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Lecturer: Winifred Soribe

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Submitted By:

Student: Hristo Haralampiev Hristov

ID: 2010799

Submitted To:

Winifred Soribe

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Introduction

Budget is a significant part of a business organisation. A budget is a quantitative plan for attaining and using resources over a specific time period. There are several kinds of budgets. A different budget is needed for making decision and control in different sectors. In performance report, original budget and the flexed budget are needed with the activity level. Actual result may differ from budget that create variances. Here is a broad discussion about the original budget, flexed budget, activity level and variance and how should control the unfavourable variance. And how should Amana select the option for entering into online business.

Part- A

(i) Monthly control report of Amana including an original budget, Flexed budget and Variance

Flexed budget is a budget in which it identifies that what revenue and cost should have been for a specific level of activity (Folk and Garrison, 2017). Flexed budget shows how the cost and revenue is affected by the changing of activity level. In performance evaluation, the flexed budget makes comparison the actual cost with for what cost would have been for the specific activity level during the period rather than original or planning budget or static budget (Mowen, Hanson and Heiger, 2017). It is necessary to adjust the activity level otherwise it would be very difficult to explain the variance between budgeted and actual costs. The planning budget shows what will be happened at the budgeted level of activity whereas the flexed budget shows what should be happened at the specific level of activity (Garrison, Noreen, Brewer and Garrison, 2017). Hence, the difference between the planning budget and the flexed budget show what should have happened solely because the actual level of activity differed from what had been expected.

There are two types of variances, one is revenue variance another is spending variance. When the actual revenue differs from the income of actual level of activity it is called revenue variance (Horngren and Horngren, 2016). If in a report the income of actual level of activity is higher than the actual income it is called unfavourable variance. And if the actual income is greater than the income of actual level of activity it is called favourable variance. The difference between the cost of actual level of activity and the actual cost is known as spending variance. It is entitled to favourable variance, if the actual cost is lower than the costs of actual level of activity (Walker, 2015). And when the actual cost is higher than the cost of actual level of activity, it is entitled to an unfavourable variance. Favourable variance is good for a company. Managers prefer the favourable variance in revenue and spending. If the spending variances and revenue variances are favourable then the company's net operating income is preferred more than others.

In comparing between the budgeted costs to actual costs, common errors may be occurred that all costs should be assume as variable cost or fixed costs. When one assumes that, the variance for fixed costs shall be incorrect (Horngren, Sundem, Burgstahler and Schatzberg, 2014). On the other hand, if it is assumed that all costs are fixed costs, the variances for variable costs will be incorrect. If the proper characteristics of cost is not used, the spending variance will not correct.

Amana's control report is prepared below:

Amana Ltd

Flexed Budget

(Monthly control report)

	Original budget (£)	Flexed budget (£)	Variances
Units	100000	80000	
Sales (a)	2500000	2000000	500000 (unfavourable)
Less: Variable Costs (b)			
Materials	250000	200000	50000 (favourable)
Labour	400000	320000	80000 (favourable)
Overhead	150000	120000	30000 (favourable)
Contribution (a-b)	1700000	1350000	
Less: Fixed overheads			
Warehouse rental	200000	200000	0 N/A
Insurance	100000	100000	0 N/A
Fulltime warehouse supervisory salary	50000	50000	0 N/A
Net Operating Profit*	1350000	1000000	350000 (unfavourable)

Table-1: Flexed budget (Control report)

Note: Net operating profit = (Sales – Total Variable cost – Total Fixed overheads)

Variance = (Flexed budget – Original budget) or (Original budget – Flexed budget).

Contribution = (Sales – Total variable costs)

Between the original budget and flexed budget, there are many variances in this report. The revenue or sales variance is 500000 which is unfavourable. The net operating profit is £ 350000

which is unfavourable. But in this report, there is no change in fixed overhead costs. Otherwise, the variable costs as materials labour, overhead all of these costs are in favourable variance which indicates the cost control. It is noticed that the company's sales lower than the original budget. That's why the net operating income is unfavourable.

(ii) Report on the Amana ltd.'s performance during the year

Performance report is needed in all organisation to control the error occurred by the operation of the activities in organisation whether it is profitable organisation or non- profitable organisation. In business perspective, performance report that mixes the activity variance with revenue variances and spending variances (Bhimani, 2015). The report gets together the information from different budget that makes simpler to interpret what happened during the operating period. A performance report may be prepared separately for different sector, in a large organisation. Performance report is needed to take decision or control against the unfavourable variances. In non- profit organisations are also need performance reports. The performance reports in non profit organisations are also same as the performance reports of business organisations (Dugdale and Lyne, 2015). Non- profit organisations receive money from different kinds of sources other than sales. And it also consists same as fixed cost and variable cost elements in non- profit organisations.

