CHAPTER V

RECOMMENDED CONTROL SYSTEM

To control the movement of affairs in any form of group activity so that they move steadily towards some predetermined final result is, even in its simplest form, never an easy matter. The qualities it seems to call for most are patience, perseverance, and determination - patience to give the necessary time to the study of the facts and figures presented, perseverance to continue the pursuit of any unhealthy tendency amongst those facts and figures until it has been cured, and determination to overcome the difficulties, obstructions and resistences that may stand in the way of that cure.

To control any form of activity requires three definite steps -

1. A decision on some objectives to be attained within a definite time-period.

2. The setting up of a frame work of information from which it can be seen whether a satisfactory progress towards that objective is being maintained throughout this time-period.

3. The taking of management action when from the information it is seen that the progress towards the objective is unsatisfactory.

The first two steps are preparatory only, though in the
second a good deal of work may be involved of the framework is to be complete. It is only in the third step that the actual controlling begins. The system of control that is being planned is based on the study of and the results obtained in Chapter IV. It has been seen that the management has not been able to control the affairs of the undertakings due to lack of communication of the essential data, and when this data reaches the management it is already too late to initiate any remedial action.

The control system that is explained in the following pages may well be defined as a system for the control of the general management of business on a planned basis, the adherence to the plan being watched by a monthly survey made from the Marketing, Production, Financial and Stability points of view. These points of view are merged into two reports; Part I, covering the Marketing & Production points and Part II covering the Financial & Stability points. All these two reports are to be submitted to the chief executive officer of the corporation in the first week of the month, and the data and information contained therein should be of the previous month.

Perhaps some confusion as the best approach to statistical company control has arisen in the past owing to the framework which is now accepted for management training. This
recognises, among others, seven primary functions — production, distribution, development, accounts and finance, legal and secretarial personnel, industrial relations and finally the general management, which links the others together. These subdivisions naturally tend to emphasise from the very beginning the professional duties of each function, and to deal with the specialised data arising from them, which may indeed be numerous.

But a going concern of any type is a complex machine, interlocked throughout like the works of a clock, the actions of each function will react upon the rest to produce the final result for the period. It is, therefore, to the end-product of these functional area management activities that we must look if we are to base our general management upon reliable data, and our analysis of that end-product must be founded not upon functional activities have produced — evidence which is to be found in the sales record, the profit and loss account and the balance sheet. That evidence will show how far we are succeeding in establishing, maintaining, and increasing the stability of the business — which as will be obvious, depends upon its activity, its efficiency, its profitability and its security. Its activity, because if orders cannot be obtained, and goods or services promptly delivered to the public in exchange, the business will eventually collapse. Its efficiency, because if its
equipments, methods, and organisation are not kept at a high level, if the morale of the personnel is allowed to deteriorate, if its product costs will not meet competition, and it makes no attempt to improve old products or to develop new ones, the business will eventually collapse. Its profitability, because if its income is too low or its expenditure is too high, losses are unavoidable and the business will eventually collapse. Its security, because if the finance at the disposal of the management is not adequate for the business being done, overtrading will set in, and the business will eventually collapse. Obviously, the abstract nouns, activity, efficiency, profitability and security are used here in a polarised sense. These have been used here to denote four important influences on the health of a concern, the condition of which can be ascertained by the study of the four points of view, i.e. marketing, production, finance and stability. As such, from these we will be able to ascertain the activity from the marketing point of view, the efficiency from the production point of view, the profitability from the financial point of view and the security from the stability point of view.

The entire system is based upon a predetermined management plan for the year, with targets fixed for sales, orders and profits, and monthly reports establishing adherence to or divergence from the plan. This is done by comparing the
trends of the key figures at the moment with the targets which have been set, so that in case of divergence, management action can be initiated without delay.

With this background in view, we now proceed to examine the contents of the reports in view of the four viewpoints.

1. Marketing Report: This report deals with the first contact of the company with the outside world, and its success or failure to establish itself as an accepted unit of the industrial or commercial world. The data covered by the Marketing Report is divided into three sections—
   (a) Orders Received;  (b) Invoices Issued;  (c) Orders Outstanding. We discuss these in details.

(a) Orders Received—This naturally covers all forms of acceptance by the public of the goods and services offered. With industrial and commercial undertakings it is normally a straightforward affair, the orders coming in by post, by telephone messages subsequently confirmed by letters, or by direct sales over the counter. With social or artistic organisations the "orders" may take the form of the purchase of tickets, subscriptions or donations. But whatever they are called, they indicate the desire of the outside world to take advantage of the goods and services offered. Hence its vital importance in the control framework of the data arising.
Whatever the nature of goods and services may be, it is of considerable importance that a careful watch should be kept at least as far it is possible to do so — upon the sources from which the orders come. An organisation which makes no attempt to analyse its orders received, but only recorded them in total, would be in trouble if those orders began to fall off, as it would not know which product was losing the market or which customer was reducing the orders. All firms of any standing are well aware of this, and with them the analysis of orders received is generally well done. Often, in fact, it is done several times over, from different points of opinion and views.

The primary classification is usually by the sales, territory to record the sales achieved by the sales representatives. This may be combined with a secondary analysis into classes of goods, each class having a grand total for all the sales territories. The extent to which sales records are kept and analysed for management purposes will depend upon the energy and enterprise of the organisation or corporation. Whether trade is good or bad they form one of the most valuable tools available to the manager and no corporation anxious to maintain and improve its position can afford to neglect the vital information that is hidden in them. The information from the field becomes primary data for the sales manager, &
secondary information for the chief executive officer. The gross current figure records the actual total of orders received, after adjustment for cancellations, in the month. The net cumulative and moving annual total figures record the correct position for the period and for the year. In preparing the control charts of orders received, an indication of some kind should be given on the chart that it includes invoices for spares. In the absence of this data, the chief executive officer will not have a true idea of what is his turnover of orders received for the corporation.

(b) Invoices Issued - Invoices issued are the pulse of the business, and it is always up to some senior member of the corporation to keep it beating as soundly as possible, as the figure records the results of the company's effort to supply the services called for by the orders of the customers. Since each invoice issued turns into a debtor account, which in due course returns to the corporation as cash, to start another round of profitable activity. A daily record of invoices issued should always reach the chief executive officer, along with the target set for the month. This enables the chief executive officer to keep a continuous watch on the position, and take action should it appear that deliveries have not reached the target by about the middle of the month. Concerns engaged in work which takes a
considerable amount of time to complete, such construction, etc., are seldom prepared to wait for payment until the job is completed and accepted by the customer. They require to be financed during the period of manufacture, and this is usually done by the submission of claims covering certain recognizable stages in the process. The customer thus pays in instalments, some portion of the final amount being sometimes held back as retention money, and not paid over until all the clauses and conditions of the contract have been satisfactorily fulfilled.

The importance of keeping a careful watch upon the daily invoices issued lies in several management aspects. A business can only continue in action by means of cash returning from the debtors when they pay the invoices issued to them, and for that reason the cashier who is responsible for the company’s obligations depends upon invoices issued for the cash which he will require. Hence every invoice that can be forced out before the end of the month represents so much more returning cash, and a quicker turnover of the circulating capital in the business, in other words, a shorter length of the working capital cycle. This ultimately increases the turnover ratios.

Where manufacturing is concerned, it is forever subject to troubles and difficulties of every nature. Some are easy to
overcome, others need the utmost urgency, energy and resources to get over them, and knowledge that a target figure has been fixed for the invoices to be issued that month undoubtedly stimulates those responsible to tackle such obstacles promptly. If no target is fixed, and no interest apparently shown in the proceedings by the senior management, the deliveries for the period will be anything from 10% to 20% less than they would have been if kept up to the mark.

