



Management Accounting

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Managing Director

Agenda

**What is Management
Accounting?**

**Monthly Accounting
Processes**

Financial Reporting

**Action Plans and
Reflection**

What is Management Accounting?

What is management Accounting?

The process of preparing **management** reports and accounts that provide accurate and timely financial and statistical information required by **managers** to make day-to-day, short-term and medium-term decisions.

Financial Accounts vs Management Accounts

	Management Accounts	Financial Accounts
Purpose	To help managers to make decisions to fulfil school goals	Communicate the school's financial position to interested stakeholders
Focus & Emphasis	Future orientated	Past orientated
Rules	Can be prepared in a format that the internal users find helpful to support monitoring and decision making	Have to be prepared in the format required by external parties e.g. Companies House, Local Authorities, DfE

Why is management accounting important?

Trustees and senior management have to;

- Ensure they are financially sustainable and do not go into deficit.
- Ensure the funds they are given are deployed for maximum impact and effect.
- Ensure the operations of the trust are efficient.
- Ensure value for money is achieved.

Preparing monthly management accounts is now a statutory requirement.

What does the academies financial handbook say?

Section 2.3.3

The trust **must** prepare management accounts every month setting out its financial performance and position, comprising budget variance reports and cash flow forecasts with sufficient information to manage cash, debtor and creditors. Managers **must** take appropriate action to ensure ongoing viability.

Management accounts **must** be shared with the chair of trustees every month, irrespective of the size of the trust, and with the other trustees six times per year. The board **must** consider these when it meets. The board **must** ensure appropriate action is being taken to maintain financial viability including addressing variances between the budget and actual income and expenditure.

What does the academies financial handbook say?

Section 2.3.3

The format of the management accounts should be adjusted to be suitable for different users including summaries and supporting narrative as appropriate.

The trust must select key financial performance indicators and measure its performance against them regularly, including analysis in its annual trustees report as explained in the accounts direction.

ESFA response to whether staff were expected to work August to produce July accounts

Dear Mrs Berkeley,

Thank you for your email.

The production of monthly management accounts is confirmed as a 'must' in the Academies Financial Handbook.

Compliance with the handbook is a requirement in trusts' funding agreements with the Secretary of State.

