

JEFF SMITH

**Management
Accounts
Made Easy**

*The ultimate guide to understanding the
financial information of the Motor Industry*

YOURS TO HAVE AND TO HOLD BUT NOT TO COPY

**Warning; photocopying this book will
seriously damage your wealth.**

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Published by:
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Dedicated to my three girls.
Sharon, Sophie and Lara

I love you more than anything.
(and you can't beat that!)
(and you can't say the same!)

...and to Max, you're growing on me

About The Author



Jeff Smith is regarded by many as one of the world's top business improvement strategists. He's particularly well known for his ability to explain and convey complex information into jargon-busting, plain English that everyone understands.

As well as being one of the Motor Industry's top Trainers and Consultants, in 1999 he became a founder member of the Professional Speakers Association of Europe, he's appeared many times as a Motor Industry expert on Sky Television and he's also the author of the #1 best-seller, *The KPI Book*, the ultimate guide to understanding the key performance indicators of your business.

Jeff's career spans more than 25 years within the Motor Industry. He began his career in the Sales Department, progressed through to become Dealer Principal and then to Divisional Director within a retail motor group. He is proud to say that it was within these positions that he was able to develop his skills in Sales, Aftersales and Business Management.

He continued his career by becoming a Consultant to the Motor Industry and during this time he's worked with many car, truck, bike and paint manufacturers around the world helping them to develop their profit improvement programmes within Sales, Service, Parts, Bodyshop and Business Management. You can contact Jeff directly at jeffsmith@askinsight.com

Acknowledgments

When I first had the notion to write this book, I really wasn't sure whether it would be a viable proposition or not. To test the waters, I collated my thoughts and asked a few people if they thought the book would contribute any real value to the Motor Industry. The responses I received are responsible for putting this book in your hands.

Whilst writing, I've worked with all manner of businesses including small independent Bodyshops with cash flow problems to large franchised dealerships, new vehicle manufacturers with world-wide franchised dealer networks, huge companies in the Middle East, Scandinavia and Europe and the largest PLC's in the Motor Industry. From the largest companies in the world to the smallest, they all have one thing in common... they all use Management Accounts.

Unfortunately, this is where the problems begin because different people have different opinions about how Management Accounts should be structured and the industry has ended up with a myriad of different expressions and a multitude of confusing terminology.

My aim in writing this book is to cut through all of this confusion and incompatibility to bring together a central point of reference that suits the specific requirements of the Motor Industry. I've looked at Management Accounts with the *sole purpose* of structuring them so that it is possible to understand what is happening at an operational level within

Sales, Service Parts and Bodyshop. If Management Accounts do not provide this vision, they are rendered worthless to the Managers who need to interpret them in order to grow their businesses.

With this principle as my guiding light, I've not been concerned with which accounting structures are "right or wrong" but rather which accounting structures are the most *useful* for the Managers of the Motor Industry to derive commercial gain in the workplace.

During my many years of working as a Consultant with thousands of people, I've captured all of the best accounting practices and put them in this book for you. The terminologies, systems and processes are universal, they have always existed and I do not take credit for any them. All I have done is to collate the information, put it in one place and attempted to put it in a way that is most useful to understand operational performance.

I feel incredibly privileged that so many people have opened the doors of their companies, welcomed me in with open arms and provided so much confidential information so that this book contains all of the terminology that exists in the different manufacturers' vocabularies throughout the Motor Industry. Once again, I've been fortunate enough to have been able to stand on the shoulders of giants.

There are many people, who over the past 25 years, have contributed greatly to my knowledge, sadly far too many to mention in this text, but you know who you are and I thank you for your generosity, support and patience.

On a personal note, this book was written during a difficult time in my family life and there are a few people I wish to thank who have provided me with the necessary motivation and inspiration to carry on writing. Some of these people will have no idea how much help and support they have given me at a time when I needed it most. The sincere kindness and thoughts that have been communicated in the occasional email and telephone call to see how things are going, business lunches that were arranged as a ruse to lift my spirits, the sincere handshakes with that little extra squeeze that conveyed much more than a simple hello or goodbye and the beautiful flowers that have been sent to my wife, all of these gestures have touched me deeply.

My sincere thanks go to Paul Maryan, Paul Stroud, Khalid Shaa'ban, Frank Lord, Wayne Edwards, Mark Burrows and Nick Tame. Whether you realise it or not, you have all had a part to play in the creation of this book.

