

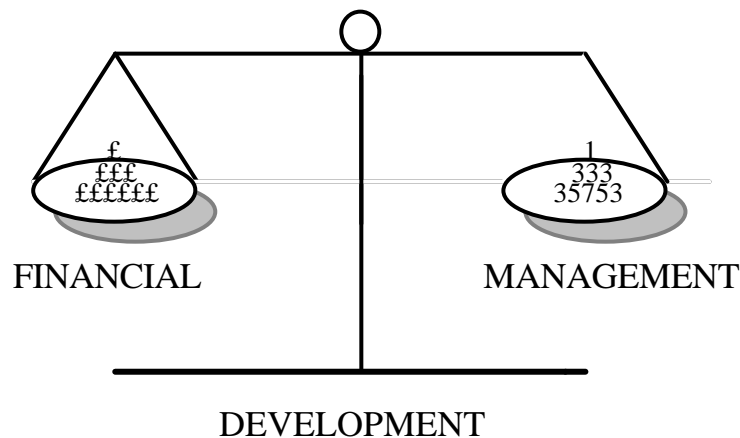
FINANCIAL MANAGEMENT DEVELOPMENT

Financial Accounting

Financial Performance Measurement

NO 121

MEASURING FINANCIAL PERFORMANCE



ONE OF A SERIES OF GUIDES FOR
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This is one of a series of documents produced by David A Palmer as a guide for managers on specific financial topics to assist informed discussion. Readers should take appropriate advice before acting upon any of the issues raised.

MEASURING FINANCIAL PERFORMANCE

WHY KEEP FINANCIAL ACCOUNTS?

If you had invested money in a company you would want to be kept informed of its activities. In particular you would want to know what the managers of the company had spent your money on and whether they had spent it wisely. However as a sophisticated investor you would recognise that some spending is by way of an investment for the future as opposed to an expense. You would also be aware that because some transactions do not involve paying cash, it is important to have a record of commitments as well as the basic cashflow. The concept of double entry bookkeeping was invented to provide a basis for satisfying these needs and this paper sets out the basics of the system which is used to provide the Published Report and Accounts so beloved of financial analysts and so detested by many operational managers.

Financial accounting in its current form was designed several centuries ago to deal with the needs of investors and protect them from the enthusiasm and excesses of management to whom they had entrusted their funds. It is essentially aimed at providing a record of past performance and therefore may give no guidance regarding the future. That role is left to Management accounting and is the subject of another paper.

FINANCIAL ACCOUNTING	<i>MANAGEMENT ACCOUNTING</i>
RECORDS THE PAST	<i>HELPS IMPROVE THE FUTURE</i>
HAS RIGID DEFINITIONS	<i>CHANGES TO SUIT NEED</i>
PROTECTS THE SHAREHOLDER	<i>HELPS THE MANAGER</i>
IS CONTROL ORIENTATED	<i>HAS MULTIPLE USES</i>
IS FOR EXTERNAL REPORTING	<i>IS FOR INTERNAL REFERENCE</i>
IS A LEGAL REQUIREMENT	<i>IS SELF INFLICTED</i>
MERELY KEEPS THE SCORE	<i>ADDS VALUE TO DECISIONS</i>

BOTH RELY ON ACCURATE RELIABLE TIMELY DATA

However as transactions became more complex even the reporting of past events became sufficiently open to manipulation that various rules were required to regulate the disclosure of data to investors and others who have an interest in the financial activities of companies. Although many detailed rules have been devised by the various accounting professional bodies five basic concepts are generally regarded as sufficient guidance to help formulate the correct method of presentation of any economic activity.

THE FIVE BASIC CONCEPTS

One definition of a Profession is a group of people who invent a language which only they can understand. They can then charge a fee to others for interpretation. Accountants are no different. The five basic concepts are no more than common sense with new names. They are:

Accruals - Once a binding agreement has been reached to pay money that agreement should be recognised in the accounts whether or not any cash has changed hands. The accounts should show the result of trading for a particular period not just cash movements. Otherwise Insurance Companies would look wonderfully profitable for the first few years and Building Societies would look very sick.

