

# **Management Accounting**

## **7<sup>th</sup> Edition**

- Link 11.A –  
OFC Preparations

*Financials is an informal expression for the recordings of a business. OHIO FRIED CHICKEN is privately-owned and not registered for VAT reduction. The company does not prepare financial statements by law. Its “financials” are some kind of Income-Expenses-*

*Comparison prepared on a spreadsheet. They are not consistent with South African law, nor do they follow international Accounting standards IFRSs. Figure 1 shows the financials as provided by OHIO FRIED CHICKEN’s owner for one month.*

Date	Mis- cellaneous	Petrol	Clean/ package	Wages	Cold drinks	Groceries	Spices	Potatoes	Chicken	Frozen foods	Expenses	Income
2014-01-01	public holiday										-	
2014-01-02	241.00		97.90			270.64		195.00	11,046.00	2,287.98	14,138.52	8,673.90
2014-01-03	37.97			1,058.50	849.70	496.98		640.00		767.98	3,851.13	9,975.50
2014-01-04	9,120.00					155.90		350.00			9,625.90	5,267.65
2014-01-05											-	
2014-01-06					679.80	231.75		495.00	4,128.25	1,520.00	7,054.80	7,080.26
2014-01-07						116.55		320.00			436.55	6,686.75
2014-01-08	55.00					458.73		232.00			745.73	5,284.95
2014-01-09	684.00				1,252.20	899.95	201.19	498.00		1,520.00	5,055.34	4,512.40
2014-01-10	41.94	310.00		3,015.75		373.69		320.00	8,029.75		12,091.13	8,300.40
2014-01-11		300.05	176.02		1,508.70	955.97	168.93	1,280.00		1,630.00	6,019.67	6,954.85
2014-01-12											-	
2014-01-13	13.95		138.00			75.90					227.85	8,089.55
2014-01-14	180.00		444.93			232.65			6,922.75	1,520.00	9,300.33	6,450.00
2014-01-15	5,940.00	300.10	34.98			72.81					6,347.89	4,988.30
2014-01-16	64.00		24.99			130.07	248.69			1,520.00	1,987.75	4,437.40
2014-01-17	54.69	300.00		3,462.00	1,151.60		1,328.08	1,600.00	6,853.25		14,749.62	5,817.95
2014-01-18	95.49										95.49	6,238.55
2014-01-19											-	
2014-01-20	32.98					105.46					138.44	3,751.32
2014-01-21		300.10				105.71	84.93		5,194.00	1,520.00	7,204.74	3,472.20
2014-01-22					1,295.60	56.55		1,050.00			2,402.15	2,883.35
2014-01-23						50.39				1,583.70	1,634.09	3,015.95
2014-01-24				3,172.85		35.59		860.00			4,068.44	12,132.80
2014-01-25		300.10			880.70	552.13					1,732.93	10,270.80
2014-01-26											-	
2014-01-27	117.70					56.33					174.03	5,037.00
2014-01-28		500.00				554.69	84.93	1,075.00			2,214.62	5,087.00
2014-01-29						78.35		760.00		760.00	1,598.35	3,926.80
2014-01-30	58.40		71.00		647.80	28.07	194.13		10,490.00		11,489.40	4,896.95
2014-01-31	114.90		176.02	3,120.00	1,283.60				5,250.50	910.40	10,855.42	14,860.80
	16,852.02	2,310.35	1,163.84	13,829.10	9,549.70	6,094.86	2,310.88	9,675.00	57,914.50	15,540.06	135,240.31	168,093.38

**Profit: 32,853.07**  
**profit/day: 1,216.78**

**Figure 1:** “Financials” provided by OHIO FRIED CHICKEN’s owner

*We take a close look at the ‘financials’: The financials show all expenses and income as paid or received. We read them with the intention to take-over OHIO FRIED CHICKEN and then to establish a limited company in the legal form of a (Pty) Ltd. in compliance with South African law.*

*The financials are no income statement but daily payment records. The owner recorded all expenses paid which means that payments are expenditures at the*

*same time. Depreciation does not show on the financials. In the column “miscellaneous”, we see further expenses. No accurate allocation of expenses to Accounting periods has been made as the recordings are on payment basis.*

*The difference between income and the recorded payments does not give us the profit for the period. In terms of Accounting, we do not consider the payments for “miscellaneous”, “petrol”,*

