

# Operational Case Study Examination

## November 2023 - February 2024

### Pre-seen material



#### **Context Statement**

*We are aware that there has been, and remains, a significant amount of change globally. To assist with clarity and fairness, we do not expect students to factor these changes in when responding to, or preparing for, case studies. This pre-seen, and its associated exams (while aiming to reflect real life), are set in a context where current and on-going global issues have not had an impact.*

*Remember, marks in the exam will be awarded for valid arguments that are relevant to the question asked. Answers that make relevant references to current affairs will, of course, be marked on their merits.*

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## Your role

You are a Finance Officer working within the Finance Department of Personal Best (PB). You are principally involved in the preparation of management accounting information and provide information to managers to assist with planning, control and decision making. At times, you are also expected to assist with the preparation of the financial statements and answer queries regarding financial reporting and other financial matters.

## Company background

Personal Best (PB) is a company that manufactures and sells protein bars and protein powders. The products are intended primarily as pre- or post-workout snacks for people who undertake a regular programme of exercise. The company is based in Ceeland, a country in Europe which has the C\$ as its currency.

PB was founded 5 years ago by Julia Matthews, Penny Sanchez and Hema Bhatt. The three founders were all members of the same gym, where they attended the same body building sessions several times each week. Following a particularly gruelling group session, the three founders debated what their ideal post-workout snack would be. As all three had busy careers with limited free time, convenience was high on the list of priorities, and they decided unanimously that an individually wrapped snack bar would be best. All three concurred that the snack had to be high protein and should contain no added sugar because it had to satiate and not spike blood sugar levels. The gym manager overheard the conversation and argued that the perfect snack was already for sale in the gym's cafe in the form of the WDW high protein snack bar. The three founders then added a further pre-requisite....it also had to taste good. Thus, the idea for PB was born.

Over the next few months, the founders experimented with diverse types and combinations of ingredients in their attempt to create their personal best protein bar. Working in Julia's own domestic kitchen, they selected and mixed the ingredients and then rolled the dough until they produced a 60-gram protein bar which included 22 grams of protein, 14 grams of fibre, less than a gram of sugar and was only 198 calories. It tasted fabulous. The three founders replicated this feat to create ten amazing differently flavoured bars.

Convinced that they had a successful product on their hands, the founders approached several manufacturing companies with a view to outsourcing production. They were turned down by them all. Trusting that their instinct was correct, and that the protein bar would be a success, the founders re-mortgaged their homes and invested their life savings in setting up a small manufacturing plant. Both Julia and Hema quit their jobs to work full time at PB and in the early days worked 18 hours a day: sourcing suppliers, taking orders, unloading deliveries, manufacturing the bars, packing and distributing the bars. Penny, while continuing in her employment as a marketing executive, managed to plan and execute a near-perfect marketing campaign using social media to raise awareness and create demand for the protein bars.

Within weeks of the formal product launch, PB was an outstanding success. A gap in the market had just been filled. Many social media influencers with perfectly toned gym bodies praised the delicious flavours and posted image after image of themselves holding PB bars. Following the launch, several innovative fans of PB protein bars began to post recipes on social media for various desserts made using the PB bars as the main ingredient. Videos of how to make cheesecake, warm fudge cake and pancakes with melted PB bars were constantly shared and liked on social media.

The first PB protein bars were offered for sale at the chain of gyms where the idea was first conceived and within a short time other gym chains contacted the founders, as their customers were asking them to stock the products. Growth in the first year of trading was so rapid that new premises and additional plant and machinery had to be acquired in order to keep up with demand.

In the first year of trading, the range of protein bars increased to 16 flavours and, in the second year of trading, six additional flavours were offered as limited editions. All new flavours were tested (for no charge) by selected influencers. Also, in the second year of trading, Penny, who now also worked full time at PB, relaunched the basic website and a distribution team was recruited.

During the third year of trading, the founders introduced a new product, protein powder, under the PB brand. This product was also an outstanding success. A protein powder that transformed into a smooth, creamy, delicious shake when water was added, seemed too good to be true to the tens of thousands of PB devotees. PB's revenue has continued to grow rapidly. At each stage of growth, the founders found the time and energy to recruit like-minded, innovative and enthusiastic staff, and it was felt growth was driven by the company's entrepreneurial culture.

PB has experienced sales growth every month since its foundation. The three founders all have their own specialisms which enable them to work together in a remarkably smooth and collegiate manner. By common consent, Hema, an engineer who designed and built the first production machinery is now the Managing Director, Julia is the Finance Director and Penny is the Sales & Marketing Director. In the year to 30 June 2023, the company's revenue was C\$23.9 million, gross profit was C\$8.4 million and profit before tax was C\$1.2 million.

## **PB's mission statement and ethos**

PB's mission statement is "To help all customers to achieve their own personal best and to live their best life". It is this mission that guides most of the decisions at PB. Alongside the products themselves, the website offers the vast PB community nutritional and fitness advice, hosts support chat rooms, offers prizes for the best recipe using PB's snack bars or protein powder every month and has links to other relevant websites.

The founders are also concerned with sustainability and ensure that the ingredients used in production are ethically and sustainably sourced. From the early days of PB's existence, where suppliers were begged and charmed into offering advantageous credit terms, relationships with suppliers are seen as vital to PBs' success. The company has an aim to be carbon neutral within 4 years and is continually striving to improve its supply chain, manufacturing processes and outward logistics to get closer to this. For example, in the first few months of production, peanut butter was sourced from suppliers that imported from South America. In late 2018, PB began sourcing raw peanuts from a grower in Europe and now roasts and grinds these in-house to produce its own peanut butter.

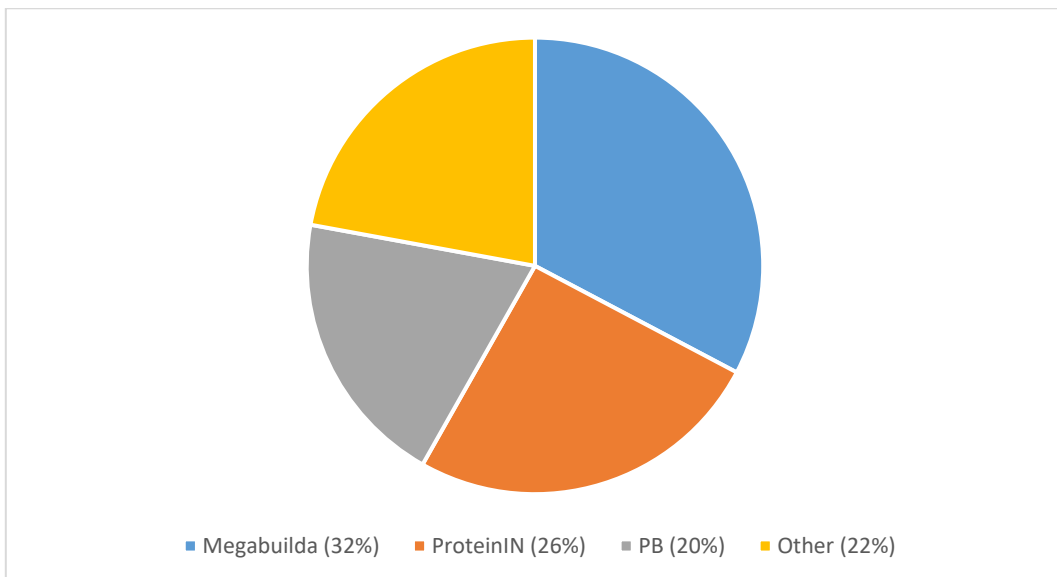
## The industry

Until quite recently, protein powders and related products were confined to a relatively niche market, generally male weightlifters and bodybuilders. However, medical reports linking sugar and other “beige” carbohydrates to weight increase has revolutionised thinking about weight loss. This has given rise to the concept of the “keto diet”, a way of eating that combines very low carbohydrate with relatively high protein and high fat foods in order to send a body into “ketosis” (in other words, a state where fat is being burned).