Consistency - Once you have decided on a way of accounting for particular transactions, you should not change without disclosing that fact. You cannot decide to set money aside for repair costs in a profitable year and then decide not to in a poor year unless you tell investors what you have done. Such blatant profit smoothing is not allowed, except by banks when deciding how much to provide against bad debts, and even they had trouble disguising the extent of losses on loans to South America in the 1980's.

Prudence - Losses should always be provided against when they are identified, profits can never be recognised until they are certain. This is drummed into Accountants from an early age and is one of the key reasons why accountants do not see eye to eye with sales people who have the opposite perspective. To be fair to accountants if you were asked to keep an exact record of something as subjective as profit, you would tend to err on the side of pessimism. No one gets fired for saying "the numbers were wrong, we made more profit than I told you last month." More importantly Auditors are rarely sued by shareholders for approving a set of Accounts which understates the Company's performance.

Separability - Transactions should be shown in component parts not amalgamated. Thus buying goods for £1,000,000 and selling them for £1,000,001 cannot be shown as "We made a profit of £1." Both numbers should be shown to give a fair picture of trading.

Going Concern - The Accounts are based on the assumption that the company will continue to trade. If it closes down then they cannot be expected to give a realistic view of the trading position at the year end. A trading company will normally show stock as an asset valued at cost. If it stops trading that asset may be worthless.

All Published Accounts will conform to these concepts and the Audit Report can be relied on to say so if the Accounts breach them.

HOW IT WORKS

Double entry bookkeeping is simple. Record every item twice and then add everything up. If the two totals are the same, everything must have been processed correctly. Thus if you are a shareholder in a company it is reasonable for you to ask the management to keep a record of what they have done. After all transactions have been processed you will want to know three things:

What does the company own and what does it owe? (Balance Sheet)

Has the value of sales exceeded the value of costs? (Profit and Loss Account)

What has been done with the cash? (Cash flow statement)

The following example shows how twelve simple transactions are recorded in the accounts of a Company to produce the published Accounts at the end of the accounting period. The transactions are as follows:

1. The company issues £20,000 shares for cash at a price of £1 each.
2. The company borrows £10,000 from the bank at an interest rate of 10% p.a.
3. £20,000 is paid for the lease of a shop for two years.
4. £8,000 worth of goods are purchased for cash.
5. £1,000 cash is spent on advertising.
6. Half the goods are sold for £10,000 cash.
7. Another £6,000 worth of goods are purchased on credit.
8. Goods costing £5,000 are sold for £10,000 on credit.
9. Goods costing £1,000 are identified as worthless.
10. A dividend of £1,000 is paid in cash.

After each transaction a new Balance Sheet can be drawn up to show the impact.

For each transaction it is important to realise that there are two entries and that both affect the accounts. The conventions merely guide how they are affected. Although the accounts can be manipulated by choosing a favourable treatment, cashflow is impossible to disguise except by fraud.

1. The company issues £20,000 shares for cash at a price of £1 each.

SHARE CAPITAL	20,000	CASH	20,000
	=====		=====

The balance sheet is simple. The company now owns cash of £20,000 but it has a liability of the same amount to its shareholders. If the company were to cease trading they could receive their money back. If the company trades and makes a loss the shareholders funds will be reduced. Limited liability merely means that the shareholders can only lose the money they have put in.

2. The company borrows £10,000 from a bank at an interest rate of 10% p.a.

SHARE CAPITAL	20,000	CASH	30,000
BANK LOAN	<u>10,000</u>		
	30,000		<u>30,000</u>
	=====		=====

The company has incurred a further liability but since it is matched with an asset there is no impact on profit. However the company has a liability for interest which under the accruals concept it will need to provide for. (See transaction 11.) Most companies provide, i.e. make a charge against profits, on a monthly basis for such items as interest payable. A bank would make the calculation on a daily basis. Thus each day it would balance its books, including calculating how much interest its customers now owe. This is a simple application of the accruals concept. It is wrong to ignore a liability, because it distorts the profit and can result in wrong decisions.