I hope this resolves your query

Kind regards

Helen Taverner

Academies Customer Interactions Unit

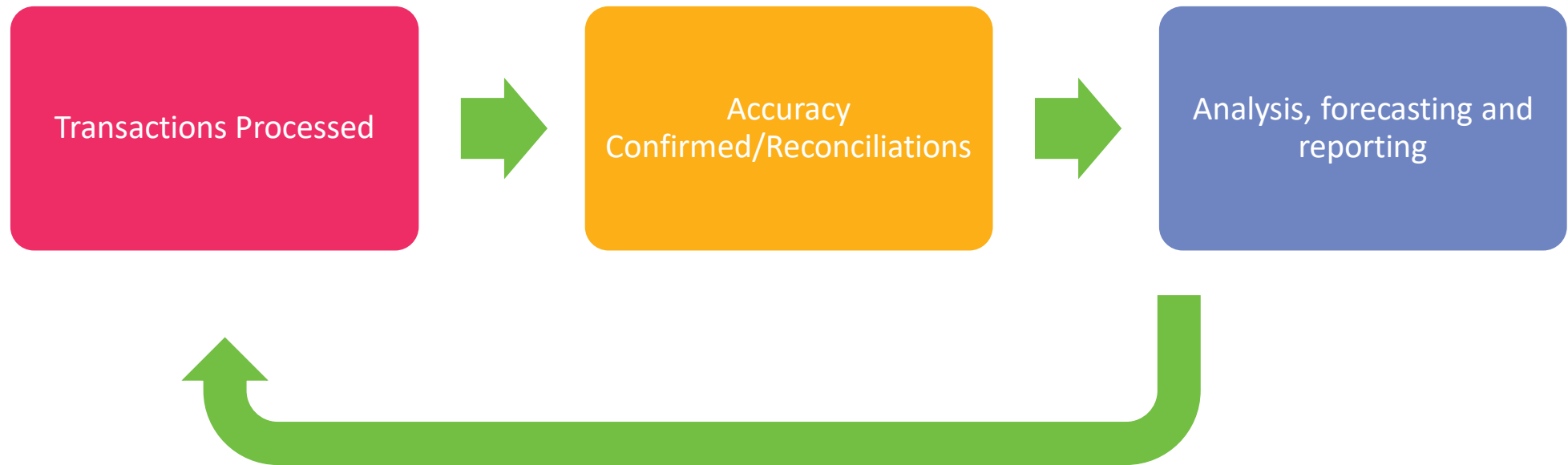
Monthly Accounting Processes

Monthly Accounting Processes

The accounting system should be kept up to date and transactions recorded accurately.

- Is your accounting system up to date and accurate? How do you know?
- How are you coordinating the monthly close down procedure across the trust?

Monthly Accounting Processes



Monthly Accounting Processes Timetable

Monthly Accounting Timetable and Responsibilities									
Task	Responsibility		Reporting Period						
			Feb 6	Mar 7	Apr 8	May 9	Jun 10	Jul 11	Aug 12
Processing	Prepare	Authorisation/Review							
Staff Contract Management/Payroll Amendments	Academy Finance Officer	Headteacher	13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
Payroll Entries Processed on Accounting System and variances noted	Academy Finance Officer	Trust Business Manager	13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
Investigate salary variances	Academy Finance Lead	Headteacher	13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
GAG Funding transferred to individual academies	Trust Business Manager	Finance Directors	13-Feb	13-Mar	17-Apr	15-May	12-Jun	10-Jul	14-Aug
Orders raised and processed ensuring best value	Academy Finance Lead	Headteacher	13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
Supplier Invoices Processed	Academy Finance Lead	Headteacher	13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
Sales Invoices Raised eg Lettings	Academy Finance Lead		13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
Review outstanding purchase order/commitments	Academy Finance Lead		13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
Income Banked and Recorded	Academy Finance Lead		13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
Petty Cash entered on system	Academy Finance Lead	Headteacher	13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
Debt Collection	Academy Finance Lead		23-Mar	27-Apr	22-May	25-Jun	22-Jul	31-Jul	TBA
Processing of staff expense claims	Academy Finance Lead	Headteacher	13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
Stock Management	Academy Finance Lead		13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
Accruals and Prepayments Processed on system	Academy Finance Lead		13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
Teachers Pension Return Upload	Academy Finance Lead		06-Mar	07-Apr	07-May	05-Jun	07-Jul	07-Aug	TBA
PN11	Academy Finance Lead		19-Mar	19-Apr	19-May	19-Jun	19-Jul	19-Aug	TBA
Monitor trading income eg catering	Academy Finance Lead		13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA
Prepare monthly analysis of staff ready for end of year accounts	Academy Finance Lead	Auditors	23-Mar	27-Apr	22-May	25-Jun	22-Jul	31-Jul	TBA
Fixed Asset Register Maintained and Journals Processed	Academy Finance Lead	Auditors	13-Mar	17-Apr	12-May	16-Jun	14-Jul	31-Jul	TBA

Monthly Accounting Tasks

Month End Accounting Workbook v1.6 (2018-19)

Cover Sheet

3. Prepayments

4. Sundry Debtors

5. Sundry Creditors

6. Deferred Income

7. VAT Reconciliation

8. Payroll Reconciliation

9. Bank Reconciliation

10. Funding

11. Aged Creditors

12. Aged Debtors

13. Journal Review

14. Intercompany

Rules of Double Entry Book Keeping

- ✓ To record an expense you debit the expense account
 - ✓ To reduce an expense you credit the expense account
 - ✓ To record income you credit the income account
 - ✓ To reduce income you debit the income account
-
- ✓ To increase an asset, you must debit that account
 - ✓ To decrease an asset, you must credit that account
 - ✓ To increase a liability you credit that account
 - ✓ To decrease a liability you debit that account

Account Type	Debit	Credits
Assets	Increase	Decrease
Liabilities	Decrease	Increase
Income	Decrease	Increase
Expenses	Increase	Decrease

Accruals Accounting

Definition

An accounting method that measures the performance and position of an organisation by recognising economic events regardless of when cash transactions occur.