Thank you.

My special thanks and eternal gratitude go to my gorgeous wife, Sharon and my two beautiful daughters, Sophie and Lara. In the final stages of writing this book, I've been stressed out, moody, unbearable to live with and you have paid the price of my solitude. Thank you for your unerring support, I love you more than anything.

How To Use This Book

This book is written for Managers and Accountants with different levels of knowledge and experience. Its aim is to achieve a meeting of minds to create a uniformed approach to the reporting of financial information within the Motor Industry. It's perfectly suited for the small independent business owner with a single workshop or used vehicle operation, right up to a major franchise with a fully fledged dealer network consisting of major groups and public limited companies.

It draws upon information gleaned from best practices across the globe ranging from the market extremes of the Middle East to Scandinavia and everywhere in between. In some sections, it provides clear guidance for Accountants so that the Management Accounts are structured to properly reflect operational performance in the workplace. In other sections it provides Managers with clear insight how to interpret Management Accounts correctly so that performance gains can be identified and delivered.

Beginning from the ground floor and working up, it travels all the way through the Management Accounts of the Motor Industry so that you can use the book to read all the way through as you might do with a novel, or you can simply use it as a reference guide at a time when you need a fast answer.

However, it is recommended that any people who are new to Management Accounts should read this book right from the beginning so that the foundations are firmly in place.

PART 1

THE PRINCIPLES OF MANAGEMENT ACCOUNTS

This section is written for the new and aspiring departmental Manager who requires an introduction to Management Accounts and how to interpret them. It covers the different terminology that's in use for profit and expenses including the terms Variable, Semi-Fixed, Direct, Indirect, Overheads, Direct Profit, Net Profit Before Interest and Net Profit. There's also chapter on how to interpret Management Accounts and an introduction to a manufacturers Composite.

PART 2

UNDERSTANDING THE DEPARTMENTS

This section bridges the gap between financial awareness and commercial awareness by providing guidance for Accountants to code the Nominal Ledger with clear and objective reasoning so that operational performance is highly visible. It also provides guidance for Managers to interpret each of the departments including Sales, Service, Parts and the Bodyshop.

PART 3

UNDERSTANDING THE BALANCE SHEET

Essential reading for everyone who owns this book. It's written as an introduction to the Balance Sheet and explains Working Capital and how much is required to run your business. It also explains how to fund a company correctly so that it does not go bust in turbulent times.

*“If you have a great idea,
but you can’t explain it to others,
you can’t make a positive change in the workplace.*

Clarity is Power.”

- Jeff Smith

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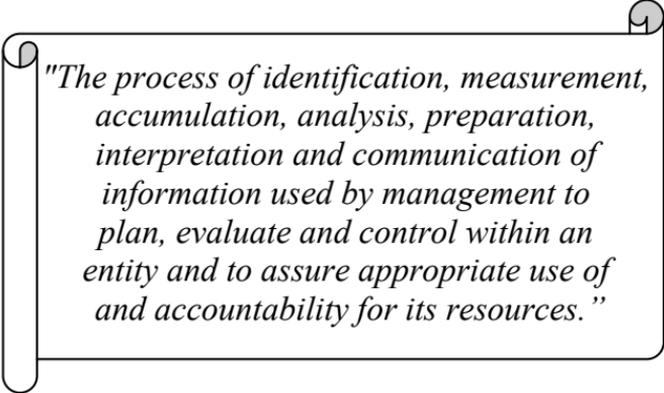
INTRODUCTION

*“We cannot solve our problems with the same
thinking we used when we created them.”*

- Albert Einstein

INTRODUCTION

According to the Chartered Institute of Management Accountants (CIMA), Management Accounting is defined as:



"The process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control within an entity and to assure appropriate use of and accountability for its resources."

Now let's talk in plain English to understand what this means for the people of the Motor Industry.

The retail Motor Industry produces Management Accounts that are intricately detailed and extremely comprehensive in their final form. It's fair to say that the management information produced by the Motor Industry is, in many cases, far superior to many other industries.

This advantage has not happened by accident, it's happened by design because it's becoming more and more critical to measure the numerous activities that are conducted in a modern-day business, purely for means of survival. The good old days of high profitability and an abundance of cash flow have long since gone. The funding requirements within the Motor Industry are colossal and it is therefore vital to maximise the use of those funds to ensure that the

business is operated with optimum efficiency so that it is able to grow and develop in forthcoming years. To do this, the whole management team must be fully conversant with Management Accounts and in total control of their business.

