

Management accounting case study

[Business](#), [Management](#)



Discuss the management accounting issues that affect the business concerned in relation to the news paper article. ([www. butlersinthebuff. co. uk](http://www.butlersinthebuff.co.uk)) From reading the article it's quite clear that the business has developed very rapidly over a very few years are on a successful business idea but as any business grows in size operations become more complicated, no longer is just having a good idea enough to progress and protect what has been achieved.

Good management and skilled labour are necessary to be able to grow. For managers to be able to make good decisions they require up to date financial information which is related to the issue they are examining, this is the role of management accountants to provide relevant financial data to managers. From reading the article entitled: 'Starting Out' ¹ and looking at the business's website² I've got a good understanding of the nature of the business and its history.

There was very little financial data provided in the article and website so I am not able to give much direct management accounting advice but I will discuss various management accounting issues that I think the directors of the business should consider for continued success in the future. Firstly, I would like to discuss contribution analysis and how it can help the company directors make decisions for the future.

Although at the moment contribution analysis is not so important as the company has few fixed costs because they are primarily a service providing business with the butlers being paid on a commission based system, so when a butler is booked and paid for, only then is the butler due 40% of the fee. In

the past it probably wasn't so important as it was obvious that a clear profit was being made as there were few costs. Now that the business has 6 full time employees as well as premises this must be considered.

Furthermore now that the firm is trying to move into events organising as well as merchandising the need for contribution analysis is more apparent as more semi-variable and variable cost exist. Contribution analysis will aid them to create realistic budgets so that they are aware of what capacity they have available to them, how much they will need to spend on equipment and materials as well as what sales levels they must aim for to be break-even or what targets they must meet to achieve strategic goals such as market share targets.

As the business grows the need for cash budgeting will be vital, as it doesn't matter how much profit is projected if there is a negative cash flow the business will be unable to continue functioning as they will not have enough cash to pay staff and bills on time which would inevitably lead to the business ceasing trade.

There are other issues that the directors will need to examine as they expand the business, one of which is to maintain the flexibility of the workforce but also keep reliable butlers and in greater numbers as they expand they will need more butlers as well as have them spread better around the country, this poses a problem of finding enough butlers in the different areas of the UK and provide them with them enough clients for it to be worthwhile for them to treat it as a consistent job, as well as have enough

butlers available to manage demand in order to reduce the loss of customers to rival firms.

At the heart of the business is the butlers themselves so it is important not to lose them to rival companies. As the number of butlers increases it is important that quality standards are maintained or otherwise the businesses reputation will be tarnished by poor customer experiences which would be very bad as a lot of the business comes via referrals from happy customers. By maintaining their high level of customer satisfaction they protect themselves from losing business to possible rivals.

I feel it may be necessary for them to employ a HR manager in the future who is fully in tune with the directors about what kind of people they need to be the butlers so that the HR manager can take on the responsibility of recruiting and training the right people for the job. To expand as well as make it harder for competitors; they need to forge more links and associations with related businesses such as wedding and events organisers, this will not only help them to find more customers but also more consistent work from these firms, as well as make the company well known by the public.

Merchandising will help to strengthen the company brand but I do not believe it will make a considerable profit as it is unlikely anyone other than customers of the service will consider buying any merchandise, furthermore selling actual goods will require hiring more contract staff which will cause fixed costs to increase as well as investing in production. Moving into events organising and PR for customers seems like a natural business to move into,

providing these services will not only generate new profit in their own right but also strengthen the existing business as stronger relations are built with clients.

Q2: Discuss the management accounting issues that affect the business concerned in relation to the news paper article. (Cusquena premium beer)
From reading the article it seems that the company is doing well and has a lot of potential but it has a major problem that could do it a lot of harm in the future. It is currently operating on very tight margins due to the cost of marketing, and what small gross profit after marketing costs of around 5% being made is being given to charity as their net margins are nil. This poses a major cash flow risk as there is no retained profit being reinvested.

