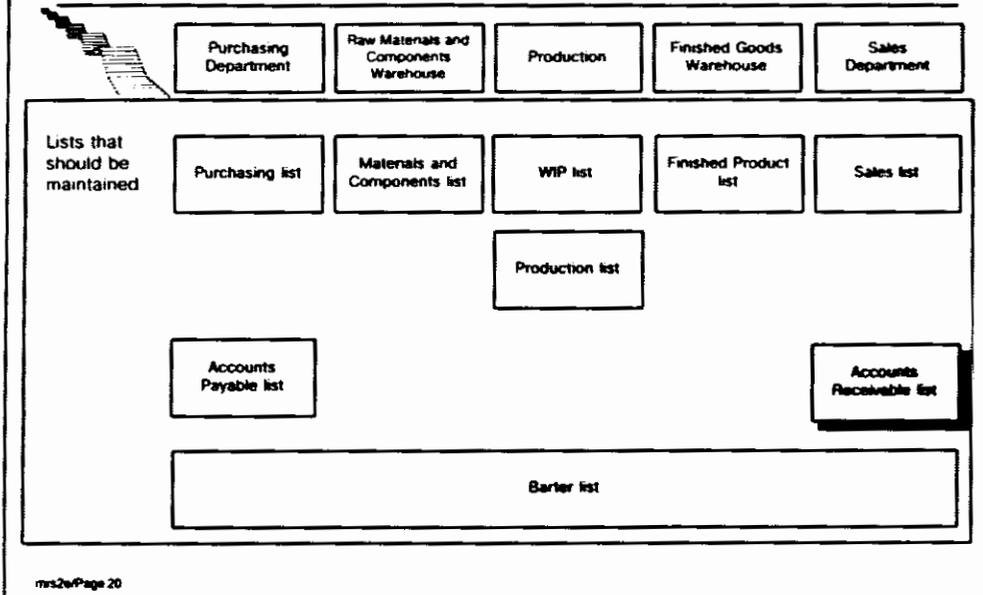
The sales report is can provide useful input in determining the cash inflows from sales in future periods. The barter sales report can help determine the inflows of raw materials and other products for sale.

We will continue to list possible uses of the lists and the reports throughout this presentation. Some of the uses will be quite obvious, others will involve actions like planning, control and analysis.

This presentation only refers to such activities, but is not going into detailed explanations on what those activities are, as it is beyond the scope of the presentation (some of them may be covered in other modules).

Each presenter must be ready to spend some time to explain what those activities are using their general consulting skills.

Accounts Receivable: Now Consider a List to Look at Accounting and Credit Functions



INSTRUCTOR'S NOTES

The importance of maintaining a list of accounts receivable transactions cannot be undermined. Every manager in the audience has probably faced a situation where they don't know how much is owed to them, or how much cash they expect to collect in the following month.

Accounts Receivable List (Cash - RUR '000)

Reference Number	Customer Name	Contract Number	Table Amount of the Contract (or Equivalent)	Next Due Date
1001-01	Kroy Lamp Factory	1996-0001	300,000	15-01-96
1008-02	Experimental Garnet Company	1996-0004	230,000	08-04-96
1011-01	Magnet Plus Co	1996-0006	500,000	11-07-96
1020-02	Kroy Lamp Factory	1996-0010	200,000	20-02-96
1021-01	Gonzont	1996-0012	100,000	21-02-96
1022-02	VFF	1996-0013	400,000	22-04-96
1022-03	Street Lamp Co	1996-0014	220,000	22-06-96
1022-04	Hamburg Trading	1996-0015	1,200,000	01-02-97
1024-01	Salda	1996-0017	500,000	30-03-96
1025-01	Ecolab	1996-0020	50,000	25-02-96
1026-02	Kroy Lamp Factory	1996-0022	100,000	15-02-96
1027-01	Magnet Plus Co	1996-0023	50,000	25-02-96
1028-01	Salda	1996-0024	1,000,000	30-03-96
1030-01	Gonzont	1996-0026	200,000	28-02-96
1030-02	Street Lamp Co	1996-0028	250,000	30-03-96
1031-01	Salda	1996-0029	500,000	30-06-96
Total:			5,800,000	

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INSTRUCTOR'S NOTES

This is an example of an accounts receivable list - that lists each transaction, and the amount due on it.

This list should include the following basic information (any additional details may be included, if required):

- Customer information
 - Name
 - Address
- Contract information
 - Number
 - Amount
 - Payment terms
- Product information
- Payment due date

If any of the receivables are barter transactions (either in whole or in part), this fact should be noted separately.

EMPHASIZE:

While recording information on lists - to ensure consistency across the organization - the same product codes and customer codes (and material codes for inventory and purchasing reports) should be used.

Accounts Receivable List (Cash - RUR '000)

Reference Number	Customer Name	Contract Number	Public Amount of the Contract (or Equivalent)	Next Due Date	0-30 Days	31-60 Days	61-90 Days	91-180 Days	180 Days to 1 Yr	Over 1 Yr
1001-01	Kroy Lamp Factory	1998-0001	300,000	15-01-98	300,000					
1008-02	Environmental Games Company	1998-0004	230,000	08-04-98				230,000		
1011-01	Magnet Phys Co.	1998-0009	500,000	11-07-98					500,000	
1020-02	Kroy Lamp Factory	1998-0010	200,000	20-02-98		200,000				
1021-01	Corcont	1998-0012	100,000	21-02-98	100,000					
1022-02	VFF	1998-0013	400,000	22-04-98				400,000		
1022-03	Street Lamp Co.	1998-0014	220,000	22-08-98				220,000		
1022-04	Merburn Trading	1998-0015	1,200,000	01-02-97						1,200,000
1024-01	Selle	1998-0017	500,000	30-03-98			500,000			
1025-01	Ensofab	1998-0020	50,000	25-02-98	50,000					
1026-02	Kroy Lamp Factory	1998-0022	100,000	15-02-98	50,000			50,000		
1027-01	Magnet Phys Co.	1998-0023	50,000	25-02-98	50,000					
1028-01	Selle	1998-0024	1,000,000	30-03-98			300,000		300,000	400,000
1030-01	Corcont	1998-0026	200,000	28-02-98		100,000	100,000			
1030-02	Street Lamp Co.	1998-0028	250,000	30-03-98			250,000			
1031-01	Selle	1998-0029	500,000	30-08-98				500,000		
Total:			5,800,000		550,000	300,000	1,150,000	1,400,000	800,000	1,600,000
%					9%	5%	20%	24%	14%	28%

mrs2e/Page 22

INSTRUCTOR'S NOTES

We have developed the list further - we can now see when we expect to receive our money - The list is on its way to becoming a report, i.e. the data has been analyzed to provide more useful information.

Accounts Receivable List: Preparation and Maintenance

Accounts receivable list:

- Is prepared by sales staff on the basis of deferred payment contract and sales invoices issued to the buyers

The list is prepared for all accounts receivable (including barter accounts receivable)

The list is prepared (updated) by sales staff based on:

- Sales contracts with deferred payment clause
- Invoices confirming that sale was actually made
- Payment confirmations received from customers (before being sent to accounting) and confirmed by bank statement (or in barter case - barter product receipts confirmed by warehouses)

This list is used by sales staff:

- To maintain company-client relationships and company credit and sales policy
 - deferred sales limits to one client may be set by the company to minimize customer default risk
 - client ranking can be maintained by the company for the same purposes
- To monitor sales contracts and promptly react to contingencies

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INSTRUCTOR'S NOTES

The sales department of the company should maintain the accounts receivable list - a record of all credit sales transactions plus basic information about debtors.

EXPLAIN the terms:

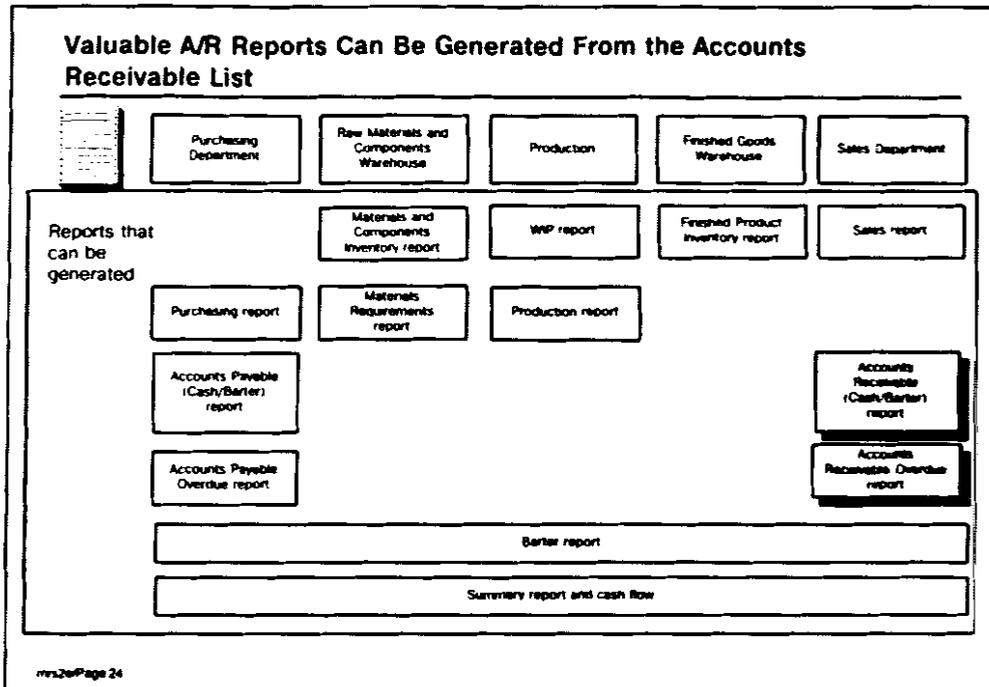
- **Sales policy** - company wide decision (usually made by top management based on previous sales experience) what, to whom and on which terms to sell. This concept is closely related to the next one.
- **Credit policy** - company wide decision (usually made by top management based on previous sales experience) what, to whom and on which terms to sell in credit. This concept is closely related to the next one.
- **Credit rating** - rating assigned to the customer based on his fulfillment of credit agreements

Basic information that sales staff needs to conduct credit sales activity is:

- Information about the product they are selling, i.e. product name and specifications
- Information about the customers (credit rating is not usually available, but company can define one, if they are often selling on credit terms to the same customers)
- Contract information (we already encouraged the company to keep a contract database and copies of all contracts)
- Payment due date (or several payment dates, if complex credit terms are involved)
- If company often trades on barter credit terms - this also should be recorded

It is up to every Sales manager to decide who and in what form maintains the list:

- It can be a single list, where each sales person makes a record (this is more appropriate if company has centralized Sales Department)
- Or each sales person may maintain separate sales lists, which are consolidated in the reports (if sales function is decentralized)



INSTRUCTOR'S NOTES

EXERCISE :

Ask the participants to draw out on a piece of paper, the most appropriate form for the accounts receivables report for their organization.

They should also be able to tell you how that particular format would help them address their most important issues with A/R.

**Accounts Receivable Report - Summary by Client and Scheduled
Payment Due Date (Cash - RUR '000)**

Customer Name	Ruble Amount of the Contract (or Equivalent)	0-30 Days	31-60 Days	61-90 Days	91-180 Days	180 Days to 1 Yr	Over 1 Yr
Experimental Garment Company	230,000	0	0	0	230,000	0	0
Fotolab	50,000	50,000	0	0	0	0	0
Gorizont	300,000	100,000	100,000	100,000	0	0	0
Hamburg Trading	1,200,000	0	0	0	0	0	1,200,000
Kirev Lamp Factory	600,000	350,000	200,000	0	50,000	0	0
Mannet Plus Co.	550,000	50,000	0	0	0	500,000	0
Saida	2,000,000	0	0	800,000	500,000	300,000	400,000
Street Lamp Co.	470,000	0	0	250,000	220,000	0	0
VEF	400,000	0	0	0	400,000	0	0
Total:	5,800,000	550,000	300,000	1,150,000	1,400,000	800,000	1,600,000
%		9%	5%	20%	24%	14%	28%

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INSTRUCTOR'S NOTES

This report analyses receivables by customer. The information is more useful than that provided in the previous analysis.

The information can be collected and presented in a useful way only if the document flow is organized properly. Documents (contracts, invoices) that contain information on accounts receivable should be kept in one place accessible by the person who maintains the accounts receivable list for a given subdivision of the company. Different departments should not perform the same functions (such as invoicing).

**Accounts Receivable Aging Report by Scheduled Due Date
(Cash - RUR '000)**

	Ruble Amount of the Contract (or Equivalent)	Next Due Date	0-30 Days	31-60 Days	61-90 Days	91-180 Days	180 Days to 1 Yr	Over 1 Yr
Total:	5 800 000		550 000	300 000	1 150 000	1 400 000	900 000	1 600 000
%			9%	5%	20%	24%	16%	28%

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INSTRUCTOR'S NOTES

The general director may not be interested in how much each customer owes; the sales and finance departments can handle that between them. He wants to know how much can he expect to receive in cash in the next month.

Knowing that only 550,000 is due to come in during the next month tells us more than just the knowledge that the company has 5,800,000 in total receivables.

Accounts Receivable Reports: Can Be Summarized to Show How Much Credit Your Company Has Extended and for How Long It Has Been Outstanding

Accounts receivable reports can be produced by sales staff or managers at required intervals (daily, weekly or monthly) from accounts receivable lists

- Accounts receivable reports can be a summary of deferred payment sales transactions with outstanding payments at a point in time grouped by customer, finished product, etc.
- Accounts receivable reports can take several forms depending on requirements:
 - Cash accounts receivable (grouped by due date)
 - Barter accounts receivable (grouped by due date)
 - Cash (barter) accounts receivable overdue (grouped by due date)
- The sales department is the best place to maintain accounts receivable reports because it
 - keeps records of all shipments: those that have been made and the ones due to be made
 - is typically responsible for collection of payments
 - has enough information to propose a change in the credit policy of the company.

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INSTRUCTOR'S NOTES

Management should decide what credit sales information they need to evaluate sales and especially credit sales performance.

After this decision is made and if the sales and accounts receivable list is maintained consistently - it will not require a lot of effort or time to produce effective accounts receivable reports.

Accounts receivable reports can take several forms, such as

- Cash receivables
- Barter receivables
- Overdue receivables
- Receivables by product or product group
- Receivables by customer or customer group
- Receivables from related parties e.g. subsidiaries or group companies
- Receivables report for key accounts only (e.g. for top level reporting)

Accounts Receivable Reports: Cash Transactions

A standard accounts receivable summary report should include the following information

- Product information, or
- Customer information
- Accounts receivable settlement date, categorized in the following manner
 - 0 - 30 days
 - 31 - 60 days
 - 61 - 90 days
 - 91 - 180 days
 - 180 days - 1 year
 - over 1 year
- Percentage of each of the above categories to total accounts receivable
- Problems with collection (if any)

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INSTRUCTOR'S NOTES

EXPLAIN

The concept of **Aging** : i.e. organizing the receivables according to their 'age', or due date. Aging tells us the period for which we have extended credit

This information can be used to estimate when the company can expect to receive cash from accounts receivables.

And estimate an allowance for bad debts.

The next few slides give examples of several types of accounts receivable reports.

Accounts Receivable Reports: Barter Transactions

Barter accounts receivable may also have some information related specifically to this type of transactions:

- Product information, or
- Customer information
- Accounts receivable settlement date categorized in the following manner
 - 0 - 30 days
 - 31 - 60 days
 - 61 - 90 days
 - 91 - 180 days
 - 180 days - 1 year
 - over 1 year
- Percentage of each of the above categories to total accounts receivable
- Material or components to be received information
- Problems with collection (if any)

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INSTRUCTOR'S NOTES

Barter receivables report can also show what material, supply or component is expected to be received. This can help plan its effective use and to conserve scarce cash on purchases of the same material.

A common problem we have come across is maintaining a record of receivables on barter transactions. Very often a barter transaction gives rise to a receivable in the sales department and a payable in the purchasing department; and the two transactions may not be offset. This is specially true in the case of complicated multi-party barter arrangements.

Aging is relevant to barter transactions as well : it assists in more accurate planning for the future.

Accounts Receivable Overdue Reports

Overdue accounts receivable should also be reported separately (to draw management attention to them) and should include the following information:

- Product information, or
- Customer information
- Overdue accounts receivable (from settlement date):
 - 0 - 30 days overdue
 - 31 - 60 days overdue
 - 61 - 90 days overdue
 - 91 - 180 days overdue
 - 180 days - 1 year overdue
 - over 1 year overdue
- Percentage of each of the above categories to total accounts receivable
- Actions taken (if any)

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INSTRUCTOR'S NOTES

Overdue receivables report should show information on accounts receivables that were not paid in time.

- Can be grouped by number of days overdue (starting from the missed payment date)
- Should definitely show what actions have been taken to collect the overdue receivable
- Should serve as a warning to consider stopping credit sales to non-paying customers (their credit rating can be decreased)

The overdue receivables report is specially important as a large number of companies do have significant overdue receivables. Analyzing these receivables by age and by customer account can help management prioritize collection efforts.

The Accounts Receivable Reports Have a Number of Important Uses

Accounts receivable reports can be used by:

- Sales managers:
 - To facilitate the decision to sell products to a customer
 - To monitor the deferred income process and promptly react to problems
 - To monitor compliance with company credit policy
 - To determine the aging of the receivables and plan collection efforts

- Legal department
 - To act to collect late payments
 - To write off bad debts, if required

- Accounting or finance departments:
 - To monitor and plan incoming cash and materials on barter

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INSTRUCTOR'S NOTES

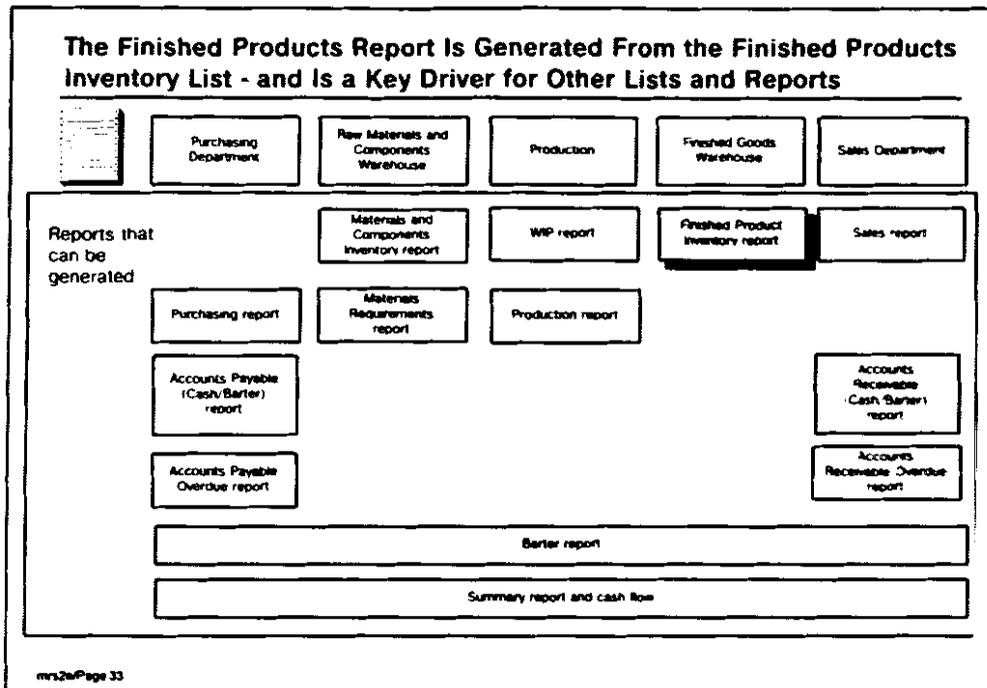
We have listed several possible uses of the accounts receivable reports, we are sure that when the company starts to use them, they may find several new applications for the accounts receivable reports.

Top Management Can Use Information on Receivables

- To analyze and control the company's deferred sales policy
- To analyze the production, sales and purchasing activities of the company and amend them, if necessary
- To facilitate control and comparison with company accounting information
- To facilitate working capital management
- To facilitate the planning process

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INSTRUCTOR'S NOTES



INSTRUCTOR'S NOTES

The warehousing department of the company should maintain the finished products list - a list of all finished products produced by the company.