This revolution has reduced demand for traditional diet products that tended to be “low fat” but relatively high carbohydrate, in favour of low carbohydrate, high protein, higher fat snacks and meal replacement products. As a result, the protein bar/protein powder industry has grown rapidly during the past 6 years and is expected to continue to grow for at least the next 4 years. The European market growth rate reflects the patterns observed in Ceeland and has similar levels of competition in most countries.

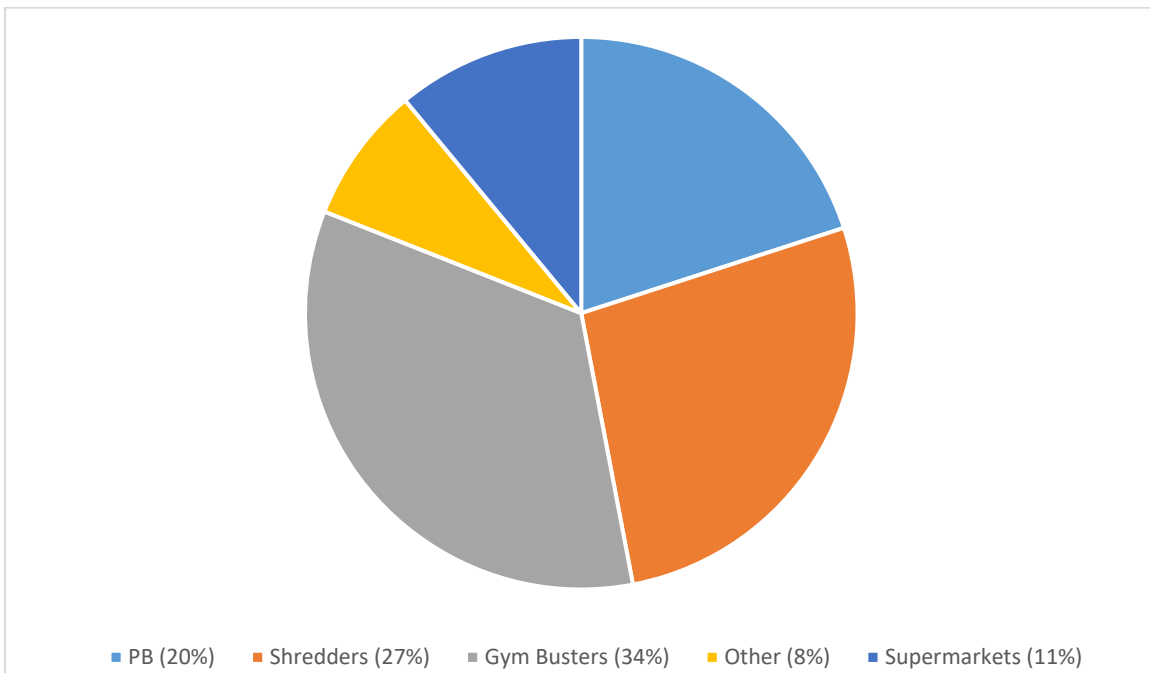
## The Ceeland market for protein powder

The protein powder market in Ceeland is dominated by three companies: PB, Megabuilda and ProteinIN. PB is the only company that is based in Ceeland and has the smallest market share of the three, although their share is growing. The market revenue for protein powder in Ceeland in 2022 was C\$30 million and is expected to grow by 5% year on year for the foreseeable future. Market share, based on sales revenues for 2022, was as follows:





## The Ceeland market for protein bars

The protein bar market is much more fractured than the protein powder market, as start-up costs are relatively low and the market base appeals to a much wider segment than protein powder (which is predominately the post-workout market). The total market for protein bars can be loosely divided into three sub-segments: post-workout bars, diet bars (including those suitable for the keto-diet market) and general snack bars. Different brands lead in these sub-segments, but some appeal to more than one segment. The total market revenue in Ceeland for all protein bars in 2022 was C\$156 million, split roughly as follows: C\$80 million pre- and post-workout, C\$60 million diet and C\$16 million general snack. PB protein bars currently targets the pre- and post-workout segment. Market share for this segment, based on sales revenues for 2022, was as follows:



## Extracts from the PB website

HomeProductsOur story

# BE YOUR PERSONAL BEST

with our delicious protein bars and protein powders

At PB, we want to help you be your personal best, whatever that means for you.

We know that your time is precious and that you don't always have the resources to cook the perfect post-workout meal or low-calorie lunch, so we have created delicious and convenient alternatives, allowing you to get out there and live your best life!

### Penny's Page

Co-founder Penny Sanchez has had a busy week

- Interview with TV's Della Moss
- Results of the "what new product" poll
- Workout wonder tips

### This week's top recipe

PB bar devotee Eli Sess created these protein packed truffle treats.

### PB's online community

Get tips, support and inspiration from the PB squad. Join now.

### Answers and advice

PB answers individual questions on nutrition and exercise here.



# OUR PRODUCTS

PB has developed a range of protein bars and protein powders that are unique. Not only is each portion packed with enough protein to repair and rebuild muscle after a workout, but it tastes delicious. In addition, each serving satiates and keeps blood sugar levels stable until the next mealtime.

## Protein bars

As well as our peanut-based protein bars, we have also developed a range of bars using almond and cashew nut butters. Each bar combines nut butter with whey powder and flavouring.

### Peanut Protein Bars

Our range now comes in 16 delicious flavours (click [here](#) for full details), all of which are available throughout the year. In addition, we offer special flavours for a limited time throughout the year. We make our own peanut butter in-house using locally-sourced peanuts. This ensures quality and freshness.

### Almond Protein Bars and Cashew Protein Bars

Both types of bar are available throughout the year in 12 sensational flavours (click [here](#) for full details). These bars have a soft creamy texture. In 2022, our Blackberry blast flavour won the prestigious Sports nutrition bar award.

Our bars are sold through gyms and other leading retailers as individual bars or in packs of ten bars as well as through this website (click [here](#) to shop).

## Protein powders

Although our protein powders contain the same high nutritional content as other leading brands, they taste entirely different. PB protein powders mix easily with water (or milk) and have none of the gritty or chalky residue that other brands have. In fact, they taste like the best thick creamy milkshake! Available in 7 dreamy flavours (click [here](#) for full details and to shop), with a further 3 planned for late 2023.

