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Assignment 2

Management Accounting

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Introduction

Management accounting is considered as one of the prominent branches of formal accounting which is used for the internal decision making of an organisation (Akroyd and Burney, 2018). Management accounting is such a tool that is used by almost all types of organisations for their internal decision-making purpose. It is a tool of internal decision making because the external users of accounting reports have not used managerial accounting reports (Hansen and Mowen, 2018). It is a different branch of accounting from its main branches because the management accounting reports are only used by the higher-level management of an organisation for making both long term and short term decisions for the company (Atkinson, Kaplan, Matsumura and Young, 2014). In this regard, the management accountant has to provide proper data to the higher-level management so that they can make good decisions about their business (Nixon and Burns, 2012). The management accounting reports are prepared as per the needs of the higher management, so this type of report can be prepared without maintaining formal rules and regulations (Kaplan and Atkinson, 2014). Budgeting is one of the crucial parts of management accounting. An organisation musthead to prepare a budget for various purposes (Moriarity and Allen, 2017). Various types of budget are prepared under the instructions of higher management of an organisation and some of those have been provided and evaluated in this report. Based on those budget reports, some recommendations will be prescribed for the management of Amana Ltd. Furthermore, the author has analysed Mr Amana's choice to go online and advises whether or not they should put up their internet store or sell on Amazon.com.

Part A

Monthly control report with the original report, fixed budget and variances

A business organisation must have to set or make some time frames based on its general activities to ensure its continuous operation. Generally, a business organisation can develop long-term planning but they split their long-term planning into small pieces because it is easy for them to control properly. Most other small and medium-sized business organisations are operating based on their monthly performances (Warren, Jones and Farmer, 2019). Month wise performance evaluation is regarded as one of the vital techniques for small and medium-sized business organizations to get to the result about their monthly achievement and to make plans about future control on their activities. By preparing a monthly report the management of an organisation can find out their activities in the previous month and can evaluate those activities to find out any types of problems or deficiencies. In this way, an organisation can increase its shared performance level (Nixon and Burns, 2012). So it can be said that the monthly performance report is one of the best controlling tools for an organisation.

There are so many monthly reports that an organisation can prepare to evaluate its previous month's performance. Generally, budgeting is regarded as one of the vital techniques to prepare monthly reports for any type of business organisation. Business budgeting in practice refers to how much money a firm has to work with and how productive its employees are to support long-term growth strategies, such as operational expansion (Seal, Rohde, Garrison and Noreen, 2020).

Here in the context of Amana Ltd, two types of budget reports such as original budget and flexible budget are going to be prepared to find out the variances. Original budget is the general budget report of an organisation which is prepared as the basic budget statement of the organisation. The original budget is prepared based on the assumption of standard costing. The management of an organisation consults with the accountant of that particular organisation to prepare the original budget reports (Nixon and Burns, 2012). The market based original prices or standard costs are used to prepare this form of budget. But the original budget can be proved as wrong due to sudden changes in the market. As a result of that, every organisation should have a backup plan.

Flexible budgeting is regarded as another type of budget which is used by the organisation to find out deficiencies in performance. Flexibility in budgeting is often used to manage the positive degree of adjustment involved in corporate activity or performance objectives, which primarily access to a given growth and operational development initiatives (Kaplan and Atkinson, 2014). Furthermore, it may be used to oversee the degree of the company operating consistency maintenance, allowing for the management of positive operational responsibility as well. Flexible budgets may be created by a corporation in a variety of ways, ranging from the most simple to the most complex. Companies may gain a better picture of their budgets by using a movable budget, which takes into account fluctuating expenses and profit margins (Horngren et al., 2018). As opposed to a static budget, a flexible budget takes into account changes in expenses and allows firms to make modifications to compensate for them.