3. £20,000 is paid for the lease of a shop for two years.

SHARE CAPITAL	20,000	LEASEHOLD	20,000
BANK LOAN	<u>10,000</u>	CASH	<u>10,000</u>
	30,000		30,000
	=====		=====

Cash has reduced by £20,000 but the company has acquired an asset - the use of the shop. This asset has a finite life and thus it is used up over time. It is normal to treat expenditure on assets which last for more than one year as an investment in Fixed Assets and depreciate, i.e. charge off against profits and thus reduce the value of the asset, by an amount equivalent to the value consumed. In this example the lease was for two years so £10,000 is used up each year and this will be reflected in transaction 12.

4. £8,000 worth of goods are purchased for cash.

SHARE CAPITAL	20,000	LEASEHOLD	20,000
		STOCK	8,000
BANK LOAN	<u>10,000</u>	CASH	<u>2,000</u>
	30,000		30,000
	=====		=====

Once again cash has been used up, but because it has been swapped for another asset, there is no loss to the business. Cash resources have almost disappeared but there is no trading loss. Since stock is bought with the intention of resale, it is treated as a Current Asset and not depreciated.

5. £1,000 cash is spent on advertising.

SHARE CAPITAL	20,000	LEASEHOLD	20,000
RETAINED LOSS	(1,000)	STOCK	8,000
BANK LOAN	<u>10,000</u>	CASH	<u>1,000</u>
	29,000		29,000
	=====		=====

Advertising does not result in a tangible asset. Or at least the accounting profession believes that since the benefit from advertising will only arise in the future it would be imprudent to treat it as an asset. The reduction in cash is therefore matched by a charge against profits and in this example gives rise to a retained loss. This is prudent but arguably misleading and a number of companies effectively show advertising as an asset on their balance sheet under the intangible asset heading Brand Valuation. It is a difficult asset to sell if the company is wound up so accountants remain nervous of it. Brands, like People are corporate assets but difficult to value so accountants ignore them. Any spending on advertising or training is therefore written off against profit in the year it is incurred. That is why they are the first things to be cut when times are hard.

6. Half the goods are sold for £10,000 cash.

SHARE CAPITAL	20,000	LEASEHOLD	20,000
RETAINED PROFIT	5,000	STOCK	4,000
BANK LOAN	<u>10,000</u>	CASH	<u>11,000</u>
	35,000		35,000
	=====		=====

At last some trading has taken place. Cash rises by £10,000, stock is reduced by only £4,000. Thus a profit of £6,000 has been realised and when offset against the advertising cost leads to a retained profit of £5,000. Notice that no attempt is made to revalue the remaining stock. Even though it may now be worth more, to recognise the profit would be imprudent. Some industries do revalue stocks, notably the oil companies and those trading in marketable securities. However to be consistent they have to show a reduction in value if the market value of stock falls.

In some companies an unrealised profit is recognised on fixed assets such as property. It is obviously misleading to leave land in the accounts at its cost when it was purchased decades ago. Thus some companies have recognised the increase in value by revaluing the property asset and including an offsetting amount in retained profit. In order to ensure that it is understood that this profit is dependant upon the property being sold, the amount is usually segregated into a "Revaluation Reserve", a separate category of retained profit, to show that it arises from holding an asset and not from normal trading.