All of our products are made from high-quality whey powder sourced locally. All of our products are gluten free.

# OUR STORY

PB was founded in 2018 by three women who, craving a perfect post-workout snack, developed the first PB bar in their kitchen at home. When they failed to find a suitable company to make the bar on their behalf, they invested every cent they owned (or could borrow) and manufactured the bar themselves. The rest, as they say, is history. All three founders are dedicated to their products and work full time at PB.

## The founders



### **Managing Director: Hema Bhatt**

Hema represented Ceeland in the 64kg weightlifting category in the 2012 Olympic games. She qualified as a mechanical design engineer in 2013 and worked in this role for various companies until 2018, when she gave everything up to work full time for PB. Hema used her engineering skills to upgrade the second-hand manufacturing machinery to produce the first PB bars and has since found practical solutions to many different business problems.



### **Finance Director: Julia Matthews**

Julia worked in the food industry as a development chef for many years. There is very little that Julia does not know about great-tasting food! Julia loves a challenge and also qualified as an accountant in 2009. Julia is the first to admit she is a chocoholic and after she qualified found herself very overweight. She joined a gym and discovered that she loved workouts as much as she did desserts (well almost). It was Julia who created the now famous 3PB.



### **Sales & Marketing Director: Penny Sanchez**

Penny's career started in events management when she left school at 16. To the amazement of her teachers and parents, Penny proved to be a natural when it came to marketing and secured a senior position in a top corporation before she was 30. Penny has endless energy and enthusiasm, she trains 6 days a week, is at her desk for 6.30 am and answers every question posed by PB customers personally. Penny is PB's powerhouse.


The founders are passionate about nutrition, health and happiness. For them, this is what PB stands for: helping people to achieve their personal best.

## PENNY'S PAGE

Everybody in Ceeland (except maybe those hiding in a floatation tank) has been following the life story of the fabulous Della Moss. Della hit our TV screens as a reality-show contestant back in 2017 and is now the best-known TV presenter in Ceeland. I met with Della this week to ask her how she manages to exercise during her gruelling filming schedule and how she managed to maintain her weight loss (famously Della lost 30kg after winning “Personality Shines”).

Turns out that Della is a huge PB fan and that she lost weight using our original 3PB (Personal Best’s Peanut Butter Protein Bar) as a replacement for meals. She raves about our products as post-workout “must haves”, regularly has a PB protein powder as a breakfast shake and has a few incredible PB recipes too. Della told me why her new partner, super vet Stuart Lamb, is THE ONE. Wedding bells soon? Click [here](#) to listen to the full interview and find out.

AT LAST, the results of the PB new product poll are in. We asked you to tell us what you want us to add to the PB range in 2024 and thousands of you replied.

Drumroll please  the winner is .....well we have joint winners:

- A PB protein biscuit. You told us that you would love us to make a baked treat, high in protein, low in calories and delicious.
- A vegan PB range. It would be made using vegan whey protein powder (pea and rice protein) rather than dairy whey protein powder. Julia was particularly keen on this range as not only would it allow vegans to benefit from PB’s expertise but it would suit those who are lactose-intolerant.

We are working on raising finances for these exciting new products and will keep you posted!!!

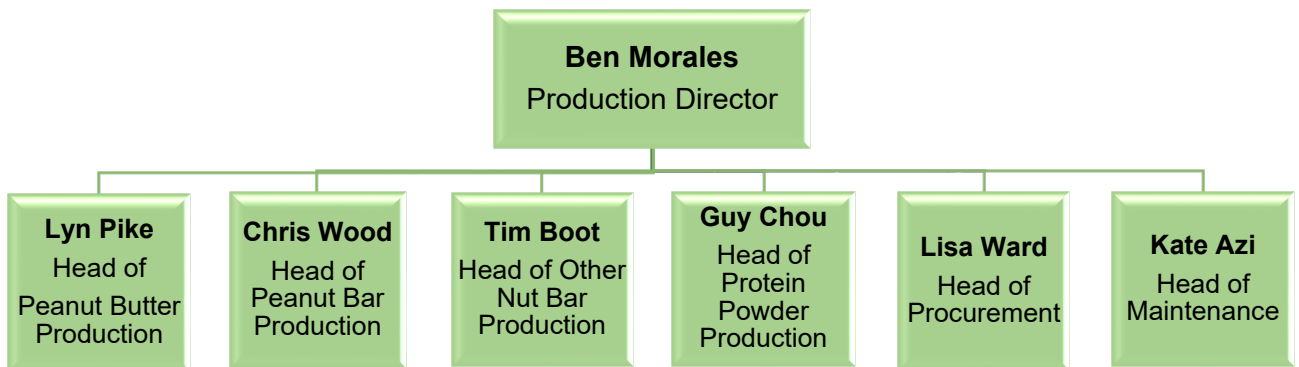
## ANSWERS AND ADVICE

Q. What specific actions do you take to minimise waste and harm to the environment while making peanut butter?

A. We buy our peanuts locally, rather than importing them from South America, reducing the food miles as far as possible. In addition, the natural wastage from the production process is never sent to landfill. Our peanut skins are sold to farmers and peanut hearts sold for birdfeed. In addition, we use no artificial preservatives. Our peanut butter is made from peanuts and a small amount of salt.

