**Management accounting for charities**

By Cranfield Trust Volunteer Stuart Walker

When I speak with charities, management accounting is one of the most discussed topics and certainly from my experience, it is one of the areas that cause the most confusion.

In this article, I want to take a look at the issue of management accounting and give you a guide to what it is and how you should go from a standing start to a regular management accounting pack for your managers and board.

At the end, you’ll also find an example downloadable workbook that has several different types of management accounts that you can edit and use for your own organisation.

In this piece I cover;

* The basics
* What can you include?
* Choosing your metrics
* Developing your accounts
* Understanding the human side
* Aiming for the ‘one pager’
* What’s in the pack?

## **The basics**

Let’s start with one of the most asked questions when it comes to management accounts - what do we have to produce?

This is probably the single most confusing aspect of accounting for charities because there are (at least) two different types of accounts.

Statutory accounts are the accounts you must submit as an organisation to Companies House, HMRC and the Charities Commission. They are produced in a set format and must include information presented in a certain way. They require specialist expertise and, if you are a large organisation will have to be audited.

In contrast, management accounts are reports that are used by the management to run the organisation. As such they can be presented in the way that you feel is best and can include (or exclude) information as you see fit. They don’t need to be audited or inspected and no specialist expertise is needed to produce these but it is always helpful.

The good news then is that you don’t *have* to produce anything. Unlike statutory accounts, management accounts are entirely voluntary and as such the format and content are entirely up to you.

There’s a key message here in that Management Accounts are designed to help you run the organisation and not make life harder.

## **What can you include?**

One of the major difficulties for organisations that don’t have specialist finance help is that management accounts can include anything you like which makes choosing the content difficult.

In truth, management accounts mostly include numbers but can also include qualitative information.

They can be as large or small as you like. In fact, the best management accounts are on one page and contain only the key metrics.

Typically, a management accounting pack will include some information around Profit and Loss, some Balance Sheet information and some cashflow information.

You may well want to include operational metrics too.

I’d argue though that less is more. It is often the case that in the absence of a clear direction as to what the really important information is, finance staff will send *everything* through to the board. This has the effect of leaving the trustees unable to see the wood for the trees!

So, if you can’t see a use for it then don’t include it.

## **Choosing your metrics**

So how do you go about choosing your metrics?

A starting point is to produce the basics. Most accounting packages will easily produce a Profit and Loss report and a Balance Sheet so this is the place to start.

My personal preference is to do a Profit and Loss and Balance Sheet by month for the current year and you’ll find an example of this in the workbook. If you have enough information in your accounts then you could also do the same reports but compared to the same period last year.

I always feel that any management accounts pack should have an accurate cash flow forecast and if I get nothing else then I’ll want to see this.

Your organisation may have some metrics that aren’t ‘accounting’ as such but that allow managers and trustees to make decisions.

For example, it might be really important to your management that they see staff utilisation rates or website conversion rates.

Your trustees might want to see the breakdown of income by source or a visual representation of your reserves.

Again, the important thing here is that the information you provide helps trustees and managers run the organisation and if it doesn’t help then it doesn’t get in.

## **Understanding the human side**

When we think of accounts, we often picture just numbers but there’s a really important point when it comes to management accounting.

You have to remember that these will be read by humans and there are some behavioural things you need to think about. Typically, most trustees aren’t finance experts so it is important to understand how you can develop a useful management accounts pack.

Firstly, remember that it is no good asking people what they want. If they aren’t finance professionals then they probably don’t know what is available and so won’t know what to ask for.

Secondly consider that if you are dealing with people who don’t have finance experience, numbers can be very daunting. Often people feel embarrassed about asking questions in case they make a fool of themselves or ask a ‘stupid’ question.

And lastly, it can be really hard to start with a blank piece of paper.

So how do you get around these?

Explain to the board that you are trying to develop a management accounting pack to assist with making decisions and say that you need their help.

Tell them that your plan is to produce a draft pack as a kind of ‘Aunt Sally’ so that people can have a look, tell you what is useful, highlight what is not helpful and ask any questions they may have.

Frame the exercise as a workshop type experience where you are working collaboratively to get to a point where people have the information they need. Explain also that there is no such thing as a ‘stupid’ question because often these highlight things that you haven’t thought of or that you have missed out.

If you do this then you’ll find that people feel much happier about making suggestions and telling you what they like and don’t like. They will also feel free to ask questions that they may otherwise have kept to themselves.

