

HOW TO WRITE A FINANCIAL REPORT



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Communicating Critical Financial Signs From the Numbers

In Tribute to
John "TOP" Tracy

Tage C. Tracy

WILEY

HOW TO WRITE A FINANCIAL REPORT

HOW TO WRITE A

COMMUNICATING CRITICAL FINANCIAL

WILEY

FINANCIAL REPORT

SIGNS FROM THE NUMBERS

TAGE C. TRACY

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PREFACE

The original concept for this book originated with, of all parties, Wiley, the publisher of this book as well as countless other books I've written or co-authored with my late father, John A. Tracy (who passed away in 2022). As we were discussing revising the latest edition of *How to Read a Financial Report* (with the latest 10th edition of the book set for release in the spring of 2024), Wiley inquired about what it would take to produce a book on how to write a financial report. My first response was, wow, what a great idea, and then my second response shifted to finding a way to tie these two books together to provide an even deeper and more complete understanding of how companies produce, report, and present financial information, financial statements, and financial reports. Thus, the idea was born and launched to produce the first edition of this book, *How to Write a Financial Report*.

This book represents a companion or sister book to *How to Read a Financial Report*, but tackles financial and accounting topics from a different perspective. That is, *How to Read a Financial Report* takes the reader on a journey from the perspective of how a party would evaluate a company or business from the outside looking in. *How to Write a Financial Report* takes our reader on a new and exciting journey of how individuals within a company or business produce and communicate financial information and financial statements to both external and internal parties. Or more simply put, this book helps readers understand the opposite side of the process by gaining significant insight from the inside looking out.

This book has been structured along the same lines as *How to Read a Financial Report* in terms of its base architecture and primary financial and accounting

concepts covered but does so with a shift in focus from external financial statement and report analysis to internal production, presentation, and communication of critical financial information, financial statements, and financial reports. In fact, you will find that our fictitious example company utilized in *How to Read a Financial Report* is used in this book again, but with a focus on presenting far more detailed, informative, and valuable financial information.

Critical concepts covered in this book include:

- ◆ The art of communicating to both internal and external parties, in a complete, accurate, reliable, and timely manner (i.e., CART), and why differences exist. Included is an overview of key accounting and financial terminology to help build your verbiage and master this unique language.
- ◆ The all-important and overriding concept of making sure you completely know and understand your target audience before writing a financial report.
- ◆ Why financial information, statements, and reports are prepared with different levels of detail, analysis, and confidential information for eventual distribution to both internal and external parties.
- ◆ Diving deeper into our fictitious example company's financial performance, financial statements, and analyses to further your understanding of how business economic decisions are made and how financial operating results are communicated.
- ◆ Continuing to focus on essential accounting and financial concepts introduced in *How to Read a Financial Report* by expanding our discussions on the importance of understanding and managing *cash flows* (a hallmark and focal point in all the books I've published) as well as providing a refresher course on further mastering your knowledge of financial statement *connections* (i.e., how the big three financial statements are interconnected with one another).

- ♦ Offering multiple real examples of financial reports prepared from different sources of company financial information that is directed toward external parties and multiple levels of internal company personnel, ranging from the “C” suite and Board of Directors down to managers and even staff.
- ♦ And finally, offering a few twists and turns along the way with our fictitious example company and how its financial outcome could have changed and how a financial report represents an essential part of communicating its business plan.

Countless financial statements and related financial exhibits are presented in this book, which are basically spreadsheets. All exhibits in the book are prepared as Excel spreadsheets. If you would like a copy of the Excel workbook of the exhibits, please contact me at my email address: tagetracy@cox.net.

I cannot thank my late father and John Wiley & Sons enough for providing me the opportunity to write this book that communicates essential, must-know concepts and strategies on how to effectively communicate financial information, reports, and statements. As with all the books I’ve written, an emphasis is placed on accounting being just as much of an art form as science, which will be on full display in this book. While it’s one thing to master the art of accounting, it’s something completely different learning how to master the art of the financial report story, spin, pitch, and for lack of a better term, BS that is so often produced and distributed in this day and age of financial engineering. My sincere hope is not just that you learn how to write a financial report but just as importantly, how to read through a financial report and separate fact from the art of the spin.

TAGE C. TRACY

*Anthem, Arizona
March 2024*

Part One

**FINANCIAL REPORT WRITING
BASICS – WHAT YOU ABSOLUTELY
MUST KNOW!**

1

COMMUNICATE OR DIE!

Let me be as frank and blunt as possible to start this book, keeping in mind that the following statement is coming from an accounting and financial professional that has spent the better part of his entire career, almost 40 years, primarily “crunching numbers” (for lack of a better term) and on occasion, writing a book or two.

Writing a financial report cannot be achieved unless you can effectively communicate. Period!

When I mean communicate, I mean it in the broadest sense possible as communication skills extend far beyond what a typical financial or accounting professional may view as representing essential communication skills such as simply stating that 2 plus 2 equals four. What you will quickly learn from this book is that in order to effectively communicate, you must be able to speak, listen, observe, write, read, calculate, educate, lead, interpret, analyze, and direct, all equally well, and be able to package and present your financial report and deliver it via a story to your target audience in a format that they can understand, trust, and believe.