7. Another £6,000 worth of goods are purchased on credit.

SHARE CAPITAL	20,000	LEASEHOLD	20,000
RETAINED PROFIT	5,000	STOCK	10,000
BANK LOAN	10,000	CASH	11,000
		CREDITORS	(6,000)
	<u>35,000</u>		<u>35,000</u>
	=====		=====

Stock increases but this is matched by an offsetting liability and therefore there is no effect on profit. Because the liability is current, i.e. it will fall due within one year it is normally shown as a deduction from the assets side of the Balance Sheet. In practice most companies produce Balance Sheets which run down one column rather than in two columns as above. Some show the total for shareholders' funds as being matched by assets less all (including long term) liabilities rather than arriving at a total of Capital Employed in the business. The UK legislation allows either and different approaches are allowed in the U.S. and Europe. In practice the order and the total are irrelevant, as different totals are appropriate for different review purposes. In practice it is up to reviewers to look at the details and make up their own ratios.

8. Goods costing £5,000 are sold for £10,000 on credit.

SHARE CAPITAL	20,000	LEASEHOLD	20,000
RETAINED PROFIT	10,000	STOCK	5,000
BANK LOAN	10,000	DEBTORS	10,000
		CASH	11,000
		CREDITORS	(6,000)
	<u>40,000</u>		<u>40,000</u>
	=====		=====

A simple choice exists. Is the sale binding or not? If it is, then the sale is shown. It is matched by a legal debtor and the profit of £5,000 can be recognised. Much legal debate exists as to whether a sale has taken place. The normal definition is that the service has been performed or that title in the goods has passed. Problems arise with advance sales, "sale on sale or return" contracts for over one year etc. Financial contracts such as insurance and leasing are particularly susceptible to being interpreted in ways which recognise too much profit too early. The key concepts are prudence and consistency. Profit should not be recognised too early. Over a large number of recurring transactions a consistent accounting policy will enable investors and managers to establish the health or otherwise of the business.

9. Goods costing £1,000 are identified as worthless.

SHARE CAPITAL	20,000	LEASEHOLD	20,000
RETAINED PROFIT	9,000	STOCK	4,000
BANK LOAN	10,000	DEBTORS	10,000
		CASH	11,000
		CREDITORS	<u>(6,000)</u>
	<u>39,000</u>		<u>39,000</u>
	=====		=====

A simple application of prudence. The value of stock is reduced and the effect of the write down is taken against profit. Stock is normally held on the Balance Sheet at the "lower of cost or Net Realisable Value". Thus if the Company knows that the cost cannot be recovered it should write the stock down to the value it will receive and take notice of the loss immediately. This only applies to losses not profits. For this purpose cost can include any costs of manufacture. Thus a half-built car is valued at the cost of components, plus the cost of labour, plus an appropriate share of factory overheads. Companies can keep adding value to the stock and thus avoid taking costs against profit but only to the extent that cost must not exceed sales price less any costs of making the sale, i.e. Net Realisable Value.

A similar event occurs when debts are deemed to be bad, i.e. the debtor will not pay and therefore the asset of the debt has no value. This is the "writing off of bad debts". Where a company believes that it has debts at the year end, some of which will prove to be bad but it does not know which ones, it will normally make a "provision for bad debts" against them. It will reduce profits and the value of the debts by the extent of the provision. Then when the doubtful debts prove to be bad the pain has already been taken and there is no impact on profit. This approach, designed to apply prudence to the value of stock and debtors is particularly susceptible to manipulation by companies wishing to smooth profits.

10. A dividend of £1,000 is paid in cash.

SHARE CAPITAL	20,000	LEASEHOLD	20,000
RETAINED PROFIT	8,000	STOCK	4,000
BANK LOAN	10,000	DEBTORS	10,000
		CASH	10,000
		CREDITORS	<u>(6,000)</u>
	<u>38,000</u>		<u>38,000</u>
	=====		=====

Cash is paid out and retained profit falls. However the Dividend is not a normal cost. It is an appropriation of profit. The company has made a trading profit and is merely giving some of it back to the shareholders. That does not reduce the profit made, but it does reduce the profit retained in the company. The concept is similar to the bank sending you a cheque for deposit account interest rather than crediting it to your account. You do not make any less money, but there is less in the account than there would have been if they had left the interest on deposit.