Basic data that warehousing staff needs:

- Information about the product they have, including:
 - Product name and specifications
 - Where the product is stored
 - What quantity the company has in store
 - Less quantity obsolete and off-specification, that actually can not be sold
 - The age of finished products inventory - (production date)
 - Production cost (which multiplied by quantity of finished products inventory will show how much money is tied up in finished products inventory)

Often finished products inventory may be located in different places - there may be inventory that is still in the production department, there may be inventory at different warehouses and there may be inventory at the dispatch center that is waiting to be shipped. The staff recording inventory should track it at all these locations.

The finished products inventory report can take many forms - depending upon the specific use of the report.

Finished Product Inventory Reports: Preparation and Content

Finished product inventory reports can be easily produced by warehouse staff, managers or specially appointed people at required intervals (daily, weekly or monthly) from finished product inventory lists

- Finished product reports can be a summary of finished product holdings at some point of time (or finished product inventory movements for the reporting period, if required) grouped by warehouse, product, etc.

Here we present two most common formats for the finished products inventory reports:

- Inventory holding report at some point in time
- Inventory movement during a period

Why do we need reports in different formats?

- The inventory holding report can be used to understand how much is available for sale
- The inventory movement report can be used to analyze sales performance (comparing the results with sales reports) and production performance.

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INSTRUCTOR'S NOTES

Management should decide what finished products inventory information they need to control, plan and measure performance of the sales and production functions (and the company as a whole).

After this decision is made and if finished products list is maintained consistently - it will not require a lot of effort or time to produce useful finished products reports.

Finished Products Inventory: Inventory Holding Report

Product Number	Product Name	Location	Unit of Measurement	Quantity on Hand	Quantity Off-Specification	Quantity Available for Sale	Production Date	Production Cost
VO	Vanadium Oxide	Warehouse 1	kg	530		530	20.02.98	95.730
EO	Euroium Oxide	Warehouse 1	kg	25		25	21.02.98	109.125
SO	Samarium Oxide	Warehouse 1	kg	21		21	22.04.98	140.511
GO	Gadolinium Oxide	Warehouse 1	kg	23		23	22.05.98	77.363
VO	Vanadium Oxide	Warehouse 1	kg	6		6	01.02.98	75.330
TO	Terbium Oxide	Warehouse 1	kg	4		4	30.03.98	145.880
SM	Samarium Metal	Warehouse 2	kg	8		8	25.02.98	175.630
GM	Gadolinium Metal	Warehouse 2	kg	7		7	15.02.98	175.230
LP	Large Phosphor	Warehouse 3	kg	65	8	47	25.02.98	140.770
RTP	Red TV Phosphor	Warehouse 3	kg	15		15	30.03.98	180.300
GTP	Green TV Phosphor	Warehouse 3	kg	18		18	28.02.98	175.530

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INSTRUCTOR'S NOTES

This finished products inventory *Holding* report tell us how much of a given product we have available for sale at a particular point in time.

One use of this report is to keep track of quantity available for sale to prevent piling up of some product which doesn't get sold, as we saw in the Plastic Manufacturing example.

Management reports work together to provide more meaningful information:

Consider, for instance, the situation with a manufacturing enterprise which sells a significant portion of its output through dealers. The dealers complain that deliveries from the enterprise are not certain and, consequently, the dealers frequently run out of the product. The finished product inventory report and the sales report are used simultaneously to keep the quantity available for sale (sales report) always above the finished product inventory safety level (finished product inventory report).

Finished Product Inventory Reports: Inventory Movement Report

A finished product movement report should also include the following information:

- Production data
 - production date
 - production cost
- Product identification number
- Product name
- Unit of measurement
- Location
- Product received from production during the period
- Product available (units), which can be calculated and further separated into:
 - total quantity on hands
 - less quantity off-specification
 - less quantity obsolete
- Product shipped to customers during the period

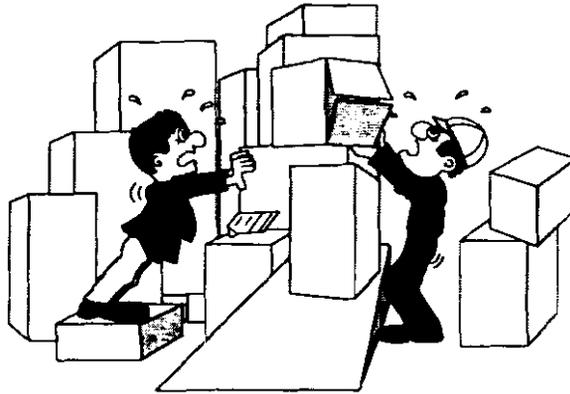
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INSTRUCTOR'S NOTES

Finished products inventory movement report may contain the following information:

- Product information
- Where the products are located
- Quantity on hand, calculated as sum of inventory at the beginning of the period plus all finished products from production less sold finished products

Finished Product Inventory Reports Can Be Used by Warehouse Managers



*To know the availability, location and movement of finished product inventory
To facilitate reconciliation with accounting, production and sales departments*

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INSTRUCTOR'S NOTES

The warehouse manager is the most important user of the finished product inventory report...

...but this report has a number of other important uses.

Finished Product Inventory Reports Form an Important Element of the Sales and Production Planning Process

The report can be used by

Sales department managers:

- To know availability of product for sale to plan sales activities and issue production requests

Top management:

- To analyze production and sales activities of the company and amend them, if necessary
- To facilitate the planning process

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INSTRUCTOR'S NOTES

At Plastic Manufacturing we saw how the finished product inventory report triggered some important questions, resulting in changed production plans.

DISCUSS

Ask participants if they know of or can find some new applications for finished products inventory reports.

Example: What Do the Sales and Inventory Reports Reveal ?

Sales Report

Product Number	Product Name	Unit of Measurement	Sales Plan for the Month	Planned Sales Price	Monthly Sales to Date	Variance (plan v.s. fact)	Current Finished Product Inventory	Estimated Finished Product Inventory Safety Level
AC 3	Al Cu Alloy	kg	500	80000	100	-100	400	50
ACZ 5	Al Cu Zn Alloy	kg	500	110000	400	-100	100	50

Finished Products Inventory Report

Product Number	Product Name	Location	Unit of Measurement	Quantity on Hand	Quantity Off-Specification	Quantity Available for Sale	Production Date	Production Cost
AC 3	Al Cu Alloy	Warehouse 1	kg	400	0	400	1-1-90	80000
ACZ 5	Al Cu Zn Alloy	Warehouse 2	kg	50	40	10	1-1-90	110000

Sales and Inventory reports indicate:

- Demand for alloy AC 3 dropped significantly, which led to a dramatic increase in this product's inventory
- The new alloy ACZ 5 is selling well, but not enough inventory to meet the market demand



Based on this and other market data the Sales Department estimated continuing growth in demand for the new alloy and stable decline in demand for the old product

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INSTRUCTOR'S NOTES

This example demonstrates how looking at two reports together can give a more complete picture than looking at each one separately.

Analyzing the sales and inventory reports, the sales department concluded that they need to study the market and determine what the demand for the two products looks like. This study led to the conclusion that there was a decline in the demand for AC3, in fact there were few buyers only for limited quantities. The demand for ACZ% however was growing quickly - the new products also more profitable than the old.

The change in demand situation necessitates some actions on the part of the company.

EXERCISE:

Ask the participants to list out:

1. What actions must the company take to prepare itself for the change in market situation - in the short term and the long term?
2. What information in the form of reports will assist the company in taking these actions

Use the following slide to summarize what actions need to be taken and how management reports would assist.

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Here Are Some Steps the Company Might Take to Respond to the Situation, and Additional Reports Would Help Confirm They Are the Right Actions

- Reduce inventory of AC3
 - Promote product aggressively using discounts etc
 - Plan to sell of the inventory over the long term and bear holding costs
 - Use inventory to pay suppliers through barter
 - Accounts payable list and report
 - Barter transactions list and report
- Shift production from AC3 to ACZ5
 - Analyze and change production plans if required
 - Production reports
 - Work in process lists and reports
 - Analyze availability of raw materials for both products
 - Raw materials inventory lists and reports
- Plan purchases
 - Purchasing reports
 - Cash flow report

We will analyze some of the above lists and reports and their role in decision making later in this seminar

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INSTRUCTOR'S NOTES

Use this slide to summarize the exercise.

EMPHASIZE :

Usually two reports are not enough, we need to have a more complete picture that can only be provided by the system as a whole !! We will be looking at more lists and reports and seeing how they all work together.

Seminar Agenda

Agenda and Seminar Objectives

Session 1: Introduction to Management Reporting Systems

Session 2: What is the system and how do you use it?

- Defining lists and reports, sales, accounts receivable, finished products inventory reports

Session 3: What is the system and how do you use it?

- Raw materials inventory, purchasing reports

Session 4: Making the system a reality- Customizing the system

Session 5: What is the system and how do you use it?

- Summary report, Cash Flow, barter report

Session 6: Using the Management Reporting System

Session 7: Making the system a reality - Implementing the system

Session 8: Summary and review of assignment

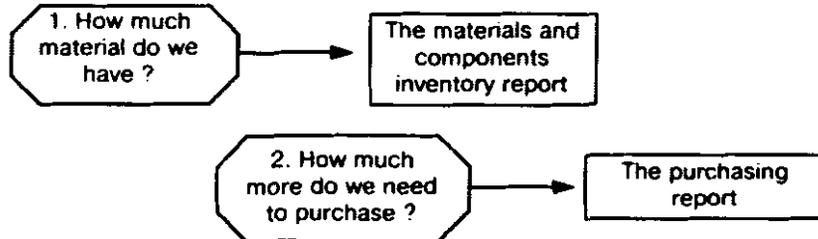
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INSTRUCTOR'S NOTES

Session 3: What Is the System and How Do You Use It?

We have looked at sales and our finished products inventory; we can determine therefore how much we need to produce. (details on the production list and report are presented in the handouts)

The production decision raises two important questions:



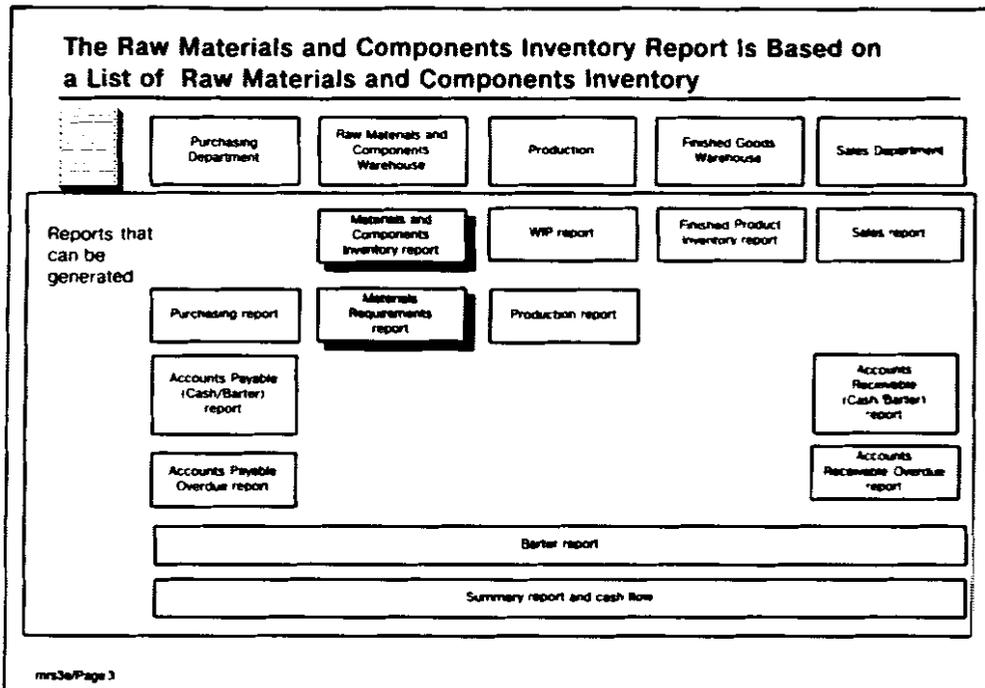
Using the MRS: Example - How much should we purchase and what will it cost?

mrs3a/Page 2

INSTRUCTOR'S NOTES

In this session we will look at some more lists and reports and see how they work together to aid decision making.

The production report is an integral part of the MRS. Although we have not described it in detail in the presentation, the handout to be given to participants at the end of the day contains a detailed description of the production list and report.



INSTRUCTOR'S NOTES

The materials and components inventory list can be used to produce some important reports that serve a variety of functions

The warehousing department of the company should maintain the raw materials and components inventory lists - a list of all raw materials, components and supplies in store

Basic data that warehousing staff needs to maintain in lists:

- Information about the product they have, including:
 - material name and specifications
 - where exactly this materials is stored
 - what quantity company has in store
 - less quantity obsolete and off-specification, that actually could not be used in production

Explain : Safety Stock level

•The level of stock that management considers to be safe, i.e. the level that will ensure continuing production (or sales in the case of safety stock level for finished products). Any drop of inventory below this level should trigger a purchase order.

- safety stock level for every material, component or supply used by the company
- what is the requirement to replenish stock when it is below safety level

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Raw Materials and Components Inventory Reports: Creating the Reports

Raw materials and components inventory reports can be easily produced by warehouse staff, managers or specially appointed people at required intervals (daily, weekly or monthly) from raw materials and components inventory lists maintained by the warehouse staff:

- Raw materials and components inventory reports can be a summary of raw materials and components inventory holdings at some point of time (or raw materials and components inventory movements for the reporting period, if required) grouped by
 - warehouse
 - product

ms3aPage 4

INSTRUCTOR'S NOTES

Management should decide what raw materials inventory information they need to evaluate the performance of the purchasing and production functions (and the company as a whole).

After this decision is made and if raw materials inventory list is maintained consistently - it will not require a lot of efforts (or employees time) to produce effective finished goods reports for every warehouse, or for every material (logical group of several materials).

The Raw Materials and Components Inventory Holdings Report Shows the Inventory Position at a Point in Time

A standard raw materials and components inventory holdings report should include the following information:

- Raw materials and components inventory number
- Raw materials and components name
- Unit of measurement
- Location
- Raw materials and components available (units), which can be calculated and further separated into:
 - total quantity on hands
 - less quantity off-specification
 - less quantity obsolete
- Safety stock level
- Requirements to purchase raw materials and components

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INSTRUCTOR'S NOTES

Here we present two most common contents of the finished goods inventory reports:

- Inventory holding report at some point in time
- Inventory movement during a period

Raw materials inventory holding report may contain the following information:

- Material information
- Where these products are located
- Quantity on hand (less all obsolete and off-specification items)
- Safety stock information
 - level
 - requirements to purchase raw materials and components.

Raw Materials and Components Holding Report

Inventory Code	Material or Supply Name	Unit of Measurement	Total Quantity on Hand	Location	Safety Stock Level	Required to purchase
NA-1289	Nitric Acid Solution	kg	6,000	Warehouse 1	1,000	2,000
AM-3456	Ammonia	kg	320	Warehouse 1	100	100
OX-5674	Oxalic Acid	kg	600	Warehouse 1	400	300
TA-9834	TAMAN	kg	52	Storage Room 101	75	30
VI-1253	VKK	kg	88	Storage Room 101	50	50
HY-8765	Hydrochloric Acid	kg	278	Warehouse 1	300	400
SU-0091	Sulfuric Acid	kg	96	Warehouse 1	100	100
ZN-8745	Zinc	kg	15	Storage Room 102	25	50
FC-1236	Filter Cloth	m ²	28	Storage Room 101	20	20
KS-1129	Kaopon Sieve	m ²	9	Storage Room 101	10	20
QQ-7756	Quartz Dish	units	67	Storage Room 101	75	75

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INSTRUCTOR'S NOTES

This report tells us how much of each material we have on hand at a point in time. The "Required to purchase" column provides an estimate of how much should be purchased in order to keep the inventory at an optimal level (which is usually substantially higher than the safety stock level).

This information becomes especially useful if we compare reports generated at different moments in time. For example, the raw materials and components inventory report together with the sales report can be used to evaluate the inventory management system. In one case, managers of an electric equipment manufacturing enterprise found that inventories may be cut in half if the level of inventories is strictly dependent on the number of orders for the finished product.

It was important to use two reports together since the sales report contains the "Sales plan for the month". Information on the number of orders was necessary to determine the safety stock level. The Management Reporting System is designed in such a way that many reports can and should be used simultaneously.

The Raw Materials and Components Inventory Movement Report Shows the Movement of Inventory During a Particular Period

A standard raw materials and components inventory movement report should include the following information:

- Raw materials and components inventory identification number
- Raw materials and components name
- Unit of measurement
- Product received from suppliers during the period
- Raw materials and components receipt data
 - date
 - inventory cost
- Raw materials and components shipped to production during the period
- Raw materials and components available (units), which can be calculated and further separated into:
 - total quantity on hands
 - less quantity off-specification
 - less quantity obsolete

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INSTRUCTOR'S NOTES

Raw materials inventory movement report may contain the following information:

- Product information
- Where these products are located
- When it was received (at what price, what quality and quantity)
- When it was shipped to production (quantity, quality)
- Quantity on hand, calculated as sum of inventory at the beginning of the period plus all purchases less sent to production

Why do we need reports in different formats?

- Inventory position report can be used to understand how much raw material is available for production
- Inventory movement report can be used to analyze purchasing performance (comparing the results with purchasing reports) and production performance (comparing with production reports).

The Raw Materials Inventory Movement Report Assists Managers in Analyzing the Purchasing Function

Information on when raw materials are delivered (at what price, quality, and quantity) and when they are shipped to production provides benchmarks for evaluating performance.

Raw Materials and Components Inventory Movement Report

Inventory Code	Material or Supply Name	Unit	Product Received	Received Date	Inventory Cost	Quantity Off Specifications	Amount Shipped to Production	Date Shipped to Production	Quantity		
									Total Quantity in Stock	Quantity Off Specifications	Quantity Considered Obsolete
1	2	3	4	5	9	10	11	12	13	14	15
Main Materials											
SW-001	Pre-cut tanned leather for women's	units	4,000	11-Aug	100,000	0	1,000	31-Aug	3,000		
AL-0015	Pre-cut artificial leather for working	units	10,000	1-Aug	45,000	100	9,000	15-Aug	1,000	50	50
LMB-67	Pre-cut tanned leather for men's boots	units	45,000	1-May	570,000	500	5,000	7-Aug	40,000	100	2,000
LMS-7034	Pre-cut tanned leather for men's shoes	units	2,200	28-Jul	22,000	45	640	5-Aug	1,350	100	75
PL-78	Pre-cut raw leather for dresses	units	6,000	5-Aug	150,000	3,000	2,000	25-Aug	4,000	800	200
Support Materials											
GL-001	Glue #001	barrel	25	7-Jun	23,000	0	0	25-Jul	20		
GL-0015	Glue #0015	barrel	30	6-May	18,000	0	12	28-May	18		
GL-67	Glue #67	barrel	28	1-Aug	35,000	4	1	15-Aug	25		
GL-7034	Glue #7034	barrel	50	2-May	43,000	0	10	22-May	40		
WT-001	White threads	units	700	1-Aug	18,000	0	200	24-Aug	500		
BT-001	Black threads	units	450	31-Jul	12,000	4	50	15-Aug	400		
CT-001	Colored threads (assortment)	units	1,200	4-Jul	21,000	50	230	20-Jul	1,000		100

products consistently received with quantity off specifications points to a possible supplier problem

holding a large amount of inventory over four months indicates a problem in inventory management

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INSTRUCTOR'S NOTES

Comparing information on the delivery of raw materials and components with data on their shipment to production provides a useful tool for measuring the performance of:

- Suppliers
- The inventory department
- The purchasing function
- The production process

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Raw Materials and Components Inventory Requisition Report Indicates Future Requirements

Inventory requisition report can also be compiled using inventory lists.

A standard inventory requisition report should include the following information:

- Raw materials and components inventory number
- Raw materials and components name
- Unit of measurement
- Requirements to purchase raw materials and components
- Previous raw materials and components acquisition data
 - supplier
 - inventory acquisition cost

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INSTRUCTOR'S NOTES

Explain again the concept of safety stock level.

Raw Materials and Inventory Requisition Report Maintains Stock Levels

As soon as the warehouse list shows that raw materials inventory is below the safety stock level, warehouse staff will fill in the material requisition report.

Raw Materials and Components Inventory Requisition Report						
			Previous Acquisition Data			
Inventory Code	Material or Supply Name	Unit	Required to Purchase	Supplier Name	Date of Last Acquisition	Inventory Acquisition Cost
1	2	3	4	5	6	
Main Materials						
LW-001	Pre-cut tanned leather for women's	units	7,200	Tannery	4-May	50,000
AL-0015	Pre-cut artificial leather for working	units	6,000	Tannery	31-May	130,000
Support Materials						
GL-001	glue # 001	barrel				3
GL-0015	glue # 0015	barrel	30	glue Factory	1-Jun	1,000,000
GL-67	glue # 67	barrel	25	glue Factory	15-Jun	300,000

Safety Stock Level: the level that will ensure continuing production (for material/supply inventory) or sales (for finished goods inventory).

