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PART A

1; Preparation of monthly control report showing the original budget, the flexible budget and variances

	Original Budget	Actual budget	Flexible budget	Variance	% Variance	F/ U
				Flexible- Actual	Variance/ Flexible X 100	
Units	100000	80000	80000	0	0.00%	F
Selling price	25	20	25	5	20.00%	F
Sales revenue	2500000	1600000	2000000	-400000	-20.00%	U
Variable costs (Per unit)						
Materials	2.5	3.5	2.5	-1	-40.00%	U
Labor	4	5.5	4	-1.5	-37.50%	U
Overhead	1.5	1.5	1.5	0	0.00%	F
Contribution	17	10.5	17	6.5	38.24%	F
Variable costs (total)						
Materials	250000	280000	200000	-80000	-40.00%	U
Labor	400000	440000	320000	-120000	-37.50%	U
Overhead	150000	120000	120000	0	0.00%	F
Total	800000	840000	640000	-200000	-31.25%	U
Contribution	1700000	760000	1360000	-600000	-44.12%	U
Fixed overheads						
Warehouse Rental	200000	170000	200000	30000	15.00%	F
Insurance	100000	100000	100000	0	0.00%	F

Fulltime warehouse supervisor salary	50000	35000	50000	15000	30.00%	F
Total fixed costs	350000	305000	350000	45000		F
Profits	1350000	455000	1010000	-555000	-54.95%	U
(Contribution - fixed costs)						
Profit margin	54.00%	28.44%	50.50%	-22.06%		U

In the table above it can be seen that a flexible budget has been prepared along with the original budget. In the original budget, the sales are 2,500,000 which were for 100,000 units but in reality only 80000 units were produced. Therefore the flexible budget has been prepared. It is a flexed form of original budget that has been prepared for 80,000 units. Further this budget is compared with the actual expenses incurred on 80,000 units. The variances have been presented in the numbers and then in percentage form in the next two columns. The business can see the areas where it is lacking in these columns. The figures with the highest deviations or negative variations are the areas where the business has to focus.

2; Report on Amana's performance during the year

To: Amana Ltd

From: Manager

Subject- Report on business performance

It has been taken under consideration that the actual production is for 80,000 units only and the original estimate was for a total of 100,000 units. To make the data comparable the budget is adjusted to 80,000 units. It is a distinctive feature of flexible budget that it can be adjusted based on the total production output.

The variable costs per unit stay same and these have been allocated as per 80,000 units in the flexible budget. As per real or actual figures a significant variance was noted in these costs. It can be seen in the budget prepared (attached with this mail) that the material cost variance has been -1 or 40% of the value which is certainly significant. It has led to increase in total variable costs. The labor cost variance is -37.5% or in total value it is -120,000. The

contribution figure is down by -44.12% which shall have a direct impact on the profitability of the company.

The fixed costs are in the form of rental for the warehouse, insurance and salary to the warehouse staff. There is no variation in insurance expenses. However the warehouse rental is down by 15%. It might be because of the fact that to store 80,000 units the warehouse used less space and it is one of those fixed expenses that the business could actually reduce. Similarly less manpower was needed at this level of output and the supervisor salary is also down by 30% than the budgeted levels (Bybordi, Ousama and Shreim, 2019).

The profits are 450,000 as per the budget for 100,000 units, while if the actual production is sold in the market the profits will be 455,000. As per the flexible budget the profits at this level would be 350,000 also. Hence the business's profits are less by 555,000 or -22.06%. The profit margin would be 50.5% as per the budget but in actual production the profitability has been 28.44% only.

In the budget it can be seen that the variable costs are high for the company and these must be controlled from the next time. The business should identify the areas that led to such high variations. For example the business might be procuring material from the expensive suppliers or that it might be paying its employees very high wages that the industry standards. The business must tackle these issues and aim at reducing these differences for better profits. The fixed costs have been less in the actual budget but due to the negative variances of variable costs the ultimate profits are high for the company (Ameen et al., 2018).