Invoices issued should be tabulated every day under their respective categories of goods, and also as a total. On the last day of the month, the books and records must be closed down and the final cumulative figures of the month drawn up. No useful purpose is served by the common practice of keeping the books open for a day or two, in order to include just a few more invoices. It only means that the following is defrauded of invoices which should properly be credited to it and if this is done continuously, such sums merely cancel out. It is much better to allow the following month to benefit from the "over-run" of the rush of the current month, and keeping the closing date strictly correct.

(c) Orders Outstanding — The order book of a concern at the end of any month consists of the sum of orders outstanding at the beginning of the month, plus the orders received during
the month, and minus the invoices issued during the month. The significance of the outstanding orders record can be studied from three different angles, viz. (1) Under Job Production System; (2) Under Batch Production System; and (3) Under Mass Production System. We briefly examine these.

(i) Under Job Production System finished goods stocks are not affected, because all work is done according to customer's definite orders, and the order book will therefore be an indication of the activity of the concern. During boom period, the customers are forced to accept delivery periods as no early deliveries can be made by any concern. Since this state of affairs cannot last, in every corporation there should be a known normal and a danger-line, so that a manager's attention can be drawn to the urgent necessity of obtaining further work before a difficult position arises. The job production manager is better placed that his counterparts in the batch and mass production systems in this matter. Since his work is usually of a different nature for every customer, he can, if he is forced to reduce his prices at certain periods to find work, regain the normal level later. A cut price in the batch is apt to be followed years later by a demand for a repeat order at the same price - and hence sales difficulties arises.
(ii) Under Batch Production System, the corporation supplies goods to customers both from stocks and as per customer's special requirements, thus the orders outstanding records act as the link between sales and production departments. Quick deliveries are often a determining factor in the placing of an order, and unless there is some kind of liaison between sales and production, the sales department may make promises which the production department is unable to fulfil.

(iii) Under Mass Production System, the goods are produced to stock only. Here the orders are received on a day-to-day basis, and unless customers desire delay, deliveries can usually be effected immediately. Hence such orders do not figure in the records at all. Such a condition adds considerably to the difficulty of effecting a complete liaison between sales and production, and a great deal of skill and foresight is called for on the part of the chief executive in deciding the quantum of manufacturing sanctions to be issued. The reason is that if there is a sudden fall in the demand for the products, the finished goods become an unsaleable inventory. On the other hand, if there is a sudden spurt in the demand, the corporation loses sales as there is no finished goods inventory.
2. Production Report: Since the proposed control system is, after all, only a matter of gathering together the facts and figures relating to any form of corporate activity, presenting them in a form which enables those in charge to see without difficulty what is going on, and explaining the situation to them as simply as possible, it follows that the methods can be adopted, when suitably arranged, by any form of undertaking. The word 'production', therefore, may appear at first sight somewhat misleading, but it is used here to cover all those matters of interest within that corporate activity the condition of which is not directly reflected by the sales record, profit and loss account or the balance sheet.

This aspect of control is far more specialised and individual than the other three, as its structure naturally depends upon the nature of business. But in all organisations there are certain factors which are always to be met with. These should be studied first, and the more specialised checks and controls relating to the individual case considered later.

The common factors discussed in production report are the following -

a) The human element, i.e. the personnel who make up the total organisation and are paid for their services;
b) The cost of goods sold and/or services produced by those personnel as a group;

c) The technical efficiency of the equipment which are directly concerned with production;

d) The progressive development and amelioration of the products of the undertaking, whether goods or services.

