



MANAGERIAL ACCOUNTING BUSINESS
CASE: STRATEGIC COST ANALYSIS FOR
HUSSAR COMPANY

MANAGERIAL ACCOUNTING

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Academic and Professional Profile Dr. Philippe De Brouwer holds a background in theoretical physics and earned a second Master’s degree in Business Engineering while working full time. His academic distinction includes solving the “fallacy of large numbers” puzzle, originally posed by P.A. Samuelson and unresolved for 38 years. In his Ph.D., he challenged the foundational assumptions of Harry Markowitz’s Nobel Prize-winning Mean Variance Theory, developing the “Maslowian Portfolio Theory” and fundamentally advancing the field of investment advice.

Career Highlights Early in his career, De Brouwer transitioned from insurance to banking and from IT to asset management. At Fortis (now BNP Paribas), he played a key role in launching one of Belgium’s first capital-guaranteed funds and was promoted to director in 2000. In 2002, he joined KBC, where he orchestrated the merger of four companies and became CEO of the consolidated entity in 2005. Under his leadership, the company climbed from 11th to 5th in the market, even amid heightened competition.

Following the financial crisis, De Brouwer led the creation of a new investment management company for KBC in Ireland, which quickly grew to manage around 1000 investment funds and approximately €32 billion in assets. In 2012, he broadened his expertise into financial risk management, focusing on statistics, analytics, data, and numerical methods.

Recent Roles and Publications De Brouwer served as Head of Analytics Development for the Royal Bank of Scotland Group and currently holds the position of SVP at HSBC in Kraków. There, he oversees the Model Review Centre of Excellence and serves as Global Head of Professional Practices for Model Risk Management. He also coordinates collaboration with universities.

He has authored numerous scientific papers and books, with his latest being “The Big R-Book: From Data Science to Big Data and Learning Machines.” His work continues to influence both academic and practical approaches to finance, risk, and data science.



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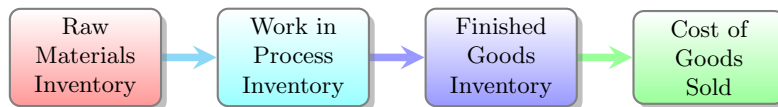
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1 Management Accounting

1.1 Understanding Manufacturing Cost Flows

Costs

Costs incurred in manufacturing flow through several inventory accounts before becoming an expense (Cost of Goods Sold). Understanding this flow is critical to diagnosing issues in production efficiency, inventory management, and profitability.



1.2 Managerial Accounting in Action

Managerial Accounting in Action

Essentials:

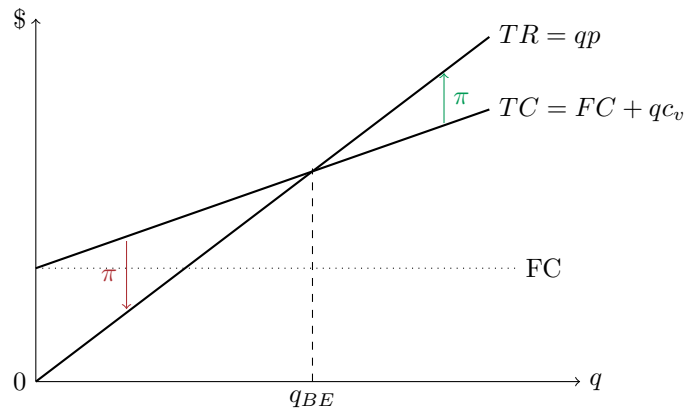
- Cost Classification: Fixed, variable, mixed costs
- Cost-Volume-Profit Analysis: Break-even for multiple products
- Product vs. Period Costs: Inventory valuation
- Cost Flow Analysis: Tracking costs by product line
- Profitability & Product Mix Analysis
- Budgeting: Planning, controlling, forecasting

Managerial accounting provides the internal data and analysis essential for planning, controlling, and decision-making. Unlike financial accounting, which is retrospective and standardized for external users, managerial accounting is forward-looking, flexible, and designed for managers.

For this case, you will specifically use:

- **Cost Classification:** Separating costs into fixed, variable, and mixed to understand cost behavior.
- **Cost-Volume-Profit (CVP) Analysis:** To determine the break-even points for multiple products and analyze the impact of different strategic options on profitability.
- **Product vs. Period Costs:** To accurately value inventories and calculate cost of goods sold by product.
- **Cost Flow Analysis:** To track costs through raw materials, work in process, and finished goods inventories for multiple product lines.
- **Product Mix and Profitability Analysis:** To evaluate contribution margins and prioritize production and sales strategies.
- **Budgeting:** To plan, coordinate, and control financial and operational activities through detailed budget preparation and analysis.

