

Insight



Insight

USER'S GUIDE & NOTEBOOK

business
performance
software

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WELCOME TO Insight

Insight from Atac Pty Ltd improves your financial decision making by giving you a systematic approach to all financial analysis. Insight will help you to:

- Improve cash flow
- Optimise your business value
- Increase returns on capital
- Quantify strategies and projections

FEATURES

- Simple analysis format
- Choose your own level of detail
- *What..If* analysis
- *If..What* analysis
- Comparative Delta analysis
- On line help screens

By using Insight you will very quickly learn the terminology of management accounting financial analysts and develop an Insight into how these measures are calculated, how they interact with one another and what they tell you about real-world situations.

By taking the time to read this guide and working through the tutorials, you'll soon be realizing Insight's full potential, understanding what the financials are really telling you, and making better financial decisions.

1. Insight FEATURES

What is Insight?

Insight is an easy to use powerful Windows based financial modelling and decision-making system.

Insight assists you to critically assess your financial results and then calculate the impact of changes, before taking action.

Insight can also be used for specific practical financial analysis, which will assist in promoting a healthy financial decision making process.

Who can benefit from Insight?

The power of Insight can be used to improve businesses, projects and products of all sizes and types.

DECISION MAKERS can use Insight to improve their business's performance. Insight can be used in the following areas:

Financial - to measure performance, set benchmarks, measure business health, budget and strategies.

Marketing - to assess products, deals, customers, salespeople, promotions and new ventures.

General - to value the business and assess performance.

BUSINESS ADVISERS can use Insight to give advice.

PROVIDERS OF FINANCE can assess financial performance using Insight.

What are Insight's best features?

Insight will tell you how to go about improving your business.

Insight's ease of use allows non-accounting people to understand issues such as cash flow, profit, return on investment and sustainable growth.

Insight measures performance. It can do "*What..If*" analysis and the unique "*If..What*" analysis.

Insight's unique screen layout allows the user to view only the relevant parts of the business, with as little or as much detail as desired.

Insight's systematic approach

Insight gives immediate access to a systematic approach for analysing financial performance.

The systematic approach used in Insight has been developed and used by large numbers of businesses in a wide variety of product and service industries.

Insight software distils this systematic financial approach in an easy-to-use and powerful Windows based format.

The Insight systematic approach calculates:

1. Financial Factors that can be used as benchmarks for performance.
2. Cash flow, profits and return on capital.
3. The estimated business value.
4. What drives key areas of the business.

A first look at Insight

For the rest of this chapter you'll get to know the three major concepts behind Insight:

- how Insight looks, and how you can tailor the main screen to the particular financial model you are working on
- the two modes of entering data
- the powerful *What..If, If..What* and Memory features

This is best done “hands on” with Insight.

- To start Insight double-click on the Insight icon.

The Du Pont (main) screen

Upon entry to Insight, you are presented with the main screen. This screen is known as the Du Pont view and the vast majority of your time with Insight will be spent in this screen (Figure 1).

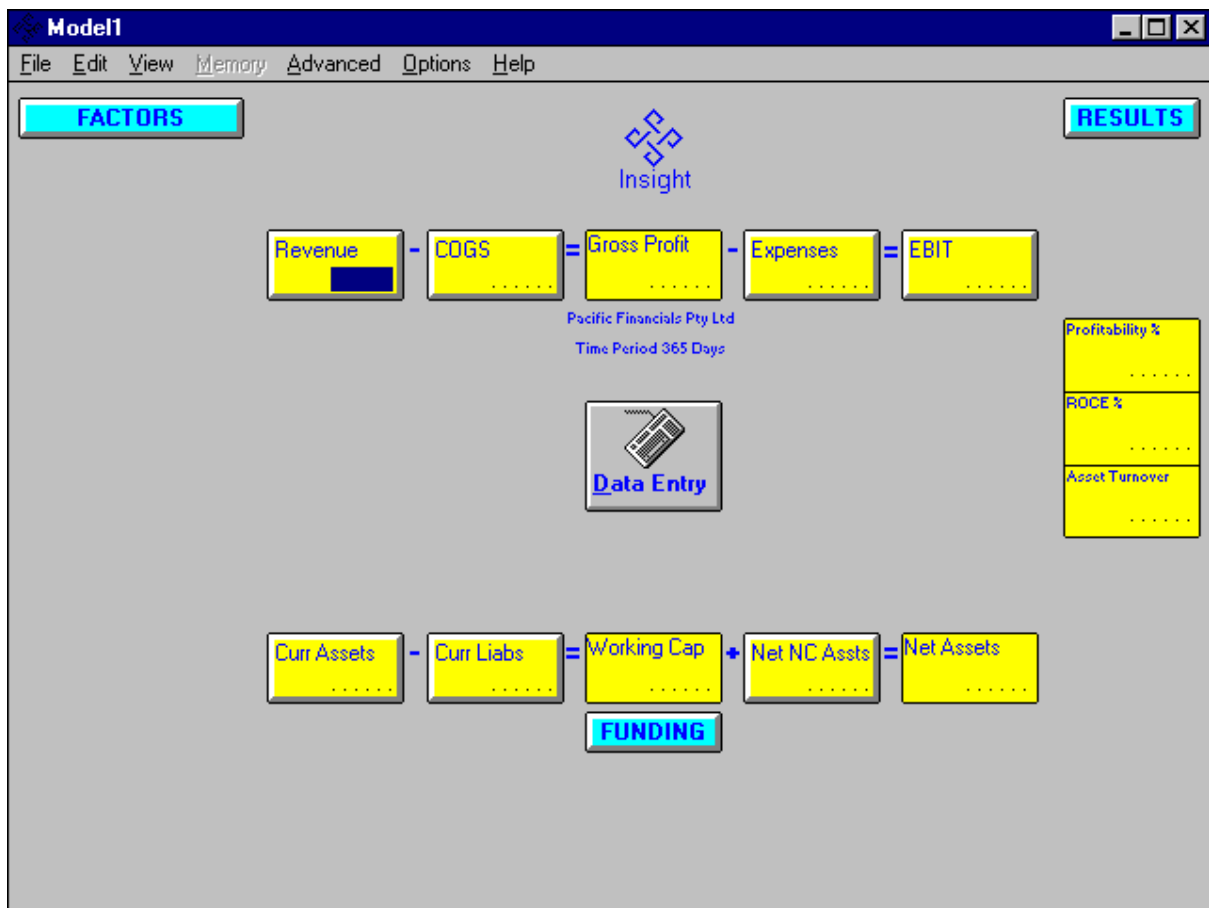


Figure 1 - Du Pont screen

The screen consists of two rows of horizontal boxes (connected by + - and = signs), three vertical boxes on the right and four buttons. It contains:

1. A Profit and Loss summary (the top row of boxes),
2. The operational side of the Balance Sheet (the bottom row of boxes)
3. Three Du Pont Ratios, the primary measures of financial performance (the three vertical result boxes).

Du Pont - Details

While the Du Pont (main) screen provides a useful display of the major items, you can display all details of the Profit & Loss and operational Balance Sheet via the View | Details menu option. This option acts as an on/off switch to first pop up all the Du Pont details then hide them.

- Use the View | Details menu option to pop up all the Du Pont details (Figure 2).
- Use the same menu option to hide them again.

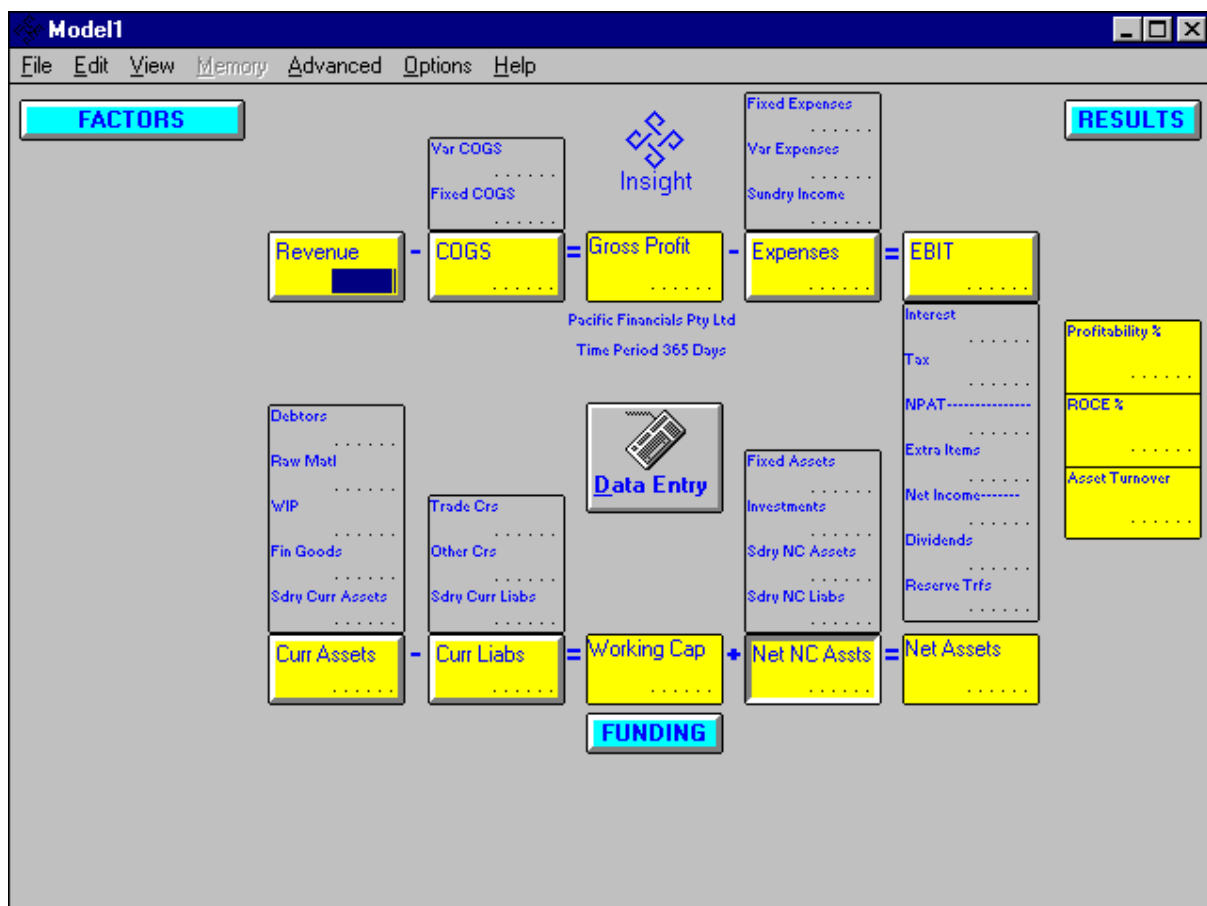


Figure 2 - Du Pont Details

The Du Pont screen also contains three buttons for optionally displaying additional information - Factors, Funding and Results.

Du Pont - Factors

Factors are the business measures that drive the Du Pont items. Factors are usually calculated by Insight from the raw financial details entered, and can thereafter be used to drive “*What..Ifs*” (i.e. What happens if my *Debtors days* are reduced by 3?).

All Factors can be displayed or hidden by pressing the *FACTORS* button, or by selecting the View | Factors menu item.

- Try using each method to display and then hide all Factors (Figure 3).

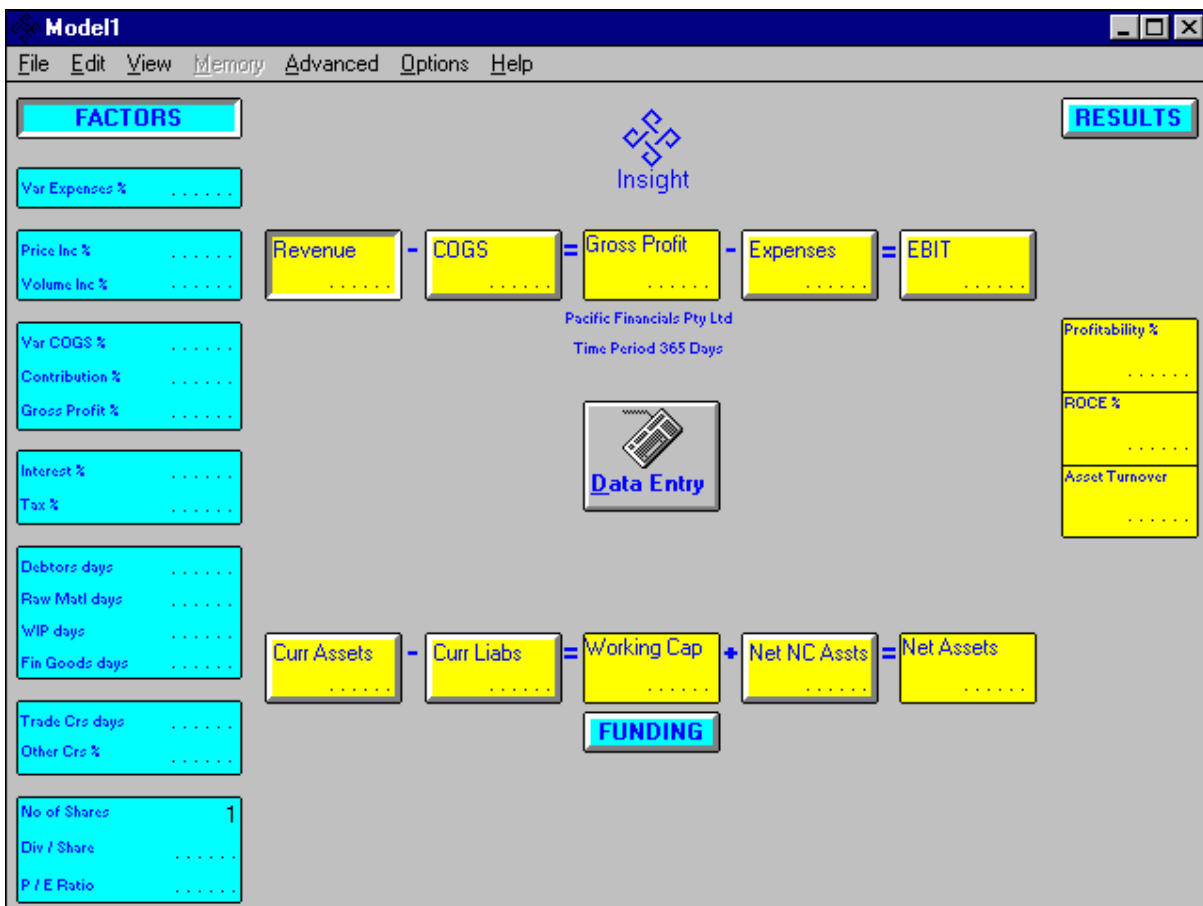


Figure 3 - Du Pont Factors

Du Pont - Results

These are the key measures of financial performance. Results are initially calculated from the financial details entered, and can thereafter be used as targets in *If..What* analysis (i.e. If I want my result to be What do I have to do?).

Du Pont analysis is a consistent system to analyse financial performance. Du Pont analysis is based on the three Du Pont measures of Profitability %, Asset Turnover and Return On Capital Employed %.

These Du Pont measures are considered so important that they are shown at all times (the three main vertical boxes);

- *ROCE %* Du Pont analysis is based on the Return On Capital Employed concept (ROCE). *ROCE %* is calculated by dividing the operating profit - Earnings Before Interest & Tax (*EBIT*) by the total net assets (*Net Assets*), expressed as a percentage. This measure calculates the operational return per annum that the business is producing.

The *ROCE %* is split into the following two key measures:

- *Profitability %* This is the *EBIT* generated from the Revenue. It is calculated as *EBIT/Revenue* stated as a percentage.
- *Asset Turnover* This is *Revenue/Net Assets*. This measures how efficiently the business utilises its assets, i.e. how often the business turns over its net assets in a year.

Note that $ROCE \% = Profitability \% \times Asset\ Turnover$.

All other Results can be displayed and hidden by pressing the RESULTS button, or selecting the View | Results menu item.

- Try using both methods to display and then hide all “other” Results (Figure 4).

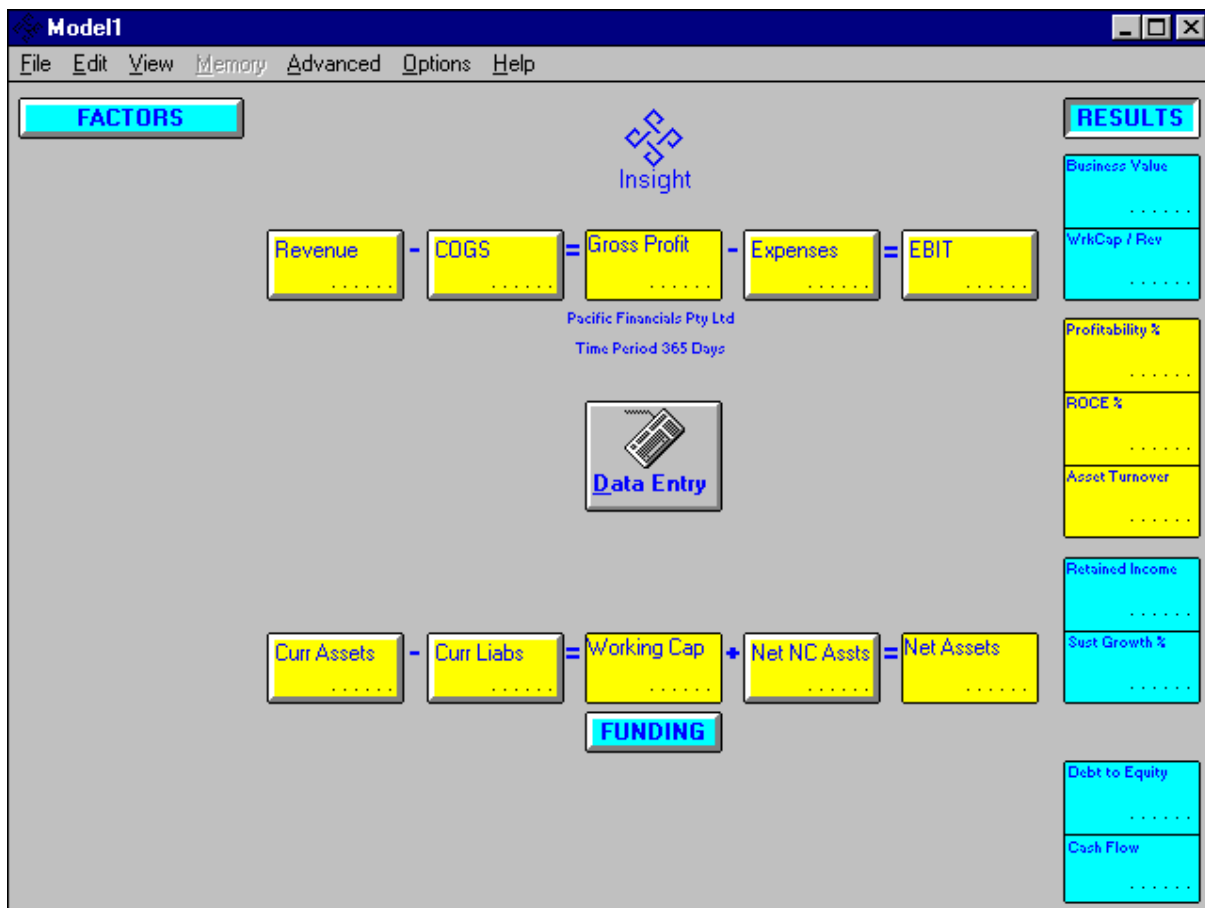


Figure 4 - Du Pont Results

Du Pont - Funding

The Funding section shows how the business is funded. The Funding details can be displayed or hidden by pressing the FUNDING button or selecting the View | Funding menu item.

- Try both methods to display then hide Funding details (Figure 5).

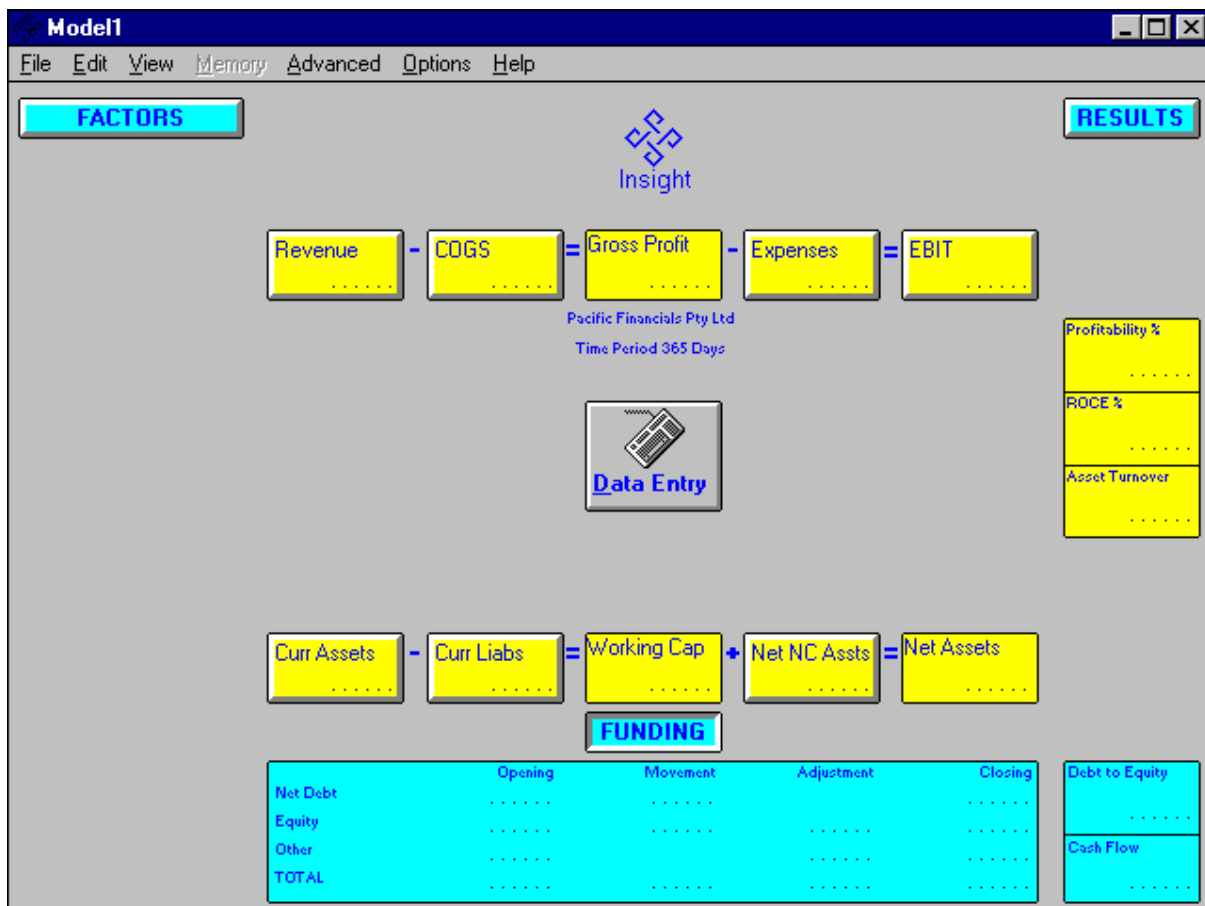


Figure 5 - Du Pont Funding

The funding window shows the components of funding (*Net Debt, Equity, Other*) and the opening position, the changes during the *Time Period*, and the closing balance of each component.

- *Opening* funding is input by you.
- Changes are divided into *Movement* (calculated by Insight) and *Adjustment* (input by you).
- *Closing* balances are calculated by Insight or input by you.
- The *Total Funding Closing* equals *Net Assets*.

Du Pont - linkages to individual items

Certain Factors and Results interact with certain Du Pont items; Insight allows you to easily see these relationships.

If you look closely at the Du Pont screen, you'll see there are two different types of boxes - flat and 3-Dimensional (3-D). The 3-D boxes (eg *EBIT*) indicate that there are Du Pont Details and/or Factors and/or Results linked to them. Clicking your mouse on the name within the box pops up all related items (or hides them if they are all already shown).

- Try using this feature to pop up all the items related to *EBIT*, then hide them again (Figure 6).

