

A decorative graphic in the top right corner of the page. It features three blue circles of different sizes, each with a 3D effect and a gradient. Two thin blue lines originate from the top left and extend towards the circles, and another line extends from the top right towards the largest circle.

AMANA LIMITED

Assignment 2 Report

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Executive Summary

The new study illuminates the management accounting processes, which must be viewed in conjunction with the settlement of good company decisions. Amana Limited has been chosen to put up the expenses that will aid in drawing up the budget as well as estimating the exhibition for the year. In this review, a few recommendations on areas of change have been made to the organization's CEO, and the decision to go on the website has been dissected. The costs for both options have been analysed, and proper costing has been determined.

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Introduction

Management accounting refers to the process by which administrators make decisions and carry out the final accounting practise. It involves various strategies such as accounting expense, financial accounting, and process accounts (Almasan, 2019). Management accounting interprets an organization's operating statements as well as the decisions made by management to achieve their objectives (Quinn, 2018).

Amana Limited, who deals with souvenirs among the tourists visiting England, was chosen in this article. The largest organisation is based in England, although there are branches in other countries as well. The majority of the branches of other countries have been closed due to the occurrence of the Covid – 19 Pandemic and the monitoring survey, which reports on the managers' results. Furthermore, a specific guidance is to be made by reflecting on the areas for development and recommending them to set up their company online.

Part A

Monthly Control Report displaying the initial estimate, the flexed budget, and the variances

The control report is a statement that reveals the overall number of costs that will be accumulated in coming years and provides the gaps in decision-making by the designated managers. The budget listed in the study primarily indicates the funds for expenditures that will be spent in the coming years (Boccia and Bogie, 2017). The original budget is primarily planned at the outset of the fiscal year and can differ from the final budget. It normally forecasts the amount that will be spent in future years to support all business-related operations. The table in the following section shows Amana Limited's initial budget, which was prepared using details given by the firm.

Original Budget		
Particulars	Budget Units	Budget Amount (£)
Units	1,00,000.00	1,00,000.00
Selling price	£ 25	£ 25
Total Sales		£ 25,00,000.00
Expenses		
Variable cost		
Materials	2.5	£ 2,50,000.00
Labour	4	£ 4,00,000.00
Overhead	1.5	£ 1,50,000.00
Contribution	17	£ 17,00,000.00
Fixed Overhead		
Warehouse rental	£ 2,00,000.00	£ 2,00,000.00
Insurance	£ 1,00,000.00	£ 1,00,000.00
Fulltime warehouse supervisor salary	£ 50,000.00	£ 50,000.00
Total Original Budget		£ 13,50,000.00

Table 1: Amana Limited's Original Budget

(Created by Radostina Avgustinova)

The budget prepared in the preceding section highlights the initial budget, which reveals that only 100,000 units were produced and that the average sale price is £ 25. As a result, the average sale price would be £ 2500000, and the bills would cover both fixed and variable costs. The contingent expense must be deducted from the net number of revenue, and the fund of contribution must be assessed (Allen, 2017). Set overheads have already been deducted to arrive at the budget number of £ 135000.

The term "flexed budget" refers to a statement that highlights the net expenditures as well as the costs for funding the levels of operation (Jastrzbska, 2020). Furthermore, the appropriate details can be applied at the end of the fiscal year, in addition to monitoring the accounts with the assistance of finance management. The table in the following sections sheds light on the flexed budget, which is simply drawn from real budget details.

Flexed Budget		
Particulars	Budget units	Budget Amount (£)
Units	80000	80000
Selling price	£ 20.00	£ 20.00
Total Sales		£ 16,00,000.00
Expenses		
Variable cost		
Materials	3.5	£ 2,80,000.00
Labour	5.5	£ 4,40,000.00
Overhead	1.5	£ 1,20,000.00
Contribution		£ 11,60,000.00
Fixed Overhead		
Warehouse rental	£ 1,70,000.00	£ 1,70,000.00
Insurance	£ 1,00,000.00	£ 1,00,000.00
Fulltime warehouse supervisor salary	£ 35,000.00	£ 35,000.00
Total Flexed Budget		£ 1,35,000.00

Table 2: Flexed Budget of Amana Limited

(Created by Radostina Avgustinoval)

With the viable shift of commitment, the calculation of fixed overhead has drastically shifted, and £ 135000 has been assessed as the total budget all out of Amana Limited. The flexed budget schedule in the preceding table depicts changes in the retail unit expense and the calculation of absolute deals. Variable costs have since increased as a result of changes in inventory, labour, and overhead units (Pangalaet, 2017). The metric of contribution has also changed, totalling £ 1160000, as has the measure of overhead expenditures.

