

DESIGN CHARACTERISTICS OF AN EFFECTIVE NATURAL P&L REPORT

The *Natural P&L* (or *Management P&L*, or *Management Income Statement*) is the cornerstone of management reporting in every organization. The key characteristics of a well-designed Natural P&L are:

- 1. *One page!*** If your report doesn't fit on one page – *using normal font and paper sizes* – redesign it.
- 2. *Decision-focused line items.*** Categorize your accounts into line items (i.e., the rows in your report) in a way that if any line has results indicating a problem, the reader has clues how to attack that problem.
- 3. *Appropriate dollar amounts, neither too big nor too small*** – all amounts in the report should be usually material to the overall organization and to typical sub-organizations. Nor should any single line item comprise the dominant share of the enterprise's revenues or expenses.
- 4. *Intuitive organization of the line items.*** The ordering of the line items should seem logical and sensible to any manager with a sound understanding of your organization. *Never* present line items in alphabetical order.
- 5. *Consistent look-and-feel.*** The Natural P&L should play a key role in creating a “common language” for managers and other stakeholders in your organization.
- 6. *Understandable categories, meaningful to all users.*** Line-item categories should that make sense and be meaningful to *all* users of your reports, not just to accountants and technocrats. And while the external financials may require GAAP-compliant categories and format, management financials don't.
- 7. *Plain English terminology.*** Craft line-item captions and column headings that are clear, terse, and accurate. Avoid all but the most universally-understood acronyms, abbreviations, and jargon. Avoid GAAP-speak.
- 8. *Key results equal to the corresponding numbers in the accounting system (or an explanation why not).*** Tie the numbers in your Natural P&L to the accounting system so that your audience can understand where the numbers are coming from, and you can check the accuracy of your reports.

The *column layout* of your reports – comparing results over time, vs. prior periods, vs. budget, vs. forecast, etc. – is important, too. Provide enough different column layouts to meet the needs of users at all levels in the enterprise, but not so many that confusion results or that strains F&A resources. 3-4 different layouts should do the job.