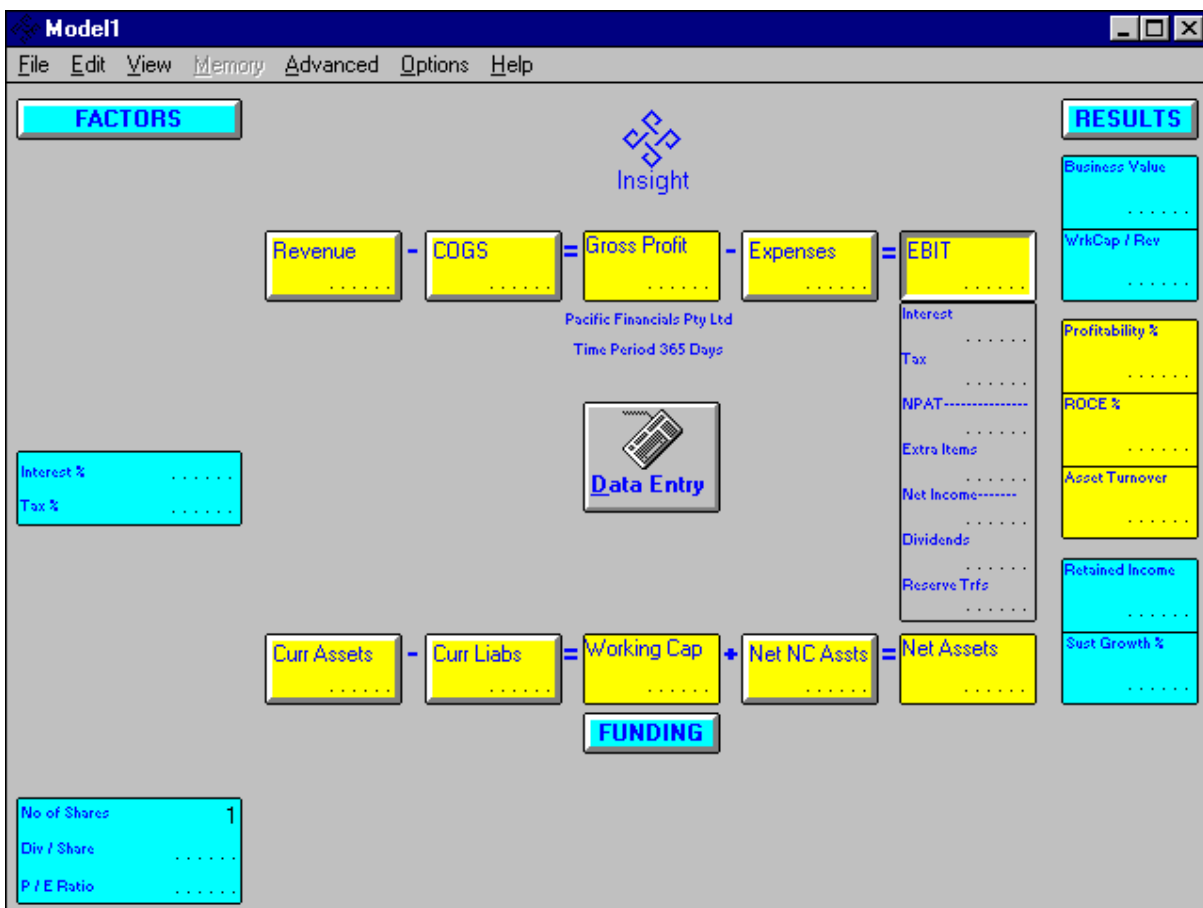


Figure 6 - Du Pont EBIT linkages

- Try popping up then hiding each set of related items, one at a time.

You can use this feature to tailor the Du Pont screen to suit your particular financial model, displaying only the necessary level of detail and eliminating unnecessary clutter. Its main advantage is its educative nature; the relationship between the Du Pont items, their effects on the key business measures and performance indicators is constantly being reinforced.

Other Screens

Insight has two other screens that contain the same data (or a summary of it) as the Du Pont screen, and can be selected via the View menu. These are the Accounts and Critical Insights screens.

Accounts Screen

- Use the View | Accounts menu option to display the Accounts view (Figure 7).
- Use the “OK” button on the Funding screen that appears first - this will be explained later.

The Accounts screen presents the profit & loss and balance sheet in a more traditional format than that displayed on the Du Pont Screen. It is anticipated that the Accounts screen will mainly be used to facilitate the initial entry of financial details from a traditional set of accounts.

The Accounts view may be more familiar for input, but is less useful for analysis purposes. The Du Pont format is preferred for analysis purposes.

The Du Pont and Accounts views operate on the same data therefore changes made in either one will affect the other. You can also perform *What..If* and *If..What* analyses from the Accounts view.

Model1

Profit and Loss

Revenue-----	<input type="text"/>
Variable COGS	.....
Fixed COGS	.....
Cost of Goods & Services-----	.....
Gross Profit	<input type="text"/>
Fixed Expenses	.....
Variable Expenses	.....
Sundry Income	.....
Expenses-----	.....
Earnings Before Interest & Tax	<input type="text"/>
Interest	.....
Tax	.....
NPAT	<input type="text"/>
Extraordinary Items	.....
Net Income	<input type="text"/>
Dividends	.....
Reserve Transfers	.....
Retained Income	<input type="text"/>

Balance Sheet

Debtors	.....
Raw Materials	.....
Work in Progress	.....
Finished Goods	.....
Sundry Current Assets	.....
Current Assets-----	.....
Trade Creditors	.....
Other Creditors	.....
Sundry Current Liabilities	.....
Current Liabilities-----	.....
Working Capital	<input type="text"/>
Fixed Assets	.....
Investments	.....
Sundry Non Current Assets	.....
Sundry Non Current Liabilities	.....
Non Current Assets & Liabilities--	.....
Net Assets	<input type="text"/>
Net Debt Closing	.....
Equity Closing	.....
Other Funding Closing	.....
Total Funding Closing	<input type="text"/>

Data Entry

Help

OK

Pacific Financials Pty Ltd
Time Period 365 Days

Figure 7 - Accounts screen

- Use the OK button to return to the Du Pont screen.

Critical Insights

- Use the “Data Entry” button in the middle of the screen (it will disappear).
- Use the View | Critical Insights menu option to display the Critical Insights summary (Figure 8).

This screen is a summary of the Du Pont screen. It highlights the 16 critical factors that should assist you in efficiently controlling your business, project etc.



Figure 8 - Critical Insights screen

- Use the OK button to return to the Du Pont screen.

Entering data

Data can be entered a number of ways into Insight. The way you input data will depend upon the information you have and what you are trying to achieve. It will also depend on your type of project or business and level of financial knowledge.

Data entry mode

This mode is generally used for the initial entry of profit & loss and balance sheet data; in this mode most of Insight's automatic calculation facilities are turned off. It is the default mode for a new model and is indicated by the presence of a Data Entry button.

Data entry mode can be selected/de-selected by using the Edit | Data-Entry Mode menu option; it can be de-selected by pressing the Data Entry button.

In data entry mode you are deemed to be entering raw data and can therefore only enter:

- Du Pont detail amounts
- Funding opening balances and Funding adjustment balances
- Some Factors

The majority of Factors, all Results, Funding Closing balances and Du Pont total boxes (i.e. those Du Pont boxes with detail components) cannot be entered whilst in data entry mode; all of these items will be calculated by Insight, as required, from the raw data provided.

Using the Data Entry Advisor

The Data Entry Advisor (DEA) assists users to identify the correct Insight field when loading data.

Conflicting terminology is a common problem when loading data from prepared accounts. For example, the prepared accounts use "Accounts Receivable" whereas Insight uses the term "Debtors". To overcome this

problem the DEA lets you enter your account name and then presents you with a list (hopefully only 1) of applicable Insight fields.

Simply invoke the DEA from the Help menu and enter your account name. You'll notice the list of Insight possibilities reduce as you type the name. In our example, by the time the word "Accounts" has been entered only three possibilities remain; by the time "Receivable" has been added, only "Debtors" remains.

As soon as you recognize and select one name from the list, the field value can be conveniently entered on the DEA screen.

Let's do a simple example. You're entering information from a set of accounts that uses the term "Accounts Receivable", a term that does not appear on the Insight screen.

- Place the model into Data Entry mode by using the Edit | Data Entry Mode menu item.
- Invoke the Data Entry Advisor (DEA) via the Help | Data Entry Advisor or View | Data Entry Advisor menu items.

Figure 9 shows the initial DEA form with all Insight fields available for selection from a list box. Each Insight data field appears with its current value and, offset underneath, are its accounting synonyms.

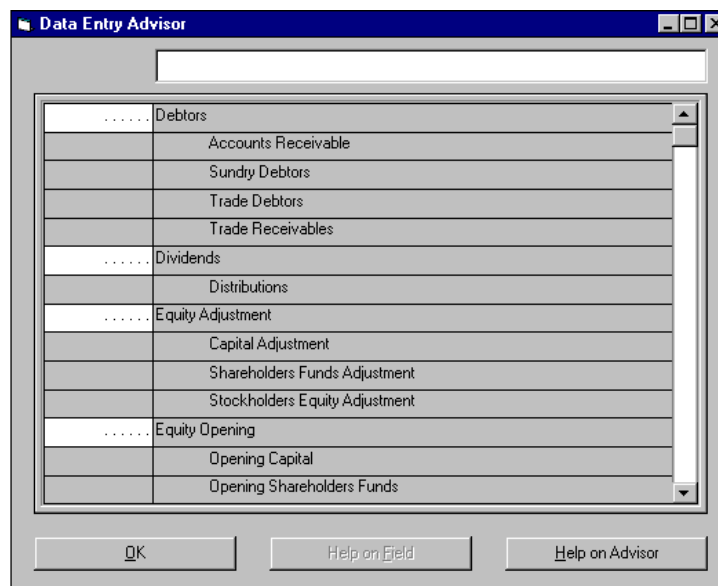


Figure 9 - The initial DEA form

- Enter “Accounts Receivable” in the top entry box, watching the list box entries as you enter each character.

As you type, you’ll notice *Insight* reducing the list of those fields synonymous with the name being entered. By the time “Accounts” has been entered, the fields remaining in the list box are reduced to “Debtors” and “Trade Creditors”. As soon as you start to enter “Receivable”, only “Debtors” remains as an option.

At any time during this process you can select an item in the list and enter the field value.

- Tab to the field value box and enter 0.
- Press the “OK” button to remove the DEA form.

Operating (Non-data entry) mode

This is the normal mode of operation once initial raw data has been entered. In this mode you may enter data into virtually any field on the screen and perform *What..If* and *If..What* analyses. This mode is indicated by the absence of the Data Entry button.

Primary Range Checking

Each item has a range of values that are acceptable to Insight, eg *Revenue* can be 0 to 999,999,999. Any attempt to enter a value outside the acceptable range will result in an audible beep and an appropriate message being displayed.

Secondary Range Checking

In certain circumstances, entry of an acceptable value into an item will cause the calculated value of a second item to become unacceptable. For example, 11,000 is an acceptable value for *Fixed COGS*, however, if *Revenue* is 1,000 then *Fixed COGS* of 11,000 would cause *Gross Profit %* to become -1,000 which is outside the acceptable range of *Gross Profit %*. Insight handles the problem this way:

- while the model is in Data Entry mode, all secondary range checking is turned off on the assumption that a valid financial model is being loaded and, once complete, all items will fall within acceptable limits. Any attempt to leave Data Entry mode with an item outside these limits will result in an appropriate message being displayed and the model remaining in Data Entry mode.
- while the model is in Operating (non-Data Entry) mode, secondary range checking is performed each time an item is changed. Any change that causes a secondary range check to fail will be disallowed immediately and an appropriate message displayed.

What..If and If..What Analyses

What..If

When data is entered into any field (eg *Fixed COGS*) that has a direct effect on other items (*COGS, EBIT* etc.), Insight considers this to be a *What..If* (i.e. What happens to if I change ?) and recalculates the model based on the new data.

If..What (Targeting)

When data is entered into any field (eg *Gross Profit*) that is dependent on any other fields, Insight considers this to be an *If..What* (i.e. If I want *Gross Profit* to be What do I have to do?) and invokes the *If..What (Targeting)* screen. The *Targeting* screen allows you to select from a ranked list of all possible means of reaching your target *Gross Profit*. More on *If..Whats* and *Targeting* later.

Comparative Analyses

It is whilst doing *What..If* and *If..What* analyses that most use will be made of Insight's "Memory" features.

Insight always remembers two sets of values for your model - the current ones and the ones immediately prior to your latest alteration. Having these two sets of values allows you to analyse the effect of your latest alteration two ways:

- "swapping" between your current and previous values to identify affected items
- displaying the differences (Delta) between the two sets of values

Both of these features are explained in more detail later.

Help

Insight comes complete with a fully featured Help system that is accessed via the menu bar (see Help Menu). Help on any particular item is also available by selecting (clicking on or <tab>bing to) the item and pressing <F1>.

You will already have noticed that HELP buttons are also included on all relevant screens, other than Du Pont.

Models/Files

There is a 1-to-1 relationship between Insight models and files; each new financial Model you save will create a separate disk file. You can have only one Model open for analysis at any one time but separate models may be consolidated as you will learn in the tutorials.

Text export file format

Insight models are normally saved in a proprietary format with the extension .FIN, that is intelligible only to Insight software. However, you are able to feed the financial data from your Insight model into Excel by using the File | Export menu option.

This option allows you to save a copy of the current model financial values in a format that can be imported by Excel.

Text import file format

Insight is able to import either COMMA or TAB delimited files. Each row must comprise both the Insight Accounting Field name and the \$ or % amount. The row sequence is irrelevant, as long as the spelling is identical; unrecognised rows are ignored.

See Excel_to_Insight.xls, an Excel spreadsheet template found in the Models folder, for step-by-step instructions and a full list of the Insight Accounting Field names.

2. A GUIDED TOUR OF Insight

Having had a brief look at Insight in the previous chapter, it's now time for a guided tour designed as a primer before you tackle the full tutorial. This "hands-on" tour will complete your familiarisation with the mechanics of Insight and introduce you to its power and flexibility.

- To start Insight double click on the Insight icon.

Main screen

What you see is Insight's main screen, it is also known as the Du Pont view.

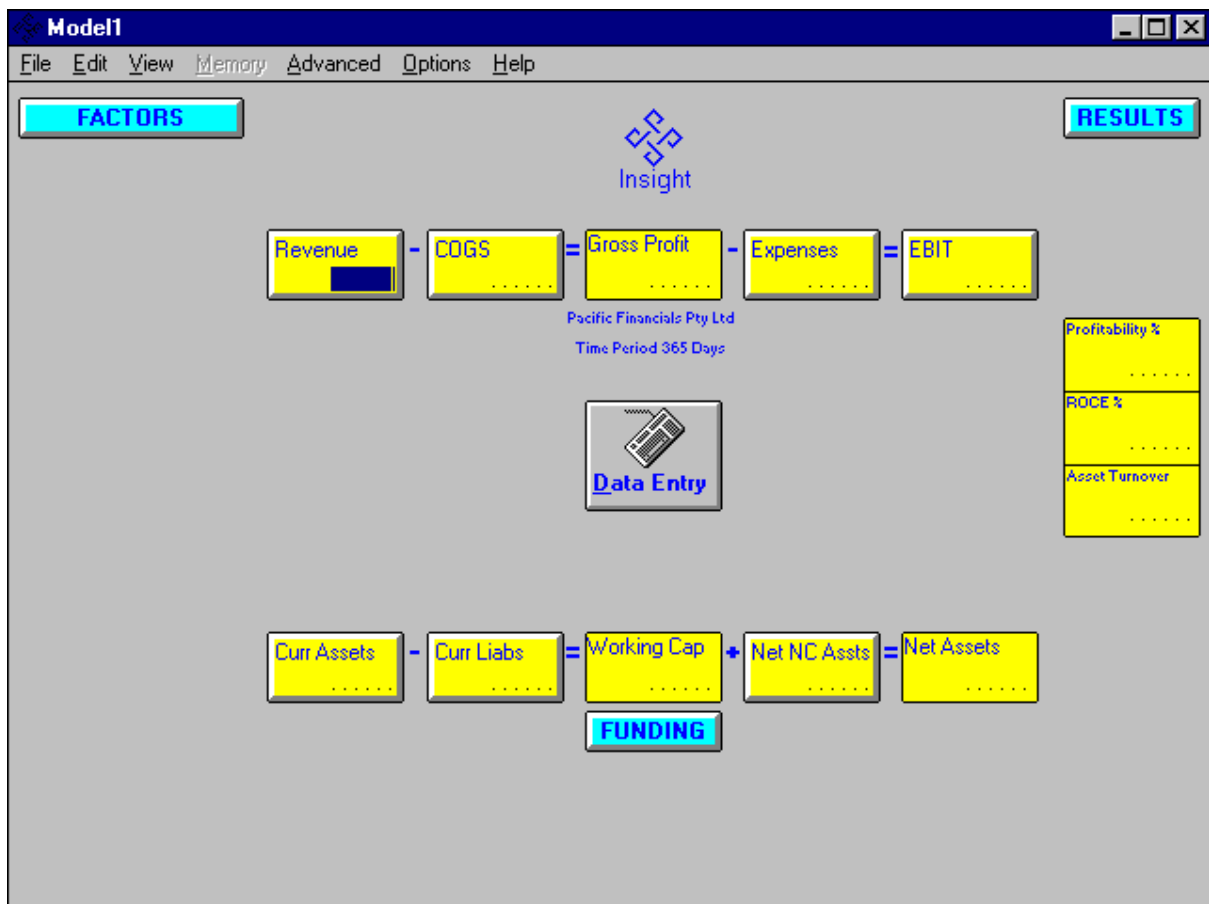


Figure 10 - Du Pont screen

At the top of the screen is the name of the model you are working on (here the default, MODEL1, is used) and below that are the menu options.

The main section of the screen consists of two rows of horizontal boxes (connected by + - and = signs), a column of three boxes (on the right), and four buttons. Always on display are the owner name (changeable via the Options | Owner menu item) and the Time Period for the current model.

The Boxes

The upper row of boxes is a summary Profit & Loss account.

The lower row of boxes is a summary of the operational side of a Balance Sheet.

The column of boxes comprises the 3 primary business measures.

Fields are selected for entry by <tab>ing to the field in question or clicking on the numbers or the “.....” within the box. Key in the amount (with optional commas) then either <tab> or <enter> to accept.

- Put 100,000 into *Revenue* by typing 100000 <enter>.

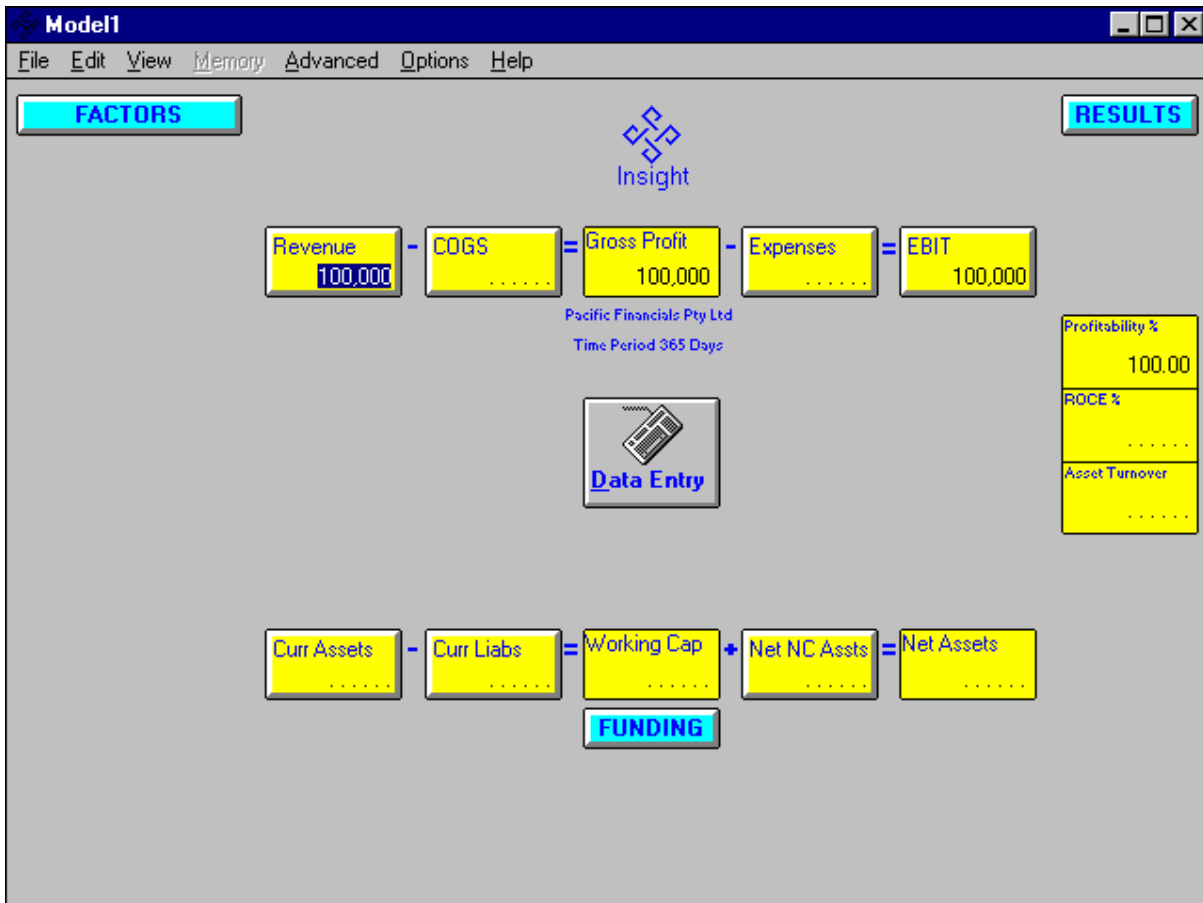


Figure 11 - Revenue input

Insight has automatically recalculated the model (Figure 11).

Revenue is 100,000

Gross Profit and *EBIT* are 100,000

Profitability % is 100

There are two types of boxes; flat and three dimensional (3D).

If you click the mouse on the name in any 3D box, the details of that number are shown, as well as any Factors or Results relating to that number.

- Bring up the COGS details by clicking on the COGS name, then input 60,000 into *Var COGS* and 10,000 into *Fixed COGS*.

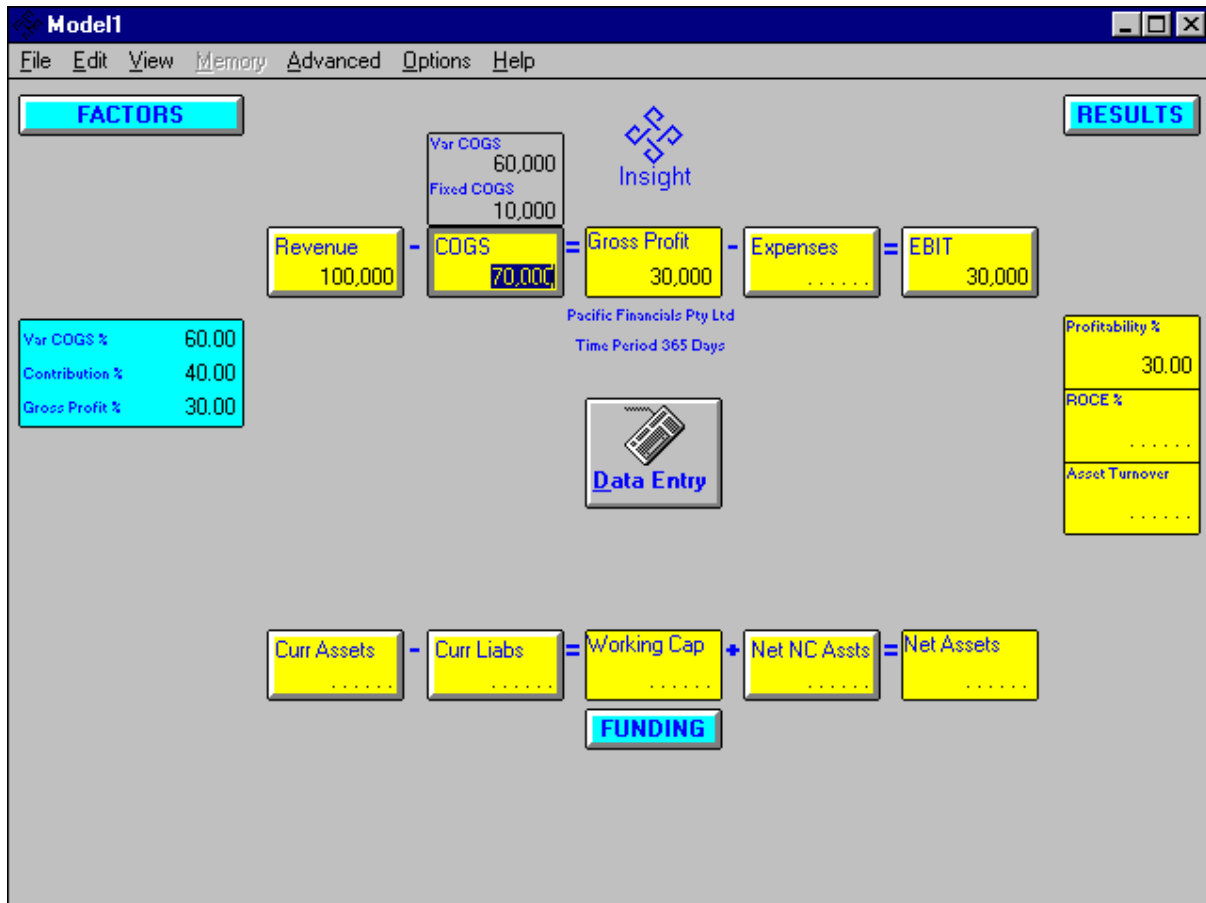


Figure 12 - COGS input

Note the flow through into Du Pont fields, Results and Factors (Figure 12).

- Click the mouse on the *Curr Assets* heading (Current Assets). The components of *Curr Assets* are now shown, as well as the Factors relating to those assets (Figure 13).