The business has variances not only in terms of produced units but also in the final revenue that is earned from the customers. The difference is because it has set a lower sales price. The budgeted selling price is 25 while the actual price charged to the customers is 20. Hence there is a direct revenue loss of 5 per unit. In case the business wants to earn more profits it must be able to sell to the customers at a better price. The business can use a variety of techniques to improve business performance. For example it must use cost control techniques apart from budgeting to reduce production costs. The labour costs can be reduced by forming a proper roster and assigning the employees right match of responsibilities (Azudin and Mansor, 2018).

The business can sell souvenirs at more locations so that it can increase its sales levels. The Chinese producer can be given bulk orders and then it can have more advantage in terms of costs. It can use more marketing efforts so that the reach of the product can increase.

Therefore the business can have cost advantage that and higher selling that will work for improving its profit figures.

Thank you,

Manager

3; Recommendations to Amana's CEO on areas of improvement

The company could not perform well when it comes to work as per the budgeted figures and it reported very high variances in some of the cost elements. It is because the pandemic has not faded out yet and there is a heavy fall in tourism activities. The company had to reduce the selling prices so that the products could be sold. Other than that unexpected future conditions did the equal harm. The pandemic has shrunk purchasing power of the customers and even domestic tourists are spending less on souvenirs. The business in order to curb through these odds, it is recommended to follow the given strategies.

- a) **Negotiations with the supplier-** The suppliers are the parties that supply it raw materials. The business must have a range of suppliers from which it can negotiate on the prices. The material costs per unit are 3.5 in the actual budget while for the flexible budget it has been estimated to be 2.5. The business must find suppliers that agree to supply it with lower rates in order to save some costs (Bragg, 2021).
- b) **Procuring from a larger labour pool-** The business expenses in case of labour are also high. The budget was prepared with a standard to allocate £4 to the labour but in actual these costs have been £5.5 per unit which is also a major cause of variance. The overhead costs have been stable. The business must recruit more workers who are ready to accept employment contract at lower salaries. However the business must be cautious here as it can lead to a feeling of disapproval in the workforce. A better alternative is to maintain the roster and to cut down the idle time of workers.
- c) **Price optimization-** In the business there are still some locations where the tourist rush is more than other places. Here it is possible to sell the souvenirs with standard or even higher rates. The business must identify these locations and adjust its pricing policies accordingly. Due to this policy the business can easily increase its sales and can command a better revenue or price for its products (Flynn et al., 2020).
- d) **Marketing and advertising-** It has been the most promising technique to increase the sales. The business should make more attempts to let the customers know its products. By spending more on these activities, the business can ensure healthy business

growth. However the fund for advertisement should be carefully decided as overspending here can lead to losses in the business.

- e) **Variance reports**- The business should timely prepare variance reports to identify those areas in the costing where the variances occurred. It will assist the company in keeping the track of ongoing operations. The variance can be high in some of the areas and these can be reflected in variance reports. It will provide a guiding tool to the managers in order to determine in what activities strict measures are required to reduce excessive spending (Bragg, 2021).

PART B

Report for the business of Mr Amana

To: Mr. Amana

From: Manager

Subject- Advice on whether to move 50% sales online

Dear Sir,

It has been a great initiative if you plan to take your business on an online platform. The businesses have recently suffered a lot from the adverse impacts of the global pandemic and this has pushed many traditional companies to streamline their business activities with online channels. It has been seen that the competitors of your business are selling online and it has been a great experience for the customers as well if these could get their desired souvenirs without ever visiting the place. Hence all the conditions are in favour if you plan to expand your business online during these times (Katsikeas, Leonidou and Zeriti, 2019).

