
UNIT 18 REPORTING TO MANAGEMENT

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18.0 OBJECTIVES

After studying this unit, you should be able to :

- understand the report for the specific purpose;
- follow the pattern of reports and apply these to your decisions;
- prepare good reports;
- know the needs of the reports; and
- use the reports for data base.

18.1 INTRODUCTION

The purpose of reporting is to provide the information needed by the concerned party. The value of information is determined by how the information meets the needs of the users. This information creates an atmosphere for internal decision makers. The communication of the information between two or more parties through reports is known as reporting. Report is the essence of the management information system. Report is a statement containing facts and if they contain accounting information and data they are called accounting reports. So, report may be known as process of providing accounting information to those who needs to make decisions. Report may be for the past, present and for the future developments. In this unit you will study about the objectives of reporting, need of reporting at different managerial levels, types and modes of reporting and essentials of a successful reporting.

18.2 CONCEPT OF MANAGEMENT REPORTING

Reporting can be defined as communication of statements with related information between the two parties. The process of providing information to the management is known as management reporting. These reports are provided to the various levels of

management on regular basis to keep the management abreast about the effectiveness of their respective responsibility. Reporting is an important function of the management accountant as the efficient and smooth working of the business depends upon the good reporting. The effectiveness of reporting to management to a large extent depends upon the form and timing of its presentation. The process of reporting to management is concerned with proper selection of financial and operating data, arranging information in a proper form, analysing and interpreting the data and then reporting it to the management through an appropriate method.

18.3 OBJECTIVES OF REPORTING

Main objectives of reporting can be divided under the following heads:

Accounting reports consist of financial statistics. Management cannot analyse all significant facts regarding its business especially in case of large scale production where the business operations are more complex in nature. Accounting reports help to get full information about the its entire operative activity of the firm.

- i) **Providing accounting information:** Accounting reports consist of financial statistics. Management may not analyse all significant facts regarding its business operations especially in case of large scale production where the business operations are more complex in nature. Accounting reports help to get full information about its entire operative activity of the firm. Thus important objective of the reporting is to provide accounting information to operating and top level management in accurate form in understandable brief manner.
- ii) **To take right decision:** To help the management in taking the right decisions with suitable statements provided by the management accountant.
- iii) **Acceptability of the decision by all:** Reporting leads to motivate people, increases efficiency and boosting the morale of the people engaged in the various aspects of the work of the enterprise.
- iv) **Maximizing the profits:** To achieve this ultimate goal of any business reporting at the right time, at right place to the right person in right manner becomes an essential feature.
- v) **For better control:** Abnormal events can be checked in time by obtaining the necessary information in respect of each operating activity. Control through reports become effective as compared to personal investigations.

18.4 REPORTING NEEDS AT DIFFERENT MANAGERIAL LEVELS

Reporting is the lifeline of the organization. It helps in planning and control and works as a media of communication and stimulates corrective action. Accounting system becomes useless, if the business has no system of reporting because all decisions are normally based on reporting system.

Need of reporting differs at different management levels. This also differs to the user community also. There are three levels of management and the reports can be classified according to the needs as follows:

- 1) Top-Level Management Reports
- 2) Middle Level Management Reports
- 3) Lower Level Management Reports

1) Top Management Reports

At this level reports are concerned with the following matters:

- 1 For determining the aims of the enterprise;
- 1 For formulation of policies and plans;
- 1 For delegation of responsibility in successful manner to executives for the best utilization of resources; and
- 1 For formulating special significant plans.

It can be assumed that top brass of the business only needs reports for cost and operational control. The report submitted to the level should be brief or we can call it a summarized statement, which provides an overall view on the subject. Previously these reports used to be submitted within the time framework. The time framework may be monthly, quarterly or yearly. With the use of information technology and the real time accounting, the whole time framework has been changed and now these can be made available online.

Reports to top level management consist of the following:

- a) Reports to the Board of Directors
- b) Reports to the Chief Finance Officer
- c) Reports to the Chief Production officer, and
- d) Reports to the Chief Executive Marketing and Sales .

Let us study these reports in brief.

