Why barnes and fischer should reject ocean manufacturing as a client

Business, Company

Barnes and Fischer, a national CPA firm, is deciding whether to accept Ocean Manufacturing as a client. Ocean Manufacturing is a medium-sized manufacturer of small home appliances. This would be new to Barnes and Fischer, who has current clients in the healthcare service industries. I am writing this memo to suggest that you reject Ocean Manufacturing as a client. Ocean Manufacturing has a favorable market position and growth potential, things that Barnes and Fischer are looking for.

They terminated their current auditor so they can build a relationship with a nationally established CPA firm. That would make it possible for Ocean Manufacturing to make an initial public offering of its common stock within the next few years. The problems with Ocean Manufacturing are their lack of experience in management and their frustrating new IT system. The reason behind the lack of experience in management is due to the resignation of the vice president of operations and of the controller. They both took jobs in other cities due to personal issues.

The IT system maintains integrated inventory, accounts receivable, accounts payable, payroll, and general ledger software modules. It was handled mainly by the former controller, but with him now gone, it would be difficult for a new controller to adapt to it with no experience. Problems have existed, such as inventory tracking and cost accumulation, receivables billing and aging, payroll tax deductions, payables, and balance sheet account classifications. If you look at Ocean Manufacturing's return on equity of 8. 94% and return on assets of 4. 4% and compare them to the average industry ratios, they are considerable low. It means that they are not

receiving enoughmoneyback on their investments and assets. The other consideration you should look into is their inventory turnover rate. Ocean Manufacturing has an inventory turnover rate of 6. 08 while the average is 8. 09. This means that they are holding more inventory than they are selling. The inventory turnover rate effects the days in inventory ratio which is 59. 98 compared to the average of 41. 25.

The last major problem is Ocean Manufacturing's profit margin which is 5. 5%, while the average is 10. 58%. This measures how much out of every dollar of sales a company actually keeps in earnings. When I met with the previous auditor, he told me that Ocean Manufacturing had problems relating to the complexities with the new IT system and management's tendency to aggressively reflect year-end accruals in order to meet creditors' requirements. He also said that his firm's relationship with management at Ocean Manufacturing had been difficult from the beginning. This troubles me.

What if we have the same problems and never agree with Ocean Manufacturing. As you can see, Jane, on one hand, if we accept Ocean Manufacturing, Inc. , it would be good for us to have a client in the home appliance industry, especially one that has a favorable market position and growth potential. On the other hand, the problems are their lack of experience in management and a frustrating new IT system. Until they have more managerial experience and can modify the new IT system to control the company, I do not think we should accept Ocean Manufacturing as a client.