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IIMC CASE RESEARCH CENTRE (IIMCCRC)
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ARPAT COMPANY: COSTING METHOD FOR INTERNAL REPORTING

BACKGROUND

The annual financial results of the Arpat Company for fiscal year 2013 have just come out. Vaishali, who was hired as the CEO of the company at the beginning of 2013, is mulling over it. She had introduced Just in time (JIT)[1] manufacturing to the company with a lot of enthusiasm. With a series of meetings lined up over the next two weeks with the top management, creditors and company shareholders, Vaishali is puzzled by the following question:

"Why did the company's net operating income (NOI) show a drastic decline? I know the company was facing fierce competition from a foreign player during the last two years and there was pressure on the sales volume. So, I have been working hard to motivate the marketing team towards a higher sales target."

Munger, the marketing manager of Arpat responds to Vaishali's question. "But the sales volume has gone up by 20,000 units this year unlike the last two years."

Vaishali wonders, "If the sales have gone up, why haven't the profits?"

The company had a bonus scheme for its top performing managers where the bonus would be paid only if the company earned a net operating income of Rupees 14 million.

Sushma, the Human Resources manager reports, "Profits are way below the threshold of Rupees 14 million for any bonus to be paid to the top managers."

Vaishali doesn't know how to face the stakeholders in the forthcoming meetings. She is perplexed.

"Where does the problem lie? Is it accounting, pricing, capacity building costs, or is it the JIT?"

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[1] Just in time (JIT) is a production strategy that aims to improve return on investment of a business by reducing the in-process inventory and associated carrying costs.

This case was written by Arpita Ghosh at the Indian Institute of Management Calcutta. The case was prepared solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation.