

CHAPTER 31

Reporting to Management

Introduction

The success or otherwise of any business undertaking depends primarily on earning revenue that would generate sufficient resources for sound growth. To achieve this objective, the management should discharge its functions efficiently and effectively. The reporting systems are highly useful to the management for effective planning and control. A regular system of reporting is considered as a better guidance for prompt decision making. Hence, it is necessary to have a good management reporting system.

DEFINITION OF MANAGEMENT REPORTING

According to Kohler reporting refers to “A body of information organized for presentation or transmission to others. It often includes interpretations, recommendations and findings with supporting evidence in the form of other reports.”

‘Management Reporting’ may be defined as “A system of communication, normally in the written form, of facts which should be brought to the attention of various levels of management who use them to take suitable action.” In other words the process of providing information to the management is known as Management Reporting. The word “Information” refers to the data processed or evaluated for a specific purpose.

Dr. Maheshwari has also defined Management reporting system as “an organized method of providing each manager with all the data and only those data which he needs for his decisions, when he needs them and in a form which aids his understanding and stimulates his action.”

Objectives of Management Reporting

- (1) To obtain the required information relating to the business to discharge its managerial functions of planning, organizing, controlling, directing, and decision making etc. efficiently and effectively.
- (2) To ensure the operational efficiency of the concern.
- (3) To facilitate the maximum utilization of resources.

- (4) To secure industrial understanding among people who are engaged in various aspects of work of enterprise.
- (5) To enable to motivating improving discipline and morale.
- (6) To help the management for effective decision making.

Essentials of Good Reporting System

The following are the essentials of a good management reporting system :

(1) Proper Form : A good report should have a comprehensive form with suggestive title, heading, sub heading and number of paragraphs as and where necessary for easy and quick reference.

(2) Contents : Simplicity is one of the requisites of reporting in relation to the contents of a report. Further the contents should follow a logical sequence. Wherever necessary the contents should be represented in the form of visual aids such as charts and diagrams etc.

(3) Promptness : It means that the system should ensure the preparation and submission of report at the proper time. It facilitates business executives to make suitable decisions based on quick reports without delay.

(4) Accuracy : Information conveyed should be accurate. This means that the person responsible for reporting should have sufficient care in preparing the report as correctly as possible within the parameters of possible accuracy in this regard.

(5) Comparability : In order to ensure that the furnished information is useful, it is essential that reports are also meant for comparison. The report should provide information about both the actual and the budgeted performance of the budget period. So that meaningful comparison can be made to find out the deviations and to initiate appropriate action.

(6) Consistency : In order to make a meaningful and useful comparison, uniform accounting principles and procedures should be followed on consistent basis over a period of time for collection, classification and presentation of accounting information.

(7) Relevancy : The report should be presented with relevant data to disclose the fact in unambiguous terms. Because, inclusion of both the relevant and the irrelevant data in the management reports may result in faulty decisions. Therefore, the contents expressed therein should reveal the reporter's greater consciousness of expression with reference to length and time in particular.

(8) Simplicity : The report should be as far as possible in simple form. In other words, the report should avoid technical jargons, duplication of work and presented in a simple style.

(9) Flexibility : The system should be capable of being adjusted according to the requirement of the users.

(10) Cost-Benefit Analysis : Cost-Benefit Analysis should be made and the cost of reporting should commensurate with the expenditure involved.

(11) Principle of Exception : Since the time and effort of managerial personel are precious, the principle of management by exception has become the rule of the day instead of exception. It is necessary therefore to draw the attention of management, through reports, only towards exceptional matters.

(12) Controllability : It is necessary that every report should be addressed to a responsibility centre and analysed the factors into controllable and uncontrollable separately. So that the head of the responsibility centre can be held responsible only for controllable variance but not for variances which are beyond his control.

Further, in order to assist the management to imitate remedial measures, probable reasons for the factors of uncontrollable should also be incorporated in the reports.

