

Managerial Accounting Business Case: Strategic Cost Analysis for Hussar Company

Managerial Accounting

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Krakow School of Business

- Academic
 - Theoretical physicist and Business Engineer; solved the “fallacy of large numbers” puzzle (Samuelson).
 - Challenged Markowitz’s Mean Variance Theory, developed Maslowian Portfolio Theory.
- Career
 - Fortis/BNP (capital-guaranteed funds, director),
 - KBC (merged companies, CEO, market growth).
 - CIO of KBC Ireland (€32B, 1000 funds).
 - Head of Analytics RBS (financial risk, analytics, data)
 - SVP at HSBC (Model Risk Management CoE).
- Author: “The Big R-Book” and numerous scientific papers.



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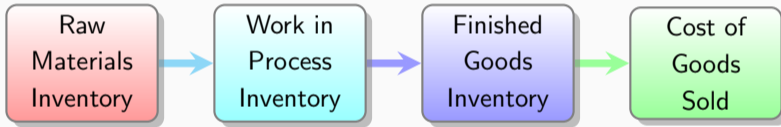
Company Background & Data

Required Analysis

Management Accounting

Management Accounting

Understanding Manufacturing Cost Flows



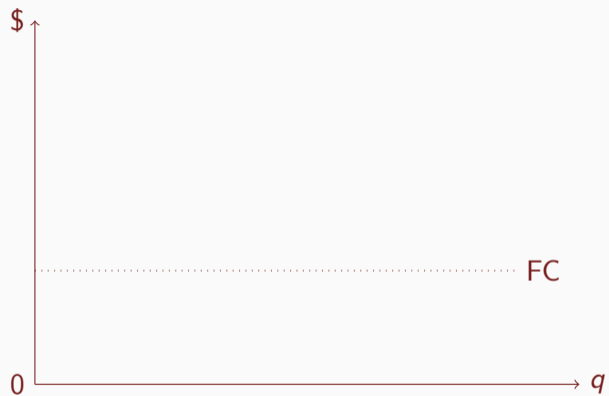
Management Accounting

Managerial Accounting in Action

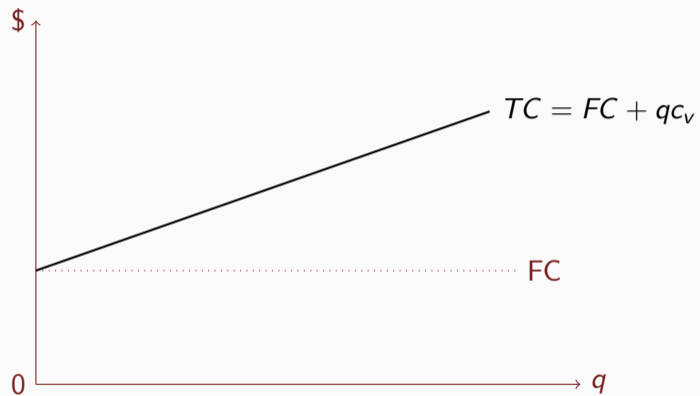
Essentials:

- 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

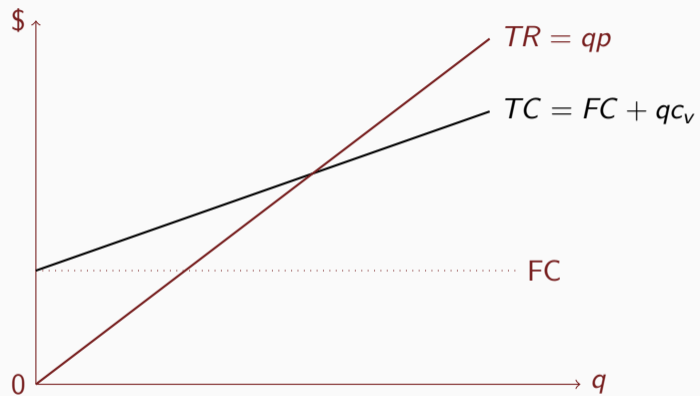
Break Even Analysis



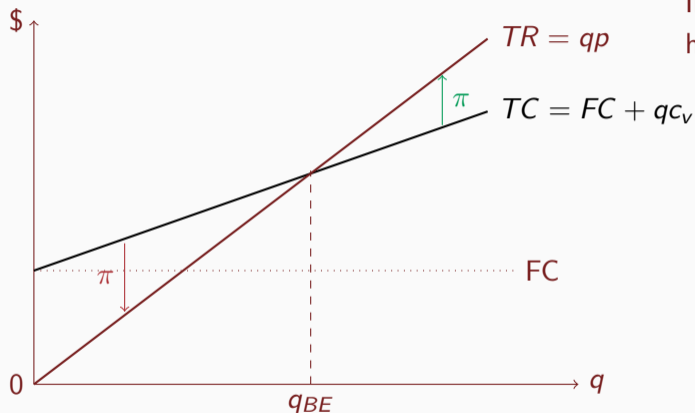
Break Even Analysis



Break Even Analysis



Break Even Analysis



In the break even point (BE) we have:

$$TC = TR$$

$$\Leftrightarrow FC + q_{BE}c_v = q_{BE}p$$

$$\Leftrightarrow q_{BE} = \frac{FC}{p - c_v}$$

$$\Leftrightarrow q_{BE} = \frac{FC}{c_m}$$

Management Accounting

**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.

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

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

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 Inv. – Beginning RM Inv.

The Business Case: Hussar Company

The Business Case: Hussar Company

Company Background & Data

Company Background & Strategic Challenge

- Medium-sized manufacturer of chairs and tables
- 15 years stable operation; now challenged by imports and rising materials costs
- Margins shrunk dramatically due to competition
- Owner concerned about profitability

Financial & Operational Data

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

The owner acts 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)

The Business Case: Hussar Company

Required Analysis

Consulting Assignment: Quantitative Analysis

1. Overhead allocation to each product
2. Total manufacturing cost (per product)
3. Cost of goods manufactured (per product)
4. Break-even analysis by product:
 - Contribution margin per unit
 - Break-even quantity
5. Assess cost structure
6. Assess profitability impact of product mix shifts

Consulting Assignment: Budgeting

1. Prepare sales budget for chairs and tables
2. Production budget factoring desired inventories
3. Marketing and admin expense budgets

Consulting Assignment: Strategic Advice

1. Budgets (forecast and plan sales, production, and costs).
2. Advice on strategic priorities.
3. 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.