Safety Stock is discussed in greater detail in the working capital and cash management module

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INSTRUCTOR'S NOTES

Explain : Safety Stock level

- The level of stock that management considers to be safe, i.e. the level that will ensure continuing production (or sales in the case of safety stock level for finished products). Any drop of inventory below this level should trigger a purchase order.

- safety stock level for every material, component or supply used by the company
- what is the requirement to replenish stock when it is below safety level

As soon as the warehouse list shows that inventory of any raw material is below safety level - warehouse staff fills in material requisition report, which indicates:

- Material name and specifications
- Requirements to replenish safety stock
- Some historic data on inventory on hand
 - who supplied
 - when
 - at what cost

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Raw Materials and Components Inventory Reports: Uses

Raw materials and components inventory can be used by warehouse managers:

- To monitor material and components inventory
- To know at any moment in time the amount of materials and components available for production (quality of the materials and components), their location and movement
- To facilitate periodical physical check of materials and components inventory at warehouses against accounting records, and reconciliation of the differences

By purchasing department managers:

- To know current requirements to replenish raw materials and components to the required level

By top management:

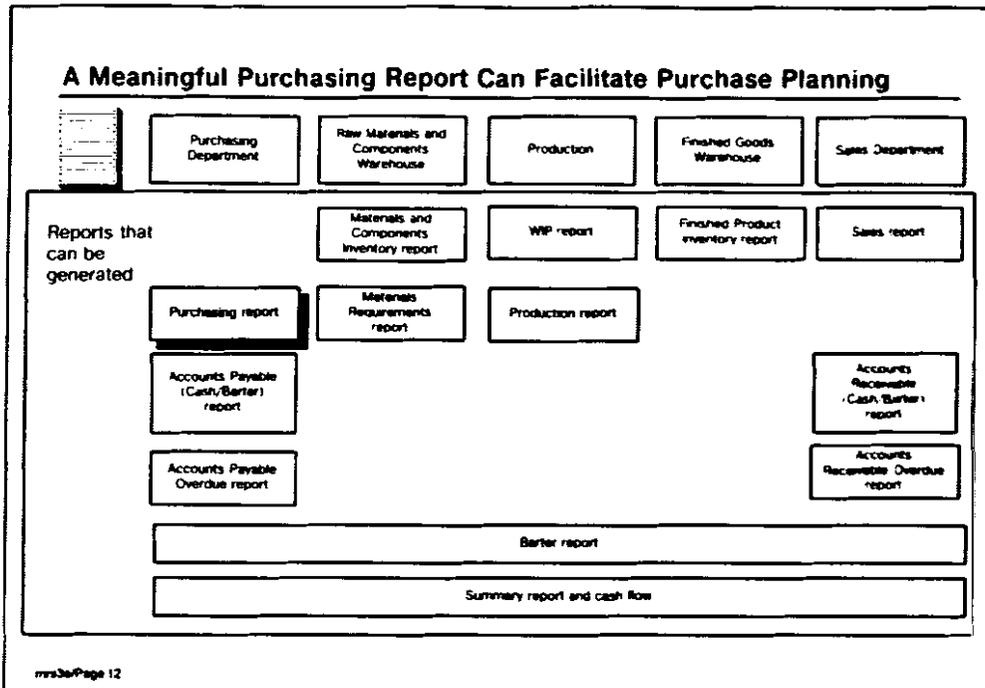
- To analyze production and purchasing activities of the company and amend them, if necessary
- To facilitate planning process

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INSTRUCTOR'S NOTES

DISCUSS

Ask participants if they know of, or can find some additional applications for raw materials inventory reports.



INSTRUCTOR'S NOTES

The purchasing department of the company should maintain the purchasing list -- a record of all purchasing transactions plus basic information about the market for specific raw materials, supplies and components that the company uses and major suppliers of these items.

Basic data that purchasing staff needs to conduct effective purchasing activity is:

- Information about the product they are buying, including:
 - material, component or supply name and specifications
 - requirements to replenish safety stock (we are trying to introduce this concept at companies with stable production):
 - company specifies safety stock level for every material, component and supply based on company experience
 - in addition requirements to replenish safety stock are specified (based on availability of stable suppliers and optimal order quantities)
 - as soon as inventory in specific material, component or supply is below safety level, an order is issued to purchase (according to replenishment requirements)
- Information on outstanding orders (to avoid duplicating the orders - may be the order has already been placed)
- And information on new orders placed, including:
 - supplier reference (to supplier database, if maintained by the company, if not it should be created)
 - price requested
 - delivery time (to know when material, component or supply can be available)
 - cash requirements for the purchase - this is useful for planning cash requirements for the future periods

fb

Purchasing Report (Summary and Cash Requirements)

Inventory Code	Material Name	Unit	Required to Replenish Safety Stock	Outstanding Orders				Delivery Date	Required to Order	Supplier Name	New Order	
				Outstanding Contracting Number	Outstanding Orders Qty	Outstanding Order Price	Outstanding Orders Qty Recd				Outstanding Orders Qty to be Received	Last Acquisition Price
DX-5674	Oxalic Acid	kg	400						400	Chemical Inc	7 000	7 000
TA-9834	TAMAN	kg	75	P-1996-001	75	50 000	0	75	1/2/96	AZOT	33 500	34 000
HY-8765	Hydrochloric Acid	kg	300						300	Chemical Inc	700	800
SU-0091	Sulfuric Acid	kg	100						100	Chemical Inc	4 280	4 300
ZN-8745	Zinc	kg	25						25	Metal Co	3 000	3 200
KS-1129	Kaoron Sieve	m ²	10						10	Cloth Co	37 000	37 200
DD-7756	Quartz Dish	units	75						75	Konakova China Co	23 000	23 000
Total												

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INSTRUCTOR'S NOTES

The purchasing summary report transforms the raw materials and components requirements into orders and cash requirements.

The Purchasing Report Summarizes Purchasing Data Into Meaningful Information for Purchase Planning

Purchasing reports can be produced by purchasing staff or managers at required intervals (daily, weekly or monthly) from purchasing lists maintained by the purchasing staff:

- Purchasing reports can be a summary of purchasing information at some point of time grouped by
 - material or component,
 - supplier, etc.
- Reports can take several forms depending on requirements
 - current purchasing requirements
 - orders outstanding
 - orders by supplier

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INSTRUCTOR'S NOTES

As already was said before:

Report -- summary of the data contained in the list

- This can be summation of the data in the list for a specified period
- Or selection of specific data from the list

Management should decide what purchasing information they need to evaluate the performance of the purchasing function (and the company as a whole).

After this decision is made and if the purchasing list is maintained consistently - it will not require a lot of effort or time to produce regular and effective purchasing reports.

We believe that managers will definitely be interested in the following information (and purchasing reports):

- Current purchasing requirements (and cash requirement to make all the purchases)
- What orders are outstanding (what we expecting to arrive, is there any problems with orders outstanding, etc.)
- Who are our important suppliers, what relationships we have with them, are we a good buyer for them, etc.

Purchasing Report: Content

Most common purchasing report should include the following information:

- Material and component inventory identification number
- Material and component name
- Unit of measurement
- Requirements to replenish the stock
- Outstanding order quantity
- Date materials and supplies will be received
- Cash requirements to pay for new purchases

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INSTRUCTOR'S NOTES

This is an example of one of the purchasing reports formats.

Some other reports can be produced:

- Purchasing by material, component or supply (with product specific information and grouped by material)
- Purchasing from supplier report (which includes specific supplier information and can be grouped by supplier)

We have suggested a format for purchasing reports. They contain basic information required to run and evaluate company purchases, and can be used as a good starting point for all companies.

But we do not believe that our suggestions are exhaustive - every company manager should have better understanding of what he needs to know about his company purchases, and should ask for inclusion of this information in the reports.

The Purchasing Report Is a Key Tool for Production Planning

Purchasing reports can be used by purchasing managers:

- To monitor purchasing process and promptly react on contingencies
- To know the quantity of materials and components to purchase
- To know at any moment in time the quantity of materials and components ordered and time they will be delivered
- To know cash requirements for purchases

By top management:

- To analyze production and purchasing activities of the company and amend them, if necessary
- To prioritize purchases
- To facilitate planning process
- To facilitate cash planning

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INSTRUCTOR'S NOTES

Example 2 - How Much Should We Purchase and What Will It Cost

This decision requires asking the following questions :

- How much do I have ?
 - Inventory report : Indicates existing level of stock
- How much do I need ?
 - Material requirements report: Indicates requirements to replenish safety stock level
- How much has already been ordered ?
 - Purchase order report : Indicates orders outstanding and due dates

Example :

K&K limited produces automobiles and needs to determine their purchasing requirements for wheels in May. As wheels are needed in the final stages of the production process, the company tries to order them as required

The reports for April are ready and extracts from them are provided.

In addition the purchase manager has the following (one time) information available to him from production:

No of wheels required per automobile : 4 units

Wastage/ Reject Rate : 2%

Requirement to replenish safety stock: 4,500 units

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INSTRUCTOR'S NOTES

This example illustrates the use of the inventory and purchase reports together in an 'everyday' business situation.

The Inventory Report Indicates That Inventory Is Currently Below the Safety Stock Level

Inventory Report

Inventory Code	Material Name	Unit	Quantity		Location	Safety stock level
			Total Quantity on Hand	Total Usable Quantity		
1	2	3	4	5	6	7
A - 00X43	Wheels	Units	7056	2000	WH 4	4600
B - 00YY 67	Axles (A1)	Units	200	200	WH 1	200
B - 00YY 68	Axles (A2)	Units	300	284	WH 2	200

As soon as the warehouse manager noted that inventory level for wheels is less than safety stock level (4,600 units) he issued inventory requisition report for the number of units required to replenish safety stock and cover forecasted production needs for the upcoming period (4,500 units ordered).

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INSTRUCTOR'S NOTES

The safety stock level is a 'trigger' for the purchase department to place another order for the material. The amount of the order will depend on a number of factors such as

- The purchase cycle
- The production requirement
- Economic order quantity

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The Purchase Order Report Helps Determine the New Order and the Cash Requirement

Purchasing department produced the purchase order report, which shows:

- Requirement to purchase raw materials and components (4,500 units)
- Outstanding order for wheels (800 units)
- Need for new order (3,700 units)
- Possible price per unit (RUR 375,000)
- Cash requirement for this order (RUR 1,387,500,000b)

Purchase Order Report

Inventory Code	Material Name	Unit	Required to Purchase	Outstanding Orders					New Order			
				Outstanding Contracting Number	Outstanding Orders Qty	Outstanding Order Price	Outstanding Orders Qty Recd	Outstanding Orders Qty to be Received	Delivery Date	Required to Order	Price Offered	Required Cash
1	2	3	4	5	6	7	8	9	10	11	15	16
A-00XX43	Wheels	units	4,500	C-1996-04	800	300,000	0	800	3-May-96	3,700	375,000	1,387,500,000
B-00YY67	Axes	units	1,000							1,000	500,000	500,000
Total											1,887,500,000	

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INSTRUCTOR'S NOTES

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Seminar Agenda

Agenda and Seminar Objectives

Session 1: Introduction to Management Reporting Systems

Session 2: What is the system and how do you use it?

- Defining lists and reports, sales, accounts receivable, finished products inventory reports

Session 3: What is the system and how do you use it?

- Raw materials inventory, purchasing reports

Session 4: Making the system a reality- Customizing the system

Session 5: What is the system and how do you use it?

- Summary report, Cash Flow, barter report

Session 6: Using the Management Reporting System

Session 7: Making the system a reality - Implementing the system

Session 8: Summary and review of assignment

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INSTRUCTOR'S NOTES

We have discussed a number of lists and reports and how they can be used in different situations. Now lets turn to something equally important: how do we turn these lists and reports into an effective management reporting system for our organization?

Session 4: Making the System a Reality

What you're probably wondering by now is



How can these reports
best serve you and
your organization ?

Making the system
a reality:
Customizing the
MRS

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INSTRUCTOR'S NOTES

Customizing: redefining the system to meet your specific requirements.

This is the first step in making the MRS a reality for your organization.

In this section we will go through the steps in customizing the reporting system and discuss some important customization issues.

Why Do I Need to Customize?

Different types of business and different business objectives have differing information requirements.

Some Examples:

- A construction company that develops residential buildings and sells them once completed, may require the sales, work in process and inventory reports for each property separately
- If you need to decide whether to keep or dispose of a production line, you may want to keep track of production - by production line, as well as by type of product

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INSTRUCTOR'S NOTES

Management Reporting: Making the System a Reality

First customize the system to meet your specific requirements

- Discuss your specific needs and business objectives to determine if your managers or senior managers need additional information not suggested in the reports discussed in this module.
 - The lists and reports we discuss today can form the basis for a management reporting system in almost any situation but may not be thorough enough for all companies.
- Add on additional columns to the lists and additional summary items to reports in order to meet your company's additional need.
 - By adding several minor modifications, the lists and reports should blend easily into existing operations.

Then implement and enhance the system in your business

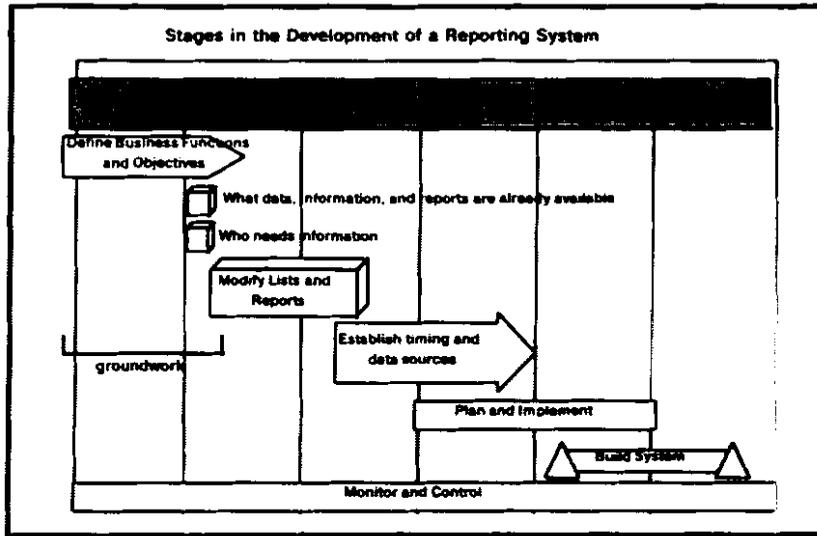
- Plan the implementation
- Manage the implementation process through effective monitoring and controlling

Where do I start?

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INSTRUCTOR'S NOTES

Management Reporting: A Typical Plan for Establishing a Reporting System



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INSTRUCTOR'S NOTES

Customizing the Reporting System: The Main Steps

Before you can start customizing management reporting system, you should define what is required and find out what the company already has. This is the groundwork phase of the customization process.

Based on the groundwork you will start building the system up:

- Modify lists, columns and add additional summaries to reports
- Establish sources of data
- Decide timing of information to be received by careful comparison with objectives
- Assign responsibility to maintain each list

The time required to customize the system will depend upon the size and nature of the business and the scope of your reporting system.

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INSTRUCTOR'S NOTES

Customizing the reports to meet your specific business requirements ensures that the MRS will address all issues pertinent to your business.

Customizing the Reporting System: The Groundwork (1)

Define business functions and objectives

- Defining business functions is necessarily the first step.
 - The example in the introduction section of the presentation defined a company with three typical business functions, but your company will definitely have more complex structure
- Defining business objectives is the second
 - What every business function wants to achieve
 - It is important for all top management to be involved in this process



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INSTRUCTOR'S NOTES

Exercise

What key business function do you think is specific to your organization?

What information do you believe is required on a regular basis to control, plan and measure performance on this function?

Is this information available in a regular, accurate and timely manner?

What changes in reporting do you think can help management control, plan and measure performance on this function?

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INSTRUCTOR'S NOTES

EXERCISE :

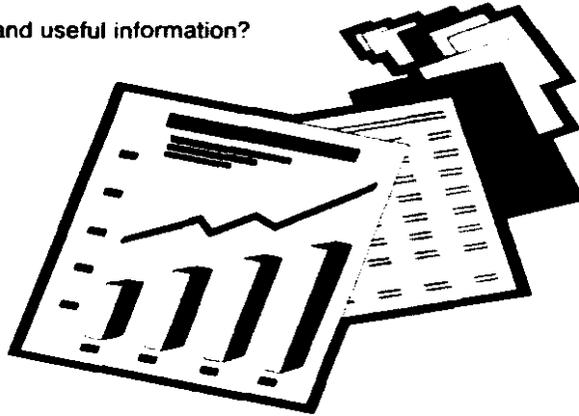
Ask each participant to write down one key business function specific for his company and determine the information that would be required on a regular basis to control, plan and measure performance on this function.

Conduct a discussion by asking 2 or 3 of the participants to present their case and the other to respond with their thoughts on the appropriate business requirements.

Customizing the Reporting System: The Groundwork (2)

Examine what data and information is available

- For every business function check what lists and reports are already maintained by the company.
- Do they cover all the business functions?
- Do they provide timely and useful information?



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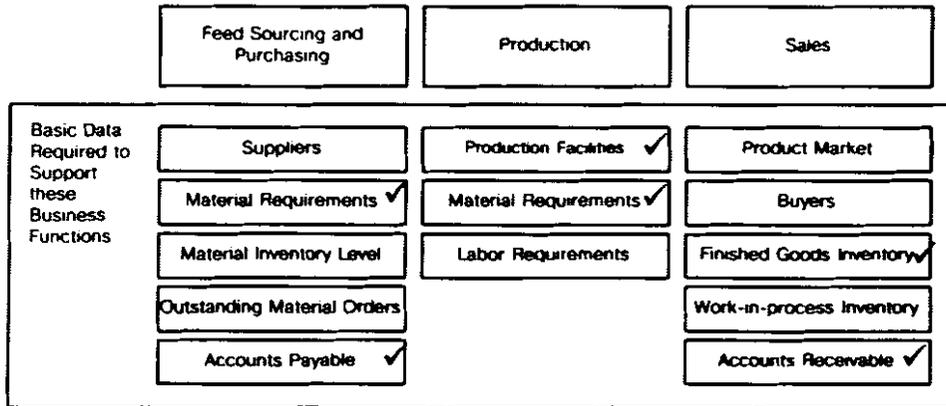
INSTRUCTOR'S NOTES

EXERCISE :

Ask the participant to write down any additional information that they think is required for the specific reports covered in the previous exercise.

Conduct a discussion by asking 2 or 3 of the participants (different from those 2 or 3, who presented new business functions) to present their thoughts on additional information required.

Check What Data Business Functions Produce



✓ - These are the data lists that we have

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INSTRUCTOR'S NOTES

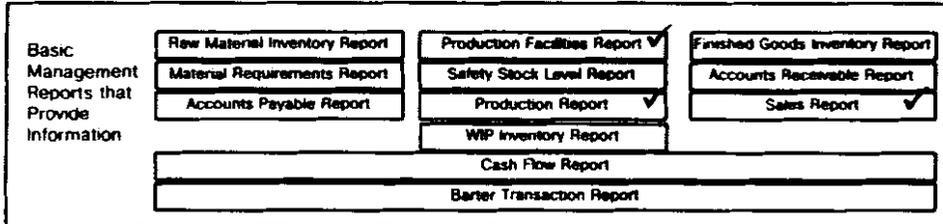
We have already discussed what a company needs to know to conduct the three basic activities that we outlined above.

- In purchasing area
- In production area
- In sales area

Managers have already specified some areas specific to their company.

Now they should check the availability of data.

And What Management Reports You Usually Receive



✓ - I usually receive only these reports

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INSTRUCTOR'S NOTES

After outlining data needed to support basic activities we have named the reports that can provide us with the required information in each area.

Managers have already identified some specific reports for their company.

Now they should check the availability of reports.

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Customizing the Reporting System: The Groundwork (3)

Examine who needs information

- Once business functions have been defined, determine who may influence the process
- What information do they need and how frequently do they need it to work effectively?
- Determine the distribution of reports appropriately.
 - Top management should get all reports, especially when determining strategy
 - Middle managers should be assigned specific reports but have access to all of them for measuring and meeting objectives assigned by top management

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INSTRUCTOR'S NOTES

EXERCISE :

Ask each participant to write down who may need the information from previous two exercises.