Management Accounts illustrate business direction, skills, ability and results, but the problem is that they can appear to be over complicated, daunting and downright confusing to anyone just starting out in a management position. To add to the confusion of the new Manager, different Accountants have different ways of doing things and Management Accounts in the Motor Industry produce a variety of different results. Different words and phrases are used with jargon and terminology that sounds like a foreign language, which makes the journey of understanding, a difficult and turbulent experience.

One of the problems creating this confusion is that the Motor Industry is unique in its approach to management development; there's rarely any career development *prior* to doing a new job. All too often, people are promoted into management positions without being given the necessary training to do the new job and they are left to their own devices.

Experience and success is to be gained by experimenting with trial and error mechanisms or from getting advice from the previous boss who learned the trade in exactly the same way. As a business strategy, it's really quite bizarre when you think about the huge responsibilities in business, staff welfare and the money that's involved in stocks and company resources.

Climbing The Corporate Ladder

The route to becoming a Dealer Principal in a franchised dealership and being at the helm of a business that produces multi-millions in revenues can be rapid and what's frightening is that it can be achieved without possessing an adequate amount of business acumen. This is not to decry the achievements of any Dealer Principals or any other Managers for that matter; it's simply a fact that exists within the culture of the modern-day franchised dealership. There are exceptions to every rule of course, but let's consider the generally accepted route to success in a franchised dealership.

It's true to say that a very high percentage of Dealer Principals in the Motor Industry began their career as a Sales Person. It's highly likely that they possessed good rapport skills, plenty of charisma and therefore sold a lot of cars, bikes, trucks or Power Equipment. All too often, the best Salesperson gets promoted to be the Sales Manager; not always a good decision.

Now in their first management position, the new Sales Manager knows how to value part-exchanges, sell vehicles, fill in order forms and produce invoices, but the problem is that no one has taught them anything about Sales Management yet and they're right in at the deep end; "sink or swim" are usually the words given in their induction to the new role.

The new Sales Manager is given a set of Management Accounts and panic sets in. After a while, some of the information can be deciphered, but the rest is a mystery so the Management Accounts are placed in the desk drawer, out of sight, out of mind.

The Sales Manager continues to motivate the Sales Team because they have targets to achieve and the job is all about making profit, keeping stocks looking good and to keep the manufacturer happy. The Sales Manager believes that it is this activity that gets measured and the figures in the Management Accounts are for the Accountant to study.

Occasionally, the Sales Manager retrieves the Management Accounts from the desk drawer to take another look, but the confusion is still in abundance so after plucking up the courage, a trip to the Accounts Team is in order to ask a few questions.

The Sales Manager asks a question and the answer is given by a member of the Accounts Team, but nothing computes. The Sales Manager's eyes glaze over, brains turn to mush because the explanation given is full of alien words which mean absolutely nothing whatsoever. The Sales Manager stands there for a moment, pondering in a state of even deeper confusion and then leaves the Accounts office with feelings of either incompetence or antagonism.

However, determination and the desire to succeed kicks into overdrive and the Sales Manager gets on with the task of selling more vehicles and hitting target. After a couple of years, despite the lack of any in-depth understanding of Management Accounts, credibility in the role is established as a consistent high performer and the manufacturer is in favour, so what happens next? The Sales Manager gets promoted to the role of Dealer Principal.

This is where the really serious fun begins because now the newly promoted Dealer Principal is given a full set of Management Accounts every month which not only has the Sales Department figures that are just about beginning to be understood, but they also contain the figures for the Service Department, Parts Department, Bodyshop, a full page of Company Overheads and a thing on the back called a Balance Sheet. Then to make matters worse, the manufacturer sends a copy of the franchise Composite, which is a set of statistics that looks even more complicated than the dealer Management Accounts.

The new Dealer Principal realises that there's a long way to go on this journey of understanding financial information. Discussions with the Accounts Team are more frequent and confidence ebbs and flows as feelings of confidence and frustration are often experienced. To make life easier, the Dealer Principal decides to keep the franchise Composite in its plastic envelope and places in the bottom drawer of the desk, where it lies in wait, undisturbed and undiscovered.