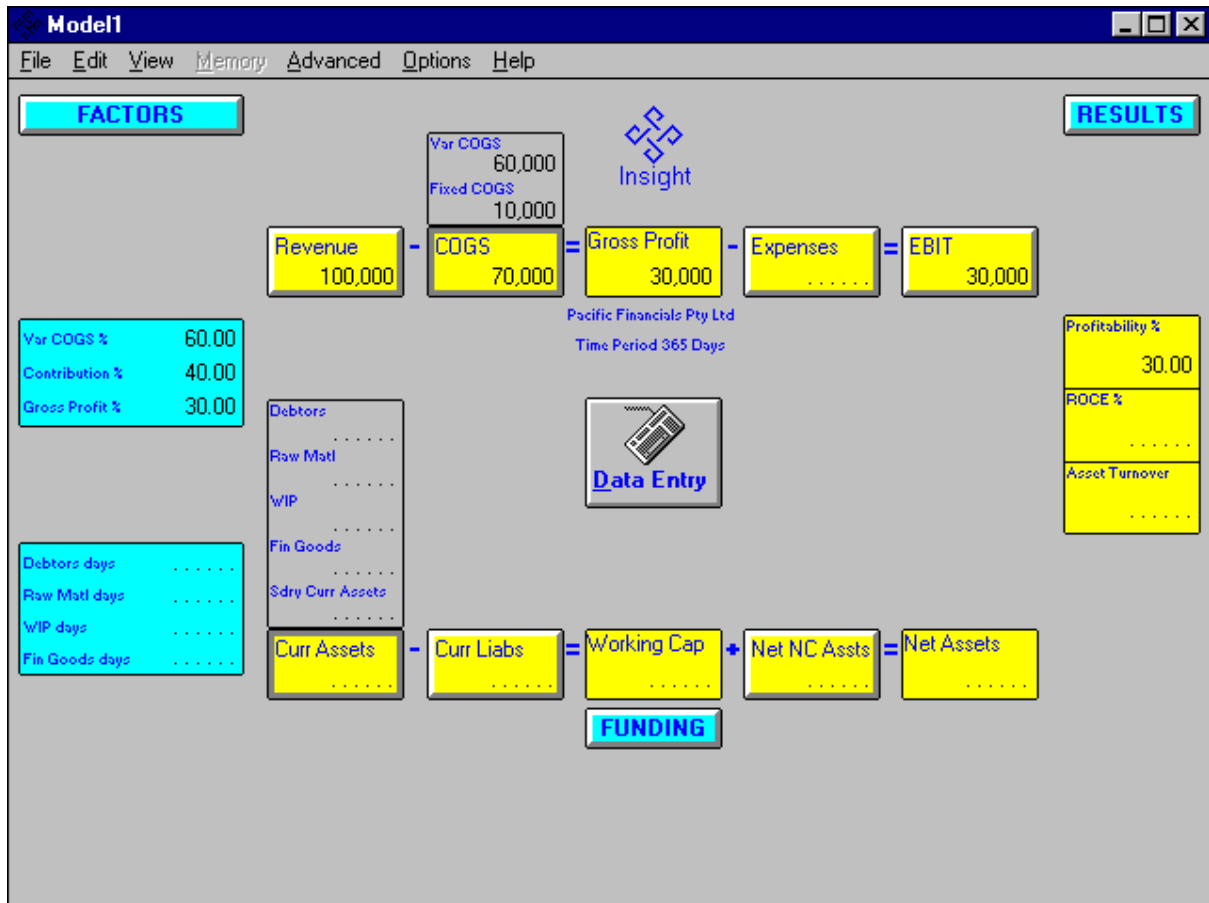


Figure 13 - Curr Assets Details

You'll notice that whenever partial Factors (or Results) are currently being displayed, as is the case in Figure 13, the first press of the associated button will cause all Factors or Results to be displayed; the second press hides them all.

- Press the FACTORS button once to display all Factors.
- Select the *Debtors* item by clicking on the “.....” in the *Debtors* box.
- Input 20,000 into *Debtors*.

Once again notice the flow through into other items in the model.

The Buttons

The four buttons on the screen are FACTORS, RESULTS, FUNDING and Data Entry.

Factors

Entering financial details into the Du Pont items causes Insight to calculate various Factors. These are used to assess and/or drive the performance of the business. Factors are automatically derived from the data entered and can be used as measures and benchmarks. We will see later how Factors can be input to drive “*What..If*” analysis (What would be the effect If this Factor changed?)

- Click the mouse on the *Curr Liabs* box to display all its components. Input 7,500 into *Trade Crs* (creditors).

Insight calculates *Trade Crs days* at 39.11. Other Result and Du Pont changes have also taken place (Figure 14).

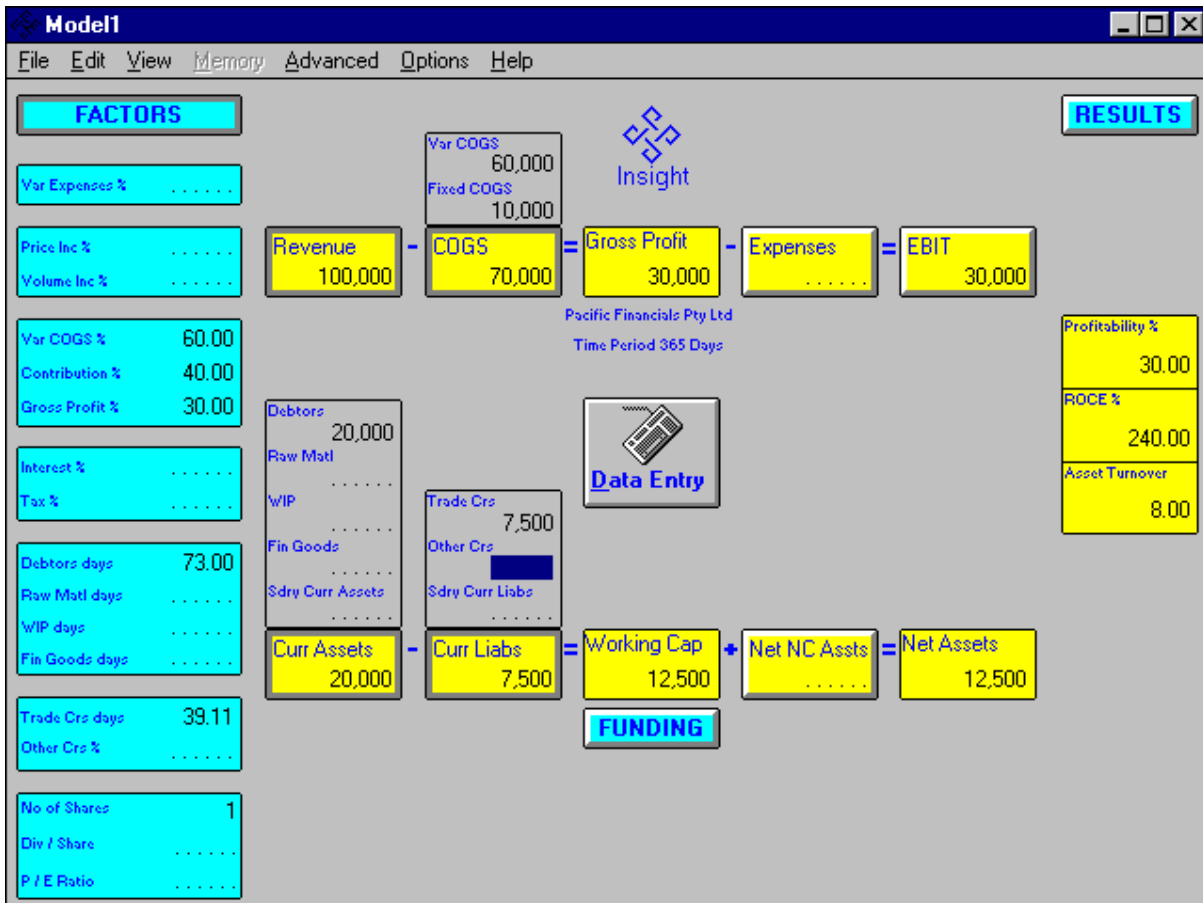


Figure 14 - Du Pont Factors with Trade Crs input

Results

The Results section of Insight provides the user with the key measures and ratios as calculated from the financial data and Factors.

The centre of the Results column always shows the three Du Pont ratios.

- Press the RESULTS button to display optional Result fields (Figure 15).

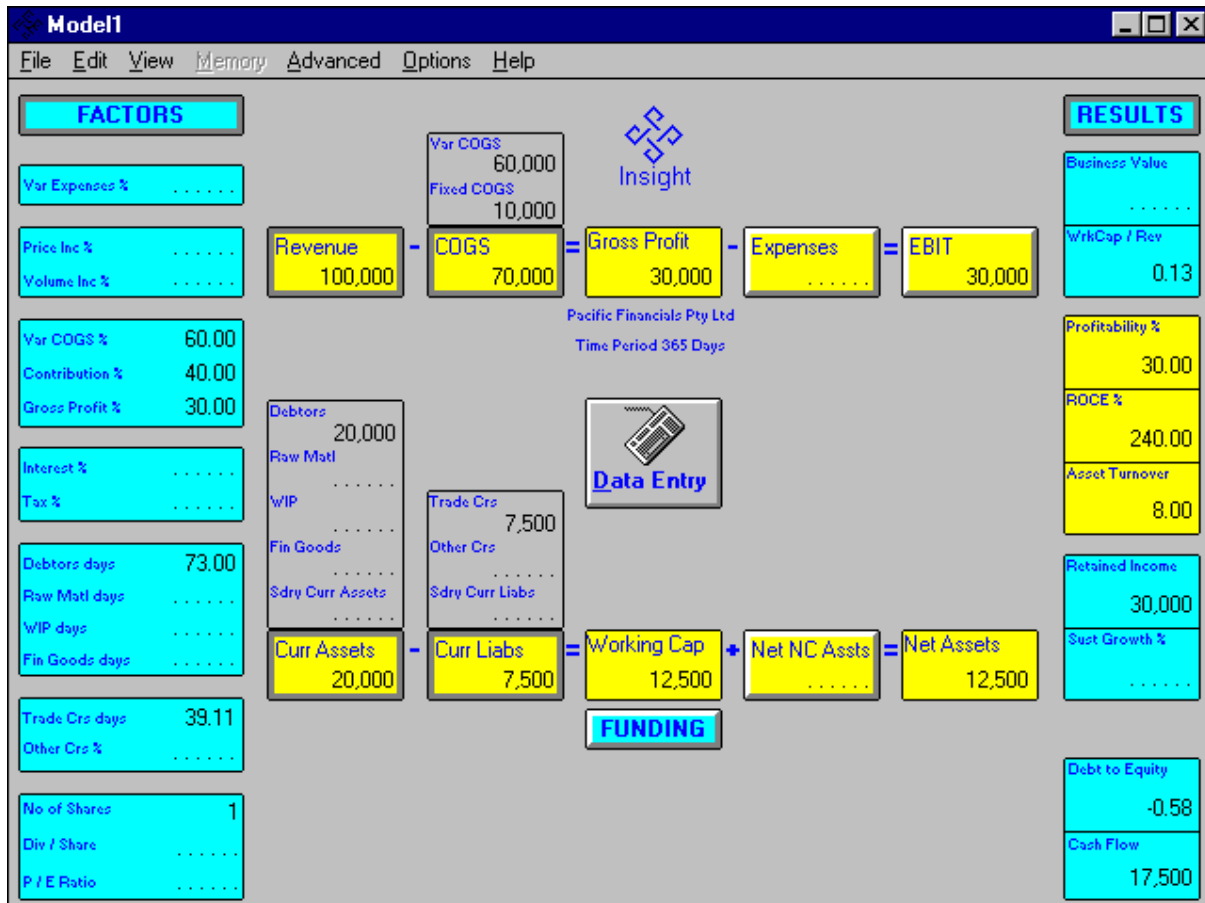


Figure 15 - Du Pont Results

Funding

The FUNDING box provides details of the funding side of the balance sheet.

- Press the FUNDING button to display the Funding items (Figure 16).

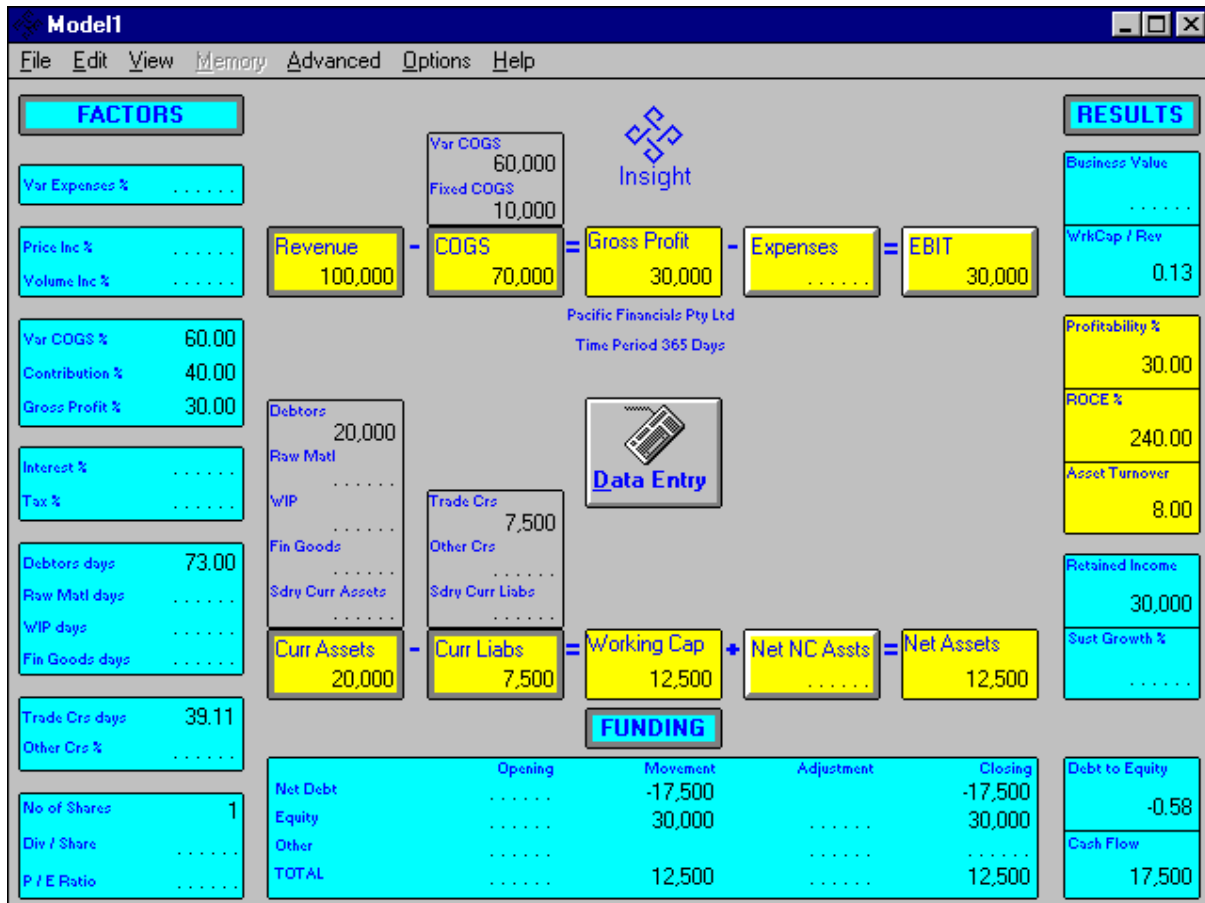


Figure 16 - Du Pont Funding Details

Insight classifies FUNDING into three components - *Net Debt*, *Equity* and *Other*.

The FUNDING box has provision for:

Opening (Balances)

Movement (Changes calculated by Insight)

Adjustment (Changes made by you)

Closing (Balances)

The *Cash Flow* and the *Debt to Equity* are calculated in the results column.

Accounts Screen

- Use the View | Accounts menu item to look at the model in a more traditional format.

Each time the Accounts view is selected and the model is in Data Entry mode, a dialogue box appears that allows some Funding details to be entered/alterd (Figure 17). This is necessary because these Funding details are not on the Accounts screen. *Opening* amounts may be entered for each of the three Funding categories, *Net Debt*, *Equity* and *Other*. *Adjustment* amounts may be entered for *Equity* and *Other*.

	Opening	Adjustment
Net Debt	<input type="text"/>	
Equity
Other

Figure 17 - Funding dialogue box

- Input 5,000 into *Net Debt Opening* to show that there was an overdraft of \$5,000 at the start of the period.
- Press the OK button to move onto the Accounts screen (Figure 18).

Profit and Loss		Balance Sheet	
Revenue.....	1	Debtors	20,000
Variable COGS	60,000	Raw Materials	.....
Fixed COGS	10,000	Work in Progress	.....
Cost of Goods & Services.....	70,000	Finished Goods	.....
Gross Profit	30,000	Sundry Current Assets	.....
Fixed Expenses	.....	Current Assets.....	20,000
Variable Expenses	.....	Trade Creditors	7,500
Sundry Income	.....	Other Creditors	.....
Expenses.....	.....	Sundry Current Liabilities	.....
Earnings Before Interest & Tax	30,000	Current Liabilities.....	7,500
Interest	.....	Working Capital	12,500
Tax	.....	Fixed Assets	.....
NPAT	30,000	Investments	.....
Extraordinary Items	.....	Sundry Non Current Assets	.....
Net Income	30,000	Sundry Non Current Liabilities	.....
Dividends	.....	Non Current Assets & Liabilities--	.....
Reserve Transfers	.....	Net Assets	12,500
Retained Income	30,000		
		Net Debt Closing	-17,500
		Equity Closing	30,000
		Other Funding Closing	.....
		Total Funding Closing	12,500

Pacific Financials Pty Ltd
Time Period 365 Days

Buttons: **Help**, **OK**, **Data Entry**, **Insight**

Figure 18 - Accounts screen

- Use the OK button on the Accounts screen to return to the Du Pont screen.

Time Period

A brief explanation is needed on the *Time Period* used by Insight, which is permanently displayed on both the Du Pont and Accounts screens.

The *Time Period* for the current model can be specified in units of years, months, weeks or days, up to a maximum period of 25 years, however, the number of units cannot be less than one. This means that a *Time Period* of less than one week must be specified in days, a period of less than one month must be specified in weeks or days etc. Each time a new model is used the *Time Period* is reset to a length of one year, specified in the units last used, i.e. 1 year, 12 months, 52 weeks or 365 days.

To change *Time Period* use the Option | Period menu item; this will pop up a selection box that allows you to adjust both the period type and number of periods.

The effect of changing *Time Period* on a model that already has data loaded is explained in detail, with examples, in the Tutorials part of this manual.

Data Entry Mode

A method must exist to enable raw data to be entered without Insight attempting to automatically “balance” the books as each number is entered. This mode is called data entry mode, and whilst in data entry mode the user cannot enter items that are calculated from other input (eg Results, most Factors, Du Pont total items), only “raw” data can be entered.

On completion of raw data input you leave Data Entry mode by pressing the Data Entry Button, and start using Insight for analysis of the data.

Operating Mode

As we have finished entering our sample raw data, we will move to Operating mode;

- Press the Data Entry button now; it will disappear.

(We can use the Edit | Data Entry mode menu option if we decide later to re-enter Data Entry Mode.)

At this stage all Factors, Results and Funding should be displayed on the Du Pont screen. To complete the display

- Use the View | Details menu option.

You are now in the operating mode of Insight and may now change any number, sub-total, total, Factor or Result. Depending on the type of field you change one of the two Insight analyses will take place.

“*What..If*” - If you change a Factor or number that is not derived from other numbers, Insight automatically calculates the impact of that change. You have asked “What happens to If I change?” Insight has told you.

“If..What” - If you change a sub-total, total or Result, (i.e. any item derived from other parts of the model) Insight’s unique *“If..What”* feature shows you what changes will achieve that change. This powerful feature allows the user to select the “easiest” set of changes which will meet the specified target. You have asked “If I want to achieve What do I have to do”? Insight has shown you all the available options.

What..If - Example 1

- Input *WIP Days* of 35 (Figure 19) by typing 35<enter>.

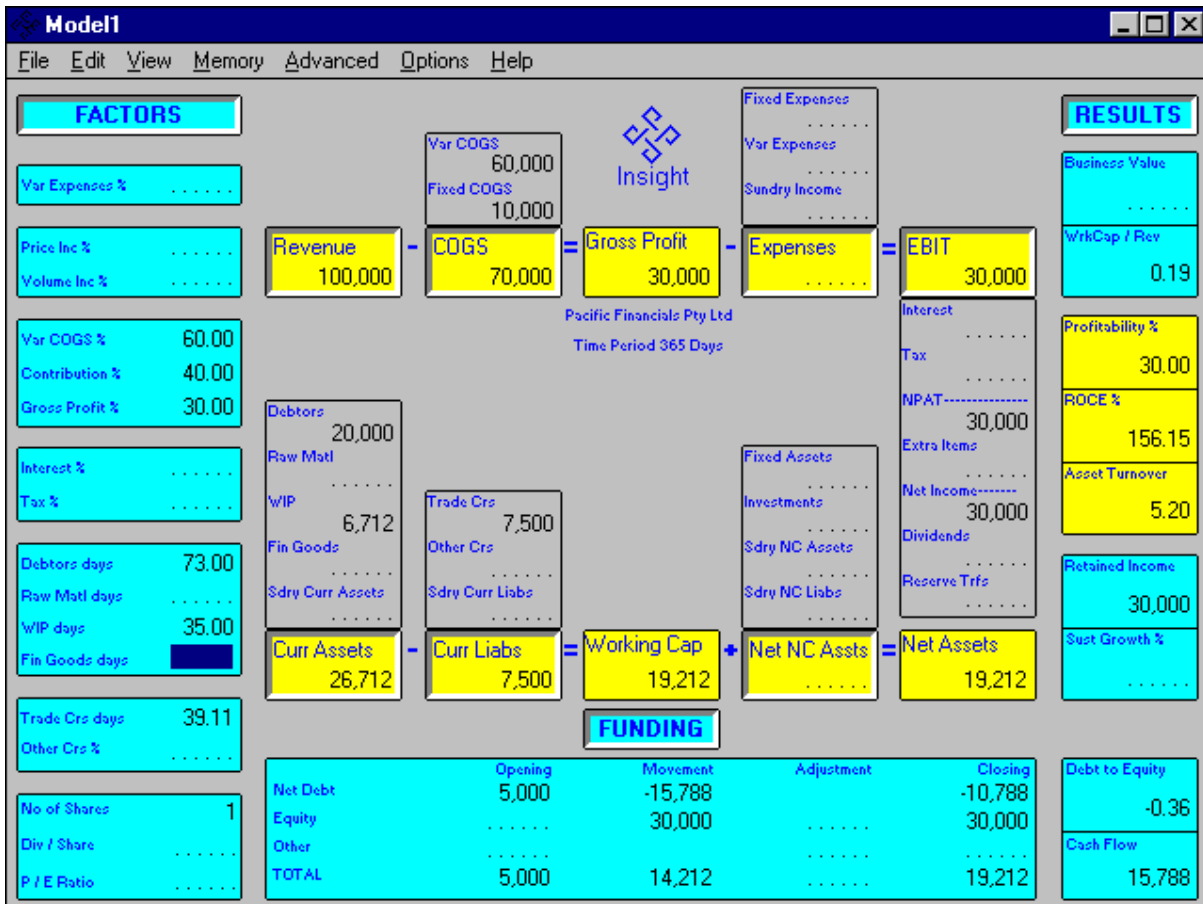


Figure 19 - *What..If* Example 1

Note the calculation of *WIP*, *Curr Assets*, *Working Cap*, *Net Assets*, *Asset Turnover* and *ROCE %*.

Insight has answered a *What..If* question based on a change to *WIP days* from zero to 35.

What..If - Example 2

- Input *Fin Goods* \$17,000 (Figure 20) by typing 17000<enter>.

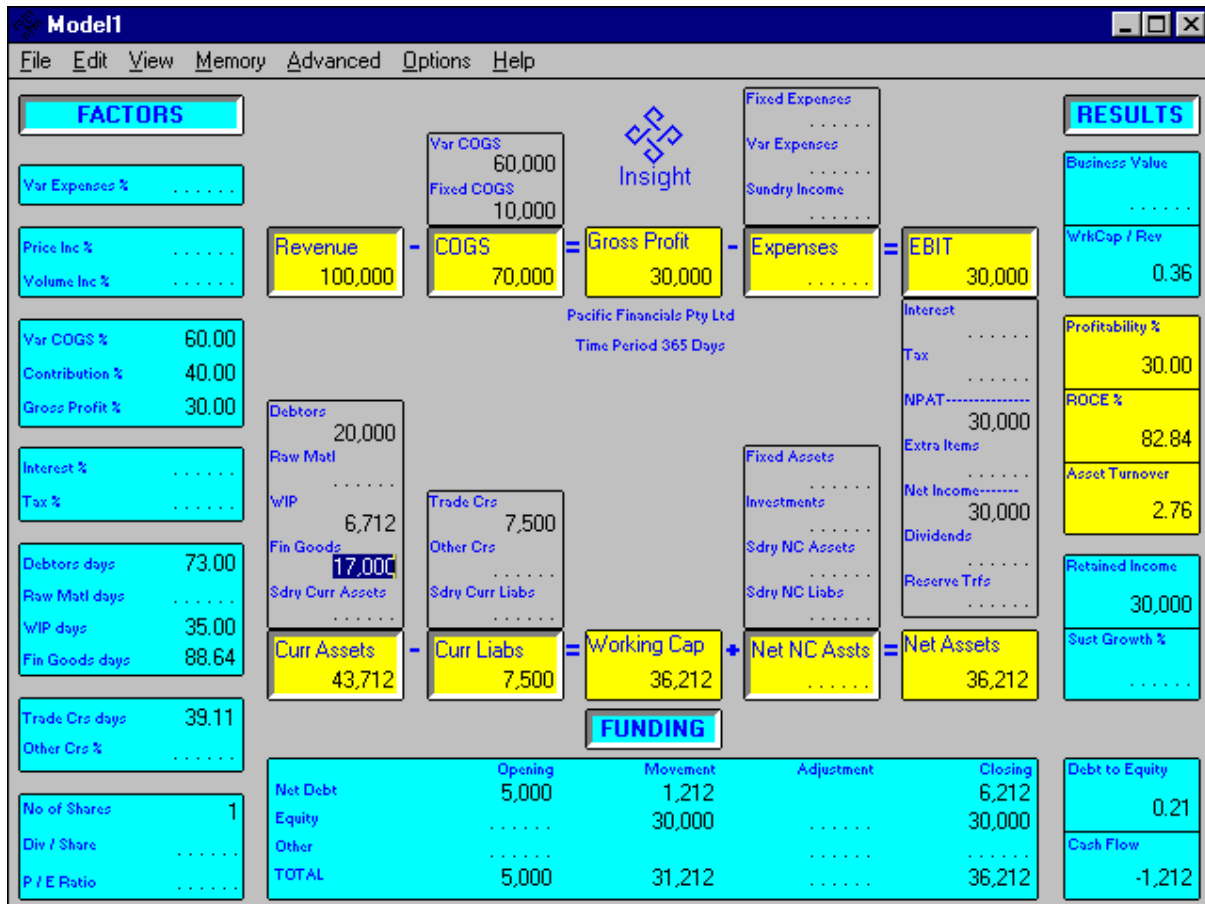


Figure 20 - What..If Example 2

Note the recalculation of *Fin Goods days*, *Curr Assets*, *Working Cap*, *Net Assets*, *Asset Turnover* and *ROCE %*.

