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Introduction

Management Accounting is the process of identifying, measuring, analyzing, interpreting and communicating financial information to managers in order to meet organizational goals. Management accounting deals with sales, expenses, profits, budgets and many other issues to take important business decisions (Goss and Johnson, 2018). Amana ltd. Is a family owned tourist business which is located in England and sells souvenirs to tourists. Government has imposed lockdowns all over the country which hampers the profit level of Amana ltd. Very badly. In April, 2020 Amana faced a lot of losses of clients. So, in this report going to discuss about the Original budget, flexible budget, Actual results and overall performance of Amana ltd. Some recommendations will be suggested for Amana ltd. to increase their sales volume. And in the last part some discussion about the relevant costs and whether Amana ltd. should set up their own online shop or sell on Amazon will be discussed.

PART- A

I) Monthly control report of Amana ltd.

Budgeting requires a lot of time and effort and the results of the budgeting process should provide guidance in conducting actual operations and should be part of the performance evaluation process (Courtney, Hutchinson, O'Leary and Courtney, 2018). Here Amana ltd.' Original budget, Comparison between Original budget and Actual results, Flexible budget and Variances will be calculated.

Amana Ltd.

Original Budget

For the Month Ended March 31

	Original Budget (£)
Units	100,000
Revenue	$100,000 \times 25 = \underline{2,500,000}$
(-)Variable costs	
Materials	$2.50 \times 100,000 = 250,000$
Labor	$4 \times 100,000 = 400,000$
Overhead	$1.50 \times 100,000 = 150,000$
Total Variable costs (1)	$250,000 + 400,000 + 150,000$ $= \underline{800,000}$
(-) Fixed Overheads	
Warehouse rental	200,000

Insurance	100,000
Fulltime Warehouse supervisor salary	50,000
Total Fixed costs (2)	200,000+100,000+50,000 <u>=350,000</u>
Total Expenses (1+2)	<u>1,150,000</u>
Net operating Income(Revenue- Total Expenses)	<u>1,350,000</u>

Recently Amana ltd. has been trying to achieve better control of his revenues and costs. One thing should note that here in original budget the term revenue is used rather than sales. And Amana ltd. has identified 6 items of costs and predicted that 100,000 units will be sold. And net operating income comes £1,350,000.

Amana Ltd.

Comparison of Original Budget to Actual Results

For the Month Ended March 31

	Original Budget (£)	Actual Results (£)	Variances (£)
Units	100,000	80,000	
Revenue	100,000*25 <u>=2,500,000</u>	80,000*20 <u>=1,600,000</u>	<u>900,000 (U)</u>
(-)Variable costs			

Materials	$2.50 \times 100,000 = 250,000$	280,000	30,000 (U)
Labor	$4 \times 100,000 = 400,000$	440,000	40,000(U)
Overhead	$1.50 \times 100,000 = 150,000$	120,000	30,000(F)
Total Variable costs (1)	$250,000 + 400,000 + 150,000$ <u>$= 800,000$</u>	$280,000 + 440,000 + 120,000$ <u>$= 840,000$</u>	40,000(U)
(-) Fixed Overheads			
Warehouse rental	200,000	170,000	30,000(F)
Insurance	100,000	100,000	-
Fulltime Warehouse supervisor salary	50,000	35,000	15,000(F)
Total Fixed costs (2)	$200,000 + 100,000 + 50,000$ <u>$= 350,000$</u>	$170,000 + 100,000 + 35,000$ <u>$= 305,000$</u>	<u>45,000(F)</u>
Total Expenses (1+2)	<u>1,150,000</u>	<u>1,145,000</u>	<u>5000(F)</u>
Net operating Income(Revenue- Total Expenses)	<u>1,350,000</u>	<u>455,000</u>	<u>895,000(U)</u>

Here can see that actual units sold 80,000 and selling price per unit is 20, both of them are lower than original budget. Here find out the comparison between original budgets and actual results. U denotes Unfavorable variance and F denotes favorable variance. Actual revenue is 1,600,000 and original sales revenue projected £2,500,000 that means £900,000 (U) revenue variance. And net operating income variance is also Unfavorable of £895,000(U) which is actually a big difference.