Here, again, production is not used in its manufacturing sense. It means the end-product of the corporate activity, whether tangible or intangible. There are a wide range of activities, charitable, educational, sociological, scientific, and so on, all of which require money to support them, and must, therefore account for their income and expenditure. All of them, without exception, are subject to the influence of the four common factors mentioned above, and must watch and control the conduct of their affairs so as to achieve the maximum effectiveness in their "production" whatever it may be. We now consider these four common factors in turn.

a) The Human Element - As a corporation grows, staff will gradually grow with it, and the human element will by degrees assume a greater importance. But the influence of the person at the top will remain paramount. Many chief executives are natural born leaders. Such persons are alive to the vital
importance of enlisting the interest of every employee in the work which he or she is doing, and in the success of the community as a whole. It is not an easy thing to do, for much of the work on which personnel are employed is bound to be of a routine nature, varying little from day to day, and it is very easy for it to degenerate into boredom. To prevent this, the personal contact between the chief executive and the personnel is invaluable, and for this reason it will be found that in this respect the small corporations are often more efficient, more flexible, and more stable, than large ones.

Broadly speaking, the average individual who has to work for his or her daily bread looks for an adequate salary, a regular job with some interest in it, decent working conditions, opportunities for promotion and a fair deal from those working in the higher ranks. But however important the money may be, it is not always the deciding factor, and the prospects of promotion appeal only to a certain type of person. Human nature is infinitely variable, and it is important that the pegs should go into the holes that fits them best.

From the general management point of view, the statistical data submitted should give the total number of employees, split for males, females and apprentices. The number of employees joining or leaving should also be indicated, with, if possible, reasons for the latter.
b) The Cost of Goods Sold - In the cost of goods we have a vitally important aspect of the production report, as a concern which cannot supply its products or services at a cost sufficiently below the market price to leave an adequate margin for profits will soon be out of business.

For our purpose we may classify the corporations into two: manufacturing and non-manufacturing.

In the case of manufacturing corporations, the statement of account, being a summary, shows only the net result as a whole, and does not indicate (except when the corporation is marketing a single product) in which sections of turnover profits or losses have been made. For this information, we have to turn to the costing department, which forms a part of the accounting department.

The knowledge of costing has developed to such a degree of advancement, that it is now able to determine the cost of production to working degree of accuracy. The cost of the products produced should be forwarded to the person in charge of the production function at least once a month.

In job production system, the invoices issued record will present no difficulties. Each order received can be evaluated and the cost of production ascertained to a fair degree of
accuracy. In batch production system, any special order for customers can be treated as job production; batch production can be lumped together, and the until cost for that batch can be presented and compared with the average cost and sale price. In mass production, various methods are used for comparing cost with sale price. It may be convenient to split the final cost into component units, showing the actual cost against the standard cost, and the sale price. In one form or the other, comparative figures can always be obtained.

In the case of non-manufacturing corporations, the activity is mainly buying wholesale, distribution and selling wholesale and retail. The cost of goods sold will then include the cost of purchase, plus the salaries, wages, administrative expenses, etc.

It is seldom easy to control the total cost of any particular item, and usually the cost of proceedings is watched through profit and loss account, which is drawn up as possible to show the direct expenses incurred in marketing. From this we can see if the prices quoted are low, or the expenses too high, or whether the administrative expenses are too heavy.
c) The Technical Efficiency of the Equipment — We live at the present times in a machine age, when a good deal of man’s ingenuity is devoted to inventing machines to carry out work previously done by hand. A machine can achieve an accuracy and a regularity impossible in human beings, never gets tired and has no moods. But machines are expensive in their cost and the modern production unit has very large sums invested in it, by way of plant and machinery, equipments, etc. then what was invested, say, fifty years ago. As this investment entails a fixed expenditure of depreciation and interest, irrespective of the amount or value of production, it is of utmost importance that the plant and machinery be made to work up to its maximum capacity, or the maximum extent which the corporation can use it. For this reason, it is important to keep carefully the records of plant utilisation, idle time, breakdowns, such that avoidable wastage of capacity can be watched. From this we can have a general check as to the total number of machine hours lost per month for any reason. The causes of breakdown can be split if desired into machine breakdowns, absence of operators, shortage of materials, etc. When this control is being set up, it is advisable to take only those machines which are used constantly and not those which are used occasionally.
The efficiency of a manufacturing concern can never reach 100% partly owing to the cost involved, and partly owing to the upheaval often required of a greater efficiency in a specific section is to be achieved.

