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Management Accounting

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Introduction

According to the summary, NGPL's Manchester division has been losing money for several years. A new managing director of the Manchester branch has been brought in to try to turn things around. The Company's CEO has decided to close the Manchester location because she anticipates the branch will continue to lose money in the future if it has been doing so in the past.

Analysis

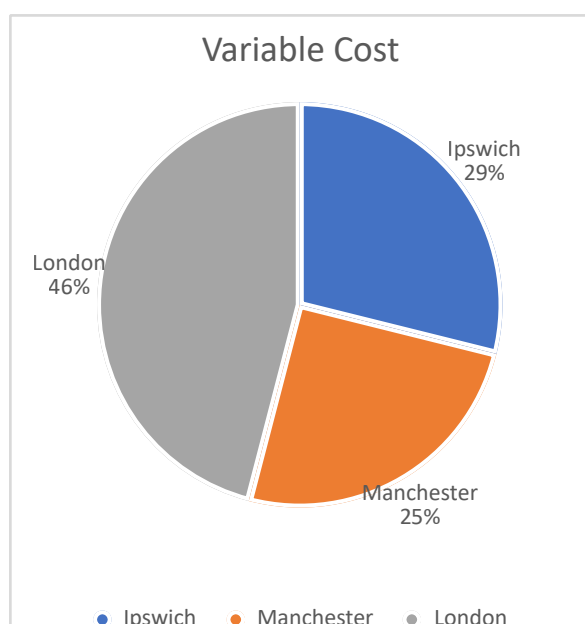
Customers at the closed location are the most obvious losers when a branch closes, but other locations and even the firm as a whole may feel the effects. Profit and loss statements in accounting provide insight into the success or failure of various operational and financial activities. (ICG, 2022). Management can exert much more control and make better judgments thanks to these identifications. A Managing Director may decide to close a branch because to low performance indicators, mostly monetary data like balances and income. To determine whether a branch is failing because it serves a declining market or is underperforming in a market with potential for growth, the Company must first conduct a market potential analysis. It appears from the company's profile that all of its divisions have substantial potential in their respective markets; the profitability of the Manchester location remains to be determined. Any for-profit business will have profit maximization as its top priority. A corporate strategy decision must be made using financial analysis based on ratio analysis, comparative statements, trends, graphs, and diagrams derived from financial accounting data. A company records cash as revenue when it is received, and as a liability when it is used to settle debts or settle other obligations. The cash approach, often called the cash accounting method, is used solely when cash is being transferred into or out of a business. The most up-to-date financials for NGPL, a firm having three separate divisions of activity, are as follows:

Financial Data

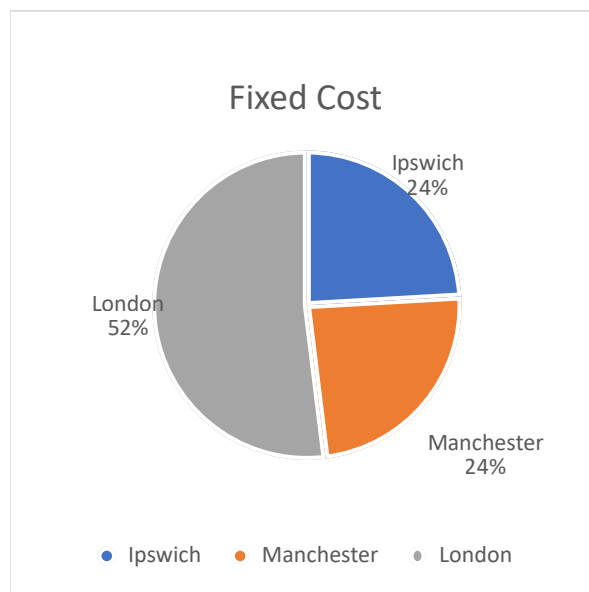
	Ipswich £	Manchester £	London £
Sales	1,320,000	1,150,000	2,100,000
Branch Expenses:			
Salaries	126,000	110,000	180,000
Advertising	24,000	45,000	175,000
Other	30,000	24,000	33,000

