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Introduction

Management accounting is also known as managerial accounting. It is used by the managers of the company to make the decisions, manage, and control the performance of the company. Management accounting has different from financial accounting. Financial accounting serves the shareholders and the intended users of the financial information of the company whereas management accounting assists the management and the internal resources only to make well-informed decisions (Kaplan, 2019). Managerial accounting uses the information related to costs, sales revenue of goods or services, and analysis of the cost revenue relationship so that the managers can take the decisions. It also uses some elements of financial accounting but unlike financial accounting, it is submitted and used for internal purposes only.

This report has discussed several elements of the decision-making that relate to the management accounting. This report has two parts. One part consists of the original budget, flexible budget, actual cost, and the variance analysis among these. Then based on the variance analysis, the performance of the company has been analysed and then recommendations have been given.

In the next part, for the same company, relevant cost analysis has been performed, and then made some recommendations on the alternatives.

Amana Limited and Budget Analysis

Amana limited is a souvenir company located in England. They have several branches or hotspots from where they can sell their souvenirs to tourists. Due to COVID, their business has been affected negatively and due to this reason, their expected sales have fallen. Some cost and sales information has been extracted from the Amana limited books, with those information budget analysis has been performed below.

Budget and Variance analysis

Original Budget and Variance Analysis

The original budget is a part of management accounting that helps the management to prepare a budget on the eve of the financial year (Scapens, 2019). Through the budget preparation, the management of the company basically determines a probable profit, sales that will be occurred, and when the actual costs and revenue incur, they compare the actual with the budget. Budgets are prepared according to the current market situation and the current ability of the company's resources. When there is a negative variance incurred, the management of the company finds out the reason and then try to monitor and control that fact.

Required information,

Details	Original Budget	Actual
Sales units	100,000.00	80,000.00
Per unit sales price	25.00	20.00
<u>Variables expenses</u>		
Material expense	- 2.50	- 280,000.00
Labour expense	- 4.00	- 440,000.00
Overhead cost	- 1.50	- 120,000.00
Contribution	17.00	760,000.00
<u>Fixed Costs</u>		
Warehouse rent	200,000.00	170,000.00
Insurance cost	100,000.00	100,000.00
Salary of fulltime warehouse supervisor	50,000.00	35,000.00

Now,

Details	Original Budget	Actual	Variance	
Sales units	100,000.00	80,000.00	20,000.00	Unfavorable
Sales revenue	2,500,000.00	1,600,000.00	900,000.00	Unfavorable
<u>Variables expenses</u>				
Material expense	250,000.00	280,000.00	- 30,000.00	Unfavorable
Labour expense	400,000.00	440,000.00	- 40,000.00	Unfavorable
Overhead cost	150,000.00	120,000.00	30,000.00	Favorable
Contribution	1,700,000.00	760,000.00	940,000.00	Unfavorable
<u>Fixed Costs</u>				
Warehouse rent	200,000.00	170,000.00	30,000.00	Favorable
Insurance cost	100,000.00	100,000.00	-	No Variance
Salary of fulltime warehouse supervisor	50,000.00	35,000.00	15,000.00	Favorable

1. Sales units were expected to be 100,000 but in actual, the company was able to sell 80,000 which is 20,000 lower than the original budget and this is the reason for the unfavourable variance.
2. Per unit sales in the original budget were higher than the actual sales price and due to this, the sales revenue has an unfavourable variance.
3. Material cost and labour cost both have a higher cost in actual and due to this unfavourable variance incurred.
4. Overhead cost, rent, and salary have favourable variance because the actual cost was lower.
5. Contribution margin has an unfavourable variance.

Flexible Budget and Variance Analysis

A flexible budget is a kind of budget where the actual quantity is used to identify the cost variance. In the original budget, some variances were due to quantity differences and some was due to cost difference (RS and Atkinson, 2019). Just to determine the cost variance, a flexible budget is used. Here, the quantity is actual but the costs and revenue per unit are used from the original budget.

