

Accounting abc company case study examples

[Business](#), [Company](#)



Introduction

In this assignment, there is an analysis of ABC Company. The aim of this assignment is to help the CEO on various aspects and plans which will be helpful in the expansion of the company. This company specializes in manufacturing of roofing and siding shingles that are making annual sales of \$1.2 million. This sale is 25 percent higher than last year sales. The company target is \$3 million in the upcoming three years. In order to achieve this target, ABC Company is trying to add new products, which will help the company to raise its revenue. At the same time, it will also help to leverage the present skillset of its workforce. The new product that ABC Company is working on is Cedar Dollhouse. It will use “ shingle” scrap material along with other raw materials. It helps the company to put to leverage the manufacturing facilities and present workforce. The revenue is expected to grow substantially along with the expenses. Firm benefits of adding new product line are – large-scale gains in productivity, less product risk, efficient use of human resources, customer satisfaction and unprecedented growth in market. There is further analysis of the proposal, to find out if this product will help the company to reach its target. (Drury, 2012)

Part I

Risk Profile

Business risk means the risk that affects the core business activities of the company. These activities include inefficient management in supply chain, improper product pricing, non-efficient manufacturing process. These risks influence the business directly and are involved in daily working in an

organization. Finance risk means the risk, which mainly associates with capital structure of ABC. If the company is carrying more debt then, liability of repayment and interest costs are also high which makes the organization non vulnerable to risk.

In order to come over the different business risks, the company must determine, which strategy is the most appropriate. The major strategies are cost leadership, differentiation of products and focus strategies. Having low cost strategy will help the company is designing, producing and marketing of products more efficiently than its competitors. Differentiation strategy is the potential of the company to produce and market better of different products or services to its consumers with respect to family, additional features and after sales customer services. When ABC Company uses focus strategy, it will imply cost leadership and also the differentiation strategy. The primary focus is only on a narrow and niche market. These strategies are cost focus and differentiation aim respectively. (Lanen, 2011)

Apart from this, the company must also put to use financial risk management techniques. Financial management techniques include proper capital structure, exchange risk, hedging risk and interest rate risk. Financial management means to collect finance for ABC at minimum rate of interest and use it in generating for earning maximum returns. Financial management is carried out to control and monitor finance of the company and achieve the profit target quicker. The scope of financial management includes, anticipation of future market movements, acquisition of different resources, and allocation of resources and assessment of financial activities. These activities are carried out with the aim of profit maximization, wealth

maximization, Estimation of financial requirements, maintaining proper cash flow and company survival in the long run against its rivals.

Part II

Company Cash Flow

Cash Flow Statement

For the Year Ended December 31, 19xx

Direct Method

Sources of Funds – According to Cash Flow Statement

Sources of Funds represent how ABC Company has financed all its areas. It tells the sources of money from which ABC Company gets its money.

According to the cash flow statement, the company has not taken finances from any external sources of finance. The company has not borrowed money during this year.

Uses of Funds – According to Cash Flow Statement

The finances collected by the company ABC during the year is used in different ways. ABC has used the finances in the following manner:

- Purchase of Equipment
- Creditors Payment
- Dividend Payment
- Tax Payment

All the above listed activities are major activities used in expenditures of ABC Company. It is difficult to determine finances from which source affects on which source. (Libby, 2011)

Improvement of Cash Flows

In order to improve the cash flows, ABC must determine the following steps:

- Debt Factoring - It is one of the major options that help the organization to improve cash Flows.
- Using innovative techniques like accepting credit cards, debit cards for payments will help in increasing sales and improvising flow of cash.
- Setting up a collection system will help in timely payments.

Manage Payables

In my opinion, the firm should opt for Debt Financing due to the following reasons:

- Debt is a comparatively cheaper source of financing, in comparison to equity. In the equity, there are costs associated with issuing of common stock like. Underwriter's commission, registration charges, legal expenses, issuing prospectus, documentation etc.
- The company gets leverage from debt financing, which helps in increasing the earning per share. This EPS leads to increase in market value of the share, increasing the market capitalization.

If the expansion decision is not in favor of the organization, then the obligations of repayment of interest and principal amount become a burden to the company. The following are the advantages of equity financing:

- Cash Flows are used only for investment purpose and is not used to pay back the investors.
- Financing is available in a shorter amount of time as compared to other financing options.

In equity financing, dilution of ownership occurs easily, and more stakeholders result in loss of control. Hence, as depending on the situation

ABC must strongly adhere to using capital debt and not equity.

Part III

Statement of Product Cost

The above table consolidates the cost of labor and product expenditures. The total fixed expenses have come to be \$191, 250. (Tiffy, 2003)

Conclusion

The company analysis of ABC shows that debt-financing option will yield better results and more stability for the company. Organizational benefits of adding new product line are – large-scale gains in productivity, less product risk, efficient use of human resources, customer satisfaction and unprecedented growth in market. As a CEO, development of new products will help in huge gains in productivity and greatly improved product life cycle. Operations will also be efficient and have a proper workforce with more profits. Training can be given to them. The CEO will also be able to capture the market niche with new product line. Product line extensions are the answer to sales building and moving in a new direction. It will ensure that power is not dissipated among many stakeholders and monitoring and control is possible. The new product will help in growth of revenue and generate more profits. Cost and benefit analysis shows that development of new product line will be simpler in specification. There will be more costs associated with it but the benefits will surpass the costs associated with new product line and ABC Company will overcome the expenses in very less time.

References

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