d) The Progressive Development & Improvement of Products - No activity can exist in static condition. It is either moving forward or falling back. And though on the surface rising sales may indicate prosperity, in actual fact the firm may be falling back because its products have active rivals competing, and behind its facade of those established products it has nothing new coming on.

The development of new products, or improvement of existing ones, is one of the fundamentally important factors in good management. Where close competition exists, the competitors are forced into development as not being able to improve the existing products or introduce new ones seriously hampers the reputation and goodwill of the organisation.

3. The Financial Report: Every undertaking, of whatever type it may be, is bound to carry on its affairs upon a foundation of finance. Funds ought really, therefore, to be looked upon as the most important factor in the situation, and whatever action is envisaged, theoretically an examination should
always be made as to whether the financial soundness is strong enough to bear it. Where large amounts of funds are involved, this is usually done, but in normal day-to-day operations, with adequate funds available, the matters relating to investment in current assets or collection of accounts payable is only too often relegated to a minor position. And at the end of the operating period, the management merely finds itself glancing at the financial situation.

In fact, funds are as if it were a brooding power in the background, watching all the time and showing what is happening clearly and unmistakably through the books of account. If the funds are being misused, it gives a fair warning of the fact, and if these warnings are ignored, decay steps in and takes charge, and once it steps in, the organisation has a hard lesson to learn. Apart from the influence of unforeseeable catastrophes, the movement of the funds in business is normally a slow affair, and signs of trouble are apparent long before the danger point comes. But if the oncoming of financial stringency is slow, the return to a safe condition may be an equally lengthy affair, and, moreover, fraught with problems and difficulties of every kind. It is obvious, therefore, that a careful watch over the unceasing movement of funds in an organisation is a matter of elementary common sense.
Since the essence of control in comparison, and it is, therefore, necessary to enter the monthly results upon comparison sheets. The entire information required is set upon these comparison sheets in vertical format. This has to be done only once, as the accountant will in future present his monthly results in this format. The layout of this comparison sheet should, in the beginning, be discussed between the managing director and the chief accounts officer, so that the format is most suitable for a particular corporation. Page 262 and 263 shows a typical comparison sheet, which may be slightly modified to suit individual needs. The accounts department has a very responsible field of work, but the responsibility ends when the books of accounts have been closed, and the respective trial balance, profit and loss account and the balance sheet has been prepared. The chief finance and/or accounts officer does not have to manage the business, but in order to get the most practical help and value out of the accounts, these must be presented in a shape that will give all the possible help. Hence, it may be seen that the comparison sheet has headings and sub-headings, which do not exist in the profit and loss accounts.

It may be seen that the expenditure is divided into and grouped under suitable heads. Hence, we have Sales, Cost of Production, and under cost of production we have the relevant
FINANCIAL REPORT

Performance report for the period from 1.xx.19xx to 30(or) 31.xx.19xx.

<table>
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<tr>
<th>Particulars</th>
<th>Actual</th>
<th>Budgeted</th>
<th>Cumulative</th>
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<td>A. Sales</td>
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<td>B. Cost of Production:</td>
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<td>1. Raw Materials used</td>
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<td>2. Wages</td>
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<td>3. Power &amp; Fuel</td>
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<td>C. Gross Profit (A-B)</td>
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<td>D. Overheads:</td>
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<td>iii. Phone, Postage</td>
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<td>iv. Insurance, legal fees, etc.</td>
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<td>v. Travelling</td>
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<td>vi. Others</td>
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<td>Total Administrative Expenses</td>
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<td>2. Financial -</td>
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<td>i. Interest on term loans</td>
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<td>iii. Commission, etc.</td>
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<td>Total Financial Expenses</td>
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3. Marketing —
   i. Advertising
   ii. Publicity
   iii. Salesman’s Salary
   iv. Others

