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Introduction

Managerial accounting is an important tool of organizational decision making. The primary objective of managerial accounting is to use accounting and financial data to make managerial decisions to achieve two outcomes namely increase profitability and minimise losses. Managers operationalize managerial accounting by making decisions that relate to costs, revenue, and qualitative decisions such as change in business strategy (Atrill,2018).The denominating feature of these decisions is that they are all premised on the use of data. It is, therefore, plausible to contend that managerial accounting involves making organizational decision based on the evidence presented by data analysis. Amana Limited is facing on organizational situation that require the use of data to determine an optimal decision in two aspects. The first aspect is the variance analysis from the budgeting process to identify areas of improvements. The second aspect is the use of costing data to determine the optional method of changing the company's operating model. The following discussion explores these two primary aspects.

Part A:

Cost Breakdown of Amana Capital's Products

Budgeting is the cornerstone of all growth and development of a company. It involves forecasting the sources and needs of resources for a company, with the ultimate objective of harmonising these aspects to achieve the overall organizational objectives. From a managerial accounting perspective, budgeting focuses primarily on maximising revenue and minimising costs(Akhmetzyanov and Sokolov, 2020). These elements are essential in improving a company's profitability. The benefit if budgeting is that through the variance analysis, a manager can identify the areas affecting the company's profitability and apply corrective measures.

Preparation of Monthly Control Report Showing Original Budget, Flexed Budget, and Variances

A monthly control report seeks to help managers evaluate the financial and operating performance of a company on a monthly basis. The means to achieve this is to compare the actual performance of the company against the forecasted performance. Given the original and actual budgetary allocations, it is possible to calculate the flexed budget and the variance as shows in the following table. The variance can be favourable or unfavourable depending on its effect in revenue. Specifically, a variance that adds to the revenue growth is a favourable variance whereas a variance that eroded revenue growth is an unfavourable variance.

Figure 1: Control Report for Amana Limited

Items	Cost per unit	Original (£)	Flexed (£)	Actual (£)	Variance	
Units		100,000	80,000	80,000		
Selling price	25	25	25	20	5	Unfavourable
Revenue		2,500,000	2,000,000	1,600,000	(400,000)	Unfavourable
Variable costs						
Materials	2.5	250,000	200,000	280,000	(80,000)	Unfavourable
Labour	4	400,000	320,000	440,000	(120,000)	Unfavourable
Overhead	1.5	150,000	120,000	120,000	0	
Contribution	17	1,700,000	1,360,000	760,000	(600,000)	Unfavourable
Fixed costs						
Warehouse rental	200,000	200,000	200,000	170,000	30,000	Favourable
Insurance	100,000	100,000	100,000	100,000	0	
Fulltime Warehouse Supervisor Salary	50,000	50,000	50,000	35,000	15,000	Favourable
Profit		1,350,000	1,010,000	455,000	555,000	Unfavourable

Report on Amana's Performance for the 2020 Financial Year

The control report enables managers to make deductions on the company's financial and operating performance. The managers can then implement corrective measures to prevent further deterioration of performance.

Amana Limited reduced the selling price for the souvenirs for the 2020 financial year. The selling price for a product is an essential component of revenue because it is multiplied by the sales volume to yield revenue. The revenue generated by a company has major implications on the overall profitability of a company because it covers all the operating and fixed expenses, ultimately leading to net profit. Therefore, managers of any company need to be careful in changing factors that could affect revenue. Amana reduced the selling price perhaps to increase revenue (Alegre and Sard, 2017). Ideally, the demand for any product increases with a decline in price. Amana's managers rationalised that by reducing the selling price, there would be a significant increase in total revenue to offset the decline in marginal revenue (Alegre and Sard, 2017). However, this expectation did not materialise, underlining the fact that the strategy is not sustainable. A further decline in revenue will affect virtually all other aspects of the company's operations. It is clear from the report that the reducing selling price leads to £400 000 less revenue than budgeted. Therefore it is unfavorable for the company.

