Lesson 17 Management Reporting (Management Information Systems)

Key Concepts One Should Know

- Levels of Management and reporting
- Management Reporting System
- Report presentation

Learning Objectives

To understand the:

- Meaning & importance of Management Reporting.
- Level of management & reporting thereof.
- General principles of report presentation.
- Classification and forms of reporting
- Frequency of reporting as per the different levels of management.

Lesson Outline

- Meaning of Management Reporting
- Importance of Reporting
- Level of Management & Reporting
- The Need for Management Reporting
- Essential Components to Management Reporting
- General Principles of Report Presentation
- Forms of Presentation of Information
- Attributes of Information
- Classification of Reports
- Forms of Reporting
- Frequency of Reporting
- Special Reports
- LESSON ROUND UP
- GLOSSARY
- TEST YOURSELF

INTRODUCTION

Accounting is an information system that attempts to pass on information in the form of reports, statements, charts and graphs to help the management in taking appropriate decisions. Management needs information for arriving at decisions and for evaluating the company performance to run the business effectively. The required information can be made available to the management by means of reports.

Reports can be defined as means of communication, usually in the written form, of facts which should be brought to the attention of the various levels of management that can use them to take suitable actions for proper control. For proper control the reports have to be prepared and presented in an appropriate manner. A systematic reporting system should be adopted for smooth flow of business.

Importance of Reporting

1. **Provides Information:** The very purpose of preparing a report is to providing information to various levels of management. The term management includes Foreman, Chairman, Department Manager, General Manager and Special Officer. These people get information about the trend of the business, cash flow and fund flow, etc.

1. **Helps in Selection:** Out of the several points available, only relevant information is included in the report. A report brings many alternatives out of which a management has to choose one profitable alternative.

1. **Role in Control System:** A target is fixed well in advance in an organization. The management has to see whether the employees are working according to the targets and predetermined standards. The reports are prepared in such a way so as to evaluate the actual performance with the budgeted targets. If there are any unfavorable variances, the reasons are found out and remedial or corrective actions are taken by the management. In this way, a report is used as a control tool. A management can control the enterprises with the help of this tool.

1. **Helpful in Profitable Operations:** A report highlights the direction in which the business should move and the level of operation should be decided. On the basis of such report, a management can give clear cut instructions as how to increase the profitability to its organization.

1. **Follow the Principle of Management by Exception:** A management has very little time to exercise the control. Hence, the activities, which are not carried out according to planning and budgeting, are highlighted before the management. This is called the way of following the principle of management by exception.

1. **Helpful in Achieving Overall Objectives:** Report motivates the executives and employees to take necessary steps towards increasing the earnings of the organization significantly. In this way, the management reaps achieving the maximum profit with the help of right kind of reporting system.

LEVEL OF MANAGEMENT AND REPORTING

The fundamental principle of the system of reporting is that the information contained therein should meet the requirements of its recipient. Reports are prepared for each executive from the bottom to the highest level of management keeping in view his status and responsibility in the organization, so that he may be able to get timely information about the performance of persons working under him.

In any organization, there are three distinct levels of managements - first line managements, middle line management and top management.

The information presented and the method of reporting should meet the specific requirements of all these levels of management.

First Line Management

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Middle Management

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Top Management

The three Guiding Principles to be followed are :

1) The lower the level of management, the more detailed should the report; the higher the level of management, more summarized should the report be.

2) The lower the level of management, should get the report more frequently whereas the higher level of management should get the reports less frequently. Middle management requires more detailed reporting with a great frequency in reporting as compared to the top management, because the former is concerned with day to day operations requiring timely action for making improvements.

3) Lower the level of management, less should be number of reports; higher the level of management, large should be the number report. The Board of Directors will receive a large number of reports because it controls every function in the organization. Person included in middle management and lower management will receive only those reports which relates to their departments.

Higher Level of Management Reports

- Are more summarized
- Are less frequent
- Are more in numbers

Middle and Lower Level of Management Reports

- Are more detailed
- Are more frequent

Information Needs According to Management Level

Level of Management	*Main Issues*	*Information Sources*	*Time Horizon*	*Level of aggregation*	*Information recency*
Top-level management	Strategic	Mainly External	Long term	Summarized	Past as well as present
Middle-level management	Tactical	External/Internal	Medium	Intermediate	Somewhat current
Lower-level management	Operational	Mainly internal	Short term	Detailed	Very current

MEANING OF MANAGEMENT REPORTING

The Management Reporting System is essentially a mechanism for monitoring the 'mission' of an organization in terms of objectives set out evolved by the organization with a formal planning.