11. The interest of £1,000 on the bank loan is provided for.

SHARE CAPITAL	20,000	LEASEHOLD	20,000
RETAINED PROFIT	7,000	STOCK	4,000
BANK LOAN	10,000	DEBTORS	10,000
		CASH	10,000
		CREDITORS	(7,000)
	<u>37,000</u>		<u>37,000</u>
	=====		=====

Just because you do not have a piece of paper does not mean that you have not incurred a liability. Similarly, throwing away suppliers' invoices or hiding them from the accounts department does not make the liability any less. The interest is a cost of running the company for the accounting period and therefore has to be accrued for by adding £1,000 to creditors and reducing profit by £1,000. Then when the interest is paid the cash will fall, but so will the creditors. The profit will be unaffected by the subsequent payment. That is the point of accruals. They seek to charge the right period rather than the one in which the cash happens to be paid. It is perfectly possible to have accrued income as well as accrued costs. Both income and costs should be matched to the period to which they relate irrespective of the cash movement.

12. The depreciation of the leasehold is accounted for.

SHARE CAPITAL	20,000	LEASEHOLD	10,000
RETAINED LOSS	(3,000)	STOCK	4,000
BANK LOAN	10,000	DEBTORS	10,000
		CASH	10,000
		CREDITORS	(7,000)
	<u>27,000</u>		<u>27,000</u>
	=====		=====

The value of the fixed asset has been consumed. In the absence of any other information it is depreciated equally over two years. This results in a lower asset value, known as its Net Book Value (because it is its cost less depreciation to date), and a charge against profits. Most Fixed Assets are depreciated. The calculation is designed to spread the cost, i.e. the amount paid for the asset less any expected disposal proceeds, over its estimated useful life. Since disposal proceeds and useful lives are estimated then the depreciation charge is always an approximation and therefore subject to a certain amount of manipulation.

The company has traded at a loss of £2,000 and incidentally has acted illegally by paying a dividend out of profits it did not make. It has reduced the Net Worth of the company by £3,000. That does not mean that the managers have consumed value. They have been building up trading relationships and the shares may reflect that by being worth more than the original £1. Any excess of the value of the shares over the £17,000 value of shareholders' funds is Goodwill which is not recognised as an asset of the company. If the company were to close tomorrow, the goodwill would be worthless. The accounts are normally drawn up on the assumption that the company will continue trading.

If it were to stop trading the value of some of the assets would be in doubt. Certainly the leasehold and possibly the stock would not be worth their stated values. However the Going Concern concept under which Published Accounts are drawn up explicitly assumes that the company will continue trading and therefore the horrors of a forced sale can be ignored.

NOTE

Please note that for the sake of simplicity the above example ignores tax. This is consistent with the approach adopted by small businesses which fail to account for and plan the payment of tax and therefore go bust 21 months after starting up. Tax on profits is due 9 months after the year end. Failure to accrue for tax is criminal stupidity which is why it is a shame that most examinations on finance state "ignore Tax". Since the example ignores salaries and associated taxes, as well as VAT it is at least consistent! In its defence the company did make a loss and the tax credit for losses and the Rebate for Value Subtracted are the subject of a different paper.

Having dealt with the Balance Sheet it is useful to look at the Profit and Loss Account.

THE PROFIT AND LOSS ACCOUNT

The profit and loss account merely seeks to follow the concept of separability. Rather than merely informing shareholders of the movement in retained profit for a period it sets out the details of sales and costs in ways which are prescribed by various legislation. There is always an option to issue more information than statute requires but most companies want to avoid telling the world too much about their business so they will keep detailed external disclosure to the minimum. This does not stop the marketing department attaching all sorts of non-statutory, unaudited information to the published document. All such information is designed to "sell" the company and therefore may be somewhat partisan in its approach.