Amana Ltd.

Flexible Budget

For the Month Ended March 31

Actual Units	80,000
Revenue(80,000*25)	<u>£2,000,000</u>
Expenses(Variable costs +Fixed costs)	
Materials	80,000*2.50=200,000
Labor	80,000*4=320,000
Overhead	80,000*1.50=120,000
Warehouse rental	200,000
Insurance	100,000
Fulltime Warehouse supervisor salary	50,000
Total Expenses	<u>990,000</u>
Net Operating Income(Revenue-Total Expenses)	<u>1,010,000</u>

Flexible budget shows that what the revenues and costs should have been given the actual level of activity. Amana ltd.' actual unit sold are 80,000 units and original budgeted selling price was 25 per unit. So the revenue of flexible budget would be £2,000,000. Expenses are being calculated in the same way actual level of activity* original budgeted costs (Hodson, 2016). But fixed expenses will remain same as original budget. Flexible budget's net operating income comes £1,010,000.

Amana Ltd.

Activity Variances

For the Month Ended March 31

	Original Budget (£)	Flexible Budget (£)	Activity Variances (£)
Units	100,000	80,000	
Revenue	$100,000 \times 25$ <u>$=2,500,000$</u>	<u>2,000,000</u>	500,000(U)
Expenses(Variable costs +Fixed costs)			
Materials	$2.50 \times 100,000 = 250,000$	$80,000 \times 2.50 = 200,000$	50,000(F)
Labor	$4 \times 100,000 = 400,000$	$80,000 \times 4 = 320,000$	80,000(F)
Overhead	$1.50 \times 100,000 = 150,000$	$80,000 \times 1.50 = 120,000$	30,000(F)
Warehouse rental	200,000	200,000	0
Insurance	100,000	100,000	0
Fulltime Warehouse supervisor salary	50,000	50,000	0
Total Expenses	<u>1,150,000</u>	<u>990,000</u>	160,000(F)
Net Operating Income(Revenue- Total Expenses)	<u>1,350,000</u>	<u>1,010,000</u>	340,000(U)

Activity variances show the differences between actual budget and flexible budget. It shows what should have happened because the actual level of activity and how it differed from what had been expected (GRIFFITH, WESTMAN and LLOYD, 2006).

Amana Ltd.

Revenue and Spending Variances

For the Month Ended March 31

	Flexible Budget (£)	Actual Results (£)	Revenue and Spending Variances (£)
Units	80,000	80,000	
Revenue	<u>2,000,000</u>	80,000*20 = <u>1,600,000</u>	400,000(U)
Expenses(Variable costs +Fixed costs)			
Materials	80,000*2.50=200,000	280,000	80,000(U)
Labor	80,000*4=320,000	440,000	120,000(U)
Overhead	80,000*1.50=120,000	120,000	0
Warehouse rental	200,000	170,000	30,000(F)
Insurance	100,000	100,000	0
Fulltime Warehouse supervisor salary	50,000	35,000	15,000(F)
Total Expenses	<u>990,000</u>	<u>1,145,000</u>	155,000(U)
Net Operating Income(Revenue- Total Expenses)	<u>1,010,000</u>	<u>455,000</u>	555,000(U)

If we compare flexible budget with actual results, will get what should have happened to what actually happened. We will get revenue and spending variances from it. Like actual revenue are £1,600,000 and flexible budget revenue are £2,000,000 which means £400,000 Unfavorable revenue variance and if actual costs are less than flexible budget costs it will be Favorable spending variances and vice-versa.

II) Performance Report Combining Activity Variances with Revenue and Spending Variances

Amana Ltd.