Accruals Accounting - Definitions

	Definition	Example	Journal Entries
Accrual	Accounting for goods or services which have been received but have not yet been paid for	Delivery of books received by 31 st August, invoice not received until September	Db – Expenditure Code Cr Accruals
Prepayment	Accounting for goods or services paid in advance of all of the service/goods being received	Subscriptions paid for a whole year upfront	Cr- Expenditure Code Db Prepayments
Receipt in Advance/ Deferred Income	Accounting for money received in advance of the service or goods being supplied	Trip income received in August for a trip taking place in December	Db – trips income Cr – receipts in advance

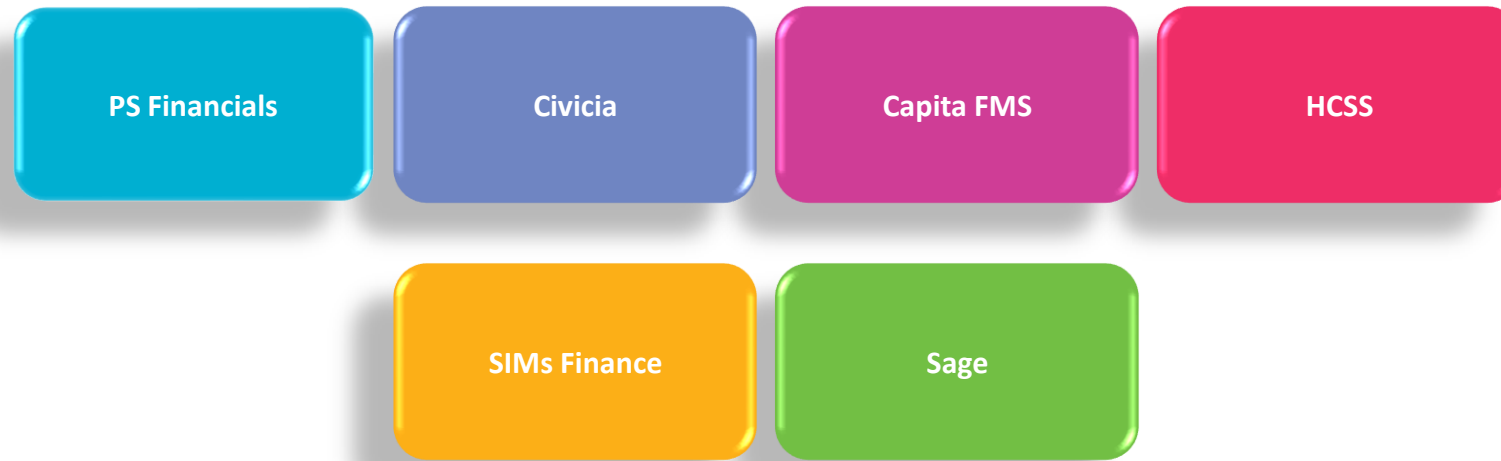
Financial Reporting

What should a set of management accounts include?

- Income and expenditure report – year to date and forecast to the end of the year compared to budget
- Variances to budget – year to date and full year
- Commentary to include why variances to budget have occurred
- Key Financial Performance Indicators with targets
- Balance Sheet
- Rolling 12-month cash flow
- Trading accounts for areas such as catering, breakfast club etc.
- List of virements

Important: There is no single report that can be printed from an accounting system that will tell you the financial position of the organisation

Which Accounting System?