If the formal plan is imprecise or inadequate, and facts to take into account the actuality of the real-life situation, the de facto points of decision-making, and the recipient personnel, the monitoring system becomes open- ended and ineffective. Designers of the reporting system must, therefore, take into account the impact on it of such constraints. Merely a good management reporting system does not make an organization successful. It is the people working in that organization who work towards its success. Yet, a lack of a proper reporting system which could percolate at all level would allow the management to take remedial action.

The Need for Management Reporting

Inefficient reporting processes that yield inaccurate and outdated information normally cause more harm than good. A strong management reporting is a necessity to produce timely and reliable information in order to make high-quality business decisions about the future of the company. Insight gathered from reporting allows for deeper analysis to understand problems, provides accurate comparisons against competitors and implement controls to hold employees accountable for budgets.

Effective processes uncover material financial misstatements prior to circulating information with investors and other stakeholders, and identify and address problem areas before they elevate to unmanageable levels. Without management reporting, employees may know there is a problem, but would be unable to identify its origin. Reporting identifies the problem's source, so you can begin working toward a solution. It also allows you to understand your current financial position compared to your competitors, in order to focus or realign business strategies to improve specific operating activities.

Management reporting systems help in capturing data that is needed by managers to run an effective business. Data could range from financial data, employee headcount, client, accounts, products, client assets in custody, investment performance, etc. The scope of a management reporting system is wide. However, here are the six reasons why an enterprise needs an effective management reporting system:

Need for an effective Management Reporting System

- Constant need of reports for decision making and analysis of trends
- Reports being unavailable with the right stakeholders at the right time
- Lack of visibility and a single holistic view of the enterprise performance
- Data redundancy, duplication of data leading to data management and quality issues leading to error prone reports
- High value resources
- Changing a global report to fit local needs

An effective management reporting system helps:

- Improve decision making
- Improves management effectiveness
- Improves responsiveness to issues
- Improve efficiency of resources in the delivery of organizational services

Challenges in Management Reporting systems

Traditionally, Management Reporting systems were only used to pull up information. However, the system has undergone tremendous transformation over the years, making it a robust platform for reporting and management. Due to the advancement in technology, it can now provide financial and non-financial information, which can help management take the necessary action to control their business activity.

Often, businesses attempt to develop reporting processes, but miss the mark in achieving desired results. Common challenges in way include:

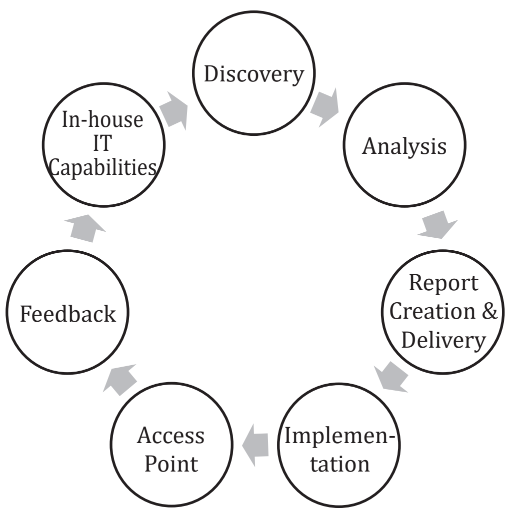
- Selecting appropriately and correctly using the right system to develop and deliver reports.
- Manipulating data in order to display the best metrics to make better business decisions and understand the company's current position.
- Implementing an inefficient accounting close process that does not allow for timely report delivery to stakeholders.
- Ensuring the integrity of the data.
- Adopting management reporting processes at the incorrect stakeholder levels throughout the organization.

ESSENTIAL COMPONENTS TO MANAGEMENT REPORTING

A successful management reporting process contains several key elements. It should begin with an accurate healthy data and metrics to support core business strategies and initiatives to specific stakeholders. Data should support both the long- and short-term visions for the company, and should be trustworthy and from a reliable source. For example, failing to remove data for a discontinued product will negatively skew the remaining pool of data and the ultimate reporting information.

Developing a Successful Management Reporting Programme

As with any key process, executive buy-in and vision are required upfront, in order to effectively implement and change management reporting in an organization. After that has been attained, you can begin taking steps toward implementing an effective management reporting programme. These include:



Discovery: Identify and involve stakeholders early on, and effectively communicate the vision across the organization and to the appropriate stakeholders. Identify and access the data sources available to meet your specific data needs.

Analysis: Understand the level of effort involved in creating each report. Develop data definitions to ensure everyone interprets it the same way. Keep the data tight and prioritize your information, in order to keep from overwhelming the data recipient, and understand what the data says, and further encourage quick decision-making abilities the recipient.

Report creation and delivery: Create the reports and determine the appropriate delivery method of the data. Reports should be concise and comprehensive, but not overwhelming. Pay close attention while formatting and reporting, considering the specific needs of your users.

