

MANAGEMENT ACCOUNTING

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LCBB5002 Management Accounting

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Business Management

Date:01.05.2021

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Introduction

Cost accounting is an integral management accounting aspect that maximises the profitability and cost efficiency of a company. Cost accounting allows proper management of costs through appropriate cost classification, hence helping the management to accurately ascertain profits. Similarly, cost accounting is also handy in controlling the costs of production thus maximising the profits of a company. Besides, cost accounting analyses each cost incurred within the company to ascertain the cost efficiency of an organisation. This is done through the fixing of standard costs which are directly compared to the actual costs hence depicting the cost efficiency of each production cost. Furthermore, cost accounting systems are fundamental in determining the optimum profitable prices that complement the value of a company's product or service. This report will prepare Amana's control report to showcase original, flexed and actual budgets. It will also calculate the variances between the budgeted and actual costs of Amana. It will further examine the performance of Amana while recommending the areas of improvement to enhance its performance. Finally, it will analyse Amana's decision on going online while advising him on whether to open a shop online or sell through Amazon.

PART A

Amana's monthly control report

According to Scheffe (2010), a flexible budget report is a key tool in enabling the management to assess the progress of the business towards its overall objectives. It defines the budgeted costs that a company should incur at the actual performance. This is aimed at facilitating an efficient comparison between the expected budgeted costs and the actual costs at the actual level of activity.

Collier (2015) affirms that monthly control reports are useful in evaluating the performance of the company considering the changing business environment. They determine the efficacy of the cost controlling strategies in comparison with the actual performance of a company. For instance, they determine whether a company's low profits were a result of its low activities than expected or poor cost controlling strategies. Amana's monthly control report compiles the original budgets, flexible budgets and the respective variances as compared to the actual performance. It reckons operational realities streamlining the profit planning process of Amana.

Below is Amana's monthly control report:

AMANA'S MONTHLY CONTROL BUDGET REPORT

Item	Original budget in (£)	Flexible budget (£) at 80,000 units	Actual results (£)	Static budget Variances (£) (Actual results – original budget)	
Production in units	100,000		80,000	(20,000)	Unfavourable
Selling price	25	25	20	(5)	Unfavourable
Sales	2,500,00	2,000,000	1,600,000	(400000)	Unfavourable
Variable costs					
Materials	250,000	200,000	280000	(30000)	Unfavourable
Labour	400,000	320,000	440,000	(40000)	Unfavourable
Overhead	150,000	120,00	120,000	30000	Favourable
Contribution	1,700,000	1,360,000	760,000	(600,000)	Unfavourable
Fixed costs					
Warehouse rental	200,000	200,000	170,000	30,000	Favourable
Insurance	100000	100,000	100000	-	
Warehouse supervisor salary	50,000	50,000	35000	15000	Favourable
Total costs	1,150,000	990,000	1,145,000	5000	Favourable

Performance analysis report of Amana during the year

Amana's performance report examines performance variances and the respective causes of these performance differences. This is to enable the company to identify favourable and unfavourable variances hence formulating supplementing corrective strategies (Harelimana, 2019). Favourable variance showcases that Amana will sustain fewer costs than expected hence increasing the

revenue of the business. On the other hand, unfavourable variances indicate that Amana will incur more costs than expected, hence contributing to low profit margins. Variances in budgets are prompted by the changes in operating business conditions and the quality of management within a company (Arora, 2016).

Amana's control report shows that the company has unfavourable production variance whereby it sold and produced lower units than anticipated. Moreover, the company had a lower selling price than expected which contributed to lower profit margins. Similarly, Amana had unfavourable material and labour costs which meant that the company used more materials and labour in production than estimated. High material costs could have emanated from high material wastage, high level of material defects and poor inventory management (Seal et al., 2014). Equally, high material costs could have also been impelled by the increase in material market prices. High labour costs than expected could be attributed to longer hours of labour since employees had to work longer shifts to cover for sick employees or due to retrenchment of employees (Edmond and Olds, 2013).