Total Marketing Expenses

4. Depreciation & Maintenance —
   i. Plant & Machinery
   ii. Buildings
   iii. Vehicles
   iv. Furniture & Fitting
   v. Repairs

Total Depreciation Expenses

Total Overheads (1+2+3+4)

E. Operating profit (C-D)

F. Add Non-operating Income

   Less Non-Operating expenses

G. Net Profit before Taxes

H. Less Taxes

I. Net Profit after Taxes

J. Add Non-cash Expenses

K. Net Cash Generation

L. Investment in Current Assets — (average)
   Raw Materials
   Work-in-process
   Finished Goods
costs that make up the cost of production. The overheads have been divided into four major categories, i.e. Administrative, Financial, Marketing and Depreciation & Maintenance. Under the administrative sub-head, expenditures which are administrative in nature are put in, e.g. salaries, rent, rates, taxes, insurance, postage, telephone, legal fees, travelling and transport, Director's fees, printing and stationery, etc. Under the financial sub-head, we put expenditures such as interest charges on short term and long term loans separately, commissions and brokerage paid, if any, bank charges, etc. Under the marketing sub-head, we put expenditures such as Advertising and publicity, salaries of salesmen, commissions paid to salesmen, etc. Under depreciation and maintenance sub-head, we put expenditures such as depreciation on plant and machinery, buildings, vehicles, furniture and fittings, and other fixed assets, and also the repair and maintenance charges, etc. Non-operating incomes and non-operating expenses refer to incomes and expenditures which are not the direct result of the operations of the corporation, but arise on account of incidental activities, such as income on sale of assets, interest on securities, donations, loss on sale of assets, etc. Taxes are deducted so as to present a fair picture of the actual net profits, and non-cash expenses, like depreciation, provisions, etc. are added back so as to give us the net cash generation. From this figure, the management
can know as to what percentage of the sales actually comes in the offers of the corporation by way of cash, and are retained by the corporation in one way or the other. Apart from this, information regarding the investment in raw materials, work-in-process and finished goods, is also given.

This is the average investment calculated as under:

\[
\text{1. Average Investment in Raw Materials Inventory} = \frac{\text{Investment at the beginning of period} + \text{Investment at the end of the period}}{2}
\]

\[
\text{2. Average Work-in-process Investment} = \frac{\text{Investment at the beginning of period} + \text{Investment at the end of the period}}{2}
\]

\[
\text{3. Average Investment in Finished Goods} = \frac{\text{Investment in Receivables at beginning} + \text{Investment at the end of the period}}{2}
\]

This will show the trend in the investment in various components of working capital.

This comparison sheet may be supplemented with additional sheets for details of individual items if required or felt necessary.
One useful innovation is the way in which the investment in the different components of working capital is treated. It is seen that the investment in raw materials inventory, work in progress and cash is kept outside the main body of the comparison sheet, and that too, only the average inventory, average work-in-process and the average finished goods are taken. So, straightaway one can see the pace of the movements of these components of working capital.

There is one point which requires clarification and elaboration. There might be some difficulty in establishing the value of closing stocks, and this may tempt the accounts department to delay the submission of comparison sheet. To rectify this shortcoming, a cash flow statement for the month is proposed, which will indicate the actual flow of cash through various accounts. Thus, from the amount of payments made to the creditors on account of raw material supplies can be ascertained. If mercantile system of accounts is maintained, then this system will not be able to deliver the results desired. In that case, a direct report from the stores section will be required, showing the quantity of raw materials received from suppliers, the quantity issued for production, and the balance in stocks.