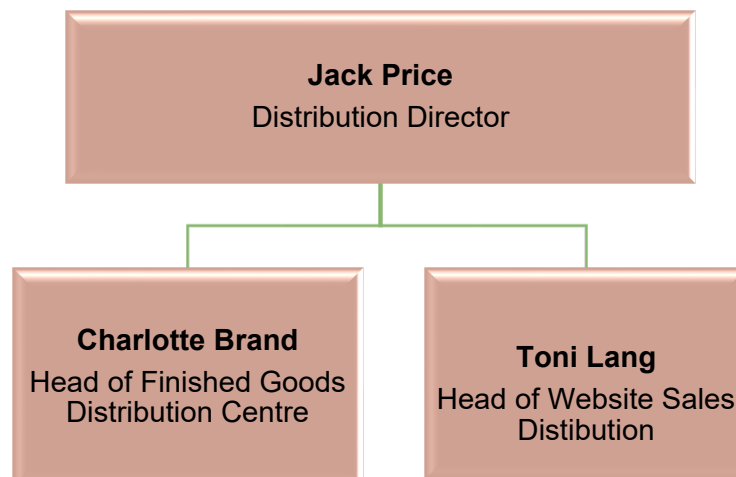
## Key management teams

### Production



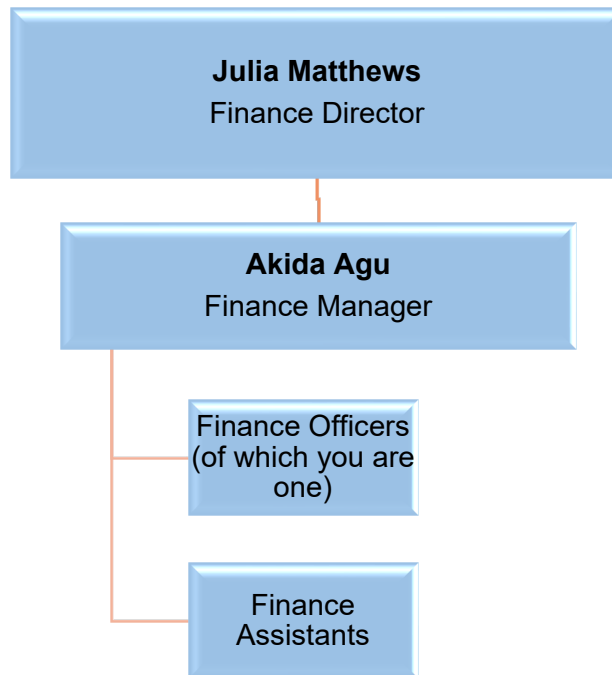
The largest department in terms of employees, the production team, is also the most complex to manage. Ben Morales was recruited as Production Director in 2020, when demand for PB accelerated and the founders realised the business would fail without more formal organisation and someone with large-scale production experience. Ben worked in food manufacturing for 11 years before joining PB and has introduced many efficiencies in the Protein Bar and Protein Powder Production Departments. Due to financial constraints, Ben has yet to make any significant improvements to the Peanut Butter Production Department, which is still using the machines that were nearing the end of their useful life when Hema bought them second hand in 2018.

### Distribution



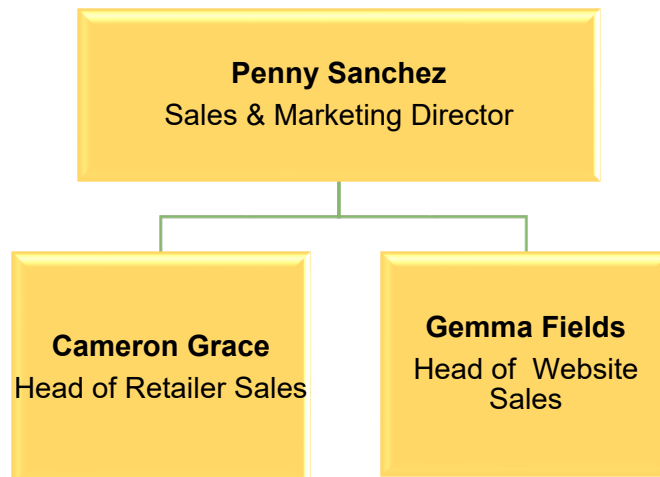
Jack Price is responsible for the Distribution Centre. He was recruited at the same time as Ben Morales, when PB was finding it impossible to produce and ship enough bars to satisfy demand. Prior to joining PB, Jack worked for 7 years as a logistics manager for a distribution company that specialises in perishable goods. Jack has installed many new systems since joining PB and is keen to ensure that the company continues to grow.

## Finance



Although Julia Matthews is very hands-on and remains quite closely involved in some day-to-day finance matters, Akida Agu is responsible for most of the management accounting information and reports produced, as well as the preparation of the financial statements. There are two Finance Officers and three Finance Assistants working in the Finance Department.

## Sales & Marketing



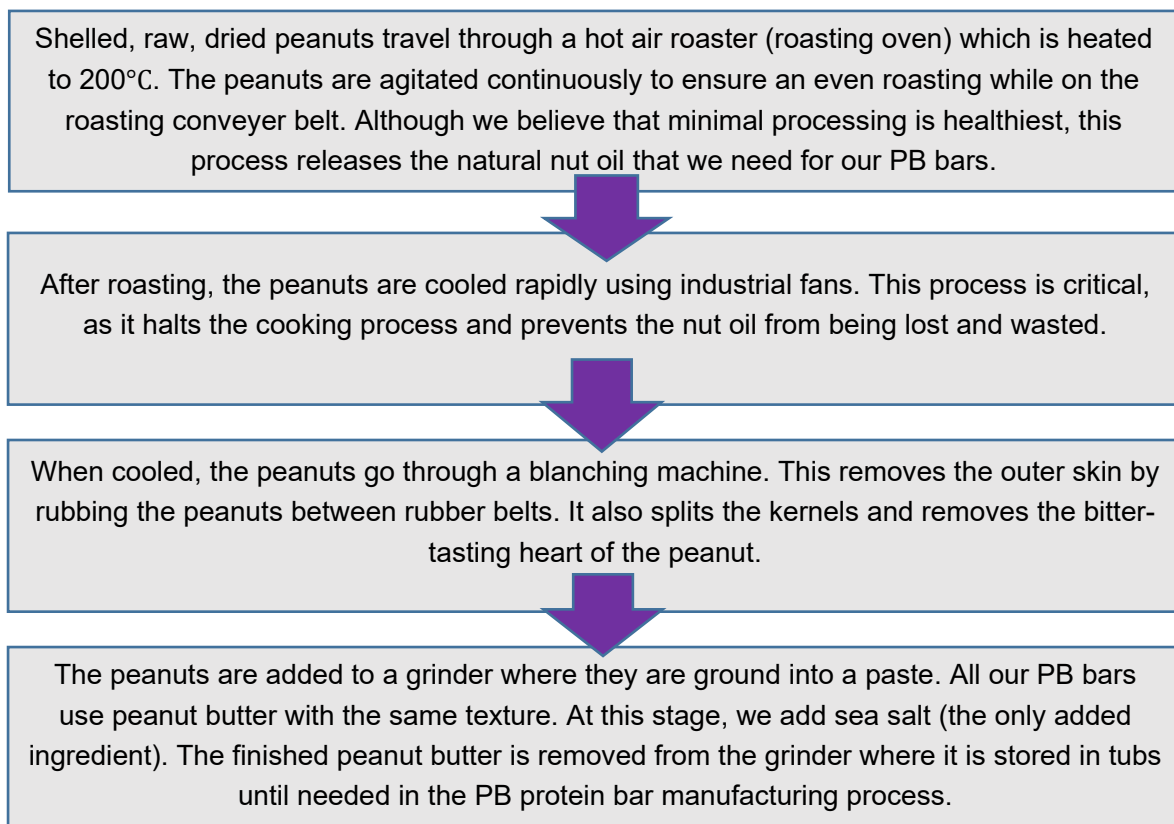
The sales & marketing employees work extremely closely as a team and are always finding new ways to promote PB as well as to maintain and build relationships with the existing clients.