Break Even Analysis



In the break even point (BE) we have:

$$\begin{aligned}TC &= TR \\ \Leftrightarrow FC + q_{BEC}c_v &= q_{BEP}p \\ \Leftrightarrow q_{BE} &= \frac{FC}{p - c_v} \\ \Leftrightarrow q_{BE} &= \frac{FC}{c_m}\end{aligned}$$

1.3 Using Managerial Accounting to Achieve Strategic Objectives

Financial vs Managerial Accounting

Financial Accounting	Managerial Accounting
Financial statements	Internal reports, budgets, forecasts
External users	Internal users
Mandatory	Voluntary
Historical	Future-oriented
Company-wide	Segment/product focus
Exact	Approximation (direction)

Key Performance Indicators (KPIs)

- KPIs are measurable values that demonstrate how effectively an organization is achieving key business objectives.
- Examples: Revenue Growth, Customer Satisfaction, Employee Turnover, Operational Efficiency.
- KPIs and their targets should be SMART:
 - Specific
 - Measurable
 - Achievable yet Ambitious
 - Relevant
 - Time-bound
- Used to track progress, identify areas for improvement, and support strategic decision-making.
- Common types: Financial, Customer, Internal Process, Learning & Growth.

Choose a mix of lagging and leading KPIs

Aspect	KPIs	OKRs
Purpose	Measure ongoing performance	Set and achieve strategic goals
Focus	Process-oriented	Outcome-oriented
Structure	Single metric	Objective + Key Results
Timeframe	Short/Medium Term	Medium/Long Term
Examples	Revenue, customer satisfaction	Increase market share by 20% next year
Alignment	Tracks existing targets	Drives new initiatives

Objectives and Key Results (OKRs)

- OKRs are a goal-setting framework to align teams and measure progress.
- **Objective:** A clear, inspirational goal (e.g., "Become the market leader in cloud-based project management software").
- **Key Results:** 2–5 measurable outcomes that track progress toward the objective (e.g., "Increase market share from 15% to 30% by end of fiscal year").
- Key results should be:
 - Inspirational
 - Aspirational
 - Time-bound / specific
 - Ambitious yet realistic
- OKRs foster transparency, focus, and accountability in organizations.

KPIs vs OKRs: Key Differences

Budgeting is a cornerstone of managerial accounting enabling organizations to:

- Plan operational activities by forecasting production, sales, and costs.
- Coordinate efforts across departments ensuring aligned targets.
- Control performance by comparing actual results against budgets.
- Facilitate communication of strategic priorities throughout the organization.

Accurate budgeting requires an understanding of cost behavior and cost drivers, integration of sales forecasts with production plans, and recognition of fixed versus variable cost dynamics. Implementing flexible and rolling budgets can improve responsiveness to market changes and support continuous improvement.

Key Formulas

Total Manufacturing Costs = DM Used + Direct Labor + MOH (Fixed + Variable)

COGM = Beginning WIP + Total Manufacturing Costs – Ending WIP

Raw Materials Purchased = Raw Materials Used + Ending RM Inv. – Beginning RM Inv.

Contribution Margin = Selling Price – Variable Cost

Break-Even Units = $\frac{\text{Total Fixed Costs}}{\text{Contribution Margin}}$

Budgeted Production Units = Budgeted Sales + Desired Ending Inventory – Beginning Inventory

Direct Materials to Purchase = Budgeted Production Units × DM/unit + Desired Ending RM – Beginning RM

2 The Business Case: Hussar Company

2.1 Company Background & Data

Hussar Company, a well-established furniture manufacturer, faces declining profitability amid rising competition and cost pressures. Previously focused on chairs, the company has expanded its product line to include tables, introducing complexities in cost allocation and product mix decisions. This business case requires you, as management consultants, to apply core managerial accounting techniques—including cost behavior analysis, break-even analysis, cost flow tracking, product mix profitability assessment, and budgeting—to diagnose problems, identify opportunities, and present strategic recommendations to the board of directors. Your analysis will form the foundation for a strategic plan to restore profitability and ensure Hussar’s sustainable competitive advantage.

