

Dear to any
operational decisions.
(bhimani et

[Business](#), [Accounting](#)



Dear MsPalacios I amwriting to inform you about the disapproval of the Sales Directors towards thecurrent budgeting figures. Due to this situation, I will be evaluating theproposals that have been set by the Sales Director, as I am led to believe thatthe Sales Directors proposals will not have a positive influence onto theincome. I will also be looking at the importance of management accounting inmanagement control. ManagementAccounting is an integral part of a business as it allows businesses to measureand report financial information within an organisation, which helps managersto achieve their organization's goals. (Bhimani et al.

, 2015) This leads tobetter management control throughout an organization as the financialinformation can be presented in a cash budget which will inform the business ifthey need to make any changes to any operational decisions. (Bhimani et al., 2015) Management Accounting isalso considered important by the Chartered Institute of Management Accountants. Thisis due to the fact that they can use management accounting to manage the valueof for-profit andnot-for-profit enterprises in public and private sectors, therefore allowingthe businesses to have better management control and make better and moredecisive decisions. (Bhimani et al.

, 2015) In terms of the financialinformation, I have created two cash budgets and a break-even analysis of eachcash budget. This is attached to the email above. In the current cash budget (attachment1), the closing budget shows a decrease to 1, 250, 000 between December andJanuary however, a massive sales turnover leads to a positive closing balanceof 362, 987 in May. This is positive for the business as it shows that in theupcoming months after May, the closing balance will continue to increase whilstit also shows that as credit

sales comes into the business, the net cash flow each month increases significantly.

In the Sales Directors cash budget (attachment 3), the closing balance decreases between December and March to -2, 627, 600 and despite a number of sales, it led to a negative cash budget of -2, 163, 455 in May. Compared to the current proposal, it shows that the total outflow cost each month is higher. This is due to the extra month's credit which means that more has to be produced each month, leading to higher outflows per month. This also leads to a smaller net cash flow per month as the higher outflows monthly takes more money from the monthly income.

This cash budget would not be good for Modern Cook plc as it would lead to goal incongruence. The most common form of incongruence can occur from a focus on multiple goals which can lead to low productivity within an organisation. (LinkedIn 2015) Another comparison between the two proposals would be the break-even analysis. (attachment 2 and 4) The current proposal has a break-even of 320, 000 units whilst the Sales Directors proposal has a break-even of 480, 000 units. This shows that the current proposal will make more profit after it has reached break-even whilst it also shows that the current proposal has a better margin of safety. The term 'margin of safety' originated from Benjamin Graham who wrote "The margin of safety is always dependent on the price paid.

" (Jacobs, 2002) This means that buying the best company's stock returns nothing if it is overvalued or priced beyond its capability to earn. (Jacobs 2002). This shows that it's important for investors to invest into a business

with a higher margin of safety, which derives from a lower break-even point. Overall, I have shown why the current budget proposal is going to be more beneficial for the business compared to the Sales Directors budget proposal. With the current predicaments, the Sales Directors proposal would not provide a good influence for the business as the calculations show that the whilst the proposal would lead to a positive outcome, it would take much longer than the current proposal in place. I hope this information is helpful towards your decision-making.

Kind Regards, The Finance Department