Implementation: Develop each report separately, and establish a governance process and policies to ensure data health across the organization. Define access control requirements, detailing who should have rights to access information. Minimize work by leveraging implemented software to create repeatable processes and automate report jobs for predetermined times throughout the month.

Access point: Create a common place for users to access data, such as a Web portal or SharePoint site.

Feedback: Collect comments and suggestions from users to discover ways to continuously improve the data and process.

In-house IT capabilities: Ensure that in-house Information Technology (IT) personnel can manage necessary systems and issues if they arise.

GENERAL PRINCIPLES OF REPORT PRESENTATION

In order to make a report which is trustworthy and easily understandable, certain general principles are to be followed while reporting. A good report will help the management in taking the expected action to improve the performance of the organization.

The basic principles to be kept in mind while preparing and submitting the report are as follows:

1) The report should have a proper title to describe the subject matter reported. It should be in a good format and should have subheadings and paragraph divisions. The name of recipient of the report should be written on the top of report.
2) The report should relate to certain period, and the period of time should be indicated on the top of report.
3) The report should he factual.
4) The report should be brief and concise but clear.
5) The report should be prompt because information delayed is information denied.
6) A report should distinguish between controllable and non-controllable factors and should report them separately. It is because management can take suitable actions regarding controllable factors.
7) Appropriate remarks should be given in the report. It saves valuable time of the management and ensures prompt attention.
8) A report should be periodically reviewed.
9) The report must be correct within the permissible degree of inaccuracy. The margin of error allowed will depend upon the purpose for which the report is prepared.
10) The report should draw manager's attention immediately to exceptional matters so that management by exception may be carried out effectively.
11) Visual reporting through graphs, charts and diagrams should be preferred to descriptive reports because visual reporting attracts the eye more quickly and leaves impression on the mind lasting.
12) While doing comparisons in the report, it should be ensured that the comparisons between the same matters.
13) Detailed analysis should be given for all the result so that there can be comparison between the actual and the budgeted.
14) The format of report should remain unchanged from period to period.

FORMS OF PRESENTATION OF INFORMATION

Information may be presented in the following forms:

1) **Verbal (or oral):** Group meetings, seminars, conferences, or interviews may be organized where employees from various levels can meet to discuss and exchange their ideas.

2) **Written:** This is the most usual form of reporting and here the information takes the form of a written report.

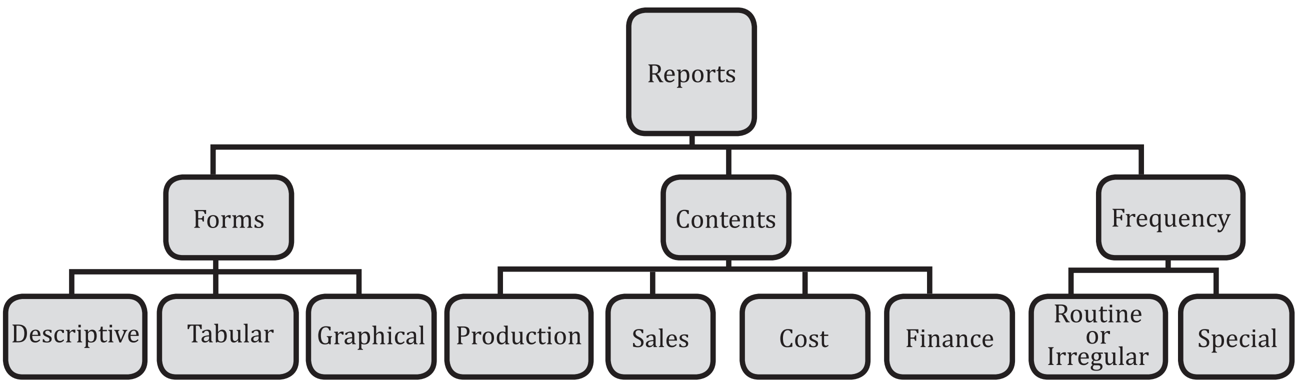
For information to be useful to managers, it must possess certain attributes.

ATTRIBUTES OF INFORMATION

Accuracy	Must be true and correct and must accurately describe the item or event
Timeliness	Available when it is needed and without excessive delay
Relevance	Pertains to the situation at hand. Information relevant at one time may not be relevant at another if it does not add to the knowledge needed by a decision-maker
Completeness	Provides the user with all the details needed to understand a solution. Complete information (that is, certainly) is rarely available
Frequency	Prepared or presented to users often enough to be up-to-date
Time horizon	Oriented toward past, present or future activities and events
Scope	Broad or narrow in coverage of an area of interest
Origin	May originate from sources within the organization or from external sources
Form of presentation	Tables of numbers or graphic displays of information are the most common written or printed forms. May also include verbal presentation.