Insight has answered a second *What..If* question.

What..If - Example 3

At present, the *Net Debt Closing* is positive meaning the business still has an overdraft at the end of the period. *Total Funding Movement* is positive (i.e. a cash outflow during the period) and *Cash Flow* in the Results column is negative.

- Increase *Trade Crs* days from 39.11 to 90.

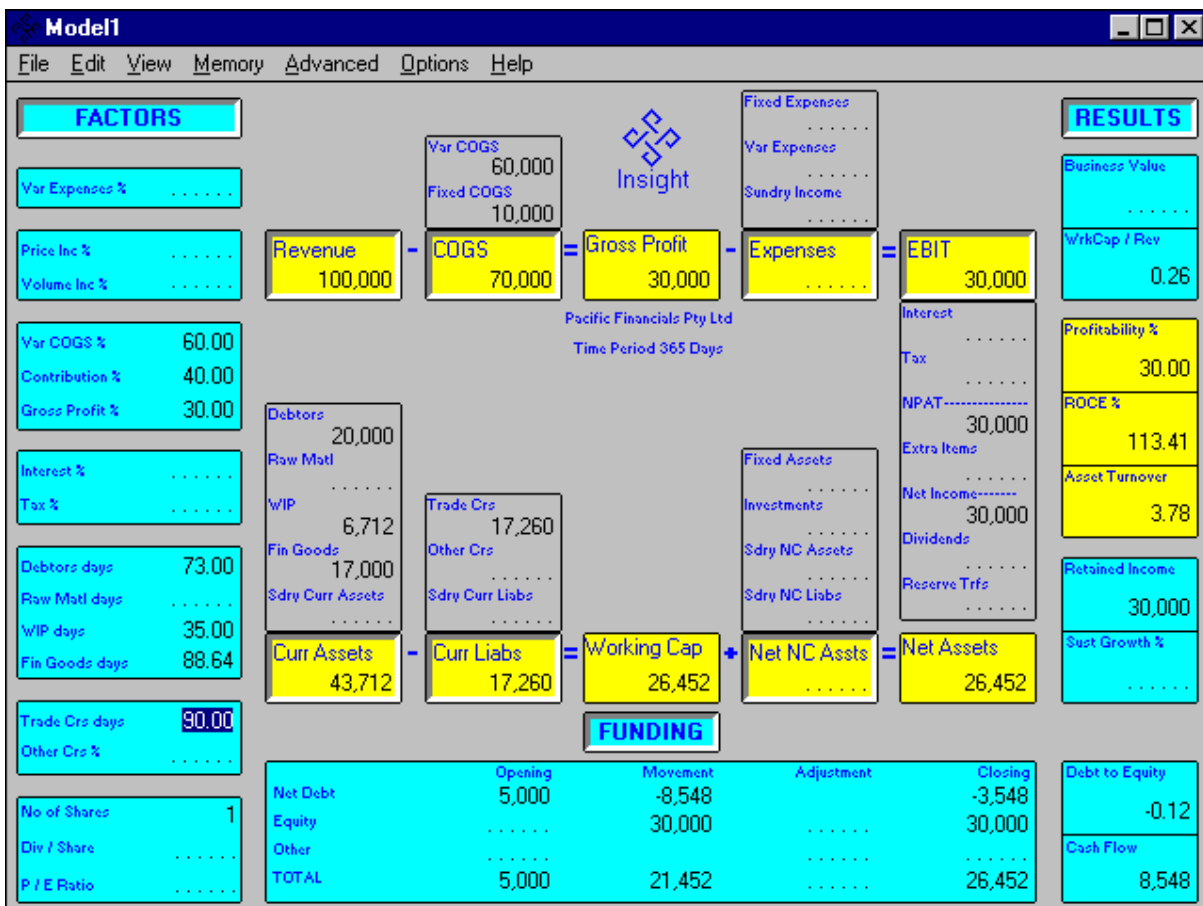


Figure 21 - What..If Example 3

Note the changes, particularly to *Movement*, *Cash Flow* and *Net Debt Closing*.

Insight tells us What will happen If we convince our trade creditors to take 90-day payment. Amongst other things:

Net Debt Closing would become negative (i.e. there'd be money "in the bank"),

Cash Flow would become significantly better.

If..What - Example

In all the previous *What..If* examples Insight has recalculated the model based on changing data, but what happens when you would like to aim for a changed outcome such as *Profitability %* which is dependent on many other items? Insight's unique capability to handle this sort of request is demonstrated in this example.

- Input *Profitability %* of 50

You have asked Insight “If I want a Profitability of 50%, What do I have to do?” Insight has replied with a list of available options via a Targeting screen (Figure 22).

Targeting Screen

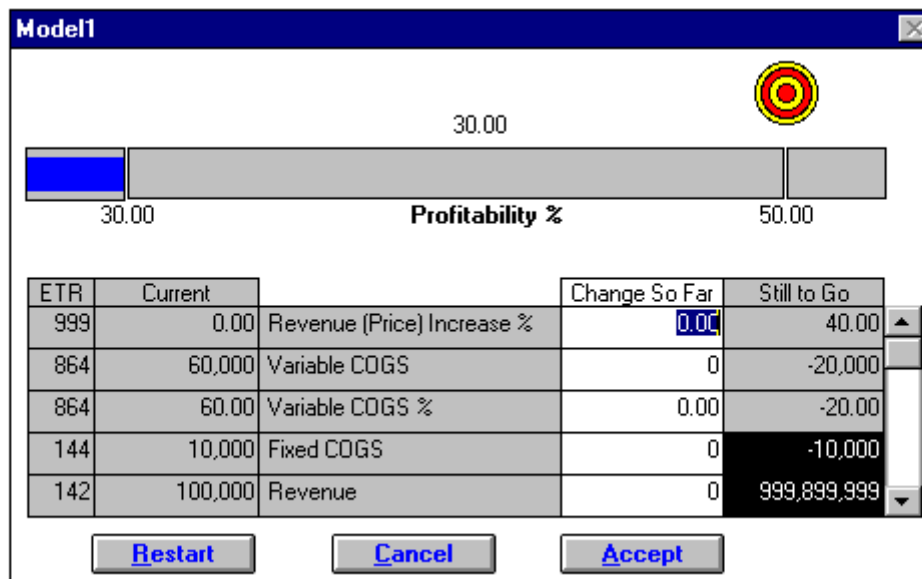


Figure 22 - Targeting Profitability - start point

Looking at Figure 22, you can see that the item being targeted (*Profitability %*) is shown in the upper part of the screen. Also displayed is a progress bar; the value shown on the top of the bar indicates the current value of the target item (including all *Targeting* adjustments to date). The progress bar is marked with the starting point and the target.

A moving highlight section graphically illustrates your progress towards the target.

The lower part of the screen contains a list of all the items within the current model that can be used to attain the target. The list is in descending value of *ETR* and name, and shows for each item:

- *ETR* (Ease to Target Ratio). This is calculated by Insight and represents the “speed” with which the item will help you move towards the target. The higher the value the greater the movement towards the target for a given change. 999 is the highest value, and is given to those items that are the “fastest” way of moving towards your particular target.
- *Current* value of this item in the model.
- Item name
- *Change So Far* made to this item during this targeting session.
- *Still To Go*, the additional change still required in this item to help attain the target.

When targeting a 3D Du Pont item, all of its components will be included in the targeting list (eg *Fixed COGS* will always appear in the targeting list when targeting *COGS*, even if the current value of *Fixed COGS* is zero). The assumption being that if *COGS* is relevant for this model then so is *Fixed COGS*.

When targeting any non 3D Du Pont item (eg *Profitability %*), zero valued items in the current model (*Fixed Expenses* in our example) will not appear in the targeting list. The assumption is that zero valued items are not relevant to the current model.

In the rare event that the item being targeted has no relevant items in the targeting list, you’ll be told so and no targeting will be performed.

You'll notice in Figure 22 that some items in the *Still To Go* field have a black background and others have white. The white background values indicate that making this change alone can attain the target. Black means that making this change alone will not reach the target; however

the item can still be used in conjunction with other items to reach the target. In our example neither reducing *Fixed COGS* to zero nor increasing *Revenue* to the maximum will meet the target on its own.

The *Change So Far* column is where you enter your changes until the most satisfactory mix is obtained. For each *Change So Far* value entered, Insight will update the items in the list, re-calculate their *Still To Go* values, and illustrate the progress towards your target on the progress bar.

To accept the list of changes made and have these changed values applied to the current model use the ACCEPT button. Using the CANCEL button will leave the model unchanged, and quit the targeting screen.

In the example, assume that we can achieve half the suggested changes to *Variable COGS*.

- Input a *Change So Far* value of -10000 into the *Variable COGS* line.

Notice the re-calculation of the *Still To Go* amount for all items in the targeting list and the movement towards the target shown on the progress bar. Of particular interest is that *Fixed COGS* can now be used to achieve the target by itself and consequently its background is no longer black (Figure 23).

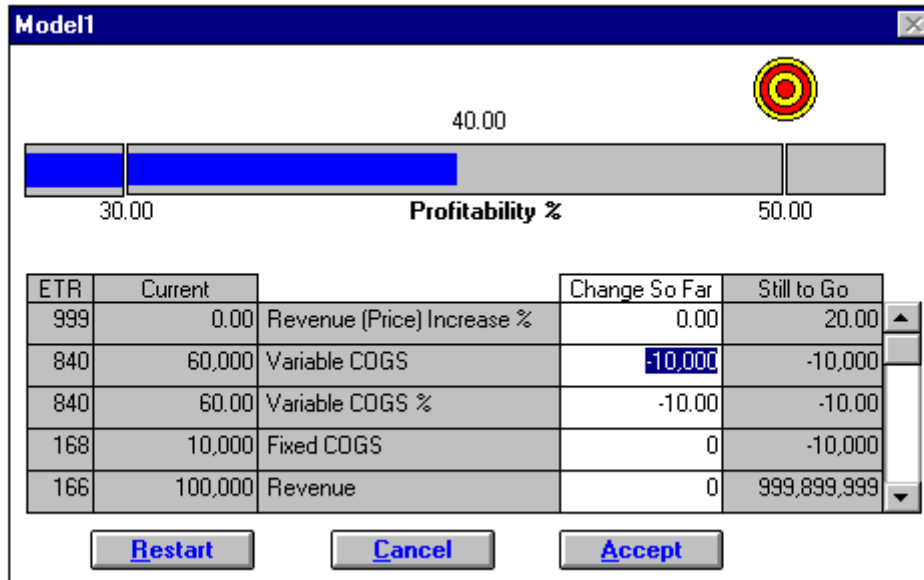


Figure 23 - Targeting Profitability - first step

Having looked at the list of possibilities we decide that a price increase is our only viable option. A 20% price increase is not possible but we can achieve a 15% price increase.

- Input a *Change So Far* value of 15 into the *Revenue (Price) Increase %* line.

Again notice the re-calculation of all items in the targeting list and progress bar movement (Figure 24).

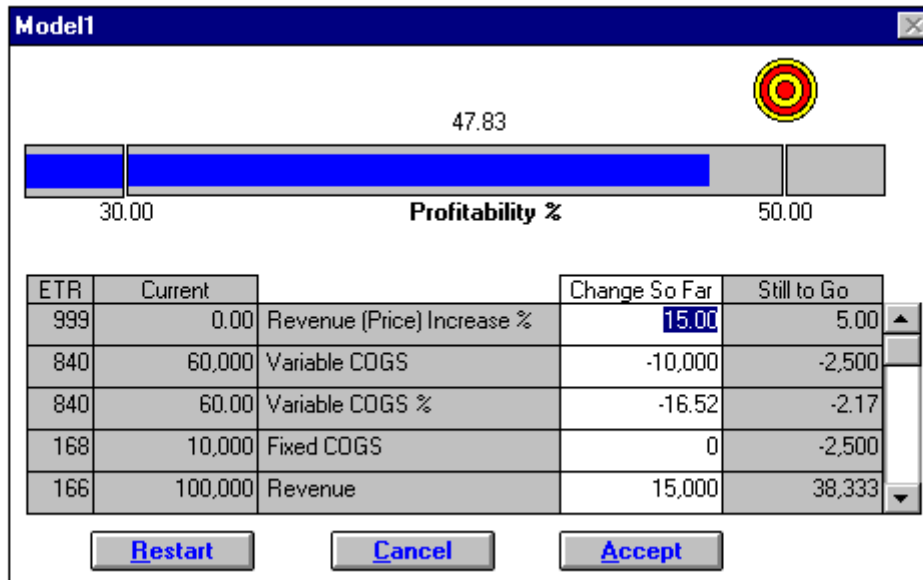


Figure 24 - Targeting Profitability - step 2

Although we haven't quite reached our target of 50% profitability, we'll settle for the 47.83% from these two changes.

- Accept both targeting changes and return to the Du Pont screen by pressing the ACCEPT button.

You can see that Insight has applied the revised values of *Variable COGS* and *Revenue (Price) Increase %* and automatically re-calculated the entire model (Figure 25).

In effect you have almost achieved your target by increasing your price by 15% and lowering your *Variable COGS* from 60% to 43.48%.

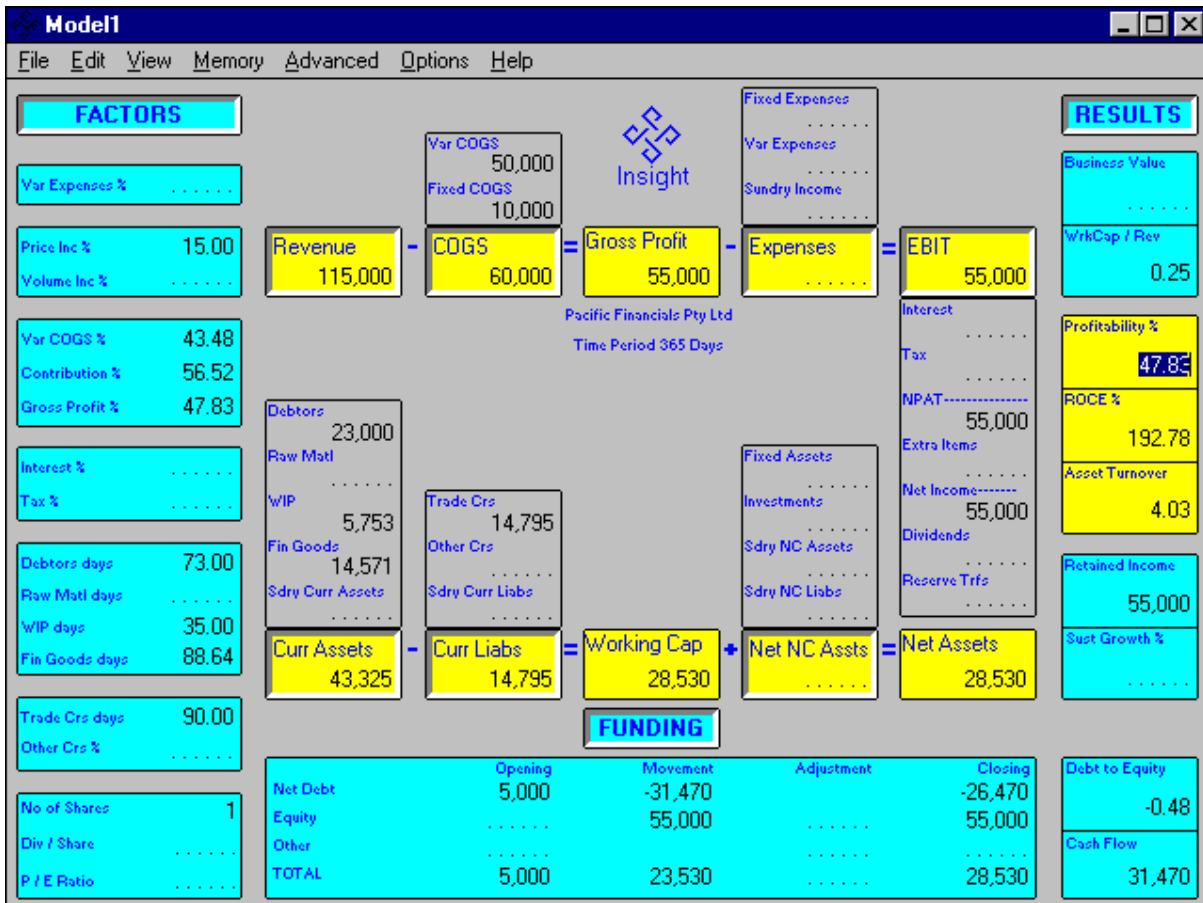


Figure 25 - Profitability Targeting changes applied

To complete this example,

- Use the File | Save menu option to save the current model as “Gtour”,

The guided tour of Insight ends with the following brief look at all available Menu options.

The Menus

File Menu

New

Clears the current model and resets all values to default. If the current model has been altered, you will be prompted to save it first.

Open

Loads a previously saved Insight financial model from disk. If the current model has been altered, you will be prompted to save it first.

Close

Closes the current unchanged model without saving it to disk. If the current model has been altered, you will be prompted to save it first.

Save

Saves the current model to disk. Use this option frequently, to save your work after any substantial changes.

Save As

Saves the current model to disk, after prompting for a name. Use this option to save several different views of a current model.

Export

Saves the current model to disk in a format acceptable to Excel.

Import

Imports the Insight data from especially prepared text files, previously exported from Excel.

Exit

Shuts down Insight; you will be prompted to save the current model if it has been altered.

Edit Menu

Undo

Reverses the effect of the last change.

Redo

Cancels the last Undo operation, returning Insight to the state it was in prior to the Undo operation.

Cut/Copy/Paste

Provide standard Windows cut/copy/paste facilities.

Data Entry Mode

Selects/De-selects Data Entry mode

Accept Price Increase <F3>

Accepts any tentative price increase as the new “standard” pricing and resets the *Price Increase %*.

View Menu

Accounts

Allows the user to view the current model in the more traditional accounting format.

Critical Insights

Allows the user to view a summary of the Du Pont information; the Critical Insights report provides you with the business's critical financial performance indicators.

Target

Allows you to view your previous targeting attempt.

The Target menu option is only available if you have previously performed an *If..What* analysis and subsequently switched to another screen. Selection of the Target option will switch you back to the last Target screen. But any changes you make on this visit to the targeting screen cannot be applied to your model.

Du Pont (All) / Du Pont (Only)

The Du Pont (All) option shows all the Factors, Detail boxes and Results.

The Du Pont (Only) option hides all the Factors, Detail boxes and Results.

Details

Shows/hides all Du Pont detail boxes. It is equivalent to pressing all the 3D buttons.

Factors

Shows/hides all Factors. It is equivalent to pressing the FACTORS button on the Du Pont screen.

Results

Shows/hides all Results, other than the 3 Du Pont ratios. It is equivalent to pressing the RESULTS button on the Du Pont screen.

Funding

The Funding item shows/hides all the Funding items. It is equivalent to pressing the FUNDING button on the Du Pont screen.

Memory Menu

Swap <F4>

“Swaps” the values of your current model for the memorised set of values (i.e. those prior to the last change).

Delta <F5>

Displays/returns from the Delta screen. The Delta screen displays, in Du Pont layout, the difference between the current values and the memorised values.

Advanced Menu

Consolidate - Units

Consolidate - Units allows you to consolidate to a “higher” level the financial details of multiple models for the same Time Period, via a selection box (Figure 26).

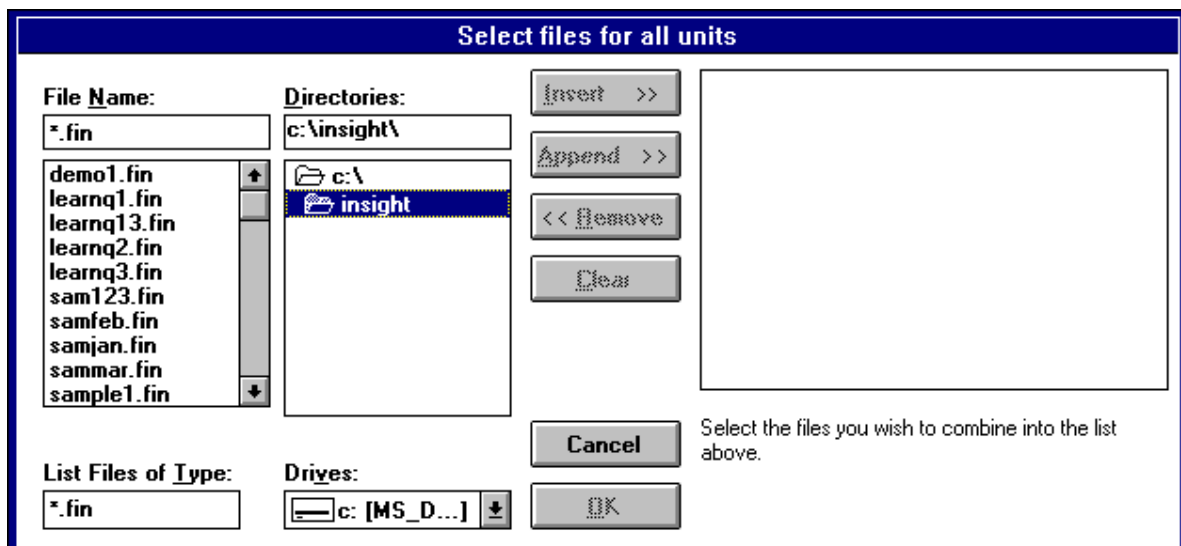


Figure 26 - Consolidate - Units selection box

Consolidate - Periods

Consolidate - Periods allows you to consolidate the financial details of multiple models for contiguous Time Periods into a single, longer-period model, via a selection box (Figure 27).

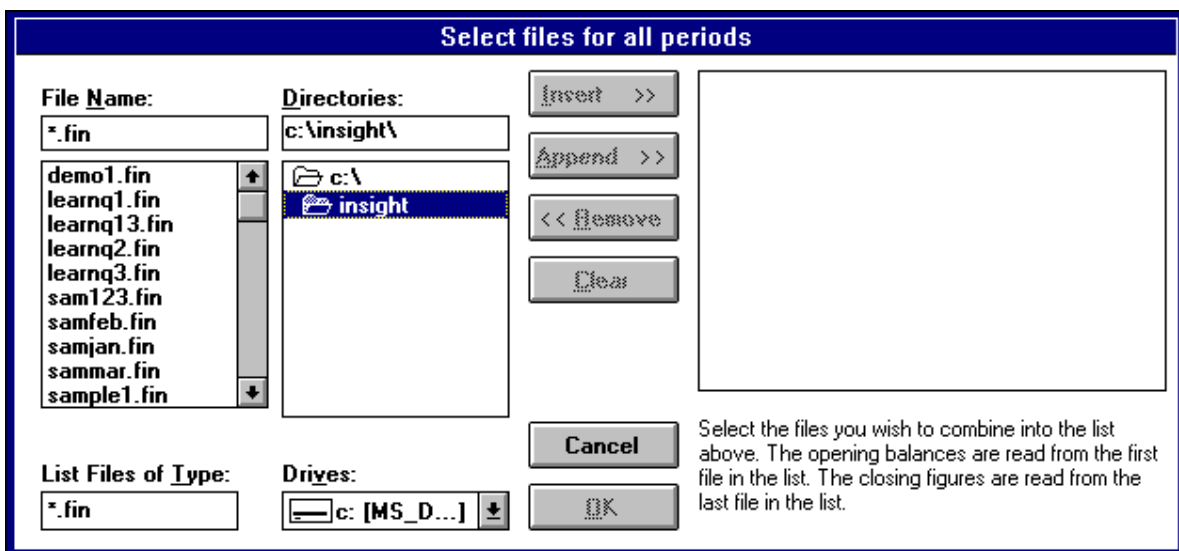


Figure 27 - Consolidate - Periods selection box

Rollover

Rollover “rolls over” the current model into the starting point for a model for the following period.

Options Menu

Time Period...

Time Period allows you to select the *Time Period* for the model in Years, Months, Weeks or Days, via a selection box (see Figure 28).

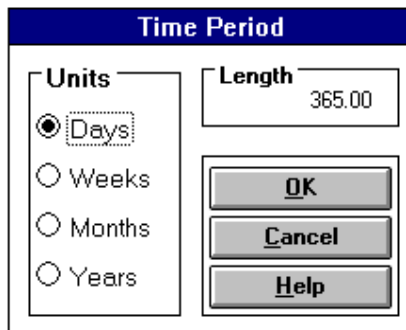


Figure 28 - Options | Time Period selection box

Model Title/Model Notes

These options allow you to append a title and free-form notes to the current model.

Help Menu

Contents

Pops up the Insight Help window, with the Insight Help Contents screen displayed. From this opening screen, you may select an area of interest by simply clicking on the appropriate picture or highlighted phrase.

Glossary

Displays an alphabetical listing of Insight's terminology. You may scroll through the list, or simply click on the appropriate letter at the top of the window to "jump" to that letter's entries. Once you have located the correct entry, click on it to view a detailed explanation of the entry, complete with mathematical formulae where applicable.

Data Entry Advisor

Assists in identifying the correct Insight field when entering data from prepared accounts that use different terminology. The account name from the prepared accounts is entered and a list of possible Insight fields is shown. When only one possibility remains (or an Insight field is selected from the list), the account value may be entered directly into the Advisor.

User's Guide

Takes you straight to the PDF version of the Insight User's Guide.

About Insight

Displays information regarding the version of Insight in use, as well as your registration details.

3. TUTORIALS

In previous chapters you've seen what Insight looks like, and taken a guided tour of its features. Now it's time to load a full set of details and see how Insight performs when given analytical tasks on that set.