4. The Stability Report — The survey of the stability report is perhaps the most intricate of the four. The movement of
funds in the organisation has to be determined, i.e. where it comes from, how it is being used, and whether, from the security point of view the situation of the organisation is getting better or worse.

Active sales, a healthy order book, an efficient factory with up-to-date equipment, willing workers and loyal staff — all these collapse unless the financial foundation upon which the entire structure stands is sound, and kept sound as times pass, if not made stronger. Apart from the normal requirements of the chief executive for control purposes, there is an industry and commerce, unfortunately, always the possibility of control being obtained by those interested only in making money, some individual or group who will squeeze the last penny out of the undertaking without regard to its health and strength. To have a clear understanding of how the money in the business is moving is, therefore, the best defence against such policies.

Fortunately, all financial movements (except perhaps fraud or embezzlements) are invariably slow and gradual. Overtrading is always a gradual affair and can be detected long before it reaches the dangerous stage. But the indications must be understood, as it is this slowness in the movement which can make it so dangerous.
In the Financial Report, it was not an attempt to study the technicalities of industrial or cost accounting, but only how to understand these accounts after they have been presented. In the Stability Report, we study the movement of funds in the business, as recorded in the Balance sheet presented by the accounts department.

In fact, the structure of checks and balances is built around the balance sheet so that the question as to whether the financial position of the organisation is stronger or weaker can be answered. From the balance sheet, it is proposed that four different analysis documents should emerge, i.e. (a) Assets Variation Statement; (b) Cash Flow Statement; (c) Working Capital Investment Statement; (d) Financial Data Statement. These documents should emerge from the office of the chief executive officer of the organisation, which should have at least one qualified personnel with a broad outlook and good academic record, preferably with a management background. We now proceed to elaborate these four documents.

(a) Assets Variations Statement: The funds in an organisation are constantly on the move. Even fixed assets diminish slowly in book value through depreciation, while current assets vary in their value every day. If, therefore, a control is to be kept over the financial position of an organisation, some point must be fixed at which the position can be "frozen" and surveyed.
Many firms have daily or weekly statements of the cash and bank positions. Apart from these, which may be necessary owing to the organisation's financial state, it has been found if a regular report or statement is provided at the end of the month, it provides an adequate lever for control. For this purpose, the assets variations statement is prepared, which is really two balance sheets arranged in vertical form so as to indicate how the items have altered in the period under review.

This is based upon the fact that an organisation cannot create money. It starts operations with a certain amount of funds, and increase in that amount primarily comes from profits ploughed back into the organisation. Apart from these, issue of new shares, loans from financial institutions also contribute to increased amount of funds. The format of the assets variations statement is given on page 271 and 272.

It may be noted that the sub-headings for the various categories of assets and liabilities have been taken out. This is done because in the case of assets variations statement we are concerned only with the actual variations in the figures, and nothing else, for the purpose of ascertaining the change in investment. Should it be desired to study the investment—changes in a group – may be in liquid
assets or current liabilities — this should be taken as an additional calculation.

(b) Cash Flow Statement: The assets variations is always accompanied by a flow of cash which indicates from where cash came and where it has gone. This draws the attention of the chief executive as to what has happened, perhaps more clearly than a financial statement would do. Apart from the direct Sources of cash like loans, issue of shares, profits being ploughed back. This provides the chief executive of an organisation a snapshot view of the flow of funds in his organisation and he can regulate the flow if required.