Monthly control budget

Mr. Amana's Budget

Original Estimates

Particulars	Units	Per Unit	Amount (£)	Amount (£)
Sales	100000	25		2500000
Less: Variable expenditure				
Direct material	100000	2.5	250000	
Direct labour	100000	4	400000	
Overhead	100000	1.5	150000	
Total cost		8		800000
Contribution		17		1700000
Less: Fixed expenditure	100000			

Warehouse rental			200000	
Insurances			100000	
Fulltime warehouse supervisor salary			50000	
Total fixed cost				350000
Net profit				1350000

Mr Amana's Budget

Actual Estimates

Particulars	Units	Per Unit	Amount (£)	Amount (£)
Sales	80000	20		1600000
Less: Variable expenditure				
Direct material	80000	3.5	280000	
Direct labour	80000	5.5	440000	
Overhead	80000	1.5	120000	
Total cost		10.5		840000
Contribution		9.5		760000
Less: Fixed expenditure	80000			
Warehouse rental			170000	
Insurances			100000	
Fulltime warehouse supervisor salary			35000	

Total fixed cost				305000
Net profit				455000

Mr Amana's Budget

Flexible budget to finding variances

Particulars	Per Unit cost (Budget)	Per unit cost (Actual)	Budgeted Amount (£)	Actual Amount (£)	Variance	Status
Units			100000	80000		Unfavourable
Selling price	25	20			5	Unfavourable
Revenue			2500000	1600000	900000	Unfavourable
Less: Variable expenditure						
Direct material	2.5	3.5	250000	280000	-30000	Favourable
Direct labour	4	5.5	400000	440000	-40000	Favourable
Overhead	1.5	1.5	150000	120000	30000	Unfavourable
Contribution	17	9.5	1700000	760000	940000	Unfavourable
Less: Fixed expenditure						
Warehouse rental			200000	170000	-30000	Favourable
Insurances			100000	100000	0	Nil

Fulltime warehouse supervisor salary			50000	35000	-15000	Favourable
Net profit			1350000	455000	895000	Unfavourable

A report on Amana's performance based on budget report and variance analysis

To identify areas of company performance where a strong control approach has to be implemented, management uses the applied idea of a monitoring report, which follows the fundamental accounting framework for business costing effectiveness (Horngren et al., 2018). Accordant to the company' calculated budget method, the management of Amana Ltd was needed to commence a considerable volume of improvement connected to business strategy development, primarily so that the practical responsibility method to the financial performance could be efficiently launched. With the current marketing configuration, the current business management is necessary to establish a positive influencing approach, especially for productive aspects of the business, in terms of managing the overall volume of the business's financial approach in a sustainable way, according to the current marketing structure (Atkinson, Kaplan, Matsumura and Young, 2014).

Taking into consideration the current operational method, managerial parties linked with such operations contemplate initiating certain controlling performances related to unit pricing formulation as well, to effectively keep the overall volume of company variable costing structure. Entire company production unit volume must also be increased consistently so the main part of the business, comprising sales and profitability, can be effectively extended. It is also necessary to maintain or support the maximum volume of business process improvement, including an optimized approach to productivity improvement processing, that may be articulated in a hierarchical order for the management of the current company. In conjunction with present marketing performance, administrative business potentials are required to establish

a long-term development plan for warehouse processing, which may help the company's overall growth and operations plan successfully formulate.

Recommendations for Amana Ltd to improve the business effectiveness

The management of a firm must begin an essential development strategy by establishing such optimal business growth and performance sustainability frameworks in a favorable order in accordance with the present financial approach (Akroyd and Burney, 2018). In terms of Amana Ltd, many changes have been seen in the company's budget and actual performance output that suggests the current leadership should implement proper regulation of product price so that positive sustainability can be developed in the long term.

An important part of managing a company's entire operations, including its performance accountability, is enhancing the selling price in addition to regulating product pricing levels (Nixon and Burns, 2012). Furthermore, to maintain current marketing expansion, the management must increase the total volume of sales and production rates as well, to ensure that general productivity performance can be begun in a meaningful fashion. The operational department also has to concentrate on strategic planning in a major order via the execution of such fundamental plausibility together with general operational management improvement (Nixon and Burns, 2012).