Flexible Budget Performance Report

For the Month Ended March 31

	(1) Original Budget (£)	Activity Variances (£) (2) – (1)	(2) Flexible Budget (£)	Revenue and Spending Variances (£) (3) – (2)	(3) Actual Results (£)
Units	100,000		80,000		80,000
Revenue	100,000*25 <u>=2,500,000</u>	500,000(U)	<u>2,000,000</u>	400,000(U)	80,000*25 <u>=1,600,000</u>
Expenses(Variable costs +Fixed costs)					
Materials	2.50*100,000=250,000	50,000(F)	80,000*2.50=200,000	80,000(U)	280,000
Labor	4*100,000=400,000	80,000(F)	80,000*4=320,000	120,000(U)	440,000
Overhead	1.50*100,000=150,000	30,000(F)	80,000*1.50=120,000	0	120,000
Warehouse rental	200,000	0	200,000	30,000(F)	170,000
Insurance	100,000	0	100,000	0	100,000
Fulltime	50,000	0	50,000	15,000(F)	35,000

Warehouse supervisor salary					
Total Expenses	<u>1,150,000</u>	160,000(F)	<u>990,000</u>	155,000(U)	<u>1,145,000</u>
Net Operating Income(Revenue -Total Expenses)	<u>1,350,000</u>	340,000(U)	<u>1,010,000</u>	555,000(U)	<u>455,000</u>

Performance report basically shows the difference between activity variances and revenue and spending variances (Kaplan and Atkinson, 2014). From this report manager can interpret what happened during the period. Now let's discuss the report, the activity variance for net operating income of £340,000(U) Unfavorable and the overall revenue and spending variance for net operating income of £555,000(U) Unfavorable. The £340,000(U) activity variance occurred because actual units which are 80,000 are lesser than original budgeted units 100,000. The £555,000(U) Unfavorable overall revenue and spending variance occurred because actual profit is lesser than flexible budget profit. These two variances are quite different from each other and call for different types of actions. If Amana ltd. wants a Favorable activity variance for net operating income it should take actions to increase its units sold which are currently 80,000 units. If Amana ltd. wants favorable revenue and spending variances then it should increase its selling price, increase operating efficiency and reduce the prices of inputs.

III) Some recommendations to Amana's CEO on areas of improvement

Government has imposed lockdowns in the whole country for that Amana ltd. is facing a lot of losses because it is a tourist company and due lockdowns and restrictions tourists from both home and abroad are not coming to enjoy their holidays. Original budgeted units are 100,000 and actual selling units are 80,000 not only that per unit projected selling price was 25 but actual selling price per unit is 20. So, now we can understand that it is the main reason for actual net operating income is £455,000 and projected net operating income was £1,350,000. Here one recommendation for Amana ltd. will be if it cannot increase the selling units because of COVID-19 pandemic, it should try to increase its selling price as much possible or close to original budgeted selling price. And if we pay attention to revenue and spending variances we can see

that actual labor costs and material costs are much higher than flexible budget's labor costs and material costs. The labor cost variance is Unfavorable of £120,000(U) and the material cost variance is Unfavorable of £80,000(U). Amana ltd. is really cannot manage its variable costs effectively. In this situation where increase of selling units is not so possible Amana ltd. should focus on cost efficiency. By doing all these things Amana ltd. can hope that its Unfavorable revenue and spending variance will become favorable and its overall net operating income will also increase.

PART- B

Critical analysis based on relevant costs of Amana ltd. whether they should set up their own online shop or sell on Amazon

Amana ltd. is facing losses because of COVID-19 pandemic. Amana ltd. decides to close some branches in the Brighton, Birmingham city centre and Manchester city centre in order to start online business this will be a very good decision but one important decision Amana ltd. needs to take whether they sell on their own online shop or sell on Amazon. In order to take this decision Amana ltd. needs to consider some relevant costs. Relevant costs are those costs and benefits that differ in total between alternatives (Warren, Reeve and Duchac, 2018). In case of Amana ltd. two alternatives come in front them that they can set up their own websites or can sell on Amazon. Amana ltd. needs to identify some irrelevant costs as well. Irrelevant costs are two types' not avoidable costs and sunk costs. Amana ltd. cannot eliminate some costs whether they chose sell on own website or sell on Amazon. They cannot avoid those costs so then it becomes irrelevant costs and second is sunk cost. Sunk costs mean the cost which is already has been incurred and cannot be retained. So, Amana ltd. also needs to exclude sunk costs when making decisions about online market.