## Extract from the employee induction manual: Overview of the manufacturing process

### Introduction

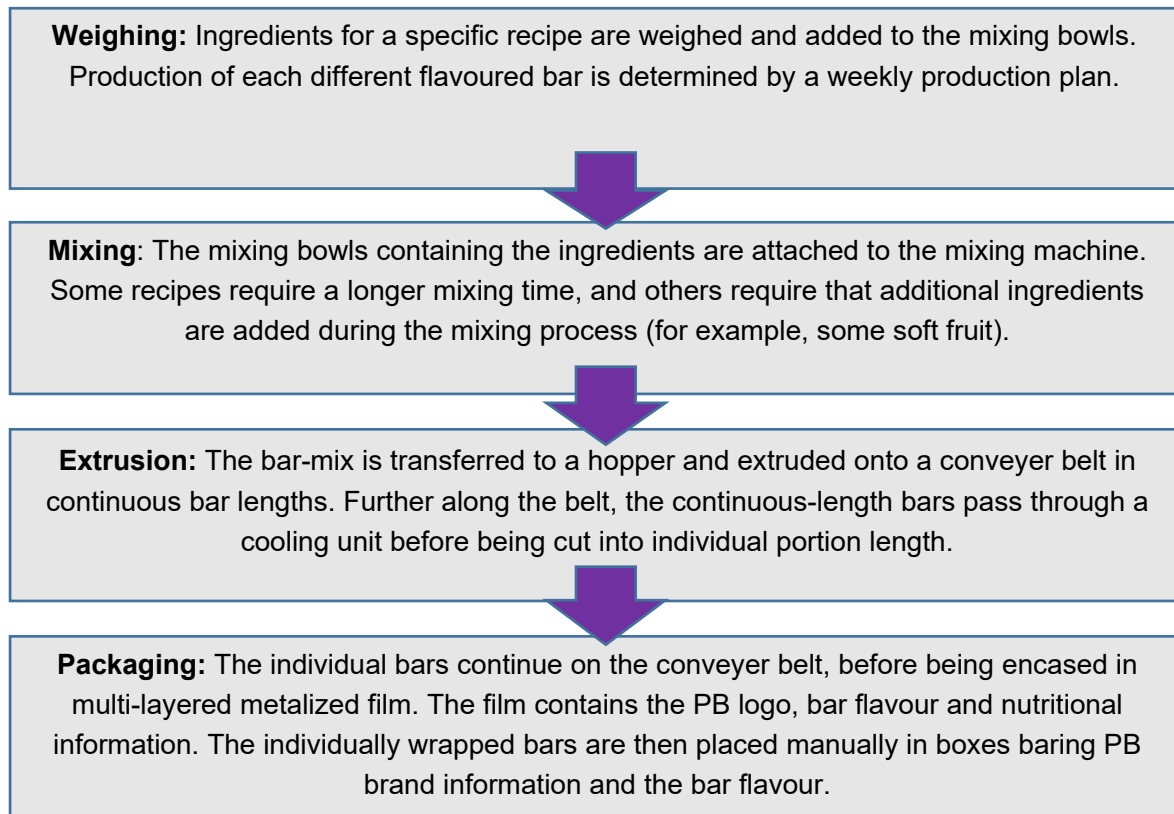
We have four distinct manufacturing areas: peanut butter production, peanut butter bar production, other nut (almond and cashew) bar production and protein powder production.

### The peanut butter manufacturing process



## The protein bar manufacturing process

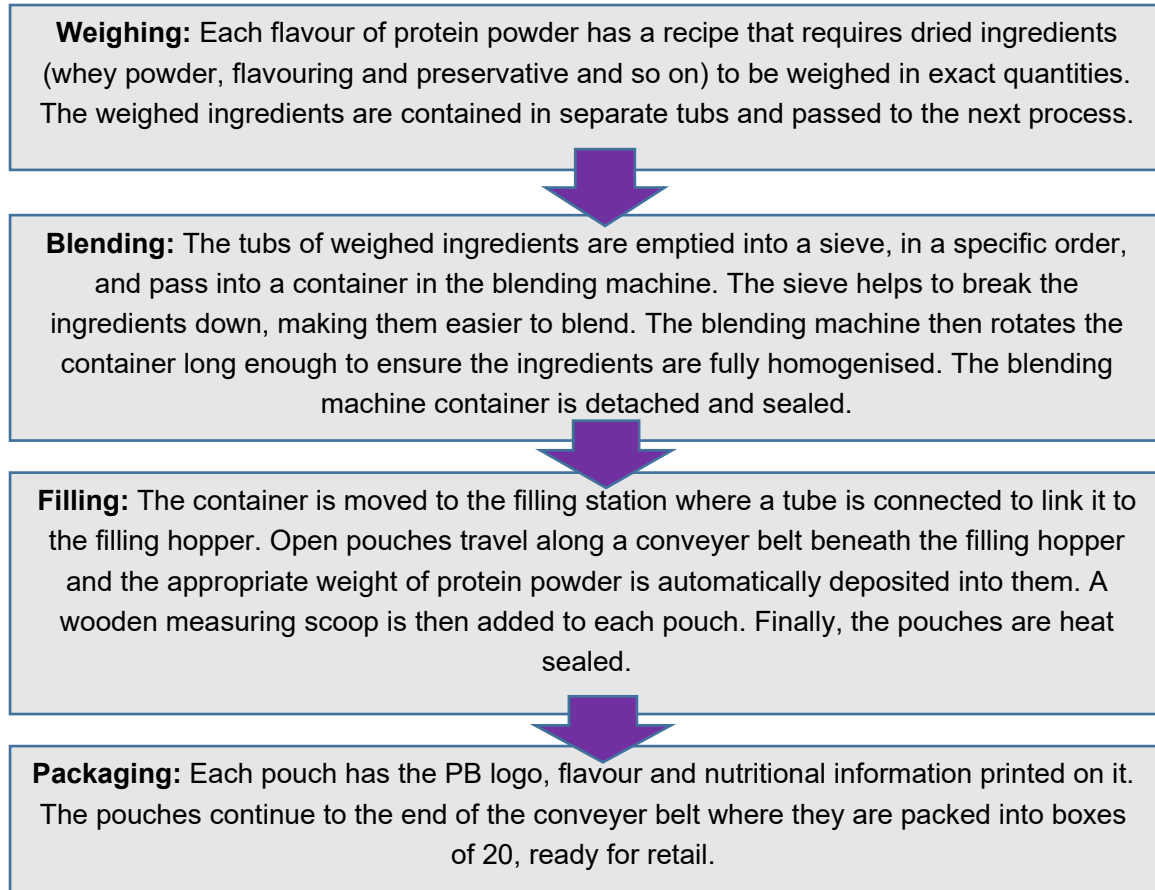
Although the peanut bars are made in a different part of the facility to the other nut bars, the manufacturing process for all types is identical. This process is essentially a “blending” exercise, as we believe less processing means a healthier product.





## The protein powder manufacturing process

The protein powder manufacturing process is less complicated than the other production processes.



## Other information about company operations

### Production Facility

All PB products are manufactured at the company's single Production Facility. Peanut butter, Peanut Protein Bars, other nut Protein Bars and Protein Powder are made in different locations within the Production Facility. There is capacity at the facility for further expansion.

The Production Facility site also includes a Raw Materials Warehouse, a Distribution Centre and offices for the senior management team and administration staff.

