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BA BUSINESS MANAGEMENT

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Table of Contents

Introduction.....	3
Part A	3
Monthly Control report	3
Amana’s Performance in 2020.....	5
Recommendations to the CEO.....	7
Part B	7
Amana’s Decision to go Online.....	7
Consideration of the Relevant costs.....	9
Conclusion	9
References.....	11

Introduction

Management accounting is conducted in order to find out a cost to the business as well as develop budgets accordingly such that the performances of the business are known with respect to its cost control as well as identification of surplus in the future (Hansen *et al.*, 2021). Budgeting and classification of cost are done in the businesses that the variances to the performance of the business is known for future decision making. This assignment focuses on the organisation of Amana Ltd which is the tourist business located in England and sells souvenirs to tourists. The performance for the year 2020 must be known for the business respectively by preparing budgets as well as making recommendations to the CEO of the company for making important decisions of going online.

Part A

Monthly Control report

Original Budget

An original budget is detailed in a forward-looking consolidated budget which is prepared by the borrowers in respect of the company showing the profits and losses of the business and developing the written assumptions for the business on a monthly basis (Kamau *et al.*, 2017).

Particulars	Original Budget
Sales	2500000
Variable costs:	
Materials	250000
Labour	400000
Overhead	150000
Contribution	1700000
Fixed Overheads:	
Warehouse Rental	200000
Insurance	100000

Fulltime Warehouse supervisor salary	50000
Profit at the end of the year	1350000

Table 1: Original Budget

(Source: Self developed)

Flexed Budget

Flexible budget is a budget that adjusts as per the activity and the volume levels of the company. The flexible budget provides variations in the cost and is often denoted with the variable rate per unit rather than the fixed amount of is a company's anticipate the potential decrease or in the monetary requirements of the business (Rokhman, 2017). Flexible budgets are of various types and helps identify the changes that are made in the business with respect to basic cost or advance costs. Flexible budget head to make adjustments based on the profit margins and costs of the business as well as maximize the revenues to reflect an increase in the sales (Saliterer *et al.*, 2018).

Flexed Budget													
Particulars	April	May	June	July	August	September	October	November	December	January	February	March	Total
Sales	22150	99550	221250	330000	235500	335500	375000	325000	0	0	0	550015	2493965
Variable costs:													0
Materials	25456	14412	21112	14656	5512	21221	54451	154522	0	0		21212	332554
Labour	21254	11212	51212	54232	12121	8888	9966	4455	0	0	0	5566	178906
Overhead	2215	55323	21212	55455	5666	99855	55232	21262				512232	828452
Contribution	-26775	18603	127714	205657	212201	205536	255351	144761	0	0	0	11005	1154053

Table 2: Flexed budget

(Source: Developed by the learner)

Variances

Variances provide the differences between the actual and the budgeted figures for particular budget categories and can indicate favorable or adverse outcomes for the business. Variance helps to provide the short falls or failing economic growth of the business as well as develops the actual and budgeted cost for an activity as well.

The Variances for Amana limited is provided as follows:

Variances				
Particulars	Original Budget	Actual budget	Variances	A/F
Sales	2500000	1600000	900000	F
Variable costs:				
Materials	250000	280000	-30000	A
Labour	400000	440000	-40000	A
Overhead	150000	120000	30000	F
Contribution	1700000	1160000	540000	F
Fixed Overheads:				
Warehouse Rental	200000	170000	30000	F
Insurance	100000	100000	0	N/A
Fulltime Warehouse supervisor salary	50000	35000	15000	F
Profit at the end of the year	1350000	855000	495000	A

Table 3: Variances

(Source: Developed by the learner)

Amana's Performance in 2020

Amana's performance is seen to be at a loss due to the pandemic and as the tourism industry has been suffered by the covid-19 pandemic that broke out in England by the government has to

improve restrictions on the movement and travelling has severely impacted the company's performance (Alao and Gbolagade, 2020). The company faced a major revenue loss in April 2020 as the tourist could not travel for the Easter holidays, available in the summer of 2020 the company's sales picked up rapidly as seen in the flexible budget. The complete face to massive loss in April and May however it increased in the subsequent months till November. There was widespread lockdown in England between December 2020 to February 2020 which led to depletion of the additional revenue that the company had lost in the previous months (Heald and Hodges, 2020). The company had no operations in these three months and that the company has been functioning as physical stores for the selling of the so many years and also serving as the channel of marketing for the business (KALDIRIM and KALDIRIM, 2020).

The original budget shows that the amount called the sales the higher as well as the labour and as well as the overhead charges which resulted in the contribution being higher. There are no changes as such in the fixed overheads however the warehouse rental shows the highest original budget with respect to the actual figure as well as a full-time warehouse supervisor salary is higher in the original. The flexible budget has been developed to provide the ideas regarding the changes in the cost of the business with respect to the current situation as well as a functioning of the company's website which provided the scope of operations for the business in the long run. The monthly breakdown of cost in the flexible budget provides the changes in the costs as well as the monthly activities of the company and in the end the profitability of the company is seen to be very less than the original budget at £855000. This means that the company must work hard in the next financial year if the pandemic does not widely affect the tourism business.