CLASSIFICATION OF REPORTS

Reports can be classified by their forms, contents and frequency as follows:



FORMS OF REPORTING

1. **Descriptive reporting:** These types of reports are written out in a descriptive style. They usually do not take the help of tables and graphs. They may include tables and graphs in order to lay emphasis on some of the points discussed. The language used is very important in such reports. It should be simple and correct and may convey the idea of the reporter to the management. The report should have suitable heading and it should be suitably paragraphed. The main report should be summarized, so that its recipient is able to know the exceptional matters, and the recommendation of the report without going into its details.

2. **Tabular reports:** Such reports are presented in the form of comparative statements. This form of reporting is applied in case of periodical reports covering production, costs, sales and finance. These reports

should use same standard form of statements or tables from period to period so that proper comparison may be made between the present and past performance.

3. **Graphic presentation:** It is very important method of presenting information to the management. It is a pictorial and attracts the eye of the recipient more quickly and forcibly. Recently graphs and diagrams have become very popular because they make comparisons of fairly long periods within a short space. This method of presenting information can eff depict production costs, fl in inputs and outputs, position & movement of stocks, variances, components of cost of production.

FREQUENCY OF REPORTING

1. Routine reports

Routine reports are rendered at periodic intervals. The intervals at which routine reports are to be presented should be fixed for each report. Production reports should be rendered at shorter intervals because delayed reporting on production may lead to a continuing loss for a longer period. Thus, an effort should be made to take note of production losses as early as possible so that the corrective measures may be taken to eliminate the losses.

2. Special reports

Special reports are to be presented after thoroughly investigation of the problem which requires to be scrutinized. The following matters may the covered by special reports before presenting them to the management:

1. The effect of idle capacity on the cost of production of different products.
2. Make or buy decision.
3. Whether to replace labour by machines or not.
4. Whether to explore the new market at a selling price which is below the cost of production.
5. Whether to continue the sale of the product at a very low rate during depression.
6. Cost reduction schemes.
7. The most suitable method of raising funds.
8. The most suitable method of investing surplus cash.
9. Whether to purchase on higher fixed assets.
10. Research and development expenditure problems.
11. The effect of labour disputes on production and consequently on the cost of production.
12. The effect of a high rate of labour turnover.
13. Price fixation problems.
14. The effect of providing a particular facilities to workers.
15. Feasibility study for a project.
16. Report on new taxation policy and its effect on company's profits.
17. Report on important development in the industry.
18. Report on general economic forecast.
19. Report on whether to operate a casting system or not.
20. Report on company's financial position and profitability.
21. Report on the effect of a change in the government's policy

LESSON ROUND-UP

- Reports can be defined as means of communication, usually in the written form, of facts which should be brought to the attention of the various levels of management who can use them to take suitable action for proper control.
- In any organization, there are three distinct level of managements- first line managements, middle management and top management.
- Information needs of managers vary according to their managerial levels
- Reports for top-level management are more summarized, less frequent and more in numbers
- Reports for lower level of management are more detailed, more frequent and less in numbers
- A management reporting system is essentially a mechanism for monitoring the 'mission' of an organization in terms of objectives set out in formal plan evolved by the organization.
- Inefficient reporting processes that yield inaccurate and dated information normally cause more harm than good.
- Effective processes uncover material financial misstatements prior to circulating information with investors and other stakeholders, and identify and address problem areas before they elevate to unmanageable organization.
- The components of an effective management reporting programme are discovery, analysis, report creation and delivery, implementation, access point, feedback, in-house IT capabilities.
- A good report will help the management in taking the expected action to improve the performanceof the concern.
- Information can be presented in two forms : Verbal or written
- Some of the important attributes of information are accuracy, timeliness, relevance and completeness
- Reports are classified into three types: Contents, Form, Frequency.
- There are three forms of reporting: Descriptive, Tabular & Graphic Presentation.
- Routine reports are rendered at periodic intervals.
- The intervals at which routine reports are to be presented should be fixed for each report.
- Special reports are to be presented after investigating the problem which requires to be scruitinized.

GLOSSARY

Management Reporting System

It is a mechanism for monitoring the 'mission' of an organization in terms of objectives set out evolved by the organization with a formal planning

Routine reports

Routine reports are reports which are rendered at periodic intervals.

Special reports

Special reports are to be presented after thoroughly investigation of the problem which requires to be scrutinized

TEST YOURSELF

1. What is reporting? What are the essential requisites for a report to make it useful to management?
2. What do you understand by the term "reporting to the management"? Discuss briefly the matter that how you would deal with a matter while reporting to the Board of Directors?