Variable cost variances include variations in materials, labour, and variable overhead, as well as fixed overhead variances. These modifications highlight the distinction between real and normal charges, as well as the investigation of unit contributions. Variance performances have shown the disparities between the planned and actual budget programmes that the company would set up (Silvester, 2017). It primarily provides an unmistakable picture of the exhibits mentioned below or on the presentation of a company for a given fiscal year. Amana Limited's variation analysis has been prepared in the following section, and real cost and development cost have been included.

Standard Production Cost	Quantity	Unit Cost
Direct Materials (pieces)	2.5	£ 25.00
Direct Labour (hrs)	4	£ 1.00
Variable Manufacturing Overhead (hrs)	1.5	£ 1.50
Actual Production	80,000	
Fixed Overhead Expense Budget	£ 24,180.00	
Actual Costs	Quantity	Cost
Direct Materials (pieces)	80,000	£ 3.50
Direct Labour (hrs)	4,000	£ 36,000.00
Variable Manufacturing Overhead (hrs)		£ 17,000.00
Fixed Manufacturing Overhead (hrs)		£ 25,000.00

Materials Variance		
Actual Quantity	80,000	
Actual Price	£ 20.00	
Standard Quantity Allowed	2,00,000	
Standard Price	£ 25.00	
Price Variance	£ 4,00,000.00	Favourable
Quantity Variance	£ 30,00,000.00	Favourable
Overall Materials Variance	£ 34,00,000.00	Favourable

Labour Variance		
Actual Hours	4,000	
Actual Rate	£ 5.50	
Standard Hours Allowed	3,20,000	
Standard Rate	£ 1.50	
Rate Variance	-£ 16,000.00	Unfavourable
Efficiency Variance	£ 4,74,000.00	Favourable
Overall Labour Variance	£ 4,58,000.00	Favourable

Table 3: Variance Table

(Created by Radostina Avgustinova)

Amana Limited's total cost of production includes direct material and direct cost, as well as production spending and budget expenditures. The expense that has been labelled as real highlights the same types of heads that will be concerned with the cost of manufacturing (Kamau, 2017). Material variances have also been highlighted, indicating that the price of variances and cost of variances are greater than zero and favourable in design. The variances for labour include rate variances as well as productivity variances that are greater than zero and favourable.

Preparing Amana Limited's Performances

Amana Limited's success must be measured using real expenses and the sums already spent by the company in their daily business operations. Price variation and quantity variation combine to form commodity fluctuations, and it is optimal in nature. The presentation can be calculated with the help of material differences as well as job fluctuations, as both feature the best or worst case scenario for the company (Napitupulu, 2018). The optimal situation is one in which the balance is more than zero and the company does not suffer a loss in earnings for the particular year. As the organization is situated in various areas, this will help in drawing in a huge client base and expanding their general deals and creation.

Since the company is spread out, it would be easier to attract a large customer base and increase their overall sales and production.

It is very well measured by subtracting the standard unit from the genuine unit and then increasing the standard cost per unit. This concept is commonly used in the field of creation where direct work is directly related to a company (Syarif and Novita, 2019). Furthermore, the material yield adjustment is linked with the exhibition of Amana Limited and is solely concerned with the units of materials used with the general interaction of manufacturing. The rate efficacy is problematic in nature, implying it is less than zero, and the efficiency gap is in an optimal state that draws attention to and is more notable than nothing. It can be very well calculated by subtracting the normal cost from the true cost and then duplicating with the actual value. A part of the pay expenses must be compared to the regular amount and this includes the estimated job of finance charges and stock costs. The price fluctuation is only concerned with the prices that are directly related to the content.

Providing recommendation to Amana's CEO for improvements

Amana Limited defined the region for change by reflecting on the sum of real budget as well as the company's revenue. The net manufacturing expense must be raised, which would inevitably boost the cost of revenue and the contribution at the same time (Hiebl and Mayrleitner, 2020). The corporation incurs a certain amount of variable expense, which includes supplies of £ 280000, labour of £ 440000, and overhead cost of £ 120000. As a result, it is proposed that the retail price of £ 20 be raised to £ 30, and this figure has already been used in the actual budget when forecasting for the fiscal year. It may also be seen that the cost of materials and labour can be reduced from the initial schedule, lowering the company's costs over the time frame. This contributes to increasing the company's earnings and still ensuring the amount of costs that would be incurred by the company's business operations. Furthermore, the improvements in overheads can be called a development area, and Amana Limited's market operations are to be strengthened.