Amana Ltd is a business organisation. So, Amana ltd should prepare the performance report during this year as to know about its performance during the year and also find the variance and make decisions against these. Amana's performance report is given below:

Amana Ltd

Flexed Budget

(Performance report)

	Original budget (£)	Activity Variances	Flexed budget (£)	Actual (£)	Revenue and spending Variances
Units	100000		80000	80000	
Sales (a)	2500000	500000 (unfavourable)	2000000	1600000	400000 (unfavourable)
Less: Variable costs (b)					
Materials	250000	50000 (favourable)	200000	280000	80000 (unfavourable)
Labour	400000	80000 (favourable)	320000	440000	120000 (unfavourable)

Overhead	150000	30000 (favourable)	120000	120000	0 N/A
Contribution (a-b)	1700000	N/A	1350000	760000	N/A
Fixed overheads:					
Warehouse rental	200000	0 N/A	200000	170000	30000 (favourable)
Insurance	100000	0 N/A	100000	100000	0 N/A
Fulltime warehouse supervisor salary	50000	0 N/A	50000	35000	15000 (favourable)
Net Operating Profit *	1350000	350000 (unfavourable)	1000000	455000	545000 (unfavourable)

Table- 2: Flexed budget performance report

Note: The flexed budget and activity variance are turned from Part- (i).

Net operating profit = (Sales – Total Variable cost – Total Fixed overheads).

Activity Variance = (Flexed budget – Original budget) or (Original budget – Flexed budget).

Revenue and spending Variance = (Flexed budget – Actual) or (Actual – Flexed budget)

Contribution = (Sales – Total variable costs)

This table shows the performance report that mix the revenue and the spending variances with the activity variances. In this performance report the activity variance for net operating profit of £ 350000 is U(unfavourable) and in overall revenue variance and spending variance for net operating profit of £ 545000 is also (unfavourable). The £ 350000 unfavourable activity occurs because the actual activity is lower than the planning budget. The £ 545000 Unfavourable revenue and spending variances occur cause the variable costs were so high and that's why net operation profit decrease. To make favourable activity variance, the company must take necessary steps for increasing sales. And for favourable revenue and spending variances, they need to control the variable costs along with the increasing number of sales. The performance report in table- 2 provides important information to the manager to take decisions.

The overall results of Amana Ltd show a bad performance. As per original budget and flexed budget the selling price per unit has a good condition over the period. But the variable costs are not in control. There has a huge different between the variable cost of flexed budget and actual budget. On the other sides, the fixed costs are properly control by Amana ltd. Though

the fixed costs are under control, but the overall net operating profit is underperformed. The variable costs have a great impact on contribution and organisational profitability.

(iii) Recommendations to AMANA's CEO

As the variable costs of Amana ltd.'s is greater than the flexed budget so it is unfavourable. But the fixed costs of Amana ltd.'s are lower than the flexed budget or planning budget, it is favourable. Amana ltd. has a control over fixed cost but it has not control to the variable cost.

Variable cost is a cost that changes in total but fixed per unit and the fixed cost is not affected by any change in activity level. But in per unit the fixed cost varies (Baumgarten, 2016). If the production is decreased the fixed cost per unit is increased. By increasing the units of sales the fixed cost will be lower than previous. But the variable cost will not be in control by increasing units of sales. It is difficult to plan for variable costs (Lal and Srivastava, 2016).

To control the variable costs, the CEO needs to find out most or least cost effective and choose the cost that gives a higher profit (Schäffer, 2014). He/she should monitor the variable cost continuously. If the costs are being lower, the CEO also needs to monitor the costs.

Managers should analyse the market and the suppliers for the purchase of material.

So, Amana's CEO has to need to increase the sales unit and control the variable costs so that operational activities will be profitable (Zimmerman, 2014). To achieve a good profitability CEO has to control the costs and adopt different kinds of strategies for increasing sales and makes sure that the revenue variances and spending variances, all should be in form of favourable.