As you work through this book, a primary goal will be to find the proper balance between helping you (in the role of producing a financial report) understand how to prepare best in class financial reports as well as assisting you (in the role of student attempting to learn more about financial reports and financial statements) to expand and improve your knowledge of accounting and financial concepts and topics.

To start, I'll warn you that I tend to emphasize using acronyms to remember key concepts, so out of the gate keep in mind the acronym FIK, which stands for fundamentals, interest, and knowledge. That is, you must have the proper *f*undamentals to write and communicate (e.g., can you structure a sentence?), have an appropriate level of passion and *i*nterest in the subject matter

(nothing more painful than reading content that the author has limited interest in), and have advanced *k*nowledge in the subject matter (to ensure your target audience understands the financial report and the conclusions you're drawing).

To help you navigate the book, I have prepared this simple summary of the book's structure that covers the how, who, what, where, and why of preparing financial reports:

- ♦ Chapter 1, How to Communicate Financial Information: To start, I dive into the subject matter of How to Write a Financial Report, focusing on strategies, techniques, etc. that are essential to the process of communicating financial information in financial reports. Further, I expand on the “how” to communicate concept by diving deeper into a simple but powerful acronym CART (covered in Chapters 4 and 5). This stands for providing Complete, Accurate, Reliable, and Timely financial reports.
- ♦ Chapters 2 and 3, Who Are You Communicating Financial Information To?: Next up, I then turn the book's attention to gaining a better understanding of your target audience, both between external users of financial reports and information and internal parties such as board members, the management, and others. If you don't have a clear understanding of who you are communicating to, not only do you run the risk of having your financial report get lost in translation but more importantly, you may be preparing financial reports that contain vital and confidential financial information that falls into the wrong hands.
- ♦ Chapters 6 through 10, What Financial Information Are You Communicating?: An entire section of the book has been dedicated to gaining a better understanding of what financial

information you will be communicating by providing a thorough understanding of the big three financial statements (i.e., the income statement, balance sheet, and statement of cash flows), why developing best in class financial forecasts should always be a priority, and closing out our discussion on revisiting the importance of gaining a handle on how financial statements and financial information are connected.

- ◆ Chapter 11, *Where Does Financial Information Come From?*: In this chapter, I move my attention to gaining a better understanding of where critical financial information comes from that will be presented in a financial report. Simply put, I spend some time helping you as a reader understand basic concepts associated with accounting and financial reporting systems, basic accounting principles and concepts, and other critical information.
- ◆ Chapters 12 through 15, *Why Are You Communicating Financial Information?*: Finally, I cover the subject of why you are communicating financial information. Of course, this should

be obvious as any type of business, organization, governmental entity, etc. needs to ensure it has CART financial reports on which to base sound economic decisions. In these chapters I offer real-life examples of different internal and external financial reports, as well as tips and tidbits on making sure your financial statements are more effective in delivering the Why!

Finally, I would like to mention that throughout this book, I sometimes will use the phrases of financial information and financial reports interchangeably. To be clear, financial information really represents the source accounting and financial data that needs to be communicated in a financial report. Or thinking of it differently, you cannot produce a reliable financial report without having quality financial information and vice versa; having quality financial information unto itself does not mean a business will have access to a reliable financial report. Both are highly connected and are dependent on one another, but it is important to not confuse these two concepts as one does not automatically produce the other.

Remember the Basics

To master the art of preparing the most effective financial reports, you will gain a new appreciation of just how important developing communication skills is and why, in all the books I've written by myself and/or in partnership with my late father, five critical concepts should be kept in mind at all times:

- ♦ **Accounting – Art vs. Science:** Accounting is just as much an art form as it is a science. I, along with my late father, have driven home this concept, time and time again, in the books we've published including our sister book to *How to Write a Financial Report*, *How to Read a Financial Report* (10th edition), *Accounting for Dummies* (7th edition), and others. As you will discover reading this book, writing a financial report is often even more of an art form than having to apply generally accepted accounting principles (i.e., GAAP) to produce financial statements. Examples will be provided throughout this book.
- ♦ **Financial Report Range:** The concept of a financial report is extensive, broad, and extremely diverse. Financial reports range from something as big and complex as preparing an annual financial report for a publicly traded company such as Microsoft (most recent, 83 pages for 2023) read by thousands of external parties to something as small and simple to understand as an e-commerce company selling products online and trying to understand how much they can spend on advertising and promotional expenses (one page of information, read by two executives). Which brings me to the third critical concept.
- ♦ **Financial Report Audience:** Similar to understanding just how broad the range of financial reports is, the audience for financial reports is even broader. Financial reports are read by all types of parties, ranging from some of the most sophisticated financial professionals in the country to small business owners, managers, sales professionals, staff, lenders, lawyers, students, etc., etc., etc. that are on the opposite end of the technical spectrum. That is, these parties are not experts in financial and accounting matters and as such, need to be treated in a completely different manner (when financial reports are prepared) than the top financial minds and experts spread across the financial centers around the world. Translation – you better be keenly aware of and know your target audience for the financial report (a topic covered throughout this book). A much deeper dive on this topic is provided in Chapter 2, “Target Audience ‘E’ – External Users.”
- ♦ **Never Assume:** Being direct as possible again, assumption is the mother of all f-ups. Don't just assume that after you've produced a financial report that you deliver old school via paper or new school in an electronic file, your job is done. This represents an absolute fatal error as after a financial report is produced, delivered, and discussed, you will almost always need to