- a) **Reports to the Board of Directors :** Generally, following reports are to be submitted to the Board of Directors and the Chief Executive Officer (C.E.O.):
 - i) Different budgets,
 - ii) Machine utilization statement
 - iii) Work force utilization statement
 - iv) Cost analysis statement
 - v) Fund flow statement
 - vi) Cash flow statement, and
 - vii) Balance sheet and income statement
- b) **Reports to the Chief Finance Officer :** Following reports are to be submitted to the Chief Finance Officer (C.F.O.) :
 - i) Cash flow statement,
 - ii) Funds flow statement,
 - iii) Abstract of receipts and payments and
 - iv) Report regarding any special problem such as make or buy, replacement of old assets or any other.
- c) **Reports to the Chief Production Officer:** Following reports are to be submitted to the Chief Production Officer (C.P.O.) :
 - i) Cost analysis statement
 - ii) Machine utilization report
 - iii) Work force utilization statement

- iv) Materials statement,
- v) Production statement showing budgeted and actual with variance and
- vi) Overheads cost statement
- d) **Report to the Chief Executive Marketing and Sales :** Following reports are to be submitted to the Chief Executive Marketing and Sales:
 - i) Sales summary
 - ii) Reports on credit collection
 - iii) Reports of orders received and executed and outstanding orders
 - iv) Report on stock of finished goods

2) **Middle Level Management Reports**

The middle level management consists of the heads of various departments. The reports at this level should show the efficiency and cost data relating to different departments. At this level execution of plans formulated by the top management is worked out and all the managers in each department are concerned with this. It is also the function of middle level management to coordinate different activities of different departments. The reports at middle level management consists of the following:

- a) **Report to the General Manager :** The following Reports are to be submitted to the General Manager :
 - i) Administration budget,
 - ii) Cash and capital budget,
 - iii) Salaries statement of staff and
 - iv) Research and development budget
- b) **Report to the Finance Manager :** The reports to be submitted to the Finance Manager are:
 - i) Funds flow statement
 - ii) Cash flow statement
 - iii) Cash and bank reports
 - iv) Debtor's collection period reports
 - v) Average payment period reports
- c) **Reports to the Purchase Manager :** The following reports are to be submitted to the Purchase Manager:
 - i) Stock level of raw material,
 - ii) Use of raw material,
 - iii) Raw material budget and actual purchases, and
 - iv) Budgeted cost and actual cost of purchases
- d) **Reports to the Works Manager :** The reports submitted to the Works Manager are:
 - i) Production cost report
 - ii) Raw material budget and actual consumption
 - iii) Production budget and actual production
 - iv) Idle time report
 - v) Idle capacity report

- e) **Reports to the Sales and Marketing Managers :** The following reports are to be submitted to the Sales and Marketing Manager:
- i) Report of budgeted and actual sales,
 - ii) Report of orders booked and executed,
 - iii) Statement of sales ,
 - iv) Finished goods stock position and
 - v) Position of collections and debtors.

With modernization and adoption of computers in the business house, the reporting period has been reduced tremendously and the data are ready at hand and these can be used to prepare reports instantly. Middle level management is connected on line with the computers within the organization, so preparation of reports has become easy.

3) **Lower Level Management Reports**

At this level foremen and supervisors are concerned at the floor and they prepare their reports physically without any expert opinion. They are concerned with the daily work and they infuse a certain amount of competitive spirit among the workers by comparing the output per man per hour in a similar job. These reports include the following factors:

- i) Workers efficiency report,
- ii) Daily production report,
- iii) Workers utilization report and
- iv) Scrap report
- v) Over-time report
- vi) Material spoilage report
- vii) Accident report etc.

18.5 TYPES OF REPORTS

Reports can be classified in various ways in which the different reports are presented to the management such as :

- 1) Users Reports
- 2) Reports Based on Information
- 3) Reports Based on Nature
- 4) Functional Classification of Reports

Let us study each of them in brief.

1) **Users Reports**

Depending upon users, reports can be classified as follows :

- i) Internal Users Report
- ii) Special Reports
- iii) Routine Reports
- iv) Management Level Reports
- v) External Users Reports

Reports can be prepared according to the users. They can be:

- i) **Internal Users:** Reports, which are prepared for the use of different levels of management and for the use of the employees are known as the reports for internal users. These are not public documents. These reports are aimed to different levels of management.
- ii) **Special Reports:** These reports play a vital part in decision-making. They are prepared for specific reasons. While preparing this type of report the problem under study should be clearly be defined and understood and effect of cost and income should be considered. Comparison of cost of study and estimation of cost and income relating to the problem should also be considered. These reports can be prepared for any of the problems relating to : i) market analysis ii) Make or buy decisions iii) Problems of raw material iv) Technological changes v) labour problems vi) Cost reduction schemes or any other problems as discussed in Unit 18 of this course.
- iii) **Routine Reports:** These are only control reports and they are required only when a control system exists. These are prepared daily as per scheduled time regarding activities. Production operation reports, cost reports, research and development reports, various budget reports, utilization of man, machine and material reports, report regarding customer default, sales and distribution report, administration reports, income statement and balance sheet and cash flow statement are included in this classification.
- iv) **Management Level Reports:** Main classification of these reports have been provided while describing the reporting needs at different management levels at 18.3.3.
- v) **Reports for External Users:** These reports are prepared for the external users who have interest in the enterprise. They are the shareholders, debenture holders, creditors, bankers, other financial institutions, stock exchange and the Government. They may be interested in knowing the financial position, progress made, future-plans and growth of the company. While preparing these reports, the information regarding the interest of all the external users should be taken into consideration. For example, the profit and loss account and balance sheet are prepared every year and these statements are to be filed with the Registrar of Companies and also stock exchange authorities.

