

Interpreting Financial Insights In Your Business's Management Reports

5 min read



Key Takeaways

- Knowing your numbers means transforming your raw financial data into action with data-based decision making and business strategy.
- To save time and money, it's best to identify and track only the KPIs that will be most useful to you in your specific industry and business.
- To get numbers you can trust and reports you can rely on, it's essential to define a clear, centralized system for data collection and accounting.

The hardest lesson for any business owner – if you don't know your numbers, then you don't know your business.

But what does "knowing your numbers" *really* mean?

Knowing your numbers is more complicated than simply glancing at an income statement or balance sheet once a month, or having a cash flow or profit and loss statement on your desk; it means having accurate KPIs and management reports that help you make decisions; Actionable, meaningful reports.

Knowing your numbers means transforming your raw financial data into action with data-based decision making and business strategy.

It starts with having an accounting system that's set up to accurately track and allocate all of your important data and expenses – a back office that pairs technology and the expert interpretation of those key insights.

So, how should a business leader be more focused on the financial insights in their [management reports](#)?

Know the Difference Between Financial Reports and Management Reports

Understanding the [difference between financial reports and management reports](#) is key to building an accounting system that serves your needs as a business owner.

Financial Reports

Financial reports must follow the Generally Accepted Accounting Principles (GAAP) and are generated on a weekly, monthly, quarterly, and/or annual basis and include your:

- Profit and loss statements
- Balance sheets
- Statements of cash flow
- Accounts receivable
- Accounts payable

This list includes all the most basic financial reporting required of your business to maintain external compliance with banks, stakeholders, and regulatory entities.

While you can glean some useful information from financial reports, you'll find they have substantial gaps in information and do little to help you make data-driven decisions to lead your business to success.

Management Reports

Management reports step in where financial reports leave off. They include reports like:

- Profit and loss statements by class (job, service, project, department, employee, customer, etc.)
- Budget estimates vs. actuals
- Job estimates vs. actuals

Rather than satisfying external regulations and adhering to the rules of the GAAP, management reports are designed solely for internal use. Instead of completing these reports with information to satisfy compliance rules, management reports include real-time information on just about every segment of your company.

When you know how to interpret them properly, management reports will help you answer some of your most important business questions, such as:

- How do I increase productivity?
- Where should I focus my time?
- Are my jobs priced optimally?
- How successful is our marketing strategy?
- Which clients are the most or least profitable?
- Which job types generate the best profit margins?
- Did we bring in more this quarter than last quarter?
- How effective is my employee incentive program?
- Do I have enough cash to cover payroll?
- Can I afford to hire another employee?
- Which members of my staff are most or least productive?
- What are my company's true profit drivers?

With a complete set of management reports, you can measure and track almost every key performance indicator (KPI) you can imagine. To save time and money, it's best to identify

and track only the KPIs that will be most useful to you in your specific industry and business.

Why Are Business Leaders Hesitant to Use Management Reporting?

It's not uncommon for business leaders to experience [some challenges](#) with generating and using management reports.

These are the most common challenges to successful management reporting that we've seen:

1. You Don't Know How to Get Management Reports

Putting together a set of monthly management reports can be a monumental task if your accounting systems aren't set up for it. Your employees' time and the money you pay them are precious resources. Without efficient accounting systems, know-how, and technology tools, you'll likely find that generating management reports simply requires too much time, internal training, and effort. As a result, your accounting department will be overwhelmed and you won't receive your reports on time.

What You Can Do to Get Management Reports for Your Business:

We recommend that business leaders take steps to streamline data collection by implementing efficient, technologically savvy systems. [Outsourcing your management reporting](#) to a management accounting service provider can also be immensely helpful and much more cost-effective than choosing to generate them in-house.

An expert can help you establish reliable systems that automate your management reporting function, so you always have your reports when you need them most.

2. You Don't Trust Your Numbers

Reliability, accuracy, and availability of data are all essential to management reporting. All sorts of missteps contribute to creating reports that are inaccurate, unreliable, and late. Issues like inaccurate and inconsistent data collection procedures can leave room for human errors such as typos or inverting figures.

Additionally, housing data separately in various departments can result in duplicate entries or entire silos of data that are unaccounted for, leading to inaccurately weighted data.

How to Get Numbers You Know You Can Trust:

To get numbers you can trust and reports you can rely on, it's essential to define a clear, [centralized system](#) for data collection and accounting. To improve accuracy and consistency, you must also implement efficient tools for data entry, expense tracking, and time tracking across your company.

Policies should outline how to carry out the process and specify exactly who is responsible for reporting what.

3. You Don't Understand the Reports

When you're new to management reporting, you likely won't know how to interpret the numbers you receive or know how to read each report that hits your desk.

When you're new to management reporting, it's also not unusual to be confused about which reports and KPIs matter the most to your industry and your business model. Additionally, you might not understand clearly how to act on the information at hand to steer your business in the direction of short and long-term goals.

Learn How to Interpret Your Management Reports:

When you've first established management reporting protocols for your company or even if you've been using them for a while, but decide to take your business in a different direction, we recommend consulting a professional management accounting provider who can walk you through the basics (and the particulars) and help you understand the numbers and trends revealed within your set of management reports.

A management accountant can help you decipher the data so that you understand the meaning behind your KPI trends.

Professional Management Reporting Guidance

Successfully using [management reporting](#) in your business can be a challenging endeavor to undertake on your own, but with professional to set you up for success, you can:

- Fix problems in your systems and processes to establish accurate and consistent systems for reporting.
- Determine which reports and KPIs you need to measure and track based on your goals generate reports in a timely manner
- Understand and control the true drivers working within your business.

With a professional's assistance, **you can bridge the gap between the raw data and understanding what it all means.** When you actually know your business's numbers,

you'll be able to interpret your management reports at a glance, and finally, start making confident data-driven decisions to lead your business in the direction of success.

We'll talk with you about your business strategy and help you understand how to interpret the data in your management reports to make the right decisions to achieve your goals.



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