2013 NLC PBL ACCOUNTING ANALYSIS & DECISION MAKING
FINAL CASE STUDY

PARTICIPANT INSTRUCTIONS
1. You have twenty minutes to review the case.

2. Presentation time is seven minutes. At six minutes the timekeeper will stand and at seven minutes the timekeeper will stand and hold up a colored card indicating time is up.

3. You (students) are accountants for Berenstain Consulting Group, LLC. Due to the declining economy, over the past year, top management has decreased the amount of staff to reduce costs. However, the company’s profit margins have been consistently shrinking sending the company on the verge of a loss for the year but management does not understand why as they decreased some of their costs. The judges serve as top management of Berenstain Consulting Group asking the accountants questions.

4. Each team member will be given two note cards. Note cards will be collected following the presentation.

5. Cover all the points described in the case and be prepared to answer questions posed by the judges. The judges are from the top management team at Berenstain Consulting.

6. All team members must participate in the presentation as well as answer the questions.

PERFORMANCE INDICATORS
- Select logical actions taken during the year and present them with the positive and negative aspects of these actions
- Demonstrate rationale/reasoning for each recommendation made and potential anticipated results
- Exhibit good decision-making and problem-solving skills
- Use appropriate business language and present well-organized and clear thoughts and statements
- Apply generally accepted accounting principles
- Demonstrate ability to effectively address the given situation and effectively answer questions

CASE STUDY SITUATION
Berenstain Consulting Group, LLC is a consulting company specializing in efficiencies and improvements in the manufacturing production process. Due to the declining economy, top management reduced staff, including the accountant responsible for budgeting the proposals for the consulting jobs. This responsibility was then given to the sales representative that works directly with the clients. Over the last year, Berenstain has seen declining profit margins and is on the verge of a loss. Top management would like you, the accountants, to explain why profits are declining even though costs were reduced due to the lay-offs of several staff members.
Upon review of the sales representatives budgeting for proposals, you noted the following: the sales representatives take the number of individuals utilized for the consulting project and multiples that times the number of hours needed on the project and the consultants’ hourly rate. That number is then increased by 20 percent to calculate what Berenstain will charge the client.

**Required:**

1. Are the sales representatives calculating contracts correctly? What items could they be missing?
2. Develop a budget you believe should be utilized to calculate the revenue from the contract. Use your own numbers but round them to the nearest thousand for simplicity.
3. What journal entries would be recorded when a sales representative wins a proposal? What accounting principle relates to this/these entry/entries?
4. What journal entries would be recorded upon the completion of the project?
5. Do you have any recommendations to improve the budgeting process? Should the sales representative continue doing this job?
JUDGING THE PRESENTATION

1. This is a role-playing event with the judges serving as top management of Berenstain Consulting Group asking the accountants questions. The individual/team assumes the role of the accountants.
2. This can be an individual or team event.
3. Review the Judges’ Instructions and the Case Study Situation.
4. After the introductions, you should begin the meeting by welcoming the team members. The team members will then begin their dialogue with the owners (judges).
5. This is an interactive problem, so treat the presentation as a conversation. Each of the members of the team should respond to at least one question or issue. At six minutes the timekeeper will stand and at seven minutes the timekeeper will stand and hold up a colored card indicating time is up.
6. You will close the event by thanking the participants for their input and recommendations. The participants will hand in their note cards before leaving.
7. Complete the rating sheet.

JUDGES’ INSTRUCTIONS

Listed below are examples of questions you may want to ask the teams during the presentations. You may use your own questions as well.

1. What is the overall reason that our profit margin is declining?
2. How soon in the process can we recognize revenue? When should we recognize expenses?
3. If we go into a loss position, will we have to pay taxes?
4. Is it the accountant’s responsibility to notice that we have declining profit margins and should look into the issues? Explain.
5. Since you have the responsibility to record the journal entries should you have the authority to approve the revenue charged to customers? Explain.

Answers to required questions:

1. No, they are not. They are only using direct labor to calculate the proposal cost. They are missing indirect labor and general and administrative costs.
2. This is only an example of a possible budget as long as they have all the pieces:

<table>
<thead>
<tr>
<th>Direct Labor</th>
<th>650,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect Labor</td>
<td>300,000</td>
</tr>
<tr>
<td>General &amp; Administrative</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>1,000,000</strong></td>
</tr>
<tr>
<td>Mark-Up (Profit)</td>
<td>1,200,000</td>
</tr>
<tr>
<td><strong>Revenue billed to client</strong></td>
<td><strong>2,200,000</strong></td>
</tr>
</tbody>
</table>

3. No journal entries are done when the proposal is won. According to the revenue recognition principle, revenue is recognized when services are rendered.

4. Journal entries when the work is completed:

   Debit: Accounts Receivable or Cash
   Credit: Revenue

   Debit: Payroll Expense
   Credit: Payroll Payable

   Debit: Various Expense accounts (as necessary for additional indirect or G&A)
   Credit: Accounts Payable

5. Each team will have a different answer for this question because it is personal opinion. They could recommend a variety of the following:

   - a more sophisticated budgeting system
   - a budget that is more detailed
   - hire an accountant to do the budgeting job
   - train the sales representative to understand all the parts of cost

There is no right or wrong answer to the event. However, if a team event, the ability of the team members to work together to come to a consensus, based on the facts provided (and those that you care to add) should be the basis for the score. The individual or team should present its suggestions with clarity and conviction.

Feel free to enhance the story as much as you want, but if you enhance it for one, make sure you enhance it for all the groups.