If the new Dealer Principal survives the next few years, the experience gathered in the job role provides an insight into the financial world and comprehension begins to slowly creep in. Relationships between the numbers, statistics and key performance indicators are realised and the Dealer Principal gains full control of the business. The problem is that the process is very slow and this evolutionary journey of financial discovery for the Dealer Principal has taken many years to gain mastery; it's been long, arduous and unnecessarily difficult. When well-established Dealer

Principals reach the peak of their career, they must all look back and think, “*There must be a better way?*”

Although the story has explained the route beginning from the Sales Department, the journey that commences from Aftersales is just as difficult and torturous: Apprentice to Technician to Foreman to Service Manager and then to Dealer Principal with exactly the same agony along the way.

Viewed from the outside looking in, career progression in a dealership would make a great script for a comedy film if it were not so serious. However, this lack of career development and proper planning has caused another problem which can only be described as “inconsistency”.

There are some very good and highly talented Dealer Principals and there are other Dealer Principals that are still evolving who are yet to complete their journey of financial discovery. However, both are teaching their Departmental Managers what they know. This fact dictates that there are some very good and highly talented Department Managers, whilst there are other Department Managers who are being taught by Dealer Principals who do not yet possess mastery of all financial matters.

Sadly, things do not end there because not every Dealer Principal is promoted from being a Department Manager. Now it’s time to look at the career path of the person at the other end of the financial spectrum and consider the difficult plight of the Accountant.

Once again there are some very good and highly talented Accountants who really do understand the specifics and uniqueness of the Motor Industry and there are others who are affectionately called “Book Keepers”. This is not to say that one is any better than another, it simply illustrates that here we have another opportunity for even more “inconsistency” with the reporting of financial information.

Again we’re dealing with generalisations here and there are exceptions to every rule, but a question often asked by departmental Managers is, “Why does the Accountant always make it so difficult for me to understand the accounts?”

Well, contrary to popular belief, the Accountant does not try to confuse a Manager deliberately. When consideration is given to the education process of an Accountant, it’s possible to understand why there are so many difficulties with communication between Accountants and Managers, let’s take a closer look.

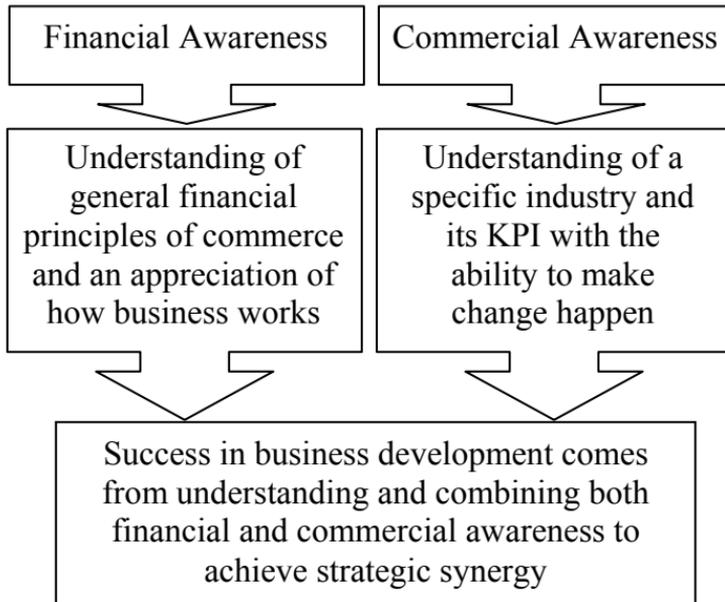
Accountants receive years of training and education to be an Accountant *before* they are promoted into the position. They are fully immersed into a world of double-entry book keeping, auditing, general business principles and taxation. Right from the beginning of their career, they are trained to be an Accountant. It’s important to understand that they are not trained to run a dealership or to be a Sales Manager, Service Manager or Dealer Principal. Accountants are trained in international business standards and *general* business applications; *specific* industry knowledge for all Accountants comes much later and only with years of experience within an industry. In reality, it’s just as

difficult for an Accountant to get a grasp of what is going on at an “operational level” in a dealership as it is for any new Department Manager; again, the evolutionary journey of discovery can take many years to reach fruition.

