

MANAGEMENT ACCOUNTING AND FINANCIAL MANAGEMENT

by

Course

Instructor

Institution

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### **Background of the Company**

A.G. Barr Plc is a British soft drink manufacturer headquartered in Cumbernauld, North Lanarkshire Scotland. It was founded in 1875 and was the first listed in the London Stock Exchange in 1965. The company produces a variety of soft drink and they make market and sell some of UK's best soft drink brands (A.G. Barr, 2013). A.G. Barr's biggest brand is IRN-BRU which has been considered to be part of the Scottish culture. They have continuously invested in different brands including IRN-BRU for over 100 years so that they are able to develop products that help in meeting the ever changing needs of the customers (A.G. Barr, 2013).

The company has in the recent past, made some strategic moves in a bid to improve its performance and cope up with the increasing competition. For instance, the company had launched an energy drink in 2001 that was being sold in North America known as Rockstar. It started distributing the product in the United Kingdom in 2007. It has also launched a range of products in 2008 known as Barr Originals and they included Dandelion and Burdock, Ginger Beer, Cream Soda, and Traditional Lemonade flavours (A.G. Barr, 2013).

### **Information Requirement for the Management**

The management of A.G. Barr may require information of different nature that will help them in making decision. These will be necessary for operational control, product costing and pricing, planning and decision making, monitoring the business performance and building, and maintaining a competitive advantage.

### **Market Information**

Market information is all the information that gives the picture of the situation in the market. It depicts how the company performs in relation to its competitors. It also supports marketing decisions. The decisions that the market information supports are very essential for the proper

management of the business in the future. Market information will help in determining the price of the products so that the products of A.G. Barr may remain competitive in the market.

### **Financial Information**

Financial information is another source of information that is very critical for the management of the organisation. It is normally provided through the income statement, balance sheet, and statement of cash flows. Financial information such as information on the share prices is very critical for monitoring the business performance. The information contained in the profit and loss account could also be used by the company to monitor the performance of the organisation.

### **Management Accounting Techniques**

#### **Activity Based Costing**

Activity based costing is an approach to the costing and monitoring of activities by tracing the resource consumption and costing the final outputs. The resources of the organisation are assigned to activities and the activities are assigned to the cost objects based on the consumption estimates (Edwards, 2008). In other words, resources' costs are assigned to the products and services in accordance to the resources that they consume. It is an alternative to the traditional methods of costing that did not reflect the differences in the consumption of the overheads or indirect costs. ABC is an important accounting technique that could be used by A.G. Barr as a way of ensuring cost efficiency. However, implementing it will require that business activities be broken down into discrete components (Edwards, 2008). The company will have to introduce many new measurements and may have to hire consultant in order to implement an effective ABC.

### **Budgeting and Variance Analysis**

Budgeting is a process that many organisations use to develop financial plan of action that cover a specific period of time such as one year or six (6) months (Ryan, 2004). On the other hand, variance analysis is the process which compares the expected out with the actual outcome of the organisations' processes to judge the performance. The purpose of carrying variance analysis is to help the managers to check on areas where the performance has not been satisfactory and make future decisions (Ryan, 2004). These techniques should be applied at A.G. Barr so that it is able to improve its performance in different areas. It should set the target that it intends to achieve annually and compare the set target with the actual performance at the end of the period. In cases where there are deviations, the company should investigate and take corrective measures to improve performances in the future.

### **Investment Appraisal**

Investment appraisal involves evaluation of the attractiveness of an investment proposal using different methods such as average rate of return, internal rate of return, net present value, or the payback period (Pogue, 2010). The technique is very essential for the companies and they can use it in areas where the returns are not easily quantifiable. A.G. Barr can use the investment appraisal techniques such as average return and net present value to evaluate new investments. The company can use it to evaluate the feasibility of new product lines in the markets before they are introduced. This will ensure that Barr only includes those products which will give positive returns.

## **Benefits of the Management Accounting Techniques**

### **Benefits of Activity Based Costing**

Activity based costing will be of great benefit to A.G. Barr. It will enable the company, ABC, to provide more accurate method of costing the products and services (Edwards, 2008). Therefore, the company will be able to improve its cost management efficiency. It will also be able to have better understanding of the overheads and their causes. In other words, the company will be able to charge the overheads into the right cost units. When Barr uses ABC, it will be able to identify the costly and the non-value adding activities so that it can focus on their elimination (Edwards, 2008). The technique is also very essential since it supports other techniques such as balanced scorecards and performance management in improving its performance.

### **Benefits of Budgeting and Variance Analysis**

Budgeting and variance analysis will be of great benefit to A.G. Barr since it will help the management to improve the management controls of the organisation. The management will be able to know what needs to be spent and the reasons for spending a particular amount of money. This will reduce the cases of inefficiencies in the allocation of the limited resources to different business units. The company will also improve the financial control (Ryan, 2004). The managers will be able to monitor the revenues and expenditure so that corrective action may be taken in cases where there is variance or deviation. Budgeting process will help improve the communication systems within Barr as it will be able to create communication link between the managers and the employees.

### **Benefits of Investment Appraisal**

Techniques used in investment appraisal are very important for evaluating the feasibility of the investments. It allows the managers to examine all the aspects of the proposed investment so that

the company will only be able to invest in those that are capable of yielding positive returns. The managers of A.G. Barr will be able to take an objective view of all the financial aspect of the potential investments (Pogue, 2010). Moreover, the company will be able to view the new products to be launched and the new machines to be bought in a more objective manner so that it will be able to invest in the projects with higher return on the capital.

### **Drawbacks of the Accounting Techniques**

Despite the many benefits that these accounting techniques present to the organisation, they also have some drawbacks. These drawbacks are likely to affect the overall performance of the organisation when they are not handled carefully.

### **Drawbacks of Activity Based Costing**

Activity based costing will be very difficult and time consuming to collect the data of the activities and the cost drivers (Edwards, 2008). The fact that the company is a large organisation may be an impediment to the successful implementation of the ABC since it will require much time to collect the data across the organisation. Activity based costing will also be costly to implement, run, and manage within A.G. Barr. This is due to the fact that the company will have to breakdown into simpler components that can accommodate ABC and be a very expensive affair. The other challenge with ABC is that some overhead costs are difficult to assign to products and customers (Edwards, 2008). This may result in some inefficiency in the allocation of the overhead costs.

### **Drawbacks of Budgeting and Variance Analysis**

One of the drawbacks of these techniques is that there may be lack of commitment among those excluded from the budgeting process and this may affect the achievement of the company goals and objectives. In case the budget is inflexible, the budget may not respond to the changes in the

market conditions. The budget may not be effective in achieving the company goals if the information used to prepare the budget is not of good quality.

### **Drawbacks of Investment Appraisal**

Investment appraisal may have negative impacts on A.G. Barr by cause that it may not consider factors such as inflation when it is being carried out. Some of the techniques used to appraise the investment do not take into consideration the future changes in inflation. Investment appraisal methods may be complex and may not result in accurate measurement of the future returns.

Investment appraisal methods do not take into consideration the changes in the business environment which affects the investments adversely in the future.

### **Bibliography**

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