It is evident that the Manchester branch has underperformed in terms of overall sales ratio and that they were paying more for advertising, which increased their fixed expenses. Adding up the earnings of all three outlets yields a grand total of £ 4,570,000.00. 70% of each location's sales go toward variable expenses. In business, expenses are considered variable if they change in proportion to output and revenue. (Investopedia, 2022). The next chart depicts the deduction of variable expenses for each location, based on the knowledge that variable costs account for 70% of total sales:

	Ipswich	Manchester	London	Total Sales	T o t a l Bookkeeping Expense
Sales	£1,320,000.00	£1,150,000.00	£2,100,000.00	£4,570,000.00	462,000
Branch Expenses:					
Salaries	£126,000.00	£110,000.00	£180,000.00		
Advertising	£24,000.00	£45,000.00	£175,000.00		
Other	£30,000.00	£24,000.00	£33,000.00		
	28.88%	25.16%	45.95%		
Accounting and Bookkeeping	£133,444.20	£116,258.21	£212,297.59		
Variable Cost (70% of Sales)	£924,000.00	£805,000.00	£1,470,000.00		

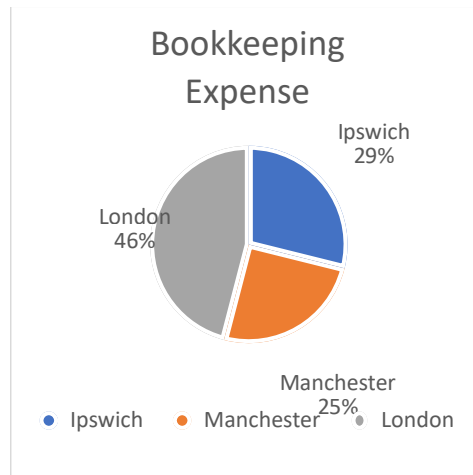


The pie graphic shows that the Manchester location's variable costs are only 25% of sales, but they account for 46% in London. The total fixed expenses for a branch are included in the income statement.



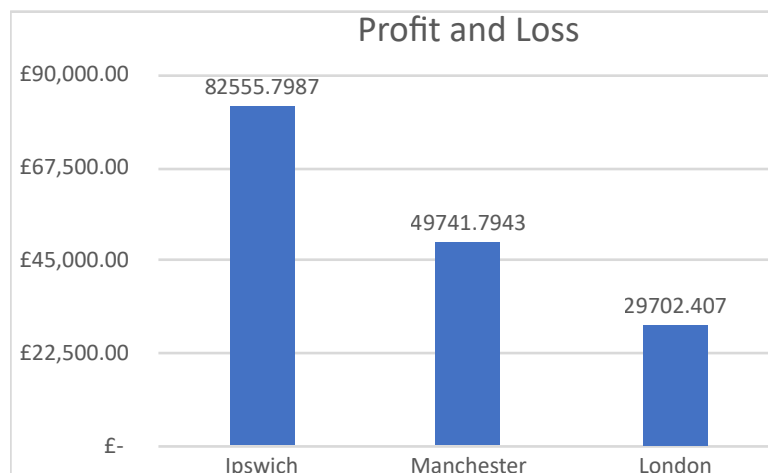
Use this visual aid to identify the department that is wastefully spending its funds. A lower percentage of the branch's budget goes toward fixed costs in Manchester and Ipswich compared to its London counterpart. A total of £462,000 is owed to the company's bookkeeping service provider, which will be distributed among the several divisions of the business in proportion to their revenues. Sales at each location were multiplied by the total amount spent on payroll services to determine each branch's share of the bill.

Total Sales				£ 4,570,000.00
Total Bookkeeping Expenses				462,000
	28.88%	25.16%	45.95%	
Accounting and Bookkeeping	£ 133,444.20	£ 116,258.21	£212,297.59	



The percentages paid by each location reveal that Manchester Branch has the lowest bookkeeping service costs. Finally, the profit/loss data is subtracted to get a decision to close or not.

	Ipswich	Manchester	London
Profit and Loss	£82,555.80	£ 49,741.79	£ 29,702.41



As can be seen, the Ipswich location is the most lucrative with a profit of £82,555.80. The Manchester office comes in second with a profit of £49,741.19, and the London location is the least profitable.