Part- B

For which option Amana should go

The COVID-19 disaster has changed our world and businesses in a matter of years. Consumer's shopping habits have shifted dramatically in recent years. There has been a dramatic change from purchasing goods in physical stores and towards online. Nowadays, the internet has evolved into a one-stop shop for buying something we wanted. With business owners taking a beating, many physical stores are curious to know how they should remain in business. As a result, however, some small and medium enterprises around the world are transitioning from offline to online in a relatively short time. If you may not have an organized web page existence right now, you're significantly reducing your possibility to achieve potential customers who are looking to shop online at home. To keep these customers from going to competing companies, should have a perfectly e-commerce platform that enables to perform all of business absolutely (Belew and Elad, 2017). Physical stores must shift their operations from offline to online in order to receive significant advantages. Online stores can offer product to the customers in all time. By operating business through online in a webpage, it increases its brand reputation and value. When converting the business from offline to online, it has no specific area or limited boundary of operating the business. But only in offline business there has a limitation of boundary or specific area. There are also some disadvantages of online business. There is an extra cost for setting up online platform. Sometimes the customers are not satisfied of their required product for this some cancellation has been made that occurs an extra cost for the business. So, before converting online business to offline all of this should be considered.

In today's digitalization world, online business is much more preferable rather than offline business. Consumers are very interested to buy product from online. In this competitive market, the person who has a business, he cannot sit upon by one business. He wants to make the business more profitable. Online business includes lower cost of operation rather than offline business. In online business, there is a great promotional benefit that the brand is promoted in a short time (Rich, 2016). But set up an online site for online business is costly. An IT manager is needed to manage the site. An online business can also be operated by media or different kinds of online business sites. For this, it is needed to pay a fixed fees to perform on others site.

Mr. Amana's decision is to go online and sales 50% of their sales on online from the offline way by closing three branches the Brighton, Birmingham and Manchester city centre is a good

decision. The business in the Birmingham city centre, Manchester city centre and Brighton have a specific area that cover a specific area in specific time period. But in online the business is spreading.

While the appearance of those locations might, increase Amana Souvenirs' loyalty base, the ability to draw additional consumer communities would be limited, and the expenses connected with offline stores might be considerable. increase Amana Souvenirs' loyalty base, the ability to draw additional consumer communities would be limited, and the expenses connected with offline stores might be considerable. In these offline stores, Amana Souvenirs can be difficult to reach to the new consumers and the fixed cost of the physical stores would be higher that cannot control. But standing physically the company get loyalty. By shifting its business from physical stores to online basis, there is a greater possibility to increase the area of market and from that, the business should reach to the new customers and the promotion being made easily and will be able to increase the sales. On the other hand, the physical stores are also running the operational activities.

There are two options for Mr Amana. One is to set up their online shop another is selling on Amazon. To make a decision, Amana should consider some factors like revenue, cost, sales units, brand etc. To set up their online shop, there are some costs are being occurred. There is the cost of setting up distributing network is £150000 and the cost of updating website for higher sales is £50000. Mr Amana needs an IT programmer having £35000 salary per month. Besides this, Mr. Amana has material cost, cost of labour and overhead and also some fixed cost. After all these, there would be annually guaranteed sales of 100000 units.

Selling their products on Amazon, Mr. Amana should also consider some factors. The fulfilment fee of Amazon is £50000 and the guaranteed sale is 65000 units per annual which should be increase by the changing the customer's demand. But there is a problem that Mr. Amana cannot control over the pricing of the product and return policy. In this option, there is a fixed cost that can be reduced by increasing the number of sales.

Not only considering these factors Mr. Amana must consider about the brand value. By doing business in specific areas such as Westminster bridge, Brighton, Birmingham city centre Buckingham Palace, London bridge and Manchester city centre, their current visibility of the brand in United Kingdom, Europe and US. Amana should pay for increasing brand awareness like advertising cost in these regions where operate the offline stores. Whereas, this is only for several location, operating by offline stores and the advertisement or brand awareness is being constant only several areas. But the Amazon has a good brand awareness around the world.

The two options have some advantages and disadvantages too. Considering all of these factors, the best option for Mr. Amana to choose Amazon for selling product on online. In this competitive online sector, it has to face huge competition. Amazon should be clarified to Mr. Amana about the consumers responds towards its products. In online sectors, there are many discounts in different time. Amazon should also want permission from Mr. Amana to give these kinds of discounts to encourage the consumers towards the product and increase the brand awareness and consumers loyalty for a long time. When the brand awareness is increased at a high level in the market, Mr. Amana can consider to shift the online business to their own site from Amazon or to continue online business from Amazon.

Conclusion

This report describes the detailed understanding budgeting and variance assessing performance and decision making. There are different kinds of budget like static or planning budget, flexed budget. These budgets help to know about the variance for actual work whether it is favourable or unfavourable. The information which is gather from the budgeting, variances and relevant cost, assists the manager to make decision. This report discusses about given questions and also shows how a company can adopt the online business.

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