It’s really not surprising that there is a breakdown in communications when Managers converse with Accountants on the subject of Management Accounts because the focus of conversation is centred in different places. For instance, when a Manager asks the Accountant a question about Management Accounts, the Manager is probably asking how this collection of numbers and statistics relate to the operational performance of the department, but the answer that’s given by the Accountant is probably focussed on the principles of general accounting practices and how the numbers get to be on each line of the accounts; the two subjects are completely different and hence, more confusion is unwittingly created.

The only solution to this problem is for the Manager and the Accountant to have a high degree of both financial and commercial awareness so that they can share the *right* knowledge and work in synergy with each other. When a team of people talk the same language, share the right knowledge and share a desire for improvement, success is inevitable.

If these two people, who have travelled completely different career paths, converge at a single point in an attempt to communicate, the question must be asked, “What then is the difference between financial awareness and commercial awareness?”

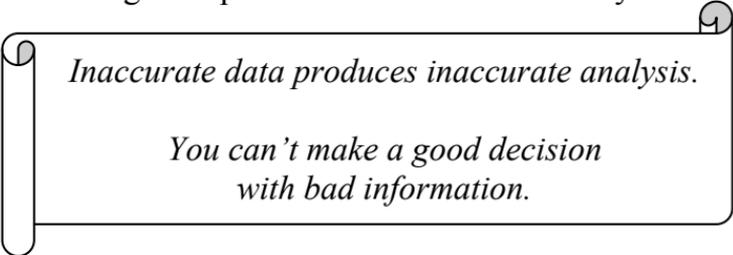


There are Managers in the Motor Industry who have a high degree of commercial awareness. They are the hands-on Managers who get involved with most things and they “know” what’s going on, but they are yet to discover financial awareness. The shortfall here could mean that these Managers are running their business with a blindfold over their eyes because they do not have the ability to track the effects of their actions in the workplace. Running a business blind in this way is very dangerous because more speed in the wrong direction does not help.

On the other hand, there are also Accountants within the Motor Industry who have a high degree of financial awareness. They know the general principles of accounting practices, taxation and they know how to put a set of Management Accounts together, but they are yet to discover commercial

awareness and the special intricacies of the Motor Industry. The shortfall here could lead to the Management Accounts being structured for general business practice rather than *specifically* for each department. In other words, they are “mathematically stable” because the bottom line is correct but they are worthless as a management tool.

Unfortunately, this type of *general* accounting may not reflect what is happening at an operational level in each department and therefore KPI output will be inaccurate. Simply having the bottom line of the Management Accounts correct is not enough. In today’s trading environment it’s absolutely critical for Managers to know *how* they achieve results by measuring their performance trends accurately.



Inaccurate data produces inaccurate analysis.

*You can't make a good decision
with bad information.*

So now that a few problems have been identified, the question is, “What solutions are required to fix these problems?”

As the opening quotation by Albert Einstein states, “*We cannot solve our problems with the same thinking we used when we created them.*” This is indeed profound because it’s suggesting that some people need to change the way that they think about things that they currently believe to be true, or in other words, the thinking that got people to understand financial awareness may not be sufficient

to get them to understand commercial awareness and vice versa. This is the difficult part because asking someone to change what they believe to be true is often fraught with conflict. This situation brings about a change of paradigm (pronounced paradime).

A change of paradigm is called a *paradigm shift*; think of it as changing from one way of thinking to another. When people fail to make a paradigm shift in business they get left behind and often go bust.

Examples of paradigm shifts are common throughout humanity. In the earliest writings of mankind, it was believed that the Earth was flat and if a ship put to sea and sailed toward the horizon, it would fall off the edge. Later of course, we discovered that the Earth is spherical and this new paradigm changed everything, including the rules of navigation around the planet. Imagine for a moment that a Captain of a ship, out at sea, still believed that the Earth is flat today and he continued to use the old rules of navigation... it would be as effective as trying to find your way around the streets of London with a street map of Paris. Working with the correct paradigm and the correct information is critical for success.

A paradigm shift that changed the world was unveiled in 1543, when on the day of his death, the works of Nicolaus Copernicus were published, which put forward the theory that Earth is not at the centre of the universe with the planets and stars revolving around it. Instead he suggested that the Sun was at the centre of our Solar System and the Earth revolves around the Sun. This was indeed controversial at the time; a huge paradigm shift.