In taking the alternative A which is regarding setting up your own website, you might need to hire an IT professional and also pay for other fixed expenses. Here, following fixed costs will occur:

Alternative A	
Taking business activities online	

Costs	Figures in £
Setting up the delivery network	150,000
Up-gradation of the website	50000
Salary to IT programmer	3500
Guaranteed sales units	100,000

The other alternative is selling on Amazon. It will nullify the other fixed charges related to setting up business online but here less control could be established on setting the prices since the Amazon can interfere with some of company's policies. Here the following costs will be incurred by the business:

Alternative B	
Selling on Amazon	
Amazon fulfillment fee	50000
Guaranteed sales units	65000

The business needs to prepare a budget in order to know how effective these measures are. As the business plans to take up 50% of the sales online, it must assign 50% of fixed overheads to this budget. The other costs related to the choice of alternatives will also be taken under the consideration. The variable costs per unit are assumed to be same as were estimated in the original budget prepared for the business. These costs are 2.5 for the material, 4 for the labour and 1.5 for the overheads. A detailed analysis and the budget for these alternatives hve been presented in the table below.

	Online platform	On Amazon
Sales Units	100,000	65000
Sales price	25	25
Total revenues	2500000	1625000
Variable costs (Per unit)		
Materials	2.5	2.5
Labor	4	4
Overhead	1.5	1.5

Total variable costs per unit	8	8
Contribution	17	17
Variable costs in figures	800000	520000
Units X variable costs per unit		
Contribution	1700000	1105000
Fixed costs		
Setting up the delivery network	150000	
Up-gradation of the website	50000	
Salary to IT programmer	3500	
Amazon fulfillment fee	0	50000
Other fixed costs 50%		
Warehouse Rental	100000	100000
Insurance	50000	50000
Fulltime warehouse supervisor salary	25000	25000
Total fixed costs	378500	225000
Profits	1321500	880000
Profit %	52.86%	54.15%

It can be seen that both the alternatives are profitable for the business. The selling on Amazon has been extra profitable as it can be seen that the profit margin is 52.86% when 100,000 units are sold on company's own website. The same profit margin is 54.15% when the company sales through the Amazon e-commerce website which is a third party for the business. Here although the business have lower sales units as it can be seen only 65,000 units have been sold and the Amazon company's policies can be against the set prices or desired prices of souvenirs set by Amana Ltd (Bragg, 2021).

The company is advised to take benefit of both the channels in order to render its business activities profitable. The presence at multiple channels will ensure more of its products will be sold. Although if it has to choose between these two the alternative A is more profitable as

here more units are being sold. The fixed costs might be high initially but in the coming periods these will be substantially reduced. The business can also produce and sell more through its direct channel which will bring it cost advantages. It can adjust its prices by its own without interferences from the third parties (Katsikeas, Leonidou and Zeriti, 2019).

The relevant costs for this decision are the costs associated with the alternatives. In case the company sets up its own channel online the costs are high as it has to pay for IT employees, getting a domain name, building its website and its timely up gradation and management. However this problem can be solved if it takes third party services such as using Amazon's platform for sales. This other alternative will reduce the fixed costs as now it only has to pay a fulfilment fee of 50,000. However it has its own sets of disadvantages.

First the company can constantly fear infringement of copyright policies. There might be other sellers who can copy company's idea and sell identical products. On the third party's website it will be a tough challenge to take legal actions. The e-commerce giant Amazon can also make some policies which force the company to reduce its prices, especially during its festive season sales. Also due to rigid refund and replacement policies the company can lose some of the revenues if the sales returns are too high and it is unwilling to provide the standard period which is provided by the third parties to return or replace the products (Zhu and Gao 2019).

The company is thus advised to keep its offline sales well in place as well as use online channels to maximize the revenue potential. It will bring the company at par to its competitors who have already ensured their visibility online. There has been a drastic increase in businesses opting for online channels during the times of pandemic. This has ensured businesses to stay afloat and remain profitable even when the sales are low. In the present times there is still an uncertainty about the pandemic or the subsequent waves which can have economic implications for the business. To save the business from those circumstances it is advisable the business should swiftly adapt the sales through online medium. The higher profit levels as per the budget provide assurance to the company that its business is likely to expand several fold in case the online sales channels are developed.

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