

MANAGEMENT

ACCOUNTING

Module code: LCBB5002

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INTRODUCTION

Management accounting is a technique that could be used by many companies to track productivity of the workforce and to make spending decisions (Chibili, 2019). With the aid of it, the administrators will be able to continue determining to choose whether or not allow administrative adjustments or operational improvements. Various internal members, like employees, executives, key shareholders, lenders etc., used documents and suggestions to determine whether or not a organization is functioning properly. This paper is linked to company XLG which is a drug distribution firm situated on England's northwest part. The business is composed of two separate cleaning items which were two different ingredients, X and Y. The business demand is very high for businesses. Due to corona virus, government announced lockout the company agreed to switch all of its online purchases. For that purpose different items should be discussed. These include measuring variances, such as sales value, product price forecasts, and operational variability, and evaluating the advantages and demerit points of and use them in administrative performance analysis. However, this paper also reveals the intention of a comprehensive security council to convert famaQ at residence in the UK or to start purchasing it from Brazil.

MAIN BODY

PART A

1. Calculate the price and sales volume contribution variance

Regardless of sales statistics, commodity costs, budgeted or real values, administrators should be able to quantify variances in various ways. This data helps in calculation of both Chemicals like X & Y's sales and material price variances, these are as follow:

Given Information:		
Total units sold:	1600	
Material price variance:	£ 27000 Favourable	
Sales and Contribution:		
	Chemical X	Chemical Y
Budgeted total sales	595 units	595 units
Actual Sales Volume	850 units	750 units
Standard sales price	£ 35	£ 30
Actual sales price	£ 45	£ 37
Standard margin	£ 25	£ 20

Sales price variance:

This variance is used to evaluate the gross profit change projection as a result of the difference between the actual and normal market prices (Das, 2019). Variance in Sales Price could be defined in various ways as seen in the methodologies below. In fact, the calculation of variance is very clear because it merely considers the intent of receiving the variation, i.e.

how much change from the definition in overall revenue is due to the shift in market value. Its calculation mentioned in below table:

Sales price variance		
<u>Chemicals X</u>	Details	Amount
Sales Price Variance (X)	(Actual Price – Standard Price) * Actual Unit	
	= (45 – 35) * 850	8500
		Favourable
<u>Chemicals Y</u>		
Sales Price Variance (Y)	(Actual Price – Standard Price) * Actual Unit	
	= (37 – 30) * 750	5250
		Favourable

Interpretation: According to estimation, after putting the quantities in the formula, the findings of Chemicals X and Y are obtained and the outcomes 8500 in favor of X and 5250 in favor of Y are obtained. Variances in selling are the distinction in actual or standard prices, and both X&Y chemicals are in a favourable position for the XLG Company to benefit.

Sales volume contribution variances:

It is measures the market productivity and yield of variations in the regular price, average profit or uniform investment of real products delivered over time equal to the timetable (Erokhin And et.al., 2019). Such variance is very important as it helps companies to determine whether the quantity volatility has a negative effect on the performance of the business. Calculation of sales volume contribution of XLG Company it mentioned below:

Sales volume contribution variance		
<u>Chemicals X</u>	Details	Amount
Sales volume contribution variance (X)	$= (850 * 35) - (595 * 35)$	8925
		Favourable
<u>Chemicals Y</u>	Details	Amount
Sales volume contribution variance (Y)	$= (750 * 30) - (595 * 30)$	4650
		Favourable

Interpretation: According to the above figures, it was understood that the measurement of the sales variance involves all products to be placed as per equations and findings are obtained. Findings for Chemical X are 8925 in a favourable manner and for Y, 4650 positive from estimation market value allocation variation. In the light of the product value allocation difference Chemical X is in a much more competitive position.

2. Calculation of material price planning variance and material price operational variance

Given Information:	
Original standard price	£ 2.50 per-unit
Increased(revised) unit price	£4.50

Material price operational variance:		
<u>Chemicals X</u>	Details	Amount
(A) Original budgeted sales x Standard Margin	= 595 * 2.5 * 25	£ 37,187.5
(B) Revised budgeted sales x Standard Margin	= 595 * 4.5 * 25	£ 66,937.5
Material price operational variance (A – B)		-£ 29,750
<u>Chemicals Y</u>		
(A) Original budgeted sales x Standard Margin	= 595 * 2.5 * 20	£ 29,750
(B) Revised budgeted sales x Standard Margin	= 595 * 4.5 * 20	£ 53,550
Material price operational variance (A – B)		-£ 23,800

