

Management Accounting

Assignment 2 Written Report

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Introduction

Management accounting is collecting and analyzing crucial financial and operational data to inform business decisions. This category contains reports on performance, projections, and budgeting, among other things. A core aspect of management accounting is thinking in the short term (Oboh and Ajibolade, 2017). Unlike long-term planning, management accounting information (MAI) aims to facilitate everyday decision-making. In addition to the information often included in MAI, such as information on expenses, sales, and profits, there are several other indications relevant to management. The development of a monthly control report describing Amana Ltd.'s activities in 2020 is addressed in the first section of this report. In the subsequent section, Mr. Amana is advised on whether they should start their own web store or sell via Amazon.

PART A

- i) **Prepare the monthly control report showing the original budget, flexed budget, and variances:**

Monthly control report: This report details the previous month's activities for the organization. In addition to figures for revenue, expenses, and profits or losses, a breakdown of sales by category is given. Using a comparison between expected and actual performance, the report reveals any discrepancies between the two. Consequently, management can identify and address any issues or growth opportunities rapidly. The monthly control report has several applications. It may be used, for instance, to monitor the business's progress regarding a list of goals. To make better strategic decisions, managers must be able to recognize patterns throughout time. The report may also provide information for predicting the organization's future success (Davidyuk, 2017).

Typically, the chief financial officer (CFO) prepares the monthly control report before discussing it with other executives and distributing it to the personnel. It may be sent out or posted online so workers can easily view it. As several companies maintain massive databases

accessible through employee intranets, publishing the report to a password-protected website section is simple. Then, employees may view it anonymously from any computer with an Internet connection or save a copy to their hard drive for later use. Monthly control reports often contain an executive summary highlighting the report's key themes. Managers may get the necessary information without reading the monthly control report (Hanif, 2019).

Flexible budgeting describes the second major type of budgeting. It is possible to adjust the budget to account for actual and projected performance variances. A business with a flexible budget can pay its expenses even if one month's income falls short of projections. Conversely, if sales increase unexpectedly, the company may use excess cash for growth. Two main advantages of a flexible budget are the flexibility to respond to changes in revenues and expenditures and the opportunity to compare actual results to those anticipated. Businesses may modify areas of under or over-performing by evaluating their actual performance. In conclusion, since it considers both positive and negative changes in revenue and expenses, flexible budgeting is a more accurate method of corporate planning (Li, 2018).

Original budget: It might be difficult to evaluate performance based on the initial budget when the actual activity deviates from the projected level (Rohde and Garrison, 2019).

Monthly Control Report				
Original Budget				
Particulars	Actual (£)	Original (£)	Variance	Favorable/ Unfavorable/Nil variance
Units	80,000	80,000		

Sales: Actual (80,000*20) Original (80,000*25)	1,600,000	2,000,00	400,000	U
Less costs:				
Material	280,000	200,000	80,000	U
Labor	440,000	320,000	120,000	U
Overhead	120,000	120,000	0	N
Contribution	760,000	1,360,000	600,000	U
Fixed Costs				
Warehouse rental	170,000	200,000	30,000	F
Insurance	100,000	100,000	0	N
F.W Supervisory Salary	35,000	50,000	15,000	F
Net operating income	455,000	1,010,000	555,000	U

Flexed budget				
Particulars	Actual (£)	Original (£)	Variance	Favorable/Unfavorable/Nil variance
Units	80,000	100,000	20,000	U
Sales Actual: (80,000*25) Original (100,000*25)	2,000,000	2,500,000	500,000	U
Less costs:				
Materials	200,000	250,000	50,000	F

Labor	320,000	400,000	80,000	F
Overhead	120,000	150,000	30,000	F
Contribution	1,360,000	1,700,000	340,000	U
Fixed Costs:				
Warehouse Rental	200,000	200,000	0	N
Insurance	100,000	100,000	0	N
F.W Supervisor Salary	50,000	50,000	0	N
Operating Net Income	1,010,000	1,350,000	340,000	U

- ii) Using your control report prepared in (i) above, prepare a report on Amana's performance in 2020.

Performance Report

The performance of Amana Ltd. this year has been weak. Due to the restrictions imposed on persons by the Covid-19 pandemic, sales have declined. The revenue of Amana Ltd. was £80,000, which fell short of the company's expectation of £100,000 for various reasons. Despite a 20% reduction in selling prices to £20, they continue to confront significant rises in unit cost due to material (£2.50 to £280,000) and labor (£4 to £440,000). Overheads have risen by 10%.

Consequently, this results in an overall loss of £760,000 (budget vs. actual). The only change to the company's fixed expenses is an increase in yearly insurance premiums from £100,000 to £170,000; warehouse rent has remained unchanged. The annual salary of a full-time warehouse supervisor has been reduced by 20%, from £50,000 to £35,000. The flexible budget was more accurate than the original budget since the company could sell souvenirs at a lower price while maintaining the same unit sales. The actual results for Amana reflect a bad performance. While

unit sales have increased, expenditures remain out of control (Macchia, 2019). The fixed costs may be managed. The overall financial performance has underperformed.

Amana Ltd. has decided to reevaluate its revenue and expenditure models due to the company's falling profitability over the last several years. Amana Ltd. would do well to concentrate on product demand rather than attempting to position itself in industries such as tourism. The corporation must establish strategies to cut unit costs and seek for raw material sources with lower prices (i.e. sourcing locally). If it wants people to continue buying its souvenirs, Amana Ltd. may need to reduce its overall expenses. Currently, Amana Ltd. souvenirs are available for £20 each, although it was hoped that they would sell for \$25. This result in a loss of £760,000 (budget vs actual). Increasing labor, overheads, and raw material costs were the primary causes of this loss. The loss may be stopped if Amana Ltd. concentrated more on satisfying consumer demand and less on chasing specialized markets, such as the travel and tourism industry. They must minimize unit costs and seek lower raw material alternatives (i.e., local sourcing). If consumers continue to purchase Amana Ltd.'s souvenirs, the company may need to reduce expenses across the board to continue producing revenue. Additionally, it might consider expanding into other markets (Malina, 2018). The Covid-19 pandemic has negatively impacted tourism and Amana Ltd., but with several significant adjustments, the company may recover.

iii) Provide recommendations to Amana's CEO on areas of improvement

The CEO of Amana Ltd. needs special measures to aid her firm in regaining its footing as it navigates a challenging phase. In this case, focusing on increasing revenue by selling more units at a higher price while reducing variable expenses is crucial.

There are several ways for Amana to increase its earnings:

1) By increasing the unit's selling price from £25 to £30 while keeping variable costs, they will increase their contribution by £2 per unit, producing an additional £40,000 in total revenue.

However, this option may not be the greatest since it would lower sales volume and leave Amana with fewer things to sell. This option is not recommended.

2) By increasing the selling price from £25 to £30 and decreasing variable costs from £20 to £12 per unit, an increase of £8 per unit will increase to £80,000 in revenue. This decision will reduce losses and raise Amana's share of fixed expenditures. This option is recommended (Modell, 2017).

3) Another excellent marketing strategy is to provide items at a temporary discount of (£25-£5). This may enhance sales volume and attract new customers who would not have purchased due to the high price. Nonetheless, if selected, the company may be left with a substantial inventory of unsold souvenirs after the promotional period, draining its working capital. Therefore, it is not recommended to choose this option.

4) Amana will increase revenue by £100,000 while reducing fixed expenses by selling souvenirs online to customers who could not visit physical shops due to the lockdown. Therefore, this option is recommended.

There are several ways to reduce variable costs, including:

1) Maintaining other variables (such as selling price and labor costs) but reducing variable material costs from £2.5 per unit to £2 per unit. This will result in a contribution margin increase of £0.5 per unit and an increase in revenue of £20,000. However, this might result in inferior products, decreasing client pleasure. This option is not recommended.

2) Reducing the number of full-time warehouse staff from four to three will result in an annual savings of £120,000 in variable expenditures. This option is recommended since it will reduce losses and contribute more to Amana's fixed costs.