Then ask several of them to explain why managers need this information.

What Do You Need to Run Your Business?

No	Report Name	Recipient	Period		
			daily	weekly	monthly
1	Sales Report	Sales Manager General Director	X		X
2	Finished Product Inventory Report	Warehouse Manager Sales Manager General Director	X	X	X
3	Work in Process Inventory Report	Sales Manager Purchasing Manager General Director	X	X	X
4	Production Report	Sales Manager Purchasing Manager General Director	X	X	X
5	New Materials and Components	Warehouse Manager Purchasing Manager General Director	X	X	X
6	Purchasing Report	Purchasing Manager General Director	X		X
7	Accounts Receivable Report	Sales Manager Accounting (Finance) General Director	X	X	X
8	Accounts Payable Report	Purchasing Manager Accounting (Finance) General Director	X	X	X
9	Cash Flow Report	Sales Manager Purchasing Manager General Director	X		X

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INSTRUCTOR'S NOTES

Each manager should analyze what information he needs to effectively run his area of the company.

The results of this analysis should be summarized (may be with previous discussion on the management meeting) and checked against the availability of information and resources needed to produce the reports.

Based on this analysis a reporting schedule (what reports, when and by whom produced) and distribution list (who and when receives what report) is created and made official by management order.

Now You Are Ready To Customize the System By Modifying Lists, Columns, and Add Additional Summaries to Reports

- Determine the applicability of the suggested lists and reports
- Find what information is missing
- Is this information available?
 - try not to remove any items, only add to them

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INSTRUCTOR'S NOTES

Establish Sources of Data

A most critical step as the data source usually defines the relevance and accuracy of the data

- First map out the flow of data for each column on the lists
 - where does the data originate, who sees it, who stores it?
- Choose a point at which to "pick off" or receive the data for storage on the lists
 - define closing days (dates) for weekly and monthly information
- If data for a list or report comes from more than one source, ensure that the different sources are consistent
 - a common problem is that different departments use different codes to identify products, customers, materials etc.

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INSTRUCTOR'S NOTES

DISCUSS

Based on the previous exercise, ask the participants how they would define the sources for the information requirement that they picked out.

Decide Timing of Information to Be Received

Decide timing of information to be received by careful comparison with objectives

- Decide the frequency of reports required to meet your business objectives:
 - reports should be regular, i.e. daily, weekly, monthly (never less than monthly)
 - more severe company problems call for weekly or daily monitoring
 - information should reach the user in time to take concrete action, for example:
 - receivables information in time to analyze customer status before further deliveries
 - information on inventory, order position and cash flow in time to avoid stock-out

***Remember, if information comes too late to take action,
it is worthless!***

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INSTRUCTOR'S NOTES

DISCUSS

Ask participants also to consider how often would you need to report this information so that it is useful for decision making.

Customizing the Reporting System: Establishing Proper Data Sources and Responsibility Is Critical to Success

Assign responsibility to maintain each list

- Consider the function of the business, the information flow through the business and the process of collecting and storing data
- Consider quality and extent of existing data
- Use available resources and skills to the best extent

Remember, the data source and person responsible will determine the quality of the data and information!

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INSTRUCTOR'S NOTES

Readjust the Selected Source and Person Responsible

- Consider if the person assigned is motivated to manipulate the data for any reason
 - if so, reassign
- Is the person capable and responsible
 - if not, train the person or reassign
- Will the new list have data more accurate than what is available now
 - if not, then reestablish source
- Is all responsibility for maintaining the lists assigned to accounting department personnel
 - if so, you have not got a good grasp of the point of installing a management reporting system (additional controls, additional data, timely and accurate reports to management - not to the tax authority, information with which to make decisions)

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INSTRUCTOR'S NOTES

Customizing: How Long Will It Take?

Establishing a reporting system for your organization can take anywhere from 6 weeks to 6 months - depending upon factors such as

- The size of the business
 - A larger business will necessarily require more time
 - At the same time, Customizing the MRS for a large business that has a high degree of computerization, will require less time
- The nature of business and to what extent customization is required
 - A complicated production process, a large number of products, a complex sales structure, etc. will all increase the time required for customizing
- The state of the existing reporting system - for financial or tax purposes
 - A well running financial or tax reporting system will greatly facilitate the setting up of a management reporting system
- The level of motivation of staff involved
 - Eager and motivated personnel can always do the job quicker and more effectively

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INSTRUCTOR'S NOTES

Customizing: How Much Will It Cost?

The cost of establishing a reporting system for your organization will depend on factors such as:

- The time required to customize
 - The longer it takes, the greater the cost in monetary terms as well as in terms of person-days.
- The size of the business
 - Customizing for a larger business will necessarily require more time
 - A larger business may also require a computerized system to produce the reports on time.
- The nature of business and to what extent customization is required
 - A complicated production process, a large number of products, a complex sales structure, etc. will all increase the cost of customizing.
- The state of the existing reporting system - for financial or tax purposes
 - A well running financial or tax reporting system will greatly reduce the cost of customizing
- The level of motivation of staff involved

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INSTRUCTOR'S NOTES

Customizing the Reporting System: The Team

The customizing process should be driven by top management.

- Start with a decree issued by the General Director

A team leader should be chosen who has a good understanding of the information requirements of the organization

- Management reporting deals with the organization as a whole, not with isolated functions

The team should be cross-functional

- Include people from different departments
- People who will eventually be involved with creating and using the reports should help define the system

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INSTRUCTOR'S NOTES

Seminar Agenda

Agenda and Seminar Objectives

Session 1: Introduction to Management Reporting Systems

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Session 8: Summary and review of assignment

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INSTRUCTOR'S NOTES

Session 5: What Is the System and How Do You Use It?

*The **barter transactions report** is an important business control and planning tool - especially in the current economic environment*

*The **summary report** and the **cash flow report** give you a snapshot of overall operations*



The entire reporting system can work together to assist the top management team of a company with Control, Planning and Measuring Performance

nrs500/Page 2

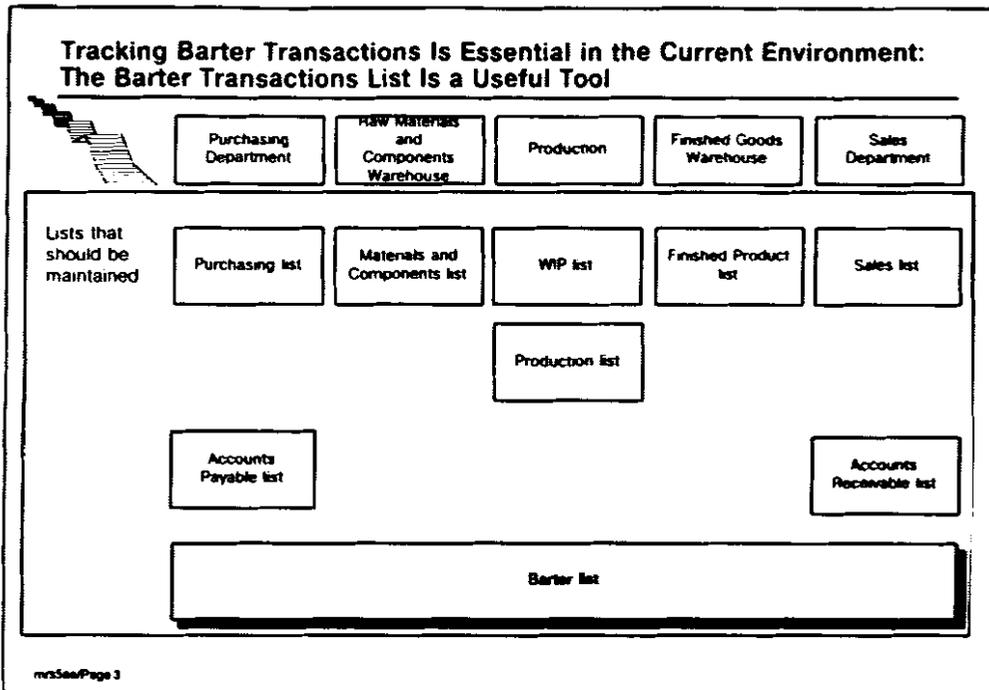
INSTRUCTOR'S NOTES

Remind participants that in the introductory section we talked about strategic information, which usually results from processing several lists and reports and involves several different departments of the company.

All the reports introduced in this section are more complicated and will require more management attention than those discussed earlier:

- The barter transactions lists and reports
- The summary report
- The cash flow report.

There are some reports that will not be covered during the course of the day: production, work in process inventory and accounts payable. The handouts that will be provided to the participants at the end of the day contain detailed instructions on the preparation and use of these reports as well as blank templates.



INSTRUCTOR'S NOTES

Our experience with Russian companies indicates that more than half of company trade is done in barter.

We have analyzed several separate barter transactions, which confirmed that most companies are losing money in the barter process.

It is not within the scope of this presentation to go into details on barter deals - but still we think it is necessary to stress that it is better for the business and management to trade in cash (or other cash equivalents) and try to reduce the number of barter deals.

Meanwhile, strict control should be placed on all the barter transactions by the company management.

This section of the presentation on barter transactions demonstrates how this control can be organized.

Barter Transactions

Product Number	Product Name	List of Measurement	Transaction Quantity of the Product	Production Cost	Market Price	Delivery Terms	Delivery Cost	Received Material or Supply Code Number	Material or Supply Name
YO	Yttrium Oxide	kg	50	96,300	110,000			OK 6526	Oxide Acid
Total for transaction				4,814,500	5,500,000	cash/credit	100,000		
EO	Europium Oxide	kg	5	110,000	140,000			SL 4028	Oxide Acid
SO	Samarium Oxide	kg	5	140,500	175,000			HR 4205	Hydrochloric Acid
SM	Samarium Metal	kg	10	175,000	200,000				
LP	Lanthanum	kg	15	140,775	175,000				
Total for transaction				5,121,000	6,200,000	cash	0		
RTP	Red TV Receiver	hp	15	90,000	25,000				Set
GTP	Green TV Receiver	hp	20	175,000	25,000				
Total for transaction				6,227,000	7,750,000	cash (1000)	200,000		

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INSTRUCTOR'S NOTES

Barter Transaction List: Maintenance

Due to the complexity of barter transactions (involvement of several different departments, lack of reliable market information as to the value of goods exchanged, etc.) special attention and control should be established by top management over these transactions.



Barter transaction list:

- Is jointly prepared by purchasing and sales staff on the basis of raw materials and components requisition requirements (triggered by safety stock indicators), and availability of finished products that can not be sold at market prices

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INSTRUCTOR'S NOTES

Barter Transaction List: Content

This list should include the following basic data (any additional details may be included, if required):

- Product offered by company for barter
 - product identification number
 - product name
 - unit of measurement
 - quantity available for sale
 - transaction quantity of the company product
 - production cost
 - market price, if available
 - delivery terms and cost (if paid by the company)
- Material and component offered in exchange
 - material and component inventory identification number
 - material and component name
 - unit of measurement
 - requirements to replenish the stock
 - transaction quantity of material or component
 - delivery terms and cost (if paid by the company)

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INSTRUCTOR'S NOTES

Barter Transactions List: Tips on Completion and Use

The lists can be prepared for every product or every material and component (depending on current company practice).

List maintaining process can be manual or computerized.

The list is prepared (updated) jointly by sales and purchasing staff based on:

- Raw materials and components requirements (triggered by safety stock indicators)
- Availability of finished products that can not be sold at the relatively attractive cash prices

The list is reviewed by sales and purchasing department managers and transaction should be conducted only after authorization by top management.

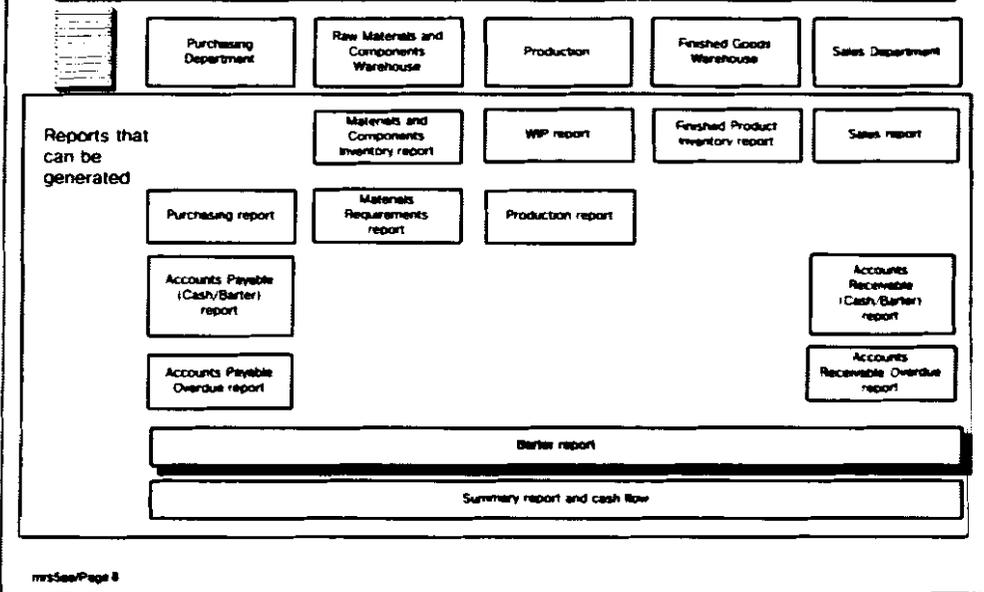
This list is used by sales and purchasing staff to:

- Approve barter transactions
- Monitor barter transactions

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INSTRUCTOR'S NOTES

A Useful Report Can Be Generated From the List of Barter Transactions



INSTRUCTOR'S NOTES

Barter Reports: Maintenance

Barter reports can be produced by purchasing or sales staff or managers (depending on prevailing company practice) at required intervals (daily, weekly or monthly) from barter lists:

- Barter reports can be a summary of authorized barter transactions at some point of time grouped by material or component, finished product, etc.
- Barter reports can take several forms depending on requirements
 - barter sale
 - barter purchases

Barter reports can supplement Sales and Purchasing reports (additional information that the transaction is barter transaction can be included in both the sales and purchasing reports by adding a field)

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INSTRUCTOR'S NOTES

The barter report is an effective tool to control barter transactions. It is probably the only document where both sides of all transactions are recorded together, therefore, it may be the only means of reconciling barter transactions.

Barter Reports: Use

Barter reports can be used by purchasing and sales managers:

- To monitor sales and purchasing process and promptly react to contingencies
- To know the quantity of goods shipped, materials and components to be received in exchange
- To plan purchases and conserve cash
- To reconcile receivables and payables on barter transactions

By top management:

- To analyze and control barter transactions
- To analyze and control barter pricing
- To analyze production, sales and purchasing activities of the company and amend them, if necessary
- To facilitate planning process
- To conduct cash planning

mr5SeePage 10

INSTRUCTOR'S NOTES

The barter report can be an extremely effective management tool.

By recording both sides of the barter transactions in one place, the company can better track sales and purchases on barter. Purchases can be planned more effectively and cash can be conserved by relying on materials and components received through barter.

The barter report will also assist in accurate and timely reconciliation of receivables and payables (as discussed earlier, a major implementation problem)

The barter report will provide important input for the cash flow report (the barter part of cash flow) which we will discuss later in this session. This facilitates better planning and control of operations

EXERCISE

Ask the participants to describe how a barter transactions report would help them control and plan operations

What format would such a report take ?

Keeping in mind the discussion on customizing and implementation!

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INSTRUCTOR'S NOTES

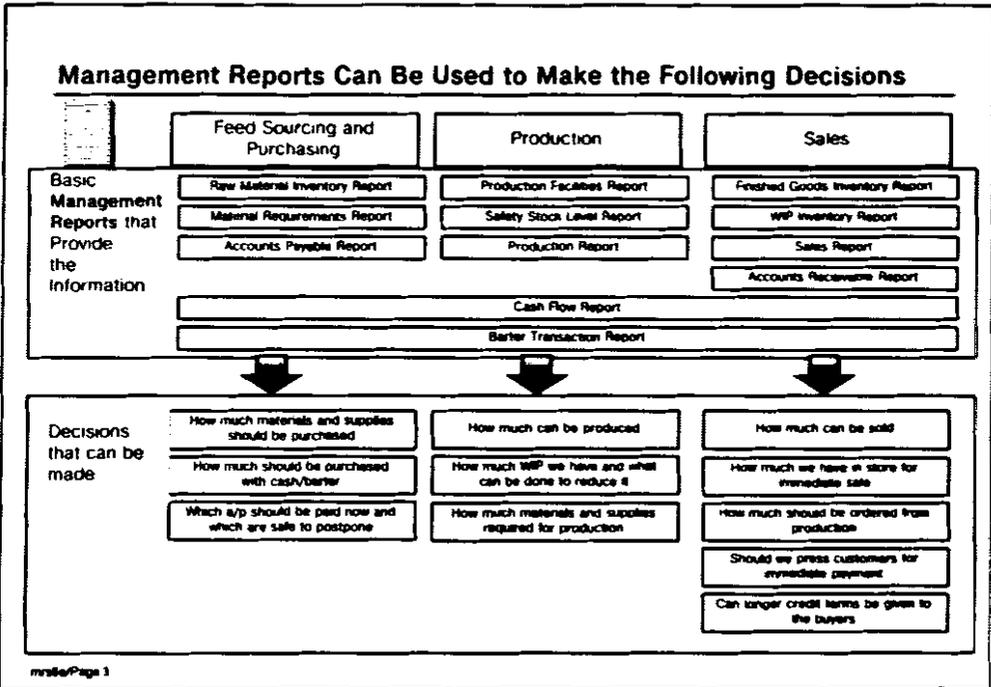
Session 6: Using the Reporting System

- Using the reporting system as a whole
- Example: How can we meet our working capital requirements?
- Case: ElectroPowerToy

mrs06Page 2

INSTRUCTOR'S NOTES

Now that we've been through lists and reports, talked about how to put them into practice and run the MRS? **WHAT DO WE DO WITH THE REPORTS?**



INSTRUCTOR'S NOTES

We have already looked at some situations where reports work together to support decision-making.

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Management Reports Are Closely Related and Work Together

A number of the management reports are closely related and work together to create a complete picture of the organization

- e.g. The production, sales and finished goods inventory are bound by the following relationship (in terms of units, or using a consistent valuation methodology)

Finished goods inventory at the beginning of the period	+	Production	-	Shipments	=	Finished goods inventory at the end of the period
--	---	------------	---	-----------	---	---

Most management decision making and control involves the use of more than just one report

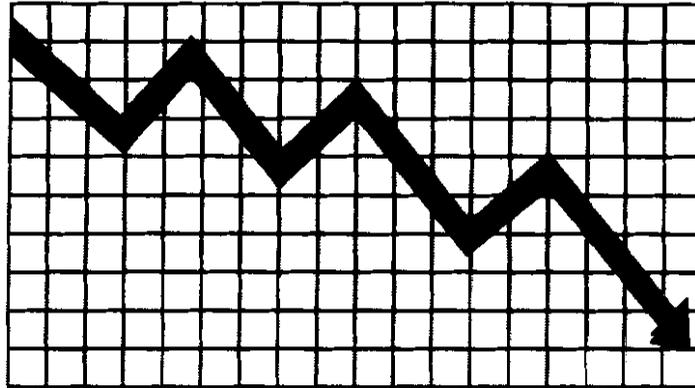
- E.g. using the production, raw materials inventory, finished goods inventory and purchase order report together to determine future purchases

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INSTRUCTOR'S NOTES

We saw with Plastic manufacturing and also in the previous examples, how for management to get a complete picture of the organization's activities, they need to look at two or more reports together.

Reports Analyzed Over Time Can Help Identify Past Trends and Estimate Future Trends



e.g. The net cash flow has been declining for the past 6 months, even though it is still positive, the organization is losing cash each month

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INSTRUCTOR'S NOTES

Analyzing reports over time can provide very useful indications of what is likely to happen in the future. For example:

- Sales trends
- Production trends
- Trends in the sales to a particular customer
- The behavior of aging of accounts receivable
- Trends in payables i.e. are we continuing cash positive operations only by building up payables for energy and taxes
- The movement of cash over time. Where have the funds been coming from and where are they going?

DISCUSS

Ask the participants how they believe trend analysis can help them understand more about their business and what to expect in the future.