By the end of these tutorials you will be able to -

- Input a set of financial statements into Insight.
- Understand Factors, Results and Targeting.
- Use the “*What..If*” to evaluate alternative courses of action.
- Use the powerful “*If..What*” function to select and achieve targeted results.
- Identify all items affected by any change to the model, using the Swap and Delta features.
- Compare different models using the Delta feature.
- Consolidate three monthly models into one 9-month model.
- Consolidate three divisional models into a single corporate model.

Tutorial 1 - Loading financials for Learn-a-Lot

In this tutorial, a set of financial statements for Learn-a-Lot will be input and saved. The Profit and Loss Statement and Balance Sheet for the current year (with comparatives for the previous year) are printed on the next two pages.

The objective is to load these financial statements and have a brief look at what Insight has to say about them.

- To start Insight double-click on the Insight icon; this will display the initial Du Pont screen.

Inputting the financial statements can be done in either the Du Pont view or the Accounts view. While the Accounts view gives a more traditional format for entering data, the relationships between the data being entered and the various financial measures of performance cannot be seen.

Inputting financial data directly into the Du Pont view is an educative process that assists you to appreciate the dynamic relationships between the financial data being input and the various related Factors and Results.

In this tutorial we will be using the Du Pont view to input the initial financial statements. When you've completed this tutorial you might like to repeat it sometime using the Accounts view to input the data.

We recommend the Du Pont view for loading tutorial data. However, when inputting your own data the Accounts view can sometimes be a far quicker means of entering your financials.

Learn-a-Lot Financial Statements

The following Financial Statements are to be loaded for Learn-a-Lot.

LEARN-A-LOT
PROFIT AND LOSS ACCOUNT

	This year	Last year
	\$	\$
Revenue	365,000	190,000
Variable COGS	<u>207,700</u>	<u>108,110</u>
Gross Profit	157,300	81,890
Fixed Expenses	20,000	20,000
Interest	<u>3,100</u>	<u>3,191</u>
	134,200	58,699
Tax	<u>42,000</u>	<u>17,547</u>
NPAT	92,200	41,152
Dividend	<u>20,000</u>	<u>20,000</u>
Retained Income for the year	<u>72,200</u>	<u>21,152</u>
Opening Retained Income	246,670	225,518
Retained Income for the year	<u>72,200</u>	<u>21,152</u>
Closing Retained Income	<u>318,870</u>	<u>246,670</u>

LEARN-A-LOT
BALANCE SHEET

	This year \$	Last year \$
Current Assets		
Cash on Deposit	11,780	17,470
Debtors	20,150	30,520
Raw Materials	5,690	2,962
Work In Progress	8,540	4,443
Finished Goods	51,200	46,649
Sundry	<u>180</u>	<u>180</u>
	<u>97,540</u>	<u>102,225</u>
Current Liabilities		
Bank Overdraft	64,840	73,310
Trade Creditors	22,760	21,175
Other Creditors and Accruals	880	880
Sundry Liabilities	<u>190</u>	<u>190</u>
	<u>88,670</u>	<u>95,555</u>
Working Capital	8,870	6,670
Non Current Assets		
Fixed Assets	<u>400,000</u>	<u>330,000</u>
Net Assets	<u>408,870</u>	<u>336,670</u>
Shareholder Funds-		
Share Capital	90,000	90,000
Retained Income	<u>318,870</u>	<u>246,670</u>
	<u>408,870</u>	<u>336,670</u>

When started, Insight automatically displays an empty model with a default name of MODEL1, and places itself in data entry mode which is indicated by the Data Entry button. For our purposes this is ideal and we can start immediately to input the financial data.

Loading the Profit and Loss Account

Taking the figures from the Learn-a-Lot profit and loss account:

- Input 365,000 into *Revenue*.
- Display the component details of *COGS* by clicking on “COGS”.
- Input *Var COGS* of \$207,700.
- Display the component details of *Expenses*.
- Input *Fixed Expenses* of \$20,000.
- Display the component details of *EBIT*.
- Input *Interest* of \$3,100.
- Input *Tax* of \$42,000.
- Input *Dividends* of \$20,000.

As these details were being entered you will have noticed that displaying the component details of *COGS* (for example) also displayed the associated Factors and Results. Using the Du Pont view in this way to load data constantly reminds you of the underlying financial relationships. If some of these relationships are not immediately obvious, use the Help system to assist you.

The Profit and Loss loading is now complete. Ensure that the calculated *Retained Income* in the Results column is equal to the Retained Income shown in the Profit and Loss Account. If there is any difference, check that all individual numbers have been input correctly, re-input as necessary (Figure 30).

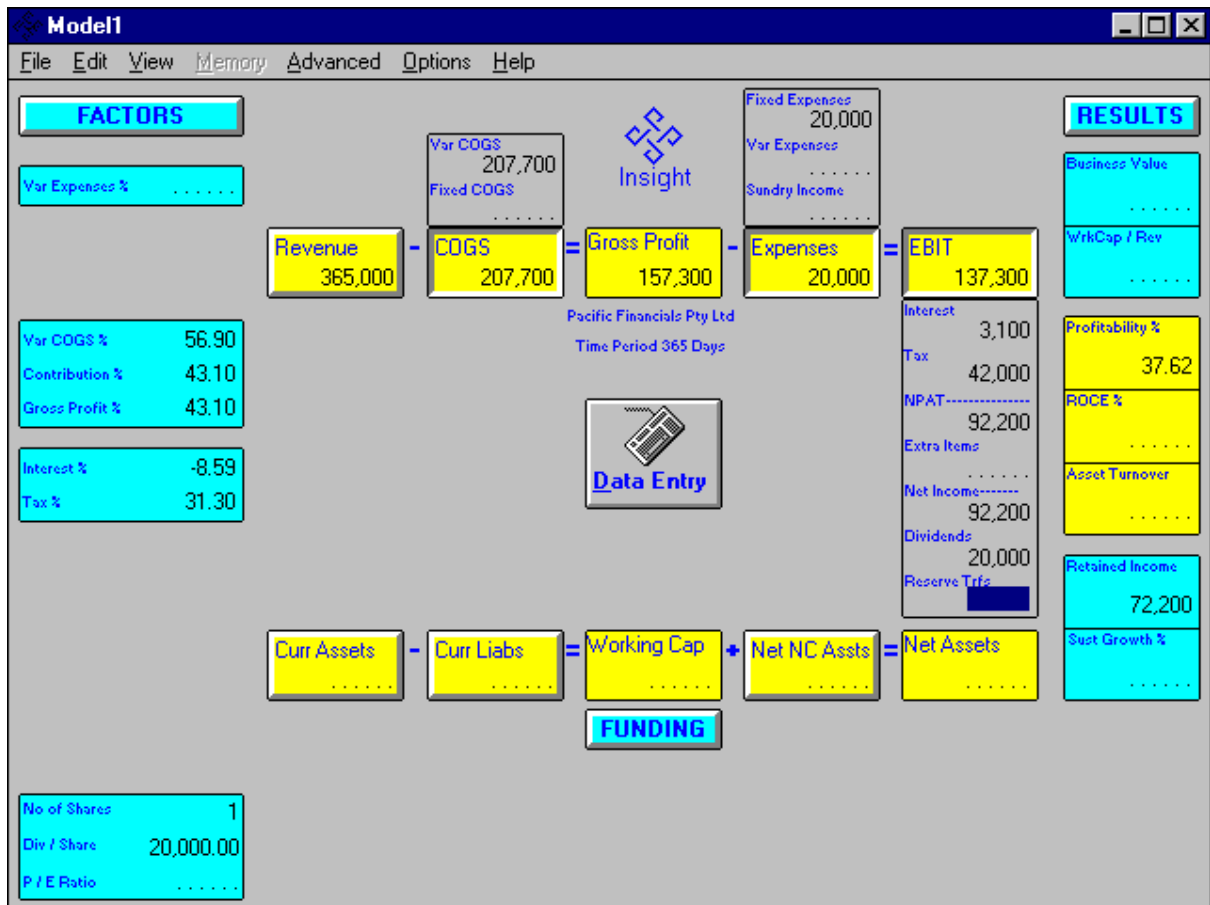


Figure 30 - The Learn-a-Lot P & L Account

Loading the Balance Sheet

First we'll load the *Net Assets* side of the Balance Sheet:

- Display the components of *Curr Assets*.
- Input *Debtors* of \$20,150.
- Input *Raw Matl* of \$5,690.
- Input *WIP* of \$8,540.
- Input *Fin Goods* of \$51,200.
- Input *Sdry Curr Assets* of \$180.

At this stage we have not entered Cash on Deposit.

- Display component details of *Curr Liabs*.
- Input *Trade Crs* of \$22,760.
- Input *Other Crs* of \$880.
- Input *Sdry Curr Liabs* of \$190.

At this stage we have not entered Bank Overdraft.

- Display component details of *Net NC Assts*.
- Input *Fixed Assets* of \$400,000.

You have now completed loading of the *Net Assets* side of the Balance Sheet. Before we move on to the funding side, check that your model looks like Figure 31. If not, repeat the inputting of Balance Sheet data.

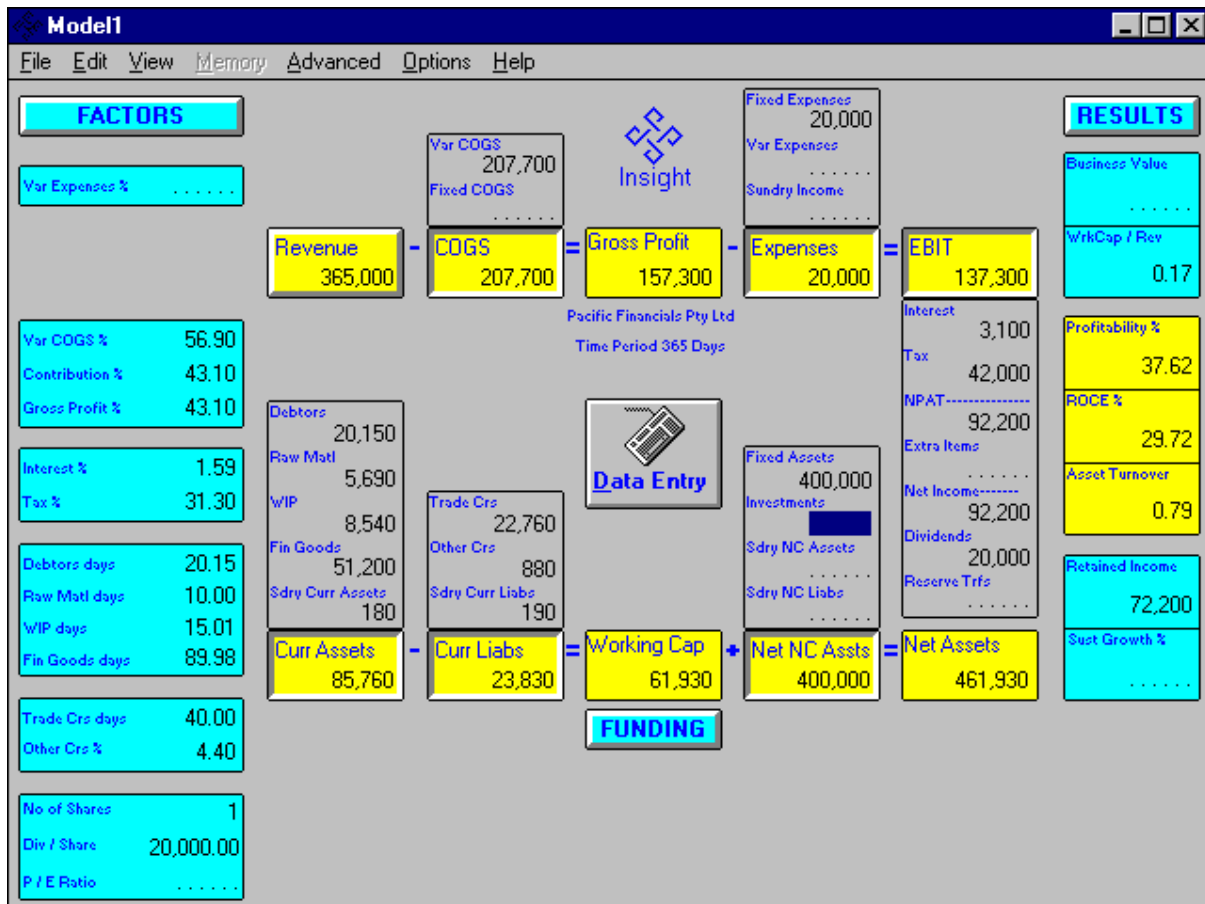


Figure 31 - Learn-a-Lot P & L and Balance Sheet

Loading Funding

Now it's time to input the funding side of the Balance Sheet. First some analysis is required to identify the figures we need for the year's *Opening* balances for *Net Debt*, *Equity* and *Other*.

From the Balance Sheet:

<i>Net Debt Opening</i>	=	Overdraft	73,310	(end last year)
		Less Cash on Deposit	<u>17,470</u>	(end last year)
			<u>55,840</u>	

<i>Equity Opening</i>	=	Share Capital	90,000	(end last year)
		Retained Income	<u>246,670</u>	(end last year)

336,670

Other = Nil

Input the funding details:

- Use the FUNDING button to display all Funding Details.
- Input *Net Debt Opening* of \$55,840.
- Input *Equity Opening* of \$336,670.

Note that Insight has calculated the *Closing* balances for *Net Debt* and *Equity*. These should be checked against the *Closing* balances calculated from the Balance Sheet:

<i>Net Debt Closing</i>	=	Overdraft	64,840	(end this year)
		Less Cash on Deposit	<u>11,780</u>	(end this year)
			<u>53,060</u>	

<i>Equity Closing</i>	=	Share Capital	90,000	(end this year)
		Retained Income	<u>318,870</u>	(end this year)
			<u>408,870</u>	

Other = Nil

Ensure that these *Closing* amounts agree with the amounts calculated by Insight. If there is any difference, check that the funding numbers have been input correctly. Re-input or correct if necessary (see Figure 32).

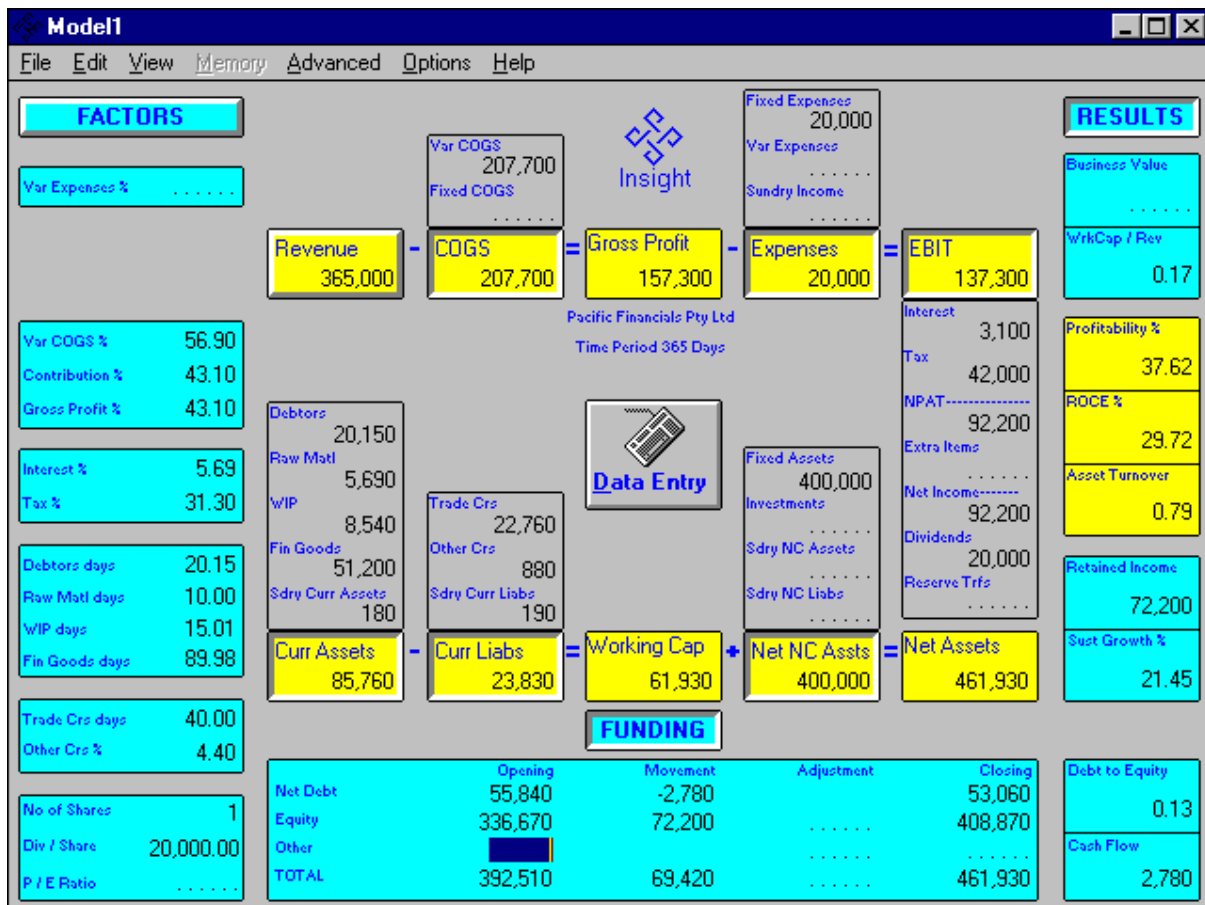


Figure 32 - Learn-a-Lot completed Accounts

If the above check has been carried out successfully, we have completed the loading of raw data and need to save the model for future reference.

- Use the File | Save menu option to save this set of accounts for later analysis. Save the model as “Learn1”.

A review of Learn-a-Lot

Some general notes on Learn-a-Lot:

Factors

If you examine the Factors you will note that each one relates to one or more Profit & Loss or Balance Sheet item(s). For example:

- The company's *Contribution %* is equal to the *Gross Profit %*, as there are no *Fixed COGS*.
- The company had an average interest rate (*Interest %*) of 5.69%.
- *Fin Goods Days* are 89.98.

Results

Some comments on what Insight results say about Learn-a-Lot:

- A high *Profitability %* of 37.62.
- A good *ROCE %* of 29.72%.
- A low *Asset Turnover* ratio of 0.79.
- A low *Debt to Equity* ratio of 0.13.
- A positive *Cash Flow* of \$2,780.
- A good *NPAT* of \$92,200.

Tutorial 2 - *What..If* Analysis of Learn-a-Lot

Here's where you'll begin to appreciate the power of Insight analysis.

In this tutorial we will use Insight to evaluate the impact of a management decision to implement a new stock control system. We'll use the *What..If* feature to do the evaluation and the two Memory features, Swap and Delta, to understand all the implications involved.

If you haven't just done tutorial #1, you'll first need to:

- Use the File | Open menu option to open model Learn1.

Learn-a-Lot *What..If* #1

The Learn1 model was saved on the completion of loading the accounts, and is still in Data Entry mode. We'll need to put Insight into operational mode (ready for analysis).

- Press the Data Entry button (it will disappear).

Now we are ready to begin.

The option is available to spend \$2,000 on a new stock control system that is predicted to reduce *Finished Goods days* from the current level of 89.98 days to 70 days.

First we tell Insight about the revised *Finished Goods days*:

- Amend *Fin Goods days* to 70.

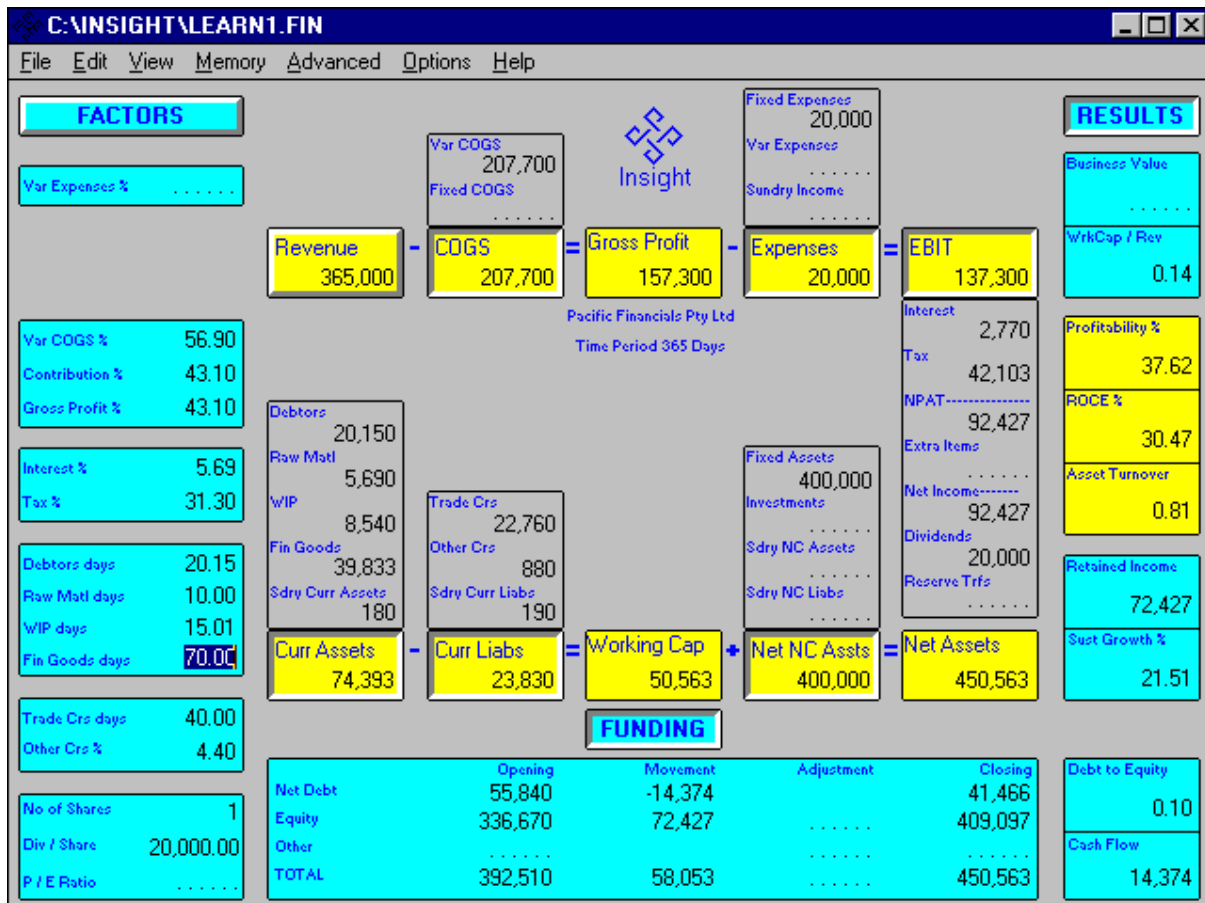


Figure 33 - Learn A Lot *What..If* #1

Figure 33 shows the newly-calculated model. Insight has recalculated all items in the model that are affected by the reduction in *Finished Goods days*.

Using the Swap feature

We examine the changes that have occurred by using the Memory | Swap menu option which can be used to “toggle” between the current model and the version prior to the last change. <F4> is the hot key for this feature; by repeatedly pressing <F4> you’ll see the Du Pont display switch between the two versions. When using Memory | Swap, remember that the version left on the screen when you’ve finished becomes the current version.

- Using <F4> as many times as you need, look for the following changes:
 - The *Fin Goods* have reduced from \$51,200 to \$39,833. Insight has calculated the level of *Finished Goods* based on the new (lower) number of days held.
 - *Interest* has reduced from \$3,100 to \$2,770. *Interest* is paid on the average *Net Debt*, which was reduced by the reduction in *Finished Goods* Inventory.
 - The *Tax* charge increased from \$42,000 to \$42,103. *Tax* increased because of the reduction in *Interest* ($330 \times 31.3\%$ Tax Rate).
 - The *Cash Flow* has improved from \$2,780 to \$14,374. Insight has re-calculated *Cash Flow* based on the reduced *Fin Goods*, and *Interest*, and the increased *Tax* paid. ($11,367 + 330 - 103 = 11,594$)
 - The *ROCE* % has improved marginally from 29.72% to 30.47%. Insight has recalculated the *ROCE* % based on the new asset base after the *Fin Goods* have been recalculated.
 - The *Retained Income* has improved slightly from \$72,200 to \$72,427. Insight has recalculated the *Interest* based on the changed *Cash Flow* and new *Net Debt Closing*, then recalculated the *Tax*; this necessitated recalculating the *Retained Income*.

Using the Delta feature

The Memory | Swap feature is useful for detecting the effect of changes made to your model and showing the before and after values. The Memory | Delta feature is the one to use when you'd like to see the differences between the two sets of values. Let's do that now.

- Make sure the “after” set of values is the current model by pressing <F4> if necessary (i.e. the one with *Fin Goods days* of 70).
- Invoke Memory | Delta either by the menu option or by pressing <F5>, its hot key.

