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Does your accountant understand manufacturing?

If not, get one who does

For over 17 years I have worked closely with more than 250 manufacturers in both Australia and New Zealand. This comprised senior management roles assisting 150 manufacturers under franchise arrangements and now with 104 of our own manufacturing clients. Additionally our company is currently communicating with in excess of 800 additional manufacturers about their systems and future requirements. This broad experience enables me to report with confidence on the following.

There are three types of accountant falling within two groups, namely:

Public accountants

• financial accountants

In house accountants

• financial accountants;

• management accountants.

Financial accountants, whether they work in the public sector or in house for a manufacturer focus largely on completing company GST returns and annual accounts. From this basis both types of financial accountants' advice is largely based on historical data, that is, planning for the future based on numbers and ratios that appear in the company's profit and loss statements, which mainly have occurred in the past.

Very much in contrast, management accountants, which in most cases work in house in full time management roles within manufacturing companies, focus on looking at current and future opportunities to improve their company's bottom line. This involves focusing on cost analysis and running 'what if' scenarios to better forecast and plan.

Management accountants, through years of involvement with a manufacturer, gain an in-depth understanding of the business, the numbers, the reasons for the numbers and, therefore, are able to give sound business advice, which can have significant positive strategic impact on businesses. Unfortunately though, management accountants tend to work only for larger manufacturers who can afford their salary cost.

Over 90% of manufacturing clients that I have worked with do not have in house management accountants. This large group of manufacturing clients relies solely on its public financial accountants. Herein lies the opportunity for small to medium sized manufacturers. On a part-time basis, you could consider securing the services of a good management accountant that has sound industry relevant manufacturing experience that can assist you in business on a regular basis.

A good management accountant could be on your board or in a governance role and could assist you in monthly coaching and planning sessions.

With the economy getting tighter and with manufacturing getting harder, now more that ever do you need all the following:

• objectivity;

• a fresh perspective;

• someone to focus on "working on the business and not in the business";

• someone who can run the numbers and carry out the analysis to provide sound recommendations to owners and management;

• someone to tackle those important projects that you, as the owner or manager, never get the time to commence let alone complete.

The 10 critically important issues that your management accountant needs to assess and include in advice to you are:

1. staff are paid a standard 38 hours per week but only work on productive jobs and, therefore, can only be invoiced out for 23.5 hours per week.

If in your overhead cost and charge out cost calculations you expect and have calculated significantly more than 23.5 chargeable hours work per week per employee, your overhead cost per hour and your charge out rate per hour is likely wrong. This can be causing significant losses in your revenue and profit;

2. the unproductive time is currently 'Y' total factory hours per week. Total unproductive hours need to be tracked accurately and reported weekly. (Again, if you currently have your unproductive hours total significantly wrong your overhead cost per hour and your charge out rate per hour will likely be significantly wrong, which can cause significant losses in your revenue and profit.)

3. It currently costs $50 plus per hour per staff member to run the business and this calculation needs assessment. (It will usually cost some where between $50 and $75 an hour per staff member overhead cost to run most manufacturing businesses. The company's current overhead cost calculation needs to be calculated at least annually and revised immediately any costs and revenue change significantly.)

4. Determine the magnitude of additional profit that can be generated for the business by achieving target increases in factory productivity. Use the Manufacturers Profit Calculator to confirm, for example, that a 10% increase in factory productivity can generate a 32% increase in annual profit.

(Templates to assist you determine 1, 2, 3 and 4 above are available to be downloaded free of charge from www.empowersoftware.biz/producitvitytemplates.htm. You and your management accountant's use of these templates is welcomed and encouraged.)

5. Recording of all times on all manufacturing jobs needs to be accurate for job cost analysis to have any value. (If you are using time sheets that your factory staff fill in at the end of the day, commonly known in manufacturing as 'lie sheets' and 'cheat sheets', consider the well known and accepted adage and business advice 'garbage in equals garbage out'. That is why your job costing reports can be largely inaccurate. Also there is a substantial administration → 20

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time and cost inputting 'lie sheet' data into your job costing system. And, when you get the reports back three days later, it is too late to address staff about production and productivity issues.

Time tracking software using PCs on the factory floor is what you require in manufacturing as they report: • accurate times on jobs and • report 'live' job times and status from the factory floor. Time tracking software is common place in manufacturing today, their success well proven and, furthermore, they are inexpensive, simple and quick to implement.

6. Overhead staff involved mainly in pre production, who work significant periods of times on specific jobs, also need to record and report their actual times on each job. (Overhead staff include designers, machine programmers, purchasing, project management).

7. All costings for quotations need to break down to and include budgeted times for all pre production processes involved in each job. This way you can carry out a full job costing (not undertake a partial job costing listing and reviewing only factory processes.)

8. All completed jobs need to be job costed (ie. back costed) at least every month and then properly reviewed by management and in turn by all staff or at least key staff. This review would ideally include your management accountant.

Meeting and formally reviewing which jobs went well and which jobs ran over time is critical. In identifying and recording the causes of issues and time over-runs, the proposed solution also needs identifying and recording. This process is known as continuous improvement of your core business. If you currently do not carry out job costing and this review process it could be said that you are paying your core business lip service. In manufacturing your core business is labour management.

9. Itemisation and assessment of profit contribution from:
• all clients,
• all products.

10. Prepare a business plan. If you wanted to get in your yacht and sail from Sydney harbour to the Greek Islands you would prepare a plan. You should take your business equally seriously. Your management accountant should be well able to prepare a brief yet effective business plan for your business. The plan should outline where you want to go, how you will get there and by what time frame. The plan will address contingencies. I suggest the plan include the following:
•Our core business is labour management?
• Our business goals for 2009 are outlined in terms of:
* target productivity;
* target profitability;;
* advertising, selling and marketing effectiveness;
* new customers, new geography and new products;
* sales margin per job;
* market share (if applicable);
* list of main initiatives which will help us achieve our goals outlined above;
* who will ultimately own and manage the project;
* what resources and time focus will be committed;
* all goals and main initiatives need to outline quarterly milestones. So management can meet quarterly and gauge performance and take any necessary actions.

In summary, regular involvement of a management accountant in your business could assist your business immensely. -S-