3) By decreasing overhead costs from £1.50 per unit to £1 per unit, variable yearly expenditures will be decreased by £30,000. However, some of the overhead expenses may be essential to

the organization's functioning, making this a less-than-ideal choice (e.g., insurance). This option is not recommended (Nishimura, 2019).

There is no doubt that the CEO of Amana should seek to boost revenue while decreasing variable expenses. These solutions can assist in accomplishing these objectives and increase the company's bottom line.

PART B: Analysis of Mr. Amana's decision to go online and advise if they should set up their online shop or sell on Amazon.

Mr. Amana made the correct decision by moving 50 percent of his firm to an internet platform. Due to their locations, his company's offices in Brighton, Birmingham, and Manchester could only reach a small fraction of the population. Amana Souvenirs might obtain a more loyal customer base due to these businesses, but market development is improbable and costly. By focusing on the United Kingdom, Europe, and the United States while shifting half of its planned sales online, Amana Souvenirs has the potential for huge development. Additionally, it may strategize to restructure or reorganize its existing physical sites better to serve its domestic market and most loyal customers. Mr. Amana, the firm's owner, must decide between launching his e-commerce website and selling products on Amazon.com. Before deciding, the corporation analyzed the costs associated with each solution (Scott, 2019).

Setting up their online store: Amana would need a minimum of £10,000 for setup costs and an additional £100 monthly to maintain their own online company. In addition, the firm owners contemplated employing a full-time programmer for £35,000 per year (White, 2019). Due to the individual's ongoing need for direction and supervision, this would make things more difficult for everyone else in the business. Additionally, the cost of the distribution network must be considered. A distribution network that serves customers in the United Kingdom, Europe, and the United States is expected to cost £150,000. When all the costs associated with launching Amana's online shop are summed together, they reach £295,000. This investment may potentially increase the company's revenues.

As with any other business, Amana Ltd. may benefit from expanding its customer base by creating a new website. In addition, it is easy to initiate a direct connection through the website. The business can design and adjust its unique pricing plan as it sees fit (Priambodo et al., 2021). Also essential is the management of customer feedback and return policies. The efficiency and grade of the internet service may assist the company in strengthening its already solid reputation and increasing its brand value. However, this new website has a few deficiencies that should be considered (Warren, 2022). Websites require more time, effort, and procedures to complete.

Sell to Amazon: If Amana decides to sell its items on Amazon instead, it must account for Amazon's £50,000 fulfillment costs. Additionally, because of the intense seller competition on Amazon, Amana is only expected to sell at least 65,000 units. However, consumer demand will substantially affect the growth rate (Tănase, 2021).

According to the projections, Amana would need to spend £50,000 to sell its items on Amazon. If the business decides to sell via this e-commerce giant, it will incur a total cost of £100,000. Choosing Amazon over other sources will save Amana money in the long run. They may earn some money, but not nearly as much as if they had their online store. In contrast, if the firm opens its own online shop, it will likely grow sales and produce more money. This explains why they will have total control over the things they provide, the prices they set, and any applicable return processes. Before determining where to sell his products, Mr. Amana should thoroughly study his options. Comparing his online shop to Amazon's marketplace will help him choose his business's most lucrative course of action.

Considering the aforementioned, Mr. Amana would be smart to try Amazon's marketplace for at least two years. Although it will face fierce competition in this market, it will be able to provide Mr. Amana with valuable information about how well his products are received in the target markets, enabling him to adjust his marketing strategies to the groups of people who are most likely to become his most loyal customers. Suppose Mr. Amana has significantly raised

the product's profile in the target market during the first two years. In that case, he may transition to a specialized online shop for Amana Souvenirs (Weetman, 2019).

Conclusion

In the report, the original and flexible budgets, as well as the actual budget, are compared. Then, after analyzing the process of reducing the selling price and increasing expenses, helpful suggestions were recommended. According to the report's findings, management accounting is crucial to the success of any firm. It enables a firm to keep track of its finances to make choices that will boost profits. Management accountants collect and evaluate financial data using several approaches and procedures. The findings then inform their advice to company owners and managers.

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