Recommendations

Manchester's branch has become more lucrative than London's, which was also previously supervised by the same manager, despite having lower sales and fewer fixed and operating costs. The data presented above indicates that the Manchester office is more profitable than the London one, hence it is suggested that the Manchester location be maintained. It's

possible to incur a loss in earnings if the branch is closed due to a decision made by the manager/director. The Manchester office has fixed costs that must be covered, to the tune of £179,000. Additionally, the closure will result in a loss of £49,741.79 in net income. Therefore, Manchester sales will be reduced by a sum equal to £228,721.79. The closure will result in a reduction of £462,000 in the cost of running the headquarters, to £370,000. The Manchester location's shutdown will result in a loss of £92,000. Losses totaling £136,741.79 are thus inevitable. It is not financially viable to close the Manchester location, as the total losses would dwarf the profits of the other two locations, and the corporation as a whole would end up losing money in this situation. As shown in the Appendix, by closing the Manchester branch will push the London branch to loss. The London branch would not be making any profits rather it will run on losses. The same can be seen in the appendix below. Manchester is a cash cow for the corporation because of its positive cash flow, decreased expenses, and increased profit. Taking advantage of the expansion opportunities currently being considered by the Manchester office should result in a multiplication of earnings over the next few years, putting the Manchester office in the running to surpass its contemporaries. In the annex, we provide a high-level overview of revenue and costs.

Conclusion

According to the results of a hypothetical case study in which one of the company's three locations is shut down, the company would still be very lucrative. The most profitable location is Ipswich, with £82,855.50; the second most profitable location is the Manchester branch, at £49,741.70; and the London location, at £29,702.41, is in the bottom three. The Manchester location is successful and growing within its core business, hence it is advised against closing it. Analysis shows that the company will lose a significant amount of money—£136,741.79—if its Manchester branch is shut down. The Company's financial viability depends on the Managing Director putting aside his feelings for the Manchester branch manager and working with him to ensure the continued growth and success of all branches.

References

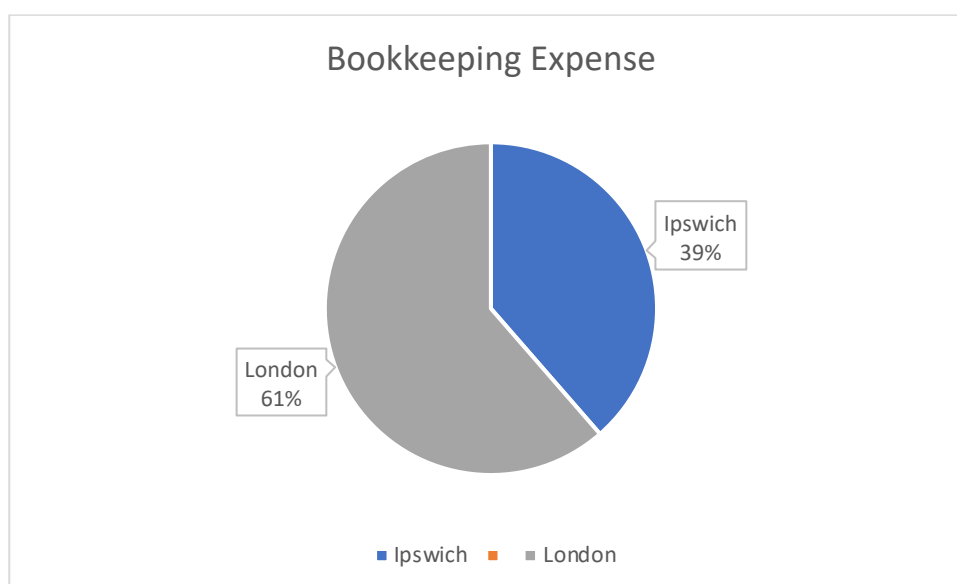
Investopedia. (2022). Variable Cost: What It Is and How to Calculate It. [online] Available at: <https://www.investopedia.com/terms/v/variablecost.asp> [Accessed 1 Dec. 2022].