## **Developing your accounts**

As I mentioned earlier, the starting point should be the standard reports that you can get out of your accounting package. Most of these will have a good set of basic reports and you should be able to customise these so that they fit your needs.

Make sure you save the customisation so you can easily use it every month.

Typically, the smaller accounting packages feature pretty basic presentation styles so you can always export your reports to Excel and then smarten them up. You can also use things like the graphing functionality to add a bit of sparkle.

There’s a really important point about learning styles here. People take in information in different ways. Some people like a big spreadsheet full of numbers, some like a written explanation and yet other like pictures and graphs.

So, when you are looking to produce something a bit better than the bog-standard reports think about including all of these.

Don’t be in too much of a hurry though. The best management accounts take time to mature.

Produce your initial pack, get people’s first thoughts and then refine. Expect to have to do this over a few iterations so that you gradually get to a very usable accounting pack.

## **Aiming for the ‘one pager’**

The sign of a really good management accountant isn’t that they are able to produce a lot of information.

A superb management accountant will be able to distil the whole organisation into just a few numbers, graphs and words and this is where the ‘one pager’ comes in.

If a management accountant is able to put, on a single page, all of the key metrics that tell trustees exactly what is going on in the charity then they have done a terrific job.

Why?

Well, I always like to think of a busy trustee who has only one morning a month to understand what is going on and make decisions. They travel in by train and have maybe 20 minutes or so to do their reading before the board meeting.

If I send them a pack that contains 300 pages then they will never get through them, won’t be able to pick out the salient points and in many cases will just get dispirited and give up.

Your aim as a management accountant is to send them information that is relevant and allows them to focus on the important issues.

Never underestimate the trustee’s ability to discuss whether a £35 internet bill is good value for an hour and then spend 3 minutes on funding!

Forcing yourself to only have one page of information to present means you have to be disciplined about providing only the most important things that people need to know.

You’ll find an example one-pager in the workbook.

## **Management accounting for charities; in summary**

* Management accounting doesn’t have to be a mystery and when you know that there’s no ‘right’ way to do them it takes away a lot of the pressure.
* Remember that the aim is to produce something that helps managers and trustees make decisions for your organisation.
* Start by producing the simple reports that your accounting package can already do and then work with your managers and trustees to develop these into a truly useful pack.
* The key is to make sure that you deliver really useful information and cut out the extraneous noise.
* And in an ideal world, you’ll eventually get to producing a one-pager for your people that will distill all the information they need into a simple-to-read report.

Good luck with your journey!

## **What’s in the pack?**

Download the Excel workbook and check out the example reports included.

### Profit and Loss

The profit and loss tabs are all coloured yellow.

This is the report that covers the income and expenditure of your organisation over a set period of time.

In the example I have done a monthly version but you can produce a report using a different timescale such as quarters or years

Remember that less is more so I am always keen to condense this down where possible. For example, if you run a multi-million pound charity then showing the trustees that you spent £20 on biscuits last month isn’t necessarily helpful. So, think about combining lines of data where needed.

### Balance sheet

The balance sheet shows the ‘worth’ of an organisation at a point in time. It tells you what you have in the bank, what assets you have, who owes you money and who you owe money to.

A lot of organisations don’t bother with this as they run on a cash basis and have no assets as such. Again, if it’s not helpful then don’t produce it.

But do remember that the trustees are responsible for the safekeeping of the assets of your organisation so it is useful if they can see what they are.

Again, think about condensing and amalgamating rows if the line items aren’t relevant.

### Cash flow forecast

If you do nothing else, do this.

The cash flow forecast shows you what your cash balance is at the start of the period, what money you expect in and what you expect to pay out leading to your cash balance at the end of the period.

This will highlight if you are in danger of running out of cash or where you have large balances sitting in a current account that really need to be earning interest.

Do this over the period that makes most sense but be aware that the further forward you are forecasting your cash the less accurate it will be.

### Actuals Vs Budget

If you have produced a budget then it may be helpful to show how you are doing against it.

A Budget Vs Actuals report will show where you expected to be, where you are and what the difference is. Ideally you will also include some meaningful commentary that will explain variances.

Your budget will have been set before or at the start of the year. But as time goes on things will change.

A forecast is your best bet as to how things will turn out given those changes. In the same way as the budget, you can do a Forecast Vs Actuals report or do a Forecast Vs Budget report.