In 1610, sixty seven years after the death of Copernicus, a young scientist named Galileo pointed his new invention, the telescope, at Jupiter and observed the orbits of four of its moons. He believed that there was a force, (which we now know to be gravity) that keeps the moons of Jupiter in their orbits and the same force could keep the Earth's moon in orbit. His observations convinced him that the Earth orbits the Sun along with the other planets. Galileo refuted those who believed that the Sun and all the planets orbited the Earth.

Sadly for Galileo, his new paradigm, or new way of thinking was met with massive resistance and in 1633 he was brought before the Inquisition in Rome and was made to renounce all his beliefs and writings supporting the Copernican theory and he spent the rest of his days imprisoned.

Paradigms Shifts In Business

In his book, *Paradigms*, Joel Arthur Barker wrote a short story about the Swiss watch industry, and now with further research into the subject, the story is expanded here so it's possible to see how paradigm shifts change business, industries and even the world.

Up until 1968, Switzerland had completely dominated the world in the craftsmanship of watch making. Anyone who purchased a watch at that time would be proud to see the words "Swiss Made" embellished on the watch face.

The Swiss were masters of the art and worked ferociously to continually improve their watches to maintain their status in the marketplace. They

invented the minute hand, the second hand, smaller dials for 10^{ths} of a second and were at the forefront of waterproofing. Their manufacturing methods for producing minute gears, bearings and main springs were under constant scrutiny and they worked harder and harder to make the very best components in the world. By 1968, it was reported that the Swiss had 65 percent of watch sales world-wide and more than 80 percent of the profits in the market.

The extent of the Swiss domination was colossal and no one was even a close second, yet by 1980, only 12 years later, their market share had collapsed from 65 percent to less than 10 percent. How could such world domination be wiped out in such a short period of time?

The answer is that the Swiss Watchmakers failed to recognise and respond to a new paradigm, the Quartz movement. Their domination in micro-mechanics had given way to the new era of micro-electronics. A new way of measuring time had been developed and everything in which the Swiss had achieved excellence was now totally irrelevant to the new market.

At its peak, the Swiss watch industry employed in excess of 65,000 people to make and construct its mechanical watches and between the years 1979 and 1981, fifty thousand of those people lost their jobs, it was complete devastation for the whole area.

The real tragedy of the story is that it was the Swiss themselves who had invented the Quartz movement at their research and development centre in Neuchâtel,

but sadly the Watchmakers rejected the idea because it didn't have any gears, bearings or a main spring. It wasn't a conventional watch of the type they had been making for so many years so it was dismissed without any real thought of the future.

Here's what happened. In 1967, the Swiss Watchmakers allowed the researchers to display their "useless" invention at the World Watch Congress to showcase their skills and innovation in the field of time keeping. The Watchmakers thought it was an interesting gadget, but nothing more than that; it was certainly not considered to be a wrist watch.

The researchers were obviously very proud of their unbelievably accurate time-keeping invention and showed it off to everyone, including representatives of the Japanese giant electronics company, Seiko. After seeing the invention, Seiko immediately went to work on bringing a wrist watch with the Quartz movement to the world-wide market, and as the old saying goes, "the rest is history".

Every year in Neuchâtel, there were prestigious competitions held for the most accurate chronometer, but in 1968, the competitions had to be stopped because of the absolute accuracy of the Quartz movement; it was totally incomparable with conventional mechanical watches. From 1968 onwards, the sales of chronometers plummeted like a falcon diving on its prey and the watches were sold without the prestigious competition certificates.

The Swiss watch industry had collapsed because they failed to see that their industry had changed, they

failed to see that the world had changed, they failed to see and accept a new paradigm.

In the early 1980's Nicolas G Hayek, led the recovery from the Swiss watch crisis and in 1983 he formed the Swatch Group of companies.

Swatch adopted the Quartz movement paradigm and the Swiss watch market has recovered its position of being a world leader, but their domination is nowhere near to that of the 1960's.

The Swiss watchmakers only changed their working practices because they were *forced* to change. Their failure to recognise that change is constant and inevitable had cost them supremacy in the global market.

* * * * *

So now you may well be asking the question, how is the Earth being flat, 16th Century theology on the solar system and the Swiss watch-making industry relevant to a book on Management Accounts for the Motor Industry in the 21st Century? The answer is *paradigm shifts*. Whether we look at the 16th Century or the new ideas of today, what is it that prevents us from accepting new ideas? Inaction, inertia, resistance to change, or in other words, failure to recognise and adopt a new paradigm.