*etc. as expenses. They merely are cash flows. We know the company only sells on cash basis. Hence, the difference between received income and the above items gives the total operating cash flow.*

*The item "miscellaneous" contains payments for the monthly rent of the restaurant building as well as minor expenditures, like kitchen equipment replacements (spoons, knives etc.) or restaurant repairs (plumbing, electrical maintenance etc.). It further contains electricity bills, water supply, refuse and sewerage.*

*The item "petrol" is for the owner's car used to run errands. About petrol, we notice that petrol only is paid during the first months. We further assume that the petrol costs might not be linked directly to the business - meaning that the owner considers trips from his hometown (Cape Town) to Worcester as business trips and pays them through the company account. These petrol costs do not matter after the business's acquisition.*

*The item "cleaning / package" is for serviettes, kitchen towels, dishwasher soap etc.*

*The item "wages" is for the salaries of the employees. We assume the owner paid a Bookkeeper/Accountant in January, as wages are significantly higher in January than during other months.*

*The items "groceries", "cold drinks", "spices", "potatoes", "chicken" and "frozen food" are for the dishes prepared and sold. They are paid as delivered, e.g., groceries are bought on a daily basis whereas chickens are delivered every 3 ... 4 days. The purchase quantities depend on inventories and on the forecasts for the next upcoming days. We do not know anything about waste and spoilage.*

*The information derived from the 'financials' reflects the uncertainty which comes with the acquisition of the company. Small businesses that do not prepare financial statements are difficult to understand if we only have the informal "financials" for the evaluation.*

*We need to revise the data to determine a timeline of profits respectively cash flows. See the refining of financials on a MS-Excel sheet below in Figure 2.*

	Date	Mis-cellaneous	Petrol	Clean/package	Wages	Cold drinks	All Food	Expenses	Income	Cash flow/w
1	WED 2014-01-01	public holiday								
2	THU 2014-01-02	240.00		97.90			13,799.62	14,137.52	8,673.90	
3	FRI 2014-01-03	38.97			1,058.50	849.70	1,904.96	3,852.13	9,975.50	
4	SAT 2014-01-04	9,120.00					505.90	9,625.90	5,267.65	
5	SUN 2014-01-05	9,398.97	-	97.90	1,058.50	849.70	16,210.48	27,615.55	23,917.05	- 3,698.50
6	MON 2014-01-06					679.80	6,375.00	7,054.80	7,080.26	
7	TUE 2014-01-07						436.55	436.55	6,686.75	
8	WED 2014-01-08	55.00					690.73	745.73	5,284.95	
9	THU 2014-01-09	684.00				1,252.20	3,119.14	5,055.34	4,512.40	
10	FRI 2014-01-10	41.94	310.00		3,015.75		8,723.44	12,091.13	8,300.40	
11	SAT 2014-01-11		300.05	176.02		1,508.70	4,034.90	6,019.67	6,954.85	
12	SUN 2014-01-12	780.94	610.05	176.02	3,015.75	3,440.70	23,379.76	31,403.22	38,819.61	7,416.39
13	SUN 2014-01-19	6,348.13	600.10	642.90	3,462.00	1,151.60	20,504.20	32,708.93	36,021.75	3,312.82
14	SUN 2014-01-26	27.98	600.20		3,172.85	2,176.30	11,198.46	17,180.79	35,526.42	18,345.63

**Figure 2:** OHIO FRIED CHICKEN's refined data sheet

For supporting an M&A-decision, the daily information is of minor importance. Daily variations in chicken purchase numbers do not matter. We modify the financials by combining

expenses for food and by calculating weekly sums for expenses. We want to detect trends over the periods we got recordings from, which is the interval January 2014 until October 2014.