1.07

Some of the Decisions Require the Use of Several Reports

Management Decision	Report to be used										
	Material Inventory	Material Requirements	A/P	Production facilities	Production	Finished Goods Inventory	WIP Inventory	Sales	A/R	Cash Flow	Barter Transaction
How much to purchase		X	X		X					X	X
Where get cash	X		X			X	X		X	X	X
What to produce				X		X	X	X			
How much to produce	X			X	X		X	X			
What to do with WIP	X	X					X				
How much can we sell				X	X	X	X	X			
What we have to sell						X	X	X			
On what terms should we sell					X	X	X	X	X	X	

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INSTRUCTOR'S NOTES

This slide shows an example of what management decisions can be made using the reports described in this presentation.

This is not an exhaustive list of management decisions.

DISCUSS:

What other decisions can be made (or are already being made at your organization) using management reports?

Example: How Can We Meet Our Working Capital Requirements?

This decision requires asking the following questions :

- What are our sales results and estimate?
 - Sales reports are helpful in determining sales trends
- How much do we need to purchase to produce required products?
 - Raw materials inventory report
 - Purchasing requirements report
- How much cash do we have to purchase materials required?
 - Cash flow report
 - A/P and A/R reports

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INSTRUCTOR'S NOTES

Managing working capital is an issue for all companies in all countries, but this problem is probably more important in Russia today.

This example demonstrates the use of management reports in decision-making.

Example: How Can We Meet Our Working Capital Requirements?

Example :

UralMet is a small company that produces small quantities of different experimental metal alloys. Its customers are steel companies that produce special types of steel. Being a small company, UralMet has a limited amount of working capital and depends heavily on quick product turnover.

Recently a major customer started production of a new type of steel and requested a new alloy.

Orders for the old product have dropped significantly.

The company can not sell the old alloy, but desperately needs money to purchase materials for new alloy production.

What should management do to get the cash needed.

Some of the current month reports are ready and extracts from them are provided in the following slides.

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INSTRUCTOR'S NOTES

What Do We Need: The Raw Materials Inventory Report

Production has assured you that they can produce any alloy in required quantities, subject to availability of raw materials.

Raw Materials Inventory Report

Inventory Code	Material or Supply Name	Unit of Measurement	Total Quantity on Hand	Safety Stock Level	Required to purchase
1	2	3	4	5	6
Zn	Zinc	kg	50	100	300
Cu	Copper	kg	40	80	180

The company urgently needs to purchase raw materials to continue production of new alloy.

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INSTRUCTOR'S NOTES

How Much Will It Cost?: The Purchasing Report

Purchasing Report

Material or Supply Name	Unit of Measurement	Required to Purchase	New Order		
			Required to Order	Price Offered	Required Cash
2	3	4	11	15	16
Zinc	kg	300	300	375.000	112.500.000
Copper	kg	180	180	500.000	90.000.000

To purchase the required materials the company needs RUR 202.5 million in cash.

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INSTRUCTOR'S NOTES

Columns "Required to purchase" and "Required to order" may not be the same if orders are placed with different suppliers. For example, if zinc was to be purchased from different sellers, it would be necessary to include suppliers' codes and names, as well as how much cash is required to fulfill each order. The table called "Purchasing (Summary and Cash Requirements)" in the handout contains a detailed description of the fields that can be included in this report.

Do We Have Enough Money to Purchase Required Materials?

Having determined the quantity to be purchased and the amount of cash required, the next step is to determine the availability of finances

- Do we have the cash available to purchase what we need?
 - Cash flow report : Indicates extent of availability of cash for purchases
 - UralMet will run its cash reserves down to zero, jeopardizing purchasing in May
 - The management reports provide an early warning signal for an upcoming cash crisis

Receipts	340	
Payments to employees and suppliers		222
Interest and tax payments		138
Net cash flow from operations	(20)	
Cash at beginning of period	20	
Cash at the end of the period	(0)	

This report indicates that currently company will not have enough cash.

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INSTRUCTOR'S NOTES

Where Else Can We Get Additional Funds From?

Do we expect cash from A/R or need to make some urgent payments?
 —A/R and A/P reports: indicates amount of receivables and payables due

Accounts Payable	Total Due	0-30 Days	31-60 Days	61-90 Days	91-180 Days
Total:	50	48	50	48	2

Accounts Receivable	Total Due	0-30 Days	31-60 Days	61-90 Days	91-180 Days
Total:	90	48	30	12	0

The company expects to receive 48 billion in receivables and pay 50 billion in payables during the next month.

Net cash (2) billion.



No cash available for purchases

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INSTRUCTOR'S NOTES

What Should We Do to Improve the Current Situation?

Accurate and timely management reports can help managers evaluate their situation in different areas of corporate activity and make a decision that will lead to improvement in the situation.

Management reports do not always give direct answers, but they do provide indications. Management needs to rely on experience, available market options, knowledge and experience of their personnel.

- In the situation that we presented for your analysis management asked the sales and purchasing department managers to work out several options:
 - ask buyers to speed up credit payments
 - defer for 30 days payment of accounts payable
 - purchase raw materials for over 30 days credit
 - sell old alloys with significant discount (at a loss for the company), but with prompt payment



Result:

- The sales department found a buyer for the whole lot of old alloy (500 kg.) at the price equal production cost and management made a decision to sell without profit to get working capital for new alloy production

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INSTRUCTOR'S NOTES

Case: ElectroPowerToy

This case demonstrates how management can use the reports provided by different departments to correct emergency situation at one of the product lines.

Background:

ElectroPowerToy is a small company producing electric toys (one of the product lines produces two models of electric trucks) and selling them at the toy stores around the region.

Before the weekly Monday morning management meeting General Director received a set of weekly reports prepared by the company departments.

At first glance everything looked almost normal one week before the month-end, but there were some troubling points.

Can you identify them?

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INSTRUCTOR'S NOTES

Each participant should receive a copy of the handout on the case ElectroPowerToy.

ElectroPowerToy: Identifying the Issues

Approach:

- Study each report or extract presented in the handouts
- Make a note of the important issues that you feel could indicate an existing or potential problem
- Identify any additional facts brought out by the reports that could contribute to decision making or problem solving
- Identify additional information that you may need to make an informed judgment; e.g.
 - Who would you question at the management meeting and what questions would you ask

HINT

YOU DO NOT HAVE TO PERFORM ANY COMPLICATED ANALYSES ON THE REPORTS

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INSTRUCTOR'S NOTES

Allow the participants about 20 minutes to analyze the set of reports, using the approach outlined above.

If there are a large number of participants, you may want to organize them into groups of 4 to 6 people each for the purpose of this exercise.

Ask the participants to put their analyses down in writing so that they can compare their analyses with the discussion later.

Go through the next slide conducting a discussion around each point. Did the participants come to the same conclusion? What problems or issues did they have analyzing the reports?

ElectroPowerToy: Preliminary Analysis

General Director looked through the reports and made some notes:

- One week before month-end company had a net positive cash from operations
- Accounts receivable are still high, but new credit policy slowly taking effect
- There were no new purchasing requests
 - the last approved one was a purchasing request for electric motors (transaction was done as a barter deal)
- Production plan was almost completed
 - incomplete units lack electric motors (we already ordered them)
- Sales were a little behind the schedule (ask Sales Manager what's going on)
- Considerable off-specification finished goods inventory (ask Warehouse Manager why)

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INSTRUCTOR'S NOTES

ElectroPowerToy: Management Meeting

Management meeting:

Sales Manager

- My department can easily meet the plan targets, we have several small one-time sales contracts (especially for dump toy trucks), but we can not fulfill them because finished product inventory is at the safety level and I do not want to sell safety inventory, which is reserved for a preferential customer (a large contract with monthly shipments)

General Director

- Production claims that they are on target. What is going on?

Warehouse Manager

- We have excess of off-specification finished goods. All of them are missing one part - an electric motor

Production Manager

- We do not want to stop the production line because of one missing part, so we continue assembling and shipping trucks without the motor to the finished good warehouse

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INSTRUCTOR'S NOTES

ElectroPowerToy: Management Meeting (Continued)

General Director

- Why do we not have motors?

Purchasing Manager

- We ordered them two weeks ago in exchange for our toy trucks (barter transaction). They are ready to ship as soon as we complete our part of the deal -- to ship them dump trucks

General Director

- Now everything is clear to me:
 - we have almost finished products, but we can not finish them because we do not have motors
 - we can not get motors unless we ship ready trucks

What are the General Director's action options?

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INSTRUCTOR'S NOTES

ElectroPowerToy: Available Options

The following options were investigated and decisions made:

Options	Probability	Time required	Consequences	Decision
Re-negotiate the barter deal	unlikely to agree	2 days to negotiate, at least 7 to complete barter deal	9 days without motors	At least start negotiations
Ship from safety stock	possible	7 days to complete the barter deal	7 days without motors, preferential contract at risk	No
Buy with cash	possible	1 day to order, 3 to receive motors	4 days without motors	Order motors, pay with cash

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INSTRUCTOR'S NOTES

Assignment for Review

1. Complete a set of management reports (as described in the tools and handouts) for your organization

2. Observe how these reports compare to any existing financial or management reports that exist in the organization

3. Observe the issues and problems faced in creating these reports

4. Identify how these reports need to be modified or developed further to meet the specific needs of the business

5. Create an outline for customizing a reporting system that will meet your organization's requirements, based on the above 4 steps

6. Discuss the completed set of reports with the top management team, and identify what the reports tell you about the organization and its operations

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INSTRUCTOR'S NOTES

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Wrap-up Session

There will be a wrap-up session to review the assignments and summarize the key elements from the seminar.

The main objectives of this session will be

- Check the participants' understanding of the concepts, processes and tools presented in the first part of the seminar
- Use the experiences of the participants to bring out the real problems and issues in customizing and implementing and using the MRS for management decision making

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INSTRUCTOR'S NOTES

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INSTRUCTOR'S NOTES

Session 7: Making the System a Reality

You have a set of lists and reports



You know how to customize them to meet your needs



*You now need to put the system into action: **IMPLEMENTATION***

Implementing the MRS properly ensures

- The system will do what YOU want it to do
- You know what you're getting: Accurate
- You get the information when you need it: Timely
- You get what you need to: Concise
- You get it as a routine: Regular
- You add value: Cost effective



mrs7a/Page 2

INSTRUCTOR'S NOTES

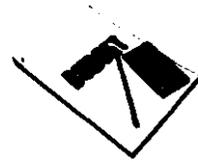
Implementing: putting the system into action.

In this section we talk about planning the implementation process and the various issues that participants are likely to face while implementing the system.

Implementing the System: Planning Implementation

A detailed plan will lead you through the implementation successfully.

- Establish objectives and targets for the system
- Identify and assign project manager - choose the best
- Divide the implementation into identifiable tasks
 - establish data source and responsibility
 - identify how lists will be maintained
 - set timescale targets for list implementation
 - assign report preparation responsibilities
 - assign system administration responsibility (senior manager of all areas plus overall)
- Assess resources available
 - personnel required, their level of skill, dependability
 - resources such as office space, communications equipment, report production and distribution facilities
 - computer equipment (if computerizing the system)



ms7aPage 3

INSTRUCTOR'S NOTES

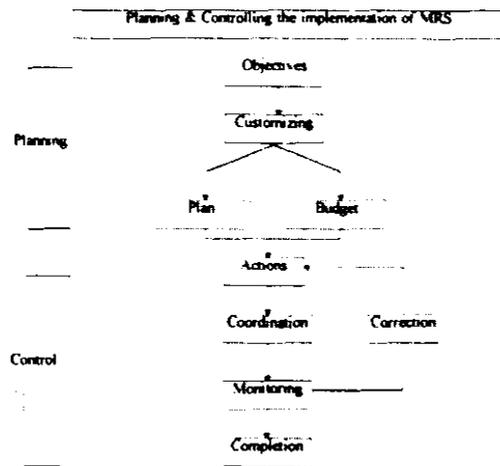
Implementing the System: Planning Implementation (2)

- Prepare a schedule detailing any purchases or services required and corresponding expense
- Prepare detailed budgets for both internal and external expenditure
- Carry out the plan - begin with an executive order and a pep talk from senior managers
- Monitor and control the progress of activities, make adjustments/corrections as necessary

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INSTRUCTOR'S NOTES

Managing Implementation: The Planning and Control Cycle



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INSTRUCTOR'S NOTES

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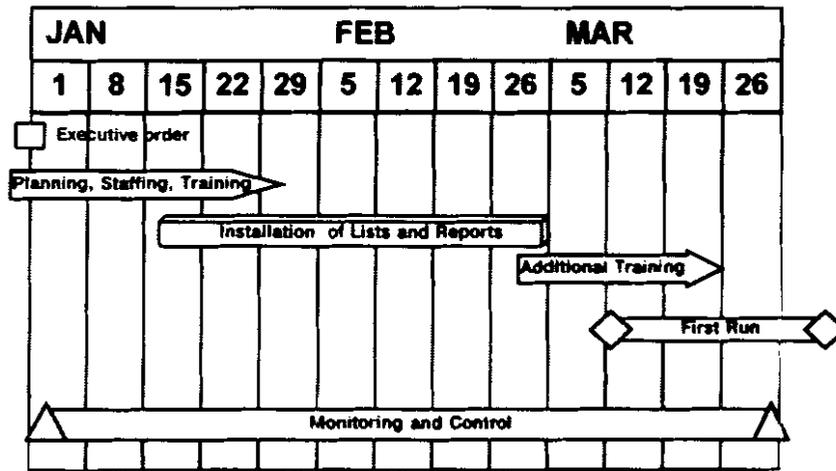
Implementing the System: Identifying Individuals Tasks and Assigning Responsibility (Example)

<i>Phase</i>	<i>Task</i>	<i>Responsibility</i>	<i>Time Required</i>
Phase I : Planning and Staffing	Establish objectives	Popov/Belova	20 days
	Assign Project Manager	Novikov	60 days total
	Customize the system and break into manageable parts	Novikov, Fyodorov, Belova	5 days each
Phase II : Assess Available Resources	Assess resources available	Barsukov	5 days
	Plan for training	Boiko	5 days
Phase III : Budgeting and Planning	Plan for budgeting and finance	Fyodorov	5 days
Phase IV : Installation	Implement and test the system	Implementation team	50 days total
Phase V : Monitoring & Control	Monitoring & refining the implementation process	implementation Team	40 days total

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INSTRUCTOR'S NOTES

**Implementing the System: Sample Schedule - For a Smaller Company
Time Can Be Reduced**



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INSTRUCTOR'S NOTES

Implementing the System: Typical Problems Encountered During System Implementation (1)

Unrealistic goals or deadlines for implementation

- Scheduled over too long of a time to help solve problems
- Scheduled to be too quickly implemented to be installed correctly

Planning problems

- Poor planning creates poor results

Inadequate controls have been designed into the system and inaccurate data is produced

- Those preparing the reports or lists are motivated or able to change data inappropriately
- The wrong data is supplied to the list maintainers
- The directions for creating the reports from the data do not include all possible situations

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INSTRUCTOR'S NOTES

Implementing the System: Typical Problems Encountered During System Implementation (2)

The wrong project manager was selected

- Must have management ability and overall business understanding
- Should be well-respected in the firm
- Must have the authority to effectively install the system
- Must have confidence to make changes allowing proper installation
 - he will encounter different pressures
 - from users at lower levels who have to change their work habits and maybe have to do something new
 - from the general director who expects results, and quickly
 - from department directors who are unsure about allowing release of data from their areas that may reflect operations in that particular area differently (or more accurately) than they desire

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INSTRUCTOR'S NOTES

Implementing the System: Control Issues to Cover During the Installation (1)

Make continual checks for completeness

- All of the data which should be processed is processed
 - pre-numbered documents with sequence checks
 - checking each processed document against the input forms

Ensure accuracy

- All the data is processed accurately
 - rigorous data validation and verification routines through
 - format and range validation checks, regular reconciliation with related reports
 - checking and ensuring a consistent coding system
 - variance analysis to meaningfully explain deviations



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INSTRUCTOR'S NOTES

Example: Both the Sales and Accounting Departments Currently Maintain Receivables Lists...

The sales department is the primary source for data on shipments whereas the accounting department is the primary source of data for receipts - The data on the two lists never seem to match !!

It has been our experience that the reasons for this do not involve manipulation of data. They can be as simple as:

- The two departments close their books on different days
- The data on receipts from barter transactions if not offset -i.e. there is both a receivable and a payable outstanding - which are actually 2 sides of the same transaction that has been completed
- The sales department may record receivables at selling price, but the accounting department records it at cost for tax purposes
- The wrong cash receipt has been offset against the wrong customer account by one or both departments
- The departments have different customer codes - and are getting incorrect information from each other

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INSTRUCTOR'S NOTES

Implementing the System: Control Issues to Cover During the Installation (2)

Check for consistency

- Information is comparable to previous reports and other reports within the system
 - 'sanity checks' - i.e. is such a situation possible
 - check that basic relationships between information hold
 - e.g. opening finished goods inventory + production - shipments = closing finished goods inventory
 - variance analysis to meaningfully explain deviations

Continually strive to improve timeliness

- All data made available and processed as scheduled
 - monthly, weekly or daily

Ensure authorizations are followed

- Approval for data processing has been enforced

ms7aPage 12

INSTRUCTOR'S NOTES

Implementing the System: If the Installation Is Not Going Well or Data Is Inaccurate Look for the Underlying Causes of Problems

Human error

- Committed unwillingly due to poor training or lack of awareness

Technical error

- System infrastructure allows inaccurate data to be supplied without human error

Poor management/personnel relations

- Unmotivated personnel

Poor security planning - this is a dangerous area (more later on this)

- Personnel are involved in fraudulent activities
 - ensure careful recruitment - internal and external
 - try job rotation (disadvantage : staff may require additional training)

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INSTRUCTOR'S NOTES

Implementing the System: Fine-Tune the Installed System to Fit Your Business Operations and User's Needs

This is an ongoing process which should provide input for ongoing maintenance and improvement of the system.

Incorporate a system of regular feedback from users, using questions such as:

- What additional information is crucial to effective decision making at your level?
- Is the information available in time for effective decision making?
- Does the system help identify important problems and inefficiencies?
- Does the system help identify problems in advance?
- Is the information comparable over time?

mrs7e/Page 14

INSTRUCTOR'S NOTES

Implementing the System: Fine-Tune the Installed System to Fit Your Business Operations and User's Needs (2)

Incorporate a system of regular feedback from individuals involved in all stages of producing the lists and reports

- What are the problems in producing and receiving data lists?
- What are the problems in creating reports?
- What are the bottlenecks causing delays? For example:
 - staffing shortages
 - untrained staff
 - communication problems
 - technical and infrastructure related problems
- Are there situations encountered where no defined procedure for processing exists?

mrs7a@Page 15

INSTRUCTOR'S NOTES

Implementing the System: Here Are Some Final Steps for Monitoring and Controlling the Installed System.

Test for coverage/accuracy/operability

- Are the reports consistent with each other? e.g. are sales, receivables and cash receipts from sales recorded on the same basis
- Is the information meaningful and relevant and is all information needed for meaningful decision making covered by the reports?
- Are there major obstacles in the production and delivery of the reports?

Test for user acceptance

- Is the report more meaningful to the user than existing reports?
- Do users need more training to analyze the reported information?

Test for business improvement

- Are business objectives being met?

Test for security

- Is data or information being made available to unwanted sources?

mrs7ePage 16

INSTRUCTOR'S NOTES

Implementing the System: The Reports Don't Produce Information That Is Right- Could It Be Fraud?

Fraud or manipulation of data

- Deliberate action of individuals
 - creation of fictitious supplier accounts and submission of false invoices
 - corruption and bribery, particularly where individuals are in a position of authority as regards making decisions on suppliers or selecting between tenders
 - misappropriation of incoming checks from bona fide customers
 - giving unauthorized discounts to customers
 - inventory losses, including short deliveries by drivers
 - fictitious staff on the payroll

To check for fraud or manipulation consider

- Personnel have ability to commit fraud
 - degree of access to critical information
 - available time to conduct fraudulent activity
 - ability and motivation of the individual
- Indications
 - apparent wealth out of proportion to salary/grade
 - increased spending incongruent with typical patterns
 - associating with employees from different organizations
 - signs of disaffection towards the organization
 - working after hours on a regular basis, without apparent reason

ms7e/Page 17

INSTRUCTOR'S NOTES

Implementing the System: Long Term System Maintenance Is Necessary

Corrective Maintenance

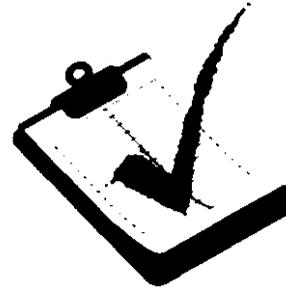
- Eliminate problems
 - time delays
 - inaccuracies
 - lack of coverage

Perfective Maintenance

- Improve efficiency or effectiveness
 - computerize
 - new list/report
 - new controls

Adaptive Maintenance

- Adjust system to changes in the operating environment
 - shut down operations
 - starting new production
 - restructuring enterprise



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INSTRUCTOR'S NOTES

Seminar Agenda

Agenda and Seminar Objectives

Session 1: Introduction to Management Reporting Systems

Session 2: What is the system and how do you use it?