The variances provide the companies adverse and favorable costs that are incurred during the period of 2020 where it is seen that the actual sales are quite less than the original budgeted output. This happened due to the occurrence of covid-19 pandemic which affected the business adversely and the long-term situations whether excess surplus was depleted by the company in these three months (Alao and Gbolagade, 2020). The material shows the variances of adverbs as well as for the labour as actual budgets are quite which means the cost of the business is increasing. The fixed overheads have shown a favorable cost variance as well as for the contribution of the profitability of the company is at a lesser than planned which means it is at adverse.

Recommendations to the CEO

- ***Increase the sales through effective marketing.***

Amana Ltd must increase its sales through effective marketing by using the companies' websites and other social media platforms to communicate the safety guidelines that have been used by the business such that the customers can rely on them and use the services for the best tourism experience. The company must focus on increasing its sales such that the cost of the business can be covered as well as the additional materials, manpower, overheads as well as for the payment of the fixed overheads of the company (Sprakman, 2020). It is essential that the company must focus on developing a plan for increasing the budget for the next year by taking the stakeholders' advice on increasing the sales. The marketing efforts must be increased as well as advertisement for the company's newest and advanced services with safety must be taken into account effectively. In order to increase the profitability of the business (Auerbach *et al.*, 2020). By assessing the past performances, the company must make sure that it distributes its costs properly such that the potential areas of improvement are adequately rectified by the CEO.

- ***Focus on managing the costs.***

Managing the cost of the business is important as this is the means of increasing the profitability of the business. The planning of future expenditures must be done by the company with respect to the pandemic as well as creation of a fund on a certain percentage of sales will help to generate some additional capital in the times of distress or low sales (Nikitina *et al.*, 2018). This point will be effective for the company to manage its costs as well as review the historical budget that can help the owners of the business to understand where the spending is being done as well as secure some external financing in order to expand operations of the business. The company can track its variances and spending by creation of reports and considered not to make it computer software for managing the budgets effectively.

Part B

Amana's Decision to go Online.

Mr Amana had noticed the competence and was now selling online to the customers in the US, UK and Europe. For that the company is considering closing down most of the stores in Birmingham Brighton, Manchester City centre branch streamline the business only the strategic

stores that are working at a profit as well 50% of the company sales online activities. After taking into account the several cost factors, the company wants to take a decision regarding the online sales. The cost structure for setting up the online website of its own is as follows:

Cost of setting up delivery network	£150000
Cost of upgrading current website	£50000
Salary of a full time of IT programmer	£35,000 per annum
Total costs	£235000
Units that are guaranteed for sales each year	100,000

Table 4: Cost structure

(Source: Developed by the learner)

Cost structure of of setting up pics on online selling platform, the company has to include the cost of setting up the delivery network at £150000, followed by the cost of upgrading the current website in order to handle the large volume of sales which is £50000, also the salary of a full time IT programmer, which is £35000 per year that will be managing the website and its developments. Based on this cost structure as well as the market research in advertisement to be taken into account the company can guarantee a sales of 100,000 units annually. This provides the company has to incur an investment of a total of £235000, however this is a good investment for the company as the sales will be channelized with less expenses and more operations for the business on a larger scale.

Considering the option for Amazon which is an online digital platform that provides the option of selling as well as buying through the online means. The company can sell their products directly to Amazon by taking strategic partnership with the company and has to undertake certain costs which will help in guaranteeing the company certain advantages. The cost that would be required to be paid by the company is £50000, which the company can undertake with all the levels of competition that emerge in the industry as well as increasing the potential demand of the product through the sales in Amazon. The guaranteed sales will be 65000 units with Amazon that can increase depending on the demands of the customers. However there are various disadvantages if the company directly sells its products to Amazon as the company will have lack of control over

the pricing of the products as well as return policies as these will be governed by Amazon itself. The profitability of the company will therefore be limited and will be regulated by Amazon. Thus, the company have to decide among the two alternatives in order to increase its sales as well as get new customers taking into account the cost that has been reflected in each of the alternatives.

It can be said that the best alternative that the company can choose to invest some money in setting up its own online shopping website for the reason that the company will be solely conducting its activities of sales as well as on profitability without giving a margin to Amazon. The sales units are also high in comparison to Amazon as the company itself can initiate a sale of 100000 units annually. However in the case of Amazon only 65000 units can be sold, and there is a lack of control over pricing and return policy which can hamper the reputation of the company. Thus, it is the best choice to choose its own shopping platforms as it will provide the company with the independence to design the website as it requires in stating the specifications as well as the terms of sale and return policies.

Consideration of the Relevant costs

Selling on Amazon would provide less costs but also less profit which is the only reason why the company cannot choose to conduct its online sales with Amazon. Amazon can also choose to increase the price to such an extent which can lead the competitors to go ahead and provide less margin to increase their sales. The most profitable proposition for the company is to market its own website and go online through their own shopping website by taking into account the cost which can be high but ultimately provides wider benefits to the company. This can be taken as an investment by the company to develop its website and also conduct shopping online with great experience to the customer and those were out of the reach of the company (Sytnyk *et al.*, 2019). It can also be possible for the company to increase sales by more than a 100000 units if the website has proper functioning and control.

Conclusion

The management of Amana Limited seems to be suffering at a loss due to less sales of the company with respect to the pandemic, which has eventually enabled the company to slow down and take into the alternative of selling its products online. The company has developed appropriate reports in order to provide stakeholders with the information of the company's performance in the year

2020 as well as the decision to go online and with the advice if they should take up Amazon for their own shopping website, for which the company must choose for developing its own website and it also could be more profitable for the company.

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