Amana experienced favourable warehouse rental expenses, overhead costs and warehouse supervisor salary. Lower warehouse rental expenses emanated from low levels of inventory due to delayed shipping in of inventory from China. Governments globally placed stringent travel and cargo restrictions which delayed the delivery of Amana's inventory orders from China (Madison, 2021). Additionally, less rental expenses could have been promoted by rent waivers by warehouse owners. A decrease in the warehouse supervisor salary was espoused by the 30% wage reduction to decrease its overall company's wage costs. To conclude, higher favourable costs than unfavourable costs contributed to Amana's £ 5000 lower actual production costs than the original budgeted costs.

Nonetheless, Amana had higher actual production costs by £ 150,000 than the anticipated costs of the flexible budget. This shows that despite the lower level of activity the company incurred more operational and production costs than it should have. As a result, the company has inefficient cost controlling strategies thus having larger operational cost burden than projected. Likewise, the company realises lower surplus revenue since the low revenues realised are enough to cover its operational costs only. Therefore, for the company to sustain and recover from the

adverse effects of the Covid -19 pandemic it needs to find efficient cost mitigation strategies (Scheffe, 2010).

Recommendations to Amana's CEO on areas of improvement

Amana's operations variance analysis indicates that the company needs to embrace more efficient cost mitigation and operational strategies. Cost control strategies will enable the company to optimally use available resources hence maximising its profits (Collis and Hussey, 2017). The following are operational and cost efficiency strategies Amana should embrace to realise better revenues:

Improve on material usage efficiency: Amana needs to focus on redefining its material inventory cost structures as they have adversely affected the earnings of the company. When comparing Amana's actual expenditure with the flexible budget amount, it is noted that its material expenditures are relatively high as compared to the level of production. This has highly contributed to the depletion of Amana's revenues given that the company is currently experiencing low sales. The CEO of Amana should incorporate better inventory management systems to ensure that production and stock materials are correctly accounted for. Moreover, implementation of proper inventory management systems will aid in minimising the material wastage since the systems will ascertain the desirable stock for a particular sales period. This will also help to lessen its high material defects due to overstocking as well as warehouse renting expenses (Edmond and Olds, 2013).

Better labour practices: Despite Amana having low production and sales activities, its labour costs are still relatively high. Amana needs to revise its labour wage rates and ensure that they minimize on unnecessary overtime payment. Correspondingly, due to the Covid-19 pandemic the company has to automate more repetitive tasks to eliminate unnecessary employees. This will help to reduce the employee headcount hence reducing their wage burden for now and years to come. On the same note, the company should employ more of zero based contract employees to only pay for the services rendered. This is to minimise on paying employees fixed salaries even on off schedule days. Furthermore the company should utilise the governmental Furlough leave system to reduce its wage expenses of its low and junior employees (Madison, 2021).

Invest in more marketing channels to boost sales: Amana's marketing campaigns are mainly limited to website marketing and offline marketing through its physical stores. However, due to

the stringent Covid-19 protocols and prolonged lockdown restrictions closure of the company's physical stores in the UK was experienced. Moreover, most of the people stayed at home hence low chances of getting new customer visits within its physical stores. Therefore, the company should incorporate social media marketing and email marketing to attract individuals from all over the world. Initiating more marketing platforms will help the company to improve its brand image and awareness hence increasing its market share (Collier, 2015). Additionally, multi-channel marketing will introduce more interested segments of consumers reducing Amana's dependency on only tourist consumers.

PART B

Amana's decision on going online while advising him on whether to open a shop online or sell through Amazon

According to Collis and Hussey (2017) selling online increases a business' reach. This is because having an online store does not limit the number of customers the business is likely to have when compared to having a brick and motor location. Therefore, Amana can be able to sell across states, towns and boarders thus removing all the geographical limitations.