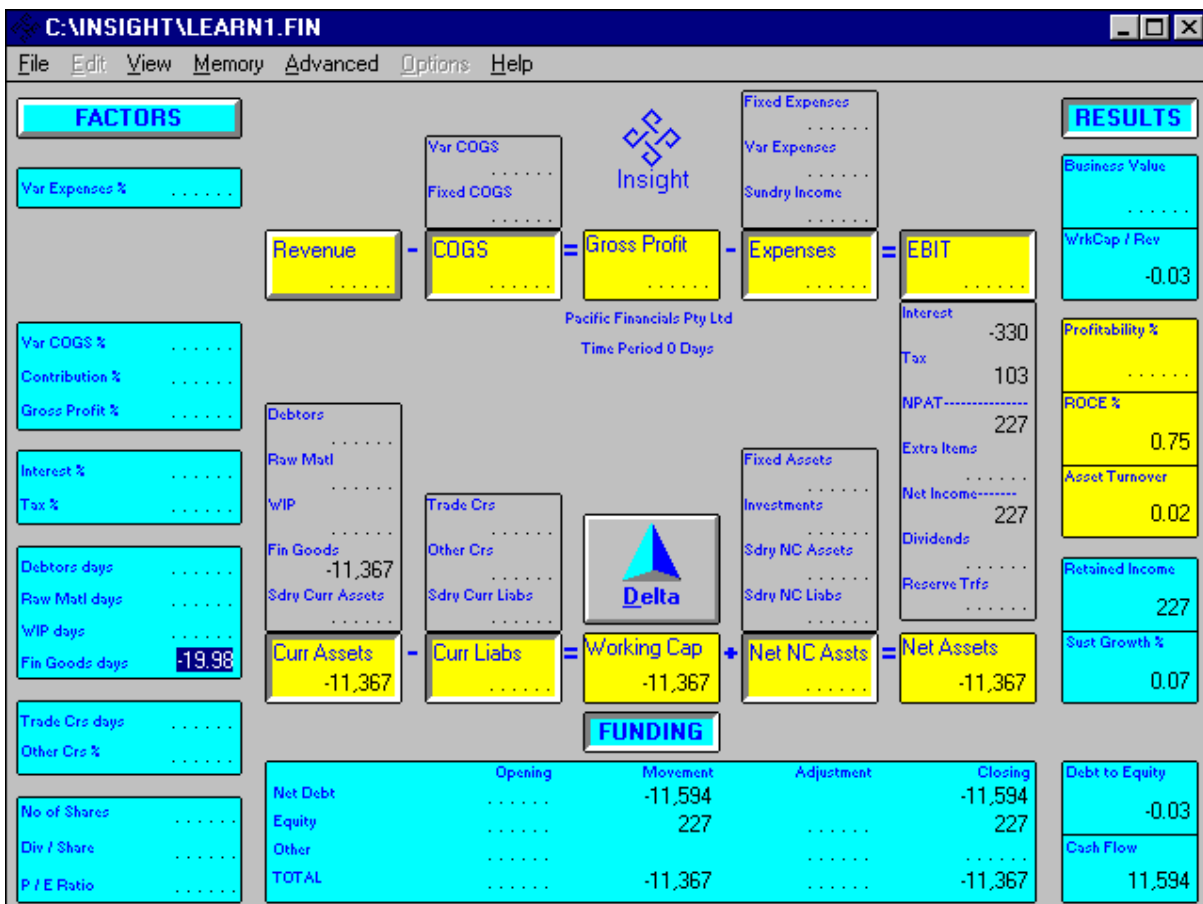


Figure 34 - Learn-a-Lot *What..If* #1 - Delta

Figure 34 is the Delta display for the *Fin Goods days* change we made to our model (the Delta button differentiates this screen from the working Du Pont screen). The Delta screen shows the differences that occurred in our model, all values being derived by subtracting the values of each field prior to the change from those after the change.

The Delta screen is for information only and cannot be amended. Because the values represent the difference between two versions of a model, the Delta screen cannot represent a valid model in itself.

- Evaluate the changes that occurred when we amended *Fin Goods days* by using the Delta screen, then press the Delta button to return to the Du Pont view.

Learn-a-Lot *What..If* #2

Now we have to tell Insight about the cost of the new stock control system.

- Amend *Fixed Expenses* from 20,000 to 22,000.

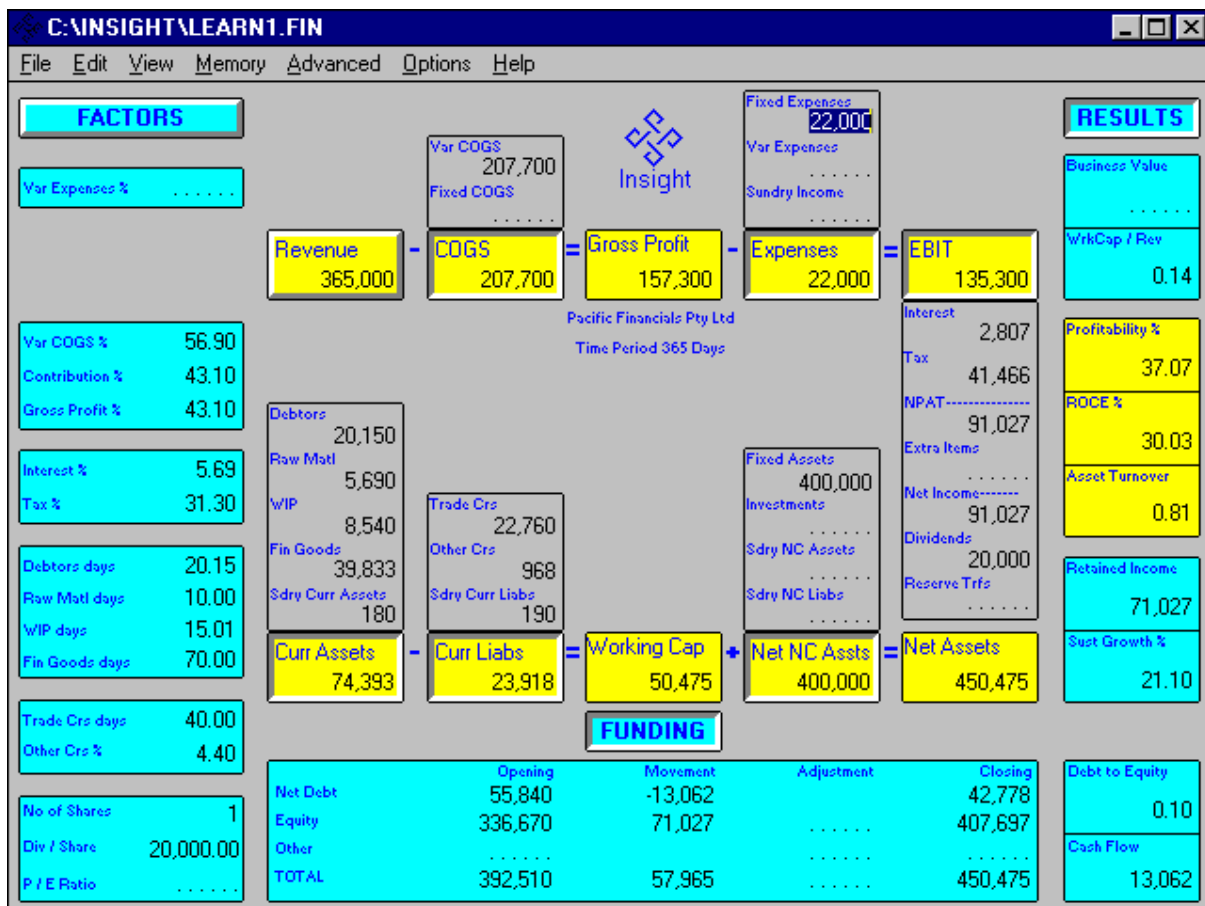


Figure 35 - Learn-a-Lot *What..If* #2

Figure 35 shows the model after the *Fixed Expenses* change. Insight has recalculated all items in the model that are affected by the increase in *Fixed Expenses*.

Using the Swap and Delta features

- Use both the Memory | Swap <F4> and Memory | Delta <F5> features to examine the changes that have occurred. These are:
 - *EBIT* has reduced by \$2,000 from \$137,300 to \$135,300.
 - *Interest* has increased by \$37 from \$2,770 to \$2,807. The *Interest* charge was increased due to the additional *Expenses*.
 - *Tax* was reduced by \$637 from \$42,103 to \$41,466. *EBIT* was reduced by \$2,000, *Interest* was \$37 more and taxable Income fell by \$2,037. The effective *Tax %* in the Factors column is 31.3 therefore the *Tax* charge has been reduced by \$637 ($2,037 \times 31.3\%$).
 - *Other Crs* increased by \$88 from \$880 to \$968. The increase in *Other Crs* is due to the increase in *Fixed Expenses*. The *Other Crs % Factor* of 4.4% was applied to the increase in *Fixed Expenses* ($2000 \times 4.4\%$).
 - *Cash Flow* reduced by \$1,312 from \$14,374 to \$13,062. The *Cash Flow* changed due to the additional *Expenses*, *Interest*, the *Tax* saving and the increase in *Other Crs* ($2,000 + 37 - 637 - 88 = 1,312$).
 - The *ROCE %* has reduced marginally, by 0.44 from 30.47 to 30.03. Insight has recalculated the *ROCE %*, based on the new asset base, after the changes to *Fixed Expenses* and the resultant changes.

The material impact has been the improvement in *Cash Flow*, and a corresponding reduction in *Net Debt*. The other changes are relatively insignificant.

- After using the Memory | Swap and Memory | Delta features, make sure you return to the Du Pont screen with the “after” values loaded (Figure 35).

To complete the tutorial:

- Use the File | Save As menu option to save the current model for future analysis. Save the model as Learn2.

Tutorial 3 - *If..What* Analysis of Learn-a-Lot

We will now look at the most powerful feature of Insight.

In this tutorial we'll first perform another *What..If* analysis to evaluate the impact of a change in our pricing. Having completed that we'll then use Insight to tell us all possible alternatives to achieve a management desire for a zero *Net Debt* position at the end of the period. We call this second task an *If..What* analysis.

If you haven't just completed tutorial #2 you'll first need to:

- Use the File | Open menu option to open model Learn2.

Learn-a-Lot *What..If* #3

The business is under pressure to cut prices by 20% in order to keep and improve market share (this is another *What..If* analysis).

Management is also keen to repay the bank overdraft (this is an *If..What* analysis, i.e. If I want to repay the overdraft What do I have to do?).

First we'll do the simple *What..If*:

- If necessary, click on *Revenue* to pop up the *Price Inc % Factor*.
- Input a *Price Inc %* of - 20.
- Click on *Revenue* to hide the *Price Inc % Factor* (or press <F3>); this will accept the price decrease and use the new pricing level as the base for any future price movements.

Note the impact, particularly on *EBIT*, *ROCE %* and *Cash Flow* (Figure 36). Of course you can use the Swap and Delta features to closely analyse the impact. If you do, make sure you return to this Du Pont view before proceeding.

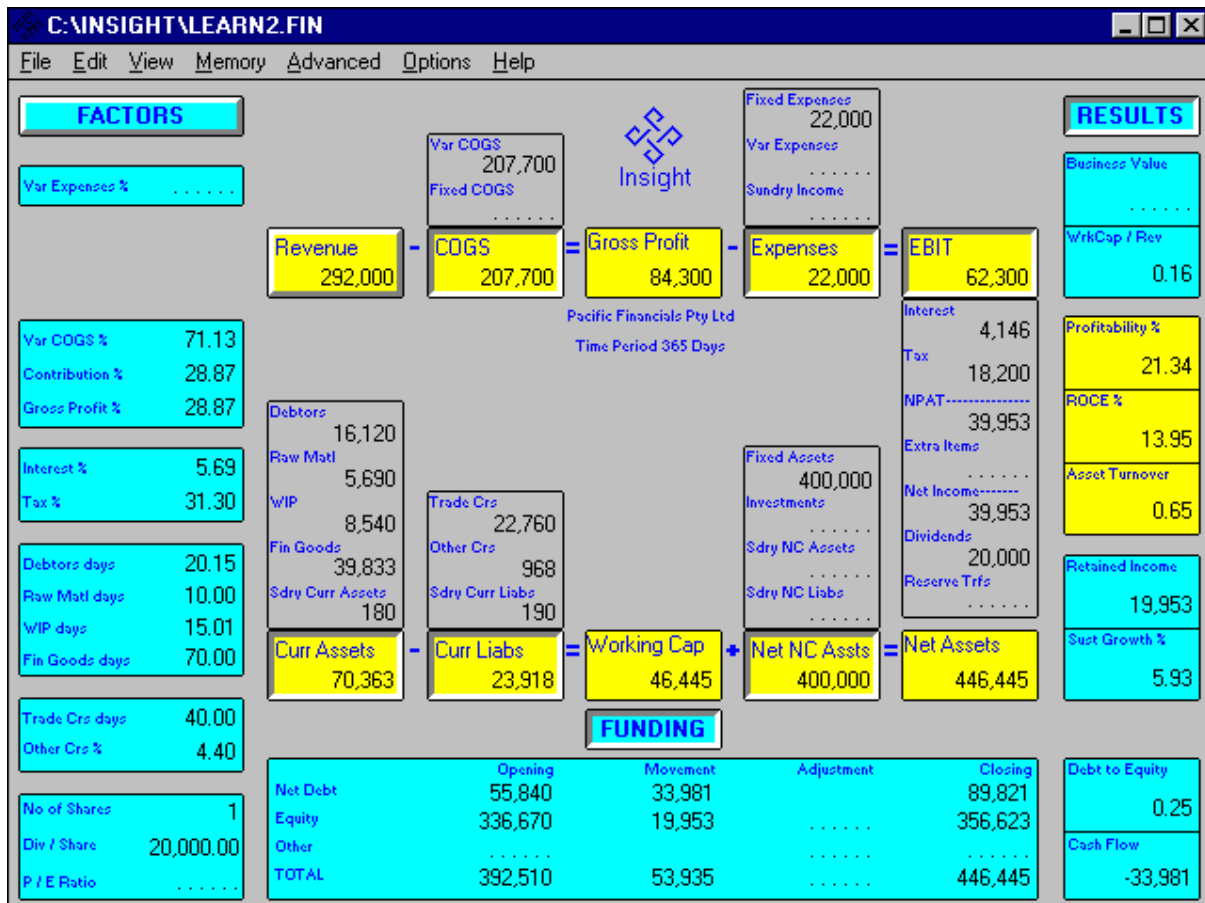


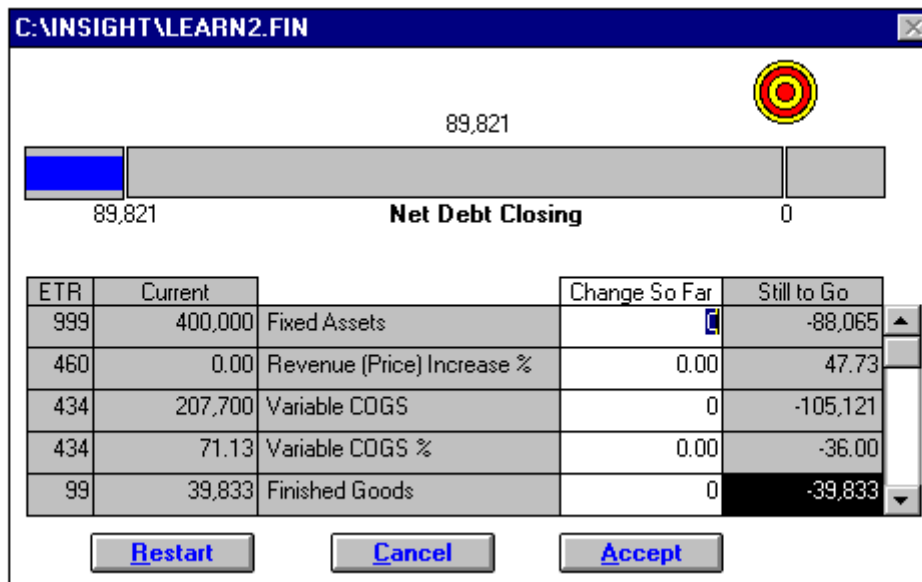
Figure 36 - Learn-a-Lot Price decrease

Learn-a-Lot *If..What* #1

Now we'll do the *If..What* part of the analysis.

- Use the FUNDING button (if necessary) to display all Funding details.
- Input *Net Debt Closing* of 0 (i.e. the target we're aiming for).

The *Targeting* screen is now displayed (Figure 37).

Figure 37 - Learn-a-Lot initial *Targeting* screen

The *Targeting* Screen

The *Targeting* screen provides you with a dynamic and unique analysis of *Net Debt Closing* and lists all your alternatives for reaching the target.

The top half of the screen shows the *Net Debt Closing* as a result of Targeting so far (\$89,821) on top of the Progress Bar, the original model value (\$89,821) and the target (\$0) underneath the bar.

The lower part of the screen contains a list of all items that can be changed to assist you reach the target, and the amount *Still To Go* for each item in order to help achieve the target. For your convenience Insight has ranked these potential changes in order of the ease with which they'll help you achieve the target. This ranking is the Ease To Target Ratio (*ETR*). Changes to the items appearing at the top of the list (those with a high *ETR*) have a larger impact than those with a lower *ETR*.

The first five items that affect *Net Debt Closing* in this model are listed (see Figure 37) as follows:

- *Fixed Assets* - A cut of \$88,065 will achieve the target.

- *Revenue (Price) Increase %* - An increase of 47.73 will achieve the target.
- *Var COGS* - A cut of \$105,121 will achieve the target.
- *Var COGS %* - A drop of 36 will achieve the target.
- *Finished Goods* - Even reducing these to zero will not achieve the target. This number has a black background to indicate that it alone will not achieve the target. It can, of course, still be used in conjunction with other items.

Other items in the list can be viewed by using the scroll bar.

To move towards your target, enter the desired change in the appropriate *Change So Far* column. As you enter each change Insight gives a visual indication of the impact of the changes via the progress bar and re-calculates the options and values now available for reaching the target. You repeat the process until you have found the mix of changes best suited to you. When you have the right mix Insight allows you to accept the changes made, via the ACCEPT button, and recalculates the current model accordingly.

Now we'll put targeting to work by trying the following:

- Scroll down the Targeting list to *Revenue*.
- Input \$50,000 into the *Change So Far* column for *Revenue* (i.e. we believe our previous price reduction will increase our Revenue via a volume increase).

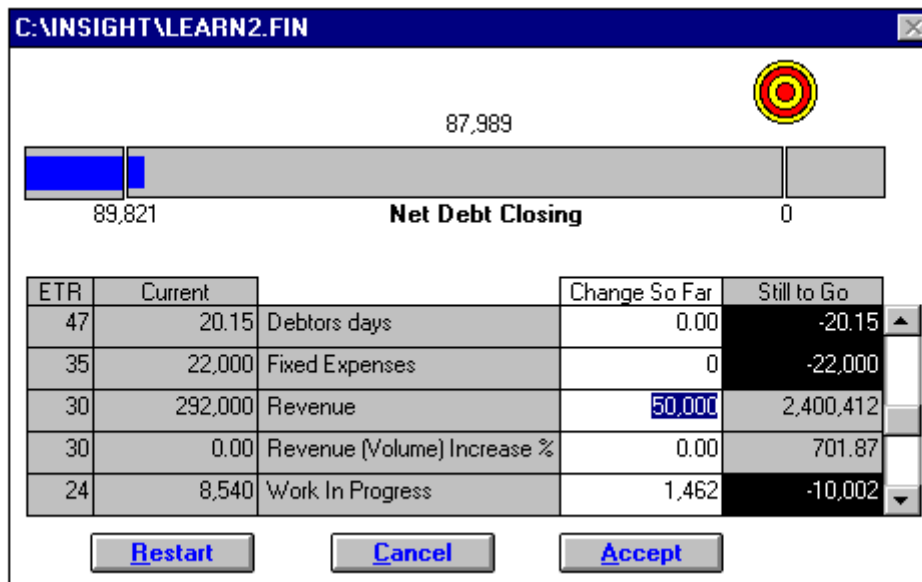


Figure 38 - Learn-a-Lot Targeting - step 1

Note the impact of the change on the progress bar and the re-calculation of the list (Figure 38).

Because we increased *Revenue* by \$50,000 the *Revenue (Price) Increase %* now required to meet the target has dropped from 47.73 to 39.92.

Having had a closer look we now believe that our original price reduction could cause *Revenue* to be raised by \$60,000 from the Current model value of \$292,000 (rather than our original estimate of \$50,000). We also believe that we can increase our *Trade Creditors days* to 90 and do without the planned dividend of \$20,000. No other alternatives appeal to us.

- Amend the *Change So Far* for *Revenue* to 60,000.
- Input 50 in the *Change So Far* for *Trade Creditors days*.
- Input -20,000 in the *Change So Far* for *Dividends*.

Insight re-calculates the *Targeting* screen as shown in Figure 39.

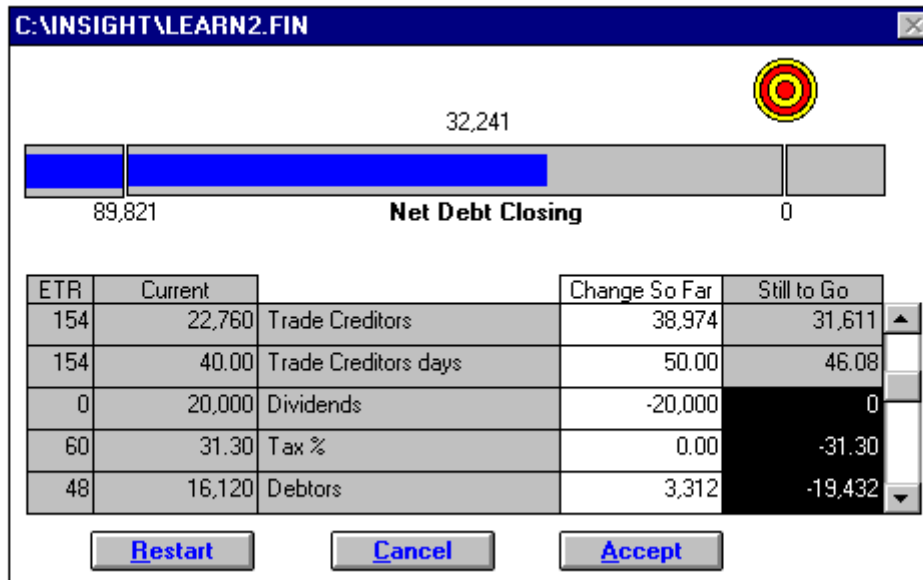


Figure 39 - Learn-a-Lot final Targeting screen

You'll see that the changes we're planning will result in a reduced *Net Debt Closing* of 32,241 (down from \$89,821). This has not achieved our original target but is acceptable, so we'd like Insight to implement those changes into the model.

Implement Learn-a-Lot Targeting

- Use the ACCEPT button

Insight implements our changes and re-calculates the model (Figure 40).

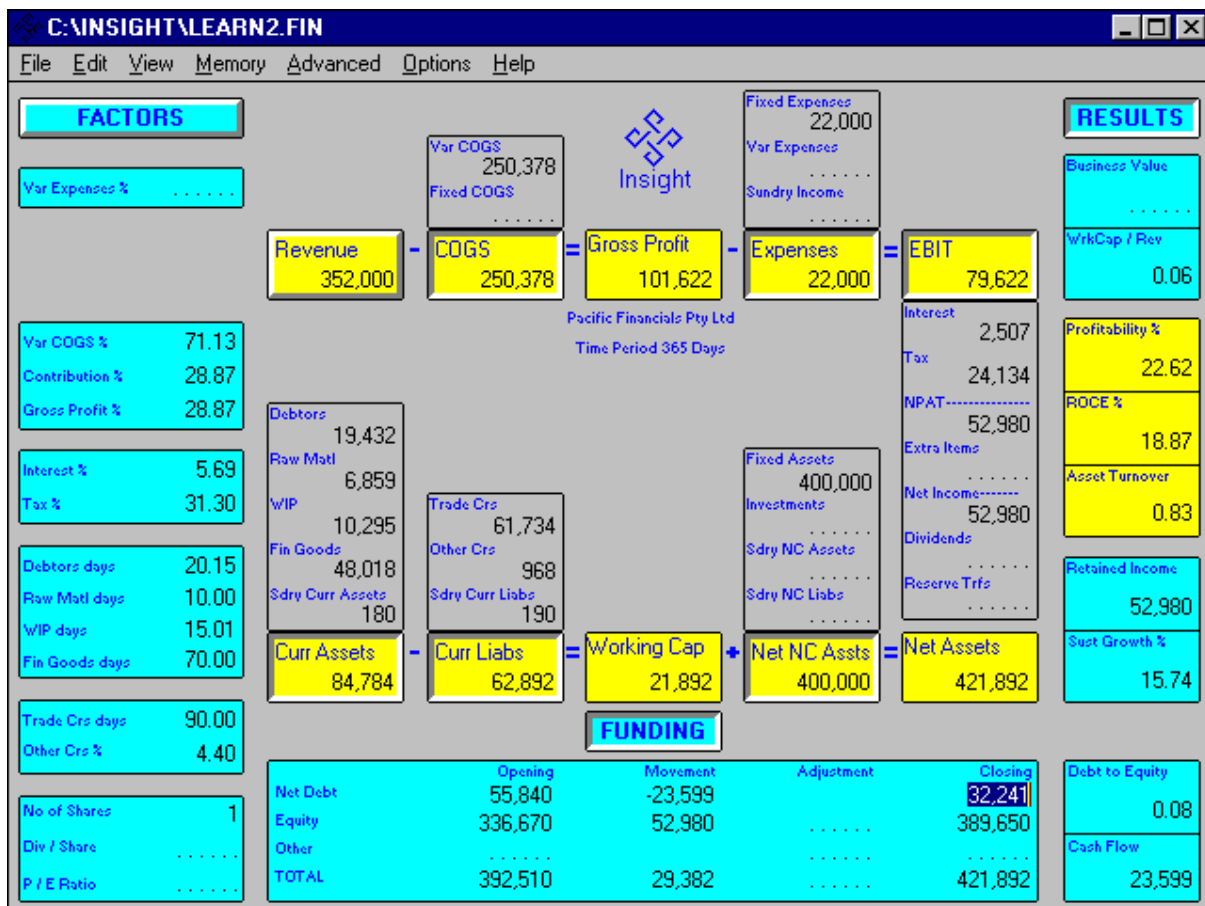


Figure 40 - Revised Learn-a-Lot accounts

Now our model is acceptable, all that needs to be done is for the model to be saved for future reference.

- Use the File | Save As menu item and save the model as "Learn3".

Tutorial 4 - Changing the *Time Period*

In this tutorial we'll explain the basics of Time Period and what happens when it's changed. We'll then work our way through several examples that demonstrate the various effects.

