

BETTER ROUGHLY RIGHT THAN PRECISELY WRONG

February 27,
2017

Why Accounting is Broken and How to Fix It

Financial stress

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- 1 in 4 Canadians unable to raise \$2k for emergency
- Million+ Canadians in proposal/bankruptcy last 10 years, 5.5% of total workforce
- 30% of those over 55 have no retirement savings
- 1 in 4 Americans has Acute Financial Stress
- 75% not saving for retirement
 - ▣ Need money for current expenses
- Precariat, automation, increasing financial uncertainty

And it's getting worse

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	Item	2016	2015
Millennials	Personal finance a distraction	28%	20%
	3+hrs/wk worrying about money	37%	22%
	Unable to meet monthlies	46%	35%
Boomers	With credit card balances	45%	36%
	Unable to make min. payment	32%	19%
All	Student debt affects future	80%	
	Health affected	28%	
	Relationship affected	23%	

Past financial literacy education?

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- Easy answer:
 - ▣ Almost none of you!
 - ▣ Class of 32 students, ZERO had financial literacy classes

- Today (and it was far less in the past)
 - ▣ Only 17 states require taking course in personal finance
 - ▣ 45 states include it in K-12, but often in pieces
 - ▣ Most provinces still have no separate financial literacy curriculum in schools

Premise

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- Better Roughly Right Than Precisely Wrong
 - ▣ Why Accounting Is Broken and How To Fix It
- Why becoming financial literacy is crucial
 - ▣ Business or personal
- Numbers are important but...
 - ▣ Why reliance on numbers alone distorts results
 - ▣ What the 'experts' leave out of their analysis
 - ▣ Why this matters to all of us
 - Especially to those in environmental sector of economy

Agenda

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- Fears about understanding money
- Types of accounting skill
- Measurement systems
- The Triple Bottom Line
- Strength and weaknesses of accounting
- The importance of meaningful reports
- Next steps

Who is Mike Fletcher?

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- CGA in 1982, CPA in 2014, self-employed 35 years.
- Really diverse jobs, training and work experience!
 - ▣ Worked nationally/internationally, large/small, super growth/bankruptcies, variety of positions, exposed to lots of cultures, different economic sectors and industries
 - ▣ Written/reviewed at least 1,000 business plans
 - ▣ Last 15 years focus on First Nations/Inuit, work in Nunavut
- Doing financial training for 30 years
 - ▣ GST, Y2K, community colleges
 - ▣ Customized sessions for private/public sector clients

Other projects

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- Second book completed
 - ▣ Better Roughly Right than Precisely Wrong
 - Why Accounting is Broken and How to Fix It
 - ▣ Third book planned
- Other activities
 - ▣ Advisory board member Basic Income Canada Network
 - ▣ Member Transition Perth, leader of Sod Squad
 - ▣ Treasurer Smiths Falls Chamber of Commerce
 - ▣ www.highspin.com

**BETTER ROUGHLY
RIGHT
THAN PRECISELY
WRONG**



{ Why Accounting
is Broken *and*
How to Fix It }

Mike Fletcher CPA, CGA

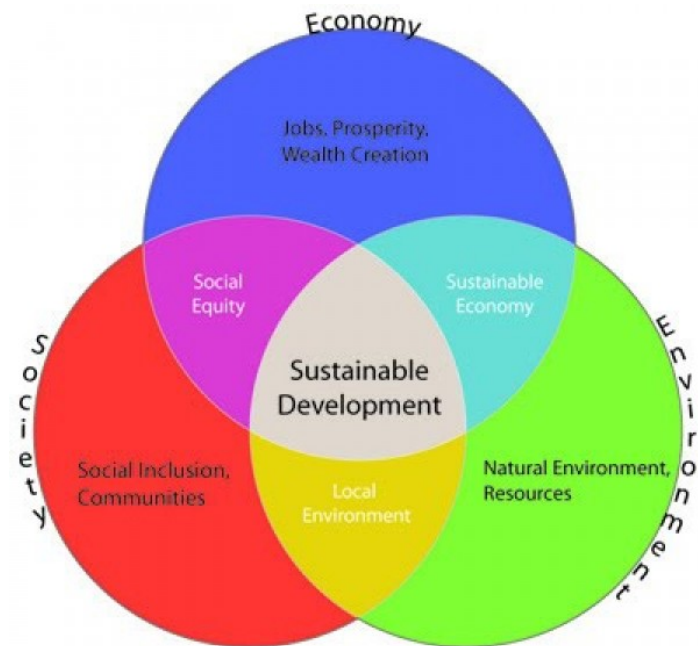
Triple Bottom Line

□ 3 Ps

- Planet
- People
- Profit

□ Challenges

- Goal setting
- Measurement
- Localization



Fears

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- “I’m no good at math”
- “I don’t want to learn debits and credits”
- “I’m embarrassed about my lack of knowledge”
- “Everyone else knows how to manage their money”
- “Lack of financial literacy is typical of the lower class”