The online store will enable Amana to cater for the customers that find it convenient browsing through the company' website and making purchases during the period the company intends to close its Manchester city, Birmingham city and Brighton branches for streamlining its business activities. This will be crucial in saving time for both the company and the customers through the reduction of availability for phone calls, operation hours and product specifications which can be easily found on the company's website (Harelimana, 2019). Furthermore there is lack of physical contact with the products which is crucial during the Covid-19 pandemic as it minimises the spread of the virus.

According to Arora (2016) having an E-commerce system is significant in the provision of analytics and real time data regarding the customers and products of a company. This is because the company is able to determine how the customers interact with the site, the products they are interested in, the products they leave in the cart and the average purchases they make. This valuable metrics are crucial in enabling the company to make the adjustments that are vital for meeting the needs of its customers hence enhancing its profitability.

Collis and Hussey (2017) ascertain that an online presence enables customers to discover a business even when the products offered by the business are not ideal for online sales. This is because shoppers tend to spend more time conducting research online on a wide range of products that businesses sell. Therefore, by Amana Ltd listing its items online in an e-commerce system it will improve its chances of appearing in the search engine results pages. This could be significant in enticing local customers to call or drawing them towards the company's brick and mortar location. Furthermore, the website will be always selling since an e-commerce site operates 24 hours a day every day of the week.

However, having an online store is quite disadvantageous since shipping costs and the delivery time might be a deterrent. This will result to the company having to organise with services like Click & Collect. Therefore, customers will make the purchase of their products online and go to the nearest point of sale for collection (Seal et al., 2014).

Selling on Amazon provides the company with a large and growing marketplace since the site has over 200 million global customers. This will be vital in enabling the company to be exposed to a customer base that it could not be able to access on its own. As a result the company is able to easily acquire customers that are likely to boost its sales (Madison, 2021).

Amazon also provides access to world class logistics whereby the company can leverage the vast supply chain capabilities at Amazon through the fulfilment of the FBA program. Therefore, the company will be able to send its inventory to Amazon which will manage the storage within its facilities and the shipping and provision of customer service. This enables the company to minimise the costs incurred for holding inventory while making the customer experience no different from when inventory is sourced from Amazon (Edmond and Olds, 2013).

However, selling on Amazon commoditises the brand thus stripping the features that make it unique. This results to brand awareness being minimised as the focus on the brand name is shifted towards customer reviews. It also limits the ability of the company to collect customer data which is vital in enabling the company determine areas that need improvement to enhance maximum customer satisfaction. There is lack of control over pricing by the company since the pricing of the company's products is influenced by customer demand and competitors thus being determined by and controlled by Amazon.

Opening an online store for Amana will result to a total cost of £235,000 being incurred annually. These costs cover up £150,000 for setting up a delivery network, £50,000 for upgrading the current website and £35,000 for the annual fulltime salary of the IT programmer. Given the selling price of a souvenir as £20 and having 100,000 units sold annually then the company's sales will translate to £2,000,000. This will result to a profit of £1,765,000 being realised. On the other hand selling on Amazon leads to a fulfilment fee of £50,000 being incurred. Given the selling price of a souvenir is £20 then 65,000 units will result to sales £1,300,000. This leads to a profit of £1,250,000 being realised.

Amana should open their own online shop as they will be able to realise a high profit as compared to selling on Amazon. Having an online shop will realise a profit of £1,765,000 which is quite high as compared to the £1,250,000 profit realised from selling on Amazon.

Furthermore, the online shop will enable Amana have analytics and real time data on its customers and products through the determination of customer interactions, products left in the cart and average purchases. As a result the company is able to make adjustments that are geared towards promoting maximum customer satisfaction.

Conclusion

The profit and revenue growth of any company solely depends on proper cost accounting systems. Cost accounting monitors and controls the operational costs of a company stimulating better revenue growth and resource utilisation. Organisations affiliated to the tourism and hospitality sector need to embrace cost mitigation strategies to recover from the effects of Covid-19 pandemic. Cost accounting will enable them incur necessary and revenue generating costs hence remaining afloat and profitable even with the changed business environment.

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