### Purchasing and suppliers

The raw material inputs to the production process are:

<b>Whey powder</b>	Whey is a by-product of the cheese-making process. Liquid whey is dehydrated to make whey powder. High-quality whey powder is purchased from suppliers local to PB's own Production Facility and is the most important raw material of every PB product. PB has established excellent relations with a few trusted suppliers.
<b>Peanuts</b>	Peanuts are purchased raw, dried and shelled. Peanuts are sourced within Europe from a single supplier that PB has used since the start of its peanut butter production in 2018. The supplier is a farmer who allows PB extremely favourable credit terms. Order quantities are determined using the economic order quantity model.
<b>Nut butters</b>	Almond and cashew nut butters are readily available from a number of different suppliers. Almond nut butter is made extensively in Spain, Europe and so as far as possible this is sourced from suppliers in Spain. Cashew nut butter and the remaining almond nut butter has to be imported from South America and Asia. PB buys nut butter in bulk to take advantage of volume discounts, which is possible as these products have a long shelf-life.
<b>Protein powder flavouring</b>	This flavouring is a highly technical mix, created in a lab. Developing and batch-replicating the right powder to mix with the whey is more chemistry than creative cooking and this is entrusted to a single company. Julia Matthews worked for this company when she left university.
<b>Other raw materials</b>	Stevia, sucralose, soluble corn fibre, sea salt, erythritol, dried berries and other flavourings are purchased from a large number of suppliers via competitive tenders. Where possible, longer life raw materials (stevia, sucralose, sea salt) are bought in bulk to take advantage of volume discounts.
<b>Packaging and accessories</b>	All wrappers, pouches and retail boxes are customised to include PB's logos and design. These products are an important part of the brand identity, and care is taken to ensure that the quality is right. The more general packaging, scoops and stationery are sourced based on lowest price.

**Note:** The price of nuts, nut butters and a large number of flavourings can fluctuate in price due to exchange rates, harvest yields and/or the time of year. PB's credit payment periods range from 30 days to 75 days.

## Sales markets and sales channels

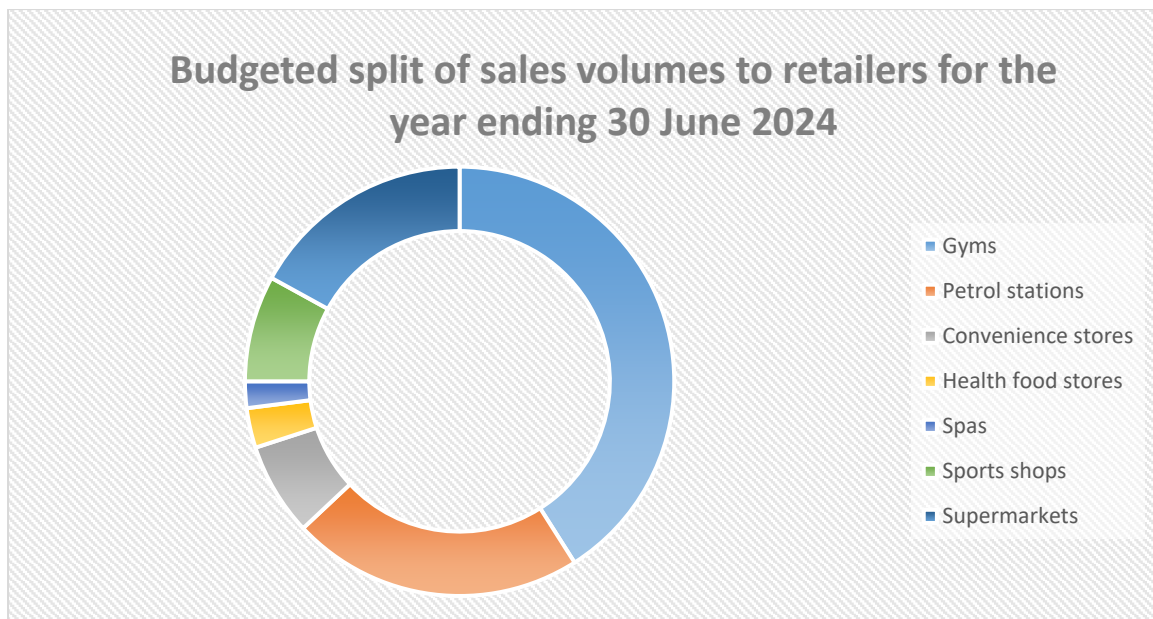
PB currently sells its products via selected retailers in Ceeland and direct to customers in Ceeland through its own website. The company does not currently sell any of its products outside of Ceeland.

At present, PB does not have a physical presence (manufacturing, distribution or sales office) in any country except Ceeland. However, awareness of PB products in other countries has grown due mainly to online magazine articles and social media influencers. A team of Sales Managers has recently been sent to Meland (a large European country a significant distance from Ceeland, which uses the C\$) with a view to expanding the PB brand presence there. This team will be headed by a Divisional Manager responsible for generating profit in Meland. The intention is to rent a small distribution centre that will be fully operational from 1 January 2024.

### Ceeland Retailers

PB began trading by selling its first product, 3PB (Personal Best's Peanut Butter Protein Bar), via local gym chains. By the time PB secured its first national gym chain contract, demand for 3PB exceeded all expectations and other, more diverse, organisations were contacting PB asking to retail the bars.

PB currently sells its full range of products via retail outlets such as: gyms, petrol stations, convenience stores, specialist health food stores, spas, sports shops and (more recently) supermarkets. In the year to 30 June 2024, it is expected that 60% of PB's sales volume will be through retailers.



## Website

In the year to 30 June 2024, it is expected that PB will sell 40% of its total sales volume through the PB website. The website not only offers visitors the full range of PB products for purchase, but also an extensive interactive information source. There is a community section with various discussion threads centred around fitness, diet and wellbeing, a recipe page, links to various websites that are likely to appeal to the PB market, Penny's Page (a PB blog) and nutritional and allergy information relating to all products.

## Distribution Centre and logistics

The company has a small Distribution Centre on the same site as the Production Facility, in which finished goods are stored. From here, goods are shipped to retailers and to website customers. Currently, PB uses a third-party logistics company to transport goods to retailers. Third-party couriers are used to deliver to website customers.

## Employees

PB had the following number of employees on 30 June 2023:

	<b>Number</b>
Production	110
Distribution	21
Head Office	28
	<b>159</b>

## Standard costing and budgets

The company operates a standard absorption costing system using departmental overhead absorption rates based on either direct labour hours or machine hours. Standard cost cards are updated annually. Standard costs are used for the purposes of valuing inventory in the financial statements.

Budgets are prepared annually on an incremental basis. Although many new operational managers have been recruited in the past 2 years, they have limited involvement in budget setting. At present, Julia Matthews sets the budgets for all departments (with help from members of the Finance Department), as she has done since PB was formed.

