

Management Accounting

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Introduction-

In this report, Importance of management accounting is discussed. It plays pivotal role in organization. It helps management in decision making. Planning can be done properly so that losses can be eliminated. It also helps in evaluation and performance monitoring of the company.

This report analyzes Amana ltd. It is a tourist business and located at England. This company is famous for selling souvenir. Company has been doing well for 40 years and successfully understood the dynamic nature of tourist sport. But recently, due to Covid-19 pandemic government imposed restriction on movement and travel. This put impact on company's revenue and profit. So, detailed discussion about company is done in report.

Task 1-

(a) Cost report-

Particulars	C o s t p e r unit	Original	Flexed	Actual	Variances
<u>Units</u>		1,00,000	20000	80,000	
Selling price	25			2,000,000	
Revenues				2,000,000	
<u>Variable costs:</u>					
Materials	2.50	2,50,000	3000	2,80,000	(30000)
Labor	4	4,00,000	40000	4,40,000	(40000)
Overhead	1.50	1,50,000	30000	1,20,000	30000
Contribution	17	17,00,000	5400000	11,60,000	540000
<u>Fixed cost</u>					
Warehouse rental	200000	2,00,000	30000	1,70,000	30,000
Insurance	100000	100,000	Nil	100,000	

Fulltime warehouse supervisory salary	50,000	50,000	15000	35,000	15,000
Profit				-70000	

(b) Amana's performance in the year 2020-

Comparison of planned budget and actual budget		
	Planned Budget	Actual Budget
Revenue	25,00,000	16,00,000
Less: Cost of goods sold	1150000	1110000
Variable cost		
Material	2,50,000	2,80,000
Labor	4,00,000	4,40,000
Overheads	1,50,000	1,20,000
Contribution	17,00,000	7,60,000
Fixed cost		
Warehouse Rental	2,00,000	1,70,000
Insurance	1,00,000	1,00,000
Fulltime warehouse supervisor salary	50,000	35,000
Net Income	1350000	490000

(c) Performance evaluation and recommendations-

From the above cost report and performance report it can be said that pandemic affect the Amana ltd. Above reports consist of original budget, flexed budget, actual budget and

variance. When a budget is rewritten for actual level of activity then it is known as flexed budget. Variance shows the difference between original budget and actual budget.

In Budget there are two types of variances- favorable and unfavorable. Favorable variances are those variances which has positive sign where as unfavorable shows negative sign. In the above report it is observed that there are unfavorable variances. Unfavorable variances are those variances which show the negative sign. It means there is shortfall in budget. Budget shortfall causes due to higher than expected value. Variance can be calculated by subtracting original budget with actual budget. Variance is affected by controlled and uncontrolled factors within organization. Controlled factors include poor planning of budget and cost of labor. On the other hand, uncontrollable factors are external factors like- natural disaster and pandemic.

Company gets affected by pandemic as tourist sports are imposed by government. Pandemic comes under uncontrollable factor. Company cannot control this factor.

From the performance report, it is observed that actual income is less than planned budget. Units price in the year 2020 are less than planning and also units produced in the year is less than expected. This thing affected the whole revenue.

Variable cost and fixed cost are considered in making budget. Variable cost can be defined as it changes in proportion to production or sales. On the other hand fixed cost does not change with the change in production or sales. Like- rent, insurance etc.

In the report, there are three types of variable costs included which are material, labor and overheads. In fixed cost it includes warehouse rental, insurance and salary of the employees and workers. Contribution can be calculated by revenue minus variable cost. There is huge difference in contribution of planned and actual budget. Planned budget's contribution is 17,60,000 whereas contribution of actual budget is 7,00,000. Main cause of this difference is covid-19 pandemic. Due to pandemic there is increase in material cost and labor cost also increased because company is not able to find workers. And this thing affected income earned by company.

Recommendations-

- In this hard time company needs to indentify the changes and should manage them accordingly. Change in net income impacts the stakeholders. So, company needs to keep them up to date regarding total sales and profit earned by the company. Company also needs to share details of change in management to share holders.
- Company can effectively manage its budget if company focuses on key performance indicators. Key performance indicators help in determining that how much planned budget is different from the actual budget. There are some KPI's which are used in budget management such as- actual cost, cost variance, earned value, planned value and return on investment.
- A company which is running without budget management often leads to failure. After doing budget management it is also necessary for the company to manage it frequently. If budget is overrunning up to 10% then it is controllable for the company. But if budget is overrunning up to 50% then it cannot be controlled by the company and organization may faces losses in future. Hence, budget management plays an important role in company.
- To maintain company's presence it needs to focus on cost cutting. Cost cutting can be done by 5 ways which are as follows-

Suspension of bill- It includes Loans, rent, credit cards and suppliers. Company needs to contact banks and lenders so that they can suspend their payment. Before postponing the bills, company should understand the suspension period, repayment due date and interest rates. Company should ask their landlord for suspension about payment. Company needs to talk with suppliers about the negotiation in prices of material.

