

Management Accounting

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PART A

(i) Monthly report showing original budget, variance, and flexed budget

Control Report of Amana Ltd									
	Original Budget (£) [A]	Actual (£) [B]	Varia nce [A-B]	Vari ance %	Resu lt	Flexi Budge t [C]	Varia nce [A-C]	Vari ance %	Resu lt
Units	£ 100,000.0 0	80,000 .00	£ 20,000 .00	20%	Unfa vora ble	80,000 .00	£ - -	0%	Favo rable
Selling Price	£ 25.00	£ 20.00	£ 5.00	20%	Unfa vora ble	£ 25.00	-£ 5.00	-20%	Unfa vora ble
Total Sales	£ 2,500,000 .00	£ 1,600, 000.00	£ 900,00 0.00	36%	Unfa vora ble	£ 2,000, 000.00	-£ 400,00 0.00	-20%	Unfa vora ble
Variable Costs									
Material	£ 250,000.0 0	£ 280,00 0.00	-£ 30,000 .00	-12%	Unfa vora ble	£ 200,00 0.00	-£ 80,000 .00	-40%	Unfa vora ble
Labor	£ 400,000.0 0	£ 440,00 0.00	-£ 40,000 .00	-10%	Unfa vora ble	£ 320,00 0.00	-£ 120,00 0.00	-38%	Unfa vora ble
Overhead	£ 150,000.0 0	£ 120,00 0.00	£ 30,000 .00	20%	Favo rable	£ 120,00 0.00	£ - -	0%	Favo rable
Contribution	£ 1,700,000 .00	£ 760,00 0.00	£ 940,00 0.00	55%	Unfa vora ble	£ 1,360, 000.00	-£ 600,00 0.00	-44%	Favo rable
Fixed									

Overhead									
Warehouse Rental	£ 200,000.00	£ 170,000.00	£ 30,000.00	15%	Favorable	£ 200,000.00	£ 30,000.00	15%	Favorable
Insurance	£ 100,000.00	£ 100,000.00	£ -	0%	Favorable	£ 100,000.00	£ -	0%	Favorable
Fulltime Warehouse Superior Salary	£ 50,000.00	£ 35,000.00	£ 15,000.00	30%	Favorable	£ 50,000.00	£ 15,000.00	30%	Favorable

Business prepares the control report to manage the operations or the business activities. These reports prepare these reports to identify the potential issues in the business that may harm the company's annual performance. These issues can create the worse working environment due to which the performance of the employees may hamper (Barros 2021). These reports are prepared by the management on the basis of the requirement that may be prepared daily, once in a month, quarterly, or annually. This report also contains the reason of the major issue in the business activities and the most common reasons are found in the production activities of the company. The most owner of the business analyse the monthly financial reports to analyse the performance of the company and these reports are also known as the operating report.

In the control report of Amana Ltd, original budget of the company has been compared by the actual performance of the firm and the variable is identified in the various business activities. This is indicating that the Amana Ltd performance was not as per the benchmark set by the company due to the introduction of the Covid-19 in the economy (Seraphin 2019). This global pandemic has forced England government to implement the lockdown in the domestic boundaries. The business of Amana Ltd is operating across England for past 40 years and dealing only through the physical stores. The implementation of the lockdown has forced the business to temporarily close down and due to which the total revenue of this company has been reduced in the year 2020.

(ii) Analysis of Performance

Amana Ltd is successfully operating across England for past 40 years and its existences in the various city of the England such as London Bridge, Birmingham city center, Brighton, Buckingham Palace, Manchester city center, and Brighton. This company is operating in the country only through the physical stores and the implementation of the lockdown has impacted the company's performance. This company is operating for many years and aware about the vigorous nature of the tourist industry. The revenue of Amana Ltd has get the biggest in the month of the April of the year 2020 while in the same year in the month of December, this company's revenue has been depleted due to the arrival of the covid-19 in the country. The government has imposed the restriction on the travel within the domestic boundaries or outside of it. Due to this decision, the tourism industry has been highly impacted and also created the impact on the financial reports of the Amana Ltd.