Relevant financial costs of Amana ltd. to open own selling website

Relevant costs	Amounts(£)
Cost of setting up delivery network	150,000
Cost of upgrading current website to handle large volume of sales	50,000
Salary of a fulltime IT programmer	35,000 per annum
Total costs	235,000

So, can see that if Amana ltd. wants to open an own website for selling souvenirs then they need to incurred £235,000 for fixed costs. Here all the costs seem relevant because if Amana ltd. wants to create its own website then it must need a delivery network, upgrade current website and hire an IT programmer. All of these three costs are avoidable costs because if Amana ltd. goes for sell on Amazon then they can avoid all these costs and as earlier we discussed that avoidable costs are relevant costs (Wouters, 2010). None of these costs have already been incurred so they are not sunk costs and so they are relevant costs for Amana ltd.

Relevant financial costs of Amana ltd. to sell on Amazon

Amazon fulfillment fees - £50,000

That's the only relevant cost in case of sell on Amazon.

From above can say that the relevant costs of Amazon is much lower than the costs of opening an own website for sell. Normally can draw a conclusion that Amana ltd., should go for sell on Amazon but here does not consider the revenues and net operating income. Now consider these two items based on projected units of cells that are provided and try to find out decisions.

Net operating Income of Amana ltd. to open own selling website

	Amounts(£)
Revenues(100,000*25)	<u>2,500,000</u>
(-)Relevant costs	
Cost of setting up delivery network	150,000

Cost of upgrading current website to handle large volume of sales	50,000
Salary of a fulltime IT programmer	35,000 per annum
Total costs	<u>235,000</u>
Net operating Income	<u>2,265,000</u>

Assume that selling price per unit is £25.

Net Operating Income of Amana ltd. to sell on Amazon

Revenues (65,000 units* £25) = 1,625,000

(-)Amazon fulfillment fees = 50,000

Net operating Income = 1,575,000

From above calculation, can say that if Amana ltd. go for own website for selling then they can earn more profits then to sell on Amazon. And some other things need to keep in mind that Amazon is a highly competitive platform even if Amana ltd. can invest in pay per click advertisement but still they may not get the desired outcomes from the Amazon. The intense competition on Amazon may leads to pricing War. Amana ltd. may face intense price competition and they can need to reduce the prices which can lower their profits. Amazon charges several more fees like seller plan, referral fee, FBA fees and more. On the other hand opening an own website means Amana ltd. has complete control over it (Weetman, 2017). And when a customer buys product from Amazon he/she says I bought it from Amazon the individual brand name does not come in front. So, Amana ltd. should open their own website to sell their products online where they can make more profit than the platform of Amazon.

Conclusion

Amana ltd. is a family owned tourist business who sells souvenirs in England. Amana ltd. is currently facing loss due to COVID-19 pandemic. Here in this report first Original budget is calculated and then it compared with the actual results and finds that net operating income is Unfavorable which means that actual income is much lower than original budgeted income. Flexible budget of Amana ltd. is calculated based on actual level of activity. Activity variances and revenue and spending variances are also calculated which show that Amana ltd. has Unfavorable activity variances and Unfavorable revenue and spending variances. Performance report shows the overall performance of Amana ltd. One important suggestion for Amana ltd. is it should lower its variable expenses (Hansen and Mowen, 2007). Amana ltd. wants to start business online but whether it should create its own website or sell in Amazon. Analysis shows that if Amana joins Amazon then relevant costs will be lower than own website but profit will be much lower than own website. Lastly, it recommends that Amana ltd. should start their own website for selling souvenirs.

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