People dislike change, yet it is the only thing that brings progress. Comments like, “*But we've always done it this way*” and “*I wasn't taught to do it like that*” are made by people who would have continued

with the belief that the Earth is flat. Just like the Swiss Watchmakers of the 1960's, it's possible for business people to be so totally absorbed in what they are doing that their eyes are blind to new methodology.

There have been many new methodologies and paradigm shifts in the Motor Industry that have caused businesses to collapse because they failed to adapt. Some examples are:

- Increasing franchise dealer standards
- Increasing Overheads
- Block exemption
- Changes in sales mix between petrol and diesel
- Introduction of hybrid vehicles
- New vehicle margin reduction
- Parallel imports
- Just-in-time vehicle ordering
- Computing, including DMS
- CSI bonus payments and margin hold-back
- FSA regulation
- Increasing fleet and corporate sales mix
- Decreasing return on sales
- The Credit Crunch
- The collapse of the banking system in 2008
- The inability to gain credit
- Huge fluctuations in world currencies
- Vehicle taxation and government legislation

The list could continue for many pages and the one major paradigm shift that is not included, the one paradigm that is currently having a massive impact and many in the Motor Industry are being left behind, it is of course, the Internet.

For decades, new vehicles have been purchased from dealer showrooms and in recent times, the cost of maintaining these showrooms in line with corporate identity is escalating out of control. Yet, at the same time, the Internet has provided the mechanism for anyone to bypass this traditional showroom route and buy new and used vehicles online from Internet Brokers. New vehicle manufacturers state that 90% of brochure requests are coming from the Internet, new web sites are emerging daily and yet there are still many businesses that do not see the Internet as an immediate priority. These are the businesses that will not be in a position to compete and fend off the Internet Brokers just as the Swiss were unable to compete and fend off Seiko; the Internet is a whole new paradigm for many in the Motor Industry.

Regardless of this fact, Managers running dealerships and Managers running Internet businesses who want to accelerate their business growth both need to communicate well with their Accountants and have a good understanding of their Management Accounts. Working with the right paradigm, the right information and at the right time is critical for success.

Managers and Accountants are working at opposite ends of the same function; one plays the game and the other keeps the score and it's critical that both communicate, understand and speak the same language so that new paradigms can be seen ahead of time and integrated into the core business strategy.

Although this is easy to say, obtaining financial and commercial awareness within the Motor Industry has

traditionally been difficult to say the least. It's often cloaked in confusion, secrecy and shrouded in darkness and it's all because of inconsistency which is brought about by Managers and Accountants embarking on long, torturous and evolutionary career paths that fail to converge at a single point and consequently Managers and Accountants are working in the same business, but with different paradigms.

The good news is that whether you are a Manager or an Accountant you'll be delighted to learn that you're no longer subject to this often long and tortuous route. Your journey through this book removes the cloak of confusion and secrecy, cuts through the darkness and illuminates the whole road ahead with absolute clarity. However, let this be a wakeup call. The Motor Industry has witnessed significant change over the last couple of years, it will continue to change over the next couple of years and it will change again in the years after that. It is of critical importance that your Management Accounts reflect these changes if success and in some cases, *survival*, is to be sustained.

The fact that you are holding this book in your hands means that you understand that the way we do business is always subject to change and you readily accept that the structure of Management Accounts that was suitable a decade ago may not be suitable for today's volatile trading environment and changes may be necessary. Although you may be ready for change yourself, for others it might mean a paradigm shift, or in other words, a different way of thinking. Use this book to help you to convey your thoughts and ideas with clarity.

When the phrase, “*But, we’ve always done it that way*” is heard, jump to attention because that means that old paradigms are still being clutched tightly to the chest and perhaps now is the time to question them.

Accepting that a paradigm shift is necessary takes a great deal of courage, a character trait that few people possess and as a result, the person who suggests that change is necessary, (the paradigm shifter), is often ridiculed as they meet with resistance.

Thankfully, change management today is not as punishing as it was in Galileo’s day. However, this book may bring into question and challenge the accounting structure that you currently have in your company, but it is not questioning what you believe to be right or wrong, it’s questioning something *much* more important than that... It’s questioning whether you are using the correct paradigm and gathering the correct information to survive in the future.

A Call To Action

The world of business is changing at an ever increasing rate and now, the role of the Accountant and the Manager within the Motor Industry has changed significantly because new paradigms are in abundance.