***Time Period* - the theory**

Insight knows the following: 1 year is 365 days; 1 month is 1/12 of a year; 1 week is 1/52 of a year. Most of this is transparent to users and, as you'd expect, Insight moves between like periods (eg 12 months to 1 year) without affecting any values in the model. The only complication arises when a "real" change is made to the elapsed period of the model and data has already been loaded.

Changing *Time Period* with data loaded

As we've already seen

- when re-calculating the model in Data Entry mode Insight holds the values of Du Pont items constant and calculates related Factors and Results from them, eg *Interest %* is always calculated as an annualised value based on *Interest*.
- when re-calculating the model in Operating mode, Insight assumes the relevant Factor will remain constant and the associated \$ amount is to be re-calculated, eg a change to *Revenue* will cause *Interest* to be re-calculated based on *Interest %*.

The same rule applies when a change is made to *Time Period* and the model already contains some values.

Firstly, Insight assumes that all Du Pont items (eg *Revenue*) without related annualised Factors are to apply unchanged to the new *Time Period*.

Secondly, Insight assumes that all Du Pont items that have related annualised Factors will need re-calculation. When in Data Entry mode,

the Du Pont value (eg *Interest*) is to apply unchanged, therefore the annualised Factor (*Interest %*) is to be re-calculated. When in Operating mode the reverse applies, the annualised Factor (*Interest %*) is to apply unchanged, therefore the Du Pont item (*Interest*) is to be re-calculated.

It is important to understand what *Insight* will not do; it will not pro-rata all the model values (such as Revenue) according to the variation in *Time Period*. Given a model containing a valid set of 1-year figures, and a change of *Time Period* to 6 months, *Insight* will not calculate the pro-rata 6-month values.

Now some examples,

Learn-a-Lot *Time Period* change #1

In this example we'll change the *Time Period* on an existing model whilst in Data Entry mode and identify all effects on the model.

If you haven't just completed tutorial #3, you'll first need to:

- use the File | Open menu option to open model Learn3. It will be opened in Operating (non Data Entry) mode as that was its condition at the time it was saved.

Now we need to display all the Du Pont items:

- use the View | Du Pont (All) menu option to display the full details of Learn3 (Figure 42).

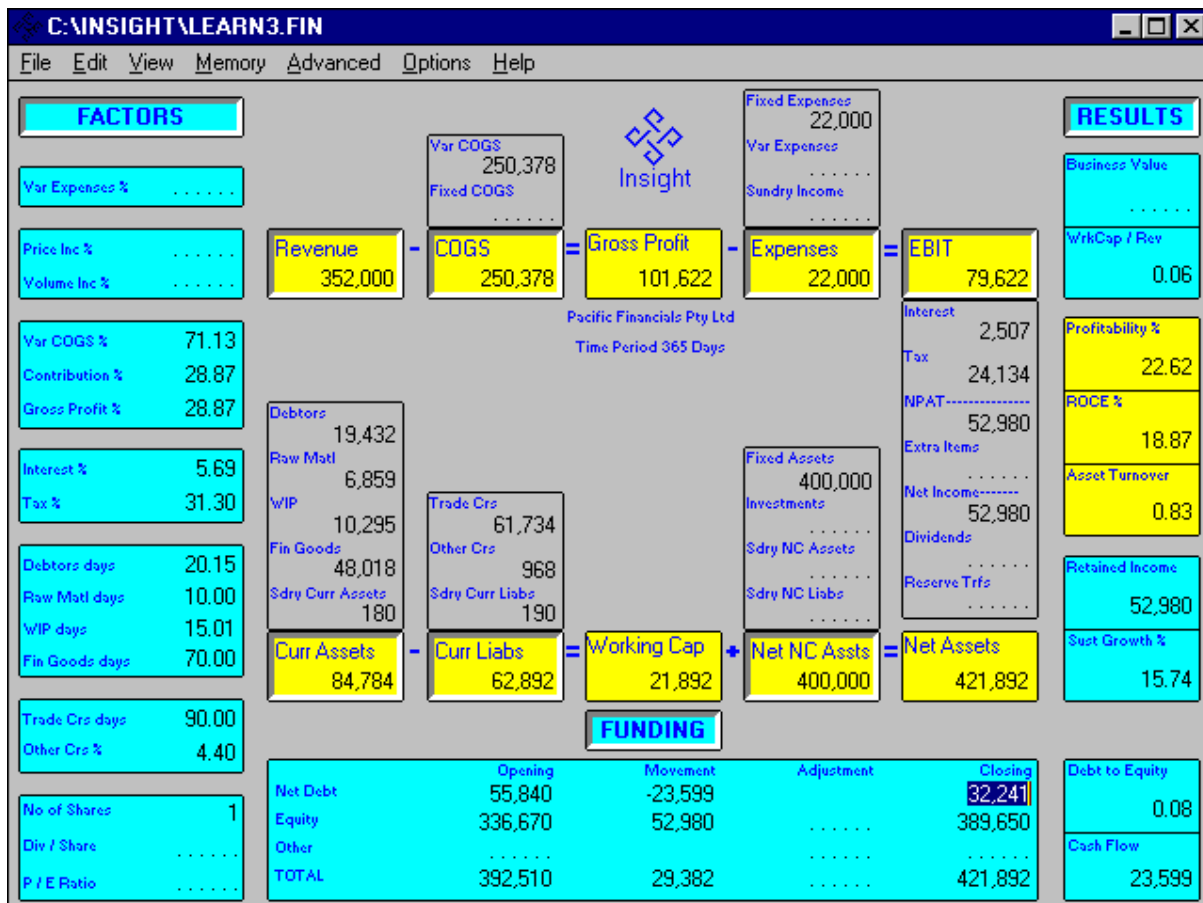


Figure 42 - Learn3 model (365 days)

The Learn3 model was loaded with a *Time Period* of 365 days. Let's suppose the 365 days was used in error and the financial values actually apply to a 3-month period. To change the *Time Period* without affecting the raw data values, we need to revert to Data Entry mode and then change the period.

- Use the Edit | Data Entry Mode menu option to put the model into Data Entry mode.
- Use the Option | Time Period menu option to pop up the Time Period selection box.
- Select units of Months.
- Alter Length to 3.

- Press the OK button to have Insight apply the change.

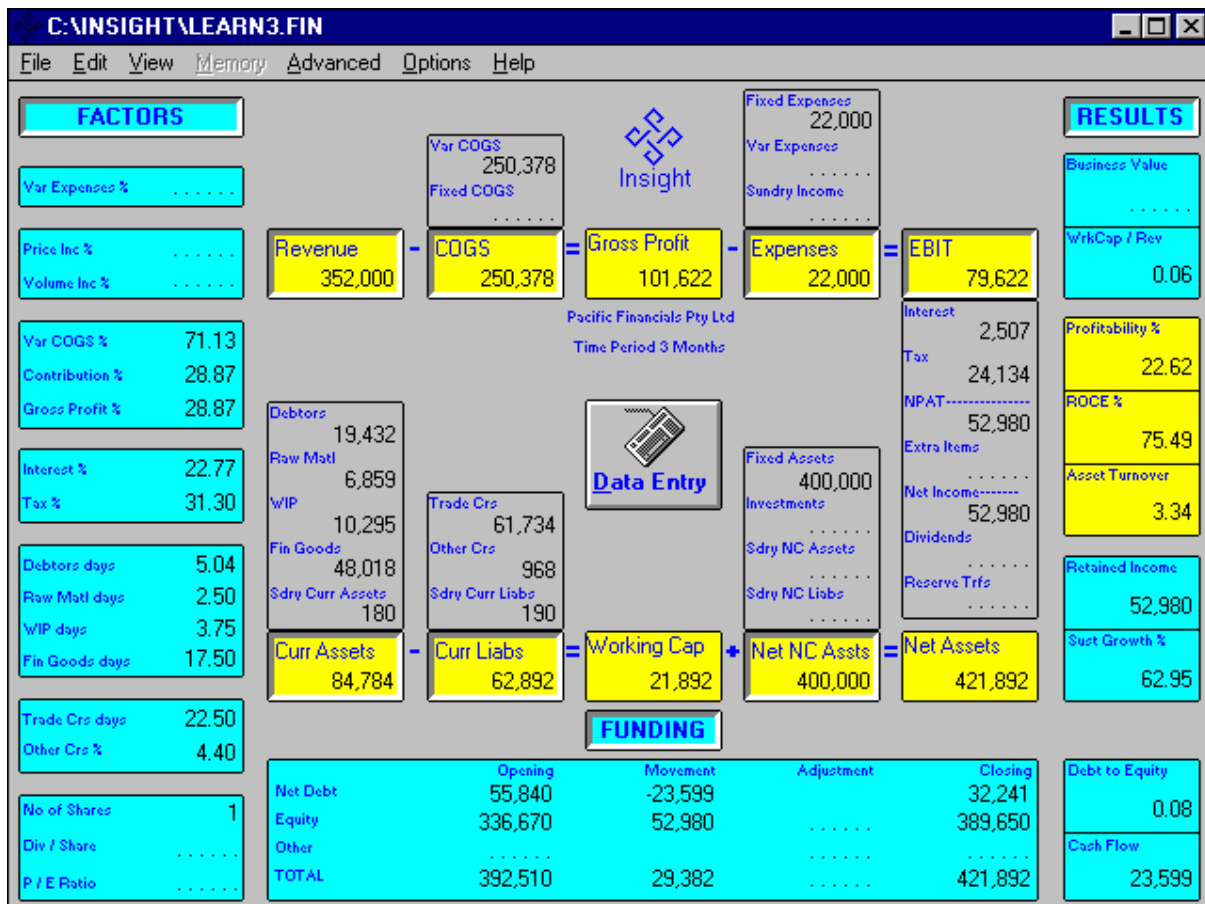


Figure 43 - Time Period now 3 months (data entry change)

We can use the Delta feature to identify the changes between the two models, before and after.

- Use the File | Save As menu option to save the file as Learn4.

We now have two saved models representing the before and after versions, and can use the standard Insight method of comparing two models.

- Use File | Open to open “Learn3”.
- Use File | Open to open “Learn4”.

- Use the Edit | Data Entry Mode option to put the model into Operating mode.
- Invoke Memory | Delta either via the menu option or press <F5>.

Figure 44 is the resultant Delta display.

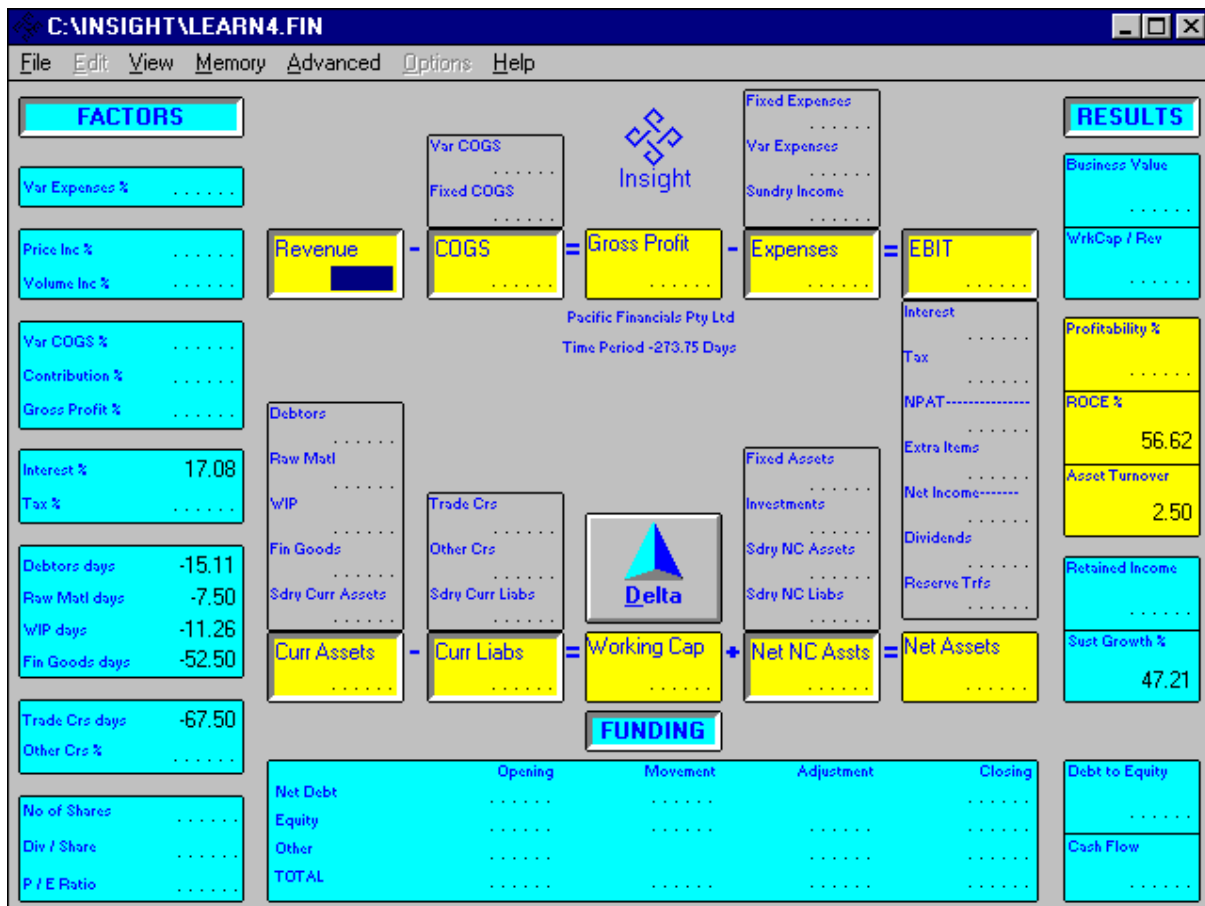


Figure 44 - Time Period Delta (Data Entry mode)

Changing the *Time Period* has not affected any Du Pont value or any Funding value; these \$ amounts were protected by being in Data Entry mode. However, because those \$ amounts now apply to a 3 month period, Insight has recalculated the Factors and Results shown.

There is no difference in the model to one where *Time Period* had been set to 3 months before the data was loaded.

Learn-a-Lot *Time Period* change #2

In this example we'll change the *Time Period* on an existing model whilst in operating mode. Then we'll use the Delta feature to identify all effects on the model.

- Use the File | Open menu option to open model Learn3. It will be opened in Operating (non Data Entry) mode as that was its condition at the time it was saved.

Now we need to display all the Du Pont items:

- Use the View | Du Pont (All) menu option to display the full details of Learn3 (see Figure 42).

The Learn3 model was loaded with a *Time Period* of 365 days. Let's suppose we want to see the effect of attaining the current *EBIT* over a different *Time Period*, assuming the current Factors remain constant.

- Use the Option | Time Period menu option to pop up the Time Period selection box.
- Select units of Months.
- Alter Length to 3.
- Press the OK button to have Insight apply the change (Figure 45).

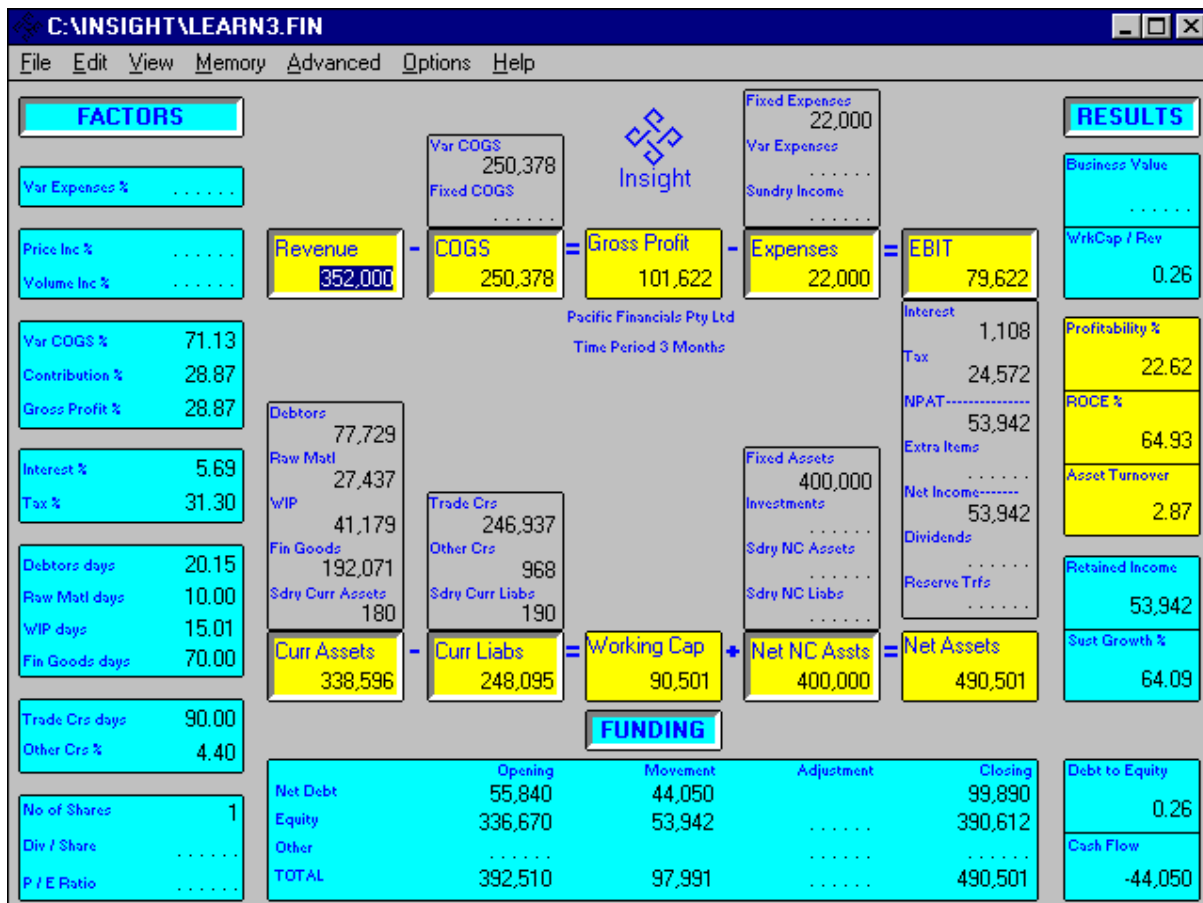


Figure 45 - Time Period now 3 months (Operating mode)

Changing the Time Period has not affected any Factors as these were protected by being in Operating mode. Insight has applied those constant factors to a 3-month model rather than a 365-day one, and recalculated the Du Pont values. This in turn has caused the recalculation of some Funding and Du Pont items.

- Use the File | Save As menu option to save the file as “Learn5”.

The Delta feature will identify changes between the two models:

- Use the File | Open menu option to open Learn3 (the before model).
- Use the File | Open menu option to open Learn5 (the after model).

- Invoke Memory | Delta either via the menu option or by pressing <F5>.

Figure 46 is the Delta display for this Time Period change, which shows that all values up to *EBIT* have remained constant as have the factors. Many Du Pont items, most Results and several Funding items have been recalculated based on the *EBIT* being achieved over a shorter period.

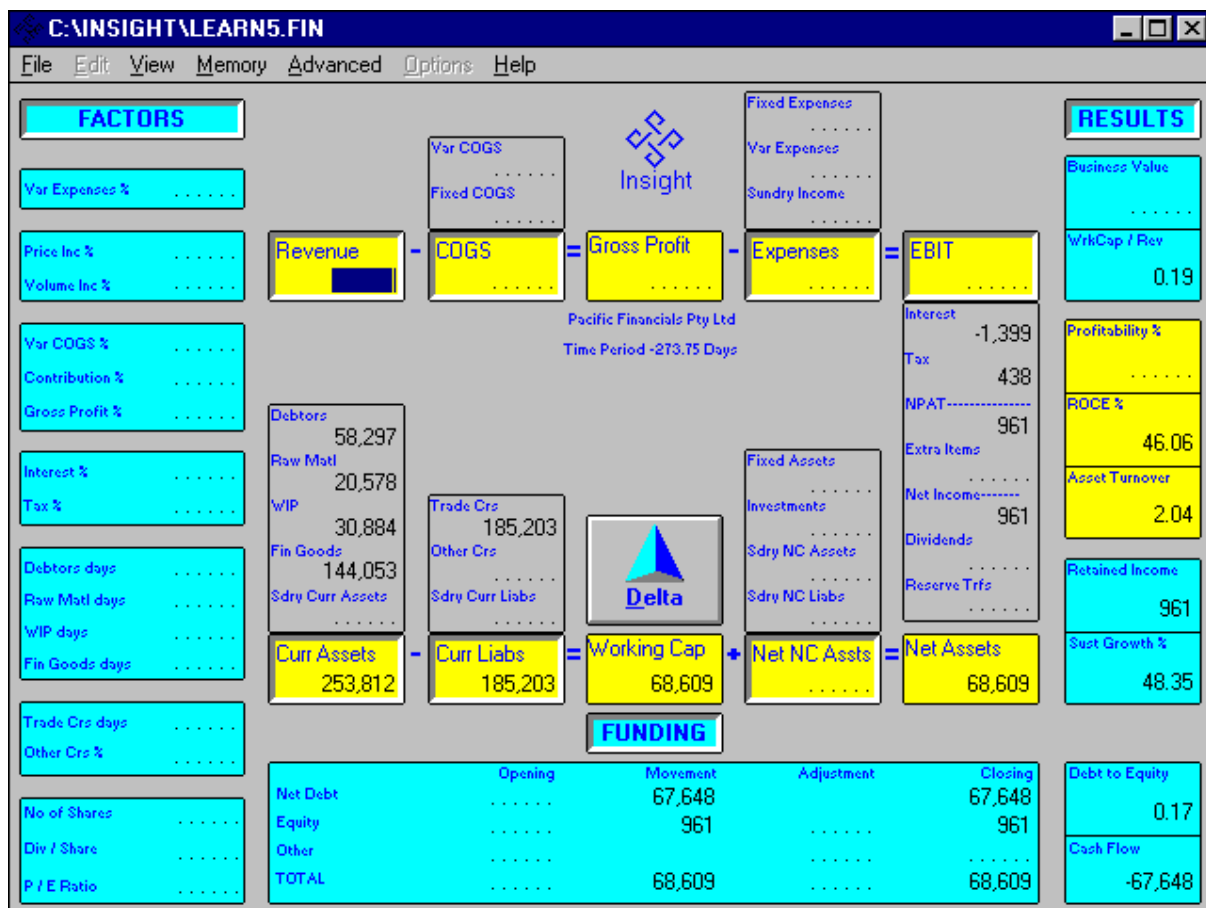


Figure 46 - Time Period Delta (Operating mode)

Tutorial 5 - Period Rollover

Here, we'll go through the process of rolling an existing model into the next Time Period. This Rollover feature uses the Closing Balances from one model to give us the starting point for the next period, and is typically used when creating models for successive periods.

In this example we'll use a model from a previous tutorial that has been loaded with financials for the first quarter (Q1), and create models for Q2 and Q3.

Display Quarter #1 model

- Use File | Open to load model LEARN4 (used as Q1).
- Use View | Du Pont (All) to display full details.

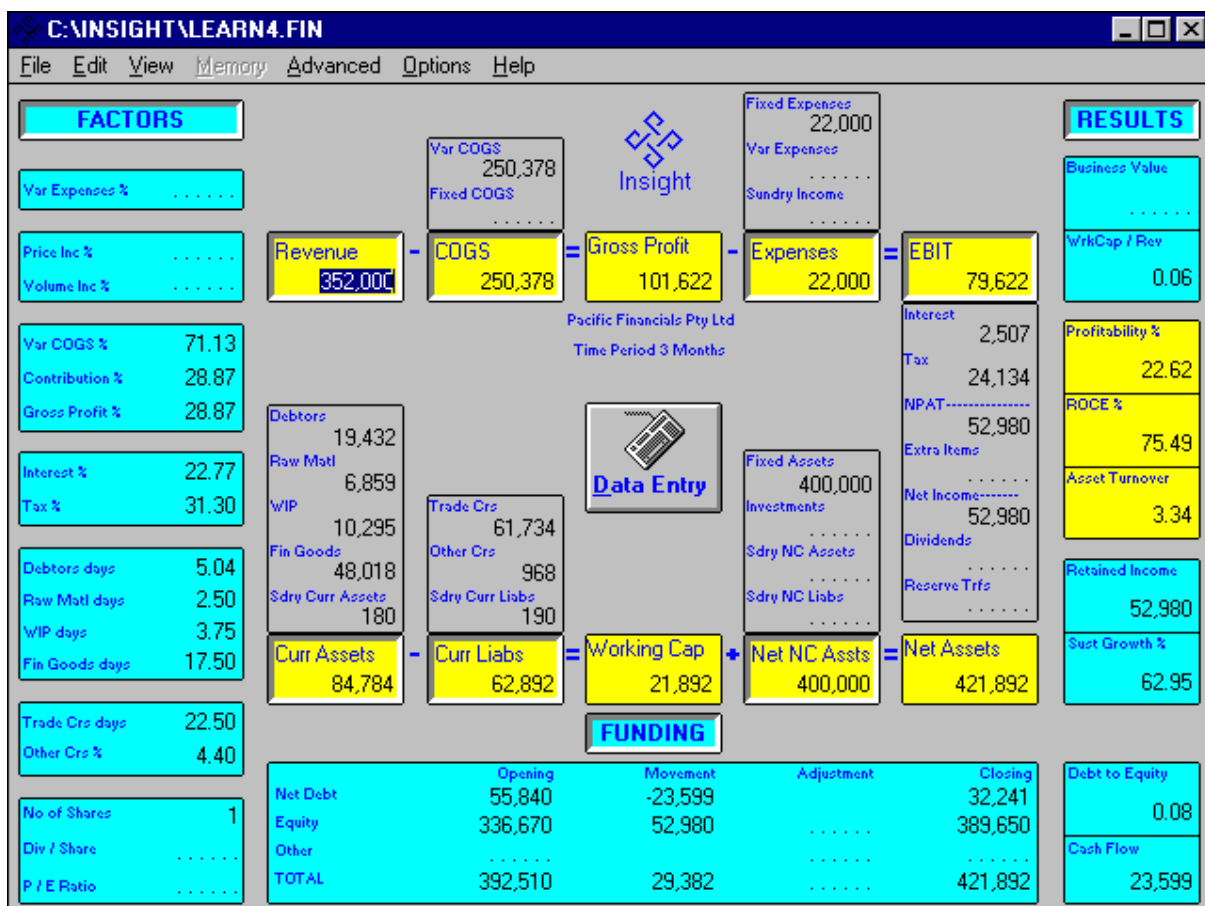


Figure 47 - 1st Quarter model

Create Quarter #2 starting point

Now let's create Q2 starting point.

