What is balance sheet flux analysis

22 October 2018 | By Rob Feinstein Hello, accountants! FloQast thinks you should give a flux analysis. In fact, you should give two fluxes – every month – as in one balance sheet and another in the income statement. That's why today we're announcing FloQast's version of Flux Analysis – a better way to flux. Before we tell you about our new feature, some background is fine. Flux analysis – short for stuffier Fluctuation Analysis, and sometimes called variance analysis – compares the closing balances of the newly closed period with the previous period, for example, Current Month vs. Previous Month. It includes dollar and percentage changes – with material differences – and provides written explanations as to why the figures changed. We were startled to learn in a recent FloQast user survey that so many teams bypass Flux every month. Less than 60% of FloQast's account teams make a balance sheet change as part of their monthly closing process. It is only slightly better for the change in the profit and loss account: only two-thirds of teams perform a monthly review of the line-by-line revenues and expenses of periodic fluctuations. As best practice, both types of flux analysis should be a rote element of each seal; the majority of accountants of the most larger and larger companies would agree. There are several reasons for this: During the financial closing process, comparing near-term closing balances with previous periods is a useful precision check. If there is abnormal variation, it can only be a symptom of missing data. Better to find and fix these problems early. When wrapping up the studied closing process, Flux is a great format that shows verified variances that highlight business material changes. Because the accounting team is closest to the company's integers, it can best provide sharp Flux explanations (fluxplanations?) of what drives material changes. This gives accounting a more important seat at the table as part of the company's management. Why has Flux made such a man? What's flux going on here? Speaking to our users more about Flux, we confirmed our suspicions. It's only a matter of time. For most teams, Flux Analysis takes a lot of time. And as if the loved one is not already time-short enough, Flux tends to be the last to happen in the process. There simply isn't enough time to do it well, so teams too often don't do it at all. Although ERPs can usually create a report comparing balances from period to period, they do not support a full change analysis. Basically, you cannot add written explanations to an ERP report. That's how teams export data to Excel, then manually identify material variations and add explanations — when they can. In addition, all of this must wait until all final balances are locked in order for the process to need to start again. Again. any figures have changed. Does that sound familiar to you? Our FloQast team wondered: couldn't there be a better way? Spoiler alert: yes! It's our new FloQast Flux Analysis module. FloQast Flux is different because it is built directly on FloQast, so accounting teams can work with flux analysis at any time - including entering the explanation text. Material variations are automatically marked. Flux update balances are dynamically updated in the same way as everyone else in FloQast. Unlike the old export and report method, there is no concern that you have to start over if the numbers change. Other key features of FloQast Flux Analysis include: Flexible comparison periods, including monthly, quarterly and annual comparisons. Materiality limits set by the user of the balance sheet and profit and loss account. Excel export for flux sharing outside FloQast. Custom account groupings that can be used to group accounts the way your company wants. Explanations at individual account and group levels. Expand and collapse views if you want deep dives into detail. During our research and beta periods, we have been very satisfied and excited about the reception of our Flux Analysis module. We asked several users to do it from zero to five on a scale: zero is nice to get and five is a lifeguard. We knew we were onto something powerful when we heard mostly fours and fours. Upper five, Flux! Of course, you and your team will judge for themselves. But we're sure if Flux has escaped, it sucks, but you're lucky. Interested in seeing FloQast Flux analysis in action? Schedule a demo today! Flux Analysis is a kind of comparison technology that helps us understand the company's financial changes seasonally. It is shortened from variability analysis and is sometimes also called horizontal analysis. We use the method to assess account fluctuations over time. We usually express such changes in both currency units and percentages. Useful flux analysis aims not only to identify changes, but also to explain their causes. Why perform a change analysis? Investigating changes to our accounts can be useful for a number of reasons. In management accounting and business management, it can help us understand and manage the company's operations more efficiently. Insights into assessing account fluctuations also provide us with better information that supports our financial and business decisions. Another advantage is that we are able to identify risks and opportunities for the company to develop. Another process that usually requires detailed explanations of changes by period is the company's external audit. We must be able to provide our auditors with evidence Performing a Flux analysis In order for a company to support the exercise, it must keep detailed records of its activities. We can then rely on them to explain the underlying causes of the variations observed. We start by lining two seasons side by side

and calculating the deviation from one episode to the next. Once we have identified the material changes, we will start to identify the causes that guide them. Other drivers There are many factors that can be caused by switches between cycles. It is therefore important to correctly identify these driving forces. Although we can present our analysis at different levels of aggregation for different purposes, internally we should carry it out at the most detailed level possible. This allows us to ensure that we are able to provide accurate information for the variances of any level of aggregation. When deciding what fluctuations we need to investigate, we must take into account the importance of the point for stakeholders and the amount that benefits our explanations. We must provide each individual with details of the driving force behind each change. This ensures that we have a more useful explanation for each variation and underlying causes. Such details are valuable to the Community decision-making process because they allow fine-tuning. Linked accounts and line items There is another thing to consider when preparing flux analysis is the interdependence of accounts or line items. Often, a change in one account becomes a driver of variations in another account. This area where the presentation of variances in both currency and percentage may prove useful. In the following example, we may look at the cost of products sold and try to figure out why it increased by more than 14%. However, if we look at the cost of the products sold together with revenue from the sale, it is clear that sales are behind the increase in costs. Now we can focus on finding the underlying reasons for the increase in revenue. Sometimes we are unable to identify explanations and we have to