When trading becomes more difficult, the easy route is to reduce head count, marketing and training, but all of these actions may be counter-productive as the resource to grow the business may be removed; it’s possible to be efficient, but not effective. Instead, much more focus should be placed on understanding

trading difficulties and treating the disease and not the symptoms. This can only be done by ensuring that your business has the best and most useful accounting structure in place to recognise change at the time that it is happening.

Your challenge is to read this book in search of new paradigms, don't fall into the trap of dismissing accounting structures just because they are different. Question *why the differences exist* and how they might serve you better and be more useful than your current accounting structures.

“We cannot solve our problems with the same thinking we used when we created them.”

- Albert Einstein

PART I

THE PRINCIPLES OF MANAGEMENT ACCOUNTS

CHAPTER I

BREAKING THROUGH

THE DEPARTMENTAL JARGON

*“If you can’t explain it simply,
you don’t understand it well enough.”*

- Albert Einstein

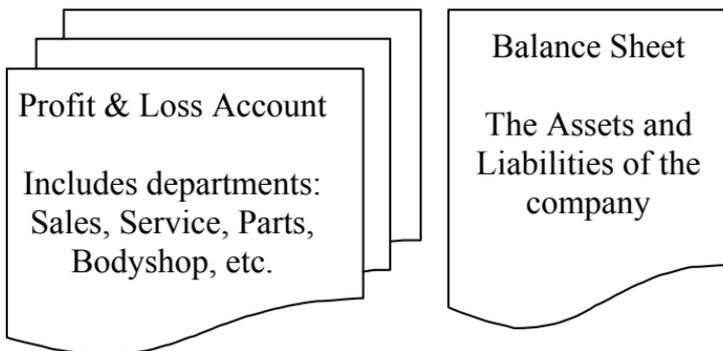
CHAPTER I

BREAKING THROUGH THE DEPARTMENTAL JARGON

Due to the diverse nature of a franchised dealership and the different departments evident within, there is so much information that we need to know in order to make the correct strategic decisions and it is because of this that our Management Accounts have evolved to spread over many pages.

On one hand, the amount of information that we receive is an advantage because we can assess all of our strengths and weaknesses. On the other hand, this mass of information can be a daunting to the person who does not understand their full meaning, so let's begin here by breaking down Management Accounts into bite-sized chunks.

The full set of Management Accounts comprises of two separate parts, these being the Profit and Loss Account and the Balance Sheet.



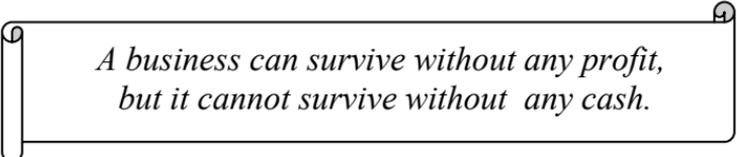
The Profit and Loss Account (P&L) is made up of all of the different departments, which are listed separately and it is this document that most people are referring to when they talk about their Management Accounts.

Many Department Managers only receive a small portion of the Profit and Loss Account which is usually the few pages of accounts for their specific department and they are still referred to as their Management Accounts; albeit a small portion of them.

The Profit and Loss Account contains the income and expenditure in each department or to be more specific, it contains the *invoiced* income and *invoiced* expenditure. It is important to be specific here because the Profit and Loss Account does not state whether or not the goods that have been invoiced have been paid for by the customers.

A company can provide customers with products or services, issue them with invoices which will be shown on the Profit and Loss Account and some customers may pay those invoices whilst other customers may not; the value of the cash outstanding is shown on the Balance Sheet.

There's a world of difference between profit and cash and it's an important principle to understand at this early stage because:



*A business can survive without any profit,
but it cannot survive without any cash.*

Now the basic difference between profit and cash is in place, let's leave the Balance Sheet behind to revisit it later and move on to discover more about the Profit and Loss Account and the links to operational performance at a departmental level; the bridge between financial and commercial awareness.

The Profit and Loss Account for each department is actually very simple. It doesn't matter how many pages or accounting lines that are present within a department, there are only five basic elements that unlock the power of their meaning. To begin, let's clear up some accounting jargon and take a closer look at these five basic steps.

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END OF SAMPLE

For more information visit our web site at

www.askinsight.com

or

<http://www.askinsight.com/management-accounts-made-easy.html>

or call our office on **0044 1384 371432**