Amana Limited increases the purchase of materials without a corresponding increase in revenue or sales volume. Variable costs are common for all companies, and they fluctuate in line with changes in sales. Indeed, variable expenses are presented on a per unit basis, implying that they are supposed to change with change in volume of sales (Atrill, 2018). Optimal management of materials expenses, therefore, is an important managerial decision. The possible reason why Amana souvenir increased its cost of material

is the increase in price from the supplier(Weustink et al., 2000). The control report shows that £80 000 more was spent than budgeted for material costs. Therefore that variance is unfavourable. The strategy is not sustainable, especially in the wake economic challenges caused by the COVID-19 pandemic.

Amana increased its expenditure on labour which primarily included wages and salaries. Human resource is one of the essential components of a company's expenses, and it is impossible for a company to function optimally with inadequate number of employees. Further, a company needs to hire and retain employee with the ideal skills and knowledge to support a company's growth and profitability (Weustink et al., 2000). Amana increased its operating expenditure on labour which could have been caused by increasing wages and salaries for the existing employees or hiring additional employees(Rohde and Garrison, 2019). The strategy is not sustainable if the firm wants to generate a competitive edge. In the wake of increased globalisation, companies are facing completion from international companies. Additionally, it is notable that companies are becoming technology-intensive by introducing technology in various aspects of operations. The deduction is that Amana's strategy of increases expenses on labour will impair its profitability and affect its ability to become globally and domestically competitive.

Recommendations to Amana's CEO on Areas of Improvement

One of the pivotal goals of managerial accounting is to analysis data to make managerial decisions. In light of the preceding analysis, the following are ideal recommendations to Amana's CEO to reverse the negative operating and financial aspects.

Amana's management should revise the selling price back to the budgeted price of £25 per unit. Pricing decision is the basis of success for any company. Although the current pandemic has affected the company's ability to increase its revenue, the management should revise the price back to the budgeted amount. The change of price to £20 has shown that lowering the price does not necessarily increase revenue and volume of sales. This could be

attributed to the fact that the price elasticity of demand for Amana's souvenirs is less than 1 such that a unit change in price causes less than a unit change in demand for the product(Rubin and Dnes, 2010). In this case, the company should note that revising the price back to £25 per unit would not erode profitability because demand would remain fairly constant.

Amana should review the cost of materials with an objective to lower the cost of acquiring materials for making souvenirs and optimise the overall operating expenses. The best course in this case is to change the supplier of the raw materials. Globalisation has enhanced the flow of goods and services across the world. The company should capitalise on this advent to seek cheaper materials domestically or from international markets(Wieland, 2020). Alternatively, the company should determine if the high cost of materials is resulting from inefficiencies in supply chain management. In this case, the management should devise measures including mainstreaming technology within supply chain management to improve efficiency and lower the cost of materials.

The company should reduce the cost of labour. Labour is an essential part of any firm and Amana Limited cannot operate without qualified workforce. However, the increase in wage and sales without proportionate change in revenue means that the employees are earning income that does not correspond with their contribution. Ideally, employees' remuneration is based on the concept of marginal productivity of labour, implying that the wages should be equal to the marginal productivity of an employee(Shah, 2016). The company can use this tool to review the optimality of wages and salaries within the company. Alternatively, Amana Limited should employ two strategies to optimise wages and reduce operating expenses. One, the company invest in technology to enhance efficiency which would then make some employee redundant. The redundant positions would be eliminated to lower costs. The other option is to engage in business process outsourcing whereby Amana

Limited would subcontract some part of the supply chain to more efficient companies domestically or in the international markets (Abri and Mahmoudzadeh, 2014). For example, Amana can outsource manufacturing to China through vertical integration. The defining feature for vertical integration is that it allows the parent company to maintain control of the supply chain. Therefore, Amana would experience a decline in labour costs without losing control over design and other production aspects.

