

Case Study 01: Radio-Tech Company

The need for a management control system and the importance of cost information

RadioTech was founded in 1998 and has experienced rapid growth in recent years. In the fiscal year 2015, it achieved an amount of sales of 230 million DZD and currently employs 124 workers.

Market Overview:

RadioTech operates in the radio-electric equipment market, producing a limited range of products including radios used in military and security communications, communication device batteries, and antennas for control towers at airports. The company operates on an order basis, conducting in-depth studies for each order.

Approximately 60% of its business comes from two major clients, the National Defense Ministry and the National Air Navigation Establishment (ENNA). To reduce dependence on these clients, RadioTech constantly seeks new customers, although this effort requires significant preparation of customized offers accompanied by estimated invoices, with results being uncertain and irregular.

Business Activities: The company engages in three distinct activities, which are usually integrated:

- *Plastic Structures Activity:* 32 employees are tasked with manufacturing various plastic structures and components.
- *Battery Activity:* 21 employees are responsible for manufacturing various types of batteries.
- *Electronic Panels Activity:* This activity, which employs the largest number of workers (53), involves assembling electronic components imported from abroad onto electronic panels, followed by product assembly.

Headquarters:

For the past 5 years, the company has been based in a new headquarters in the industrial zone of Wed El Semmar. The new headquarters houses the General Headquarters, Administration and Finance Division, Commercial Division, Engineering Office, Cable Workshop, as well as Welding and Structure Manufacturing Workshop. The company also owns a factory located in the industrial zone of Reghaia, which previously housed the company's old headquarters. It currently accommodates the Plastic Structures Workshop and an additional workshop for electronic panels.

Management control System:

The company monitors its management results as follows:

The balance sheet and income statement are prepared for the company every quarter.

These tables are submitted to the manager at the end of the following month.

Costs are tracked based on account balances extracted from the income statement.

Results:

The company's results for the last two quarters can be summarized as follows:

RadioTech Income Statement

<i>Item</i>	<i>Previous Q(DZD)</i>	<i>Current Q(DZD)</i>
Sales	266 166 422	290 000 000
Cost of Raw Materials	119 747 890	130 525 200
Labor Expenses	53 221 284	58 011 200
Financial Expenses	7 983 193	8 701 680
Taxes	5 322 128	5 801 120
Depreciation	39 915 963	43 508 400
Other Operational Expenses	39 915 963	43 508 400
Total Costs	266 106 422	290 056 000
Result	60 000	-56 000

RadioTech Balance Sheet

<i>Assets</i>		<i>Liabilities</i>	
Intangible fixed assets	112 084 000	Equity	250 000 000
Tangible fixed assets	323 000 000	Long-term debts	95 200 000
Financial fixed assets	1 525 000	Short-term debts	123 400 000
Inventories	23 652 000		
Receivables	5 251 000	Result (Loss)	-56 000
Cash and equivalents	3 032 000		
Total	468 544 000	Total	468 544 000

Problem Statement:

During an evaluation meeting, the CEO, addressing you as the management controller, raised the following observations:

"Why did our results decline in this manner? Which product caused this loss"?

He further commented, "The workshop in Reghaia requires numerous relocations. Is it in our best interest to keep it or not"?

Additionally, he questioned the value of continuing the search for new customers: "The search process costs us a lot. Are we benefiting from it"?

Questions:

1. Considering the available information, do you think you can answer these questions? Why or why not?
2. What information is necessary to answer those questions?
3. What recommendations do you propose to the CEO regarding these issues?

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