Financial & Operational Data

	Beginning	Ending	Annual Usage	
Raw Materials Inv.	16,400	18,300	-	
WIP Inv.	19,100	17,700	-	The owner acts
Finished Goods Inv.	7,300	8,500	-	
Raw Materials Used	-	-	86,600	
Cost of Goods Sold	-	-	301,000	

as CEO, the company employs 20 carpenters, and one administrative person.

Production and Cost Data

- Capacity / Current Production:
 - Chairs: 2500 / 1800 units
 - Tables: 1200 / 900 units

- Selling Price:
 - Chair \$200
 - Table \$450
- Variable Costs (per unit):
 - Chair: Materials \$85, Labor \$45
 - Table: Materials \$120, Labor \$65
- All overhead costs to be considered as Fixed Costs. They are (yearly):
 - Manufacturing Overhead \$150,000 (shared)
 - Administrative Expenses \$108,000
 - Marketing: \$15,000

The company wants to allocate overhead proportional to contribution margin (c_m)

2.2 Required Analysis

Consulting Assignment: Quantitative Analysis

- A. Overhead allocation to each product
- B. Total manufacturing cost (per product)
- C. Cost of goods manufactured (per product)
- D. Break-even analysis by product:
 - Contribution margin per unit
 - Break-even quantity
- E. Assess cost structure
- F. Assess profitability impact of product mix shifts

Consulting Assignment: Budgeting

- A. Prepare sales budget for chairs and tables
- B. Production budget factoring desired inventories
- C. Marketing and admin expense budgets

Consulting Assignment: Strategic Advice

- A. Budgets (forecast and plan sales, production, and costs).
- B. Advice on strategic priorities.
- C. Advice on how to achieve those priorities (KPIs and OKRs)

Important

Slides (with the names of team-members on the front page) to be sent to philippe@de-brouwer.com by COB today.

Further Reading

- **Philippe De Brouwer, *The Big R-Book: From Data Science to Big Data and Learning Machines***

This book is valuable for understanding the intersection of data science and managerial accounting. It provides an overview of financial and managerial accounting, discusses key differences, and introduces important financial parameters, KPIs, and customer metrics like NPS. It is especially useful for those interested in applying data-driven approaches to accounting and management decisions.

- **Ray H. Garrison, Eric Noreen, and Peter C. Brewer, *Managerial Accounting***

Widely regarded as the leading textbook in the field, this book covers the core concepts of managerial accounting with clarity and practical examples. It is ideal for students and professionals seeking a comprehensive foundation in planning, controlling, and decision-making using accounting data. The latest editions also integrate data analytics and Excel applications, making it relevant for modern business environments.

- **Maryanne M. Mowen, Don R. Hansen, and Dan L. Heitger, *Managerial Accounting***

This text bridges theory and real-world application, emphasizing how managerial accounting informs business strategy. It features sustainability, forensic accounting, and company case studies, helping readers connect accounting concepts to actual business decisions. The book is well-suited for those aiming to deepen their understanding of how accounting supports strategic management.

- **Karen Braun and Wendy Tietz, *Managerial Accounting***

Focused on practical business applications, this book uses real company examples (such as Target and Macy's) to illustrate how accounting data is interpreted for managerial decisions. It is especially helpful for students and professionals who want to move beyond abstract theory and see how accounting concepts work in real organizations.

- **Kurt Heisinger and Joe Ben Hoyle, *Managerial Accounting (Open Textbook Library)***

This open-access textbook offers a modern approach to managerial accounting, balancing affordability with academic rigor. It covers cost-volume-profit analysis, budgeting, performance evaluation, and the use of financial and nonfinancial measures, making it a flexible resource for both classroom and self-study.

Nomenclature

BE break even, page 5

c_m	contribution margin, page 5
C_v	total variable cost, page 5
c_v	variable cost per unit, page 5
FC	fixed cost, page 5
q	quantity (number of units), page 5
TC	total cost, page 5
TR	total return, page 5
COGM	cost of goods manufactured, page 7
CVP	cost volume profit analysis, page 4
DM	direct materials, page 7
KPI	key performance indicator, page 5
MOH	mixed overhead costs, page 7
OH	overhead cost, page 7
OKR	objective and key result, page 6
RM	raw materials, page 7
SMART	specific, measurable, achievable, relevant, time-bound, page 5
WIP	work in progress, page 7