The Profit and Loss Account sets out income from activities and the associated costs. Using the above example the figures would be:

PROFIT AND LOSS ACCOUNT FOR THE YEAR (Note 1)

	£	£ (Note 2)
SALES (Transactions 6 & 8)		20,000
COST OF GOODS SOLD (Note 3):		
Opening Stock	0	
Purchases (Transactions 4 & 7)	14,000	
Closing Stock (Note 4)	<u>4,000</u>	
		10,000
GROSS PROFIT MARGIN (Note 5)		<u>10,000</u>
ADVERTISING (Transaction 5)		1,000
LEASEHOLD AMORTISATION (Transaction 12)		<u>10,000</u>
		11,000
OPERATING PROFIT (LOSS)(Note 6)		<u>(1,000)</u>
INTEREST PAYABLE (Transaction 11) (Note 7)		1,000
PROFIT (LOSS) BEFORE TAXATION		<u>(2,000)</u>
TAXATION		-
LOSS AFTER TAXATION (Note 8)		<u>(2,000)</u>
DIVIDEND PAYABLE (Transaction 10)		1,000
RETAINED LOSS FOR THE YEAR		<u>(3,000)</u> =====
LOSS PER SHARE (Note 9)		15p

Note that Transactions 1,2 and 3 do not appear because they had no profit effect.

NOTES TO THE PROFIT AND LOSS ACCOUNT

1. The period of a published profit and loss account is normally a year. However Retailers often finish on the same day of the week and so every few "years" they will have 53 weeks rather than 52. It is sensible to check that the length of two profit and loss accounts is the same when drawing comparisons between two periods, otherwise you run the risk of joining the many inexplicably innumerate managers who year after year find that February is worse than March because income is low and yet their budget divided all costs by 12.
2. Published accounts are normally in thousands or millions of pounds (or local currency). Most management accounts round to three significant figures.

3. The cost of goods sold normally includes manufacturing costs. In most published accounts it is difficult to interpret because companies do not wish to show their true margin. Notice that the cost is arrived at by adjusting the purchases figure for the stock movement. To actually identify each item as it is sold would demand stock records too detailed for most purposes.
4. Because the closing stock is counted and valued it automatically adjusts for the £1,000 of stock that was deemed worthless. Any change in stock valuation has a direct effect on profit and this is therefore the most important area for the Auditors to look at when they review the accounts.
5. A vital measure in management accounts, Gross margin shows the extent to which value has been added to goods sold. Analysts frequently express this as a percentage of sales price.
6. The operating profit or loss shows the extent to which trading has been successful. It is frequently quoted by analysts as margin (a percentage of sales).
7. Interest depends on the way a company is financed and is therefore separated from trading activities.
8. The Profit or Loss after taxation is the key performance indicator. Sometimes called Earnings it is the final measure of corporate success: sales less all costs.
9. Because it is important to relate earnings to the value of capital required the Earnings per Share is shown on the face of the Profit and Loss Account. It is simply profit after tax divided by the number of shares. This forms the basis for the PE ratio quoted in the press.

Having dealt with the Profit and Loss Account only the cashflow statement remains to be illustrated.

CASHFLOW

Cashflow statements in published accounts are a minefield for the unwary. This is a shame because it provides much useful information to the reader. In essence it should be simple: cash at start, cash in, cash out to give cash at end. Thus in the example:

	CASH IN	CASH OUT	
	£	£	£
CASH AT START			-
Transaction 1 Issue of shares	20,000		
Transaction 2 Loan received	10,000		
Transaction 3 Lease purchased		20,000	
Transaction 4 Goods purchased		8,000	
Transaction 5 Advertising purchased		1,000	
Transaction 6 Sale of Goods	10,000		
Transaction 10 Dividend paid		1,000	
	-----	-----	
TOTAL CASH IN	40,000		40,000
TOTAL CASH OUT		30,000	(30,000)
CASH AT END			----- 10,000 =====

Transactions 7,8 9, 11 and 12 did not involve cash.