## Financial statements for the year ended 30 June 2023

### Personal Best

#### Statement of profit or loss for the year ended 30 June 2023

	<b>2023 C\$000</b>	<b>2022 C\$000</b>
Revenue	23,867	19,741
Cost of sales	(15,442)	(13,086)
<b>Gross profit</b>	<b>8,425</b>	<b>6,655</b>
Selling, distribution and marketing costs	(4,916)	(4,008)
Administrative expenses	(1,900)	(1,830)
<b>Operating profit</b>	<b>1,609</b>	<b>817</b>
Finance costs	(416)	(428)
<b>Profit before tax</b>	<b>1,193</b>	<b>389</b>
Income tax expense	(301)	(99)
<b>Profit for the year</b>	<b>892</b>	<b>290</b>

**Personal Best**  
**Statement of financial position at 30 June 2023**

	2023 C\$000	2023 C\$000	2022 C\$000	2022 C\$000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	6,920		7,860	
Right-of-use assets	1,302		1,470	
		8,222		9,330
<b>Current assets</b>				
Inventory	1,140		1,004	
Trade receivables	2,395		1,817	
Prepayments and other receivables	260		192	
Cash and cash equivalents	730		0	
		4,525		3,013
<b>Total assets</b>		<b>12,747</b>		<b>12,343</b>
<b>EQUITY AND LIABILITIES</b>				
Issued C\$1 equity share capital	300		300	
Share premium	834		834	
Retained earnings	1,534		642	
<b>Total equity</b>		2,668		1,776
<b>Non-current liabilities</b>				
Borrowings	5,000		5,000	
Lease liability	986		1,112	
		5,986		6,112
<b>Current liabilities</b>				
Overdraft	0		1,116	
Trade payables	2,750		2,291	
Accruals and other payables	916		823	
Tax liability	301		99	
Lease liability	126		126	
		4,093		4,455
<b>Total equity and liabilities</b>		<b>12,747</b>		<b>12,343</b>

**Personal Best**  
**Statement of cash flows for the year ended 30 June 2023**

	<b>2023 C\$000</b>	<b>2023 C\$000</b>
<b>Cash flows from operating activities</b>		
Profit before tax		1,193
<b>Adjustments</b>		
Depreciation for property, plant and equipment	1,234	
Depreciation on right-of-use asset	168	
Finance costs	416	
		1,818
<b>Movements in working capital</b>		
Increase in inventory	(136)	
Increase in trade and other receivables	(646)	
Increase in trade and other payables	552	
		(230)
<b>Cash generated from operations</b>		<b>2,781</b>
Tax paid		(99)
Interest paid		(416)
<b>Net cash inflow from operating activities</b>		<b>2,266</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(294)	
<b>Net cash outflow from investing activities</b>		(294)
<b>Cash flows from financing activities</b>		
Repayment of lease principal	(126)	
<b>Net cash outflow from financing activities</b>		(126)
<b>Net increase in cash and cash equivalents</b>		<b>1,846</b>
Cash and cash equivalents at the start of the year		(1,116)
<b>Cash and cash equivalents at the end of the year</b>		<b>730</b>

## Budget information for the year ending 30 June 2024

### Total budgeted gross profit

	Protein bars C\$000	Protein powders C\$000	Total C\$000
Sales revenue	21,437	6,512	27,949
Cost of sales	(13,842)	(3,945)	(17,787)
<b>Gross profit</b>	<b>7,595</b>	<b>2,567</b>	<b>10,162</b>
Gross profit margin	35.4%	39.4%	36.4%

### Protein bars (sold in boxes of 10 bars)

#### Sales revenue

	Peanut	Almond	Cashew	Total
<b>Sales volumes (number of boxes):</b>				
Website	268,000	116,000	80,000	464,000
Retailers	402,000	174,000	120,000	696,000
<b>Total</b>	<b>670,000</b>	<b>290,000</b>	<b>200,000</b>	<b>1,160,000</b>
<b>Average sales prices per box:</b>	<b>C\$</b>	<b>C\$</b>	<b>C\$</b>	
Website	21.00	21.00	21.00	
Retailers	16.80	16.80	16.80	
<b>Sales revenue:</b>	<b>C\$000</b>	<b>C\$000</b>	<b>C\$000</b>	<b>C\$000</b>
Website	5,628	2,436	1,680	9,744
Retailers	6,754	2,923	2,016	11,693
<b>Total sales revenue</b>	<b>12,382</b>	<b>5,359</b>	<b>3,696</b>	<b>21,437</b>

#### Cost of sales

	Peanut	Almond	Cashew	Total
Total sales volumes	670,000	290,000	200,000	<b>1,160,000</b>
<b>Production cost per box:</b>	<b>C\$</b>	<b>C\$</b>	<b>C\$</b>	
Raw materials	5.66	7.91	8.02	
Direct labour	3.00	2.60	3.00	
Variable production overhead	0.49	0.43	0.50	
Fixed production overhead	1.99	1.73	2.00	
<b>Total cost per unit</b>	<b>11.14</b>	<b>12.67</b>	<b>13.52</b>	
	<b>C\$000</b>	<b>C\$000</b>	<b>C\$000</b>	<b>C\$000</b>
<b>Total cost of sales</b>	<b>7,464</b>	<b>3,674</b>	<b>2,704</b>	<b>13,842</b>



## Protein powders

### Sales revenue

	Size of pouch		Total
	0.5 KG	1 KG	
<b>Sales volumes:</b>			
Website	40,000	60,000	100,000
Retailers	60,000	90,000	150,000
<b>Total</b>	<b>100,000</b>	<b>150,000</b>	<b>250,000</b>
<b>Average sales prices:</b>	<b>C\$</b>	<b>C\$</b>	
Website	20.00	36.00	
Retailers	16.00	28.80	
<b>Sales revenue:</b>	<b>C\$000</b>	<b>C\$000</b>	<b>C\$000</b>
Website	800	2,160	2,960
Retailers	960	2,592	3,552
<b>Total sales revenue</b>	<b>1,760</b>	<b>4,752</b>	<b>6,512</b>

### Cost of sales

	Size of pouch		Total
	0.5 KG	1 KG	
Total sales volumes	100,000	150,000	250,000
<b>Production cost per unit:</b>	<b>C\$</b>	<b>C\$</b>	
Raw materials	4.26	7.51	
Direct labour	1.00	2.00	
Variable production overhead	1.00	1.99	
Fixed production overhead	3.98	7.97	
<b>Total cost per unit</b>	<b>10.24</b>	<b>19.47</b>	
	<b>C\$000</b>	<b>C\$000</b>	<b>C\$000</b>
<b>Total cost of sales</b>	<b>1,024</b>	<b>2,921</b>	<b>3,945</b>

## Example standard cost cards

<b>Peanut Protein Bar (box of 10 bars)</b>				
	<b>Quantity / hours</b>	<b>Standard price / rate C\$</b>	<b>Standard cost C\$</b>	<b>Standard cost C\$</b>
<b>Materials:</b>				
Peanuts	0.38 KG	1.00 per KG	0.38	
Whey powder	0.30 KG	1.25 per KG	0.38	
Flavourings and other ingredients			3.70	
Packaging			1.20	
<b>Total</b>				<b>5.66</b>
<b>Direct labour:</b>				
Peanut butter production	0.05 hours	20.00	1.00	
Protein bar production	0.10 hours	20.00	2.00	
<b>Total</b>				<b>3.00</b>
<b>Variable production overheads:</b>				
Peanut butter production	0.15 MH*	1.09	0.16	
Protein bar production	0.10 DLH*	3.33	0.33	
<b>Total</b>				<b>0.49</b>
<b>Fixed production overheads:</b>				
Peanut butter production	0.15 MH*	4.38	0.66	
Protein bar production	0.10 DLH*	13.34	1.33	
<b>Total</b>				<b>1.99</b>
<b>Total production cost</b>				<b>11.14</b>

