MANAGEMENT ACCOUNTING BLUEPRINT FOR PERI ENTERPRICE WHICH IS A WELDING, ALUMINUM AND GLASS INDUSTRY ESTABLISHED IN FREETOWN SIERRA LEONE

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MANAGEMENT ACCOUNTING BLUEPRINT

WELDING AND ALUMINUM BUSINESS - MANAGEMENT ACCOUNTING BLUEPRINT

1. OVERVIEW

Peri Eenterprise is a business entity that is a sole proprietorship, this entity has many segments and each welding, aluminum and glass has its own growth patterns. It is important to note that it is now universally accepted that no perfect construction and finishing can be done without the use of metals, aluminum and glass.

This industry is considered a mature industry but it is still a growing industry from different perspectives. The true impact of welding, aluminum and glass working industry should be measured in the value of the parts produced by each product, the uniqueness and durability, the amount of money saved by the use of these products compared to other fabrication processes and in the value of products made possible by welding, glass and aluminum.

Facts on ground has gone a long way to show the growth of the welding, aluminum and glass equipment and materials industry, which also serve as indication of the projected growth for the future.

2. BUSINESS DESCRIPTION

This report outlines the business proposal and financial feasibility for " Peri Eenterprise, a small welding, aluminum and glass entity that is established solely and is engaged in the production of assorted metal, aluminum and glass products (metal window guard/shield, metal gates, doors railings, aluminum windows fitted with glass, kitchen cabinets, stair way design etc.). We are planning to expand by having different locations in Freetown Sierra Leone and it outskirts and possibly to the provinces and this will mean we have to rent more shops, train and employ more youths, buy more advanced machineries that will suit and satisfy the diverse designs and concepts of our customers. We at Peri Enterprise are very much dedicated to providing the highest quality workmanship; reaching the agreed delivery dates and actualising the custom work exactly in accordance with the customers astonishing designs. Through this detailed management accounting analysis, we have forecasted the cost structure, calculated an achievable break-even point, and developed product and budgeting strategies. The analysis indicates that with the $50,000 startup grant, we will be able to achieve profitability within the first year and maintain healthy cash flow, demonstrating it is a financially sound venture.

3. THE MANAGEMENT ACCOUNTING BLUE PRINT

1. **Cost classification and behavior**

Type	**Expenses**	**Description**	**Monthly estimated Cost (USD)**	**Reasoning**
FIXED COST	Rent	Existing and new store	2,500	Constant regardless of production
	Salaries	Existing and new skilled	1,500	Fixed monthly payment
	Insurance	Company and staff	500	Fixed charged on monthly basis
	Safety Gears	Personal Protective Equipments PPE`s	500	Protection is fixed
TOTAL FIXED COST			**5,000**	

VARIABLE COST	**ITEM**	**UNIT COST (USD)**	**NARATION**
	Assorted Raw materials	250	New customer order
	Electricity bill	50	Working on new order
	Direct labour Additional labour	230	Working on express order from a specific customer
	Maintenance and repair	100	Repair of welding machine and aluminum cutter
	Transportation of finished product	70	Outsourcing (rented vehicle for delivery)
	Scrap and rework	25	For disposition of unwanted metal

2. Cost-Volume-Profit Analysis: The Break-Even Point

- Primary Service/Product: an 18ft by 18ft rolling metal gate
- Selling Price per Unit: $1,800
- Variable Cost per Unit: $400
- Calculation:

    - Contribution Margin per Unit = $1,800 - $400 = $1,400
    - Monthly Break-Even Point (Units) = $5,000 / $1,400 = $ 3.6

Interpretation

The break-even point represents the number of units that must be sold to cover all fixed and variable costs, resulting in zero operating income. Since it not possible to sell a fraction of a physical product like a rolling metal gate, the company must sell four (4) units to break-even. Selling three (3) units would result in a loss.

3. Product/Service Line Decision

- **Two Proposed Products:**
    1. Product A**:** an 8ft by 4ft Aluminum (Selling Price: $370, Variable Cost: $45)
    2. Product B**:** a 3ft by 9ft wall mounted kitchen cabinet (Selling Price: $520, Variable Cost: $25)
- **Profitability Analysis:**
    - Product A Contribution Margin per Unit = $370 - $45 = $325
    - Product B Contribution Margin per Unit = $520 - $25 = $495

STRATEGIC RECOMMENDATION

Product B has a higher contribution margin per unit.

Product A has a selling price of $370 and a variable cost of $45, resulting in a contribution margin per unit of $325.

Product B has a selling price of $520 and a variable cost of $25, resulting in a contribution margin per unit of $495.

The contribution margin is the selling price per unit minus the variable cost per unit. It represents the amount of revenue remaining after covering variable costs, which contributes towards covering fixed costs and generating profit.

In the absence of capacity constraints or other factors, the product with the higher contribution margin per unit is generally more profitable.

Product B's contribution margin ($495) is greater than Product A's ($325) so I would encourage customers towards product B more than product A.

4. Budgeting for success

EXPENSES	COST (USD)
Rent	2,500
Salaries	1,500
Insurance	500
Safety Gears	500
Assorted raw materials	250
Electricity bill	50
Direct labour and additional lbour	230
Maintenance	100
Transportation of finished product	70
Scrap and rework	25
TBC	**5,725**

Variance Analysis Scenario:

At the end of the month there was a 30% increment in the electricity bill than budgeted which is 30% of $ 50 = $ 65 instead of $ 50 this is called an **Unfavorable Variance** where the actual monthly cost exceeds the budgeted cost.

Managerial Action; Facing a 30% unfavorable variance as a manager in the electricity bill, actions would focus on identifying the cause and implementing corrective measures.

Investigate the cause: Determine the specific reason for the significant increase. This involves reviewing detailed utility reports, checking for seasonal changes, identifying potential equipment malfunctions, or assessing any changes in operational procedures that might have increased energy consumption.

Implement corrective actions: Based on the investigation, put controls in place to prevent recurrence. Examples include enforcing energy-saving policies, repairing or replacing inefficient equipment, or negotiating better rates with the utility provider.

Review and adjust budgets: If the increase is due to a permanent change in operations or market prices, the budget for future periods should be updated to reflect the new expected cost.

Monitor and follow up: Continuously track electricity usage and costs in subsequent months to ensure the corrective actions are effective and the variance is brought under control.

FINAL CONCLUSION

The above business company is a profitable venture regarding the cost monitoring and break-even analysis, and the budgeting discipline. With an initial investment of $50,000, Peri Enterprise will allocate funds toward facility setup, equipment, staff training, and expansion while using management accounting as a guiding tool for financial decision-making.