As per the analysis of the Amana Ltd performance, this company's financial health has been impacted and was not as per the set benchmarks that is actual budget of the company. This company is expecting that the business will be able to sell its production at 25 per units but in actual the company was able to make to sell its production at 20 per units. As per the projection, the management has estimated that the business will be able to sold out the 100000 units but in actual this figure has been reduced by 20000 and the total sales of this company is less by £ 900000 as per the projection. It is indicating the variable in the total sales of the company has 36 percent which is much higher. The variable cost on the products is worth £ 8400000 while the company has projected that this cost will be equal to the £ 800000. The difference of £ 40000 has incurred due to the increase in the material cost, labor cost and reduction in the expenses of overhead. The contribution is calculated by deducting the cost of the variable from the total sales of the company and this indicate the incremental money generated by the business for each units sold by the company. As per the analysis, the total actual contribution of Amana Ltd is £ 760000 while as per the estimation this figure was £ 3050000. The total fixed cost of this company is equal to the £ 350000 as per the projection but in actual this cost is equal to the £ 35000 which means that the company is able to save £ 45000 in the cost of the warehouse and in the salary paid for the warehouse superior. The variable in the net profit of the company is equal to the 66 percent due to the increase in the variable cost of the production as well as due to the spread of

the global pandemic. The company should try to control the variable cost in the business and increase the total revenue of the company by using the various marketing strategies.

(iii) Recommendation to Amana's CEO

The firm of Amana Ltd has been operating in the country for past may years. The company's revenue was impacted in the year 2020 because of the covid-19. This global pandemic has impacted the tourism industry across England and worldwide as well. This Coronavirus has forced the state to impose the restrictions on the travel and the movement in the country. The livelihood in this sector has been also impacted. Many large organizations in the economy has faced the huge losses due to this global pandemic. The sudden downfall in the tourism sector has impacted the economic development as well. This crisis has made the companies to think how the tourism industry interact and maintain the financial health of the business (Igonina 2019). Following are the some recommendations for the CEO of the Amana Ltd to improve the performance of the firm.

Establish Clear Objective- Company should prepare the budget for the company for specific period as per the pre-determined objective and this objective should be achievable. The budget is work as like a roadmap for the business future earnings and expenses of the firm. The management should ensure that the budget of the different departments of the company must comply with the aster budget of the business. This budget should be easy to understand and clear about the roles and duties of the staff in the company (Bužinskienė 2019).

Proper Allocation of Funds- The performance of the budget can be improved only when the allocation is made as per the requirement of the fund by the different departments of the firm. This allocation should also keep in mind the available funds for the period. In the budget, the expenses should be approved only by the proper explanation and the management should also track these expenses and also prepare the timely control report to compare the allocation with the business actual performance.

Summarize the business strategies- The budget is prepared with the pre-determined objective and this objective should be explained by the company to the management. The staff feels more attached with this initiative and also helps in improving their efficiency. CEO of Amana Ltd

should ensure that the staff is performing as per the projection and they are clear about their roles and responsibilities.

Digital transformation- Global pandemic has forced many companies to take their business online. Amana Ltd CEO should invest in advance innovation. The CEO or the appointed department should also promote business by using the various social platforms and should also invest in the digital skills.

Boost Competitiveness- This company can boost the competitiveness through the economic variation. Amana Ltd should promote its business by diversifying it such as region tourism and domestic tourism. This business should also build resilience by facilitate beneficial business environment for the micro and medium sized enterprises.