	Date	Mis- cellaneous	Petrol	Clean/ package	Wages	Cold drinks	All Food	Expenses	Income	Cash flow/w
WED	2014-01-01	public holiday						-		
THU	2014-01-02	240.00		97.90			13,799.62	14,137.52	8,673.90	
FRI	2014-01-03	38.97			1,058.50	849.70	1,904.96	3,852.13	9,975.50	
SAT	2014-01-04	9,120.00					505.90	9,625.90	5,267.65	
SUN	2014-01-05	9,398.97	-	97.90	1,058.50	849.70	16,210.48	27,615.55	23,917.05	- 3,698.50
SUN	2014-01-12	780.94	610.05	176.02	3,015.75	3,440.70	23,379.76	31,403.22	38,819.61	7,416.39
SUN	2014-01-19	6,348.13	600.10	642.90	3,462.00	1,151.60	20,504.20	32,708.93	36,021.75	3,312.82
SUN	2014-01-26	32.98	600.20	-	3,172.85	2,176.30	11,198.46	17,180.79	35,526.42	18,345.63
SUN	2014-02-02	291.00	500.00	1,046.16	3,767.80	1,931.40	22,707.26	26,331.82	49,348.15	23,016.33
SUN	2014-02-09	10,051.97	450.00	1,747.17	2,367.70	3,429.25	21,435.24	39,481.33	39,421.15	- 60.18
SUN	2014-02-16	288.61	560.00	729.83	1,843.38	2,738.90	10,362.62	16,523.34	24,317.05	7,793.71
SUN	2014-02-23	500.10	800.00	458.66	1,295.62	2,683.50	15,667.00	21,404.88	28,061.55	6,656.67
SUN	2014-03-02	15,232.53	200.00	1,225.90	3,007.12	3,429.75	27,386.47	50,481.77	49,167.35	- 1,314.42
SUN	2014-03-09	393.80	847.48	52.79	2,015.30	4,303.50	17,260.46	24,873.33	38,725.05	13,851.72
SUN	2014-03-16	7,423.70	500.20	475.28	870.51	2,100.50	13,766.12	25,136.31	22,307.75	- 2,828.56
SUN	2014-03-23	2,771.33	300.00	-	1,439.41	2,965.75	13,845.67	21,322.16	22,446.85	1,124.69
SUN	2014-03-30	796.06	600.00	242.76	2,767.00	3,179.00	22,381.29	29,966.11	44,141.60	14,175.49
SUN	2014-04-06	10,227.41	600.10	1,496.68	3,243.21	5,366.45	23,830.93	44,764.78	55,187.85	10,423.07
SUN	2014-04-13	1,036.65	500.00	696.03	865.70	2,312.85	17,798.56	23,209.79	22,924.70	- 285.09
SUN	2014-04-20	4,753.72	300.00	722.72	1,407.60	2,097.20	2,882.79	12,164.03	19,399.70	7,235.67
SUN	2014-04-27	189.28	200.00	620.55	575.80	2,117.60	11,524.93	15,228.16	23,949.95	8,721.79
SUN	2014-05-04	9,120.00	-	821.99	2,399.30	3,848.62	25,068.91	41,258.82	45,406.20	4,147.38
SUN	2014-05-11	368.85	400.00	685.50	603.60	2,596.00	11,837.78	16,491.73	23,815.40	7,323.67
SUN	2014-05-18	4,555.55	228.05	336.52	695.78	2,386.00	11,278.36	19,480.26	23,386.90	3,906.64
SUN	2014-05-25	-	200.00	360.40	543.84	2,276.75	17,497.24	20,878.23	28,908.60	8,030.37
SUN	2014-06-01	-	-	-	815.76	2,748.00	19,568.34	23,132.10	37,875.60	14,743.50
SUN	2014-06-08	9,380.00	323.20	1,179.79	1,679.88	3,956.87	23,534.28	40,054.02	41,996.30	1,942.28
SUN	2014-06-15	228.00	-	581.47	718.00	2,330.50	13,399.10	17,257.07	21,647.90	4,390.83
SUN	2014-06-22	4,036.97	-	-	430.80	2,150.87	7,765.48	14,384.12	19,250.60	4,866.48
SUN	2014-06-29	408.50	200.00	635.87	1,435.60	3,002.50	17,862.51	23,544.98	40,172.80	16,627.82
SUN	2014-07-06	9,380.00	-	1,632.53	2,549.08	4,392.85	30,477.26	48,431.72	55,307.80	6,876.08
SUN	2014-07-13	318.00	325.00	524.97	789.80	2,406.50	18,370.17	22,734.44	25,820.10	3,085.66
SUN	2014-07-20	4,391.81	-	1,050.65	1,112.90	2,658.67	12,359.65	21,573.68	26,794.60	5,220.92
SUN	2014-07-27	-	-	1,014.50	1,615.50	2,884.10	18,693.09	24,207.19	35,505.60	11,298.41
SUN	2014-08-03	9,849.60	-	1,496.03	2,620.70	3,278.75	22,501.32	39,746.40	51,619.10	11,872.70
SUN	2014-08-10	260.00	-	499.52	574.40	3,160.25	16,634.55	21,128.72	30,846.80	9,718.08
SUN	2014-08-17	6,991.80	406.00	868.00	1,112.90	2,334.00	20,326.79	32,039.49	23,942.50	- 8,096.99
SUN	2014-08-24	-	-	920.55	1,615.50	2,382.50	10,495.97	15,414.52	31,981.80	16,567.28
SUN	2014-08-31	-	-	868.00	1,400.10	3,088.75	26,955.00	32,311.85	45,079.60	12,767.75
SUN	2014-09-07	10,210.59	-	1,398.03	1,400.10	3,425.25	21,118.00	37,551.97	48,363.60	10,811.63
SUN	2014-09-14	54.95	-	65.99	1,539.10	4,907.75	16,561.81	23,129.60	21,606.00	- 1,523.60
SUN	2014-09-21	4,951.73	-	695.04	1,639.15	2,201.75	10,350.15	19,837.82	26,450.70	6,612.88
SUN	2014-09-28	163.96	-	1,224.52	1,302.35	2,434.00	14,165.98	19,290.81	36,691.20	17,400.39
SUN	2014-10-05	10,109.60	-	1,384.31	2,580.80	3,218.50	22,520.19	39,813.40	43,962.60	4,149.20
SUN	2014-10-12	126.52	-	1,187.93	1,148.80	5,367.75	16,595.06	26,660.94	26,596.00	- 64.94
SUN	2014-10-19	5,321.01	-	670.02	827.70	2,290.25	12,254.56	21,363.54	24,469.80	3,106.26
SUN	2014-10-26	87.00	-	1,101.04	1,759.10	2,756.75	17,619.73	23,323.62	36,794.70	13,471.08
MON	2014-10-27				466.70		2,465.58	2,932.28	6,175.00	
TUE	2014-10-28						8,131.37	8,131.37	4,560.50	
WED	2014-10-29			420.02	1,005.20		250.00	1,675.22	4,208.40	
THU	2014-10-30			1,014.01			9,714.67	10,728.68	4,221.40	
FRI	2014-10-31				287.20	2,882.50	678.09	3,847.79	16,550.70	

**Figure 3: OHIO FRIED CHICKEN's weekly calculation of cash profit**

The weekly operating cash flows indicate that the business sells best around pay days. All weeks next to pay-days (in South Africa at months' ends) show a peak income for the restaurant.

The table in Figure 4 shows monthly operating cash flows. It proves that despite of pay-day peaks, the cash flows are nearly equally distributed. We are aware this depends on the spending patterns for miscellaneous expenses and how much prepayments are included

therein. In October 2014, the owner claims that there was a chicken disease which made him buy more expensive

chicken parts from an alternative supplier.

Date	Mis- cellaneous	Petrol	Clean/ package	Wages	Cold drinks	All Food	Income	Cash flow/m
January	16,852.02	2,310.35	1,163.84	13,829.10	9,549.70	91,535.30	168,093.38	32,853.07
February	16,953.21	2,010.00	4,960.70	8,873.70	12,281.40	65,224.95	141,184.25	34,792.09
March	20,504.89	2,247.68	770.83	8,207.84	12,548.75	81,234.12	150,458.45	24,944.34
April	16,207.06	1,600.10	3,535.98	6,916.11	11,894.10	62,185.44	133,496.10	31,157.31
May	14,044.40	828.05	2,204.41	4,234.48	13,855.37	79,102.40	147,358.80	33,089.69
June	14,053.47	523.20	2,397.13	4,371.98	11,440.74	67,903.43	128,872.40	28,182.45
July	14,089.81	325.00	4,222.65	7,180.18	14,858.37	81,395.59	157,855.70	35,784.10
August	17,101.40	406.00	4,652.10	6,103.00	11,728.00	90,076.15	163,237.40	33,170.75
September	15,381.23	-	4,500.05	6,167.90	12,968.75	71,971.76	143,405.00	32,415.31
October	15,644.13	-	4,986.86	7,788.30	16,515.75	86,830.83	163,706.10	29,705.35
average	16,083.16	1,025.04	3,339.46	7,367.26	12,764.09	77,746.00	149,766.76	31,609.45

**Figure 4:** OHIO FRIED CHICKEN's monthly operating cash flows

So far, we got an idea about the payment situation at OHIO FRIED CHICKEN during the last 10 months. This

information helps us to prepare a provisional business plan for OHIO FRIED CHICKEN.