- Math anxiety
- Learning disability *discalculia*
- Money is a loaded term

Three distinct types of financial skill

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- Handling and Recording
 - ▣ Bookkeeping, accounts payable and receivable
 - ▣ Tellers, cashiers, wait staff, retail clerks
- Organizing and Analyzing
 - ▣ Extracting meaningful information
 - ▣ Ensuring reliable, accurate system
- Choosing action based on the information
 - ▣ Senior executive/Manager's role

We love measuring stuff

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- Examples
 - ▣ Travel
 - Distance, time to get there, kms per hour, gas mileage
 - ▣ Sports
 - Scores, innings, laps, highest, longest, fastest
 - ▣ Wealth
 - Richest, tallest, biggest, splashiest, largest
 - ▣ Food
 - Calories, carbs, sugar, price, measuring what's not there!
- Challenge is when something is hard to measure...

Focus of time frame is all short-term

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- Faster is not necessarily better
- More decimals does not mean more meaningful

- Accounting and computers match made in heaven
 - ▣ Precise
 - ▣ Documented
 - ▣ Numbers
 - ▣ Fast
- Perception is that slower is worse

Criteria for measuring systems

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- How much does it cost?
- Does measuring system require any special training?
- Can you be certain data is complete when collected?
- How much time/effort is needed to collect/analyze?
- Is it easy to administer?
- Is it easily available to everyone who wants to use it?
- What sort of information/data could bias the results?
- How easy is it to score and/or analyze its results?

Are we there yet?

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- Why we set goals
- SMART goals
 - **S**pecific
 - **M**easureable
 - **A**chievable
 - **R**ealistic
 - **T**ime frame attached
- Accounting particularly good with first two elements

Business/personal financial literacy

- Same financial elements in each
 - Each wants to:
 - Grow their resources
 - Manage debt responsibly
 - More money coming in than going out
 - Breaking even or making a surplus
 - Same #1 for both financially
 - In the long-term, you can't spend more than you earn

Note: Info may annoy Accounting

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- My philosophy
 - ▣ Accounting is a SERVICE department
 - ▣ Its staff listens to, reacts to and solves the financial reporting needs of their users
- Some Accounting heads may say:
 - ▣ Customizing reports is time consuming and so expensive
 - Big systems may be more rigid than off-the-shelf software
 - ▣ Financial info is best laid out in standard accounting ways
 - ▣ Standard pdf reports are less open to misinterpretation

6 types of Capital

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- Framework released by the International Integrated Reporting Council
- Different pools of resources
 - Financial Capital
 - Manufactured capital
 - Intellectual Capital
 - Human Capital
 - Social/relationship Capital
 - Natural Capital

Strengths of accounting

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- Based on factual material – numbers
 - ▣ Everything documented, backed up
- Flexibility of viewpoint
 - ▣ Lets you see multiple views of organization
 - By department, location, product or whole company
- Standard world-wide – GAAP/IFRS
 - ▣ Essentially no difference between countries
- Allows comparisons
 - ▣ Between companies/periods/economic sectors
- Natural pairing with computers
 - ▣ Programming is made up of numbers!

Weaknesses of Accounting

- Uses ONLY data that reduce to numbers
 - ▣ Doesn't include things that are hard to measure
- To an accountant, worthless and priceless are the same thing!**
- Deals with historical information
 - ▣ Past (and future!) time frames are often too narrow
- Accountants tend to be narrowly focused
 - ▣ Often lack practical business experience
- Complicated terminology
 - ▣ Different words for same thing confusing
- Increasing complexity of transactions
- Non-accrual government accounting

Design of good reports

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- User defines

- Considerations
 - ▣ What's important?
 - ▣ How much detail?
 - ▣ How often do I want them?
 - ▣ Do they make trends easy to spot?
 - ▣ Do they allow for multiple learning styles?
 - ▣ Do they use colour, formatting to emphasize findings?