It is estimated that decreasing the number of comprehensive warehouse employees from four to three while keeping all other factors constant, will result in a decrease in variable expenses of around £120,000 each year. Because it will assist to cut losses and providing more to Amana's fixed overheads, this choice is strongly suggested. Moreover, company administration should be worried about effective competitive environments, as per current marketing activities, with the help of which organizational business responsibility may also be established in a supporting way. Furthermore, management must be concerned with the company's performance management in particular to build productive growth strategies. With the existing operational strategy, management must focus on organizational capabilities to effectively create a fundamental growth strategy.

Part B

Analysis of Amana's decision to go online by its measures or through Amazon

In the context of the modern business era, most business organisations are doing their business online to acquire the largest share of the market. Going online can help a business to become more successful because in this way an organisation can sell its product to a more diverse area (Annette, 2020). Biting the popularity of online-based businesses Mr Amana has planned to expand its business online. He wants to sell more products online by transforming its 50% business operation in the online area.

Using internet trading efforts, managers may easily simplify the company's commercial operations in a more thorough way than they were before. The management has settled on two basic possibilities for launching this approach: performing online trading with the assistance of its web framework or with the assistance of third-party participation. With the same degree of consideration in an order to use the fundamental strategy of comparison between those two distinct possibilities, management launched the approach that is primarily concerned with cost comparative analysis. If the management chooses the first choice, which is the processing of online trade initiatives with the help of its website performances, it will be necessary to incur a large degree of cost expenses in connection with current company operations. It is generally recognized that the leadership team of the company has approved this alternative based on the initial quantified approach and that the organization will be required to provide approximately 235,000 in total expenditure, which will be split between the engagement of delivery networking, website handling, and salary performance, among other things.

Alternatively, if Amana chooses to sell on Amazon, they should keep in mind that they will be required to pay Amazon fulfilment costs for £50,000. Additionally, because of the high levels of competition among Amazon sellers, it is predicted that Amana will only reach guaranteed sales of 65,000 units on the market. Despite this, the number is theoretically liable to grow since it is heavily influenced by the market's demand. Returning to the expenditures, it can be observed that Amana would be required to invest £50,000 for their items to be offered on Amazon. If the firm decides to sell via this eCommerce, it will incur a total fee of £100,000 for the transaction.

If Mr Amana wants to sell its product through Amazon then it may take some cost. First of all by selling products through Amazon this company need not have to invest any money as the startup cost. Then this organisation must not have to build up their website and they are not required to

rent or buy warehouses for the products. The biggest advantage that the company will get by buying products through Amazon is the advantage of marketing. Amazon is already the biggest e-commerce company and world-famous organisation, so Amana will not be involved in a huge range of marketing activities. As a result of that, this company can save money regarding its advertisement cost.

But the profit that can be generated by selling products online by its website will be bigger than the selling through Amazon. Again there are some relative advantages which can be gained by this company by selling products through its online media. Because in this way, Amana can use its website which will help them to become popular among the customers and which can also help them to build a successful organizational career. Selling products through its online operation will help this company to become successful in the long run. Again it can increase the opportunity to increase the product ranges by its name. In this way, it can successfully build up a good reputation for itself.

It can be stated that going online can be the best decision for this company because of the current situation. In the context of covid-19, the government of every country has imposed various vital restrictions on the social movement of the people (Annette, 2020). After the covid-19 this tendency will last so long, so the tendency of the new normal will continue for a long period. As a result of that, almost every organisation in the United Kingdom has tried to sell something via online medium. Because in future this type of situation may create again then those organisation can find the survival opportunity by using the online operations. But going online for a traditional company for the very first time can be very costly. So this company can use third-party media like Amazon for going online for the first two or three years. Within that time this company will learn how to perfectly sell products online and then it will be easy for it to go with their website.

Conclusion

In summary, the use of various types of management accounting tools can help an organisation to take important business-related decisions. In this report, a management accounting tool named by budget was used to find out the performance variances for the given company. Based on the calculation some recommendations have been provided to the management of this company by which they can improve their organisational performance. In the second part of this report, the business decision of going online buy the Amana Ltd has been evaluated with the analysis of relevant costs.

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