

Management Accounting 2 Report

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INTRODUCTION

Management accounting refers to a type of accounting which focuses on creation of goals by strategic identification, measurement, analysis and communication of important information to the strategic managers of the business. This kind of accounting focuses on informing the management about the operations of the business and how much the actual output deviating from the projected ones (Cooper, and Slagmulder, 2017). Management accounting is different from financial accounting as this kind of accounting does not focus on creation of financial financial statements to be further used by external users of accounting information. The management accounting is used by the internal management of the business. This report highlights the main aspect of management accounting which is Budgets. A case study budget is prepared in this report of Amana Ltd. following a detailed analysis and recommendations. It also compares a personal online shop for the company with Amazon.

PART A

A) Prepare a monthly control report with flexed budget, original budget and variances for Amana Ltd.

Monthly Control Report refers to a report which is prepared on a monthly basis. These reports reviews mainly the operational performance of the business in view to the predetermined goals. It determines if the business is working in accordance to the goals which are set up by the management. These reports also checks the spending of the business and what are the trends in the same. With the help of this report the future spending can be predicted and the business can allocate the funds with more ease. And with the help of these reports the business can find ways to reduce the expenses from time to time (Bedford, 2020).

Flexed Budget refers to that which consists of changes that have been occurred in the projected budget to actual elements. This budget is flexible as it can change according to the actual figures that have occurred in the period. This type of budget uses the percentages of the revenue to project the different expenses that occur.

Original Budget consists of those figures which have been occurred actually in the period of business. It consists of actual info about the revenues and expenditures that have earned and incurred by the business exclusive of the projected ones. By these actual figures the business calculates its profit for the period.

Budget Variance refers to that part of management accounting which is the amount of difference between the figures that have been projected and the actual figures which the business have dealt with. In simple terms it is the difference between the budgeted and actual amount. These budget variance can be favourable and unfavourable as well (Hogle, 2019). If the amount is positive it is considered as a favourable as it means the enterprise earned more than what they planned for. If the figure is negative it is considered as unfavourable.

The monthly control report of Amana Ltd. has been prepared below:

AMANA LTD				
Monthly Control Report				
Particulars	Original Budget	Flexed Budget	Variances	Variance (%)
Revenue	2500000	1600000	- 900000	- 36.00 %
Less: Cost of Goods sold	800000	840000	40000	5.00 %
Raw Material	250000	280000	30000	12.00 %
Direct Labour	400000	440000	40000	10.00 %
Overheads	150000	120000	- 30000	- 20.00 %
Gross Profit	1700000	760000	- 940000	- 55.29 %
Less: Non - operating / Fixed Expenses	350000	305000	- 45000	- 12.86 %
Warehouse rental	200000	170000	- 30000	- 15.00 %
Insurance	100000	100000	0	0.00 %
Full - time Warehouse Supervisor salary	50000	35000	- 15000	- 30.00 %
Net Profit	1350000	455000	- 895000	- 66.30 %

B) Using the above prepared control report, analyse the performance of Amana Ltd. for the year 2020.

Following steps can be followed by the management at Amana Ltd. To analyse the above report:

1. Track the Expenses: The budgets are formed to keep a check on the expenses that are being incurred by the organisation for the management of operations at work. These expenses are checked monthly via the control report prepared by the business (da Silva, and et.al., 2017). The management keeps a track of all the money which is being spent in the business and what are the reasons for that spending. The analysis of these spending calculates the spending variances which individually finds out where the money has gone and how much more requirement is there for the monetary funds.
2. Identification of area with over-expenses: At this stage the business identifies, using the control report, the areas of spending which have increasing amount of spending.
3. Areas where extra money has been spent: Measure the domain were compared to the plan fewer quantity is exhausted and can covert the surplus wealth spent in that class.

Analysis of performance of Amana Ltd.:

Amana ltd. Is not really doing well according to the above control report. While looking at the individual values the revenue of the firm the revenue earned and that projected has a lot of difference. The variance between is the two figures of revenue is 36% that too unfavourable. This shows that the firm has not yet decided how the unused revenue will be used (Huert., PetrS., 2019). The cost of goods sold have seen a slight favourable change which is good that the firm have already projected enough. Raw materials, and direct labour can be seen showing favourable change which is good for the company as they were already aware about the cost they might deal with in the given month and they have made arrangements for the same. The projected gross profit was way too low than the actual profit this creates a really hard burden on the business as they are not meeting the projected profits and they will have to issue further funds that might have been kept for growth prospects in meeting the costs. The different costs of the business can also be seen with negative values that means they also show unfavourable position for the business (Mou, Atkinson, and Marshall, 2019). This means the value of them projected have been exceeded by the actual budget. This pose a greater threat for the liquidity of the business as they now have to deal with these increased costs with a really low gross profit. Similarly, the net

effect can be seen in the net profit of the business. This is really dangerous for the business as the projections of the business have gone wrong and the other prospects that the business might be having will not be met due to these variances between the actual and projected values (Zawawi, and Hoque, 2018).

C) Recommend the CEO of Amana with the ways they can improve.

In this section of the report, some recommendations have been made to the management of Amana ltd while focusing on the above analysis.

Amana ltd is hugely showing

PART B

Give and analysis Mr. Amana's decision to go online and advise whether he should set up his own online shop or sell on Amazon by considering all the important costs.

For recommendation, the report will first calculate the different costs associated with the business indulging in online shopping.

Cost of setting up delivery network = £150,00

Cost of upgrading current website to handle large volume of sales = £50,000

Salary of a full-time IT programmer = £35,000 per annum

Total Cost = 150000 + 50000 + 35000 = **£ 235,000**

Amazon fulfilment fees = **£ 50,000**

Thus, in setting up the own online platform it will incur more cost, which is a huge difference of £ 185,000.

Following is a detailed critical analysis of the advantages and disadvantages for Amana ltd to either go for amazon or open their own business site.

Amazon is one of the most renowned international brand for online shopping. It is used by thousands of consumers every day.

Advantages of using Amazon's platform

- The main advantage of using amazon as a platform for sales is that the sales of the business is meant to increase. The site is used by millions of users and many consumers will engage in the products of the business and this will create a huge impact on the business's revenue.

- Amazon is that platform which is working all around the world. It has a global reach and the brand is trusted by almost all the people around the world. This gives small- and large-scale business a greater chance to showcase their own diversified products to the world.
- The main importance of Amazon is that the customers don't look up for a particular brand but they are looking for a specific product. This gives business yet another chance to get in the eyes of the customers by providing their products.

Disadvantages of using Amazon

- The main disadvantage for a business is that the competition on such a site is high rocketed. The main big players in the market can acquire the limited consumer base on the site and as it also asks the consumers to provide feedback, it can yet another back lag for new businesses who are learning the working of the businesses.
- The businesses dealing in the products on Amazon have a less or 0 control over the price and products they are dealing in, they have to follow the instructions of the Amazon.
- The fees required by Amazon is kind of huge for new and small scale businesses,

Own Business site

It refers to a web page created exclusively for the business which has all the information related to the products and services offered by this business.

Advantages of opening own business site

- The main advantage of selling on your own business site is that the business gets all the control about what the business wants to design, sell, information to reveal and other things of that sort.
- Unlike Amazon, this website is all about the business and there is no information about any competitors or other services which are not related to the business. It helps in containing the consumers to one's site.
- Just as business gets its own website, the consumers can just name the particular brand of the business and the website will show up the business site. The presence of the business get higher when have their own website.

Disadvantage of opening own business site

- The main cons of the business website is that the business website gets less reach if the business is new in the market and due to this the product gets less visibility which lessens the profitability of the business.
- The consumers try to doubt the credibility of the website as in comparison the amazon has a greater reputation. Customers may distrust trustworthiness and shop somewhere else, from places they recognise and have confidence in. Markets are a countless method to counter this subject, as they previously have righthand dealings with world-wide viewers (Ostaev, Gand et.al., 2019).
- The own websites may not get the desired support from the different sources.

Final thought

Amana ltd should go for creating their own website as the business is already set up in the real world. The business has many consumers and they can motivate the existing customers by providing them incentives to engage with their site and promote in their circle. The cost might be huge for the business but the control is in the hands of the business and this is what matters for a business who has high reach in the real marketplace.

CONCLUSION

The above-mentioned report can be concluded by saying that management accounting is an important tool for the business. Due to management accounting the business can get the insights as to how the business is performing in a short term and if it is not up to the mark the business can take corrective decisions which would help the business in long run. Management accounting helped Amana Ltd. in analysing where the business is lacking and the report has recommended the different ways that they can opt to enhance the working of the business. This is done by analysing the difference variances that have been calculated in the report. The recommendation is given that the net profits are a crucial part of management. In the last section of the report a detailed comparison is done if the business should sell its products on amazon or if they should create their own website to sell their products.

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