

Profit Tracker for Accountancy Firms, from Stearc Systems Pty Ltd

A business consultant can help the accountancy firm set clear financial objectives for performance review using Profit Tracker.

First help the accountancy firm to improve its business and by so doing prove the techniques involved and show the accountancy personnel how they may then go on to help the firm's own clients using the same techniques.



Profit Tracker is a methodology that enables the user to set clear and attainable objectives. First you review your recent Profit and Loss statements. Then you set the **CONTRIBUTION OBJECTIVE** by estimating your total expenses for the new year and by setting for yourself a Net Profit target.

Label	2007	2008
INCOME		
✓ Sales	450,130	490,337
Cost of Sales	28,340	31,872
OTHER INCOME	6,732	9,322
EXPENSES		
Advertising & Promotions	22,455	18,455
Depreciation	8,450	13,233
Financial Expenses	13,500	14,313
Insurance	6,412	7,289
Interest	12,344	13,764
Motor Vehicle Expenses	8,420	11,457
Other Overheads	22,437	31,419
Owners Remuneration	144,004	137,686
Premises Rent & Costs	52,000	54,150
Provisions	0	0
Costs	138,500	166,021
	0	0
	0	0

Label	2008	What If	Change	2009
INCOME				
Sales	490,337			
Cost of Sales	31,872			
GROSS PROFIT	458,465	CONTRIBUTION OBJECTIVE	14.14%	523,290
✓ OTHER INCOME	9,322	Increased by %		9,322
EXPENSES				
Advertising & Promotions	18,455	Increased by %	20.00%	22,146
Depreciation	13,233	Increased by %	0.00%	13,233
Financial Expenses	14,313	Increased by %	0.00%	14,313
Insurance	7,289	Increased by %	10.00%	8,018
Interest	13,764	Increased by %	0.00%	13,764
Motor Vehicle Expenses	11,457	Increased by %	10.00%	12,603
Other Overheads	31,419	Increased by %	5.00%	32,990
Owners Remuneration	137,686	Increased by %	0.00%	137,686
Premises Rent & Costs	54,150	Increased by %	5.00%	56,858
Provisions	0	Increased by %	0.00%	0
Royalties	0	Increased by %	0.00%	0
Wage & Staffing Costs	166,021	Increased by %	3.00%	171,002
TOTAL EXPENSES	467,787		3.17%	482,612
NET PROFIT BEFORE TAX	0	WHAT WOULD YOU LIKE TO ACHIEVE		50,000

The Contribution must pay for the expenses and provide also for the net profit. So it is this Contribution that must be earned by the firm. The total Contribution is achieved by the individual contributions made from each sale, net of cost of sales and any outsourced activity related to the sale.

An accountancy firm may wish to track the activity by man-hour, differentiating chargeable time by the following:

	Track Unit	2008 % of Contribution	2009 % of Contribution
✓	Principal	35%	37%
	Professional/Support	65%	63%

If the firm is a larger firm it may even wish to split out Support Services from the work carried out by Professional staff. But for a small firm this may not be necessary.

Then for each Tracking Unit of Activity the Contribution and the Contribution per Unit must be set:

The screenshot shows the 'Target Contribution per Unit' window. The 'Tracking Unit' is set to 'Principal'. Available Capacity per week is 40 in 2008 and 40 projected for 2009. Used capacity is 21 in 2008 and 24 projected for 2009. Productivity for 2008 is 52.5% and for 2009 is 60.0%. Target Contribution per unit for 2008 is 153 and for 2009 is 161. Target Contribution per unit per week for 2008 is 153 and for 2009 is 161.

A similar analysis is carried out for the Professional/Support activity.

If the accountancy firm normally experiences a strong seasonal variation through the year then use the Seasonal tab page to define the patterns.

The purpose in studying the Contribution overall is because it is this that the firm must earn in order to pay for the expenses and cover the Principal's earnings. The purpose in reviewing the Contribution per Unit for both the Principal and the Professional/Support activity separately is to set objectives for these two groups by which their performance can be monitored thereafter. In the case of the Principal, he must earn a total contribution of 193,617 in the course of the year. This must be achieved by improving productivity attaining an overall productivity of 60% and also by improving Contribution per Unit (hour) so that the Principal achieves 161 per hour and charges for 1200 hours through the year. Similar objectives are set for the Professional/Support personnel.