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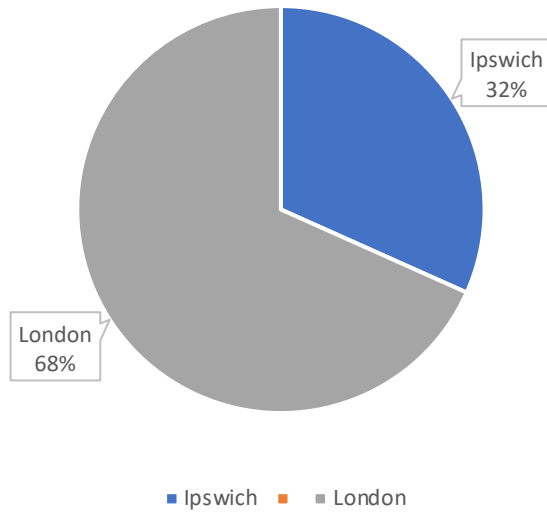
Appendices

A VIEW OF PROFITS AFTER CLOSURE OF MANCHESTER BRANCH

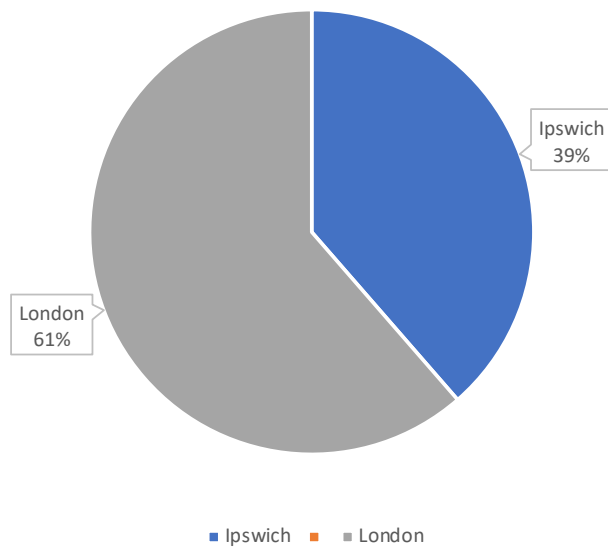
	Ipswich	Manchester	London	
Sales	£ 1,320,000.00	£ -	£ 2,100,000.00	
Branch Expenses:				
Salaries	£ 126,000.00	£ -	£ 180,000.00	
Advertising	£ 24,000.00	£ -	£ 175,000.00	
Other	£ 30,000.00	£ -	£ 33,000.00	
Total Fixed Expenses	£ 180,000.00	£ -	£ 388,000.00	
Total Sales				£ 3,420,000.00
Total Bookkeeping Expenses				372,000
	38.60%	0.00%	61.40%	
Accounting and Bookkeeping	£ 143,578.95	£ -	£ 228,421.05	
Variable Cost (70% of Sales)	£ 924,000.00	£ -	£ 1,470,000.00	
Profit and Loss	£ 72,421.05	£ -	£ 13,578.95	



Fixed Cost



Variable Cost





	Ipswich		London	
Sales	£ 1,320,000.00		£ 2,100,000.00	
Branch Expenses:				
Salaries	£ 126,000.00		£ 180,000.00	
Advertising	£ 24,000.00		£ 175,000.00	
Other	£ 30,000.00		£ 33,000.00	
Total Fixed Expenses	£ 180,000.00		£ 388,000.00	
Total Sales				£ 3,420,000.00
Total Bookkeeping Expenses				462,000
	38.60%		61.40%	
Accounting and Bookkeeping	£ 178,315.79		£ 283,684.21	
Variable Cost (70% of Sales)	£ 924,000.00		£ 1,470,000.00	
Profit and Loss	£ 37,684.21		-£ 41,684.21	

Formulas

	Ipswich	Manchester	London	
Sales	1320000	1150000	2100000	
Branch Expenses:				
Salaries	126000	110000	180000	
Advertising	24000	45000	175000	
Other	30000	24000	33000	
Total Fixed Expenses	=SUM(B9:B11)	=SUM(C9:C11)	=SUM(D9:D11)	
Total Sales				=SUM(B7:D7)
Total Bookkeeping Expenses				462000
	=B7/\$E\$13	=C7/\$E\$13	=D7/\$E\$13	
Accounting and Bookkeeping	=B7/\$E\$13	=C7/\$E\$13	=D7/\$E\$13	
Variable Cost (70% of Sales)	=70%*B7	=70%*C7	=70%*D7	
Profit and Loss	=B7-B12-B16-B17	=C7-C12-C16-C17	=D7-D12-D16-D17	