Part B

Analysing Amana's Decision to Go Online and Open Their Own Online Store

There are many competitors for Mr Amana and the customers are spread all over the world mainly from UK, US and Europe. Selling via online might assist the firm in keeping up their clients alongside improving their selling activity and productivity. Shifting the business online might cost a specific sum that will be expended by the firm alongside producing selling volume for maintaining their business (Cescon, 2019). An information technology developer will also be hired to maintain the site, which would cost about £ 35000 a year, and according to industry reports, the sale process will include 100000 units a year. The distribution is to be coordinated with the updating of the company's new website, which will cost nearly £ 150000 and £ 50000 respectively. The smoothness of the company will be enhanced, as will the tactics for being more specific about their business on their website. Amazon will charge about £ 50000 for its satisfaction costs, and it offers guaranteed deals of 65000 units based on probable demand. The return policy is absent, which is a considerable consideration since clients may receive imperfection items when they are conveyed by conveyance specialist and working with may not be in accordance with the standard. If the company sells directly to Amazon for the sake of enhancing their sales operations, the

enterprise will face a loss of authority over its estimating and plan for the future. The company also considered selling their item directly to Amazon, who will distribute their item across the channel and charge them a certain amount to their corporation (Gunarathne et al., 2021). As a result, Amana's decision to go web could be advantageous if the company is expected to set up their shop online in addition to selling it directly to Amazon. Furthermore, the command-overvaluing approach has an effect on the enterprise when the cost is not increased if the cost of production rises.

Advising Amana for their online business

The amount of investment that must be incurred has been defined by the company, and the period of appraisal is to be retained during the time of direct sale over the internet. If the enterprise is to be set up online, ratings must be derived based on where the organisation can incur the least amount of capital (Rikhardsson and Yigitbasioglu, 2018). The distribution network is to be established, and the website, which is currently operational, will cost between £ 150000 and £ 50000 to upgrade. Hiring an IT engineer for the website is to be maintained at an expense of £ 35000 per year, and sales are to be maintained at a rate of 100,000 units a year.

Furthermore, the following table sheds light on the amount of contribution and points out the method of Amana Limited setting up the company online.

Create an online business	
Particulars	Amount (£)
Sales Unit	100000
Expenses	
Setting up delivery network	£ 1,50,000.00
Upgrading current website	£ 50,000.00
Salary of IT programmer	£ 35,000.00
Total Expenses	£ 2,35,000.00
Contribution	2.35

Table 4: Contribution for setting up of own online business

(Created by Radostina Avgustinova)

It can be deduced from the analysis that the contribution is 2.35, implying that the corporation needs 2.35 expenses for selling each unit of product. Furthermore, the costs for testing 100,000 units of products have been calculated, and the market concept must be defined for the direct sale procedure with Amazon. The table below also reflects on the donation and fund towards starting their own online company.

Direct sales on Amazon	
Particulars	Amount (£)
Sales unit	65000
Expenses	
Amazon fulfilment Fees	£ 50,000.00
Total expenses	£ 50,000.00
Contribution	1.3

Table 4: Contribution for setting up of own online business

(Created by Radostina Avgustinova)

The estimated number of purchases has been limited to 65000 units, at a loss of just £ 50000 incurred as a result of Amazon's fulfilment services. It can also be shown that the contribution is about 1.3, which is somewhat less than the above section. This implies that the cost of manufacturing one unit of product would be 1.3 units. Changes in quantities as well as values indicate the marginal cost (Endenich and Trapp, 2020). This cost rises in tandem with a growth in per-unit demand of products and services, as well as an evaluation of 0.00003. Changes in contribution are indicated by ΔC , and changes in quantity are indicated by ΔQ . As a result, the marginal costing shows that the amount varies by 35000 units and the contribution is 1.3. As a result of the reduction in contribution, Amana Limited is forced to establish their company online.

Conclusion

Based on the findings of the preceding report, it is possible to infer that the planning of various types of budgets will make a difference in both the current and the initial budgets. The control report has also been prepared in order to measure the success of Amana during the year, and the advice is to be issued to the CEO of Amana's performance. In the other hand, the company has been forced to choose between selling on Amazon and starting its own online store. The sale operation and marginal costing were used to determine Amana Limited's best choice.

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