This is obviously too simple to be given to shareholders but the explanation of the Statement of Source and Application of Funds which is the form of cashflow statement in most published accounts is beyond the scope of this paper. For most practical purposes any management information will follow the approach set out above.

IN SUMMARY

The Three Accounting Statements

The **Balance Sheet** shows the state of the Company at a point in time and lists what it owns and what it owes. To the extent that the net figure of assets less liabilities has grown since the previous Balance Sheet then Shareholders' Funds must have grown by a corresponding amount and the company must have made a profit.

The **Profit and Loss Account** shows the details of trading and analyses the movements in Retained Earnings between two Balance Sheets.

The **Cashflow Statement** shows the details of movements in cash between two Balance Sheets.

The Double Entry System

All transactions which have legal effect, or which recognise a change in circumstances, will appear twice in the accounts. Thus a **payment of cash** results not only in a reduction in the cash balance but will also result in either:

- the **recognition of an expense** e.g. money paid for advertising, or
- an **increase in assets** e.g. money paid to buy stock or fixed assets, or
- a **reduction in a liability** e.g. money paid to creditors or for an accrued expense.

A **receipt of cash** will result in an increase in cash and either:
the **recognition of income** e.g. money received for sales, or
a **decrease in assets** e.g. cash received from debtors, or
an **increase in liabilities** e.g. cash borrowed from a bank.

Not every transaction involves cash. Use of electricity results in the recognition of a cost and an accrual.

The Five Accounting Concepts

The five principles guiding the treatment of items which involve judgement are:

- | | |
|----------------------|--|
| Accruals | Items of income and expense should be recognised in the period to which they relate. |
| Consistency | Accounting policies should not be changed without full disclosure of the effect. |
| Prudence | Losses should be provided for when identified, profits should not be recognised until they are achieved. |
| Separability | Significant items should be disclosed separately in the accounts, not netted off. |
| Going Concern | The accounting process assumes the company will continue to trade. If that is in doubt then the stated values may be unreliable. |

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David is an experienced financial professional who has devoted his skills to management training in practical understanding and utilisation of financial information. A Graduate, Chartered Accountant, and Associate of the Institute of Taxation, he is also a Member of the Chartered Institute of Personnel and Development.

He has worked as a Financial Controller and Company Secretary in the Finance Industry and as a Director of Finance and Administration in the Computer Services industry. Since 1990 he has conducted management development programmes for over thirty major organisations including Blue Circle, BP, CSC Computer Sciences, Conoco, Ernst & Young, Lloyds Bowmaker, The Post Office, Rothmans and Zeneca. International training experience includes work in Denmark, Kenya and the Czech Republic for Unilever, in Dubai for Al Atheer, in Holland and the U.S. for Avecia and Zeneca and in Bahrain and Saudi Arabia for Cable & Wireless.

He specialises in programmes in financial management for both tactical and strategic decision making. A key output from the training is demonstrable use of the knowledge and skills acquired to enhance corporate profitability. In addition he has run courses in acquisition evaluation (The Economist, Blue Circle and Hays Chemicals) and in post-acquisition management (Unilever). He has also developed material for delivery by in house personnel (Royal Mail, Lloyds Bowmaker and Conoco) and computer based training packages (The Post Office, Unilever and BP).

He is a prolific writer of case studies, role plays and course material, he has also published articles on the financial justification of training, financial evaluation of IT investment proposals, the use of Activity Based Costing and Customer Profitability statements, commercial considerations for consultants and the need for taxation awareness training for general managers.

He is married with one grown up daughter and his outside interests include being The Treasurer of the Hospice of St. Francis (Berkhamsted), and a member of the Catholic Alpha Training Team (Promoting the Alpha course on Basic Christianity). He was a Governor of Luton University for nine years and a school Governor for four years.

This series of papers is designed to help managers by providing a basic understanding of key financial concepts to assist them in their work. It is provided at no cost since this knowledge is a Gift from God and thus to be shared (Matthew 10:8).