- Defining lists and reports, sales, accounts receivable, finished products inventory reports

Session 3: What is the system and how do you use it?

- Raw materials inventory, purchasing reports

Session 4: Making the system a reality - Customizing the system

Session 5: What is the system and how do you use it?

- Summary report, Cash Flow, barter report

Session 6: Using the Management Reporting System

Session 7: Making the system a reality - Implementing the system

Session 8: Summary and review of assignment

ms20e/Page 1

INSTRUCTOR'S NOTES

Objectives of the Review Session

- Check the participant's understanding of the concepts, processes and tools presented in the first part of the seminar
- Use the experiences of the participants to bring out the real problems and issues in customizing and implementing and using the MRS for management decision making

mrs&Page 2

INSTRUCTOR'S NOTES

GENERAL INSTRUCTIONS

The session should be conducted for the most part as a discussion, with the instructor acting more as a facilitator than as an instructor.

The facilitator needs to identify and emphasize important issues brought out by the discussion, summarizing the discussion at various points and highlighting them by putting them on slides/ flip charts where possible.

Session 8: Summary and Review of Assignment

Summary of the first day

Review of the assignment

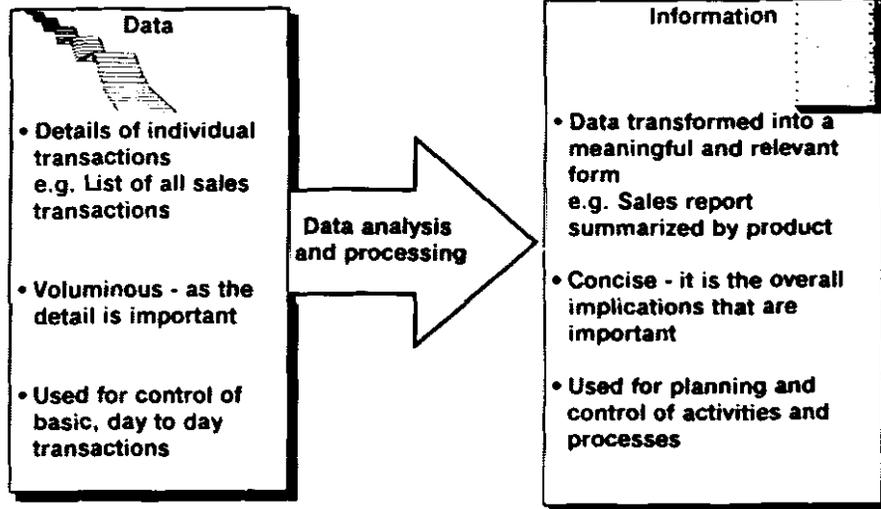
- Management reports vs existing financial and tax reports
- How can these reports be modified or developed further to meet your specific business objectives and requirements
- What issues and problems were encountered during the preparation of these reports? and how can we resolve these issues and problems?
- Your outline for customizing the reports
- Using the reporting system
 - Your experiences - selected case analysis

Case: Rossobuv

mrs8e/Page 1

INSTRUCTOR'S NOTES

We Started by Distinguishing Between Data and Information



m38aPage 4

INSTRUCTOR'S NOTES

What is information? It is data that has been analyzed and processed to serve a specific purpose.

The distinction between data and information is very important; and we will be returning to this concept when we talk of reports and associated lists that provide the source data for reports.

We Defined Management Information

- **Concise**
 - Set out clearly, without unnecessary items
- **Accurate**
 - The user should have confidence that the information will not contain errors or omissions
 - Information should be free from any manipulation
- **Timely**
 - Must be produced in time for some action to be taken on it.
- **Consistent**
 - Should be comparable across time and over departments/business units
- **Appropriate**
 - Must be suitable for the purpose for which it is produced
- **Cost effective**
 - Information should cost no more to produce than the benefits which result from it.
- **Unbiased**
 - There should not be any bias in the information due to the way it has been presented or produced.
- **Appropriately directed**
 - Communicated to the person responsible for the action to be taken; confidentiality considerations must be taken into account.

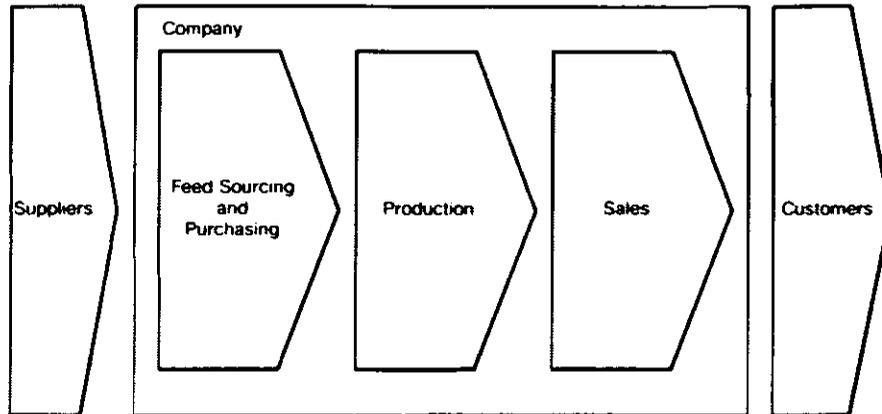
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INSTRUCTOR'S NOTES

We have seen what management information can do. Can any type of management information do this?

Management Reports Are Summaries of Operations and Cover All Basic Activities

Simple flow of company activities is as follows:



mrs2019/2020/2021/2022/2023/2024/2025/2026/2027/2028/2029/2030/2031/2032/2033/2034/2035/2036/2037/2038/2039/2040/2041/2042/2043/2044/2045/2046/2047/2048/2049/2050/2051/2052/2053/2054/2055/2056/2057/2058/2059/2060/2061/2062/2063/2064/2065/2066/2067/2068/2069/2070/2071/2072/2073/2074/2075/2076/2077/2078/2079/2080/2081/2082/2083/2084/2085/2086/2087/2088/2089/2090/2091/2092/2093/2094/2095/2096/2097/2098/2099/2100/2101/2102/2103/2104/2105/2106/2107/2108/2109/2110/2111/2112/2113/2114/2115/2116/2117/2118/2119/2120/2121/2122/2123/2124/2125/2126/2127/2128/2129/2130/2131/2132/2133/2134/2135/2136/2137/2138/2139/2140/2141/2142/2143/2144/2145/2146/2147/2148/2149/2150/2151/2152/2153/2154/2155/2156/2157/2158/2159/2160/2161/2162/2163/2164/2165/2166/2167/2168/2169/2170/2171/2172/2173/2174/2175/2176/2177/2178/2179/2180/2181/2182/2183/2184/2185/2186/2187/2188/2189/2190/2191/2192/2193/2194/2195/2196/2197/2198/2199/2200/2201/2202/2203/2204/2205/2206/2207/2208/2209/2210/2211/2212/2213/2214/2215/2216/2217/2218/2219/2220/2221/2222/2223/2224/2225/2226/2227/2228/2229/2230/2231/2232/2233/2234/2235/2236/2237/2238/2239/2240/2241/2242/2243/2244/2245/2246/2247/2248/2249/2250/2251/2252/2253/2254/2255/2256/2257/2258/2259/2260/2261/2262/2263/2264/2265/2266/2267/2268/2269/2270/2271/2272/2273/2274/2275/2276/2277/2278/2279/2280/2281/2282/2283/2284/2285/2286/2287/2288/2289/2290/2291/2292/2293/2294/2295/2296/2297/2298/2299/2300/2301/2302/2303/2304/2305/2306/2307/2308/2309/2310/2311/2312/2313/2314/2315/2316/2317/2318/2319/2320/2321/2322/2323/2324/2325/2326/2327/2328/2329/2330/2331/2332/2333/2334/2335/2336/2337/2338/2339/2340/2341/2342/2343/2344/2345/2346/2347/2348/2349/2350/2351/2352/2353/2354/2355/2356/2357/2358/2359/2360/2361/2362/2363/2364/2365/2366/2367/2368/2369/2370/2371/2372/2373/2374/2375/2376/2377/2378/2379/2380/2381/2382/2383/2384/2385/2386/2387/2388/2389/2390/2391/2392/2393/2394/2395/2396/2397/2398/2399/2400/2401/2402/2403/2404/2405/2406/2407/2408/2409/2410/2411/2412/2413/2414/2415/2416/2417/2418/2419/2420/2421/2422/2423/2424/2425/2426/2427/2428/2429/2430/2431/2432/2433/2434/2435/2436/2437/2438/2439/2440/2441/2442/2443/2444/2445/2446/2447/2448/2449/2450/2451/2452/2453/2454/2455/2456/2457/2458/2459/2460/2461/2462/2463/2464/2465/2466/2467/2468/2469/2470/2471/2472/2473/2474/2475/2476/2477/2478/2479/2480/2481/2482/2483/2484/2485/2486/2487/2488/2489/2490/2491/2492/2493/2494/2495/2496/2497/2498/2499/2500/2501/2502/2503/2504/2505/2506/2507/2508/2509/2510/2511/2512/2513/2514/2515/2516/2517/2518/2519/2520/2521/2522/2523/2524/2525/2526/2527/2528/2529/2530/2531/2532/2533/2534/2535/2536/2537/2538/2539/2540/2541/2542/2543/2544/2545/2546/2547/2548/2549/2550/2551/2552/2553/2554/2555/2556/2557/2558/2559/2560/2561/2562/2563/2564/2565/2566/2567/2568/2569/2570/2571/2572/2573/2574/2575/2576/2577/2578/2579/2580/2581/2582/2583/2584/2585/2586/2587/2588/2589/2590/2591/2592/2593/2594/2595/2596/2597/2598/2599/2600/2601/2602/2603/2604/2605/2606/2607/2608/2609/2610/2611/2612/2613/2614/2615/2616/2617/2618/2619/2620/2621/2622/2623/2624/2625/2626/2627/2628/2629/2630/2631/2632/2633/2634/2635/2636/2637/2638/2639/2640/2641/2642/2643/2644/2645/2646/2647/2648/2649/2650/2651/2652/2653/2654/2655/2656/2657/2658/2659/2660/2661/2662/2663/2664/2665/2666/2667/2668/2669/2670/2671/2672/2673/2674/2675/2676/2677/2678/2679/2680/2681/2682/2683/2684/2685/2686/2687/2688/2689/2690/2691/2692/2693/2694/2695/2696/2697/2698/2699/2700/2701/2702/2703/2704/2705/2706/2707/2708/2709/2710/2711/2712/2713/2714/2715/2716/2717/2718/2719/2720/2721/2722/2723/2724/2725/2726/2727/2728/2729/2730/2731/2732/2733/2734/2735/2736/2737/2738/2739/2740/2741/2742/2743/2744/2745/2746/2747/2748/2749/2750/2751/2752/2753/2754/2755/2756/2757/2758/2759/2760/2761/2762/2763/2764/2765/2766/2767/2768/2769/2770/2771/2772/2773/2774/2775/2776/2777/2778/2779/2780/2781/2782/2783/2784/2785/2786/2787/2788/2789/2790/2791/2792/2793/2794/2795/2796/2797/2798/2799/2800/2801/2802/2803/2804/2805/2806/2807/2808/2809/2810/2811/2812/2813/2814/2815/2816/2817/2818/2819/2820/2821/2822/2823/2824/2825/2826/2827/2828/2829/2830/2831/2832/2833/2834/2835/2836/2837/2838/2839/2840/2841/2842/2843/2844/2845/2846/2847/2848/2849/2850/2851/2852/2853/2854/2855/2856/2857/2858/2859/2860/2861/2862/2863/2864/2865/2866/2867/2868/2869/2870/2871/2872/2873/2874/2875/2876/2877/2878/2879/2880/2881/2882/2883/2884/2885/2886/2887/2888/2889/2890/2891/2892/2893/2894/2895/2896/2897/2898/2899/2900/2901/2902/2903/2904/2905/2906/2907/2908/2909/2910/2911/2912/2913/2914/2915/2916/2917/2918/2919/2920/2921/2922/2923/2924/2925/2926/2927/2928/2929/2930/2931/2932/2933/2934/2935/2936/2937/2938/2939/2940/2941/2942/2943/2944/2945/2946/2947/2948/2949/2950/2951/2952/2953/2954/2955/2956/2957/2958/2959/2960/2961/2962/2963/2964/2965/2966/2967/2968/2969/2970/2971/2972/2973/2974/2975/2976/2977/2978/2979/2980/2981/2982/2983/2984/2985/2986/2987/2988/2989/2990/2991/2992/2993/2994/2995/2996/2997/2998/2999/3000

INSTRUCTOR'S NOTES

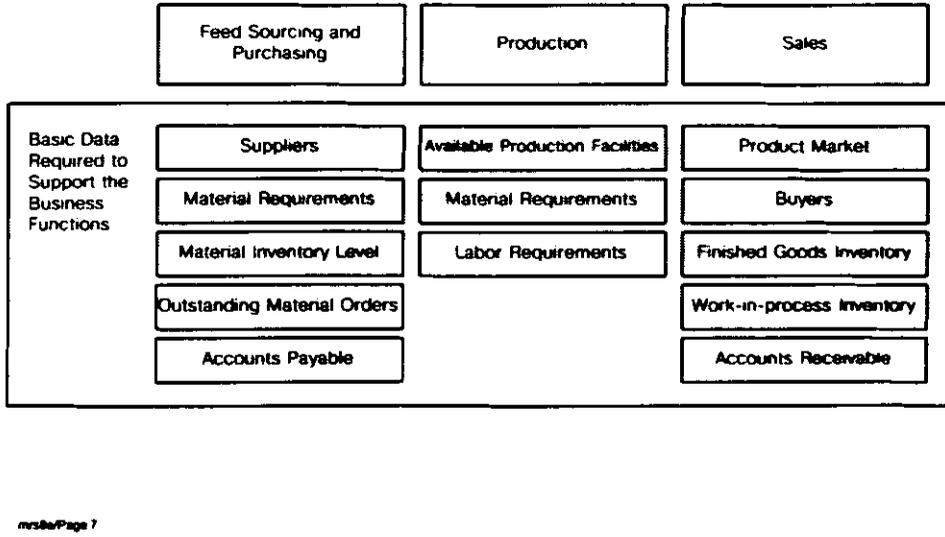
What are the main activities of any manufacturing company?

- Buying feed materials from suppliers
- Processing those materials and supplies into finished goods
- Selling finished goods to the customers with profit

This classification of activities can be extended to service companies as well.

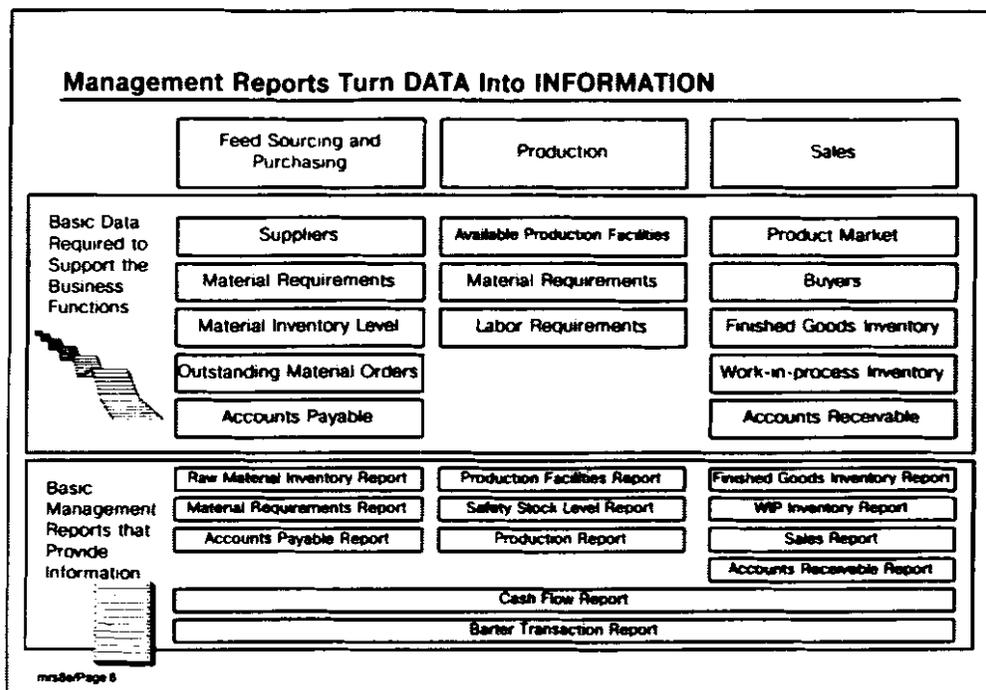
Management reporting covers all these operations.

Business Operations Require and Produce a Lot of DATA



INSTRUCTOR'S NOTES

The basic transactions are recorded in 'journals' or 'lists'. The concept of LISTS is important and forms the basis for the management reporting system that we have presented.

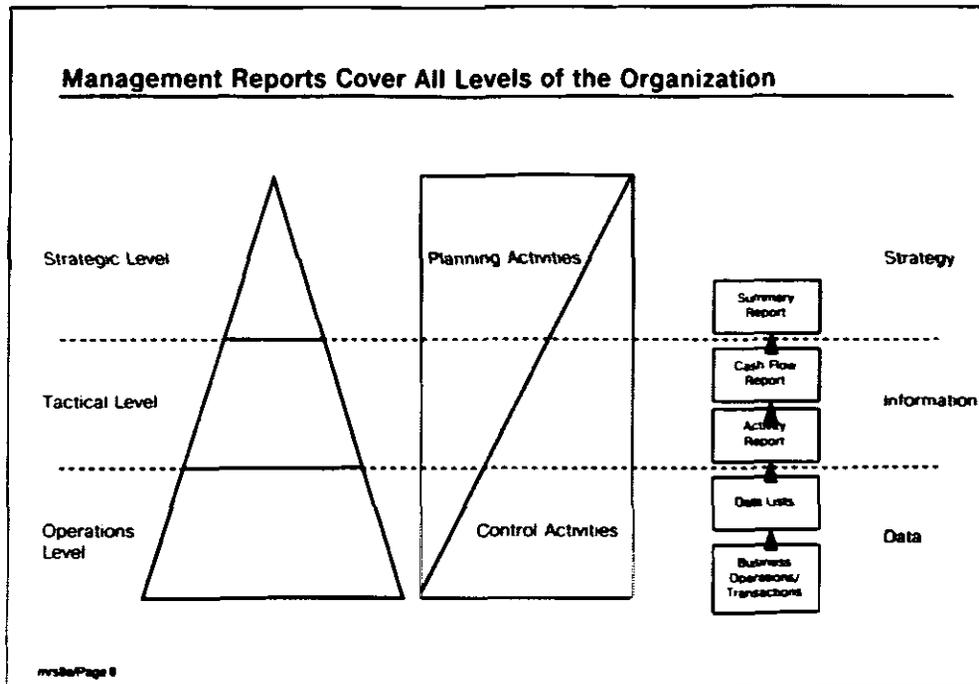


INSTRUCTOR'S NOTES

Going back to our point about data and information -- management reports, by meaningfully summarizing and analyzing data, are an effective tool for managers

After outlining data needed to support basic activities we can identify the reports that can provide us with the necessary information in each area.

Some of the reports are specific to the area where they are produced, but some are produced and used across several functions -- cross-functional or summary reports.



INSTRUCTOR'S NOTES

Management reports cover and are used across all levels of the organization:

- Starting from operational (day to day activity)
- To tactical (medium-term decisions)
- And up to strategic activities (long-term decisions)

Management concentrates its attention differently at each level of organizational activity:

- At the operational level more attention is given to control and less to planning
- At the strategic - vice versa
- With tactical level in between

Lists and reports are also used differently at different levels (and their content changes from daily transaction data to strategic information):

- Data lists are used mainly at the operational level to record and control daily transactions
- Basic activity reports are compiled from lists and are used by middle managers to make daily operational and tactical decisions involving control and measurement of performance
- Summary reports can be used by top management for decision making and for strategic planning

We Discussed Lists and Reports in a Basic Management Reporting System

Lists and reports defined

- Sales lists and reports
- Purchasing lists and reports
- Accounts receivable lists and reports; Overdue receivables report
- Accounts payable lists and reports
- Finished product inventory lists and reports
- Work in process inventory lists and reports
- Raw materials and components inventory lists and reports
- Production lists and reports
- Barter transactions lists and reports
- Summary report
- Cash flow report

Creating and using lists and reports

Suggested formats

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INSTRUCTOR'S NOTES

Each participant was provided with a handout that outlines the entire system and how it can be used, including blank templates.