- A robust procurement process for a new accounting system is critical
- The chart of accounts must be designed to facilitate internal and external reporting

Forecasting

- Once you have confirmed your accounting data is correct, this process is the most important.
- Go through every ledger code/cost centre and consider what income and expenditure is still likely to materialise by 31st August
- Ensure you keep clear and concise notes and document all the assumptions you have made
- Note the key areas of risk, where the forecast has the potential to significantly deviate from the latest prediction

Elements of a balance sheet

Category	Description	Example
Fixed Assets	Assets that an organisation uses on a long-term continuing basis	Buildings, computers, vehicles, furniture
Current Assets	Assets you expect to sell or turn into cash within one year	Bank, debtors, VAT recoverable, stock, prepayments
Current Liabilities	Liabilities you expect to pay within the next year	Creditors, payroll control, accruals,
Long Term Liabilities	Liabilities you expect to pay but not in the next year	A bank loan, pension deficit

Cash Flow Forecast

- Preparing a rolling 12-month cash flow forecast is best practice
- No system can automatically prepare a cash flow forecast for you.
- Does not need to be very detailed (unless you know you have cash flow issues). Expenditure can just be split into payroll and purchases.
- For larger schools, with individual budget holders, it can be useful them to set a profiled budget for their areas of responsibility.

Commentary

What could a commentary include?

- Summary of overall financial position
- Reasons for significant variances to budget
- Reasons for movement for forecast from the previous month
- Areas of risk
- Internal audit update
- Education updates
- Actions for trustees/local governing bodies to take

KPIs and Benchmarking

Income KPIs	Great Barton		Rattlesden		Thurston		Woolpit	
Pupil Numbers as per 2018-19 GAG	207		123		203		162	
	2018-19 Forecast	2017-18	2018-19 Forecast	2017-18	2018-19 Forecast	2017-18	2018-19 Forecast	2017-18
Total Income Per Pupil	£4.1k	£4.2k	£4.9K	£5.1k	£4.1k	£4.1k	£4.8K	£4.6k
Government Funding Per Pupil	£3.9k	£4.0k	£4.7K	£4.9k	£4.0K	£4.0k	£4.7K	£4.5k
Government Funding as a % of Total Income	94%	96%	97%	96%	97%	98%	£98%	98%

KPIs and Benchmarking

Expenditure KPIs	Great Barton		Rattlesden		Thurston		Woolpit		Target
	2018-19 Forecast	2017-18	2018-19 Forecast	2017-18	2018-19 Forecast	2017-18	2018-19 Forecast	2017-18	
Total Staff Salary costs as % of Total Income	73%	79%	72%	74%	76%	80%	74%	73%	75%
Teaching Staff costs as % of Total Staff Costs	68%	70%	65%	70%	65%	65%	67%	68%	70%
Total Expenditure as a % of Total Income	101%	101%	100%	101%	100%	104%	101%	100%	97%

KPIs and Benchmarking

Balance Sheet KPIs	Great Barton	Rattlesden	Thurston	Woolpit
Cash Balances as a % of Total Income	9%	13%	9%	7%
Current Assets to Current Liabilities	29 to 1	91 to 1	14 to 1	13to 1