Reduced unnecessary expenses- Cost cutting can be done by reducing unnecessary spending. It includes equipments taken on lease, Travelling, Office space and software.

Payroll spending- It is counted under largest expense of the company. Company can terminate some employees to save money. Instead of terminating employees company needs to think about innovative ideas. Company can reduce the working hours of the employees to save the payroll. Company should give opportunity to employees to work from home so that cleaning cost, energy and other costs can be cut. Company needs to suspend some benefits in order to maintain the budget.

Cheaper options- In order to increase the sales company should move to online sales. Digital is new trend now- a-days. Digital marketing of the products is the best option to increase sales. If company uses this option then it helps in reducing overheads and marketing cost. Company needs to focus on internet service providers to get the cheaper plan than its competitors.

Investment in affordable marketing- Company needs to cut the marketing expenses in such conditions. Company needs to prioritize its marketing strategies. Campaigns which are not performing good company should eliminate them. Company needs to start new campaigns which provide more efficiency to the business. Managers need to do free publicity of the product to increase the sales of the company. To increase sales company can give postcard or coupon to every resident.

Task 2-

In this part Mr. Amana noticed that its competitors are going online in order to increase sales. Here company has two options either up gradation of company's website by programmer or company needs to get registered itself with Amazon. This decision is very difficult for the company as there are many factors which are affecting sales of the company.

Scenario 1-

If company chooses this scenario then cost estimation would be -

Scenario 1	Cost (in £)
Setting delivery network	1,50,000
Website up gradation	50,000
IT programmer fees	35,000
Net Charges	4,35,000

Here three types of costs are included which are setting internet service provider, website up gradation and fees of IT programmer. So, here net charges are 4, 35,000 (in £). According to the market research, this option will be providing the guaranteed sales of 10,000 annually.

Scenario 2- Cost estimation in this scenario is only 50,000(in £). It is registration fees of Amazon. In this scenario company just needs to get itself registered with Amazon and online sales of the product will be started. Guaranteed sales with this scenario are 65,000 units and company can not control prices and return policy.

After analyzing both the scenario it can be said that company should go with the second option. As company is already facing pandemic. This is not controllable. There is more safety with option A but right now company is not in good condition. Company cannot invest 4, 35,000 to

generate online sales. At first company needs to earn profits so it should start from small platform. Amazon registration fees is very lower than all the charges in scenario 1. As pandemic is for uncertain time period. No one is able to know when it will be end. Amazon sales can be increased if there is increase in demand of the product. It is also providing guaranteed sales of products which is also a plus point for the company. Company will make good profits with this option with less investment. After earning profits from this scenario company can move to option one. Option one will help company more in increasing sales. But option one can be choose by company after everything gets normalized. Otherwise company will be facing more problems in generating revenues and it will also be hard for company to survive in such condition.

Scenario 1 is more costly than scenario 2. Right now company is looking at cost cutting factors and it will be very hard for company to invest such a big amount in the online sales. Hence, Scenario two is best fitted for the company according to present condition.

Company should also notice their competitors move. Competitors' moves affect the company revenue. If rivals are performing better then it is drawback for the company. Company should track performance of the competitors. In today's world in every stream competition is very high. To track the performance of rivals, company should analyze their financial ratios. Financial ratios tell the whole story. Company should also analyze the path which rivals are using. If that path is also fruitful according to company's budget then company should use such path.

Hence, it can be said that first of all company should go with option number two. Then company needs to track the performance of its competitors. When sales of the company come to stable condition then company should go with first scenario. Because first scenario is giving 10,000 unit guaranteed sales which is higher than second scenario. Company will also be having control over prices and return policy.

Conclusion-

From the above report, it can be said that cost and accounting management is very important for every company. If all the costs are properly managed then company can achieve its goals or objectives. Budget plays an important role in company. In this report, budget of Amana ltd. was

not meeting expectations. This happened because of some factors which are uncontrollable. Company is facing pandemic in country which is affecting business badly. Company can maintain budget by using various methods. All the methods are discussed in the report. With the help of recommendations company can increase its sales. It is also discussed that which path company should use to increase the sales. As sales is main income source of the company. Due to lockdown in the country company cannot sell its products offline. So, after seeing its competitors company decided to sell its products online. In this case, company had two scenarios and it is very difficult for company to choose one as every scenario has its drawback. But Company goes with first scenario as company has to maintain its sales. Hence, it can be said that uncontrollable factors affected company's budget but however company can maintain its budget by using various techniques and methods.

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