Making the System a Reality: Customizing and Implementing the MRS

First customize the system to meet your specific requirements

- Discuss your specific needs and business objectives to determine if your managers or senior managers need additional information not suggested on the reports.
 - The lists and reports previously discussed above can form the basis for a management reporting system in almost any situation but may not be thorough enough for all companies.
- Add on additional columns to the lists and additional summary items to reports in order to meet your company's additional needs.
 - By adding several minor modifications, the lists and reports should blend easily into existing operations.

Then implement and enhance the system in your business

- Plan the implementation
- Manage the implementation process through effective monitoring and controlling

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INSTRUCTOR'S NOTES

Management reporting by definition should serve management, therefore the need to customize the system and ensure that it is implemented carefully and properly.

All Participants Then Had an Opportunity to Get Back to Their Organization and Put Into Practice What They Had Learned

- 1. Complete a set of management reports (as described in the tools and handouts) for your organization*
- 2. Observe how these reports compare to any existing financial or management reports that exist in the organization*
- 3. Observe the issues and problems faced in creating these reports*
- 4. Identify how these reports need to be modified or developed further to meet the specific needs of the business*
- 5. Create an outline for customizing a reporting system that will meet your organization's requirements, based on the above 4 steps*
- 6. Discuss the completed set of reports with the top management team, and identify what the reports tell you about the organization and its operations*

ms06e/Page 12

INSTRUCTOR'S NOTES

All participants have had an opportunity to go through the above exercises and hopefully have done so !!

Agenda of the Seminar

Summary of the first day

Review of the assignment

- **Management reports vs. existing financial and tax reports**
- How can these reports be modified or developed further to meet your specific business objectives and requirements
- What issues and problems were encountered during the preparation of these reports? and how can we resolve these issues and problems?
- Your outline for customizing the reports
- Using the reporting system
 - Your experiences - selected case analysis

Case: Rossobuv

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INSTRUCTOR'S NOTES

Management Reports vs Existing Financial and Tax Reports: The Sales List

- What data that is recommended is not present in the existing lists?
 - How will adding this data item increase the utility of the existing lists?

- What additional data is provided in the existing lists?
 - How does this data add to the utility of the existing lists?

- Who (which department) currently maintains and updates these lists?
 - Are there other sources for the same data, how do the sources compare in terms of accuracy and timing?

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INSTRUCTOR'S NOTES

Ask the participants to answer the following questions based on the assignment they have completed using Questionnaire 1.

Conduct a discussion. Your job is to act as a facilitator -- not to provide the right answers

Make sure to periodically summarize the discussion and emphasize the important points. You may want to write them on to the slide itself!

Management Reports vs Existing Financial and Tax Reports: The Sales Report

- What information that is recommended is not present in the existing report?
 - How will adding this information increase the utility of the existing report?

- What additional information is provided in the existing report?
 - How does this information add to the utility of the existing report?

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INSTRUCTOR'S NOTES

Management Reports vs Existing Financial and Tax Reports: The Purchasing List

- What data that is recommended is not present in the existing lists?
 - How will adding this data item increase the utility of the existing lists?

- What additional data is provided in the existing lists?
 - How does this data add to the utility of the existing lists?

- Who (which department) currently maintains and updates these lists?
 - Are there other sources for the same data, how do the sources compare in terms of accuracy and timing?

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INSTRUCTOR'S NOTES

Ask the participants to answer the following questions based on the assignment they have completed using Questionnaire 1.

Conduct a discussion. Your job is to act as a facilitator -- not to provide the right answers

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Management Reports vs Existing Financial and Tax Reports: The Purchasing Report

- What information that is recommended is not present in the existing report?
 - How will adding this information increase the utility of the existing report?

- What additional information is provided in the existing report?
 - How does this information add to the utility of the existing report?

msd&Page 17

INSTRUCTOR'S NOTES

Management Reports vs Existing Financial and Tax Reports: The Accounts Receivable List

- What data that is recommended is not present in the existing lists?
 - How will adding this data item increase the utility of the existing lists?

- What additional data is provided in the existing lists?
 - How does this data add to the utility of the existing lists?

- Who (which department) currently maintains and updates these lists?
 - Are there other sources for the same data, how do the sources compare in terms of accuracy and timing?

msibaPage 18

INSTRUCTOR'S NOTES

Ask the participants to answer the following questions based on the assignment they have completed using Questionnaire 1.

Conduct a discussion. Your job is to act as a facilitator -- not to provide the right answers.

Make sure to periodically summarize the discussion and emphasize the important points. You may want to write them on to the slide itself!

Management Reports vs Existing Financial and Tax Reports: The Accounts Receivable Report

- What information that is recommended is not present in the existing report?
 - How will adding this information increase the utility of the existing report?

- What additional information is provided in the existing report?
 - How does this information add to the utility of the existing report?

mnsb/Page 19

INSTRUCTOR'S NOTES

Management Reports vs Existing Financial and Tax Reports: The Overdue Receivables Report

- What information that is recommended is not present in the existing report?
 - How will adding this information increase the utility of the existing report?

- What additional information is provided in the existing report?
 - How does this information add to the utility of the existing report?

ms18u/Page 20

INSTRUCTOR'S NOTES

Management Reports vs Existing Financial and Tax Reports: The Accounts Payable List

- What data that is recommended is not present in the existing lists?
 - How will adding this data item increase the utility of the existing lists?

- What additional data is provided in the existing lists?
 - How does this data add to the utility of the existing lists?

- Who (which department) currently maintains and updates these lists?
 - Are there other sources for the same data, how do the sources compare in terms of accuracy and timing?

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INSTRUCTOR'S NOTES

Ask the participants to answer the following questions based on the assignment they have completed using Questionnaire 1.

Conduct a discussion. Your job is to act as a facilitator -- not to provide the right answers

Make sure to periodically summarize the discussion and emphasize the important points. You may want to write them on to the slide itself!

Management Reports vs Existing Financial and Tax Reports: The Accounts Payable Report

- What information that is recommended is not present in the existing report?
 - How will adding this information increase the utility of the existing report?

- What additional information is provided in the existing report?
 - How does this information add to the utility of the existing report?

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INSTRUCTOR'S NOTES

Management Reports vs Existing Financial and Tax Reports: The Finished Products Inventory List

- What data that is recommended is not present in the existing lists?
 - How will adding this data item increase the utility of the existing lists?

- What additional data is provided in the existing lists?
 - How does this data add to the utility of the existing lists?

- Who (which department) currently maintains and updates these lists?
 - Are there other sources for the same data, how do the sources compare in terms of accuracy and timing?

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INSTRUCTOR'S NOTES

Ask the participants to answer the following questions based on the assignment they have completed using Questionnaire 1.

Conduct a discussion. Your job is to act as a facilitator -- not to provide the right answers

Make sure to periodically summarize the discussion and emphasize the important points. You may want to write them on to the slide itself!

Management Reports vs Existing Financial and Tax Reports: The Finished Products Inventory Report

- What information that is recommended is not present in the existing report?
 - How will adding this information increase the utility of the existing report?

- What additional information is provided in the existing report?
 - How does this information add to the utility of the existing report?

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INSTRUCTOR'S NOTES

Management Reports vs Existing Financial and Tax Reports: The Work in Process Inventory List

- What data that is recommended is not present in the existing lists?
 - How will adding this data item increase the utility of the existing lists?

- What additional data is provided in the existing lists?
 - How does this data add to the utility of the existing lists?

- Who (which department) currently maintains and updates these lists?
 - Are there other sources for the same data, how do the sources compare in terms of accuracy and timing?

msd/ep/25

INSTRUCTOR'S NOTES

Ask the participants to answer the following questions based on the assignment they have completed using Questionnaire 1.

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Management Reports vs Existing Financial and Tax Reports: The Work in Process Inventory Report

- What information that is recommended is not present in the existing report?
 - How will adding this information increase the utility of the existing report?

- What additional information is provided in the existing report?
 - How does this information add to the utility of the existing report?

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INSTRUCTOR'S NOTES

Management Reports vs Existing Financial and Tax Reports: The Raw Materials and Components Inventory List

- What data that is recommended is not present in the existing lists?
 - How will adding this data item increase the utility of the existing lists?

- What additional data is provided in the existing lists?
 - How does this data add to the utility of the existing lists?

- Who (which department) currently maintains and updates these lists?
 - Are there other sources for the same data, how do the sources compare in terms of accuracy and timing?

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INSTRUCTOR'S NOTES

Ask the participants to answer the following questions based on the assignment they have completed using Questionnaire 1.

Conduct a discussion. Your job is to act as a facilitator -- not to provide the right answers

Make sure to periodically summarize the discussion and emphasize the important points. You may want to write them on to the slide itself!

Management Reports vs Existing Financial and Tax Reports: The Raw Materials and Components Inventory Report

- What information that is recommended is not present in the existing report?
 - How will adding this information increase the utility of the existing report?

- What additional information is provided in the existing report?
 - How does this information add to the utility of the existing report?

msb/28

INSTRUCTOR'S NOTES

Management Reports vs Existing Financial and Tax Reports: The Production List

- What data that is recommended is not present in the existing lists?
 - How will adding this data item increase the utility of the existing lists?

- What additional data is provided in the existing lists?
 - How does this data add to the utility of the existing lists?

- Who (which department) currently maintains and updates these lists?
 - Are there other sources for the same data, how do the sources compare in terms of accuracy and timing?

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INSTRUCTOR'S NOTES

Ask the participants to answer the following questions based on the assignment they have completed using Questionnaire 1.

Conduct a discussion. Your job is to act as a facilitator -- not to provide the right answers

Make sure to periodically summarize the discussion and emphasize the important points. You may want to write them on to the slide itself!

Management Reports vs Existing Financial and Tax Reports: The Production Report

- What information that is recommended is not present in the existing report?
 - How will adding this information increase the utility of the existing report?

- What additional information is provided in the existing report?
 - How does this information add to the utility of the existing report?

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INSTRUCTOR'S NOTES

Management Reports vs Existing Financial and Tax Reports: The Barter Transactions List

- What data that is recommended is not present in the existing lists?
 - How will adding this data item increase the utility of the existing lists?

- What additional data is provided in the existing lists?
 - How does this data add to the utility of the existing lists?

- Who (which department) currently maintains and updates these lists?
 - Are there other sources for the same data, how do the sources compare in terms of accuracy and timing?

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INSTRUCTOR'S NOTES

Ask the participants to answer the following questions based on the assignment they have completed using Questionnaire 1.

Conduct a discussion. Your job is to act as a facilitator -- not to provide the right answers

Make sure to periodically summarize the discussion and emphasize the important points. You may want to write them on to the slide itself!

Management Reports vs Existing Financial and Tax Reports: The Barter Transactions Report

- What information that is recommended is not present in the existing report?
 - How will adding this information increase the utility of the existing report?

- What additional information is provided in the existing report?
 - How does this information add to the utility of the existing report?

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INSTRUCTOR'S NOTES

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Management Reports vs Existing Financial and Tax Reports: The Summary Report

- What information that is recommended is not present in the existing report?
 - How will adding this information increase the utility of the existing report?

- What additional information is provided in the existing report?
 - How does this information add to the utility of the existing report?

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INSTRUCTOR'S NOTES

Management Reports vs Existing Financial and Tax Reports: The Cash Flow Report

- What information that is recommended is not present in the existing report?
 - How will adding this information increase the utility of the existing report?

- What additional information is provided in the existing report?
 - How does this information add to the utility of the existing report?

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INSTRUCTOR'S NOTES

Agenda of the Seminar

Summary of the first day

Review of the assignment

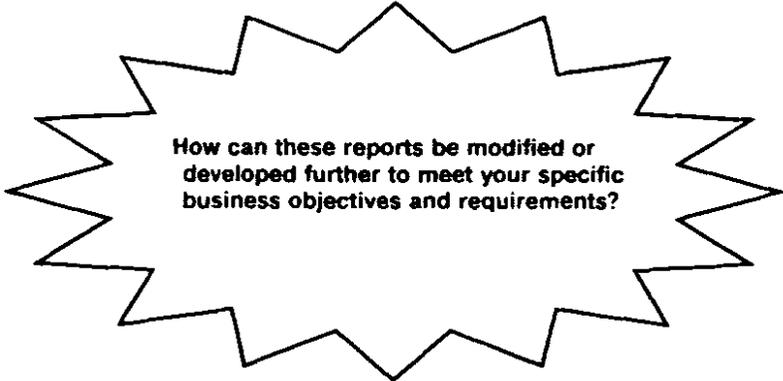
- Management reports vs. existing financial and tax reports
- **How can these reports be modified or developed further to meet your specific business objectives and requirements**
- What issues and problems were encountered during the preparation of these reports? and how can we resolve these issues and problems?
- Your outline for customizing and implementing the reports
- Using the reporting system
 - Your experiences - selected case analysis

Case: Rossobuv

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INSTRUCTOR'S NOTES

What Are Your Key Business Objectives ?



How can these reports be modified or developed further to meet your specific business objectives and requirements?

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INSTRUCTOR'S NOTES

Conduct a discussion by asking some of the participants what they defined as their business objectives and how the reports could be modified to serve these objectives - let the other participants respond

Checklist:

- Sales reports
- Purchasing reports
- Accounts receivable reports; Overdue receivables report
- Accounts payable reports
- Finished product inventory reports
- Work in process inventory reports
- Raw materials and components inventory reports
- Production reports
- Barter transactions reports
- Summary report
- Cash flow report

Your job is to act as a facilitator -- not to provide the right answers (unless of course you believe that there is something seriously out of line!).

Use the following slides as aids for discussing specific reports. You do not have to use all the slides, nor do you need to go through them in the same order.

Make sure to periodically summarize the discussion and emphasize the important points.

How Can These Reports Be Modified or Developed Further to Meet Your Specific Business Objectives and Requirements?

The sales report

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INSTRUCTOR'S NOTES

Use this slide to summarize the participants comments. Use the report templates on the following slides, if necessary, to illustrate the effect of suggested changes.

You can get the participants to present their own suggestions and modify the report templates.

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How Can These Reports Be Modified or Developed Further to Meet Your Specific Business Objectives and Requirements?

The purchasing report

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INSTRUCTOR'S NOTES

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How Can These Reports Be Modified or Developed Further to Meet Your Specific Business Objectives and Requirements?

The accounts receivable report

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INSTRUCTOR'S NOTES

How Can These Reports Be Modified or Developed Further to Meet Your Specific Business Objectives and Requirements?

The overdue receivables report

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INSTRUCTOR'S NOTES

How Can These Reports Be Modified or Developed Further to Meet Your Specific Business Objectives and Requirements?

The accounts payable report

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INSTRUCTOR'S NOTES

How Can These Reports Be Modified or Developed Further to Meet Your Specific Business Objectives and Requirements?

The finished products inventory report

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INSTRUCTOR'S NOTES

How Can These Reports Be Modified or Developed Further to Meet Your Specific Business Objectives and Requirements?

The work in process inventory report

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INSTRUCTOR'S NOTES

How Can These Reports Be Modified or Developed Further to Meet Your Specific Business Objectives and Requirements?

The materials and components inventory report

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INSTRUCTOR'S NOTES

How Can These Reports Be Modified or Developed Further to Meet Your Specific Business Objectives and Requirements?

The production report

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INSTRUCTOR'S NOTES

How Can These Reports Be Modified or Developed Further to Meet Your Specific Business Objectives and Requirements?

The barter transactions report

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INSTRUCTOR'S NOTES

How Can These Reports Be Modified or Developed Further to Meet Your Specific Business Objectives and Requirements?

The summary report

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INSTRUCTOR'S NOTES

Summary Report

Key Performance Indicators	Jan	Feb	Mar	Year to date
Production				
Sales (shipments)				
Purchases				

Key Working Capital Balances	31-Jan	28-Feb	31-Mar
Accounts Receivable			
Accounts Payable			
Finished Goods Inventory			
Raw Material Inventory			
WIP Inventory			

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INSTRUCTOR'S NOTES

How Can These Reports Be Modified or Developed Further to Meet Your Specific Business Objectives and Requirements?

The cash flow report

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INSTRUCTOR'S NOTES

Summary of Cash Flow and Barter Transactions (Operating Activities)

	CASH INFLOWS		CASH OUTFLOWS	
	Inflows	Outflows	Inflows	Outflows
CASH FLOW FROM OPERATIONS:				
Proceeds from Sales				
Product 1				
current month sale				
collection of receivables				
Product 2				
current month sale				
collection of receivables				
Interest and Dividends Received				
Proceeds from Other Activities				
VAT from Sales				
Total Proceeds				
Payments to Employees and Suppliers				
Materials and Components				
Wages and salaries				
Social Insurance				
Energy				
Production Overhead				
Operations Taxes and Dues				
VAT Paid to Government				
Total Payments to Employees and Suppliers				
Research and Development				
General and Administrative Training				
Sales and Other Commercial				
Cash Flows Before Interest and Taxes				
Interest on Debt				
Taxes on Income				
Net Cash Provided By/Used In Operations				

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INSTRUCTOR'S NOTES

Summary of Cash Flow and Barter Transactions

CASH FLOW CATEGORIES	CASH COLLECTIONS		CASH DISBURSALS	
	2004	2005	2004	2005
CASH FLOW OPERATIONS				
Proceeds from Sales				
Product 1				
Product 2				
Other				
Interest and Dividends Received				
Proceeds from Other Activities				
U.S. Govt. Sales				
and Proceeds				
Payments to Employees and Suppliers				
Materials and Components				
Direct Payroll				
Travel Expenses				
Energy				
Production Overhead				
Operations Taxes and Other				
U.S. Govt. Payments				
and Payments to Employees and Suppliers				
Research and Development				
General and Administrative, Training				
Other and Other Expenses				
Stock Plans, Salary Advance and Taxes				
Interest on Debt				
Dividend Payout				
and Cash Payments to U.S. Govt.				
CASH FLOW FROM OPERATING ACTIVITIES				
Proceeds from Sales of Investments				
Proceeds from Sales of Fixed Assets				
Capital Expenditures				
Other Transactions				
and Cash Proceeds from U.S. Govt.				
CASH FLOW FROM INVESTING ACTIVITIES				
Long Term Debt				
Proceeds from Borrowings				
Repayments of Long Term Debt				
Dividends				
Issues of Shares				
Dividends Paid				
and Cash Payments to U.S. Govt.				
CASH FLOW FROM FINANCING ACTIVITIES				
NET CHANGE IN CASH				
CASH AT END OF PERIOD				

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INSTRUCTOR'S NOTES

Agenda of the Seminar

Summary of the first day

Review of the assignment

- Management reports vs. existing financial and tax reports
- How can these reports be modified or developed further to meet your specific business objectives and requirements
- **What issues and problems were encountered during the preparation of these reports? and how can we resolve these issues and problems?**
- Your outline for customizing the reports
- Using the reporting system
 - Your experiences - selected case analysis

Case: Rossobuv

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INSTRUCTOR'S NOTES

What Issues and Problems Were Encountered During the Preparation of These Reports? And How Can We Resolve These Issues and Problems?

- Problems with identification of data sources

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INSTRUCTOR'S NOTES

Ask the participants to answer the following questions based on the assignment they have completed using Questionnaire 3.

Discuss possible solutions to these problems.

Conduct a discussion. Your job is to act as a facilitator -- not to provide the right answers

Make sure to periodically summarize the discussion and emphasize the important points. You may want to write them on to the slide itself!

What Issues and Problems Were Encountered During the Preparation of These Reports? And How Can We Resolve These Issues and Problems?

- Problems with accuracy of data

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INSTRUCTOR'S NOTES

What Issues and Problems Were Encountered During the Preparation of These Reports? And How Can We Resolve These Issues and Problems?

- Problems with getting the data on time

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INSTRUCTOR'S NOTES

What Issues and Problems Were Encountered During the Preparation of These Reports? And How Can We Resolve These Issues and Problems?

- Problems due to unskilled or unmotivated staff

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INSTRUCTOR'S NOTES

What Issues and Problems Were Encountered During the Preparation of These Reports? And How Can We Resolve These Issues and Problems?