Once the Objectives are set the Master Objectives Report may be submitted for approval.

The screenshot shows the 'Maintain Tracking Detail' window. The table below contains the following data:

Invoice No	Invoice Date	Sale Value	Cost of Goods	Post/Handling	Outsource	No. Units	Tracking Unit	W/R
00001	07/07/2008	800	35	0	0	10	Principal	<input type="checkbox"/>
00002	07/07/2008	1600	0	0	0	15	Principal	<input type="checkbox"/>
00003	07/07/2008	1200	72	0	0	15	Principal	<input type="checkbox"/>
00004	07/07/2008	1320	0	0	0	15	Principal	<input type="checkbox"/>
00004	07/07/2008	1750	35	0	0	16	Professional/Suppc	<input type="checkbox"/>
00005	08/07/2008	120	0	0	0	3	Principal	<input type="checkbox"/>
00005	08/07/2008	1750	35	0	0	22	Professional/Suppc	<input type="checkbox"/>

The analysis begins with the data entry of the week's invoices:

Here you record the Sale Value and the costs associated with the sale and the number of Tracking Units employed in that sale. So in invoice 00001 a

Contribution of $(800 - 35) = 765$ was earned by the Principal for working 10 hours. We will see later that this Contribution per Unit of 76.5 is too low for the Principal. But in this stage you simply enter the data relating to the week's billing.

You should also record the capacity available during the week. So the Principal should have worked 40 hours if the objective is to be met. Record the hours worked (not the hours charged) using the Capacity Available tab page.

Then the business consultant would review the invoice detail for the week. Here is the Invoice Review Enquire List screen after 11 weeks:

Week No	Tracking Unit	Date From	Contrib.	Contrib. Obj.	Variance	Negative	Positive
11	Principal	13/09/2008	8,722	3,884	4,838		■■■■■
11	Professional/Suppo	13/09/2008	6,900	6,613	287		
10	Principal	6/09/2008	4,008	3,884	124		
10	Professional/Suppo	6/09/2008	0	6,613	-6,613	■■■■■	
9	Principal	30/09/2008	6,400	3,884	2,516		■■■
9	Professional/Suppo	30/09/2008	15,084	6,613	8,471		■■■■■■■■■■
8	Principal	23/09/2008	2,900	3,884	-984	■	
8	Professional/Suppo	23/09/2008	7,260	6,613	647		■
7	Principal	16/09/2008	4,473	3,884	589		■
7	Professional/Suppo	16/09/2008	5,307	6,613	-1,306	■■	

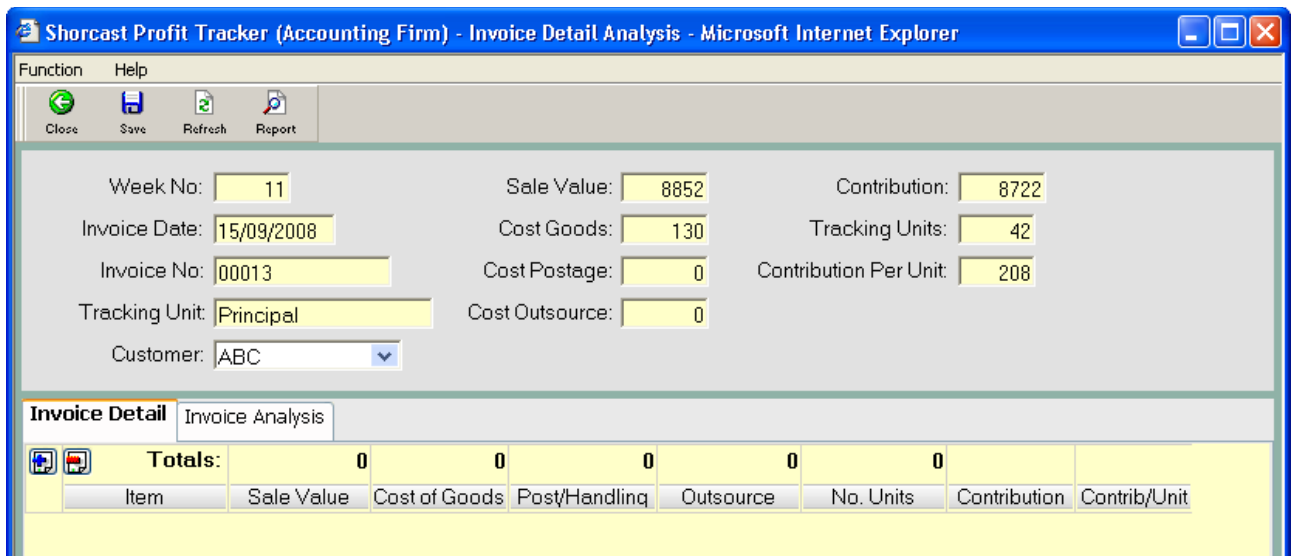
Let's jump to week 11 and review the results just entered for the Principal in week 11:

	Actual	Objective	Variance
Contribution:	8,722	3,884	4,838 ■
Units:	42	24,000	18
Contribution Per Unit:	208	162	46
Available Capacity:	40	40	0

Invoice No	Inv. Date	Sale	Costs	Units	Contribution	Contrib/Unit	Objective	Variance	Weekly Review	To-date Review
00013	15/09/2008	8,852	130	42	8,722	208	6,797	1,925	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

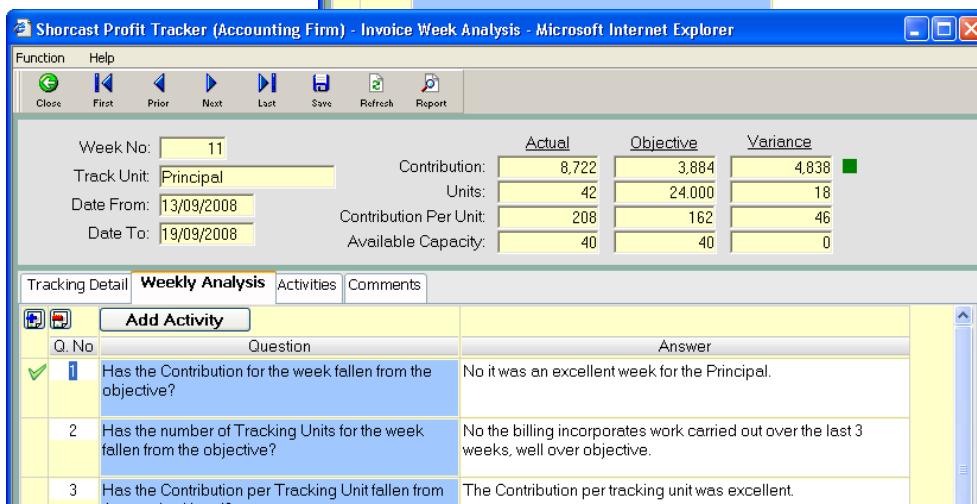
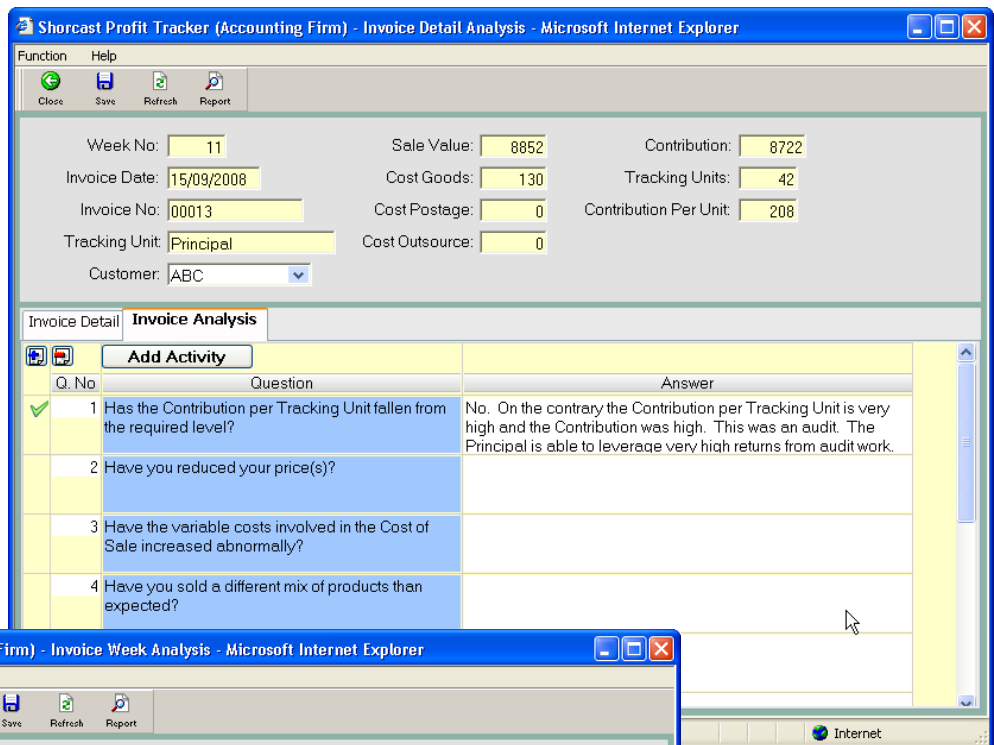
The Principal has just had a great week having achieved a huge Contribution and achieving very high Contribution per Unit. The consultant ticks the Review check boxes for both weekly and to-date reviews. This is a signal to the person who enters the Invoice details that the consultant wishes to study this invoice in much greater detail in order to understand the reason why such a good result has occurred. (The same would occur if the results were poor.)