consider the possibility of accounting errors. If this happens, we will have to correct the error and investigate the causes of the inaccurate data. Full extent of the change As we've looked at the causes and drivers behind each variation, we may still have some unexplained parts of the changes. In such circumstances, we must use our professional judgment to assess whether the remaining unexplained amount is relevant to the company and specific analysis. If so, we need to look into this further and explain the complete change. This allows us to find more insights that may prove essential for business. Storing detailed records Without an appropriate level of detailed level of company data and documents, performing an appropriate flux analysis becomes very expensive. Insufficient also leads to incorrect results from the analysis process. For example, consider a reseller. They may believe that the decrease in sales in a given region is due to a significant new competitor. However, they need detailed sales data by region in order to support this explanation. Performing a detailed variation analysis of the underlying reasons for the changes identified can also help the company with investor confidence. If there were significant unique expenses for the business during the financial year, it may appear that growth will continue and drive profitability down from now on. Proper flux analysis can help keep shareholders sufficiently informed for the future. When performing a P&L statement variability analysis, we also present line batches as a percentage of revenue to show stakeholders the relationship between accounts. Performing a P&L and Balance Sheet Change Analysis is best practice as part of each month's close process. Comparing period ending balances with the opening balance is a large precision check for the ledger because large fluctuations can be due to missing or incorrect data. In addition, if management or internal audit decides to view the monthly report, the entity has a way to summarize and present changes in balances and operating result. The only big drawback of Flux Analysis is that it takes a lot of time in more significant companies. ExampleI firmly believes that we learn best by doing, so let's take a look at a sample of Flux Analysis's profit and loss account and balance sheet. Here are two statements from the last two years. Here is the income statement for the financial year 2019 and the financial year 2020:And also the balance sheet for the same financial years:Changes in the income statement We will start a fluctuating analysis of the profit and loss account. The increase in sales is driven by the successful penetration of two new markets (Germany and France), which adds EUR 30 million and EUR 60 million to sales. In addition, the company signed a large new customer (from Marko) for EUR 50 million. Three customer contracts were lost, due to €35 million last year (Genesys AST, BestBrick Ltd. and Commm AG). Other customers remained at the same operating level and generated comparable returns compared to the previous year. COGS tracks revenue growth. It grew by 3% less, resulting in a 2% improvement in percentage of sales. 1.5% is due to optimisation of plant positioning of production lines, while another 0.5% is due to improved economies of scale (reduction in machine recalibration costs). Gross profit growth is consistent with sales growth and cogs optimizations. Administrative expenses increased by EUR 12 million, or 46%, which is 6.1% of sales in 2020, compared to 5% in the financial year 2019. The main reason for this is a GDPR-related project costing EUR 11.5 million. the other increase of EUR 650,000 is due to wage indices. Other accounts remain at the same level as the previous period. Sales expenses increased by sales. In fiscal year 2019, these were 2.2% of sales, which increased to 2.3% of sales in fiscal year 2020. This is due to a sturdy increase in transport costs due to the global situation in 2020 (COVID-19 pandemic). The increase in EBITDA is consistent with the negative effects of the improved gross margin and a more substantial increase in administrative and sales expenses. Depreciation expenses increased as a percentage of sales (2.3% in fiscal year 2019 to 2.5% in fiscal year 2020) due to legislative changes that required the company to adjust part of the life of the machines. The increase in operating profit is consistent with the increase in EBITDA due to the small impact of the increase in depreciation costs. The financing costs relate to turnover loans that cover the seasonality of the business. They increased by 4% due to increased operating volume, but remain at about 0.2% of sales. Income tax expense increased by 37.2%, which is profit growth before income tax, as the company operates in a jurisdiction with a fixed tax rate of 19% in both the financial year 2019 and the financial year 2020.Net increased by EUR 7.5 million. or 37.2%, which corresponds to profit growth before income tax. The number of items sold increased by 18.6%, which was the main reason for the 21% increase in revenue. Other growth is due to a sturdy improvement in the product range and an average increase in sales prices of 2 per cent. Prices were indexed by an average of 2%, reflecting market developments in the 2020 financial year.Balance sheet changesSend now the variations in balances in our account between the financial year 2019 and the financial year 2020. The eur 10 million reduction is the net impact of the new packaging line procurement project of EUR 6 million and the depreciation fee is EUR 16 million. Stocks increased by about 30%. Due to the significant increase in revenues and expectations for growth in 2021, the company is stockpiling additional stocks in order to meet customer demand. Production capacity is planned based on management's expectations so that it can cover volume needs in the financial year 2021. Trade receivables are up slightly by 1.2 per cent compared to a 21 per cent increase in sales when the company signed a contract with a new debt collection agency and managed to clear approximately EUR 5 million of overdue receivables. The main reason for the eur 6.5 million decrease in cash balances is the investment in the packaging line for EUR 6 million, which the company finalised in the fourth quarter of the financial year 2020. The increase in the accumulated result (EUR 9.4 million) is due to the result realised during the financial year and the dividends paid to shareholders of EUR 18.3 million. Bank debt increased slightly due to the fact that the second overdraft line was open for €500,000, which director of packaging line procurement. The transaction and other purchases of EUR 48 million, or 39%, are significantly increasing due to the company's large purchase orders in the fourth quarter to support expected business growth. Key suppliers have also improved the company's internal credit rating and are now offering a six-month extended credit period (that was three months earlier). ConclusionA Flux Analysis helps the company in business management, reporting and auditing. It looks at the drivers behind the variations and explains the full extent of all changes. A proper swing analysis provides investors and the company's management with valuable information and insights that support the company's decision-making process. Show your support by sharing this article with colleagues and friends. Also, don't forget to download the free Excel template below. 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