Required information,

Details	Original Budget	Actual
Sales units	80,000.00	80,000.00
Per unit sales price	25.00	20.00
<u>Variables expenses</u>		
Material expense	- 2.50	- 280,000.00
Labour expense	- 4.00	- 440,000.00
Overhead cost	<u>- 1.50</u>	<u>- 120,000.00</u>
Contribution	17.00	760,000.00
<u>Fixed Costs</u>		
Warehouse rent	200,000.00	170,000.00
Insurance cost	100,000.00	100,000.00
Salary of fulltime warehouse supervisor	50,000.00	35,000.00

Now,

Details	Original Budget	Actual	Variance	
Sales units	80,000.00	80,000.00	-	
Sales revenue	2,000,000.00	1,600,000.00	400,000.00	Unfavorable
<u>Variables expenses</u>				
Material expense	200,000.00	280,000.00	- 80,000.00	Unfavorable
Labour expense	320,000.00	440,000.00	- 120,000.00	Unfavorable
Overhead cost	120,000.00	120,000.00	-	Favorable
Contribution	1,360,000.00	760,000.00	600,000.00	Unfavorable
<u>Fixed Costs</u>				
Warehouse rent	200,000.00	170,000.00	30,000.00	Favorable
Insurance cost	100,000.00	100,000.00	-	No Variance
Salary of fulltime warehouse supervisor	50,000.00	35,000.00	15,000.00	Favorable

- Sales revenue, material cost, labour expense, and contribution margin have unfavourable variances like the variances in the original budget.
- Fixed costs have no changes, so the variances have not changed also.

Report based on Control report

Amana Limited is a family-owned souvenir company that sells souvenirs to tourists from different spots in England. The company has suffered a lot due to the COVID-19 pandemic during the last two years. From the variance analysis of the company, it has been found that the company has incurred unfavourable variances in costs and sales revenue. From that variance analysis, the company's performance has been analysed below:

In the original budget, a company makes a budget for both units and price items. So, there is a high chance that there would be variances between the actual and the budget. During the COVID period, almost all the industries have suffered from low sales specially those industries that are related to tourists and tours. Amana Limited serves the tourists and as the international flights were off and people were in lockdown so there was no tourist for a couple of months and after that due to fear people did not want to risk of going out. So, overall, there was a huge impact on the company's sales. This is one of the reasons for the low performance of the company. Then company's sales price has also fallen. The company has budgeted that it would be able to sell at 25 but in actuality, it has sold at 20.

Then from variable cost analysis, it has been found that in the original budget the company has incurred unfavourable variance. As the sales unit has decreased the company should have incurred lower variable costs but in the actual scenario, it has been found that the company has incurred even more variable costs with decreased sales unit. From the flexible budget, it can be observed that the company's per-unit material cost and labour cost have increased. Some reasons have been identified:

- After post-pandemic, all the materials prices have been increased because the suppliers want to compensate for their low sales period with the high material price.
- Labour cost has been increased due to the scarcity of labours (Kaplan, 2019). Due to the pandemic, maximum labours became jobless, and to earn more they have demanded higher wages, and this is one of the reasons for the increase in the labour cost.

Overhead costs have favourable costs. In the overhead costs, there are some semi-variable costs also, As the company cannot sell during the pandemic, it had not incurred some of the costs or less

of the costs. Due to this reason, the company has incurred favourable variance in the case of overhead costs.

As the sales price was lower and two variable costs were higher, the company's actual contribution margin was much lower than the original budget and flexible budget. And all the reasons have been described above.

Performance Analysis

The financial performance of the company can be analysed with the help of the profit and loss. If a company can generate more profit than the previous year or the budgeted amount, then it is to be expressed that the company is performing well (Atrill and McLaney, 2018). And if it incurs less profit or loss, then it is to state that the company is not performing well. Amana's performance can be compared with the budget.