5 ways financial illiteracy costs you

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- ❑ Not spotting problems early
- ❑ Focusing on profit line alone
- ❑ Poor cash management
- ❑ Distracted employees
- ❑ Undervaluing People and Planet

- ❑ Treating investments as expenses

Aristotle: 2 types of business activity

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- Oikonomia
 - Stewardship: effective and efficient use of resources
 - Growth over time on several fronts
- Chrematistics
 - Making money from money
 - Speculation, stock trading, derivatives
 - Produces nothing of tangible lasting value
 - Only available to those who already have capital
- Aristotle strongly supported former, opposed latter
- Sustainable economy focuses on Oikonomia

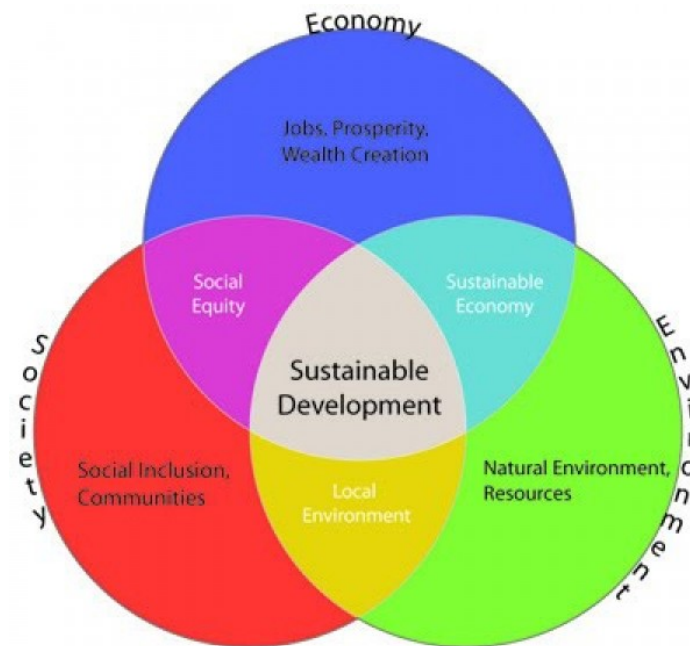
Triple Bottom Line

□ 3 Ps

- Planet
- People
- Profit

□ Challenges

- Goal setting
- Measurement
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Questions - Profit

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- ❑ When did you last look at your cash flow statement?
- ❑ How much sales came from top 20% of your clients?
- ❑ What is your current ratio?
- ❑ How many days does it take you to collect an invoice?
- ❑ How much cash do you have on hand?
- ❑ How often do you review your financial statements ?
- ❑ How would you spend \$20,000 in or on your business?
- ❑ Were you asked for financial reports preferences?

Questions – People

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- How do you evaluate your staff each year?
- How long each employee has been with you?
- Do you have a written training plan?
- # of person-hours spent in your community last year?
- Do you have a suggestion box/committee?
- On what do you base bonuses or rewards?
- Do you incent your staff to physical activity?

Questions - Planet

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- What % of your purchases come from local suppliers?
- Do you have a scent free policy?
- Do you confirm what you buy is ethically derived?
- When was your last waste reduction campaign?
- What packing materials do you ship and/or receive?
- What were your energy \$\$ costs for last 3 years?
- What amount of waste do you discard each year?
- Do you always ask if a natural product is organic?

Are your metrics working?

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- What measuring systems do you have for the 3Ps?
 - ▣ Presuming the Triple Bottom Line or similar philosophy
- Do you get adequate and complete reports that enable you to do your job?
- What do you do to measure non-financial progress?
- What trend reports are you getting?
- What help do you need in the analyzing/organizing financial skill?
- Is there People and Planet data to balance Profit?

Action steps

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- Get some financial education
 - ▣ Better understand the world of numbers
 - ▣ Don't hand it off to someone else
- Clearly define planning assumptions and goals
 - ▣ Both financial and non-financial
 - How are they being measured? Are they tracked?
- Figure out what information you need
 - ▣ Get the source data organized the way you want
 - ▣ "If I can't get it, I can't do my job!"

HighSpin Training

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- A full range of financial literacy training:
 - Online courses
 - Live small group sessions
 - 2 hours to 2 days
 - Executive coaching
 - Keynotes and conference programs
 - Board of directors education
 - Personal financial literacy training for staff
- Guaranteed

Here's how to contact me

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