If there was a sudden need for cash due to some unforeseeable reason such as if there was a fault with a large batch of bottles and they had to do a product recall this would probably put them out of business unless they raised cash from outside the business as internally the cash just isn't there as they are operating at nil profit. Simply for the company to get into a more comfortable position they need to sell there way out of trouble, if demand increases which it looks like it will due to their investment in marketing and the fact that the major supermarkets have started stocking it.

Cunsquena has a gross profit of 35% (contribution) before marketing costs; this is a healthy profit margin to operate at. As sales increase naturally the marketing cost apportioned to each bottle sold will naturally decrease although total marketing costs will continue to increase for the foreseeable future as the brand moves to new strengths but at a proportionately slower

rate than sales, this will result in larger net profits that can be retained and reinvested into the business or just saved giving the business a healthier cash flow.

This does bring up another issue that needs to be examined which is where the necessary investment is going to come from for the company to be able to increase production and the logistical infrastructure needed to increase shipments as well as increased marketing to drive demand. The most obvious option in this kind of situation would be for then to sell equity in the business to raise cash for investment, but this is not an option the two owners are willing to take.

Another option would be to continue as they are and reinvest what net profit is earned into the business; this is a bad idea as there is very little net profit at the current level of sales, which is not likely to change considerably without further investment. Another option would be to borrow money from the banks to invest in the business; the problem with this is it will cause the companies gearing level to increase as they will have debt repayments which will cause costs to increase and possibly strain the cash flow in the short-run.

Another option would be to take on another company as a trade partner who would be able to not only inject investment but also bring experience and extra skills to the project, I think this would be a good option as I think the two owners not only need further investment but also the support a experienced partner would bring with them, but I doubt the two owners will consider this option as they are unwilling to sell any part of the company.

As the company stands at the moment it is generating only 5% in net profit, if there was no room for increasing demand or increase net profit it wouldn't really be worth doing as they could generate just as much in interest earnings from the banks. An investment appraisal would help them to get a better image of what they can expect in the future.

Accurate contribution analysis is very important for the company, as they are currently running on very low net margins and on a very tight cash flow as a result of this, they need to be fully aware of how much contribution they are truly receiving on current sales for them to plan for the future as they have very little room for wastage and miscalculation. Also due to their low margins the need for budgeting is even greater so that they can plan more accurately how much production is likely to cost at new sales forecast levels taking into account possible labour efficiency increases due to a gradual learning curve effect.

They should also do a cash budget so they can plan where and when cash is expected and needed over the year to keep the large logistical processes of the company functioning smoothly. Given the long lead time at 8 weeks required to get a bottle from the brewery to the customer, it is essential that effective production and sales budgets are produced, to make sure that enough is in stock to fulfil demand as well as reduce possible over ordering considering the extra cost of storage and logistics of unneeded stock and especially given the existing cash flow constraints.

Given that contribution analysis, sales and production budgets are being used it is necessary to do variance analysis to find out the state of affairs by

finding how much budgeted and true figures at the end of the financial year compare. This information will help them to plan in the future as they will have a better idea of what types of variance will occur in different parts of the business and be able to make educated predictions on how much the variance will be or within what expected range. This information will help them to make better budgets in the future as they have a better idea of what to expect.

As a final advice on a non-accounting issue I think they should really push the message that this beer is; 'the only beer that doesn't cause a hangover' as strongly as the charitable aspect and the history of the beers origins in the marketing campaign, as I'm sure that will be a strong advertising point to the British public who are known for their heavy drinking compared to other European countries. Although I myself am a Muslim and do not drink yet this marketing opportunity seems obvious to me.

References

1. 'Starting Out' written by Widget Fine for the Daily Telegraph (27/05/06) [https://www. butlersinthebuff. com/uk/](https://www.butlersinthebuff.com/uk/)