- Use the Advanced | Rollover menu item to roll the Closing Balances.
- Press “OK” to acknowledge the Rollover completion.

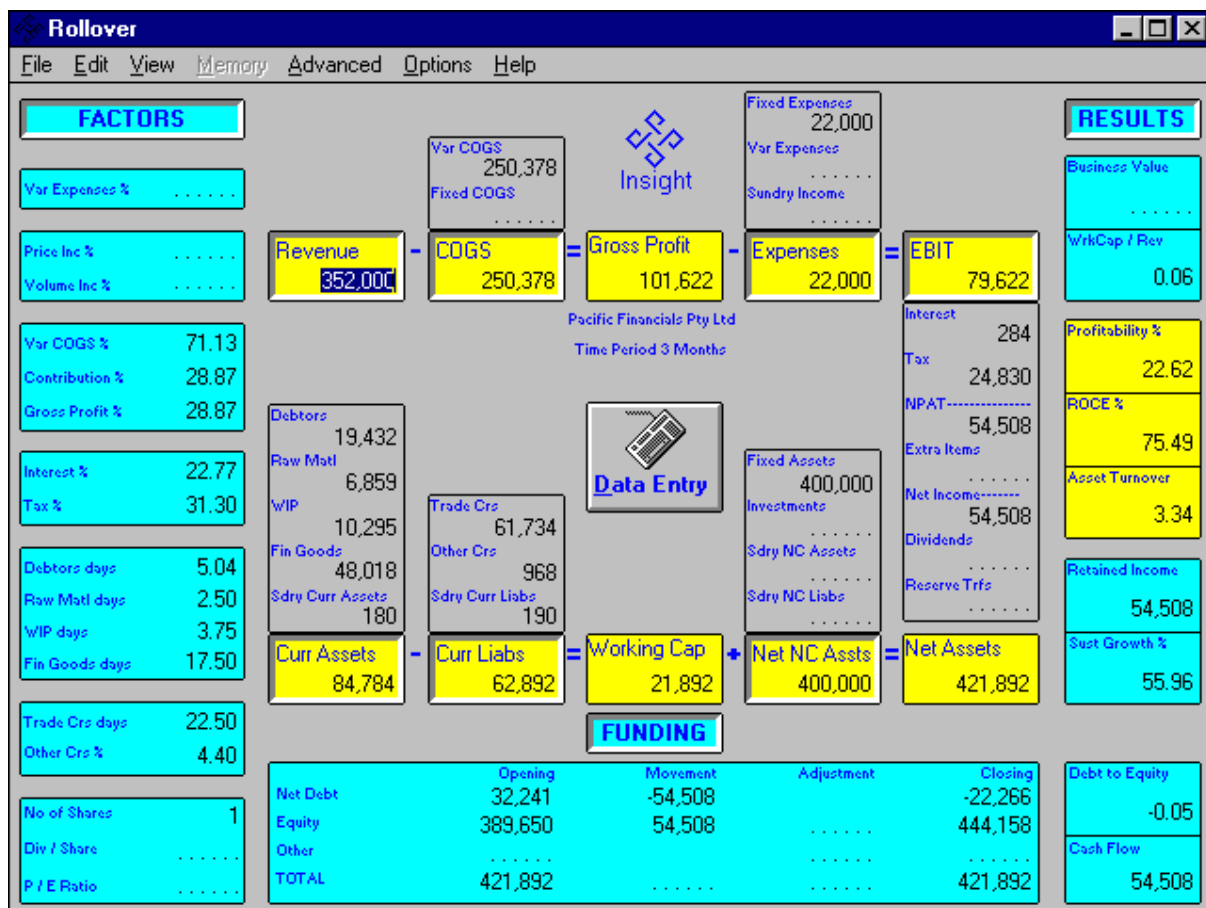


Figure 48 - 2nd Quarter starting point

Figure 48 shows the Q2 model. Note the changes to model name, Opening Balances, and the way these changes have flowed through the model.

The model has been left in Data Entry mode in anticipation of necessary changes to the figures inherited from the previous Time Period. Let's enter some different Q2 figures and save the model.

- Amend Fixed Expenses to 25,000.
- Use File | Save As to save the model as LEARNQ2.

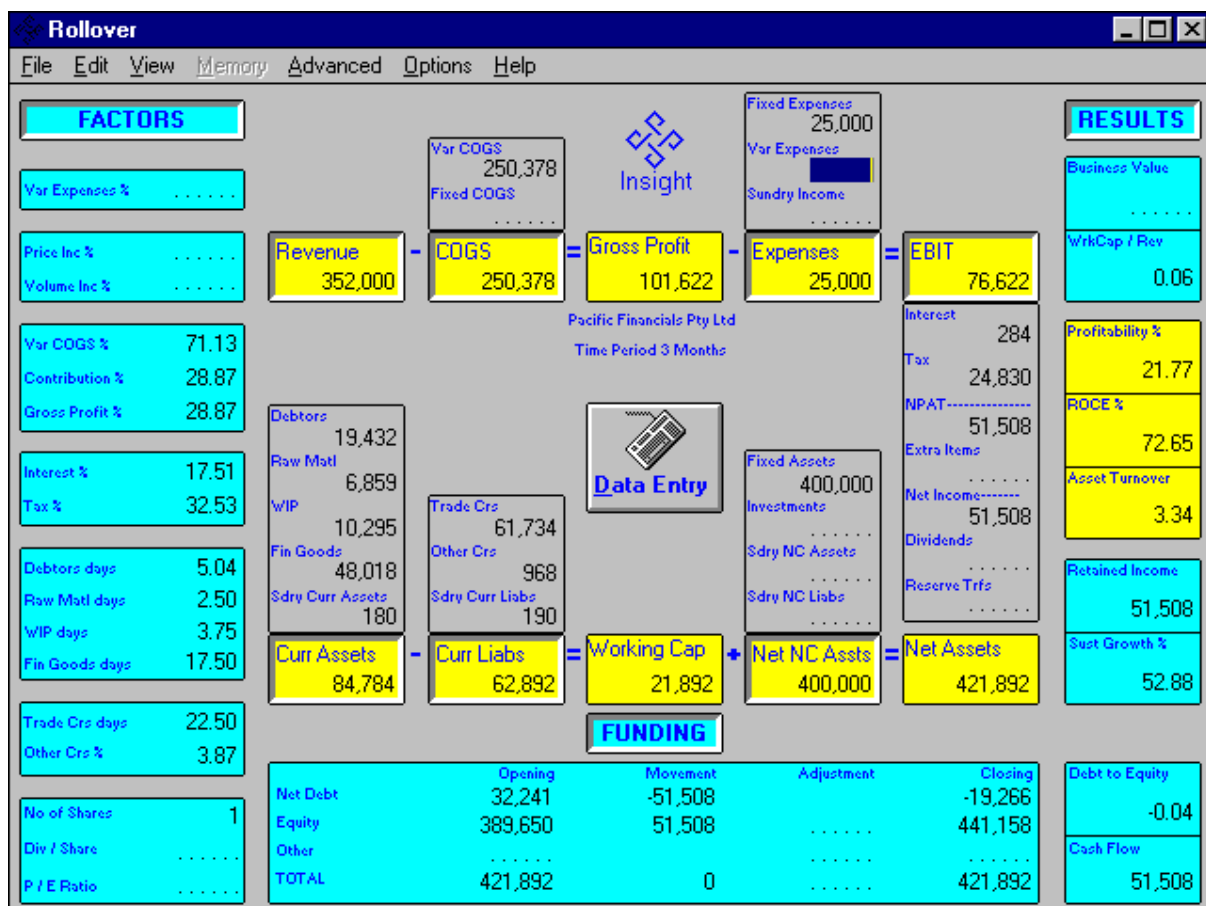


Figure 49 - 2nd Quarter details

Create Quarter #3 starting point

Creating the Q3 model is a repeat of the process above.

- Use the Advanced | Rollover menu item to roll the Closing Balances.

- Press “OK” to acknowledge the Rollover completion.
- Amend Fixed Expenses to 21,000.
- Amend Sundry Income to 16,000.
- Use File | Save As to save the model as LEARNQ3.

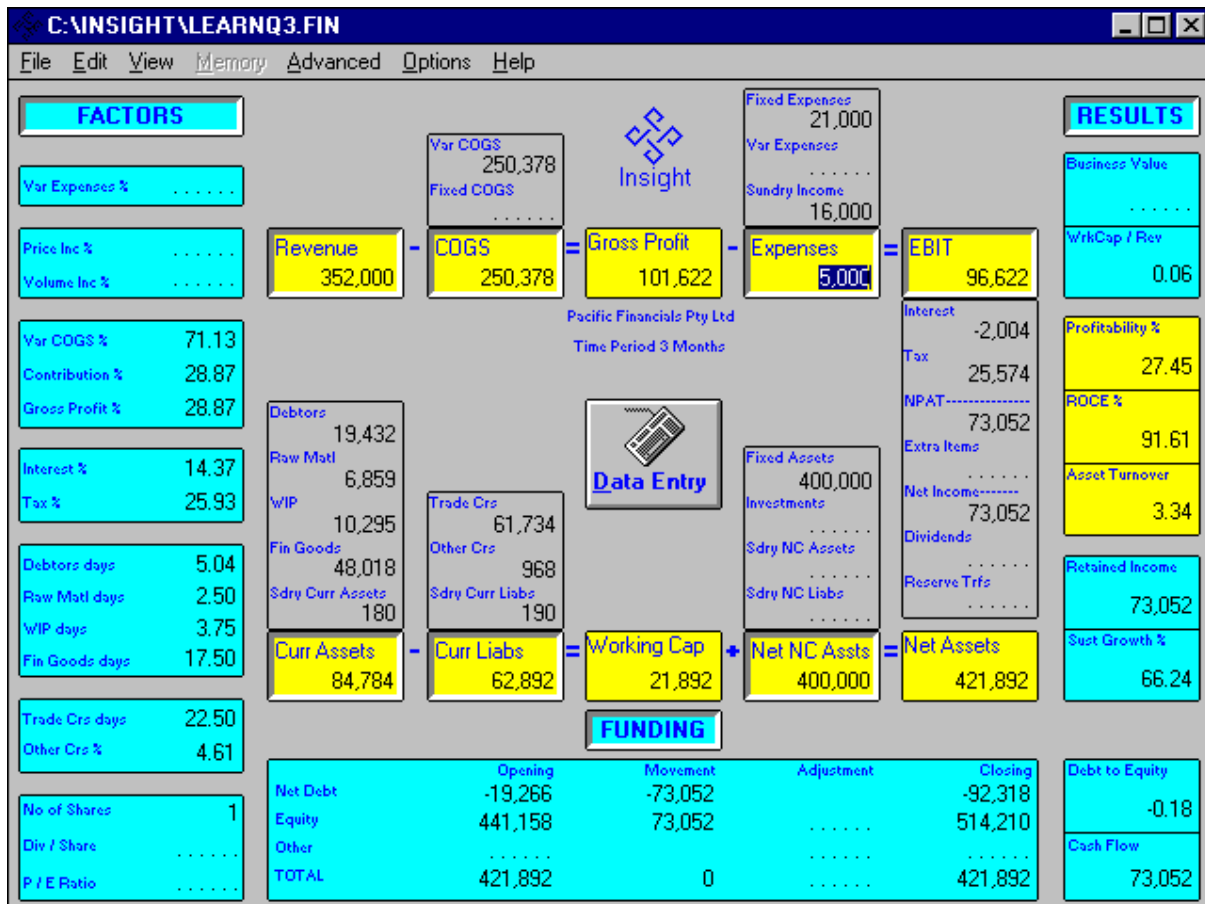


Figure 50 - 3rd Quarter details

Tutorial 6 - Consolidate models for contiguous Time Periods

In this example, we'll consolidate three models, representing three contiguous Time Periods (Q1, Q2, Q3) into a single 9-month model.

- Use the Advanced | Consolidate - Periods menu item to display the file selection box.

This selection box allows you to select multiple files that are to be consolidated into the one model. When consolidating models for contiguous Time Periods into a single model, Insight will take the Opening Balances from the first model in the selection list.

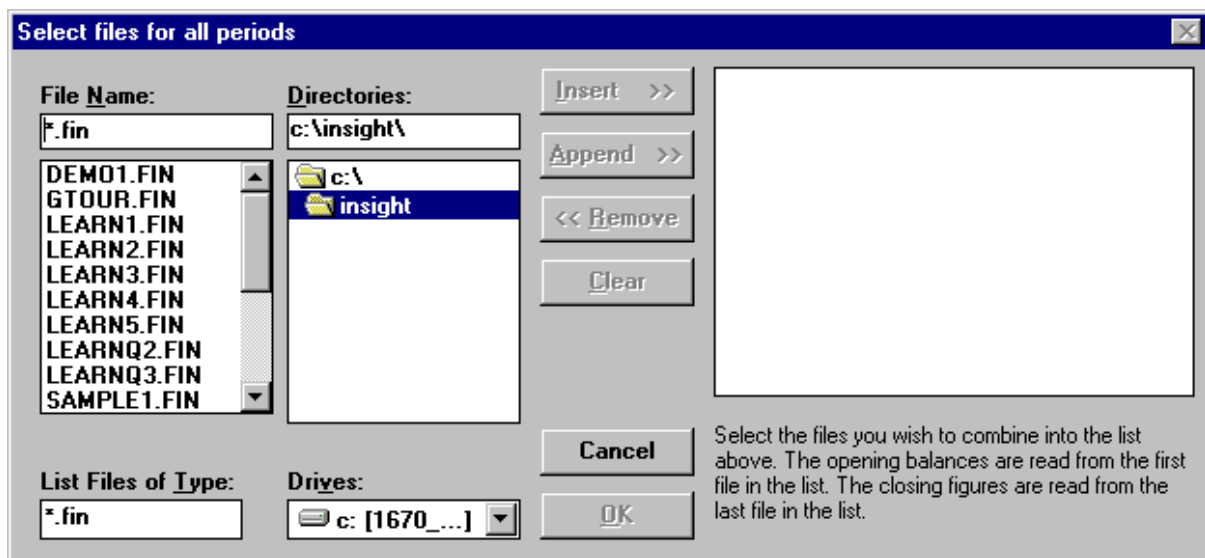


Figure 51 - Consolidate - Periods selection box

- Select LEARN4 (which we're using as Q1).
- Select LEARNQ2.
- Select LEARNQ3.
- Press "OK".

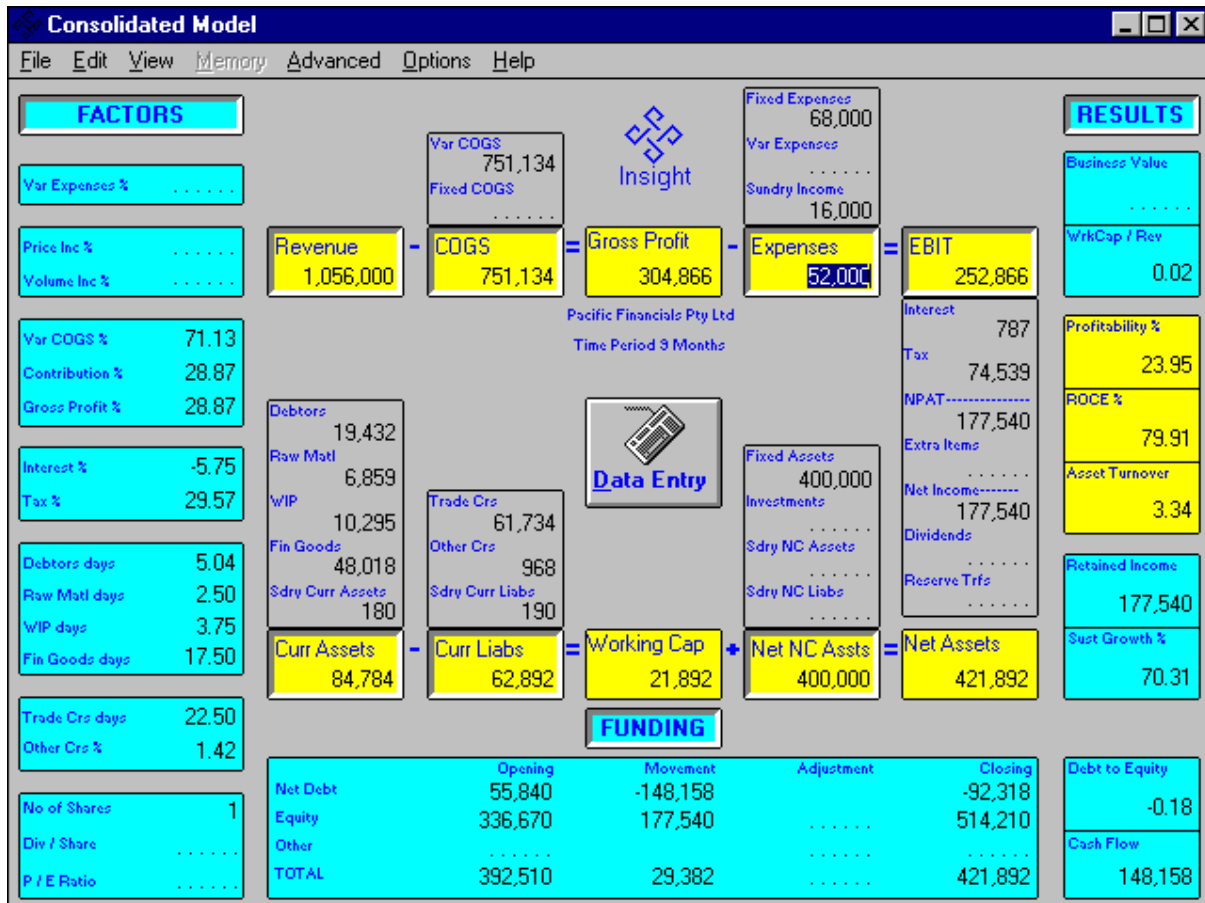


Figure 52 - Consolidated 9-month model

Figure 52 shows the resultant consolidated model. Note the change to the model name and the Time Period. All basic financial details from the three models have been consolidated, and the Factors and Results have been recalculated.

- Exit Data Entry mode
- Use File | Save As to save the model as LEARNQ13.

Tutorial 7 - Consolidate models for same Time Period

We'll now consolidate three models representing different companies (or products/corporate divisions/etc.) for the same Time Period, into a single "higher level" model.

- Use Advanced | Consolidate - Units to display the file selection box.

This selection box allows you to select multiple files that are to be consolidated into the one model. When consolidating models for the same Time Period using Consolidate - Units, all models are assumed to match the time period of the first one in the selection list.

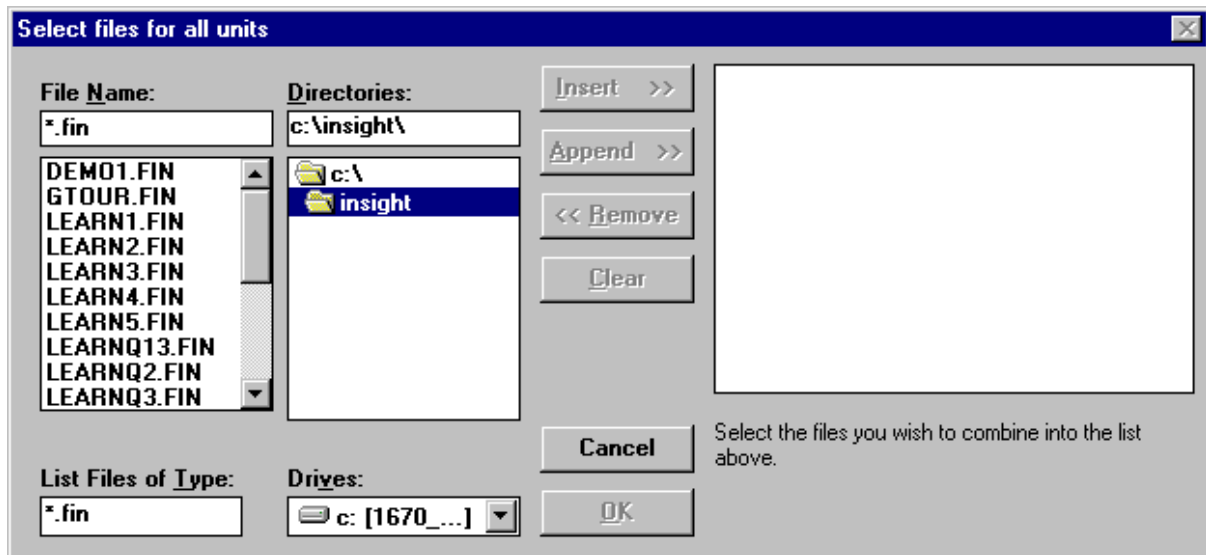


Figure 53 - Consolidate - Units selection box

- Select SAMPLE1.
- Select SAMPLE2.
- Select SAMPLE3.
- Press "OK".

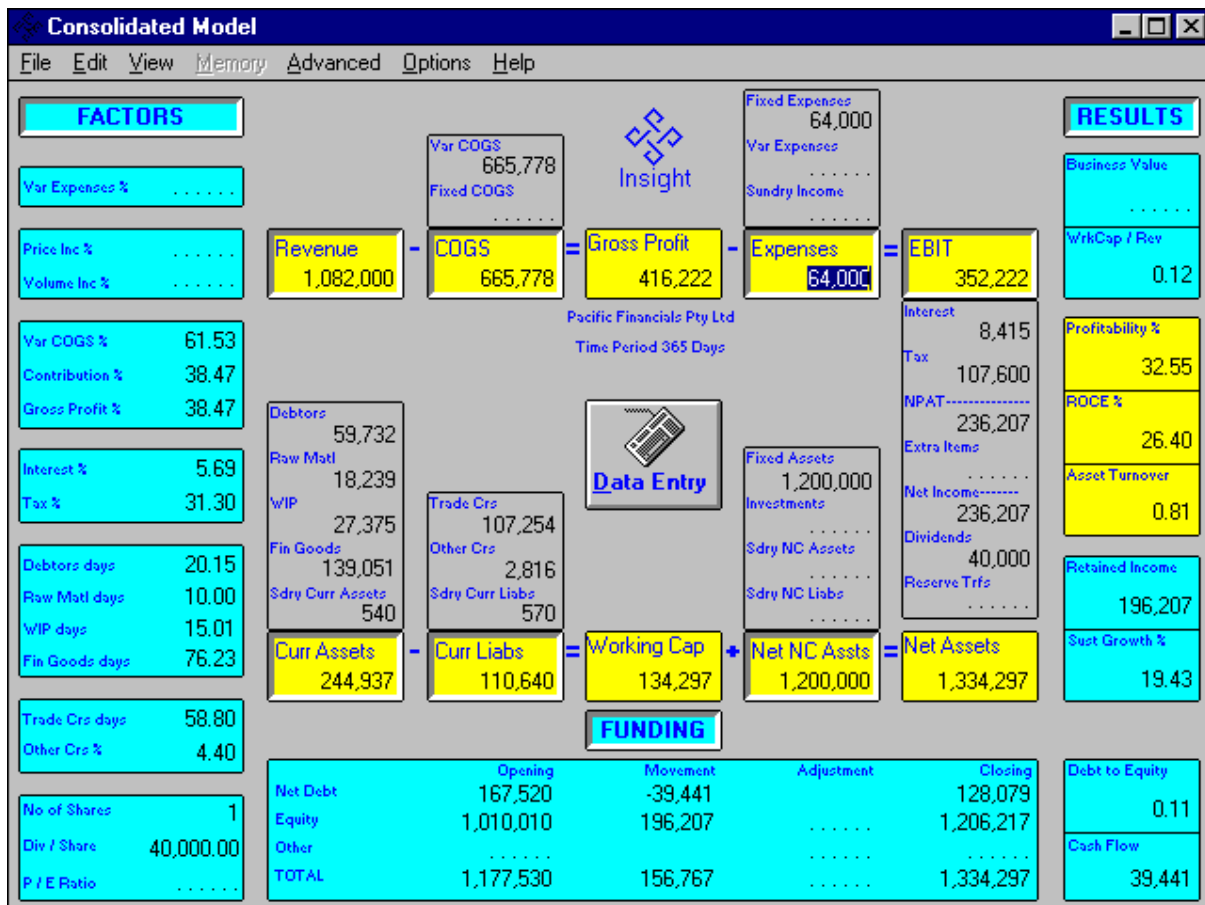


Figure 54 - Consolidated model

Figure 54 shows the resultant consolidated model. Note the change to model name and that Time Period remained at 365 days. All basic financial information has been consolidated, and Factors and Results have been recalculated.

- Exit Data Entry mode.
- Use File | Save As to save the model as SAM123.

Where to from here?

That's the end of the Insight Tutorials and this manual. Insight is a unique business analysis tool, with the ability to explore many different financial scenarios via "If...What", "What...If", Delta comparisons and Targetting functionality. We hope Insight helps you to better assess a business' financials, and provides clear and concise solutions to your financial target requirements.



If you like Insight, tell your friends and the world. Yay!

If you don't like Insight, or have suggestions for Insight's improvement, we'd love to hear from you. Tell us here at Atac, via any of these:

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