PART B

Amana Ltd wants to introduce the digital transformation in its business. It means that the company is planning to sell its services online. Till now, this company has traded only through the physical stores establish across England. The company is planning to close some of its branches that are establishes in England. These branches include the business in Brighton, in the city center of Birmingham, and city center of Manchester. The company has to take review its business activities before taking the decision of streamline its business to online (Musarat 2021). Investment in the advance technology helps the business to improve its revenue and may reduce the various unnecessary expenses. This company has two options either sell through own online sell or go with the Amazon. In both the cases, Amana Ltd would have to incur some additional expenses and the split of the same is explained in the below calculation. This 50percent digital transformation of the business require some additional expenses that includes-

Own Online Shop			Alternative Deal	
Particulars	Amount (£)		Particulars	Amount (£)
Units	100000		Units	65000
Selling Price	£ 20.00		Selling Price	£ 20.00
Total Sales	£ 2,000,000.0 0		Total Sales	£ 1,300,000.0 0
Variable Costs			Variable Costs	
Material	£ 140,000.00		Material	£ 140,000.00
Labour	£ 220,000.00		Labor	£ 220,000.00
Overhead	£ 60,000.00		Overhead	£ 60,000.00
Cost of Setting	£ 150,000.00		Amazon Fulfillment Fees	£ 50,000.00
Cost of Upgrading	£			

	50,000.00			
Salary to IT Programmer	£ 35,000.00		Total Variable Cost	£ 470,000.00
Total Variable Cost	£ 655,000.00			
Contribution	£ 1,345,000.00		Contribution	£ 830,000.00
Fixed Overhead			Fixed Overhead	
Warehouse Rental	£ 170,000.00		Warehouse Rental	£ 170,000.00
Insurance	£ 100,000.00		Insurance	£ 100,000.00
Fulltime Warehouse Superior Salary	£ 35,000.00		Fulltime Warehouse Superior Salary	£ 35,000.00
Total Fixed Cost	£ 305,000.00		Total Fixed Cost	£ 305,000.00
Profit	£ 1,040,000.00		Profit	£ 525,000.00

In the above calculation, the expenses and the revenue of both the decisions have explained. This budget has considered all the related expenses that Amana Ltd needs to incur for the successful operation. As per the projection, Amana Ltd will able to sell 100000 units through the own online shop while in the case of the Amazon this company will only be able to sell 65000 products. These are the guaranteed number of the units that the business will be able to sell. The selling price in both the options will remain same.

If the company sells by establishing own online then it will be able to generate the total sales equal to £ 2000000. This includes the revenue that is generated only through the online sales (Sheth 2017). Establishing this shop will also attract some additional expenses that includes the

cost of setting this shop, cost of upgrading the system, and expense of salary that will be paid to the IT programmer. The total variable cost of the company will increase to £ 655000 in which the cost of the material is £ 140000, labor cost worth £ 220000 and the expenses of the overhead equal to £ 35000. The total contribution of Amana Ltd will be £ 1345000. The fixed overhead of the company is equal to the £ 305000 which will remain same for both the available options. The company will be able to generate the net profit equal to £ 1040000 by establishing own online shop.

The alternative option for Amana Ltd is to sell on Amazon. This available option will also attract some additional cost that includes the Amazon fulfillment fee. This company will be able to make the sales equal to 1300000 at the same price. The total variable cost in this available option will be £ 470000. This total variable cost includes the cost of the labor, material, overhead expenses, and the Amazon fulfillment fee. The contribution in this case will be £ 12.78 per unit. The net profit of the company will be equal to the 525000 that is determined by deducting the total variable cost of this option and the total fixed cost that will be incurred by the company to opt this option. This means that Amana Ltd will be able to generate the net profit of £ 8.08 on the very unit sold in the market.

As per the above analysis, Amana Ltd should go with the option one that is sell through own online shop because in this case, the company will be able to generate more profit on the every units sold in the market in comparison to the Amazon. The total sales through Amazon may also increase in future as per the demand and supply in the market. But the company will not have the option to control over the policies related to the price and return of the product. If company go with the first option, it will to increase the price of its products as per the demand and facilitate the changes in the return policies requirement. Amazon may also increase its fulfillment fee that will further reduce the net profit of the business. Selling through own online shop will be considered as the best option for Amana Ltd. The owner may also increase the revenue by using the various marketing strategies related to the promotion and price of the product (Karim, Nisa and Imam 2021).

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