- Problems with acceptance of the lists & reports

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INSTRUCTOR'S NOTES

Agenda of the Seminar

Summary of the first day

Review of the assignment

- Management reports vs. existing financial and tax reports
- How can these reports be modified or developed further to meet your specific business objectives and requirements
- What issues and problems were encountered during the preparation of these reports? and how can we resolve these issues and problems?
- **Your outline for customizing the reports**
- Using the reporting system
 - Your experiences - selected case analysis

Case: Rossobuv

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INSTRUCTOR'S NOTES

Your Outline for Customizing and Implementing the Reports

- What are the business objectives that the reporting system should serve?
- Who needs information, what specific information should be available to each person?
- What changes are required to the reports and what additional reports are required
- What should be the source for each report? Who should be responsible?
- What should be the frequency of each report? What changes in current operations may be required to achieve this?

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INSTRUCTOR'S NOTES

Ask one of the participants who has completed Questionnaire 4 to make a presentation on their customization plan.

Ask the audience to question him on it as well as provide their input to the presentation.

Your job once again is to act as facilitator, rather than an instructor. You should, however, ask relevant questions to bring out important aspects of the presentation,

You may repeat this exercise with other participants.

Agenda of the Seminar

Summary of the first day

Review of the assignment

- Implementing the system
 - Management reports vs. existing financial and tax reports
 - How can these reports be modified or developed further to meet your specific business objectives and requirements
 - What issues and problems were encountered during the preparation of these reports? and how can we resolve these issues and problems?
 - Your outline for customizing the reports
- **Using the reporting system**
 - **Your experiences - selected case analysis**

Case: Rossobuv

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INSTRUCTOR'S NOTES

Using the Reporting System: Your Experiences

What does this set of reports tell you about :

- Overall performance of the company
- Existing problems and inefficiencies
- Potential problems that may occur
- Day-to day operational decision making and problem solving
- Strategic and long term decision making
- Direction for planning and budgeting

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INSTRUCTOR'S NOTES

If you have already received a set of reports from the participants and have had the time to analyze them and put them on slides, select one and ask the participant to give a presentation on what the management team could tell from the reports

Ask the presenter to keep in mind the above points. Get the audience to contribute to the analysis

If you have had a look at the slides before, you could close by summarizing and pointing out any of your own observations that the presenter may have missed.

If you do have not received the reports in advance, ask for a volunteer to present anyway, but you may have to give him some time to go through each report with the audience.

If no one has any reports, skip this slide and go on to the case!

Agenda of the Seminar

Summary of the first day

Review of the assignment

- Implementing the system
- Management reports vs. existing financial and tax reports
- How can these reports be modified or developed further to meet your specific business objectives and requirements
- What issues and problems were encountered during the preparation of these reports? and how can we resolve these issues and problems?
- Your outline for customizing and implementing the reports
- Using the reporting system
 - Your experiences - selected case analysis

Case: Rossobuv

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INSTRUCTOR'S NOTES

Case: Rossobuv

- Shoe manufacturing company
- New order from good customer
- Need to purchase raw materials worth RUR 600 m to fulfill order
- Supplier facing cash flow problems
- Supplier has recently changed terms of supply from barter to
 - 100% cash prepayment for orders up to RUR 500 m
 - 30 day credit for larger orders, to the extent of 50% of order value (minimum prepayment of RUR 500 m)
- Production cycle time for new order : 35 days
- Shipping time: 10 days
- Buyer expects to receive order in : 90 days
- Buyers terms: 10% prepayment - RUR 130 m
 - 40% on receipt
 - Balance within 30 days of receipt

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INSTRUCTOR'S NOTES

Distribute the handout on the case to all participants!

What Should Rossobuv Do ?

The questions facing management are..

- Is there a problem? If so what
- What steps have to be taken to fulfill this order
 - what are the options available to the company
 - how does the company select the best option
- What are the future implications of this decision - will further problems arise

The reporting system has produced a set of reports for the previous month

- How can these reports assist management decision making
- What additional information is required by management to make an informed decision

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INSTRUCTOR'S NOTES

The two issues that the participants should focus on are:

- How can the set of reports provided assist in management decision making ?
- What additional information is required to make an informed decision?

Where Do I Start ?

Approach:

- Study each report or extract in the handouts
- Make a note of the important issues that you feel could indicate an existing or potential problem
- Identify any additional facts brought out by the reports that could contribute to decision making or problem solving
- Identify additional information that you may need to make an informed judgment; e.g.
 - Who would you question at the management meeting and what questions would you ask

HINT : START WITH THE CASH FLOW REPORT

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INSTRUCTOR'S NOTES

Organize the participants into groups of 4 to 6 people. Ask the participants to go analyze the reports based on the above approach.

Give them about 30 minutes to analyze the reports and prepare a presentation on their analysis.

You may want to provide blank slides and markers for their use. This will make their presentation more effective and keep them interested in the exercise!

Also have copies of the reports (handouts) on slide ready for their use, if required.

Ask a group (or more than one if time allows or the first group is weak) to present their analysis. Ensure that the remaining audience responds to the presentation with questions and comments.

The Cash Flow Report Indicates

- Cash for purchasing raw materials to fulfill the new order is not available immediately

Using the cash flow report along with the other reports we can project the cash flow for the current month

- Cash inflows : sales, collection of receivables, etc.
- Cash outflows : wages, payments for materials, taxes, energy etc
 - Projected uses of cash are likely to be 10% more than projected sources
 - We expect to receive less from collection of A/R
 - Payments for energy are expected to be higher

Estimated cash availability in the next month: Will not meet purchasing requirements for the new order

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INSTRUCTOR'S NOTES

After the groups have had a chance to present and defend their presentation, use this and the following slides to complete the analysis!

Sales Report, Inventory Reports

Sales report

- Sales for 'A' less than previous month
- Sales for 'B' greater than expected
- Sales for 'C' equal to previous month

Finished goods inventory

- Inventory of 'A' is 20% higher than required
- Inventories of 'B' and 'C' are sufficient to cover orders and safety stock
- Inventories of 'D' and 'E' are significantly higher than the estimated finished product inventory safety level.

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INSTRUCTOR'S NOTES

Inventory and Purchase Reports

Raw materials inventory

- Materials for 'A', 'C', 'E' - greater than needed
- Materials for 'B' - below the safety stock level
- Auxiliary materials - high inventory levels (except for Glue #0015)

Purchasing

- Purchasing for auxiliary materials is greater than required
- Purchasing of raw materials for 'A', 'C', 'E' - in excess of requirement
- There is a shortfall of materials required to fulfill the current order

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INSTRUCTOR'S NOTES

Additional Information Required

What resources are required to fulfill production and what is their availability

- Capacity
- Labor
- Raw materials
- Financing for raw materials and work in progress

What are the sources of finance available to the company and their relevant costs

- Bank Finance
 - the finance director informed management that 30 days credit is available at 18%; transaction cost of 2%, loan can be extended for a 2% monthly penalty
- Accelerated collection of receivables
 - the sales department informs management that they can collect an additional RUR 150 m at a 5% discount

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INSTRUCTOR'S NOTES

What Are the Sources of Finance Available to the Company?

- Delay payables
 - RUR 120 m of payables on raw materials can be delayed but the company will incur a penalty of 10%
- Rationalize purchase orders
 - the order for auxiliary materials can be canceled, but the order for raw materials for 'A' cannot be canceled as by the time the materials will be received, they will be needed for next months production
- Sales of excess inventory
 - the inventory, purchasing and sales department are called together to discuss the reduction of inventory for 'D' and 'E'.
 - the purchasing manager finds a buyer for the materials at 60% of book value (RUR 420 m) - RUR 300 m on receipt and the balance in materials for 'A'.

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INSTRUCTOR'S NOTES

Sources of Finance and Their Relevant Cost: Summary

Source of funds	Amount available (RUR)	Cost (amount)	Cost (%)
Bank credit	600 m	120 m	20%
Accelerated collection of receivables	150 m	7.5 m	5%
delaying payment of A.P	120 m	12 m	10%
Sale of excess inventory	420 m	280 m	
	(300 m cash)	(Book Cost)	
cancel order for auxiliary materials	50 m		
Cancel order for materials for 'A'	70 m	-only an option if we sell inventories & receive materials as barter. The cost of canceling would other wise be too high in terms of inability to fulfill future orders	
Prepayment for accepting new order	130 m		

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INSTRUCTOR'S NOTES

Alternatives and Their Implications

- RUR 450 m is available immediately and at a lower cost than bank finance
- If the excess inventories are sold, then a further RUR 370 m (300 cash + 70 from canceling the order for raw materials)
- If the company waits to sell inventories (in case they get a higher price), the deficit can be covered through bank finance

The company should also attempt to assess future demand for and potential profitability of the new product : It may be advantageous to make a greater investment in the product

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INSTRUCTOR'S NOTES

Homework

Management Reporting System

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INSTRUCTOR'S NOTES

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Case 1 : ElectroPowerToy

Extracts from Management Reports

Summary of Cash Flow and Barter Transactions

	Current Month	
	Cash In	Cash Out
CASH FLOW FROM OPERATIONS:		
Proceeds from Sales		
Dump Truck, incl.		
current month sale	9,265,000	
collection of receivables	9,216,000	
Tanker Truck, incl.		
current month sale	141,312,000	
collection of receivables	90,000,000	
VAT from Sales	52,456,530	
Total Proceeds	302,249,530	
Payments to Employees and Suppliers		
Materials and Components		(89,600,000)
Direct Payroll		(45,000,000)
Social Insurance		(13,050,000)
Energy		(56,340,000)
Production Overhead		(12,298,000)
Operations Taxes and Dues		(18,735,000)
Total Payments to Employees and Suppliers		(235,023,000)
General and Administrative		(32,640,000)
Sales and Other Commercial		(1,970,400)
Cash Flows Before Interest and Taxes	32,416,130	
Interest on Debt		
VAT Paid to Government		(18,816,000)
Taxes on Income		(9,724,839)
Net Cash Provided By/(Used In) Operations	3,875,291	
CASH AT BEGINNING OF PERIOD	19,180,000	
CASH AT END OF PERIOD	23,035,291	

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Accounts Receivable (Cash)

Product Number	Product Name	Total	0-30 Days	31-60 Days	61-90 Days	91-180 Days	180 Days to 1 Yr	Over 1 Yr
D-001	Dump Truck	505,400,000	181,200,000	80,600,000	80,600,000	58,100,000	53,500,000	51,400,000
T-002	Tanker Truck	153,051,000	76,526,000	2,960,000	18,443,000	23,917,000	12,831,000	18,374,000
Total:		658,451,000	257,726,000	83,560,000	99,043,000	82,017,000	66,331,000	69,774,000

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Purchasing (Summary and Cash Requirements)

Inventory Code	Material or Supply Name	Unit	Required to purchase	Outstanding Orders						New Order						
				Contract Number	Supplier Name	Order Quantity	Order Price	Order Quantity Received	Order Quantity to be Received	Delivery Date	Required to Order	Supplier Code	Supplier Name	Last Acquisition Price	Price Offered	Required Cash
PU-1500	electric motors	units	450	C-1996-4-0	UrElectric Co.	450	9,604 (barter)	0	450	25/04/96	0	N/A	N/A	N/A	N/A	N/A

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Barter Transactions

Product Number	Product Name	Unit	Transaction Quantity of the Product	Production Cost	Market Price	Delivery Terms	Delivery Cost	Transaction Amount	Received Material or Supply Code Number	Material or Supply Name	Unit of Measurement	Transaction Quantity of Material or Supply	Market Price	Delivery Terms	Delivery Cost (if paid by us)	Required to Purchase (*)
D-001	Dump Truck	units	50	75,000	86,435	FOT Moscow on 15/04/96	0	4,321,744	PU-1500	electric motors	units	450	9,604	FOT Moscow on 25/04/96	0	450

(*) - "Required to Purchase" column lists the same number as in the purchasing report. It is the number of a material (component) units that should be obtained in order to keep the inventories at the optimal level.

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Work in Process Inventory

Product Number	Product Name	Unit of Measurement	Location	Number of Units in Completion Stage*					Equivalent of Completed Units	Material Requirements to Complete Items in 95% Category
				5% complete	25% complete	50% complete	75% complete	95% complete		
1	2		3	5	6	7	8	9	10	11
D-001	Dump Truck	units	main assembly line	4	9	5	4	29	36	no electric motors
T-002	Tanker Truck	units	main assembly line	11	10	12	19	39	60	no electric motors

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Equivalent of Completed Units (10) = 5 * 5% + 6 * 25% + 7 * 50% + 8 * 75% + 9 * 95%

Finished Goods Inventory

Product Number	Product Name	Unit of Measurement	Location	Quantity on Hand	Quantity Off-Specification	Comments	Quantity Available for Sale	Production Cost
D-001	Dump Truck	units	Shipping Center	210	150	no electric motors	60	75,000
T-002	Tanker Truck	units	Shipping Center	487	300	no electric motors	187	95,000

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Current Month Production Report

Product Number	Product Name	Unit of Measurement	Production Plan for the Month	Monthly Production to Date	Variance (plan vs. fact)	Reasons for Variance
D-001	Dump Truck	units	476	439	(37)	no electric motors
T-002	Tanker Truck	units	2200	2121	(79)	no electric motors
	Total:		2676	2560	(116)	

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Current Month Sales Report (Units)

Product Number	Product Name	Unit of Measurement	Sales Plan for the Month	Monthly Sales	Variance (plan vs. fact)	Current Finished Product Inventory	Estimated Finished Product Inventory Safety Level
D-001	Dump Truck	units	476	229	(247)	60	60
T-002	Tanker Truck	units	2,200	1,634	(566)	187	120
	Total:		2,676	1,863	(813)		

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Case 2 : Rossobuv

Extracts from Management Reports

Summary of Cash Flow for the Current Month

	Current Month	
	Cash In	Cash Out
CASH FLOW FROM OPERATIONS:		
Proceeds from Sales		
A. Women's shoes, incl.		
current month sale	197,934,000	
collection of receivables	48,354,000	
B. Special work shoes, incl.		
current month sale	187,654,000	
collection of receivables	56,760,000	
C. Man's boots, incl.		
current month sale	93,765,000	
collection of receivables	23,987,000	
D. Man's shoes, incl.		
current month sale	124,987,000	
collection of receivables	23,876,000	
E. Defense contract, incl.		
current month sale	45,876,000	
collection of receivables	398,765,400	
VAT from Sales	252,411,264	
Total Proceeds	1,454,369,664	
Payments to Employees and Suppliers		
Materials and Components		(499,600,000)
Direct Payroll		(165,000,000)
Social Insurance		(47,850,000)
Energy		(250,340,000)
Production Overhead		(92,298,000)
Operations Taxes and Dues		(48,735,000)
Total Payments to Employees and Suppliers		(1,103,823,000)
General and Administrative		(132,840,000)
Sales and Other Commercial		(7,970,400)
Cash Flows Before Interest and Taxes	209,736,264	
Interest on Debt		
VAT Paid to Government		(147,495,264)
Taxes on Income		(62,920,879)
Net Cash Provided By/(Used In) Operations		(679,879)
CASH AT BEGINNING OF PERIOD	19,160,000	
CASH AT END OF PERIOD	18,480,121	

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Cash Flow Projections for the next Month

	Current Month	
	Cash In	Cash Out
CASH FLOW FROM OPERATIONS:		
Proceeds from Sales		
A. Women's shoes, incl.		
current month sale	178,140,800	
collection of receivables	55,828,120	
B. Special work shoes, incl.		
current month sale	225,184,800	
collection of receivables	90,036,960	
C. Man's boots, incl.		
current month sale	93,765,000	
collection of receivables	38,753,000	
D. Man's shoes, incl.		
current month sale	149,984,400	
collection of receivables	39,996,880	
E. Defense contract, incl.		
current month sale	80,283,000	
collection of receivables	120,070,750	
VAT from Sales	225,087,137	
Total Proceeds	1,296,930,647	
Payments to Employees and Suppliers		
Materials and Components		(1,012,500,000)
Direct Payroll		(75,000,000)
Social Insurance		(21,750,000)
Energy		(312,925,000)
Production Overhead		(62,298,000)
Operations Taxes and Dues		(17,735,000)
Total Payments to Employees and Suppliers		(1,502,208,000)
General and Administrative		(32,840,000)
Sales and Other Commercial		(1,970,400)
Cash Flows Before Interest and Taxes		(240,087,753)
Interest on Debt		
VAT Paid to Government		(12,462,137)
Taxes on Income		
Net Cash Provided By/(Used in) Operations		(252,549,890)
CASH AT BEGINNING OF PERIOD	18,480,121	
CASH AT END OF PERIOD	(234,069,769)	

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Accounts Receivable (Cash)

Product Number	Product Name	Total	0-30 Days	31-60 Days	61-90 Days	91-180 Days
A-001	Women's shoes	104,215,120	55,628,120	35,600,000	12,987,000	
B-002	Special work shoes	186,887,060	90,036,960	32,987,000	35,876,400	27,986,700
C-003	Man's boots	51,629,000	38,753,000	12,876,000		
D-004	Man's shoes	39,996,880	39,996,880			
E-005	Defense contract	440,070,750	120,070,750	10,000,000	10,000,000	300,000,000
Total:		822,798,810	344,485,710	91,463,000	58,863,400	327,986,700

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Raw Materials and Supplies

Inventory Code	Material or Supply Name	Unit of Measurement	Total Quantity on Hand	Quantity Off-Specification	Total Usable Quantity	Location	Safety Stock Level	Required to Purchase
1	2	3	4	5	9	10	11	12
Main Materials								
LW-001	Pre-cut tanned leather for women's	units	4,600		4,600	Raw materials WH	3,600	7,200
AL-0015	Pre-cut artificial leather for working	units	1,000	50	950	Raw materials WH	3,000	6,000
LMB-67	Pre-cut tanned leather for men's boots	units	3,000	100	2,900	Raw materials WH	2,000	
LMS-7634	Pre-cut tanned leather for men's shoes	units	2,200	103	2,097	Raw materials WH	1,560	
RL-78	Pre-cut raw leather for defense's	units	6,000	800	5,200	Raw materials WH	4,000	
Support Materials								
GL-001	Glue # 001	barrel	25		25	Auxiliary WH	20	20
GL-0015	Glue # 0015	barrel	18		18	Auxiliary WH	30	30
GL-67	Glue # 67	barrel	26		26	Auxiliary WH	25	
GL-7634	Glue # 7634	barrel	50		50	Auxiliary WH	40	
WT-001	White threads	units	700		700	Auxiliary WH	500	
BT-001	Black threads	units	450		450	Auxiliary WH	400	
CT-001	Colored threads (assortment)	units	1,230		1,230	Auxiliary WH	1,000	

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Purchasing (Summary and Cash Requirements)

Inventory Code	Material or Supply Name	Unit of Measurement	Required to Purchase	New Orders				
				Supplier Code	Supplier Name	Last Acquisition Price	Price Offered	Required Cash
Main Materials								
LW-001	Pre-cut tanned leather for women's	units	7,200	TN	Tannery	barter	50,000	360,000,000
AL-0015	Pre-cut artificial leather for working	units	6,000	TN	Tannery	barter	100,000	600,000,000
Support Materials								
GL-001	Glue # 001	barrel						
GL-0015	Glue # 0015	barrel	30	GL	Glue Factory	barter	1,000,000	30,000,000
GL-67	Glue # 67	barrel	25	GL	Glue Factory	barter	900,000	22,500,000
							Total:	1,012,500,000

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Finished Goods Inventory

Product Number	Product Name	Unit of Measurement	Location	Quantity on Hand	Quantity Off-Specification	Comments	Quantity Available for Sale	Production Cost
A-001	Women's shoes	pairs	Finished Goods WH	510	150		360	110,000
B-002	Special work shoes	pairs	Finished Goods WH	541	91		450	90,000
C-003	Man's boots	pairs	Finished Goods WH	218	58		160	100,000
D-004	Man's shoes	pairs	Finished Goods WH	1,345	45		1,300	100,000
E-005	Defense contract	pairs	Finished Goods WH	5,000	500		4,500	90,000

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Current Month Sales Report and Next Month Projections (Units)

Product Number	Product Name	Unit of Measurement	Sales Plan for the Month	Monthly Sales	Variance (plan vs. fact)	Current Finished Product Inventory	Estimated Finished Product Inventory Safety Level	Estimated Sales Next Month
A-001	Women's shoes	pairs	1,800	1,649	(151)	360	300	1,485
B-002	Special work shoes	pairs	1,500	1,877	377	450	450	2,250
C-003	Man's boots	pairs	780	781	1	160	156	780
D-004	Man's shoes	pairs	1,000	1,042	42	1,300	350	1,250
E-005	Defense contract	pairs	400	382	(18)	4,500	2,000	700
	Total:		5,480	5,731	251		3,256	6,465

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