When the extended information has been entered the consultant may review this information.



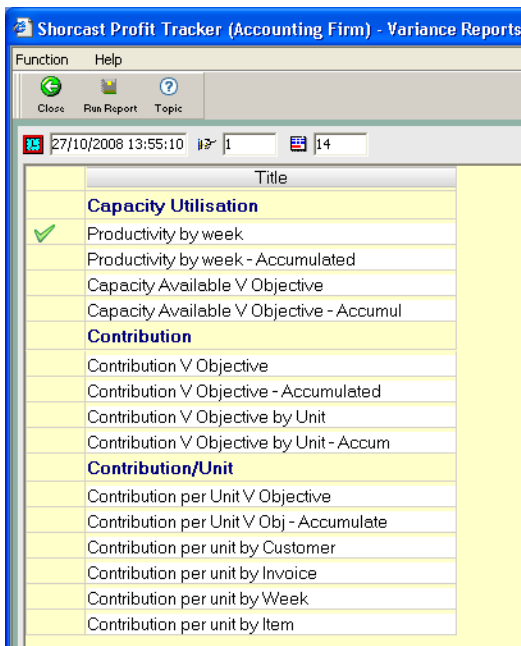
Here we see that the Customer ABC was involved. The detailed split of the invoice into constituent components has not been made and is probably not necessary.

However, questions were raised and notes or comments were made:



And for the week some analysis was carried out by first raising questions and setting Activities for review of the results.

Comments are made.



Reports available for review of results and tracking of the performance in total and by Tracking Unit are available:

Once these reports are analysed and the consultant enters further comments the Weekly Analysis Report may be run and submitted for review:

Master Report Comments



Comments

Master Profile Reports



Print Objectives Report



Print Weekly Analysis Report



Print Performance To-Date Report

At any time in the course of the Profit Tracker methodology the Performance To-Date Report may also be run, typically before a major review meeting.

The purpose of the methodology in Profit Tracker is to enable a clear review of billing activity. This is to ensure that the Contribution and the Contribution per Unit for each tracked activity, in this case the charged hours for the Principal and the Professional/Support team, are tracking toward the Objectives set earlier at the start. The firm must take action to stop quoting for jobs that support low Contribution per Unit. It must analyse which customers are getting away with very low rates and take action to stop the poor quoting/billing practices. By the same token it should identify those activities that are successful in lifting results. So if the Principal achieves a high Contribution per Unit, how was this achieved? Can the firm do more?

Profit Tracker can identify if the Productivity of each tracking unit is on target to meet objectives or not. It will show up any variance in Capacity Available from Objective. It will show up the variances in Contribution per Unit for each track-able activity. As a result it will enable the accountancy firm to see why it is not achieving its objectives. This may be visible early. This is why the analysis is carried out weekly. It should cause all poor billing to be highlighted and all positive outcomes to be also scrutinized. Lessons will be learned by the Principal and the Professional/Support team so that they will list their game and achieve better outcomes.

When that happens, the Principal must lift the bar and re-set the objectives and start the process again. By doing this the firm will achieve a continuing improvement in performance and the cash flow improvements arising from this and the increase in profitability of the firm will enable the firm to grow more aggressively.

Profit Tracker is designed for the external or internal business consultant. It provides the analysis and review platform from which the accountancy firm may improve its operations, quickly. It may take only 6 to 12 weeks to achieve outstanding improvements.

Alan Springell