(c) Working Capital Investment Statement: In the working capital investment statement, it is proposed to study the individual components and the investments made therein. What is important here is that a watch has to be kept on the composition of current assets, to see the amount of investments in raw material inventory, work-in-progress, and finished goods, apart from receivables and cash. A watch is also kept on the current liabilities, as these are normally used to partly finance the working capital. For this, in the proposed statement, first the working capital components are set out, then the current liabilities, thus showing the net working capital.
ASSETS VARIATION STATEMENT
(From 1.xx.19xx to 1.xx.19xx)

<table>
<thead>
<tr>
<th>Item</th>
<th>Period 1</th>
<th>Period 2</th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>fixed -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Land &amp; Building</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Plant &amp; Machinery</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Furniture &amp; Fitting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Vehicles</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Tools &amp; Equipments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) Others</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Cash</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Receivables, Trade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Receivables, Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Finished Goods</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Work in Progress</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) Raw materials</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) Supplies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>h) Others</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long term -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Long term Loan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Debentures/Bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Others</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current -</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Creditors, Trade</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Creditors, Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Short term Loans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Bank Overdraft</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e) Public Deposits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f) Provision for Taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>g) Provision for Dividends</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>h) Others</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deduct</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

-: 271 :-
The value of this statement lies in the fact that it enables the chief executive to watch every month the liquidity of working capital, as this has an important bearing on the cash forecast.

(d) Financial Data Statement: This is the forth of the key schedules analysing the stability viewpoint. Information recorded in this statement come from a variety of sources, it will be helpful to collect on one sheet the direct build-up of figures involved, so that the derived figures can be obtained without reference to the original documents. The details record in this statement cannot be standardised as these will vary from one corporation to another, and also on the financial structure of the corporation. The format of this statement is given on page 274. Apart from this,
any information which the chief executive officer desires to watch every month can be included. It may be noted that the number of items have been restricted to a reasonable level, consisting only of those which are important, as too many figures and ratios are apt to be confusing in monthly control analysis.

Some elaboration of the working capital is required here. The current assets from the circulating capital, and it is by means of the cash and incoming debtor-money that the production wages, materials and charges are paid. These wages, materials and charges produce work-in-progress, which becomes finished goods and are sold. The purchased become a debtor, and as he pays his debt the money is again used for wages, materials and charges. The cycle never ceases, giving rise to working capital turnover ratio, which measures the flowspeed of working capital in the organisation. Since this flow speed is determined by dividing sales turnover by the total working capital shown by the balance sheet, it is obvious that to increase this flowspeed three courses are open—

1. To increase the sales turnover with the same amount of working capital;
2. To reduce the working capital while maintaining the sales turnover;
3. To do both 1 and 2 above simultaneously.
FINANCIAL DATA STATEMENT

<table>
<thead>
<tr>
<th>Period</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of working days</td>
<td>30</td>
<td>31</td>
<td>30</td>
<td>31</td>
</tr>
</tbody>
</table>

1. Sales:
   - Current sales
   - Average Sales (PD)
   - Budgeted sales

2. Working Capital:
   - Cash
   - Trade Debtors
   - Finished Goods
   - Work-in-progress
   - Raw Materials
   - Deposits & Prepayments
   - Total

   Working Capital
   Turnover Ratio

3. Bank Overdraft

4. Creditors, Trade

5. Additions to
   Fixed Assets:

   - Buildings
   - Plant & Machinery
   - Furniture & Fitting
   - Total

6. G. Profit Ratio:
   - Net Profit before Tax ratio:
   - Current Ratio

7. Net Working Capital:
   - Current Assets
   - Current Liabilities
   - Net Working Capital
Funds invested in the current assets will depend upon the activity of the business — the more the output rises, the more debtors and stocks will be recorded. These are point figures, hence, as a yardstick we use the calendar sales day, which is also a point figure found by dividing the sales turnover by 365. This makes it possible to assess the current assets investment in terms of sales days., and monthly variations can thus be carefully watched.

To assess the financial influences expertly is a tricky matter, owing to the interlocking nature of the figures and the fact that a rise or fall in a balance sheet item may be either good or bad, according to the circumstances. It is therefore impossible to set down any simple recommendations upon which judgement can be based. For the purpose of diagnosis, the executive assistant to the chief executive officer or the chief executive officer himself needs an intimate knowledge of the organisation's affairs, and an understanding of business finance.

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