Integrated Curriculum Financial Planning

Staff & Class Characteristics	Trust Characteristics																																																										
	School A	School B	School C	School D	Trust Average																																																						
Pupil Teacher Ratio <i>(based on current pupil numbers including Nursery)</i>	20	14	22	20	19																																																						
Pupil Staff Ratio <i>(based on current pupil numbers including Nursery)</i>	7	7	9	8	8																																																						
Average Teacher Cost ¹ (inclusive of on-costs)	£43,136	£50,188	£50,381	£43,675	£46,845																																																						
Average Class Size ² <i>(average class size has been calculated using current class size information)</i>	<table><tr><td>Yr R/1</td><td>31</td></tr><tr><td>Yr 2</td><td>15</td></tr><tr><td>Yr 3/4</td><td>30</td></tr><tr><td>Yr 5/6</td><td>28</td></tr><tr><td>Average</td><td>26</td></tr></table>	Yr R/1	31	Yr 2	15	Yr 3/4	30	Yr 5/6	28	Average	26	<table><tr><td>Yr R</td><td></td></tr><tr><td>Yr 1</td><td></td></tr><tr><td>Yr 2</td><td></td></tr><tr><td>Yr 3</td><td>29</td></tr><tr><td>Yr 4</td><td>30</td></tr><tr><td>Yr 5</td><td>31</td></tr><tr><td>Yr 6</td><td>30</td></tr><tr><td>Average</td><td>30</td></tr></table>	Yr R		Yr 1		Yr 2		Yr 3	29	Yr 4	30	Yr 5	31	Yr 6	30	Average	30	<table><tr><td>Yr R</td><td>18</td></tr><tr><td>Yr 1/2</td><td>30</td></tr><tr><td>Yr 2/3</td><td>27</td></tr><tr><td>Yr 4/5</td><td>29</td></tr><tr><td>Yr 5/6</td><td>30</td></tr><tr><td>Average</td><td>27</td></tr></table>	Yr R	18	Yr 1/2	30	Yr 2/3	27	Yr 4/5	29	Yr 5/6	30	Average	27	<table><tr><td>Yr R</td><td>30</td></tr><tr><td>Yr 1</td><td>29</td></tr><tr><td>Yr 2</td><td>29</td></tr><tr><td>Yr 3</td><td></td></tr><tr><td>Yr 4</td><td></td></tr><tr><td>Yr 5</td><td></td></tr><tr><td>Yr 6</td><td></td></tr><tr><td>Average</td><td>29</td></tr></table>	Yr R	30	Yr 1	29	Yr 2	29	Yr 3		Yr 4		Yr 5		Yr 6		Average	29	Average class size across the trust is 28
Yr R/1	31																																																										
Yr 2	15																																																										
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Yr 6																																																											
Average	29																																																										
Number of Periods per Week <i>(based on 2 sessions per day x 5)</i>	10	10	10	10	10																																																						
Average Teacher Contact Ratio	0.71	0.64	0.74	0.69	0.70																																																						
Curriculum headroom / curriculum bonus ³ <i>(this is made up of other duties excluding PPA)</i>	0.24	0.20	0.19	0.24	0.22																																																						
Predicted pupil number change in 3 years LL Annex K % inc from 3 to 5 years 0.75%	105 on roll (PAN limit)	360 on roll (PAN limit)	140 on roll	268 on roll	218 on roll																																																						
Predicted pupil number change in 4 years	105 on roll (PAN limit)	360 on roll (PAN limit)	140 on roll	270 on roll	219 on roll																																																						
Predicted pupil number change in 5 years	105 on roll (PAN limit)	360 on roll (PAN limit)	140 on roll	270 on roll	219 on roll																																																						
Average teaching cost per day	£237	£257	£258	£224	£244																																																						

Integrated Curriculum Financial Planning

Spending as % of Total Expenditure	Trust Characteristics				
	School A	School B	School C	School D	Trust Average
% of total spend on staff pay ⁴	75%	79%	75%	75%	76%
% of total spend on teaching staff pay	39%	53%	47%	44%	46%
% of total spend on curriculum support pay	22%	19%	16%	21%	20%
% of total spend on non-curriculum support staff pay	14%	7%	13%	10%	11%
% of total spend on senior leadership staff pay ⁵	10%	8%	10%	8%	9%
% of teaching staff spend on management costs ⁶	10%	10%	10%	9%	10%
Income & Expenditure per Pupil (as calculated through CFR and AAR)	Trust Characteristics				
	School A	School B	School C	School D	Trust Average
Total Income per Pupil	£5,564	£6,734	£4,658	£4,689	£5,411
Total Expenditure per Pupil	£5,913	£6,672	£4,868	£4,944	£5,599
Income per Pupil (as per CFR and AAR categories)	Trust Characteristics				
	School A	School B	School C	School D	Trust Average
Direct Grant Funding	£5,316	£6,622	£4,525	£4,560	£5,256
Self-Generated Income	£248	£112	£133	£129	£156
Spend per Pupil (as per CFR and AAR categories)	Trust Characteristics				
	School A	School B	School C	School D	Trust Average
Supply/agency cost	£29	£7	£15	£0	£13
Staff	£4,408	£5,256	£3,674	£3,713	£4,263
Non-staff (code 378 non-staff costs)	£1,453	£1,345	£1,129	£1,139	£1,267

Next Steps

Financial Reporting - Reflection

- How does your current financial reporting meet the requirements of the Academies Financial Handbook?
- How could your financial reporting be improved?
- What actions are going to take to ensure the improvement happens?
- Will some things need to change to enable the improvements to happen?