Classification of Management Reporting

Basically, there are two ways to report to the management. They are (1) Oral Report and (2) Written Report. The Written Reports may be classified into number of ways. The following are the important types:

I. According to Objects:

- (A) External Reports
- (B) Internal Reports
 - (1) Reports Meant for Top Management
 - (2) Reports Meant for Middle Level Management
 - (3) Reports Meant for Junior Level Management

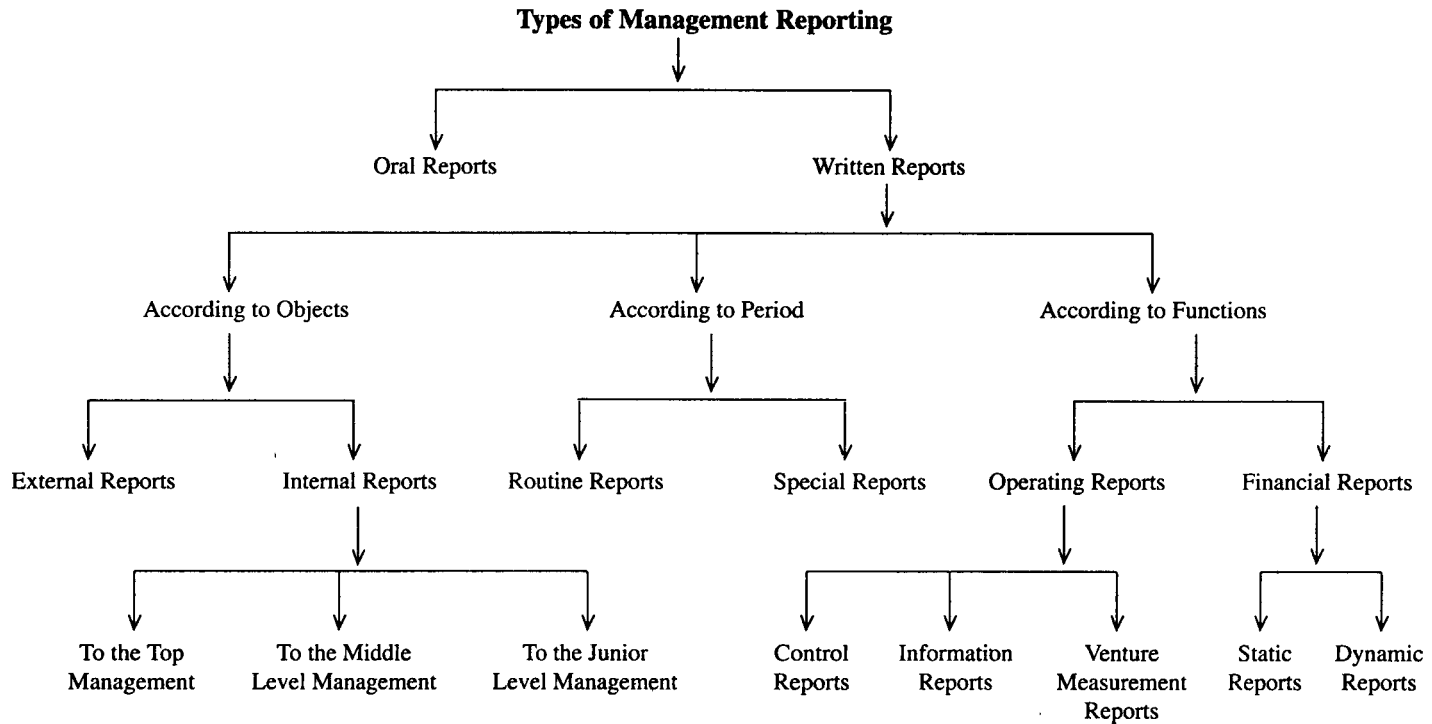
II. According to Period:

- (1) Routine Reports
- (2) Special Reports

III. According to Functions:

- (A) Operating Reports
 - (1) Control Reports
 - (2) Information Reports
 - (3) Venture Measurement Reports
- (B) Financial Reports
 - (1) Static Reports
 - (2) Dynamic Reports

The following chart explains this more about the types of reporting :



According to Object or Purposes

(A) External Reports : These reports prepared for persons outside the business such as Government, shareholders, bankers, investors and financial institutions etc. External Reports usually represent published annual reports. Annual Reports of Trading, Profit and Loss Accounts and Balance Sheet of the Indian Companies are to be prepared in terms of Schedule VI of the Indian Companies Act of 1956.

(B) Internal Reports : Internal Reports are those which are prepared for internal uses of different level of management. It is also called as Management Reports. These reports are not meant for disclosure to those who are outsiders to the business. They do not have to comply with any statutory requirements. From the managerial point of view the reports can be classified into the following categories :

- (1) Report Meant for the Top Level of Management
- (2) Report Meant for the Middle Level of Management
- (3) Report Meant for the Junior Level of Management

(1) Report Meant for the Top Level of Management

Top Level Management is concerned with the formulating policies planning and setting goals and objectives. This level of management consisting of the Board of Directors including Chairman, Managing Directors, General Manager or any other chief executive as the case may be. The report to this level of management should be specifically summarized with all aspects of operating performance together with a comparison of actuals with budgeted performance. The usual reports sent to this level of management are:

- (a) Reports on budgeted and actual profit
- (b) Reports on sales and production
- (c) Capital budget
- (d) Master budget
- (e) Periodical financial reports
- (f) Plant utilization report
- (g) Machine and labour utilization report
- (h) Reports on research and development activities
- (i) Project evaluation report
- (j) Report on stock of raw materials, work in progress and finished goods
- (k) Overhead cost absorption and efficiency reports
- (l) Reports on selling and distribution overhead.

(2) Reports Meant for Middle Level Management

The Middle Management is constituted of the heads of all departments such as production department headed by production manager, marketing department headed by marketing manager and so on. This level of management is concerned with the functioning and control of their departments. They act mainly as co-ordinating executives to administer policies directly through operating supervisors and evaluate their performance. Hence, they may require more detailed information about their departments and at frequent intervals. Generally, the middle level management should receive the following reports at different intervals:

(a) Purchase Manager:

- (1) Reports on material price and usage variance
- (2) Reports on material carrying cost, loss of material in the storage etc.
- (3) Reports on trends in the pertaining of various items of materials.

(b) Materials Manager:

- (1) Reports on stock of raw materials, work in progress and finished goods
- (2) Reports on material wastage and losses
- (3) Reports on stock of materials planning and control
- (4) Reports on level of materials stock at the stores
- (5) Reports on surplus and deficiency report.

(c) Production Manager:

- (1) Reports on budgeted and actual production
- (2) Reports on overtime work and ideal time
- (3) Reports on labour utilization statement
- (4) Reports on machine utilization statement
- (5) Reports on scrap production cost
- (6) Reports on any accident causing dislocation of activity.

(d) Sales Manager:

- (1) Reports on budgeted and actual sales
- (2) Reports on sales efficiency
- (3) Reports on orders received and orders executed
- (4) Reports on cash sales and credit sales
- (5) Reports on stock of finished goods
- (6) Reports on market share and market potential
- (7) Reports on sales promotion efficiency.

(3) Reports Meant for Junior Level Management

The lower level management is directly responsible for executing various policies assigned by top management. This level of management is constituted of Foremen, Supervisors and sectional in charges etc. They are in touch with the day-to-day performance of their section. The report meant for this level are mainly in terms of physical units. The usual reports sent to this level are :

- (1) Reports on labour efficiency variance
- (2) Reports on ideal time, overtime and machine utilization
- (3) Reports on materials usage variance
- (4) Reports on credit collections and outstanding