Part B:

Evaluating Decision Using Relevant Costing for Amana Limited

Technology is changing the business environment. The traditional physical outlets are being replaced by online stores. Mr Amana is, therefore, right in considering closing some of the physical shops in Manchester, Brighton and Birmingham. This will save the company significant overheads and operating expenses. The challenge, however, is deciding the ideal method rearranging and streamlining business operations. The choice between opening an own online store or selling directly at Amazon will be informed by the analysis of the respective costs.

Comparing costs between an online Store and Online Store

Figure 2: The incremental benefits of an online store

Online Store		
Delivery network	£150,000	
Upgrading website	£50,000	
Salary of IT programmer	£35,000	
Total costs		£235,000
Benefits		
Guaranteed sales		100000
Selling price		25
Revenue		£2,500,000
Incremental benefits		£2,265,000

Figure 3: The incremental benefits of selling at Amazon

Selling at Amazon	
Cost	
Amazon Fulfilment Fees	£50,000
Total costs	£50,000
Guaranteed sales	65000
Selling price	25
Revenue	£1,625,000
Incremental Benefits	£1,575,000

The two tables presents the various tangible costs and benefits of opening an own online store managed and controlled by the company and selling directly to the customers at Amazon. Notably, the incremental benefits from opening an online store exceed the benefits of selling at Amazon. Consequently, the recommendation to the company is to pursue the growth trajectory of opening an own online store. Although the initial costs for an online store exceed the cost of selling at Amazon, these costs are offset by the guaranteed sales, implying that the company would generate more revenue when selling at a company-owned online store as opposed to selling at Amazon.

Consideration of indirect costs

Managerial accounting employs deductive reasoning to establish indirect costs or non-monetary costs relevant to a project. In most cases, these costs cannot be quantified but they are important in evaluating the viability of a project. One of such costs is the loss of control over pricing and supply chain management when selling at Amazon compared to creating a fully owned online store. At Amazon, the management of supply chain is reserved for Amazon's management, implying that Amana cannot guarantee delivery time to the customers. Selling at Amazon is also associated with loss of the personal touch between the

company and its customers. The effect is erosion in the company's ability to connect with customer which might eventually hamper the company's innovation process.

Selling at Amazon would allow Amana to reach a wide network of customers. However, it would also be associated with extensive competition, mainly companies competing using the pricing aspect. In effect, the efforts my Amana to gain new customers based on quality products would not be effective because pricing is the primary tool of completion. Increased completion would also have major implications on the market structure. Specifically, selling at Amazon would force Amana Limited to adopt competitive market practices, including producing largely homogenous products. Further, Amana would need to acknowledge that firms in competitive markets eventually become price takers(Nomidis, 2018). The case is worsened by free entry and exit because of the relatively non-prohibitive Amazon fulfilment fee of £50,000. The combination of these factors would impose non-monetary costs in the form of opportunity cost of numerous lost opportunities. The recommendation, therefore, is for the company to pursue the establishment of an own online store.

Operating an online store provides an opportunity for Amana to customise a return policy that addresses the unique needs of customers. Other benefits include the ability to maintain control of the supply chain, hence the flexibility to customise delivery of products to customers in line with their needs. In contrast, selling direct at Amazon would deprive the company of the discretion to customise an ideal return policy.

Conclusion

Managerial accounting is an important tool for making organizational decisions. The defining feature about managerial accounting is that the decisions are premised on the analysis of data. In the case of Amana Limited, the review of the budgeting variances

between the flexed and the actual variables provides an outline of some areas where the company has underperformed. Specifically, reducing the selling price, increasing the cost of materials and labour has impaired the company's profitability. The company needs to employ corrective measures to overcome these challenges. In the case of Amana's prospect of streamlining business operations, the plausible course is to establish an own online store. Although the initial costs for creating the online store exceed the cost of selling directly at Amazon, the higher guaranteed sales the online store offset the cost differentials.

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