Material price planning variance:		
<u>Chemicals X</u>	Details	Amount
(A) Revised budgeted sales * Standard Margin	= 595 * 4.5 * 25	£ 66,937.5
(B) Actual Sales Quantity * Standard Margin	= 850 * 25	£ 21,250
Material price planning variance (A – B)		£ 45,687.5
<u>Chemicals X</u>		
(A) Revised budgeted sales * Standard Margin =	= 595 * 4.5 * 20	£ 53,550
(B) Actual Sales Quantity * Standard Margin	= 750 * 20	£ 15,000
Material price planning variance (A – B) =		£ 38,550

3. Critically evaluate merits and demerits of variance to evaluate manager's performances

Variance analysis is essential tool for a company to accomplish its long-term objectives is the correct application of the variance analysis (Ismail, Isa and Mia, 2018). Any time an entity detects a difference in an item such as material, labour, etc. It needs awareness of the considerable impact of disclosing the quarterly statements, as well as relating to such a

variance, which may influence managers' activities against such operational objectives attained. Examination of variances is a mathematical analysis of the difference between current and predicted behaviour. Using this analysis is to establish control of corporations. It could allow managers to earn a bunch of improvements and main decisions which could help the company more competitive in the long term. Understanding that evaluating variances does not really lead to market impact issues is important. This also offers qualified accountants and administrators with an example of how they will behave in case of potential knowledge issues.

A variance reflects both the difference between the standard ability and the true capability restrictions for the operating activities. Fluctuations can have to do with variations in demand or price differences. Unless the actual cost increases the normal expenditure or the expected cost, then the variance is an adverse discrepancy. If another actual cost is greater than standard cost or the projected value, if the amount is positive, the distinction is a beneficial one. While positive differences are favourable variance and unfavourable variance will be the negative disparity. Variance interlinks with many other variations, as it's important in strategic planning whether favourable or unfavourable (Pavlatos and Kostakis, 2018). Variance analysis has many merits as well as demerits factors that influence the company's ultimate result. In effort to expand their efficiency as well as usefulness, management teams need to analyze their pros and cons that help actually spend their business. Within this sense, a thorough debate on the key benefits and demerits of using variations in the calculation of organizational performance continues:

Merits:

- Variance analysis enables an efficient reward operation, as managers have to see narrower variances from the projected cost. Generally having a lower variance helps management to make more effective financial decisions which are detailed or forward planning.
- This acts as a tracking tool to detect variances. Reviewing significant variation on important goods encourages XLG Company's managers to understand the causes, which lets managers check for new ways to avoid too much volatility.
- Variation analysis facilitates responsibility transition and triggers oversight mechanisms on units in which they are required. If labour efficiency variation is

treated as undesirable or cost variation procurement of raw materials is unfavourable, managers may retain these departments' control to enhance performance.

- Verification of divergence from standard or expected tends to be the main feature of study of variations. This deviation will focus the management analysis. The managers should be given the requisite details such a withdrawal, in general for unfavourable variation where expense is more than anticipated figures.
- Another advantage of the variance will be the limited budget value. In case of unfavourable variation managers take action to track equally. Where another advantage of the variance will be the expenditure limited interest. In case of unfavourable variation managers take action to track equally. Where there are inadequate grounds for doing this and appropriate mitigation measures are taken, proof of an adverse difference is tested first.
- The potential adjustment of the quantities budgeted is ambiguity or volatility (Quinn and Hiebl, 2018). If there is no reasonable reason for confusion in relation to an inaccurate expenditure calculation, the viewpoints for incentive will be revised or revamped.
- Further benefits of variances analysis is the assessment of the productivity of the managers and the management team control system in general. Favourable value indicates higher effectiveness for mangers, whilst also adverse variance means underperformance.
- The benefit of the volatility is the small amount of spending. In case of adverse variance administrators take appropriate measures to keep track of the same. In which reasons for using it are inadequate and reasonable preventative measures are taken, data of an unfavourable variation is analyzed initially.
- Inconsistency or fluctuations is the prospective modification of the amounts budged. When there is no fair cause for uncertainty about an incorrect estimate of consumption, the bonus requirements will be updated or changed.

