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Educational Case

Brittney's Boutique: *Tailoring* a budget for function as well as fashion

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ABSTRACT

This case is designed for use in an introductory managerial accounting course. The case provides you with the opportunity to extend and apply managerial accounting knowledge in the practical, real-world setting of managing the start-up of Brittney's Boutique, a student's entrepreneurial efforts in the retail fashion merchandising business. The case is intended to challenge you to: (1) use managerial accounting knowledge to prepare statements, analyses, and budgets; (2) recognize and understand the needs and challenges in starting a business; (3) apply Excel knowledge, skills and abilities; and (4) analyze and combine managerial accounting information to make judgments, conclusions and recommendations.

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1. Case

1.1. The excitement

"How can I help you?" Brittney cheerfully asked as she introduced herself. Brittney Bode was having fun operating her clothing booth at another fair. Her booth offered an assortment of fashionable goods to meet fair-goers' needs. By now she was a pro, and her popular booth was steadily trafficked. Brittney loved it, as fair season was one of her favorite times of the year. On this sunny day, the smell of fried foods and fresh hay filled the Heart of Texas Fair and Rodeo air.

The joy-filled day passed quickly as fair-goers moved in and out. As Brittney folded a pair of jeans, a bright-eyed woman approached her, smiling. "I just wanted to let you know that I really love your booth," she said. "All of your items are so cute! Do you have a store or website I could order from in the future?"

Brittney, while flattered, replied disappointingly, "I actually don't have either. I usually just travel to different events and set up a booth like this one. I'm sorry." The woman smiled, "Well, I think you should definitely open a store. I know I would shop there!"

Brittney thanked the woman for her kind words, but as the hours passed, she could not stop thinking about what the customer had said. "I've always wanted to run my own store," she thought to herself, "and I have been successful with my booths at fairs so far. I enjoy helping my customers. Maybe I can better help them with my own store. I wonder. . ." The seed was planted. Brittney began to dream of opening a retail boutique with a business model centered on creating a feeling of exclusivity by continuing to provide customers with a high level of hands-on service focused on selling unique clothing items typically not found in large retail stores. She would carry a relatively limited inventory of high-quality tops, bottoms, dresses

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and accessories for women. She concluded a retail boutique fit her business model because she felt that unique clothing would not sell online if customers could not try items on and/or were not familiar with the brands. In addition, she found that many of her wholesalers would not allow her to resell inventory online in order to maintain the feeling of limited availability.

1.2. The challenge

“Who can help me?” Brittney silently exclaimed in mild exasperation. Brittney had been operating her boutique for a few weeks, and she was running into the many unexpected, messy, real-world implementation challenges that come with trying to turn a neat idea into reality. She loved her store and was having fun, but starting and running a full-time business required a lot more work and thought. It was almost overwhelming.

Brittney had already invested significant amounts of time and cost to handle challenges even before doors opened for business. She had to choose the best location for her store, lease a building, make the many necessary improvements to it, and receive a city inspection all before opening to the public in November. She also had to determine who to hire, as well as decide how many employees she would need and how much she should pay them.

Brittney contemplated many of her new business management challenges. “How much inventory should I buy, and how am I supposed to keep track of my inventory?” she thought to herself. “And what about keeping track of my purchases, and customer payments, and all of my expenses?” Brittney had invested \$3000 in a computer system after contacting a local CPA firm that recommended she use Quickbooks with a bar-code scanner tied to a computer. The CPA firm helped her purchase and set up a user-friendly system to track all business transactions. Based on Brittney’s number of inventory items and Quickbooks’ cost-effectiveness, the CPA firm felt confident in their recommended system.

Managing her target customers, inventory and business operations were challenging as well. “Should I change what I’m buying? Am I making money? What are the profit margins on my sales? Do I have enough cash? Can I continue to pay my employees and my expenses? How much is the Central National Bank (CNB) loan¹ going to cost me? How would I even know these things?”

Trying to keep track of everything was somewhat mentally exhausting. Managing her traveling booth had always been relatively simple. She usually only set up shop at one or two events a month, and she had been doing it for so long. Beginning to run a full-time operation was a different story; she knew she needed help.

1.3. The contact

That night, as Brittney was folding clothing and managing merchandise in her shop after hours, it came to her. “Professor Scott!” she exclaimed. Brittney remembered that she had been required to take a survey of accounting class as a fashion design major to learn basic business concepts. Her professor, Bryan Scott, was helpful and patient in answering questions. “He always said if we ever needed anything we shouldn’t hesitate to ask, right?” she asked herself. “Maybe he can help!”

Days later, Brittney met with Professor Scott. “Good to see you, Brittney! Thanks for contacting me. I’m excited to hear about your business.” Brittney seized Professor Scott’s invitation. “I just can’t keep track of everything,” she sighed. “Inventory is flying off the shelves, expenses are piling up, and I’m trying to get my head around my cash needs and cash balance.”

“Hmmm.” Professor Scott mulled the issues over in his head. “It sounds like you’re wrestling with many of the management issues in starting a new business. It’s a good learning experience for you.” Professor Scott was trying to help Brittney see the positive. “Remember from class what we stressed again and again that all management activities require?” Professor Scott paused for effect: “*If you can’t measure it, you can’t manage it.*” Brittney nodded as she remembered. Professor Scott continued, “If you want to do a good job *managing* the activities of starting your new business, I think it’s important that you do a good job *measuring* those activities. It sounds like you are having some budgeting difficulties. Can you walk me through your current process?”

Brittney squirmed. “Budgeting?” she asked. “I haven’t really worked on that. I am so overwhelmed with simply getting the business off the ground that I can’t find time to plan all these things out. If I’m being honest, I don’t even remember where to start.”

Professor Scott smiled, “Well, let’s go through some of the financial information I asked you to bring with you today.” Brittney and Professor Scott spent the afternoon in his office organizing the boutique’s financial information.

1.4. The classroom

The next week Professor Scott presented the boutique’s financial information to you in his managerial accounting classes (see Table 1). As one of his students, Professor Scott has asked you to complete a few tasks to help him with the subsequent information regarding certain business activities Brittney’s Boutique conducted in November and projected budgeted items for December and January.

¹ New business loans—like Brittney’s CNB loan—are difficult to acquire. Because Brittney invested \$25,000 into the business and personally guaranteed the loan, the local CNB branch made the loan based on her strong beginning cash balance. Her family also had built strong relationships with CNB in multiple successful business dealings over the years.

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