<b>Protein Powder 0.5 KG</b>				
	<b>Quantity / hours</b>	<b>Standard price / rate C\$</b>	<b>Standard cost C\$</b>	<b>Standard cost C\$</b>
<b>Materials:</b>				
Whey powder	0.53 KG	1.25 per KG	0.66	
Flavourings and other ingredients			2.10	
Packaging			1.50	
<b>Total</b>				<b>4.26</b>
<b>Direct labour:</b>				
Powder production	0.05 hours	20.00	1.00	
<b>Total</b>				<b>1.00</b>
<b>Variable production overheads:</b>				
Powder production	0.20 MH*	4.98	1.00	
<b>Total</b>				<b>1.00</b>
<b>Fixed production overheads:</b>				
Powder production	0.20 MH*	19.92	3.98	
<b>Total</b>				<b>3.98</b>
<b>Total production cost</b>				<b>10.24</b>

\* MH is machine hours and DLH is direct labour hours.

## Notes on standards and budget preparation

1. Standards are reviewed and updated annually.
2. Normal raw material losses are included in the standard cost of each product.
3. All direct labour overtime premium is treated as variable production overhead.
4. Idle time is not budgeted for.
5. Production overheads are allocated and apportioned to production cost centres and absorbed on either a direct labour hour or a machine hour basis.

## Extracts from Senior Management Team meeting minutes

**Date:** 2 October 2023

**Present:** Hema Bhatt, Penny Sanchez, Julia Matthews, Ben Morales, Jack Price

**Agenda point 2:** New products

### **PB Protein Biscuit**

- a. Julia confirmed that finance for production of the new Protein Biscuit range is secured and the SMT agreed to launch mid-April 2024 as planned.
- b. Penny reported that initial taste trials indicate the launch flavours should be: peanut, chocolate and coconut. The sales volumes for coconut are expected to be half that of the other two flavours, but the SMT agreed that the range should be launched with three flavours.
- c. Penny commented that the individually wrapped giant protein biscuits had the potential to appeal to a wider market than our existing fitness segment. She believes this will be a benefit to PB as the brand is robust enough to extend into the general diet industry without diluting its niche appeal. Product launch plans to be finalised by end of December 2023.
- d. Ben reported that the production space for the new product is now cleared and clean. Orders for the baking oven and other major machinery and equipment will be placed soon. Ben is confident that production will start in February, as provisionally scheduled at the last meeting, ready for the official April launch. He confirmed that, while baked products are new to PB, the process is relatively simple, and staff skilling will not be a major issue.
- e. Jack referred to an incident this year where retailers did not have sufficient supplies of a new seasonal flavour PB bar when it was launched, due to a communication error between the marketing, production and distribution departments. He confirmed that this will not happen again but that any change in production schedule or launch date must be reported to him at the earliest opportunity.

### **PB vegan products**

- a. Penny confirmed that the new vegan range will be branded as PB-V and will be launched to the market in April 2024. She reported that, given the increase in veganism over the past few years, many gym chains have been offering these products for a few years. Supermarkets have been slower to focus on this market but are now starting to expand their vegan offerings. Therefore, there is still significant scope to build the PB-V customer base.
- b. Penny reported that the range will initially consist of 12 flavoured protein bars and five flavours of protein powder (which will be available in 0.5 kilogram pouches). The protein bars will use cashew nut butter as a base.
- c. Ben confirmed that the new PB-V range will need its own Production Facility. It will be completely separate from the main facility to protect its vegan and lactose free status.
- d. Ben reported that, whilst it has already been agreed that there will be a single supplier of the base vegan protein powder, this supplier still needs to be selected.

**Date:** 6 November 2023

**Present:** Hema Bhatt, Penny Sanchez, Julia Matthews, Ben Morales, Jack Price

**Agenda point 2. Future of the Peanut Butter Department**

- a. Ben stated that due to the age and inefficiencies of the machinery, the Peanut Butter Department was a drain on profit. He praised Lyn Pike for introducing weekly “cost-crunching” team meetings, where all members of the department compete for the 3PB award (Personal Best’s Peanut Butter Profit Brainbox), but stated that this was not enough.
- b. Ben said that the only way the department could add to the profitability of the business is to invest in new machinery and start selling peanut butter as a stand-alone product. He stated that, if the finance needed to buy new machinery could not be found, the only alternative was to close the Peanut Butter Department and buy-in peanut butter.
- c. Ben presented key facts as follows:
  - The “cost-crunching” ideas implemented saved 1.5% of yearly cost.
  - The variable cost to make peanut butter in-house remains slightly more expensive than the cheapest buy-in option.
  - 94% of our customers rank sustainability in the top 3 reasons they buy PB products.
  - Further key facts were used to explain the cost drivers and inefficiencies within this department to prove that the current operation is not viable in the medium to long term.
- d. Penny reported on the survey she undertook last month, at the request of the SMT. It revealed that 74% of PB’s consumers would buy single serving sachets of peanut butter. This percentage increased to 91% when consumers were told that the innovative packaging for the sachets would be made from compostable plastic and waxed paper. Only 29% of PB’s consumers thought they would buy PB peanut butter in a traditional 340g jar size, although this increased to 40% if the jars were made from glass. Penny also added that one of the consumers in the survey ran a guest house and thought the single serving sachets would be ideal for that business. Penny revealed the price points peanut butter would sell for in jars and sachets.
- e. Julia confirmed that Ben’s financial presentations were correct (having collaborated to help him produce them).
- f. Julia also stated that selling the peanut butter in 30g sachets at the price point Penny suggested would be 10 times more profitable than selling it in jars.
- g. Julia added that, although selling peanut butter in sachets alone would generate enough margin to match the investment in new machinery within 5 years, financing for the investment is not available at this time.
- h. It was agreed that: manufacturing peanut butter in-house was a valued USP and the department should not be closed, that the SMT would revisit the plan to sell peanut butter in 6 months time and that in the meantime Ben would continue to try and find more cost savings.

## Tax regime in Ceeland

- The corporate income tax rate to be applied to taxable profits is 25%.
- Unless otherwise stated below, accounting rules on recognition and measurement are followed for tax purposes.
- The following expenses are not allowable for tax purposes:
  - accounting depreciation
  - amortisation
  - impairment charges
  - entertaining expenditure
  - donations to political parties
  - taxes paid to other public bodies
- Tax depreciation allowances are available on all items of plant and equipment (including computer equipment) at a rate of 25% per year on a reducing balance basis. A full year's allowance is available in the year that the asset is acquired. Tax depreciation allowances are not available for property assets.
- Tax losses can be carried forward indefinitely to offset against future taxable profits from the same business.
- Sales tax is charged on all standard rated goods and services at a rate of 20%. Tax paid on inputs into a business can be netted off against the tax charged on outputs from that business. All businesses are required to pay over the net amount due on a monthly basis.