Demerits:

- Variance analysis is indeed an operation focused on financial statements released much further after the end of the accounting year. There could be a time gap that may somehow affect the capacity-taking corrective action. Additionally, it is not easy to

obtain all options to variation in financial information which often makes it incredibly difficult to operate on variances.

- If the financial planning has still not been done properly, bearing in mind the detailed analysis of each factor, the budget preparation process shall be carried out unilaterally and shall be allowed to separate itself from the actual estimates (Rikhardsson and Yigitbasioglu, 2018). Afterwards, variance analysis may not be a useful tool.
- Some variation factors are not included in financial reporting, so to determine the reasons of these variances, accounting teams have to research and analyze facts such as labour allocation, production costs or payroll statistics. The bring-on method is cost-effective because the administrators were able to successfully solve the issues on the basis of the information given.
- An investigation of the variance appears to have a significant downside in that it requires far longer determining the impact of the variance which will thus delay the corrective measures. The tracking process leads to a large time frame contraction which would greatly hinder the application of protective strategies.
- Variance analysis has a major drawback, in that it takes some time to determine the relationship of variance and, therefore, it suspends effective behavior. The monitoring method results in a substantial amount of time that will therefore delay the execution of control measures considerably.
- Another performance measure is uncertainty that may be attributed to system instability. Answer interpretation determines the final outcome, since it differs from the planned practices.

PART B

1. Report assessing the decision to make famaQ in house in the UK to keep importing it from Brazil

XLG is a pharmaceutical company based in the UK and in a few parts of Europe. The market where it conducts activities has a high degree of rivalry and another key benefit of core chemicals is sourcing from Brazil's famaQ (Samuel, 2018). The shutdown happened in March 2020, which was enforced by the British government. Despite of this, company is preferred to transfer the money generating mechanism forward remotely so that it can resolve all of the shutdown problems that arise. This is imported from Brazil as one of the company's key chemicals used to produce the finished product, in required to be allowed to respond structurally to business issues.

Ensuring that a organization addresses all the potential risks they might bring should be very important. Import and export of chemical famaQ via Brazil by XLG would be impossible after shutdown. Nonetheless, that would lead to several risks if it is to be delivered. There tends to be a high risk of dissemination of COVID-19, a higher computing time, additional expenditures etc. If the commodity is not imported so it would be the net profit and the marginal gain given by famaQ.

As a result, there is also projected to be a 45 percent rise in demand for chemicals X and Y and it will definitely grow as per market statistics (Uyar, 2019). Those wherein the business also will concentrate on exporting are now the UK-wide famaQ, so it can satisfy customer demand. When it is made in the UK, the delivery time will be shortened by 15 days from either previous date, which means that the company will commence development early.

The production cost per famaQ device in the UK could be 3 pounds that would have been small in comparison to the output cost of 3.7 pounds per service. It means the company must manufacture famaQ in the UK instead of sourcing it from Brazil. This would bring substantial advantages for the market. Numerous of the core advantages include:

- This would stimulate the business if famaQ were manufactured as the cost of production is very low compared to the value of customer.
- The shipping time should be shortened by 15 days, which ensures production will begin earlier and satisfy customer requirements quicker.
- Unless the famaQ chemicals are produced rather than transported from Brazil can the transmission rate of corona virus be minimal.
- It would be quite expensive to produce products at Lockdown and the production of famaQ in the UK may well have been better option for potential activities to be undertaken by the company.

Considering several other factors, development costs and advantages of producing famaQ in the United Kingdom, it was decided that XLG will also produce chemicals in United Kingdom instead of import chemicals from Brazil even though it would be useful for business success (Wales And et.al., 2020). It is strongly recommended that XLG business produces the chemicals rather than importing from Brazil. This would boost shipping prices; reduce total additives expenses, reducing XLG Company's profitability. Therefore, importing content from Brazil would also be very dangerous, as it will contribute to the spread of Corona Virus through one location to another; this will also produce more problems for UK nation.

CONCLUSION

From the above discussion it has been observed that management accounting techniques are very essential for the organizations. Financial management plays a crucial role in optimizing the financial efficiency of transactions. With the assistance of technology, managers may create strategic strategies to boost the corporate performance or accelerate business development. That's an instrument being used by various stakeholders to evaluate the organizational status of the company in terms of financial performance, or total operating efficiencies. It will be very essential for both firms to be vigilant when seeking to make practical business strategies whether they have used techniques that are correct. Measurement of the difference based on the real or expected value of the amount of revenue which is important for making certain decisions.

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