2) Reports Based on Information

There are two types of information reports. They are : i) Operating Reports, and ii) Financial Reports.

- i) **Operating Reports:** These reports convey the information regarding the operations of the business at different functional levels. These reports are used to review and control the total production and to improve the inter-departmental efficiency. Operating reports can further be classified as information reports and the control reports.
 - 1 **Information Reports:** The reports prepared for this purpose should be simple and clear in respect of various operating activities. These reports are of three types, viz., trend reports, analytical reports and activity report. In trend reports, comparative information is provided over a period regarding the direction or trend of different activities. Analytical reports are based on the horizontal comparison of results. This provides information in an analytical manner about comparison of different activities for a particular period. When reports are prepared for any particular activity of the business then they are known as activity reports. Segment reports are also information reports.

1) **Control Reports** : These reports are prepared to help the managers in controlling the operations of the business. Various responsibility centers are established in every business to have an effective control. To know the performance of each responsibility center reports are prepared for them. First important aspect regarding the performance of the center manager and the other is concerned with the economic performance of the center towards the goal or the business, are the main features of these reports. These reports can be current control reports or they can be summary control reports. Summary control reports can be master summary control reports or these can be subsidiary summary control reports.

ii) **Financial Reports** : Financial reports differ from control or information reports. They are necessary to know the success or failure of the management's responsibility to shareholders through the accounting. These reports can be of two types *viz.*, dynamic financial reports and static financial reports. Dynamic financial reports show the changes took place during the year in the financial position of the business. These reports include report of financial change, financial control reports and effective use of funds reports. Static financial reports provide the information regarding the position of assets and liabilities. They include balance sheet and certain additional statements for individual items of the balance sheet.

3) **Reports Based on Nature**

There are three types of reports based on nature:

i) **Enterprise Reports** : These are the reports, which give a detailed description of the various operating activities and financial position of the business. They are generally meant for the external users i.e. bankers, financial institutions, shareholders and government authorities. They are generally regular and include annual accounts, directors' reports, auditors report. It is obligatory under Companies Act to furnish these reports.

ii) **Control Reports** : These reports have already been discussed under the head reports based on information.

iii) **Investigative Reports** : These reports are specially prepared only when to investigate a particular problem. These types of reports contain findings and suggestions to solve the problem. These reports are helpful in taking a decision on a particular problem.

4) **Functional Classification of Reports**

These reports are normally for the particular function or for a particular department or for joint activity. They are also of two types:

i) **Individual Activity Report** : Report is prepared for the individual activity of a single department working under the supervision of one executive is known as individual activity report.

ii) **Joint Activity Report** : This report is prepared when joint efforts are made in performing the activity. When the details are necessary then they should be included in appendix. Then the results of all the joint activities are considered under the supervision of the main supervisor.

18.6 MODES OF REPORTING

There are three modes of reporting:, 1) Written 2) Graphic, and 3) Oral. These reports are further divided as follows :

Modes of Reporting

Written	Graphic	Oral
1. Financial Statements	1. Charts	1. Group meetings
2. Tabulated Information Conferences and Individual Talks	2. Diagram and Pictures 3. Graphs	2. Conferences and Individual talks
3. Accounting Ratios		

- 1) **Written Reports :** Written reports are prepared in the different forms to provide information. These are as follows:
- 1 **Financial Statements:** These statements provide the information regarding the data of actual performance with budgeted figures and comparative statements containing information over a period.
 - 1 **Tabulated Information:** Information related with expenditure, production, sales and distribution is furnished in the form of tables so that the data can easily be analyzed.
 - 1 **Accounting Ratios:** Accounting ratios play a vital role for the interpretation of accounting and financial statements. Different liquidity ratios, profitability ratios, efficiency ratios and capital structure ratios may be used for this purpose
- 2) **Graphic Reporting:** Graphic reporting is very common in these days to present information to the management. These reports can be submitted in the form of graphs, diagram, pictures and charts. They are prepared when quick action is needed.

The common charts and diagrams usually included in a report are :

- i) **Line Graphs :** To show, for example, cumulative actual sales against budget and/or against previous year's actuals;
 - ii) **Bar Charts :** Generally used for showing comparison of month-wise sales and expenses – budgeted and actuals;
 - iii) **Pie Charts :** Commonly used to show in a circular diagram the distribution of the total sales revenue among costs, profits as also the total costs among the different constituent elements.
- 3) **Oral Reporting :** Oral reporting may take place in the form of (1) Group meeting, (2) Conferences, and (3) Individual talks. These oral meetings cannot be part of important decisions, but they furnish a common platform to discuss the problems genuinely. For decision- making the written reports have a upper hand over all types of reports.

18.7 ESSENTIALS OF SUCCESSFUL REPORTING (GUIDING PRINCIPLES)

Business report is a media of communication that contains factual, correct and clear information and it should be able to add to the knowledge of the recipient. It should be easy to understand the problem of the event reported to him. Accounting reports become ideal if they follow the following guidelines:

- 1) **Content and the shape :** While making a draft of the report the following heads should be kept in mind:
 - 1.1 **Suitable title :** Title should be short and suitable to the content.
 - 1.2 **Time :** It should give time and the person for whom it is prepared.
 - 1.3 **Facts :** Report should contain facts and not the opinions.
 - 1.4 **Totals :** Where statistics are required, only relevant data should be provided and details may be given in appendix.
 - 1.5 **Objectives :** Contents should serve the purpose for which it is prepared.
 - 1.6 **Synchronize :** The contents should be in logical sequence.
- 2) **Precise :** Report should not be lengthy. It should be precise, specific and concise. It should not contain irrelevant matter. If details are necessary then they should be included in appendix.
- 3) **Accuracy :** The information provided in the reports should be accurate.
- 4) **Comparable :** It should be prepared in such a manner that comparison with past and predetermined standards can be made.
- 5) **Simple :** Report should be simple and should not contain any ambiguity.
- 6) **Timeliness :** Reports should be prepared and presented in time, so that decisions can be taken promptly and further deviations checked.
- 7) **Consistency :** For comparison consistency is necessary. Uniform system of collection, classification and presentation of the information should be followed.
- 8) **Attractiveness :** The report should be eye-catching in the sense that it does not go unheeded by the users.
- 9) **Jargon :** All technical jargon should be avoided as far as possible since the reader may not understand these and, therefore, may become hostile to even the spirit of the report.
- 10) **Highlighting Deviations :** Report should highlight the variations and trouble spots which are significant to the organisation.
- 11) **Assumptions :** Assumptions used in the preparation of reports should be stated neatly, precisely and separately.
- 12) **Effective Communication :** Report that communicates effectively to all levels of management stimulates action and influence decisions. Detailed planning, codification and timely processing of data are the essential requisites for effective reporting.
- 13) **Figures and data :** These should be presented in a tabular form preferably in annexure at the end of the report.

Check Your Progress

- 1) Define reporting to management.

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2) Explain any two objectives of reporting.

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3) What is control report?

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4) What are the types of reports, which are required by the middle level of management? Name any five.

1. 3 5
2. 4

5) What are the different modes of reporting?

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18.8 LET US SUM UP

One should be very clear about the objective of the report before preparing it. He should be able to clearly define and understand the problem for which the report is going to be presented. Needs of report differs at different management levels. So this should be decided that which level of management will use the particular report. Mode of reporting is also important regarding the presentation. Report will be a users report or information report or any other type of report. Certain guiding principles such as brief, sequencing, consistency, comparability, timeliness, accuracy, attractiveness, simplicity, shape and contents are very important and these should be taken into mind while preparing a report.

18.9 KEY WORDS

Static Financial Report : Providing information about the position of assets and liabilities of the concern.

Graphic Reports : Information supplied in the form of Charts, Diagrams, Pictures etc.

Reporting : Providing information to the person concerned.

Dynamic Financial Report : The information regarding the change that took place in the position of assets and liabilities of a firm

Operating Reports : Information regarding the operating of a business at different functional levels

Accuracy: correct, right

Consistency: Uniformity

Synchronize: Clear sequence

18.10 ANSWERS TO CHECK YOUR PROGRESS

- 4) Names of five reports:
 1. Administrative Budget
 2. Funds Flow Statement
 3. Cash Flow Statement
 4. Stock Level of Raw Material
 5. Production Cost Report
- 5) Modes of Reporting:
 1. Written: Financial Statements
Tabulated Information
Accounting Ratios
 2. Graphic: Charts
Diagram and Pictures
Graphs
 3. Oral: Group Meetings
Conferences and Individual Talks

18.11 TERMINAL QUESTIONS

- 1) What do you mean by accounting reports? What are the different types of reports for internal use? Discuss each of them.
- 2) What are the special reports? What matters may be covered by the special reports?
- 3) Describe the reporting needs of different levels of management and how a system of reporting can satisfy it?
- 4) What are the essentials of a good report? Describe.
- 5) Explain the different types of the reports that are used in an enterprise
- 6) “Accounting Reports are a matter of necessity for the management and not a matter of convenience” Discuss.

<p>Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.</p>