- The company has sold less at a lower price. Though it cannot be the fault of the company's employees rather it is a pandemic situation that has shifted the demand curve for the souvenirs. The product of the company is not a necessary product rather it can be classified as a luxurious product under décor product. And the target market is the tourists. So, when there is a large number of tourists, the company can sell more souvenirs. As there were fewer people as tourists so they sold less. And after a pandemic, people want to buy their necessary products as there was some liquidity crisis, people will not buy at the asking price rather than at a low price (Hansen et al, 2021). Here it cannot be concluded that the company's performance was bad rather it can be stated that the company had tried to perform at its own trend.
- Two variable costs have been increasingly high. Here the company could negotiate with the suppliers for reducing the price. Sometimes with the negotiation, companies can reduce the materials price. Here the performance of the procurement department was a little bit low. Also, as the company is a very old company, it must have some permanent suppliers and agreements with those suppliers. Due to the pandemic impact, the prices could have increased a little high compared with the agreed price, but here it can be observed that the company may have no permanent suppliers with whom they have made agreements. When a company has its own labours, it is unlikely that the labours will ask for more wages than their regular wages. In the case of Amana, the company's labour price has also been

increased. It means that the company has not its own labours rather it hired temporary labours and after the pandemic when they have hired those temporary labours, those labours have charged higher wages.

- Company's fixed cost like salary of the manager has decreased. A probable reason could be the salary cut-off. And the rent of the warehouse has become also decreased as for a long period of time that was used.

From the above variance and performance analysis, it can be concluded that the company's performance has been decreased and two specific reasons were the Pandemic and the lack of the management's proper monitor and control.

Recommendations

In the above report, several reasons have been found out for the poor performance of the company. Apart from the pandemic situation, there is a lack of proper management control and monitors. Based on that, some recommendations have been made below:

- Amana's management should be careful while preparing the budget. Budget is not just a matter of historical cost and then adding a percentage to reflect the future. Here, the management of the company made a budget based on the previous situation, but they had not considered the pandemic situation. If they had considered, they would not predict such a higher quantity to be sold. So, while preparing the budget, the company needs to think about the current market factors.
- From the analysis, it has been found that the company has no agreements with its suppliers. As a result, its materials cost has been increased. So, they should make an agreement with the suppliers.
- It has no permanent workers as this is the reason for increasing labour cost. It should make contact with labours at a fixed rate of wage.

Amana Limited and Alternative options (Amazon vs Own network)

Amana Limited has analysed the market situation and found that their maximum competitors have started to sell via online as there are fewer tourists, but all the people are available online.

Currently, the company has two options at hand. One is creating own online network and selling online or using Amazon Platform for selling. But two alternatives will have different costs.

If the company wants to use its own online network, then it will be incurring the following initial investment and monthly costs:

Cost of setting up delivery network –	£150,000
Cost of upgrading the current website to handle the large volume of sales -	£50,000
Salary of a full-time IT programmer annually -	£35,000

So, there will be 200,000 initial investments and an annual outflow of 35,000.

If the company wants to use Amazon, then it will be incurring:

Amazon fulfilment fees – 50,000

So, there will be one outflow if the company wants to use Amazon for the selling platform.

Apart from the financial factors, there are some non-financial factors:

1. If Amana Limited wants to develop its own website, it will be able to sell more than using Amazon.
2. The company will have sole control over its own website and at the same time the company will have to pay an annual salary to the operator. Whereas if the company wants to use Amazon, it will not incur any fixed annual outflow.
3. Like other e-commerce, Amazon will also display all the souvenirs, and here the company will face intense competition. But in the case of own network, there is less chance of intense competition.
4. Sometimes the company may have to face some control issues if it uses the platform of Amazon. Like sales return policy and other policies to be maintained if it wants to be enlisted with Amazon.

Recommendations

1. If the company wants to grow in the market, then the company should launch its own website because, on its own website, it can have its own control and monitors. It can establish its own policies and if it wants to be segregated itself from its competitors, it can offer some more benefits. If the company wants to use Amazon, then it will not be able to offer any additional benefits that will make the company different.
2. If the company has no capital issue, then it can launch its own website and if the company has any capital issue then it can go for Amazon.
3. The company has not compared the opportunity cost with either of the alternatives (Weetman, 2011). It should take decisions based on the capital requirements and consider the opportunity cost.

Conclusion

Managerial accounting is the management tool so that they make proper decisions. So, the management should acquire all the available information because without all information it is not possible to make a well-informed decision. In the case of Amana Limited, in the second requirement, the company mentioned only about the costs but there is no mention of about the selling price in both cases. The management is also not worried about the opportunity cost. The company should also be aware of these factors while comparing the information and making decision.

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